



GCE

Business

Unit **H431/01**: Operating in a local business environment

Advanced GCE

Mark Scheme for June 2018

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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

BP	Blank page
	Tick
	Cross
NAQ	Not answered question
OFR	Own Figure Rule
BOD	Benefit of Doubt
REP	Repeat
SEEN	Noted but no credit given
TV	Too vague
	Unclear
K	Knowledge
APP	Application of knowledge and understanding
AN	Analysis
DEV	Developed Analysis
BOD EVAL	Benefit of Doubt Evaluation
EVAL	Evaluation
EE	Effective Evaluation

EVERY PAGE, INCLUDING BLANK PAGES (use the BP annotation), MUST HAVE SOME ANNOTATION

Please ensure that, wherever possible, annotations are placed in the margins and not over the candidate's answer. This makes it very difficult to read when the paper is printed out in black & white.

[Questions 19(b) & 20(a) should be annotated with ticks, crosses, BOD, REP, TV, OFR or NAQ. The number of ticks plus OFR MUST match the final mark awarded for that question. Ticks MUST NOT be used in Questions 16-19(a) & 20(b).]

IT IS VITAL THAT YOU SHOW AS MUCH ANNOTATION ON EACH PAGE AS POSSIBLE. IN PARTICULAR, WHERE AOs ARE REACHED, SO THAT YOUR TEAM LEADER CAN LOOK TO AGREE WITH YOUR FINAL MARK.

Subject-specific Marking Instructions

INTRODUCTION

Your first task as an Examiner is to become thoroughly familiar with the material on which the examination depends. This material includes:

- the specification, especially the assessment objectives
- the question paper and its rubrics
- the mark scheme.

You should ensure that you have copies of these materials.

You should ensure also that you are familiar with the administrative procedures related to the marking process. These are set out in the OCR booklet **Instructions for Examiners**. If you are examining for the first time, please read carefully **Appendix 5 Introduction to Script Marking: Notes for New Examiners**.

Please ask for help or guidance whenever you need it. Your first point of contact is your Team Leader.

Levels of response – Level descriptors

	Knowledge and understanding/ Application	Analysis	Evaluation
Strong		An explanation of causes and consequences, fully developing the links in the chain of argument.	A conclusion is drawn weighing up both sides, and reaches a supported judgement.
Good	Precision in the use of the terms in the question and applied in a focused way to the context of the question.	An explanation of causes and consequences, developing most of the links in the chain of argument.	A conclusion is drawn weighing up both sides, but without reaching a supported judgement.
Reasonable	Awareness of the meaning of the terms in the question and applied to the context of the question.	An explanation of causes and consequences, which omit some key links in the chain of argument.	Some attempt to come to a conclusion, which shows some recognition of the influencing factors.
Limited	Awareness of the meaning of the terms in the question.	Simple statement(s) of cause and consequence.	An unsupported assertion.

Candidates will be awarded marks for the demonstration of each skill (Knowledge and Understanding/Application/Analysis/ Evaluation) according to the level (Strong/Good/Reasonable/Limited) seen. Their overall mark for Levels of Response questions will comprise the total of these four marks.

The descriptions in each levels of response question in this mark scheme describe a typical response at the top of that level.

USING THE MARK SCHEME

Please study this Mark Scheme carefully. The Mark Scheme is an integral part of the process that begins with the setting of the question paper and ends with the awarding of grades. Question papers and Mark Schemes are developed in association with each other so that issues of differentiation and positive achievement can be addressed from the very start.

This Mark Scheme is a working document; it is not exhaustive; it does not provide 'correct' answers. The Mark Scheme can only provide 'best guesses' about how the question will work out, and it is subject to revision after we have looked at a wide range of scripts.

The Examiners' Standardisation Meeting will ensure that the Mark Scheme covers the range of candidates' responses to the questions, and that all Examiners understand and apply the Mark Scheme in the same way. The Mark Scheme will be discussed and amended at the meeting, and administrative procedures will be confirmed. Co-ordination scripts will be issued at the meeting to exemplify aspects of candidates' responses and achievements; the co-ordination scripts then become part of this Mark Scheme.

In your marking, you will encounter valid responses which are not covered by the Mark Scheme: these responses must be credited.

Please read carefully all the scripts in your allocation and make every effort to look positively for achievement throughout the ability range. Always be prepared to use the full range of marks.

