



**ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2022**

Business Studies
Assessment Unit AS 2
assessing
Growing the Business
[SBU21]
TUESDAY 7 JUNE, MORNING

**MARK
SCHEME**

General Marking Instructions

Introduction

The main purpose of the mark scheme is to ensure that examinations are marked accurately, consistently and fairly. The mark scheme provides examiners with an indication of the nature and range of candidates' responses likely to be worthy of credit. It also sets out the criteria which they should apply in allocating marks to candidates' responses.

Assessment objectives

Below are the assessment objectives for GCE Business Studies.

Candidates should be able to:

- AO1** Demonstrate knowledge of terms, concepts, theories, methods and models to show an understanding of how individuals and organisations are affected by and respond to business issues.
- AO2** Apply knowledge and understanding to various business contexts to show how individuals and organisations are affected by and respond to issues.
- AO3** Analyse issues within a business, showing an understanding of the impact on individuals and organisations of external and internal influences.
- AO4** Evaluate quantitative and qualitative information to make informed judgements and propose evidence-based solutions to business issues.

Quality of candidates' responses

In marking the examination papers, examiners should be looking for a quality of response reflecting the level of maturity which may reasonably be expected of a 17 or 18-year-old which is the age at which the majority of candidates sit their GCE examinations.

Flexibility in marking

Mark schemes are not intended to be totally prescriptive. No mark scheme can cover all the responses which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner.

Positive marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for what candidates know, understand and can do rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected of a 17 or 18-year-old GCE candidate.

Awarding zero marks

Marks should only be awarded for valid responses and no marks should be awarded for an answer which is completely incorrect or inappropriate.

Marking Calculations

In marking answers involving calculations, examiners should apply the 'own figure rule' so that candidates are not penalised more than once for a computational error. To avoid a candidate being penalised, marks can be awarded where correct conclusions or inferences are made from their incorrect calculations.

Types of mark schemes

Mark schemes for tasks or questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication.

Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided.

Levels of response

In deciding which level of response to award, examiners should look for the 'best fit' bearing in mind that weakness in one area may be compensated for by strength in another. In deciding which mark within a particular level to award to any response, examiners are expected to use their professional judgement.

The following guidance is provided to assist examiners.

- **Threshold performance:** Response which just merits inclusion in the level and should be awarded a mark at or near the bottom of the range.
- **Intermediate performance:** Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.
- **High performance:** Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

Quality of written communication

Quality of written communication is taken into account in assessing candidates' responses to all tasks and questions that require them to respond in extended written form. These tasks and questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication.

For conciseness, quality of written communication is distinguished within levels of response as follows:

Level 1: Quality of written communication is basic.

Level 2: Quality of written communication is satisfactory.

Level 3: Quality of written communication is good.

Level 4: Quality of written communication is excellent.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

Level 1 (Basic): The candidate makes only a basic selection and use of an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

Level 2 (Satisfactory): The candidate makes a satisfactory selection and use of an appropriate form and style of writing. Relevant material is organised with some degree of clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are satisfactory enough to make meaning clear.

Level 3 (Good): The candidate makes a good selection and use of an appropriate form and style of writing. Relevant material is organised with good clarity and coherence. There is good use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are sufficiently competent to make meaning clear.

Level 4 (Excellent): The candidate successfully selects and uses the most appropriate form and style of writing. Relevant material is organised with a high degree of clarity and coherence. There is widespread and accurate use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a sufficiently high standard to make meaning very clear.

COVID-19 Context

Given the unprecedented circumstances presented by the COVID-19 public health crisis, senior examiners, under the instruction of CCEA awarding organisation, are required to train assistant examiners to apply the mark scheme in case of disrupted learning and lost teaching time. The interpretation and intended application of the mark scheme for this examination series will be communicated through the standardising meeting by the Chief or Principal Examiner and will be monitored through the supervision period. This paragraph will apply to examination series in 2021–2022 only.

