

Mark Scheme (Results)

Summer 2014

Pearson Edexcel International
A Level Business Studies (WBS01)

Unit 1: Business Enterprise

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General marking guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed-out work should be marked UNLESS the candidate has replaced it with an alternative response.

Section A: Supported multiple choice

N.B. If part (a) of the question is INCORRECT, then a maximum of 2 marks can be awarded for part (b).

Question Number	Question	Marks
1 (a)	Answer: Answer: C (sole trader)	1
1 (b)	<p>Explain why this answer is correct:</p> <ul style="list-style-type: none"> • A sole trader is a business set up, owned and run by one person with unlimited liability. (1) • Most small businesses start as sole traders because of the simplicity of the structure/it is easy to set up. (1) • As Hannah has set up and owns this business herself, meaning she has no partners or shareholders, she can make all of the business decisions and keep the profits herself. (1) <p>Alternatively, up to two of the marks above can be achieved by explaining (not defining) distracters, for example:</p> <ul style="list-style-type: none"> • A is wrong because a partnership is owned by two or more people and <i>I am an Eskimo</i> was set up and is owned by Hannah Craig. (1) • B is wrong because with any co-operative the ownership is shared between many people. Hannah does not share ownership with any other person. (1) • D is wrong because Public Limited Companies have shares that are traded on the stock exchange and multiple owners are called shareholders which own the business. As a sole trader, this option is not open to Hannah. (1) <p>Any acceptable answer that shows selective knowledge/understanding/application and/or development.</p> <p>N.B. up to 2 marks out of 3 may be gained for part (b) if part (a) is incorrect.</p>	<p style="text-align: center;">1-3</p> <p style="text-align: right;">(Total 4)</p>

Question Number	Question	Marks
2 (a)	Answer: A (competitive advantage)	1
2 (b)	<p>Explain why this answer is correct:</p> <ul style="list-style-type: none"> • Competitive advantage is any positive feature that distinguishes a company from its competitors. (1) • In this case, the competitive advantage comes from Coca Cola's secret recipe that no other drinks company can use. (1) • Customers who like the taste of Coca Cola because of its secret recipe can only buy from <i>Coca Cola</i> which then generates consumer loyalty, which is a source of competitive advantage. (1) <p>Alternatively, up to two of the marks above can be achieved by explaining (not defining) distracters, for example:</p> <ul style="list-style-type: none"> • B is wrong because Coca Cola's secret recipe is an aspect of product orientation not market orientation. (1) • C is wrong because market mapping places <i>Coca Cola</i> in relation to its competitors and is nothing to do with the secret recipe. (1) • D is wrong because test marketing would involve trialling different recipes and there is only one for Coca Cola. (1) <p>Any acceptable answer that shows selective knowledge/understanding/application and/or development.</p> <p>N.B. up to 2 marks out of 3 may be gained for part (b) if part (a) is incorrect.</p>	<p>1-3</p> <p>(Total 4)</p>

Question Number	Question	Marks
3 (a)	Answer: B (leasing)	1
3 (b)	<p>Explain why this answer is correct:</p> <ul style="list-style-type: none"> • Leasing allows a company to rent the use of a fixed asset, on payment of a regular fee. (1) • Angela has the use of the photocopier immediately without having to find £10 000 but she will never own it. (1) • Because she knows what the regular payments will be, these can be planned/benefits of leasing agreements e.g. servicing/insurance/upgrades. (1) <p>Alternatively, up to two of the marks above can be achieved by explaining (not defining) distracters, for example:</p> <ul style="list-style-type: none"> • A is wrong because the photocopier will cost £10 000 and an overdraft is usually for small amounts of money or emergencies over a short period of time. (1) • C is wrong because <i>The Admin Doctor</i> is not a public limited company and therefore cannot issue debentures. (1) • D is wrong because trade credit is not designed to purchase large items of capital equipment such as a £10 000 photocopier. (1) <p>Any acceptable answer that shows selective knowledge/understanding/application and/or development.</p> <p>N.B. up to 2 marks out of 3 may be gained for part (b) if part (a) is incorrect.</p>	<p>1-3</p> <p>(Total 4)</p>