INSTRUCTIONS TO EXAMINERS:**A INDIVIDUAL ANSWERS**

- 1 The indicative content indicates the expected parameters for candidates' answers, but be prepared to recognise and credit unexpected approaches where they show relevance.
- 2 Be prepared to use the full range of marks. Do not reserve (e.g.) high Band marks 'in case' something turns up of a quality you have not yet seen. If an answer gives clear evidence of the qualities described in the band descriptors, reward appropriately.

B TOTAL MARKS

- 1 The maximum mark for the paper is **80**.
- 2 The quality of extended responses is assessed in parts of this paper. The assessment of this skill is embedded within each of the levels and must be considered when determining the mark within the appropriate level

SECTION A				
Question	Answer	Marks	AO	Rationale
1	C	1	1	<p>A CV contains details of an applicant's qualifications, interests and work experience. It is used by a business to help select the best person for a specific job role.</p> <p>Answer A relates to a job vacancy advertisement. Answer B would be a letter of confirmation. Answer D would be a person specification or an interview checklist.</p>
2	B	1	1	<p>Globalisation creates more opportunities for trade across national boundaries, it therefore increases competition. This is usually a benefit to the customer but it can pose a threat to businesses in the market, especially non-dominant businesses.</p> <p>An increased choice of suppliers is an opportunity for a business, rather than a threat. Globalisation creates a reliance on global communication technology, so Answer D is not a likely result of globalisation. Economic growth is likely to increase, rather than decrease, as globalisation increases.</p>
3	A	1	2	<p>There are four factors of production – land, labour, capital and enterprise. In the construction industry, the land on which houses are built is a factor of production.</p> <p>In the context of factors of production, capital does not mean money rather it refers to buildings, machinery, tools and other capital goods. Answers B and D, which both relate to money, are therefore incorrect. Answer C is an important factor in house building, but it is not a factor of production.</p>
4	B	1	1	<p>A business which uses zero hours contracts has the flexibility to call in staff when they are needed. However, the employees cannot be forced to come in to work and, therefore, may not turn up for work if they do not wish to. On occasions, this may leave the business understaffed.</p> <p>Answers A and D are both true, however, they increase business flexibility and are therefore advantageous to a business. Answer C is a disadvantage but to the employee rather than to the business.</p>
5	C	1	2	<p>The diagram shows that the increase in equilibrium price has been caused by an increase in demand at all price levels. This could have been caused by more people wanting warm footwear during a long and cold winter.</p> <p>Answer A would cause a reduction in demand at all price levels, shifting the demand curve to the left and reducing equilibrium price. Answers B and D would both increase the equilibrium price, but they would be caused by a reduction in supply at all price levels.</p>

SECTION A				
Question	Answer	Marks	AO	Rationale
6	B	1	1	<p>Value analysis is used to balance the functionality, costs and aesthetics of a product a business intends to sell.</p> <p>Answer A relates to investment appraisal methods such as payback, ARR and NPV. Answer C – variance analysis. Answer D – a cashflow statement.</p>
7	C	1	2	<p>The effect of the change the taxi firm has made to its booking systems is likely to improve the deployment of taxis by the firm, increasing the availability of taxis to the consumer.</p> <p>Answer D – the system should lead, if anything, to shorter queues. Answer B – there is probably little impact on pricing, however if there is an effect on prices the firm is likely to push prices up, rather than reduce them, to cover the costs of the technology. Answer A – computerising the booking system may improve levels of customer service, but it has no direct link to the better training of taxi drivers.</p>
8	D	1	2	<p>Organic growth is the growth of a business from within, usually caused by an increase in sales. In a bakery, this could be selling more bread to existing customers.</p> <p>Answers A and C are forms of inorganic growth. Answer A is an acquisition (backwards, vertical integration); Answer C is a merger (horizontal integration). Answer B relates to an increase in capital resources, it may be a precursor to organic growth in the future.</p>
9	C	1	2	<p>Stock turnover ratio = Cost of sales/average stock. $\frac{£17,200}{\frac{1}{2}(£7200 + £4800)} = \frac{£17,200}{£6000} = 2.87$.</p> <p>Answer A erroneously divides £17,200 by £12,000 (the sum of £7200 and £4800). Answer B erroneously divides £17,200 by the opening stock figure. Answer D erroneously divides £17,200 by the closing stock figure.</p>
10	B	1	1	<p>Crisis management is the reactive response a business makes to unforeseen difficulties, commonly referred to as 'firefighting'.</p> <p>All of the other answers refer to planning or being proactive - these would be explanations of 'contingency planning' rather than 'crisis management'.</p>
11	B	1	2	<p>Product innovation leads to the introduction of new, and possibly improved, products on the market. In the chocolate industry, this could be a new chocolate bar.</p>