1 (a) (AO1, AO2)

Explain the **Maturity Stage** of the product life cycle, using Soundex as an example.

The Maturity stage of the product life cycle is the third (or fourth) stage, in which the sales of the product reach their peak after the growth stage before starting to decline.

Joseph O'Donnell has indicated that the LUX1 speaker is currently in the maturity stage, so sales could be expected to begin falling soon.

Marking:

- Good, accurate knowledge and detailed explanation of the Maturity Stage of the Product Life Cycle; [2]
- Basic knowledge and explanation of the Maturity Stage of the Product Life Cycle; [1]
- Good use of relevant source material to support detailed explanation of the Maturity Stage of the Product Life Cycle; [2]
- Limited use of relevant source material to support detailed explanation of the Maturity Stage of the Product Life Cycle; [1]

Answer not worthy of credit **[0]** marks. [4]

(b) (AO1, AO2, AO3)

Analyse **two** reasons why random sampling might be used by Soundex to carry out effective market research.

A random sample is when every member of the population has an equal chance of being sampled.

- The Soundex database contains records of 20 000 existing customers so Joseph would select 2000 names at random from this list. This would mean that there is a very high probability that the sample would be representative of all customers, so his findings would be more accurate.
- Using a random sample from the customer database would be relatively easy and quick to do. This is important as Robert wants to get the SUPERTEC 2 into production as fast as possible in order to tackle the liquidity problems faced by the business.

Level 3 [7]–[8]

An excellent response demonstrates:

- Well-focused and sound analysis of random sampling.
- Comprehensive, relevant and accurate knowledge and understanding of random sampling.
- Thorough and detailed use of relevant source material to analyse random sampling.

Level 2 [4]–[6]

A good response demonstrates:

- Focused analysis of random sampling.
- Good accurate knowledge and understanding of random sampling.
- Good use of relevant source material to analyse random sampling.

Level 1 [1]–[3]

A basic response demonstrates:

- Basic analysis of random sampling.
- Basic knowledge and understanding of random sampling.
- Limited use of relevant source material to analyse random sampling.

Answers not worthy of credit **[0]** marks.

[8]

(c) (AO1, AO2, AO3)

Analyse **three** pricing strategies that Soundex might use for its new product. Spent £1 million on research and development to date, needs profits to pay this investment.

- Skimming involves setting the price high to begin with in order to target the early innovators with the new speaker and then decreasing price over time. Some customers are willing to pay a high price to be the first to get the new SUPERTEC 2 speaker. This will maximise profits for Soundex and recover their research and development costs quickly which will help with their liquidity problems. However, although this method is generally suitable for technological products, it is difficult for Soundex to know when to begin reducing price.
- Penetration Pricing involves setting the price of the SUPERTEC 2 speaker low in order to gain market share quickly. This price may not fit with the quality image of the product that Soundex wants to portray through the marketing mix although it may strengthen its market share. When considering the impact on sales revenue Soundex needs to consider whether the demand for the speakers is likely to be elastic or inelastic.
- Cost-Plus Pricing involves Soundex adding a mark-up for profit on to the production costs of the new SUPERTEC 2 speaker. Using this method Soundex can estimate profit margins at each level of sales. This would be a simple pricing method to use but it ignores the competition in the marketplace and the level of demand for the product. It does ensure that the production costs are covered although, at this point, it is difficult for Soundex to accurately estimate these. This method may not actually maximise revenue or profits.

Level 3 [8]–[10]

An excellent response demonstrates:

- Well-focused and sound analysis of skimming, penetration and cost-plus pricing strategies.
- Comprehensive, relevant and accurate knowledge and understanding of skimming, penetration and cost-plus pricing strategies.
- Thorough and detailed use of relevant source material to analyse skimming, penetration and cost-plus pricing strategies.
- An excellent quality of written communication.