Question Number	Question	Marks
5 (a)	Answer: B (Demographic)	1
5 (b)	<p>Explain why this answer is correct:</p> <ul style="list-style-type: none"> • Demographics refers to changes in and the structure of the population. (1) • The under 35 population are more likely to have babies and buy <i>Mothercare's</i> products. (1) • This increasing demand comes from demographic change and suggests a growing market for <i>Mothercare</i>. (1) <p>Alternatively, up to two of the marks above can be achieved by explaining (not defining) distracters, for example:</p> <ul style="list-style-type: none"> • A is wrong because use of e-commerce would not require <i>Mothercare</i> to open new stores in India. (1) • C is wrong because ethical factors concern the way <i>Mothercare</i> runs its business, not whether they open stores. (1) • D is wrong because environmental factors would influence the way <i>Mothercare</i> build and operate new stores, not whether they open new stores. (1) <p>Any acceptable answer that shows selective knowledge/understanding/application and/or development.</p> <p>N.B. up to 2 marks out of 3 may be gained for part (b) if part (a) is incorrect.</p>	<p>1-3</p> <p>(Total 4)</p>

Question Number		Marks
6(a)	Answer D (Retained Profit)	1
6 (b)	<ul style="list-style-type: none"> • Retained Profit is the amount of profit kept in the business rather than paid out to the owners or shareholders and held as cash for reinvestment (1) • Paying the increased rate of tax is a legal requirement. (1) • It will have to be paid by businesses resulting in less profit to be retained in the organisation. (1) <p>Alternatively, up to two of the marks above can be achieved by explaining (not defining) distracters, for example:</p> <p>re</p> <ul style="list-style-type: none"> • A is wrong because firms will be more likely to increase their prices to compensate for the increased tax rate. (1) • B is wrong because these costs are likely to increase as a consequence of suppliers having to pay higher taxes. (1) • C is wrong because fixed costs are not affected by increases or decreases in corporation tax in the short term. (1) <p>Any acceptable answer that shows selective knowledge/understanding/application and/or development.</p> <p>N.B. up to 2 marks out of 3 may be gained for part (b) if part (a) is incorrect.</p>	1-3

Section B: Data response

Question Number	Question	
7	Using the case study, explain two entrepreneurial characteristics displayed by Ben Kaufman.	(6 marks)
	Answer	Mark
	<p>(Knowledge 2, Application 2, Analysis 2)</p> <p>Knowledge/understanding: 1 mark for defining or showing understanding of entrepreneurial characteristics; e.g. risk-taking (1) creative (1)</p> <p>Application: up to 2 marks for contextual answers taken from Evidence A, e.g, as a teenager he persuaded his parents to remortgage their house (1) he has combined modern technologies with a platform to create new products. (1)</p> <p>Analysis: up to 2 marks are available for giving a reason/cause/consequence e.g. If the business had failed, he and his family would have been homeless (1) he has created a unique way of bringing new products to market and a successful business (1)</p> <p>Both characteristics and motives must be covered for full marks (3+3). If only one aspect covered, maximum mark of 3.</p>	<p>1-2</p> <p>1-2</p> <p>1-2</p>

Question Number	Question	
8 (a)	Explain the opportunity cost of setting up a business to an entrepreneur, such as Ben Kaufman.	(6 marks)
	Answer	Mark
	<p>(Knowledge 2, Application 2, Analysis 2)</p> <p>Knowledge/understanding: 2 marks for defining or using appropriate business concepts e.g. Opportunity cost can be measured as the cost of foregoing the next best alternative. (2)</p> <p>Application: up to 2 marks for applying contextual answers e.g. Ben Kaufmann has given up the potential of full-time employment to become an entrepreneur (1) Ben has to select just 3-4 of the hundreds of products available to <i>Quirky</i> (1)</p> <p>Analysis: up to 2 marks are available for giving a reason/cause/consequence e.g. Full-time employment would give Ben a regular salary rather than the uncertainty of self-employed income (1) lots of products do not get selected for production, any one of which is a potential best seller (1)</p>	<p>1-2</p> <p>1-2</p> <p>1-2</p>

Question Number	Question	
8 (b)	<p><i>Quirky</i> has access to more than \$90 million of venture capital.</p> <p>(b) Explain why venture capital is an appropriate source of finance for <i>Quirky</i></p>	(6 marks)
	Answer	Mark
	<p>(Knowledge2, Application 2, Analysis 2)</p> <p>Knowledge/understanding: up to 2 marks are available for defining what is meant by venture capital, e.g. external capital invested in a project (1) in which there is a high element of risk (1)</p> <p>Application: up to 2 marks are available for applying venture capital to <i>Quirky</i>, e.g. venture capitalists are more attracted to the type of high risk product inventions/ideas developed by <i>Quirky</i> (1) <i>Quirky</i> develop products for markets with no proven track record of success (1)</p> <p>Analysis: up to 2 marks are available for giving a reason/cause/consequence e.g: other sources of finance are unlikely to be available because of the risky nature of <i>Quirky's</i> products (1) lenders such as banks would require more of a track record of success for such a large capital requirement (1)</p>	<p>1-2</p> <p>1-2</p> <p>1-2</p>

