

# **Applied Business**

Advanced GCE

Unit **F248**: Strategic Decision Making

## **Mark Scheme for June 2013**

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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## Annotations

Annotation	Meaning
	The response given is 'Unclear' to the marker.
	'Benefit of doubt' but credit given.
	To indicate the response is in 'Context' of the relevant case study.
	Response is incorrect, no credit can be given.
	Use for Level of response answers to indicate Level 1.
	Use for Level of response answers to indicate Level 2.
	Use for Level of response answers to indicate Level 3.
	Use for Level of response answers to indicate Level 4.
	The response is not incorrect but has 'Not answered the question'.
	Own figure rule. Used where indicated in the mark scheme.
	'Repeat' Response repeats the same marking point.
	'Noted but no credit given' or to indicate all or part blank answer pages have been seen by the marker.
	Correct point/answer. Credit can be given.
	No use of context/Context cannot be awarded

**Testing of QWC**

*In this external assessment the assessment of QWC will take place in Question 6b which is a levels of response question and carries 20 marks.*

*Marks are embedded within this question for assessing the quality of written communication. The following criteria are embedded within the levels of response for Question 6b.*

**Level 4:**

Ability to present relevant material in a well planned and logical sequence. Material clearly structured using appropriate business terminology confidently and accurately. Sentences, consistently relevant are well structured in a way that directly answers question. There will be few, if any errors of grammar, punctuation and spelling.

(4 marks representing the appropriate level of written communication are embedded in this level of response).

**Level 3:**

Ability to present relevant material in a planned and logical sequence. Appropriate business terminology used. Sentences for the most part relevant presented in a balanced, logical and coherent manner which addresses the question. There will be occasional errors of grammar, punctuation and spelling.

(3 marks representing the appropriate level of written communication are embedded in this level of response).

**Level 2:**

Limited ability to organise relevant material. Some appropriate business terminology used. Sentences are not always relevant with material presented in a way that does not always address the question. There may be noticeable errors of grammar, punctuation and spelling.

(2 marks representing the appropriate level of written communication are embedded in this level of response).

**Level 1:**

Ability to communicate at least one point using some appropriate business terminology. Sentences have limited coherence and structure, often being of doubtful relevance to the main focus of question. Errors of grammar, punctuation and spelling may be noticeable and intrusive.

(1 mark representing the appropriate level of written communication is embedded in this level of response).

Question			Answer	Marks	Guidance/Levels of Response
1	(a)	(i)	$\frac{\text{Number of days of absence}}{\text{Total number of working days}} \times 100$ $\frac{552}{7,360} \times 100 = 7.5\%$ <p><b>Award full marks for the correct answer: 7.5</b></p> <p>Eg 7.5 (2)</p> <p>Eg <math>\frac{552}{7,360}</math> (1)</p> <p>Eg <math>\frac{\text{Days absent}}{\text{Working days}}</math> (1)</p>	2	AO1 1 AO2 1  Up to two marks.  No workings required. Award <b>full marks</b> for <b>7.5</b> .  Workings should only be marked if the final answer is incorrect. In which case award <b>max</b> one mark for the correct calculation <b>or</b> formula (x100 not required), if seen.
		(ii)	$\frac{\text{Faulty rings scrapped}}{\text{Number of rings produced}} \times 100$ $\frac{48,500}{9,700,000} \times 100 = 0.5\%$ <p><b>Award full marks for the correct answer: 0.5</b></p> <p>Eg 0.5 (2)</p> <p>Eg <math>\frac{48500}{9.7 \text{ m}}</math> (1)</p> <p>Eg <math>\frac{\text{Wastage}}{\text{Output}}</math> (1)</p>	2	AO1 1 AO2 1  Up to two marks.  No workings required. Award <b>full marks</b> for <b>0.5</b> .  Workings should only be marked if the final answer is incorrect. In which case award <b>max</b> one mark for the correct calculation <b>or</b> formula (x100 not required), if seen.

Question		Answer	Marks	Guidance/Levels of Response
	(b)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• to identify trends</li> <li>• to monitor trends</li> <li>• to assess job satisfaction levels</li> <li>• to take action to reduce absence</li> <li>• to see if measures taken are effective</li> <li>• to discuss with workforce</li> <li>• to compare with other industries</li> <li>• to control the workforce</li> <li>• to calculate the loss in potential production</li> <li>• to see whether there is a relationship between absenteeism and productivity/wastage</li> <li>• to motivate the workforce.</li> </ul> <p>Eg So that underlying trends can be identified by comparing figures year on year (1).</p> <p>Eg To gain an insight into whether the employees are happy in their work and put in place motivational measures if necessary (1).</p> <p>Eg To make clear to <i>Magic Metal Ltd's</i> production staff that their absence is monitored hopefully leading to a reduction in the number of days of unauthorised absence staff take (2).</p>	4	<p>AO1 2 AO2 2</p> <p>Up to two marks for an explanation to a maximum of two explanations.</p> <p>Award one mark for an explanation which is generic; two marks for an explanation which clearly shows an understanding of absenteeism.</p> <p>Award answers relating to rate or level.</p> <p>No context required.</p>