SECTION A				
Question	Answer	Marks	AO	Rationale
				Answer A relates to process innovation rather than product innovation. Answer C – product innovation is likely to lead to more, rather than less, customer choice. Answer D - product innovation is expensive and is likely to increase research and development costs.
12	A	1	1	<p>AIDA stands for Attention, Interest, Desire, Action. It is a marketing model applied specifically to increasing the effectiveness of advertising.</p> <p>The other answers are incorrect. Answers B and C do relate to marketing, although not to AIDA.</p>
13	B	1	2	<p>The margin of safety is the difference between the operating level of output and the break-even level of output. 7000 units – 5000 units = 2000 units.</p> <p>Answer A may be caused by a candidate comparing 7000 units with the maximum output shown on the graph of 8000 units. Answers C and D erroneously have a margin of safety measured in monetary terms. Answer C may be a graphical reading of the distance between the total revenue and total cost lines at 7000, if an accurate reading this would represent the profit to be made at 7000 units of output. Answer D erroneously quotes the amount of revenue and costs at the break-even point.</p>
14	B	1	1	<p>Miscommunication of objectives to employees is likely to cause a negative reaction. Labour turnover is likely to fall as workers will be demotivated and look to leave the business.</p> <p>Answers A and D will occur when communication of objectives is carried out well. Answer C is not correct as objectives may be SMART or not SMART but can still be mis-communicated.</p>
15	D	1	1	<p>Economies of scale lead to a fall in unit costs as output increases.</p> <p>Answer A is incorrect because it omits the word 'unit'. Total costs will rise when size increases, it would be the unit cost which falls. Answer B, although in reality impossible, would relate to a zero change in cost efficiency at all output levels. Answer C could relate to stepped fixed costs, however it is not an explanation of the meaning of 'economies of scale'.</p>

SECTION B		
	Answer	Marks
16	<p>“I’d like to do a bit more marketing but I don’t have the resources.” (Line 65)</p> <p>Analyse one way in which the resources available to Michael may affect his ability to develop a marketing strategy for the shop.</p> <p>Level 2 (6-4 marks) Candidate shows good knowledge and understanding and shows good analysis of a possible way in which the resources available to Michael may affect his ability to develop a marketing strategy for the shop.</p> <p>Level 1 (3-1 marks) Candidate shows limited knowledge and understanding with limited or no analysis of a way in which the resources available to Michael may affect his ability to develop a marketing strategy for the shop.</p> <p>(NB – award one mark for a non-contextualised reason)</p> <p>0 marks – no response or no response worthy of credit</p>	<p>6 (AO1 1) (AO2 2) (AO3 3)</p>
		<p>Guidance</p> <p>A marketing <u>strategy</u> combines a business’ marketing goals into a clear <u>plan</u>. It should arise from <u>market research</u> and focus on meeting customer needs <u>order</u> to <u>achieve</u> the maximum profit. Resources could be:</p> <p>Finance – how much money comes in from sales? To a large extent this is outside of his control. If the ‘right’/good items are not donated, he cannot sell them. He cannot just have ‘a push’ on marketing if short of funds. His priority will be to pay the bills. This might become something of a vicious circle, as without funds he cannot undertake a marketing strategy and without marketing this could limit customers and donors. What are the opportunity cost of funds put into a strategy? If it did not work well this would have been a waste of money that could have gone to support the counselling the charity offers. Michael might therefore be unwilling to risk very much in the way of (say) advertising expenditure.</p> <p>Time/skills - Michael and his deputy work part-time. Do either of them have the time to undertake market research and construct a SWOT analysis to plan out a strategy? The text does say that he typically works longer than his contracted hours so presumably he could do it at home if he wanted to. It will be time consuming (opportunity cost issues) and will not be easy given the nature of the products sold - a ‘standard’ marketing strategy might focus on the ‘right’ product mix but given that the shop relies on donations this is not much of an option. Michael <i>has</i> been a senior marketing manager and so will have had considerable experience in this field which should at least make matters slightly easier.</p>