Level 2 [4]–[7]

A good response demonstrates:

- Focused analysis of skimming, penetration and cost-plus pricing strategies.
- Good accurate knowledge and understanding of skimming, penetration and cost-plus pricing strategies.
- Good use of relevant source material to analyse skimming, penetration and cost-plus pricing strategies.
- A good quality of written communication.

Level 1 [1]–[3]

A basic response demonstrates:

- Basic analysis of skimming, penetration and cost-plus pricing strategies.
- Basic knowledge and understanding of skimming, penetration and cost-plus pricing strategies.
- Limited use of relevant source material to analyse skimming, penetration and cost-plus pricing strategies.
- A basic quality of written communication.

Answers not worthy of credit [0] marks.

[10]

(d) (AO1, AO2, AO3, AO4)

Evaluate the importance of a cash flow forecast to Soundex.

- A cash flow forecast would allow Soundex to review all cash outflows in order to manage the timing and amounts of such payments. This might help reduce costs and improve the liquidity position of Soundex.
- It would allow Soundex to plan ahead to avoid cash deficits in order to minimise any bank charges caused by unauthorised overdrafts. For example he may decide to lease the new lorry instead of buying it, which would involve paying out £40 000.
- It would allow Soundex to plan ahead so that appropriate finance can be obtained in advance of needing it. He may arrange a bank loan to buy the new lorry for example.
- A cash flow forecast allows Soundex to plan to use any cash surpluses more effectively. These could be re-invested in Soundex in order to acquire assets or invested elsewhere if there is expected to be a longer term cash surplus.
- Soundex could motivate his staff by using the cash flow forecast to set monthly targets within the business.
- A cash flow forecast can be time consuming and costly to prepare. Soundex may need to be involved in getting the new SUPERTEC 2 into production as quickly as possible.
- It is very difficult to accurately forecast costs. The promotional campaign is estimated to cost £20 000 for the first three months but it may actually end up costing much more than this.

Marking:**Level 4 [14]–[18]**

An excellent response demonstrates:

- Comprehensive and relevant, accurate knowledge and understanding and detailed evaluation of the importance of a cash flow forecast to Soundex.
- Highly appropriate, clear and logical judgement of the importance of a cash flow forecast to Soundex based on well-focused and sound analysis.
- Thorough use of relevant source material to address the importance of a cash flow forecast to Soundex.
- An excellent quality of written communication.

Level 3 [10]–[13]

A good response demonstrates:

- Sound, good, accurate knowledge and understanding and evaluation of the importance of a cash flow forecast to Soundex.

- An appropriate, clear and logical judgement of the importance of a cash flow forecast to Soundex based on well-focused analysis.
- Good use of relevant source material to address the importance of a cash flow forecast to Soundex.
- A good quality of written communication.

Level 2 [6]–[9]

A satisfactory response demonstrates:

- Satisfactory knowledge, understanding and application of the importance of a cash flow forecast to Soundex.
- A suitable, appropriate judgement of the importance of a cash flow forecast to Soundex based on well-focused analysis.
- A satisfactory quality of written communication.

Level 1 [1]–[5]

A basic response demonstrates:

- Basic knowledge and understanding with unfocused evaluation of the importance of a cash flow forecast to Soundex.
- Basic or no judgement based on limited analysis of the importance of a cash flow forecast to Soundex.
- Limited use of relevant source material to address the importance of a cash flow forecast to Soundex.
- A basic quality of written communication.

Answers not worthy of credit [0] marks.

[18]

40

AVAILABLE
MARKS

2 (a) (AO1, AO2)

Explain what is meant by a **bank loan** using an example from the case study.

- A bank loan is an external source of finance which must be paid back over a period of time with interest. The bank will usually expect the loan to be secured against the assets of the business.
- Cfit is already paying back a substantial bank loan of £30 000 which it used to pay for a recent television advertising campaign and is considering taking out another loan of £10 000 to fund future expansion of the business.