Question		Answer	Marks	Guidance/Levels of Response
	(c)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• compare year on year/monitor trends</li> <li>• compare with similar industries/competitors</li> <li>• compare with industrial standards</li> <li>• compare against targets/variance analysis/budget v actual.</li> </ul> <p>Eg Current levels of rings (CONT) which have to be scrapped could be compared with previous years (2).</p> <p>Eg Levels could be compared with Magic Metal's targets (1).</p> <p>Eg The wastage rate at <i>Magic Metal Ltd</i> could be compared with that of another jewellery (CONT) manufacturer (2).</p>	4	<p>AO1 2 AO2 2</p> <p>Up to two marks for an explanation to a maximum of two explanations.</p> <p>Award one mark for a non-contextual explanation; two marks for a contextual explanation.</p> <p>NB The question asks for methods/ways.</p> <p>Do <b>not</b> award 'to see if good or bad' as this is a repeat of the question.</p>
2	(a)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• a communication with stakeholders</li> <li>• purpose/vision/direction/goals/targets/aims/objectives/focus/culture/philosophy/image/branding.</li> </ul> <p>Eg A brief statement which communicates to stakeholders (1) the vision of the business (1).</p> <p>Eg A brief outline of the purpose and philosophy of the business (1).</p> <p>Eg The summing up of a business' intentions (1) in order to create a positive image to customers (1).</p>	2	<p>AO1 2</p> <p>Up to two marks.</p> <p>1 mark for purpose ie communication to stakeholders. 1 mark for content eg intentions, philosophy etc.</p> <p>Do <b>not</b> award 'document' or 'statement' unless it is clearly linked to communication with stakeholders/a stakeholder group.</p>

Question		Answer	Marks	Guidance/Levels of Response
	(b)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• wages/salaries/rates of pay</li> <li>• working environment</li> <li>• staff facilities</li> <li>• conditions of employment</li> <li>• holiday pay/entitlement</li> <li>• sick pay/entitlement</li> <li>• maternity/paternity entitlement</li> <li>• working hours/shift patterns</li> <li>• breaks</li> <li>• workload/productivity</li> <li>• grievance/disciplinary procedure</li> <li>• role of trade unions</li> <li>• bonuses</li> <li>• business strategy</li> <li>• expansion/contraction</li> <li>• relocation</li> <li>• training</li> <li>• management style</li> <li>• special orders</li> <li>• overtime</li> <li>• machinery/automation</li> <li>• (potential) industrial action</li> <li>• health &amp; safety.</li> </ul> <p>Eg Rates of pay (1).</p> <p>Eg Number of days holiday (1).</p> <p>Eg Canteen provision (1).</p>	4	<p>AO1 4</p> <p>One mark for each correct identification up to a maximum of four identifications.</p> <p>Do <b>not</b> award vague answers eg do <b>not</b> award 'how treated' and 'benefits'.</p> <p>Do not award 'directors have different visions'.</p>



Question	Answer	Marks	Guidance/Levels of Response
(c)	<p><i>Use levels of response criteria.</i></p> <p>Indicative content:</p> <ul style="list-style-type: none"> <li>• to encourage all internal stakeholders to work towards the same goals</li> <li>• to minimise arguments among internal stakeholder</li> <li>• to improve motivation</li> <li>• to clarify marketing message</li> <li>• to communicate clearly with external stakeholders</li> <li>• to reduce confusion</li> <li>• to reduce conflict</li> <li>• to clarify goals</li> <li>• to set targets</li> <li>• to monitor progress</li> <li>• to facilitate production planning</li> <li>• to facilitate financial planning</li> <li>• to facilitate human resource planning</li> <li>• to increase efficiency</li> <li>• to reduce costs</li> <li>• to increase output/sales</li> <li>• to increase profit</li> <li>• on track</li> <li>• be more organised</li> <li>• to write mission statement.</li> </ul> <p>Eg Clarifying the direction a business intends to take allows a business to focus its activities (<b>L1</b>). With clear targets <i>Magic Metal Ltd</i> will be able to plan its production of rings (<b>CONT</b>), be they silver or nickel (<b>L2</b>). Production planning should lead to better communication with the workforce (<b>L3</b>) resulting in them being less likely to go on strike (<b>L3</b>). Given the current cash-flow problems which the company has (<b>CONT</b>) the company cannot afford for orders to be delayed. Establishing a clearer sense of direction, avoiding industrial action, is essential if the business is to survive (<b>L4</b>).</p>	8	<p>AO1 2 AO2 2 AO3 2 AO4 2</p> <p><b>Level 4 (7–8 marks)</b> Candidate evaluates the benefits to <i>Magic Metal Ltd</i> of establishing a clearer sense of business direction.</p> <p><b>Level 3 (5–6 marks)</b> Candidate analyses the benefits to <i>Magic Metal Ltd</i> of establishing a clearer sense of business direction.</p> <p><b>Level 2 (3–4 marks)</b> Candidate applies knowledge and understanding of the benefits to <i>Magic Metal Ltd</i> of establishing a clearer sense of business direction.</p> <p><b>Level 1 (1–2 marks)</b> Candidate identifies benefits to a business establishing a clear sense of business direction with no context.</p> <p><b>Please indicate each time a candidate achieves a particular level as this will help you to allocate the marks within that level.</b></p> <p><b>Context should be annotated every time L2/L4 is awarded with the icon ‘CONT’.</b></p> <p><b>Benefits must be to the business.</b></p> <p>Non-contextual answer <b>max</b> level 1.</p> <p><b>L4 (7–8 marks)</b> (7 marks) candidate makes a <b>weak</b> evaluation of the benefit/benefits to <i>Magic Metal Ltd</i> of establishing a clearer sense of business direction. (8 marks) candidate gives a <b>detailed and specific</b></p>