SECTION B				
Answer		Marks	Guidance	
			<p>The shop itself – the shop is of limited size and has not got a large storage area. There is not much scope for storing stock even if he wanted to select items (such as jackets or dresses) to put aside for a series of marketing promotions in the future. This limits what he can do.</p> <p>Staff – would have to be involved but given that “labour turnover can be quite high” a marketing strategy might have to be explained several times over (in simple terms) to people who may simply be content to ‘help out’ rather than feel responsible for achieving an important plan. Opportunity cost of the time involved.</p> <p style="text-align: right;">ARA</p>	
17*	<p>Evaluate methods which Michael could use to ensure that his staff are motivated.</p> <p>Level 3 (15-11 marks) Candidate shows strong knowledge and understanding, analysis and evaluation of methods which Michael could use to ensure that his staff are motivated.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p>Level 2 (10-6 marks) Candidate shows good knowledge and understanding, analysis and evaluation of methods which Michael could use to ensure that his staff are motivated.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.</i></p>	<p>15 (AO1 2) (AO2 2) (AO3 4) (AO4 7)</p>	<p>N.B. Allow references to ‘employees’ as opposed to staff/volunteers.</p> <p>Having a contract can be considered for knowledge ONLY - do not accept this for application, analysis or evaluation since the staff are volunteers and unpaid.</p> <p>Monetary methods are not appropriate for the volunteers. Do not credit ANY reference to doing this beyond a mark for knowledge.</p> <p>So there is no scope for linking pay to performance for them. Thus, ensuring a high level of motivation must be achieved via other methods. There is considerable scope for use of theory here. It <i>might</i> be possible however for the assistant manager Ann.</p> <p>Consideration could also be given to management style (McGregor X and Y) including praise, thanking staff for helping to make the charity a success and recognition of the positive effects of their work. Also, ensuring some variety in the work;</p>	

SECTION B		
Answer		Guidance
	<p>Level 1 (5-1 marks) Candidate shows limited knowledge and understanding of the methods which Michael could use to ensure that his staff are motivated.</p> <p>(NB – award a maximum of two marks for a non-contextualised response)</p> <p>0 marks – no response or no response worthy of credit</p>	<p>not just ‘being on the till the whole time’ but also sorting/pricing/displaying etc. This will help prevent boredom and low motivation.</p> <p>Better candidates may reference the theory explicitly (but will not simply provide a standard list of the theorists and their work) in context.</p> <p>Maslow - meeting social needs, esteem needs. Mayo – teamwork/‘taking an interest in the volunteers’ (Hawthorne effect), recognising, consulting. Herzberg - given the nature of the business there may not be much scope for ‘high quality hygiene factors’. However, according to Herzberg, these prevent dissatisfaction rather than motivate anyway. Nevertheless, allow reference to considering hygiene factors as something that can combat the ‘I’m a volunteer and look at how I have to work’ attitude. Herzberg stresses concepts such as responsibility, autonomy, and recognition – as does Tom Peters.</p> <p>Locke (et al) goal-setting – goal-setting provides a sense of direction to a business, but what type of goal might be appropriate here? Is there scope for some sort of appraisal process or would this be a waste of time for Michael (given that he already works when he is not contracted to do so) and the type of volunteers - who can have a high rate of labour turnover.</p> <p>Of considerable importance might be the ability to work flexible hours to fit in with other commitments There is reference to volunteers also undertaking other charitable work and also having childcare issues. Therefore, trying to ensure that volunteers work when they want to could be a major motivational point.</p>

