



Rewarding Learning

ADVANCED
General Certificate of Education
2018

Business Studies

Assessment Unit A2 1

assessing

Making Business Decisions

[AT211]

THURSDAY 7 JUNE, AFTERNOON

MARK
SCHEME

General Marking Instructions

Introduction

Mark schemes are published to assist teachers and students in their preparation for examinations. Through the mark schemes teachers and students will be able to see what examiners are looking for in response to questions and exactly where the marks have been awarded. The publishing of the mark schemes may help to show that examiners are not concerned about finding out what a student does not know but rather with rewarding students for what they do know.

The Purpose of Mark Schemes

Examination papers are set and revised by teams of examiners and revisers appointed by the Council. The teams of examiners and revisers include experienced teachers who are familiar with the level and standards expected of students in schools and colleges.

The job of the examiners is to set the questions and the mark schemes; and the job of the revisers is to review the questions and mark schemes commenting on a large range of issues about which they must be satisfied before the question papers and mark schemes are finalised.

The questions and the mark schemes are developed in association with each other so that the issues of differentiation and positive achievement can be addressed right from the start. Mark schemes, therefore, are regarded as part of an integral process which begins with the setting of questions and ends with the marking of the examination.

The main purpose of the mark scheme is to provide a uniform basis for the marking process so that all the markers are following exactly the same instructions and making the same judgements in so far as this is possible. Before marking begins a standardising meeting is held where all the markers are briefed using the mark scheme and samples of the students' work in the form of scripts. Consideration is also given at this stage to any comments on the operational papers received from teachers and their organisations. During this meeting, and up to and including the end of the marking, there is provision for amendments to be made to the mark scheme. What is published represents this final form of the mark scheme.

It is important to recognise that in some cases there may well be other correct responses which are equally acceptable to those published: the mark scheme can only cover those responses which emerged in the examination. There may also be instances where certain judgements may have to be left to the experience of the examiner, for example, where there is no absolute correct response – all teachers will be familiar with making such judgements.

1 Explain what is meant by stakeholder objectives, using an example from the case study to illustrate your answer.

- A goal or objective which a stakeholder of a business wishes to achieve. Examples relevant to U-Snax Ltd might include:
- Directors/Management – growth objective of the business
- Employees – Job Security for 60 employees
- Customers – Bakery products/pastries and new product lines
- Lenders – the company wishes to borrow £2.1m to fund investments which has to be repaid.

Marking: [2] for explanation; [2] application.

[4]

AVAILABLE
MARKS

4

2 Analyse the current position of U-Snax Limited using the following elements of a SWOT Analysis:

Strengths:

- Wide portfolio of products resulting in increased sales revenues;
- Quality Certificates/Awards demonstrating high quality products;
- Good credit profile – borrow £2.1m for investment.

Weaknesses:

- Gearing Ratio indicates high level of gearing or debt in the business – increases financial risks;
- Management team are proposing to invest in risky projects, which have not been fully quantified – such risks must be minimised.

	AO1 Knowledge and Understanding [2]	AO2 Application [2]	AO3 Analysis [2]
Level 2	[2] for good knowledge and understanding.	[2] for good application.	[2] for good analysis.
Level 1	[1] for limited knowledge and understanding.	[1] for limited application.	[1] for limited analysis.
Level 0	[0] for no knowledge and understanding.	[0] for no application.	[0] for no analysis.

[6]

6

3 Discuss the usefulness of the Boston Matrix as a decision making tool for U-Snax Limited.

AVAILABLE
MARKS

Benefits:

- Useful if firm has a portfolio of products and is trying to manage the balance between the number of products in each category or quadrant of the matrix; U-Snax Ltd has at least 8 product lines across its portfolio;
- Positions each product on the matrix, allows management team to make key decisions at each stage depending on whether the product attracts a high or low percentage of market share or potential growth rates are high or low; U-Snax Ltd's new product ranges (sausage pies/French bread) have not been fully marketed; Turkey Salad/Fallafel product lines have still to yield sufficient returns; Pasties/Soda Farls/Cupcakes are mature products and contributing to the company's growth strategy.
- Boston Matrix can highlight the likely cash flow position of each product within the quadrants; U-Snax Ltd product lines such as Pasties/Soda Farls/Cupcakes are yielding positive cash flows; product lines such as hot dogs/choc-eclairs yield excess cash flows for the business and popular with consumers;
- Simple business tool to construct – 4 quadrants required;
- Highlights areas in product portfolio where corrective action is required – e.g. additional funds required to support product lines (e.g. Fallafel);

Drawbacks:

- Boston Matrix does not guarantee success of the business; U-Snax Ltd might find that specific product lines may yield a different performance from that depicted on the matrix;
- Boston Matrix might be over-simplistic; U-Snax Ltd managers operate in a situation of economic reality whereas the matrix is a theoretical model;
- Catering environment is volatile; U-Snax Ltd face a number of different challenges, e.g. low priced competitors; cash flows may not be representative;
- Analysis can be affected by bias – U-Snax Ltd managers may bias their opinions in favour of new products;
- Matrix ignores qualitative data – U-Snax Ltd propose to invest in new equipment to improve quality;
- Difficult for U-Snax Ltd management to place products on the matrix.