Question			Answer	Marks	Guidance/Levels of Response
					<p>evaluation of the benefit/benefits to <i>Magic Metal Ltd</i> of establishing a clearer sense of business direction.</p> <p><b>L3 (5–6 marks)</b>            (5 marks) candidate analyses <b>one</b> benefit to <i>Magic Metal Ltd</i> of establishing a clearer sense of business direction.            (6 marks) candidate analyses <b>more than one</b> benefit to <i>Magic Metal Ltd</i> of establishing a clearer sense of business direction.</p> <p><b>L2 (3–4 marks) Look for something more than <i>Magic Metal Ltd</i>/Pearce/Freya/Oliver.</b>            (3 marks) candidate applies understanding to suggest <b>one</b> possible benefit to <i>Magic Metal Ltd</i>.            (4 marks) candidate applies understanding to suggest <b>more than one</b> possible benefit to <i>Magic Metal Ltd</i>.</p> <p><b>L1 (1–2 marks)</b>            (1 mark) candidate identifies <b>one</b> benefit with no use of context.            (2 marks) candidate identifies <b>more than one</b> benefit with no use of context.</p> <p><b>Level annotation required.</b></p>

Question			Answer	Marks	Guidance/Levels of Response
3	(a)	(i)	<p>Margin of safety = operating level – break-even level</p> <p><math>10,000,000 - 9,000,000 = 1,000,000</math> nickel rings</p> <p><b>Award full marks for the correct answer: 1,000,000</b></p> <p>Eg <math>1,000,000</math> (2)</p> <p>Eg <math>10\text{m} - 9\text{m}</math> (1)</p> <p>Eg Operating level – break-even quantity (1)</p>	2	<p>AO1 1 AO2 1</p> <p>Up to two marks.</p> <p>No workings required. Award <b>full marks</b> for <b>1 million</b>.</p> <p>Workings should only be marked if the final answer is incorrect. In which case award <b>max</b> one mark for the correct formula, if seen, whether in words or numbers.</p> <p>Annotate <b>BOD</b> if £ sign shown.</p>
		(ii)	<p>Selling price = <math>\frac{\text{sales revenue}}{\text{output}}</math> ) from any point ) on the graph</p> <p>Eg <math>\frac{1.6\text{m}}{10\text{m}}</math> or <math>\frac{1.44\text{m}}{9\text{m}}</math> <math>\frac{1.2\text{m}}{7.5\text{m}}</math> or <math>\frac{0.8\text{m}}{5\text{m}}</math> or <math>\frac{0.4\text{m}}{2.5\text{m}}</math> etc = £0.16</p> <p><b>Award full marks for the correct answer: £0.16 or 16p. Units required.</b></p> <p>Eg £0.16 (3)</p> <p>Eg 16p (3)</p> <p>Eg <math>\frac{£1,600,000}{10,000,000}</math> (2)</p> <p>Eg <math>\frac{\text{revenue}}{\text{output}}</math> (1)</p>	3	<p>AO1 1 AO2 2</p> <p>Up to three marks.</p> <p>No workings required. Award <b>full marks</b> for £0.16 or 16p.</p> <p>For graphical tolerance accept answers between 15.5p and 16.5p.</p> <p>Common error £1.60 award 2 marks.</p> <p>Workings should only be marked if the final answer is incorrect. In which case award <b>max</b> two marks for the correct calculation or <b>max</b> one mark for formula, if stated.</p>

Question		Answer	Marks	Guidance/Levels of Response
	(b)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• selling price per unit minus variable cost per unit</li> <li>• difference between selling price and variable cost</li> <li>• the amount that one item contributes to paying off fixed costs</li> <li>• gross profit per unit.</li> </ul> <p>Eg Selling price minus variable cost (1).</p> <p>Eg The amount by which the selling price of a ring exceeds the variable cost of its production (1).</p> <p>Eg The amount of revenue left after variable costs have been paid which can be used to help pay fixed costs (1).</p>	1	<p>AO1 1</p> <p>For one mark.</p> <p>Award formula.</p>