Marking:

- Good, accurate knowledge and detailed explanation of a bank loan; [2]
- Basic knowledge and explanation of a bank loan; [1]
- Good use of relevant source material to support detailed explanation of a bank loan; [2]
- Limited use of relevant source material to support detailed explanation of a bank loan; [1]

Answer not worthy of credit **[0]** marks. [4]

(b) (AO1, AO2, AO3)

Use **Table 1** to analyse the impact on sales revenue of Cfit decreasing its prices by 10% for **each of the two** trackers.

- Trax Base: This product has an inelastic demand ($PED = .7$)
Reducing the price by 10% would cause it to fall from £20 to £18 which would increase sales by 1400 to a new level of 21 400 per month.

This would cause sales revenue to fall from £400 000 to £385 200 per month/a fall of £14 800 in sales revenue.

The fall in price has led to increased sales of the product but not by enough to offset the revenue lost by reducing its price/similar analysis.

- Trax Max: This product has an elastic demand ($PED = 1.6$)
Reducing the price by 10% would cause it to fall from £30 to £27 which would increase sales by 800 to a new level of 5800 per month.

This would cause sales revenue to rise from £150 000 to £156 600 per month/a rise of £6600 in sales revenue.

The fall in price has led to increased sales of the product, more than enough to offset the revenue lost by reducing its price/similar analysis.

- Overall, total sales revenue would fall from £550 000 to £541 800 per month for these two trackers. This was a decrease of £8,200.

Level 3 [7]–[8]

An excellent response demonstrates:

- Well-focused and sound analysis of the impact on sales revenue, of Cfit

- decreasing its prices by 10% for each of the two trackers.
- Comprehensive, relevant and accurate knowledge and understanding of the impact on sales revenue, of Cfit decreasing its prices by 10% for each of the two trackers.
- Thorough and detailed use of relevant source material to analyse the impact on sales revenue, of Cfit decreasing its prices by 10% for each of the two trackers.

Level 2 [4]–[6]

A good response demonstrates:

- Focused analysis of the impact on sales revenue, of Cfit decreasing its prices by 10% for each of the two trackers.
- Good accurate knowledge and understanding of the impact on sales revenue, of Cfit decreasing its prices by 10% for each of the two trackers.
- Good use of relevant source material to analyse the impact on sales revenue, of Cfit decreasing its prices by 10% for each of the two trackers.

Level 1 [1]–[3]

A basic response demonstrates:

- Basic analysis of the impact on sales revenue, of Cfit decreasing its prices by 10% for each of the two trackers.
- Basic knowledge and understanding of the impact on sales revenue, of Cfit decreasing its prices by 10% for each of the two trackers.
- Limited use of relevant source material to analyse the impact on sales revenue, of Cfit decreasing its prices by 10% for each of the two trackers.

Answers not worthy of credit [0] marks.

[8]

(c) (AO1, AO2, AO3)

Analyse **three** ways by which Cfit might use social media to enhance its marketing.

- Market research would become much cheaper/free if it was carried out using social media so more quantitative and qualitative information could be gained.
- Cfit would be able to get consumer feedback back instantaneously which would give it a competitive edge in the market.
- Cfit would benefit from reduced market research and promotion costs which would enable it to reduce prices.
- Cfit could greatly increase sales and profits by selling to a global market using social media.
- Cfit could greatly increase sales and profits by selling 24/7. Customers could buy a tracker at any time of day or night.
- Cfit could generate more leads to its website via social media, thus increasing global brand awareness and sales.
- Cfit could promote its new products, faster and more effectively using social media.
- Cfit could receive customer reviews on new products to help with product development.

Accept other valid responses: • using Facebook, Twitter, Instagram etc.

- use of blogs, online platforms
- using influencers

Level 3 [8]–[10]

An excellent response demonstrates:

- Well-focused and sound analysis of how the internet would improve market research, reduce selling price and increase sales for Cfit.
- Comprehensive, relevant and accurate knowledge and understanding of how the internet would improve market research, reduce selling price and increase sales for Cfit.
- Thorough and detailed use of relevant source material to analyse how the internet would improve market research, reduce selling price and increase sales for Cfit.
- An excellent quality of written communication.