Final Judgement:

The Boston Matrix is a useful tool for U-Snax Ltd as it creates focus for management to seriously consider the position of all products in the portfolio. However, all decisions should be made with caution.

Candidates are expected to evaluate throughout their answers and state final judgement.

	A01 Knowledge and Understanding [3]	A02 Application [3]	A03 Analysis [3]	A04 Evaluation [6]
Level 3	[3] for excellent knowledge and understanding.	[3] for excellent application.	[3] for excellent analysis.	[5]–[6] for excellent evaluation/ mature judgement.
Level 2	[2] for good knowledge and understanding.	[2] for good application.	[2] for good analysis.	[3]–[4] for good evaluation.
Level 1	[1] for limited knowledge and understanding.	[1] for limited application.	[1] for limited analysis.	[1]–[2] for limited evaluation.
Level 0	[0] for no knowledge and understanding.	[0] for no application.	[0] for no analysis.	[0] for no evaluation.

[15]

15

AVAILABLE
MARKS

- 4 Evaluate the qualitative factors that may influence investment decisions made by the management team of U-Snax Limited.

AVAILABLE MARKS

Positive:

- Staff Morale:
 - If the staff in U-Snax Ltd are highly motivated and have engaged in elements of decision-making, then it is likely they will embrace the challenges that investment in new technology may bring.
- Industrial Relations:
 - Changes to work practices may be implemented more easily if the changes are communicated to the staff and they are part of the negotiation process.
- Ethical:
 - U-Snax Ltd management may adopt a more ethical stance when choosing locations for new stores. A particular site may cost more financially but reduce the environmental impact on wildlife habitat. Such a decision can enhance U-Snax Ltd's image.
- Availability of Funds:
 - U-Snax Ltd may be considered a safe investment for financial institutions as it is the largest retailer in the UK.
- Objectives of organisation:
 - U-Snax Ltd wish to pursue a growth strategy, even though it is a challenging trading environment;
- Economic situation:
 - UK voted to leave European Union in June 2016, which has changed the political and economic environment;
 - Import prices are likely to increase due to tariffs, business confidence is likely to lower, consumers likely to spend less, making it difficult to trade;
- Customer loyalty/satisfaction:
 - Sales turnover did increase in 2015/16; new equipment likely to improve taste/quality of products at U-Snax Ltd;
- Quality of research/market knowledge
- Quality of leadership (risk takers)
- Or any other valid points.

Negative:

- Staff may view additional investment as a threat to the security of their jobs and this can lead to de-motivation, absenteeism and a reduction in the quality of service – it states that productivity is likely to increase;
- Any change in work practices that may lead to job losses is likely to cause conflict leading to industrial action
- New equipment chosen on the basis of cost rather than ethics is likely to attract bad publicity for U-Snax Ltd
- U-Snax Ltd may have difficulty securing additional funds for future investment as it is already highly geared. As a result it may have to postpone or cancel investment plans until the gearing position improves.

Final Judgement: Before a decision is made it is essential that U-Snax Ltd take into consideration all aspects of the qualitative factors as these may in fact cancel the financial benefits of the proposed investment.

	AO1 Knowledge and Understanding [3]	AO2 Application [3]	AO3 Analysis [3]	AO4 Evaluation [6]
Level 3	[3] for excellent knowledge and understanding.	[3] for excellent application.	[3] for excellent analysis.	[5]–[6] for excellent evaluation/ mature judgement + QWC.
Level 2	[2] for good knowledge and understanding.	[2] for good application.	[2] for good analysis.	[3]–[4] for good evaluation + QWC.
Level 1	[1] for limited knowledge and understanding.	[1] for limited application.	[1] for limited analysis.	[1]–[2] for limited evaluation + QWC.
Level 0	[0] for no knowledge and understanding.	[0] for no application.	[0] for no analysis.	[0] for no evaluation + QWC.

[15]

15

AVAILABLE
MARKS

5 Evaluate the use of a mission statement to a business such as U-Snax Limited.

AVAILABLE
MARKS

Advantages:

- A mission statement sets out what an organisation is trying to achieve, i.e. the reason why it exists. This is clear from U-Snax Ltd mission statement – to be the best local bakery.
- It gives everyone a sense of common purpose so that all actions are geared towards the same end – focus on customers, employee contributions and management goals.
- It makes decisions easier by enabling options to be compared against the mission statement. This will be possible if we examine the U-Snax Ltd mission statement, e.g. new products/services.
- It gives U-Snax Ltd stakeholders a sense of direction and belonging, so motivates and inspires them, including customers/employees/management team.
- It serves as a basis for U-Snax Ltd organisational objectives and targets, e.g. on-line order processing.
- It can be effective in setting/changing organisational culture.
- It is useful where the business is diverse as is the case with U-Snax Ltd.