Question	Answer	Marks	Guidance/Levels of Response
(c)	<p><i>Use levels of response criteria.</i></p> <p>Indicative content:</p> <ul style="list-style-type: none"> <li>• positive contribution to fixed cost (2.5p)</li> <li>• price greater than variable cost (10p &gt; 7.5p)</li> <li>• price too low (10p &lt; 16p)?</li> <li>• any contribution better than none?</li> <li>• significant revenue? (£80,000)</li> <li>• total contribution/gross profit of £20,000</li> <li>• help cash-flow difficulties (currently close to overdraft limit)</li> <li>• large quantity</li> <li>• guaranteed order</li> <li>• production capacity/close to maximum?</li> <li>• workload?</li> <li>• workforce reaction/threat of industrial action?</li> <li>• possibility of future orders from publishers</li> <li>• may be able to raise price in future</li> <li>• raise customer awareness of rings</li> <li>• children may want to collect other designs</li> <li>• establish new customers.</li> </ul> <p>Eg Any special order will bring in additional revenue (<b>L1</b>). In this case £80 000 of extra revenue (<b>L2</b>) which given <i>Magic Metal Ltd</i> currently has cash-flow difficulties would prove very useful (<b>L2</b>).</p> <p>Eg Ideally a business should not accept orders below their normal selling price as this may cause other buyers to demand lower prices (<b>L1</b>).</p> <p>Eg Although contribution to fixed costs will only be 2.5p per ring (<b>L2</b>), the offer is worth taking because it may lead to young children wanting to buy other rings in the range with their pocket money (<b>L2</b>).</p>	4	<p>AO1 2 AO2 2</p> <p><b>Level 2 (3–4 marks)</b> Candidate applies knowledge and understanding of special order decisions to explain whether Pearce should accept this order.</p> <p><b>Level 1 (1–2 marks)</b> Candidate shows knowledge of special order decisions with no use of context.</p> <p><b>Please indicate each time a candidate achieves a particular level as this will help you to allocate the marks within that level.</b></p> <p>No matter how detailed a candidate's knowledge of special order decisions, if it is not applied to <i>Magic Metal Ltd</i> it must be awarded L1 and a maximum of 2 marks.</p> <p>A candidate who has given a simple but accurate response applied to <i>Magic Metal Ltd</i>'s special order request must be awarded L2 and a minimum of 3 marks.</p> <p>Do <b>not</b> award 'helps to reach breakeven'.</p> <p><b>Level annotation required.</b></p>

Question		Answer	Marks	Guidance/Levels of Response
	(d)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• assumes that everything produced is sold</li> <li>• assumes fixed costs remain constant</li> <li>• assumes the same price is charged to all</li> <li>• assumes that costs can be accurately calculated</li> <li>• assumes that costs can be split into fixed and variable</li> <li>• more easily applicable to a single product line</li> <li>• ignores <b>changes</b> in external factors which affect cost/selling price</li> <li>• ignores the changing value of money</li> <li>• quantitative only</li> <li>• gives no indication of time</li> <li>• does not consider inflation</li> <li>• does not account for semi-variable costs</li> <li>• does not consider economies of scale</li> <li>• does not consider special orders</li> <li>• wastage is not taken into account.</li> </ul> <p>Eg Breakeven analysis does not take into account qualitative information (1).</p> <p>Eg Breakeven analysis assumes that firms can categorise their costs into fixed and variable (1).</p> <p>Eg Breakeven analysis assumes that all of the colour-changing nickel rings made in a year are sold in the same year (1).</p>	4	<p>AO1 4</p> <p>One mark for each correct identification, up to a maximum of four identifications.</p> <p>Do <b>not</b> award generic answers which apply to all decision-making tools. Eg Do <b>not</b> award 'only as reliable as the data', 'only an estimate', 'not accurate', 'may contain errors'.</p> <p>Reference to not taking into account external factors must relate to <b>changes</b> in costs <b>not</b> level of sales, quantity sold or demand. External factors must cause a shift in one of the lines.</p> <p>Must be assumptions/weaknesses, not statements of fact. Eg Award 'assumes fixed costs do not change' but do <b>not</b> award 'fixed costs change'.</p>

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4	(a)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>product/packaging – quality, welfare, safety, convenience, caring, USP</li> <li>price – strategies (eg premium/psychological/penetration/competitive/cost-plus/value pricing), euros</li> <li>place – outlets, mail order, location, web sales</li> <li>promotion – methods (eg advertising, sales promotion, sponsorship, public relations), message.</li> </ul> <p>Eg A premium price should be set (1) which will emphasise the high quality and safe nature of the product (1).</p> <p>Eg <i>Magic Metal Ltd</i> should try and get the babygrows stocked in European supermarkets (1) because independent baby clothes retailers are declining in popularity (1).</p> <p>Eg It should advertise the product (1) to make potential customers aware of the product's existence (1).</p> <p>Eg The baby grows should be individually packaged (1) to give the product a high quality image (1).</p>	8	<p>AO1 4 AO2 4</p> <p>One mark for each correct identification up to a maximum of four identifications, plus a further one mark for each of four developments.</p> <p>Marketing strategy is 4Ps only – award <b>max</b> two marks for <b>each</b> of the 4Ps.</p> <p>In each case award one mark for strategy plus one mark for explanation of why chosen.</p> <p>NB BOGOF or two for price of one are promotional strategies <b>not</b> pricing strategies.</p>