Level 2 [4]–[7]

A good response demonstrates:

- Focused analysis of how the internet would improve market research, reduce selling price and increase sales for Cfit.
- Good accurate knowledge and understanding of how the internet would improve market research, reduce selling price and increase sales for Cfit.
- Good use of relevant source material to analyse how the internet would improve market research, reduce selling price and increase sales for Cfit.
- A good quality of written communication.

Level 1 [1]–[3]

A basic response demonstrates:

- Basic analysis of how the internet would improve market research, reduce selling price and increase sales for Cfit.
- Basic knowledge and understanding of how the internet would improve market research, reduce selling price and increase sales for Cfit.
- Limited use of relevant source material to analyse how the internet would improve market research, reduce selling price and increase sales for Cfit.
- A basic quality of written communication.
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Answers not worthy of credit **[0]** marks.

[10]

(d) (AO1, AO2, AO3, AO4)

Evaluate the business performance of Cfit using the ratios shown in **Table 2**.

- The ROCE ratio has gone up from 10.6% to 11.1%.
This is good for Cfit as it represents a greater return on the capital invested. The increase in ROCE will be noted by investors.
It would have been due to the steady increase in sales.
The ability of Cfit to charge a premium price for its trackers and the successful use of sales agents would also have contributed to this improved ratio.
- The Net Profit Margin has gone up from 6.3% to 7.8%.
This is good for Cfit as it represents improved profit margins for every £1 of sales.
This could have been due to the continual drive to reduce costs.
It may have improved due to the use of efficient machinery also keeping costs down.
The premium selling price charged for the trackers would also help

increase revenue and improve net profit margins.

This ratio could rise even further if reliance on overseas sales agents can be reduced.

- The Current Ratio has fallen from 1.9:1 to 1.2:1.
This represents a worsening of the liquidity position of Cfit.
The ratio has now fallen well below the recommended ratio of 2:1.
This was probably caused by the substantial bank loan that Cfit took out to pay for the television advertising campaign.
The ratio could worsen further if Cfit takes out another bank loan to help it expand.
- The Gearing ratio has increased from 41% to 57%.
This means that Cfit would now be classified as being highly geared.
This was probably caused by the increased bank loans.
This could pose a threat to Cfit if interest rates rise in the future.

Marking:

Level 4 [14]–[18]

An excellent response demonstrates:

- Comprehensive and relevant, accurate knowledge and understanding and detailed evaluation of the business performance of Cfit using appropriate ratios.
- Highly appropriate, clear and logical judgement of the business performance of Cfit using appropriate ratios and based on well-focused and sound analysis.
- Thorough use of the business performance of Cfit using appropriate ratios.
- An excellent quality of written communication.

Level 3 [10]–[13]

A good response demonstrates:

- Sound, good, accurate knowledge and understanding and evaluation of the business performance of Cfit using appropriate ratios.
- An appropriate, clear and logical judgement of the business performance of Cfit using appropriate ratios and based on well-focused analysis.
- Good use of relevant source material to assess the business performance of Cfit using appropriate ratios.
- A good quality of written communication.

Level 2 [6]–[9]

A satisfactory response demonstrates:

- Satisfactory knowledge, understanding and application of the business performance of Cfit using some appropriate ratios.
- A suitable, appropriate judgement of the business performance of Cfit using some appropriate ratios and based on well-focused analysis.
- A satisfactory quality of written communication.

Level 1 [1]–[5]

A basic response demonstrates:

- Basic knowledge and understanding with unfocused evaluation of the business performance of Cfit using ratios.
- Basic or no judgement based on limited analysis of the business performance of Cfit using ratios.

- Limited use of relevant source material to assess the business performance of Cfit using ratios.
- A basic quality of written communication.

Answers not worthy of credit **[0]** marks.

[18]

Total

**AVAILABLE
MARKS**

40

80