GCE

Applied Business

Unit: **F242:** Understanding the Business Environment

Advanced Subsidiary GCE

Mark Scheme for June 2017

Annotations

These are the annotations used in the detailed Mark Scheme (to include abbreviations and subject-specific conventions)

Annotation	Meaning
?	Unclear
BOD	Benefit of doubt
✗	Cross
L1	Level 1
L2	Level 2
L3	Level 3
L4	Level 4
NAQ	Not answered question
OFR	Own figure rule
REP	Repeat
SEEN	Noted but no credit given
✓	Tick
NUT	No use of text

	Question		Answer	Mark	Guidance
1	(a)		Indicative content: • Facebook ordering • digital menu board • mobile ordering • specialist checkout operations. Exemplar response: e.g. Facebook ordering **(1)**, allows customers to pre-order their meals so that orders can be processed more quickly and efficiently **(1)**. e.g. Digital menu board **(1)** makes it easier and quicker to change menu **(1)**.	4	**AO1: 2 AO2: 2** One mark for each identification up to a maximum of two identifications plus a further mark for each of two explanations. Beware of repetition. Modern technology must be identified for marks to be awarded.
1	(b)		Indicative content: • social media marketing • IT stock control system • spreadsheet • database. Exemplar response: e.g. Social media marketing **(1)** is a low cost way of raising awareness **(1)**. e.g. IT can be used for stock control **(1)** to reduce waste **(1)**.	4	**AO1: 2 AO2: 2** One mark for each identification up to a maximum of two identifications plus a further mark for each of two explanations. Modern technology must be identified for marks to be awarded.
1	(c)		Indicative content: • specialist checkout operations • mobile ordering • digital menu • website.	4	**AO1: 2 AO2: 2** One mark for each identification up to a maximum of two identifications plus a further mark for each of two explanations.

Question			Answer	Mark	Guidance
			Exemplar response: e.g. Specialist checkout applications **(1)** makes customer happy as their credit cards are processed within their sight **(1)**. e.g. Mobile ordering **(1)** makes it convenient for customers **(1)**.		Modern technology must be identified for marks to be awarded.
2			Indicative content: - initial cost of investment - ongoing hardware/software upgrades - staff training costs - staff concerns – possible redundancies. Exemplar response: e.g. New technology such as tablets can be a considerable cost **(L1)**. For a small restaurant such as *NND* **(CONT)(L2)** it may be difficult for Nora to raise the funding required for the investment. If a loan were to be taken out for this investment, it will reduce the profit of *NND* **(L3)**. Special software needs to be purchased for mobile ordering **(CONT)(L2)** which will again have cost implication as well as time required for training staff leading to a potential reduction in productivity at least in the short term **(L3)**. It is a constant concern amongst staff that new technology means redundancies **(L1)**. This can be a real possibility as digital menu boards reduce the number of waiters a business requires **(CONT)(L2)**. This concern amongst staff might lead to lower motivation and poor service **(L3).**	9	**AO1: 3 AO2: 3 AO3: 3** Please indicate each time a candidate achieves a particular level as this will help you allocate marks within that level. Context should be annotated every time L2/L4 is awarded with the 'CONT' annotation. Non-contextual answer max Level 1. L2: Must contain more context than just name-dropping e.g. waiters, menus. **Level 3** Candidate analyses the disadvantages of introducing new technology with context. **L3:[8-9 marks]** Candidate analyses more than one disadvantage. **L3:[7 marks]** Candidate analyses one disadvantage. **Level 2** Candidate applies knowledge and understanding of the disadvantages of introducing new technology with context. **L2:[5-6 marks]**

Question			Answer	Mark	Guidance
					Candidate applies knowledge and understanding of more than one disadvantage. **L2:[4 marks]** Candidate applies knowledge and understanding of one disadvantage.
					Level 1 Candidate identifies the disadvantages of introducing new technology with no context. **L1:[2-3 marks]** Candidate identifies more than one disadvantage with no context. **L1:[1 mark]** – candidate identifies one disadvantage with no context.
3	(a)		Indicative content: • cash flow statement – records of cash inflow and outflow that have taken place. • cash flow forecast – a prediction of cash inflow and outflow that might take place in the future. Exemplar response: e.g. A cash flow statement shows the amount of cash that has gone into and out **(1)** of a business over a period of time whereas a cash flow forecast is a prediction of cash flow in the future **(1)**.	2	**AO1: 2** Up to **two** marks for a correct explanation.
3	(b)	(i)	Indicative content: • ingredients – variable • marketing – fixed • drinks – variable	5	**AO1: 3 AO2: 2** One mark for each identification up to a maximum of five identifications.