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Question		Answer	Marks	Guidance/Levels of Response
	(b)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• strands need to work together</li> <li>• to ensure elements of the marketing mix do not conflict</li> <li>• to give a unified message</li> <li>• to tie in with company image</li> <li>• to maximise the effectiveness of the marketing budget.</li> </ul> <p>Eg An integrated strategy will ensure that the elements of the marketing mix do not clash (1). This will avoid the company wasting money on ineffective marketing (1).</p> <p>Eg The strands need to work together (1). Setting a premium price and selling in supermarkets will give a conflicting message about the babygrows (1).</p> <p>Eg A co-ordinated marketing strategy should lead to higher sales (1) because the customer is not left with mixed messages (1).</p>	2	<p>AO1 1 AO2 1</p> <p>One mark for a correct identification plus a further one mark for an explanation.</p> <p>Award explanation relating to example or consequence.</p> <p>Do <b>not</b> award vague responses. Candidate must show a clear understanding of the integration of marketing strategy.</p> <p>No context required.</p>



Question		Answer	Marks	Guidance/Levels of Response
5	(a)	<p>Outflow Year 0 £11,000,000  Inflow = £1,500,000+£1,500,000+£2,500,000+£2,500,000+  3, 000,000/4,500,000</p> <p>Payback period = 4 years and 8 months</p> <p><b>Award full marks for the correct answer:  4 years and 8 months (4.67 years).</b></p> <p>Eg 4 years 8 months (2)</p> <p>Eg 56 months (2)</p> <p>Eg 4 years (1) 3 months (0)</p> <p>Eg Between 4 (1) and 5 years.</p>	2	<p>AO1 1 AO2 1</p> <p>Up to two marks.</p> <p>Award <b>full marks</b> for <b>4 years 8 months/4.67 years</b> (56 months) (242/243 weeks) (1704/1705 days).</p> <p><b>Else</b> award <b>max</b> 1 mark for <b>4 years</b> (irrespective of partial year) if seen.</p>

Question		Answer	Marks	Guidance/Levels of Response
	(b)	<p>Total cash inflow £16,280,000 (1)          Minus cost £11,000,000          Total NCF = £5,280,000 (1)</p> <p>£5,280,000 divided by 6 years = £880,000 per annum (1)</p> <p><math>\frac{£880,000}{£11,000,000} \times 100 = 8\%</math></p> <p><b>Or</b> £5,280,000 divided by £11,000,000 = 0.48 return (1)</p> <p><math>\frac{0.48}{6 \text{ years}} \times 100 = 8\%</math></p> <p><b>Award full marks for the correct answer: 8%</b></p> <p>Eg 8 (4)</p> <p>Eg £16,280,000 (1) - £11,000,000 = £5,280,000 (+1)</p> <p>Eg 16.28m (1) – 11m = £5.28m (+1)          5.28m/6 = £880,000 (+1)</p>	4	<p>AO1 1 AO2 3</p> <p>Up to four marks.</p> <p>No workings required. Award <b>four marks</b> for <b>8</b>.</p> <p>Workings should only be marked if the final answer is incorrect. In which case award <b>one mark</b> for sight of each of the following numbers (to a maximum of three):</p> <p><b>16,280,000</b>  <b>5,280,000</b>  <b>880,000 or 0.48 (or 48)</b></p> <p><b>No OFR.</b></p>

Question		Answer	Marks	Guidance/Levels of Response
	(c)	<p>Indicative content:</p> <p>An increase in the national minimum wage:</p> <ul style="list-style-type: none"> <li>• higher labour costs</li> <li>• higher cash outflows</li> <li>• decreased net cash flow</li> <li>• lower returns on investment.</li> </ul> <p>An increase in interest rates:</p> <ul style="list-style-type: none"> <li>• higher costs of business borrowing</li> <li>• increased bank loan/overdraft payments</li> <li>• higher cash outflows</li> <li>• higher costs of consumer borrowing</li> <li>• decreased disposable income</li> <li>• fewer customers/lower sales</li> <li>• lower cash inflows</li> <li>• decreased net cash flow</li> <li>• lower returns on investment.</li> </ul> <p>A weakening in the value of the pound:</p> <ul style="list-style-type: none"> <li>• cheaper/more competitive exports</li> <li>• increased sales abroad (in Europe)</li> <li>• higher cash inflows</li> <li>• dearer imports (fabric from Algeria)</li> <li>• increased production/variable costs</li> <li>• higher cash outflows</li> <li>• increased/decreased net cash flow (net exporter/net importer)</li> <li>• higher/lower returns on investment (net exporter/net importer).</li> </ul> <p>Eg An increase in the national minimum wage will mean higher labour costs (1). Leading to lower than predicted returns on investment (1).</p>	6	<p>AO1 3 AO2 3</p> <p>One mark for each correct identification up to a maximum of three identifications, plus a further one mark for each of three explanations.</p> <p>One mark for impact on business and one mark for effect on investment appraisal figures (including cash inflows/outflows, returns on investments, break-even and decision trees).</p> <p>Do <b>not</b> award vague responses eg 'figures unreliable'.</p> <p>For full marks each response needs to indicate the type of unreliability eg over or under estimate/higher or lower than expected.</p>