SECTION B				
Answer			Marks	Guidance
				<p>There is the deputy manager - Ann. The above points can also be applied to her. Also, perhaps if she leaves/retires there is scope for a volunteer to gain promotion to this post. Such a possibility may motivate (Maslow's higher needs).</p> <p>Vroom and McClelland - may be rather more difficult to apply given that, respectively, it is difficult to see how Steve could 'reward' volunteers in the usual business sense, and that 'N theory' is unlikely to translate easily to volunteers in a charity shop. Although it would be possible to suggest that volunteers would still appreciate feedback on work (N-ach) or likes to work as part of a team (N-Aff) even if these terms are never used.</p> <p>The shop is small, Michael is well placed to 'take an interest in his staff' (Mayo) and find out exactly what tasks they like doing and try to ensure that they are rostered so that they can perform them and hence be motivated. In this sense, he is at an advantage over a supervisor/manager in a supermarket who is unlikely to be able to find the time to do this given their span of control.</p> <p style="text-align: right;">ARA</p>
18		<p>Analyse how two causes of uncertainty might have an impact on the Help UK shop in Macclesfield.</p> <p>Level 2 (9-5 marks) Candidate shows good knowledge and understanding and shows good analysis of how cause(s) of uncertainty might have an impact on the Help UK shop in Macclesfield.</p>	<p>9 (AO1 2) (AO2 2) (AO3 5)</p>	<p>The key focus is on the actual 'causes of uncertainty'.</p> <p>Uncertainty exists where there is a lack of knowledge about the future and so events are unpredictable. There are some pointers in the context about uncertainty.</p> <p>Inability to get staff - and for them to work the days/hours Steve wants. If he cannot get them he will have to cover for them (or his deputy will). He already works longer than his contracted hours. There is a 'knock on effect' into his personal life. Alternatively, (at worst) he may have to shut the shop which loses him donations and sales now and possibly in the future.</p>

SECTION B		
Answer		Guidance
	<p>Level 1 (4-1 marks) Candidate shows limited knowledge and understanding of cause(s) of uncertainty with limited or no analysis of how these might have an impact on the Help UK shop in Macclesfield.</p> <p>(NB – award two marks for a non-contextualised response)</p> <p>0 marks – no response or no response worthy of credit</p>	<p>Level/type of donations - without these the 'lifeblood' of the business does not exist. Without donations to sell, the shop cannot meet its targets. It has bills to pay on the shop and contributions to make to the charity. The same sort of argument applies if the donations are of 'junk' or simply products that people do not want to buy, e.g. very dated DVDs. Michael never knows what he is going to get.</p> <p>Arrival of new competitors - rival charity/'Poundland' type shops setting up nearby. Fig. 1 already shows four charities within a two-mile radius of the shop. This would mean fewer donations and sales. The same would apply if the other competing charity shops launched some sort of successful advertising campaign.</p> <p>The (local) economy - most of the products sold are inferior goods (the term does not have to be used). Sales picked up in the recession. Will sales decline if the economy grows further or will people continue to donate as they 'trade up' as they gain more income?</p> <p>'Changing trends' e.g. people shopping online rather than visiting shops to buy might mean an effect the shop's sales and therefore the money that can be used to support the charity's good causes.</p> <p>The weather. Allow references to this. 'The beast from the east' in early 2018 certainly affected shoppers and poor weather, according to the season, could well impact on sales/revenue/profit at Michael's charity shop. It would affect people dropping off donations as well.</p>

SECTION B			
Answer		Marks	Guidance
			<p>The lease on the shop - in the longer term, the lease may not be renewed. Although 'a full commercial rent is paid' (and there is no suggestion of a default) the landlord may decide not to renew the lease at some point in the future which would mean having to find new premises and establishing donations and a customer base all over again. Given the number of competitors this may not be easy.</p> <p>Analysis could also include Michael's actions to minimise/eliminate the uncertainty.</p>
19*	<p>Evaluate the impact of poor customer service on the Help UK shop in Macclesfield.</p> <p>Level 3 (15-11 marks) Candidate shows strong knowledge and understanding, analysis and evaluation of the impact of poor customer service on the Help UK shop in Macclesfield.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p>Level 2 (10-6 marks) Candidate shows good knowledge and understanding, analysis and evaluation of the impact of poor customer service on the Help UK shop in Macclesfield.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.</i></p>	<p>15 (AO1 2) (AO2 2) (AO3 4) (AO4 7)</p>	<p>Do not accept references to poor customer service in terms of counselling being provided by the Macclesfield shop. This does not happen.</p> <p>Do not accept references to the effect on the charity as a whole – the question is centred around a <u>local shop</u></p> <p><i>Also, allow references to staff being disinterested when goods are donated. Strictly speaking the donors are not necessarily 'customers' but might have been prepared to buy something.</i></p> <p>Poor customer service could arise from situations such as the shop being closed due to lack of staff, staff being offhand/rude, staff not knowing what prices are/charging the wrong price, staff knowing that a certain sort of item is 'in stock' but not knowing where it is in the shop, staff ignoring customers, staff answering the shop's phone in an unhelpful/disinterested manner.</p> <p>Customers may well be prepared to pay more (including 'keep the change')/buy more if customer service is good. Obviously, the opposite applies when customer service is bad.</p>