Question			Answer	Mark	Guidance
			• leasing of equipment – fixed • insurance – fixed.		
3	(b)	(ii)	Indicative content: • varies • direct cost • linked to output. • Exemplar response: e.g. Coffee bags are a variable cost because the amount spent on coffee bags varies **(1)** according to how much is being sold **(1)**.	2	**AO1: 1 AO2: 1** Up to **two** marks for an explanation.
4	(a)		Indicative content: SR = £3600 **(1)** Total inflow = £3600 ofr **(1)** Stock = £1200 **(1)** Total outflow= £2200 ofr **(1)** Net cash flow = £1400 ofr applies **(1)** Opening balance = £1788 **(1)** Closing balance = £3188 ofr applies **(1)**	7	**AO1: 4 AO2: 3** One mark for each correct answer.
4	(b)		Indicative content: Total rent = £500 x 10 **(1)** x 12 **(1)** = £60000 **(1)** £500 x 12 **(1)** or £6000 **(1)**	3	**AO1: 2 AO2: 1** Up to **three** marks for correct answer. Check working and award marks as shown if answer incorrect. Award full marks for correct answer without working.

Question			Answer	Mark	Guidance
5			Indicative content: • direct costs – expenses related to the production of goods/services • indirect costs – expenses which cannot be traced specifically to the production of goods/service. Exemplar response: E.g. Direct costs are expenses which can be attributed **(1)** to the production of goods and services whereas indirect costs are not **(1)**.	2	**AO1: 2** Up to two marks for a correct explanation.
6	(a)		Indicative content: BE = FC/(SP-VC) = 1500 **(1)** /(£7.50 - £2.50 **(1)**) or 1500/£5 **(1)** = 300 **(1)** Break-even point = 300 cartons	4	**AO1:2 AO2: 2** Four marks for correct answer. Check working and award marks as shown if answer incorrect. Award full marks for correct answer without working. Ofr applies to contribution and 300 (break-even point) Award full marks 306 (where candidate divided by 365 times 31)
6	(b)	(i)	Indicative content: Profit = Total revenue – Total costs TR = 1000 x £7.5 = £7500 **(1)** TC = £1500(ofr) + (£2.50 x 1000) **(1)** = £4000 **(1)** Profit = £7500 - £4000 = £3500 **(1)** or	4	**AO1: 3 AO2: 1** Four marks for correct answer. Check working and award marks as shown if answer incorrect. Award full marks for correct answer without working.

Question			Answer	Mark	Guidance

			Profit = Margin of safety x unit contribution **(1)**
			    = 700 **(1)** x £5 **(1)**
			    = £3500 **(1)**
					If MOS method is used, award 1 embedded mark for formula if correct method is used but formula is not written.

6	(b)	(ii)	Indicative content: • realistic in the long run with heavy marketing • unrealistic as sales in April much lower. Exemplar response: E.g. It might be a realistic target in the future if Nora spends money on marketing the product **(1)** to increase awareness leading to more sales **(1)**. E.g. It might be an unrealistic target at the moment as sales in the month of April is much lower than 1000 **(1)**. It would be impossible to increase sales by such a huge amount without an extensive marketing campaign **(1)**.	2	**AO1: 1 AO2: 1** One mark for identifying a reason and one mark for an explanation.
7	*		Use Level of Response Criteria Indicative content: • exchange rates • import tariff • taxation • consumer trend • competition. Exemplar response: E.g. Exchange rates affect the price at which a product is purchased from overseas **(L1)**. The coffee bags **(CONT)** are purchased from the Far East and so if Sterling is strong then the cost of the product will decrease **(L2)**. This will	12	**AO1: 3 AO2: 3 AO3: 3 AO4: 3** **NB: this question is assessed for QWC** Please indicate each time a candidate achieves a particular level as this will help you allocate marks within that level. Context should be annotated every time L2/L4 is awarded with the 'CONT' annotation. Non-contextual answer max Level 1. L2: Must contain more context than just name-dropping eg coffee bags, Far East.