Question Number	Question	
9 (a)	<p>Quirky has calculated it needs to sell 40,000 packs of Bandits at a price of \$10 per pack in order to break even. Fixed costs are \$80,000</p> <p>Calculate the variable cost per pack of Bandits at this break-even level of output</p>	(4 marks)
	Answer	Mark
	<p>(Knowledge 1, Application 3)</p> <p>Knowledge: Defines variable cost OR break-even OR uses correct formulae: Fixed Costs/Output Units = Contribution (1)</p> <p>Application: $\\$80\,000/40,000$ (1) = \$2 (Contribution) (1) (Unit Price-Contribution = Variable Cost) $10-2 = 8$ (1)</p> <p>OR $40\,000 \times \\$10 = \\$400\,000$ (1) $\\$400\,000 - \\$80\,000 = \\$320\,000$ (1) $\\$320\,000/40\,000 = 8$ (1)</p> <p>Candidates who give correct answer without formula shown gain full marks.</p> <p>NB. Do not penalise candidates for omitting \$ signs or using £ signs.</p>	<p>1</p> <p>1-3</p>

Question Number	Question		
9 (b)	<p><i>Quirky</i> regularly introduces many new products to the market.</p> <p>(b) Assess the suitability of cost plus pricing for <i>Quirky's</i> new products.</p>		(8 marks)
Level	Mark	Descriptor	Possible content
1	1-2	Knowledge/understanding of cost plus pricing strategies must be present	<p>For example,</p> <p>e.g. cost plus pricing is based on determining the cost of producing a product and adding an additional amount to generate profits</p>
2	3-4	<p>Application must be present,</p> <p>i.e. the answer must be contextualised to <i>Quirky</i></p>	<p>For example,</p> <p>e.g. <i>Quirky</i> have a wide and varied range of innovative products in many markets with few if any substitutes</p> <p>e.g. <i>Quirky</i> have a large community of inventors and influencers who might not have a good understanding of pricing strategies</p>
3	5-6	<p>Analysis in context must be present, in this case the candidate must identify and explain the options/ reasons/ consequences of <i>Quirky</i> having pricing strategies</p> <p>N.B. if analysis is not in context, limit to Level 2.</p>	<p>For example,</p> <p>e.g. The benefits of cost plus pricing to <i>Quirky</i> if that it is easy to calculate and price rises can be justified if costs rise</p> <p>e.g. Cost plus pricing ensures that each of <i>Quirky's</i> products generate profits to reinvest in the business even after the community of inventors and influencers have been paid.</p>

4	7-8	<p>Evaluation must be present and in context</p> <p>Award 7 marks if one side only is in context.</p> <p>Award 8 marks if BOTH sides are in context.</p> <p>N.B. if evaluation not in context, limit to Level 3.</p>	<p>e.g. the new products may be more suited to a penetration pricing strategy in order to generate interest and initial sales</p> <p>e.g. some new product launches could use higher margins to set a premium price to support perceptions of higher value products</p>
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Question Number	Question		
10	Two non-price supply factors are changes in costs and technological change. Assess the impact of these factors on the continued success of <i>Quirky</i> .		(12 marks)
Level	Mark	Descriptor	Possible content
1	1-2	<p>Knowledge/understanding of non-price supply factors- changes in costs and technological change must be present</p> <p>If only one factor then only 1 mark at this level</p>	<p>For example,</p> <p>e.g. Changes in costs – an increase in costs to a firm mean that for any given price, it will not be able to produce as much. This means the supply curve would shift to the left</p> <p>e.g. Technological change: improvements in technology usually reduce a firm's costs. Reduced unit costs mean that more can be produced so the supply curve shifts to the right</p>
2	3-4	<p>Application must be present, i.e. the answer must be contextualised to <i>Quirky</i></p> <p>If only one factor then only 1 mark at this level</p>	<p>For example,</p> <p>e.g. changes in the cost of raw materials such as raw rubber (also true for other costs such as labour or fuel)</p> <p>e.g. changes in technology such as the use of new machinery</p>