SECTION B		
Answer		Guidance
	<p>Level 1 (5-1 marks) Candidate shows limited knowledge and understanding of customer service with limited or no analysis and evaluation of the impact of poor customer service on the Help UK shop in Macclesfield.</p> <p>(NB – award a maximum of two marks for a non-contextualised response)</p> <p>0 marks – no response or no response worthy of credit</p>	<p>A lack of sales due to poor service means the shop having too much stock so it cannot accept any more with the possibility of losing not just that one ‘drop off’ but others as well, as people will donate elsewhere (see Fig. 1) - and these are the ‘lifeblood of the shop’.</p> <p>Lost sales when the poor service occurs (‘putting off’ a new customer or an existing one) - and in the future. Cash flow issues. The shop has bills to pay. Michael has never failed to pay them in the past but poor service could change that.</p> <p>It could lead to a customer getting angry and ‘causing a scene’ with one of the people serving in the shop (not necessarily the one who caused the problem) which may be difficult for a volunteer (or even his deputy) to deal with. This may put off customers in the shop and might cause the member of staff to leave. Lost revenue, poor publicity and recruitment issues.</p> <p>It would have to be extreme but if there was very poor customer service there is the possibility of poor publicity on local social media/local paper. Also the possibility of poor local ‘word of mouth publicity’ for the shop and ‘the shop relies mainly on word of mouth’.</p> <p>Puts the shop at a disadvantage compared to competitors of which there are many locally. There are some customers who ‘shop to help a good cause’. Poor service could cause them to switch to a different cause with effects such as those outlined above.</p> <p>There is an issue here for recruitment since potential employees/volunteers might assume, on hearing about the poor service, that if customers are treated poorly, volunteers/employees may be treated badly as well.</p>

SECTION B																								
Answer			Marks	Guidance																				
				<p>Loss of revenue for <i>local projects</i>.</p> <p>On the other hand, given the nature of the business as a charity shop, consumers are actually less concerned about the customer service provided as the price of the goods are the over-riding factor in purchasing. Similarly, they may not want the time and trouble f having to travel to another charity shop to drop off donations just because they have experienced poor customer service at Help UK.</p>																				
20	a	<p>Calculate the net present value (NPV) of the shop's forecast total net profit for the period 2018 to 2020.</p> <p>1 mark for applying knowledge of NPV (Net profit x Discount factor) to the data (even if for only 1 year)</p> <p>1 mark for total NPV</p> <p>Full marks for correct answer (even if no working is shown)</p>	2 (AO2 2)	<table><tr><th>Year</th><th>Net profit (£)</th><th>Discount factor (2%)</th><th>Present Value (£)</th></tr><tr><td>2018</td><td>24,000</td><td>.980</td><td>23,520</td></tr><tr><td>2019</td><td>26,000</td><td>.961</td><td>24,986</td></tr><tr><td>2020</td><td>29,000</td><td>.942</td><td>27,318</td></tr><tr><td>NPV of profit</td><td></td><td></td><td>75,824</td></tr></table> <p style="text-align: right;">OFR</p>	Year	Net profit (£)	Discount factor (2%)	Present Value (£)	2018	24,000	.980	23,520	2019	26,000	.961	24,986	2020	29,000	.942	27,318	NPV of profit			75,824
Year	Net profit (£)	Discount factor (2%)	Present Value (£)																					
2018	24,000	.980	23,520																					
2019	26,000	.961	24,986																					
2020	29,000	.942	27,318																					
NPV of profit			75,824																					
20	b	<p>Assuming that Michael's forecasts for net profit are correct, calculate the total annual costs of the Macclesfield shop in 2018.</p> <p>Full marks for correct answer (even if no working is shown)</p>	3 (AO1 1) (AO2 1) (AO3 1)	<p>Revenue is £60,000 (£5,000 x 12 months) (1)</p> <p>Net profit is £24,000 (1)</p> <p>Total Costs are therefore (£60,000 - £24,000) = £36,000 (1)</p> <p><u>Alternative correct answer using answer from answer to 20a:</u></p> <p>Revenue is £60,000 (£5,000 x 12 months) (1)</p> <p>2018 Present value of £23,520 (£24,000 x 0.98) = £23,520 (1)</p> <p>£60,000 - £23,520 = £36,480 (1)</p> <p style="text-align: right;">OFR</p>																				