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Question			Answer	Marks	Guidance/Levels of Response
			<p>Eg An increase in interest rates will mean that cash outflows have been understated (1) because <i>Magic Metal Ltd</i> will have to pay higher charges for the borrowing it requires to safety test its prototype (1).</p> <p>Eg A weakening in the value of the pound is likely to lead to more sales abroad (1), making the pay period shorter (1).</p>		

Question		Answer	Marks	Guidance/Levels of Response
6	(a)	<p><i>Use levels of response criteria.</i></p> <p>Indicative content:</p> <ul style="list-style-type: none"> <li>assesses levels of risk</li> <li>the matrix is split into four quadrants – market penetration, product development, market development and diversification</li> <li>enables a firm to determine into which quadrant a planned investment fits</li> <li>entering the baby clothes market would be diversification - a new product in a new market</li> <li>diversification being the most risky option.</li> </ul> <p>Eg Ansoff's Matrix can tell you how risky an option is <b>(L1)</b>. Entering the baby clothes market would fit into the diversification quadrant of Ansoff's Matrix <b>(L2)</b> and according to Ansoff is very risky <b>(L2)</b>.</p> <p>Eg It can be used to find out in which quadrant a proposal belongs <b>(L1)</b>. Market penetration is the least risky type of investment <b>(L1)</b>. Diversification is the most risky <b>(L1)</b>.</p> <p>Eg Ansoff's Matrix would alert the directors to the extremely high risk nature of entering the European baby clothes market <b>(L2)</b> because it is both an unknown product and an unknown market to it <b>(L2)</b>.</p>	4	<p>AO1 2 AO2 2</p> <p><b>Level 2 (3–4 marks)</b> Candidate explains how Ansoff's Matrix could help <i>Magic Metal Ltd</i> decide whether or not to enter the European baby clothes market.</p> <p><b>Level 1 (1–2 marks)</b> Candidate shows knowledge of Ansoff's Matrix but with no application to <i>Magic Metal Ltd's</i> current proposal.</p> <p><b>Please indicate each time a candidate achieves a particular level as this will help you to allocate the marks within that level.</b></p> <p>No matter how accurate/detailed a candidate's explanation of Ansoff's Matrix is, if it is not applied to <i>Magic Metal Ltd's</i> decision about whether or not to enter the European baby clothes market it must be awarded L1 and a maximum of 2 marks.</p> <p>A candidate who has given a simple, but accurate explanation applied to <i>Magic Metal Ltd's</i> decision about whether or not to enter the European baby clothes market must be awarded L2 and a minimum of 3 marks.</p> <p><b>Level annotation required.</b></p>

Question		Answer	Marks	Guidance/Levels of Response
6	(b) *	<p><i>Use levels of response criteria.</i></p> <p>This question has embedded marks for QWC.</p> <p>Indicative content:</p> <ul style="list-style-type: none"> <li>• high degree of risk – diversification - Ansoff's Matrix</li> <li>• likelihood of success – unknown product/unknown market</li> <li>• diversification – spread risk, would not be entirely dependent on the UK costume jewellery market</li> <li>• gap in the market for heat-sensitive babygrows</li> <li>• likely increase in demand for jewellery</li> <li>• cost – £11m equity funded plus borrowing requirement</li> <li>• sunk costs - strategic risk when debt funded</li> <li>• ARR 8% (lower than current ROCE of 9%)</li> <li>• predicted net cash flow for first 6 years £16,280,000</li> <li>• payback period 4 years 8 months (past Pearce's planned retirement date)</li> <li>• current modest returns on investment</li> <li>• company struggling to survive despite being very busy</li> <li>• lack of market research/product testing</li> <li>• conversion to plc – time, money, bureaucracy, loss of control, share price volatility, risk of takeover</li> <li>• directors' conflicting aspirations</li> <li>• directors' different stages of life</li> <li>• directors' differing domestic situations</li> <li>• aims and objectives</li> <li>• staffing issues – high absenteeism, industrial unrest, poor employer-employee relations</li> <li>• current industrial unrest</li> <li>• avoidance of industrial action</li> <li>• impact on workforce – recruitment, training</li> <li>• lack of management skills</li> <li>• lack of planning/budgeting</li> <li>• limited marketing skills</li> <li>• planning permission/relocation issues – time and money</li> </ul>	20	<p>AO1 2 AO2 4 AO3 6 AO4 8</p> <p><b>Level 4b (17–20 marks)</b> Candidate evaluates <i>Magic Metal</i> directors' decision to vote against the proposal to enter the European baby clothes market using quantitative <b>and</b> qualitative argument.</p> <p><b>Level 4a (13–16 marks)</b> Candidate evaluates <i>Magic Metal</i> directors' decision to vote against the proposal to enter the European baby clothes market using quantitative <b>or</b> qualitative argument.</p> <p><b>Level 3b (10–12 marks)</b> Candidate analyses the advantage(s) <b>and</b> drawback(s) to <i>Magic Metal Ltd</i> of voting against the proposal to enter the European baby market.</p> <p><b>Level 3a (7–9 marks)</b> Candidate analyses the advantage(s) <b>or</b> drawback(s) to <i>Magic Metal Ltd</i> of voting against the proposal to enter the European baby market.</p> <p><b>Level 2 (3–6 marks)</b> Candidate applies knowledge and understanding to <i>Magic Metal Ltd's</i> proposal to enter the European baby market.</p> <p><b>Level 1 (1–2 marks)</b> Candidate identifies factor(s) involved in launching a product with no context.</p> <p><b>Please indicate each time a candidate achieves a particular level as this will help you to allocate the marks within that level.</b></p>