3	5-6	<p>Analysis in context must be present, i.e. the candidate must give reasons/causes/costs/consequences of non price factors affecting <i>Quirky</i></p> <p>N.B. if analysis is not in context, limit to Level 2.</p> <p>If only one factor then only 1 mark at this level</p>	<p>For example,</p> <p>e.g. if raw materials costs increase, they may have to charge higher prices which could harm <i>Quirky's</i> competitive advantage</p> <p>e.g. <i>Quirky</i> invests heavily in R&D so technological advances will make the production processes more efficient and therefore more cost competitive</p>
Level	Mark	Descriptor	Possible content
4	7-12	<p>Low Level 4: 7-8 marks. Evaluation must be present and in context on one side, i.e. the candidate must make a judgement on the extent of the impact on <i>Quirky</i> of changes in non prices supply factors</p> <p>If only one factor then only 1 mark at this level</p> <p>Mid Level 4: 9-10 marks. Evaluation must be present and in context on both sides to illustrate</p> <p>If only one factor then only 1 mark at this level</p> <p>High Level 4: 11-12 marks. Evaluation is developed to show a candidate's real perceptiveness. Several strands may be developed: the answer is clear, coherent and articulate, leading to a convincing conclusion.</p> <p>If only one factor then only 1 mark at this level</p> <p>N.B. if evaluation not in context, limit to Level 3.</p>	<p>e.g. if costs of components continued to increase <i>Quirky</i> could switch to cheaper materials to protect profit margins rather than increase prices but this could have a negative impact on their reputation</p> <p>e.g. if costs increase it depends by how much and how much the change in costs affects profit margins so the impact will vary</p> <p>e.g. improvements in technology may be taken up by competitors and reduce gains made by <i>Quirky</i></p>

Question Number	Question		
11	Assess the extent to which <i>Quirky</i> is a product orientated business.		(14 marks)
Level	Mark	Descriptor	Possible content
1	1-2	<p>Knowledge/understanding of product or market orientation</p> <p><i>Material presented is often irrelevant and lacks organisation. Frequent punctuation and/or grammar errors are likely to be present and the writing is generally unclear.</i></p>	<p>For example: product orientation is about selling the products the company develops rather than what the customer wants/needs</p>
2	3-4	<p>Application must be present, i.e. the answer must be contextualised and applied to the orientation of <i>Quirky</i></p> <p><i>Material is presented with some relevance but there are likely to be passages which lack proper organisation. Punctuation and/or grammar errors are likely to be present that affect clarity and coherence.</i></p>	<p>For example: <i>Quirky</i> could be considered product orientated because it presents a totally new product without consulting the market.</p> <p>For example: <i>Quirky</i> could be considered market orientated because its online communities carry out market research through influencers.</p>
3	5-8	<p>Analysis in context must be present, i.e. the candidate must give reasons for deciding whether <i>Quirky</i> is a product or market orientated business</p> <p>N.B. if analysis is not in context, limit to Level 2.</p> <p><i>Material is presented in a generally relevant and logical way but this may not be sustained throughout. Some punctuation and/or grammar errors may be found which cause some passages to lack clarity or coherence.</i></p>	<p>For example: <i>Quirky</i> could be considered a product orientated business because its primary focus is on the development of new products before market testing</p> <p>For example: <i>Quirky</i> staff choose which products to develop on a weekly basis with no knowledge of what the market will buy.</p> <p>For example: Many of <i>Quirky's</i> products, the market had not seen before, such as the Bandit which became a bestseller.</p>

Level	Mark	Descriptor	Possible content
4	9-14	<p>Low Level 4: 9-10 marks. Evaluation must be present and in context on one side, i.e. the candidate must present an argument on whether <i>Quirky</i> is product or market orientated</p> <p>Mid Level 4: 11-12 marks. Evaluation must be present and in context on both sides, to show how <i>Quirky</i> could be both product and market orientated</p> <p>High Level 4: 13-14 marks. Evaluation is developed to show a candidate's real perceptiveness. Several strands may be developed: the answer is clear, coherent and articulate, leading to a convincing conclusion.</p> <p>N.B. if evaluation not in context, limit to Level 3.</p> <p><i>Material is presented in a relevant and logical way. Some punctuation and/or grammar errors may be found but the writing has overall clarity and coherence.</i></p>	<p>For example: <i>Quirky</i> operates in real business situations where product and market orientation are closely linked. This close link between product research and online market research could be argued that <i>Quirky</i> organises product development in line with market orientation</p> <p>For example: <i>Quirky</i> uses online qualitative market research through its community to find out what focus groups and customers think of new ideas meaning the products are becoming market orientated.</p> <p>For example: <i>Quirky's</i> community may not be a representative sample in terms of taste or number of the wider market and therefore the degree of market orientation is debatable.</p> <p>For example: it could be both a combination of product and market orientation because <i>Quirky</i> have made over \$20m which indicates that many of its products must appeal to a wider market than just the <i>Quirky</i> community.</p>