SECTION B			
Answer		Marks	Guidance
21*	<p>Assume that the decision has been taken to renew the lease on the shop for another five years. Evaluate how the continued success of the Help UK shop in Macclesfield might affect its local stakeholder groups.</p> <p>Level 3 (15-11 marks) Candidate shows strong knowledge and understanding, analysis and evaluation of how the continued success of the Help UK shop in Macclesfield might affect its local stakeholder groups.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p>Level 2 (10-6 marks) Candidate shows good knowledge and understanding, analysis and evaluation of how the continued success of the Help UK shop in Macclesfield might affect its local stakeholder groups.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.</i></p> <p>Level 1 (5-1 marks) Candidate shows limited knowledge and understanding of measures of success and limited or no analysis and evaluation of how the continued success of the Help UK shop in Macclesfield might affect its local stakeholder groups.</p>	<p>15 (AO1 2) (AO2 2) (AO3 4) (AO4 7)</p>	<p><i>The focus here needs to be on local stakeholders.</i></p> <p>Local people who use the charity for counselling - 2017 saw the Prime Minister draw attention to mental health issues. These are complex but can indeed arise from family and relationship problems - which is what the charity seeks to address. People, particularly young people, who can access counselling for family and relationship problems could (hopefully) find that it brings benefits in terms of improved 'well-being' that could last for the rest of their lives. The success of the shop means that finance is available to provide this counselling <i>locally</i> to those who might not otherwise be able to afford it ("One feature of the service that it provides is that counselling is offered to those who need it (for example the unwaged) at a subsidised rate") and/or may have to wait a long time to access it via the NHS.</p> <p>Customers of the shop – Fig. 1 shows the approximate socio-economic breakdown of the population within a two-mile radius of the shop. Relatively less affluent people live to the South East/West of the shop (and possibly North West) and so the continuing existence of the shop means there are products which people want. The context says that the main customers are "mothers with children" – and these may not have a lot of disposable income. Prices are low and items are sold at prices the less well-off can afford. "Michael is sometimes amazed at the high quality of the items, particularly clothes, which are donated". Clothes, for example, typically retail from between £2 and £3 (Table 1) This could be a major benefit to some of the customers.</p>

SECTION B		
Answer		Guidance
	<p>(NB – award a maximum of two marks for a non-contextualised response)</p> <p>0 marks – no response or no response worthy of credit</p>	<p>Local government - receives business rates from the shop. Also, if a charity is helping to support counselling on individual and family relationship problems then this will help reduce the strain on the resources it may be providing itself for this.</p> <p>Staff (Michael/his deputy/volunteers) - Michael and his deputy Ann will continue to earn a salary. If the shop was closed there is no suggestion they will automatically be offered a post elsewhere in the charity, either running another shop or in some other capacity. Michael can continue to feel 'he can help others'. Staff (presumably) feel the same; that they are contributing something useful to the charity (perhaps thinking they are 'making a difference') and are therefore 'happy' with the work they do.</p> <p>Competitors – accept other similar shops as competitors; Michael certainly does. A competitor can be regarded as a stakeholder – although with a rather different 'take' on success than the other stakeholders. If Help UK succeeds it may mean other charities (and indeed 'ordinary retailers' to some extent) are not so successful. There could be a slight 'twist' here on the standard 'competitors are making less sales' argument since the competitors are themselves charities. Their 'good cause' might be one on which most people would agree to be valid (e.g. cancer research or the British Red Cross - see Fig. 1) and so one good cause's success (Michael's shop) could come at the expense of another's.</p>

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Answer			Marks	Guidance
				Candidates can make use of the data in Table 2 - and question its validity; are these figures showing growth in net profit likely? Might they be affected by the local economy? Is the inflation estimate realistic? It is the government's target figure but if inflation is higher than 2% it will lower the NPV (and vice versa - although that will not matter). If the figures change to what extent will this impact on the stakeholders?

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