Drawbacks:

- Mission statements can be too vague. This is the case with U-Snax Ltd mission statement as nothing is quantifiable.
- Mission statements may be ignored by senior management causing workers to be cynical.
- The benefits may be difficult to quantify. However, these may be clearer in U-Snax Ltd aims and objectives.
- Mission statements may be used as a PR exercise.
- Mission statements may be expensive and time consuming to draw up

Final judgement – candidates likely to suggest that a mission statement is likely to be of use to the management team of U-Snax Ltd.

Candidates are expected to evaluate throughout their answers and state a final judgement.

	AO1 Knowledge and Understanding [4]	AO2 Application [5]	AO3 Analysis [5]	AO4 Evaluation [6]
Level 3	[3]–[4] for excellent knowledge and understanding.	[4]–[5] for excellent application.	[4]–[5] for excellent analysis.	[5]–[6] for excellent evaluation of the arguments presented, and states a mature judgement. QWC is excellent.
Level 2	[2] for good knowledge and understanding.	[2]–[3] for good application.	[2]–[3] for good analysis.	[3]–[4] for good evaluation of the arguments presented. QWC is good.
Level 1	[1] for limited knowledge and understanding.	[1] for limited application.	[1] for limited analysis.	[1]–[2] for limited evaluation of the arguments presented. QWC is limited.
Level 0	[0] for no knowledge and understanding.	[0] for no application.	[0] for no analysis.	[0] for no evaluation of the arguments presented. QWC is poor.

[20]

20

AVAILABLE
MARKS

- 6 Evaluate the financial performance of U-Snax Limited using the data given in Table 2.

AVAILABLE
MARKS

ROCE:

- Return on capital employed has increased from 6.6% to 7.7% in the last year; i.e. an increase of 1.1 percentage points;
- Possible reasons – increase in sales revenues, yielding increased levels of profits; lower costs also contribute to this result;
- Cost control is important in order to ensure U-Snax Ltd continues to grow and benefit from economies of scale;
- This result is favourable and requires immediate action on the part of management to retain investor confidence, perhaps through development of products throughout the life cycle.

Net Profit Margin:

- Net profit margin increased from 7.3% to 8.3%, possibly resulting from lower costs; gearing levels have increased, resulting in increased interest costs and this reduces profits;
- Cost control is important in order to improve performance in this respect;
- This result is favourable but requires immediate action on the part of management to retain investor confidence and reduce interest costs.

Current Ratio:

- Current Ratio has declined from 2:1 to 0.75:1 which indicates an increased level of insolvency; benchmark tends to be 2:1;
- Possible reasons for this include decreased levels of inventories, and debtors, which have tied up funds, in addition to a possible bank overdraft as a result of paying off the loans, i.e. reducing gearing levels.
- This result is not favourable and requires immediate action on the part of management to retain investor confidence.

Gearing %:

- Gearing levels have increased to 70% indicating that U-Snax Ltd management are relying on debt finance to fund the growth strategy;
- This could lead to high financial risk and insolvency; management have reported that cash flow levels are low, suggesting use of a bank overdraft. This requires further investigation.
- This result is not favourable and requires immediate action on the part of management to retain investor confidence.

Final judgement – the financial position of U-Snax Ltd is worrying in some respects – although profitable, there is some evidence of insolvency, therefore additional information is required to inform investment decisions and improve future performance.

The evidence suggests a situation of over trading.

Candidates are expected to evaluate throughout their answers and state a final judgement.

	AO1 Knowledge and Understanding [4]	AO2 Application [5]	AO3 Analysis [5]	AO4 Evaluation [6]
Level 3	[3]–[4] for excellent knowledge and understanding.	[4]–[5] for excellent application.	[4]–[5] for excellent analysis.	[5]–[6] for excellent evaluation of the arguments presented, and states a mature judgement. QWC is excellent.
Level 2	[2] for good knowledge and understanding.	[2]–[3] for good application.	[2]–[3] for good analysis.	[3]–[4] for good evaluation of the arguments presented. QWC is good.
Level 1	[1] for limited knowledge and understanding.	[1] for limited application.	[1] for limited analysis.	[1]–[2] for limited evaluation of the arguments presented. QWC is limited.
Level 0	[0] for no knowledge and understanding.	[0] for no application.	[0] for no analysis.	[0] for no evaluation of the arguments presented. QWC is poor.

[20]

20

Total**80**