Question			Answer	Mark	Guidance
			lead to a lower BE point **(L3)**. An import tariff applies when products are imported from abroad **(L1)**. If the government increases the import tariff then the cost of importing the coffee bags **(CONT)** will increase **(L2)** leading to a higher BE point **(L3)**. Consumer trend dictates preferences in buying habits **(L1)**. Coffee **(CONT)** has become a fashionable drink so demand is on the increase **(L2)**. This means potentially Nora can increase the price of the coffee bags due to increase demand and therefore lowering the BE point **(L3)**. Overall, I think the most important factor is the exchange rate. It has the most immediate impact on the cost of coffee bags **(CONT)** as strong Sterling will allow Nora to buy more coffee bags with each pound reducing the variable cost per unit. This increase in unit contribution will lead to a lower BE point **(L4)**.		**Level 4** Candidate evaluates factors affecting BE point with context. **L4:[11-12 marks]** Candidate evaluates with full justification. **L4:[10 marks]** Candidate evaluates with weak justification. **Level 3** Candidate analyses factors affecting BE point with context. **L3:[8-9 marks]** Candidate analyses more than one factor. **L3:[7 marks]** Candidate analyses one factor. **Level 2** Candidate applies knowledge and understanding of factors affecting BE point with context. **L2:[5-6 marks]** Candidate applies knowledge and understanding of more than one factor. **L2:[4 marks]** Candidate applies knowledge and understanding of one factor. **Level 1** Candidate identifies external factors with no context. **L1:[2-3 marks]** Candidate identifies more than one factor with no context. **L1:[1 mark]** Candidate identifies one factor with no context.

Question	Answer	Mark	Guidance
8	Indicative content: Strength **(1)** – USP of food, location, presence on social media, sole seller **(1)** Weakness **(1)** – not much modern technology used, small business, underrated **(1)** Opportunity **(1)** – consumer trends, growth of social media, increasing e-commerce, exchange rate **(1)** Threat **(1)** – economic factors, competition, technological factor, social trends, exchange rates **(1)** Exemplar response: *E.g. Strength(1): NND's menu is unique (1) which means there is more chance of building a strong customer base (1).* *Weakness (1): NND does not use much technology in its operations (1), it is not as efficient as it can be (1).* *Opportunity (1): More people use social media in their day-to-day lives (1) which means Nora must make sure that NND has a web presence (1) to raise awareness (1).* *Threat (1): Ordering food online has become more popular (1), Nora must invest in new technology in order to meet customer needs (1).*	12	**AO1: 4 AO2: 8** One mark for each identification of SWOT factor up to a maximum of four factors. One mark for each example of factor up to a maximum of four examples plus a further one mark for each of four explanations.

9	Use level of response criteria
	
	Indicative content:
	
	  • pricing strategy
	  • location
	  • quality of product/service.
	
	Exemplar response:
		12	**AO1: 3 AO2: 3 AO3: 3 AO4: 3**
			
			Please indicate each time a candidate achieves a particular level as this will help you allocate marks within that level.
			
			Context should be annotated every time L2/L4 is awarded with the 'CONT' annotation.