Question	Answer	Marks	Guidance/Levels of Response
	<ul style="list-style-type: none"> <li>• cash-flow position/approaching overdraft limit</li> <li>• competition – legal protection</li> <li>• potential for rapid growth</li> <li>• future profitability/potential for high returns</li> <li>• future expansion into baby care products eg baby bottles</li> <li>• economic instability</li> <li>• economic conditions – exchange, interest, inflation rates, unemployment</li> <li>• changes in government policy and legislation eg national minimum wage, product testing, safety</li> <li>• dependent on Algerian exchange rate</li> <li>• European birth rate and population trends</li> <li>• uses chemical properties with which the company is familiar</li> <li>• high wastage rates</li> <li>• novelty versus practicality</li> <li>• Pearce's intention to retire/Freya and Oliver's lack of business experience</li> <li>• can current company support a decent pension for Pearce?</li> <li>• economies of scale</li> <li>• practical and operational matters.</li> </ul> <p>Eg Diversification carries major risks and is often viewed by employees with suspicion and fear <b>(L1)</b>. Given that <i>Magic Metal Ltd's</i> has already had one planning application refused <b>(CONT)</b>, and the workers are currently unhappy, the directors are likely to have found it difficult to gain the co-operation of the staff <b>(L2)</b> if, as seems likely, the company needs to relocate.</p> <p>The directors may need to offer the staff a pay rise to counterbalance the upheaval of relocating <b>(CONT)</b> <b>(L2)</b> adding significantly to costs <b>(L3)</b> and reducing short term profits <b>(L3)</b>. However, given <i>Magic Metal Ltd's</i> current reliance on the state of the UK costume jewellery market for its survival <b>(CONT)</b></p>		<p><b>Context should be annotated every time L2/L4 is awarded with the icon 'CONT'.</b></p> <p><b>NB</b> Do not award 'risk' when it is not qualified.</p> <p>Non-contextual answer <b>max</b> level 1.</p> <p><b>L4b (17–20 marks) Quantitative and Qualitative</b>  (17–18 marks) Candidate gives a <b>weak</b> evaluation of <i>Magic Metal Ltd's</i> decision to vote against the proposal to enter the European baby market using qualitative <b>and</b> quantitative argument.  (19–20 marks) Candidate gives a <b>detailed and specific</b> evaluation of <i>Magic Metal Ltd's</i> decision to vote against the proposal to enter the European baby market using qualitative <b>and</b> quantitative argument.</p> <p><b>L4a (13–16 marks) Quantitative or Qualitative</b>  (13-14 marks) Candidate gives a <b>weak</b> evaluation of <i>Magic Metal Ltd's</i> decision to vote against the proposal to enter the European baby market using qualitative <b>or</b> quantitative argument.  (15-16 marks) Candidate gives a <b>detailed and specific</b> evaluation of <i>Magic Metal Ltd's</i> decision to vote against the proposal to enter the European baby market using qualitative <b>or</b> quantitative argument.</p> <p><b>L3b (10–12 marks) Two-sided argument</b>  (10 marks) Candidate analyses <b>one</b> advantage <b>and one</b> disadvantage to <i>Magic Metal Ltd</i> of voting against the proposal to enter the European baby market.  (11-12 marks) Candidate analyses <b>three or more</b> advantage(s) <b>and</b> drawback(s) to <i>Magic Metal Ltd</i> of voting against the proposal to enter the European baby market.</p>

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Question			Answer	Marks	Guidance/Levels of Response
			diversification would probably have been a wiser option. The workers would probably respond well to a pay rise, the cost of which would be minimal when compared to the long term returns which the company could achieve if it successfully undertook the proposal ( <b>L4</b> ).		<p><b>L3a (7–9 marks) One-sided argument</b>  (7 marks) Candidate analyses <b>one</b> advantage/disadvantage to <i>Magic Metal Ltd</i> of voting against the proposal to enter the European baby market.  (8-9 marks) Candidate analyses <b>two or more</b> advantage(s) <b>or</b> drawback(s) to <i>Magic Metal Ltd</i> of voting against the proposal to enter the European baby market.</p> <p><b>L2 (3–6 marks) Look for something more than <i>Magic Metal Ltd</i>/Pearce/Freya/Oliver</b>  (3-4 marks) candidate applies understanding to suggest advantage(s) <b>or</b> drawback(s) to <i>Magic Metal Ltd</i> of voting against the proposal to enter the European baby market.  (5-6 marks) candidate applies understanding to suggest advantage(s) <b>and</b> drawback(s) to <i>Magic Metal Ltd</i> of voting against the proposal to enter the European baby market.</p> <p><b>L1 (1–2 marks)</b>  (1 mark) candidate identifies <b>one</b> factor with no use of context.  (2 marks) candidate identifies <b>more than one</b> factor with no use of context.</p> <p><b>Level annotation required.</b></p>