Question			Answer	Mark	Guidance
			E.g. In a competitive market using the appropriate pricing strategy is key to success. Nora must make sure that the prices of her menu **(CONT)** are competitive within the area she is expanding **(L2)**. If prices are too high then she will lose customers **(L3)** to her competitors. Location is very important when setting up a business **(L1)**. London can be very expensive when locating her restaurant **(CONT)(L2)**. A high rent will mean a higher fixed cost to cover **(L3)**. Overall, product differentiation is the most important strategy to ensure that *NND* stands out amongst the competition. Nora must make sure that the food **(CONT)** that she serves is different from the competition in the area. The Nyonya style food should attract customers to her restaurant if there isn't another one around selling similar food **(L4)**. With a USP she will also potentially have a healthy turnover and also the ability to charge a higher price to ensure the success of the new expansion **(L4)**.		Non-contextual answer max Level 1. L2: Must contain more context than just name-dropping e.g. food, menu. **Level 4** Candidate evaluates how market structure affects business decisions with context. **L4:[11-12 marks]** Candidate evaluates with full justification. **L4:[10 marks]** Candidate evaluates with weak justification. **Level 3** Candidate analyses how market structure affects business decisions with context. **L3:[8-9 marks]** Candidate analyses more than one way. **L3:[7 marks]** Candidate analyses one way. **Level 2** Candidate applies knowledge and understanding of how market structure affects business decisions with context. **L2:[5-6 marks]** Candidate applies knowledge and understanding of more than one way. **L2:[4 marks]** Candidate applies knowledge and understanding of one way. **Level 1** Candidate identifies how market structure affects business decisions with no context. **L1:[2-3 marks]**

Question			Answer	Mark	Guidance
					Candidate identifies more than one way with no context. **L1:[1 mark]** Candidate identifies one way with no context.

10			Use level of response criteria
			
			Indicative content:
			
			Co-operative
			Advantages – low start-up costs
			        freedom to make local decisions
			        not pressured to buy equipment/supplies
			        members more motivated
			Disadvantages - lack of support
			        cannot expand quickly
			
			Franchisee
			Advantages - support provided
			        can expand quickly
			Disadvantages – high set up costs
			        have to pay a % of profit
			        less freedom for decision making
			
			Exemplar response:
			E.g. Co-operatives enjoy lower start-up costs than most franchises **(L1)**. This means Nora can attract more potential investors for her restaurant **(CONT)(L2)**. This will enable Nora to expand more quickly **(L3)**.
			
			The freedom to make decisions is key in a co-operative **(L1)**. This is especially important as restaurants have to make decisions on price and menu **(CONT)** based on local competition **(L2)**. Failure to respond to local competition may lead to business closure **(L3)**.
				12	**AO1: 3 AO2: 3 AO3: 3 AO4: 3**
					
					Please indicate each time a candidate achieves a particular level as this will help you allocate marks within that level.
					
					Context should be annotated every time L2/L4 is awarded with the 'CONT' annotation.
					
					Non-contextual answer max Level 1.
					
					L2: Must contain more context than just name-dropping eg food, menu.
					
					Level 4 Candidate evaluate which of the two models is likely to be preferred by those interested in opening new *NND* restaurants.
					L4:[11-12 marks]
					Candidate evaluates with full justification.
					L4:[10 marks]
					Candidate evaluates with weak justification.
					
					Level 3 Candidate analyses ownership models.
					L3:[8-9 marks]
					Candidate analyses both models.
					L3:[7 marks]
					Candidate analyses one model.

Question			Answer	Mark	Guidance
			However, co-operatives do not enjoy the support that large franchises can offer in terms of marketing **(L1)**. Marketing is crucial to raise awareness of a restaurant **(CONT)(L2)**. Without a good marketing campaign businesses will lose customers to their competitors **(L3)**. Overall, being a co-operative is preferable in the highly competitive restaurant **(CONT)** industry. As a service industry investors and workers need to be highly motivated in order to provide a good customer service. By empowering potential investors with the way their own restaurants can be run, productivity and efficiency could improve leading to a more successful business **(L4)**.		**Level 2** Candidate applies knowledge and understanding of ownership models. **L2:[5-6 marks]** Candidate applies knowledge and understanding of both models. **L2:[4 marks]** Candidate applies knowledge and understanding of one model. **Level 1** Candidate identifies features of ownership models. **L1:[2-3 marks]** Candidate identifies a feature for both models. **L1:[1 mark]** Candidate identifies a feature of one ownership model.

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