Question	Answer	Marks	Guidance/Levels of Response
7	<p>Use level of response criteria.</p> <p>Indicative content:</p> <ul style="list-style-type: none"> <li>• establishing of focus/direction</li> <li>• solving workforce problems</li> <li>• level of industrial unrest</li> <li>• level of trade union membership amongst workforce</li> <li>• retention of skilled workforce</li> <li>• way conflict is handled</li> <li>• stakeholder conflict</li> <li>• use of human resource performance indicators</li> <li>• availability of finance – overdraft facility/bank loan</li> <li>• allocation of specific job roles to directors</li> <li>• when/if Pearce retires</li> <li>• Freya/Oliver's ability to run the company if Pearce retires</li> <li>• possibility of new directors</li> <li>• management styles of directors</li> <li>• economic conditions/state of UK jewellery market</li> <li>• responsiveness to changes in market</li> <li>• marketing activities</li> <li>• pricing policies</li> <li>• budgetary control</li> <li>• cash-flow control</li> <li>• integrity of financial planning</li> <li>• emergence of competition</li> <li>• product range</li> <li>• product development</li> <li>• branding/image</li> <li>• ability to innovate</li> <li>• strategic planning</li> <li>• contingency planning</li> <li>• production planning</li> <li>• changes in government policy</li> <li>• changes in legislation</li> </ul>	14	<p>AO1 2 AO2 3 AO3 4 AO4 5</p> <p><b>Level 4 (10–14 marks)</b> Candidate evaluates the factors which are likely to affect <i>Magic Metal Ltd's</i> future success.</p> <p><b>Level 3 (6–9 marks)</b> Candidate analyses the factors which are likely to affect <i>Magic Metal Ltd's</i> future success.</p> <p><b>Level 2 (3–5 marks)</b> Candidate applies knowledge and understanding to suggest factors which are likely to affect <i>Magic Metal Ltd's</i> future success.</p> <p><b>Level 1 (1–2 marks)</b> Candidate identifies factors which are likely to affect a business' success with no context.</p> <p><b>Please indicate each time a candidate achieves a particular level as this will help you to allocate the marks within that level.</b></p> <p><b>Context should be annotated every time L2/L4 is awarded with the icon 'CONT'.</b></p> <p>Non-contextual answer <b>max</b> level 1.</p> <p><b>L4 (10–14 marks)</b> (10 marks) candidate makes a <b>weak</b> evaluation of the factors which are likely to affect <i>Magic Metal Ltd's</i> future success.</p> <p>(11–12 marks) candidate makes a <b>detailed</b> evaluation of the factors which are likely to affect <i>Magic Metal Ltd's</i> future success.</p>

Question	Answer	Marks	Guidance/Levels of Response
	<ul style="list-style-type: none"> <li>• consumer trends in costume jewellery</li> <li>• reputation</li> <li>• quality of rings</li> <li>• wastage rates</li> <li>• planning permission to alleviate cramped working conditions</li> <li>• special order policy.</li> </ul> <p>Eg One of the biggest factors affecting the success of any business is cash-flow control <b>(L1)</b>. Since <i>Magic Metal Ltd</i> is approaching its overdraft limit <b>(CONT)</b> <b>(L2)</b> the directors need to apply to the bank for an increase to the limit straightaway. This will give the directors time to deal with the cause of the company's cash-flow problems <b>(L3)</b> and set up budgetary policies in order to manage the currently volatile silver prices <b>(L3)</b>. These measures should secure the short term survival of the company. The long term survival, however, is likely to be dependent on Freya and Oliver's ability to manage the finances of the business after their father retires <b>(CONT)</b> <b>(L2)</b>. Given that Freya has worked in a bank <b>(CONT)</b> and produced investment appraisal figures for Oliver's proposal it seems likely that Freya, rather than Oliver, would be better suited to this role. The development of Freya's financial management skills is likely to be the largest factor affecting <i>Magic Metal Ltd's</i> chances of long term success <b>(L4)</b>.</p>		<p>(13–14 marks) candidate makes a <b>detailed and specific</b> evaluation of the factors which are likely to affect <i>Magic Metal Ltd's</i> future success.</p> <p><b>L3 (6–9 marks)</b>          (6 marks) candidate makes <b>one</b> analytical point likely to affect <i>Magic Metal Ltd's</i> future success.          (7–9 marks) candidate makes <b>more than one</b> analytical point likely to affect <i>Magic Metal Ltd's</i> future success.</p> <p><b>L2 (3–5 marks) Look for something more than <i>Magic Metal Ltd/Pearce/Freya/Oliver</i>.</b>          (3 marks) candidate applies understanding to suggest <b>one</b> factor likely to affect <i>Magic Metal Ltd's</i> future success.          (4–5 marks) candidate applies understanding to suggest <b>more than one</b> factor likely to affect <i>Magic Metal Ltd's</i> future success.</p> <p><b>L1 (1–2 marks)</b>          (1 mark) candidate identifies <b>one</b> factor with no use of context.          (2 marks) candidate identifies <b>more than one</b> factor with no use of context.</p> <p><b>Level annotation required.</b></p>

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