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Unit 1 Business and Markets

Mark scheme

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Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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How to mark

Aims

When you are marking your allocation of scripts your main aims should be to:

- recognise and identify the achievements of students
- place students in the appropriate mark band and in the appropriate part of that mark band (high, low, middle)
- record your judgements with brief notes, annotations and comments that are relevant to the mark scheme and make it clear to other examiners how you have arrived at the numerical mark awarded
- put into a rank order the achievements of students (not to grade them – that is done later using the rank order that your marking has produced)
- ensure comparability of assessment for all students, regardless of question or examiner.

Approach

It is important to be **open-minded** and **positive** when marking scripts.

The specification recognises the variety of experiences and knowledge that students will have. It encourages them to study business in a way that is relevant to them. The questions have been designed to give them opportunities to discuss what they have found out about business. It is important to assess the quality of **what the student offers**.

Assessment Objectives

This component requires students 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 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. |

The marking grids

The specification has generic marking grids for each Assessment Objective that is customised with indicative content for individual tasks. These have been designed to allow assessment of the range of knowledge, understanding and skills that the specification demands.

Within each Assessment Objective there are three or four broad levels representing different levels of achievement. Do not think of levels as equivalent to grade boundaries.

The indicative content gives examples of the kind of things students might do that would exemplify the level. They are neither exhaustive nor required – they are simply indicative of what would appear at this level. You will find that they sometimes indicate areas of content that can be handled with increasing sophistication and subtlety. You will also find statements which only characterise work at the bottom or top of the range.

Depending on the part of the examination, the levels will have different mark ranges assigned to them. This will reflect the different weighting of Assessment Objectives in particular tasks and across the examination as a whole. You may be required to give different marks to bands for different Assessment Objectives.

Using the grids

These levels of response mark schemes are broken down into levels, each of which has descriptors. The descriptors for the level show the performance characteristics of the level. There is the same number of marks in each level for an individual Assessment Objective. The number of marks per level will vary depending upon the number of marks allocated to the various Assessment Objectives covered by a particular question.

Having familiarised yourself with the descriptors and indicative content, read through the answer and annotate it (as instructed below) to identify the qualities that are being looked for and that it shows. You can now check the levels and award a mark.

Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptors for that level. The descriptors for the level indicate the different qualities that might be seen in the student's answer for that level.

When assigning a level you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as in the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best fit approach for defining the level and then use the variability of the response to help decide the mark within the level; eg if the response fulfils most but not all of level 3 with a small amount of level 4 material, it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark.

It is often best to start in the middle of the level's mark range and then check and adjust. If there is a lot of indicative content fully identifiable in the work you need to give the highest mark in the level. If only some is identifiable or it is only partially fulfilled, then give the lower mark.

The exemplar materials used during standardisation will also help. There will be an answer in the standardising materials that will correspond with each level of the mark scheme. This answer will have been awarded a mark by the lead examiner. You can compare the student's answer with the example to determine if it is of the same standard, better or worse than the example. You can then use this to allocate a mark for the answer based on the lead examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

In addition to the generic descriptors (presented in bold text), paper-specific indicative descriptors (presented in plain text) are provided as a guide for examiners. These are not intended to be exhaustive and you must credit other valid points.

An answer that contains nothing of relevance to the question must be awarded no marks.

Examiners are required to assign each of the students' responses to the most appropriate level according to its overall quality, then allocate a single mark within the level. When deciding upon a mark in a level examiners should bear in mind the relative weightings of the Assessment Objectives and be careful not to over/under credit a particular skill. For example, in question 12, 13 and 14 more weight should be given to AO4 than to AO1, AO2 and AO3. This will be exemplified and reinforced as part of examiner training.

Annotating scripts

You should write a summative comment at the end for each Assessment Objective and indicate the marks for each Assessment Objective being tested at the end of the answer in the margin in sequence. It is vital that the way you arrive at a mark should be recorded on the script. This will help you with making accurate judgements and it will help any subsequent markers to identify how you are thinking. Please do not write negative comments about students' work; this is unprofessional and it impedes a positive marking approach.

Section A

Total for this section: 17 marks

| Question | Part | Marking guidance | Total marks |
|----------|------|---|--------------------------------|
| 1 | | <p>A product has a high market share in a high growth market. According to the Boston Matrix, this product would be a:</p> <p>Answer: D – Star.</p> | <p>1</p> <p>AO1 = 1</p> |

| Question | Part | Marking guidance | Total marks |
|----------|------|---|--------------------------------|
| 2 | | <p>Statement 1: market segmentation involves grouping people who share similar characteristics.</p> <p>Statement 2: secondary marketing research involves collecting data first hand.</p> <p>Choose one option below.</p> <p>Answer: C – Statement 1 is true and Statement 2 is false.</p> | <p>1</p> <p>AO1 = 1</p> |

| Question | Part | Marking guidance | Total marks |
|----------|------|---|--------------------------------|
| 3 | | <p>Which of the following is most true of quantitative data in marketing research?</p> <p>Answer: C – It is often expressed as numbers.</p> | <p>1</p> <p>AO1 = 1</p> |

| Question | Part | Marking guidance | Total marks | | | | | | | | | | |
|------------|------------|---|-------------|------------|------------|------|------------|------|------------|------|------------|------|--|
| 4 | | <p>Table 1 shows sales data for all businesses in a market.</p> <table border="1" data-bbox="437 409 1184 611"> <thead> <tr> <th data-bbox="437 409 810 450">Business</th> <th data-bbox="810 409 1184 450">Sales (\$)</th> </tr> </thead> <tbody> <tr> <td data-bbox="437 450 810 490">Business W</td> <td data-bbox="810 450 1184 490">35 m</td> </tr> <tr> <td data-bbox="437 490 810 530">Business X</td> <td data-bbox="810 490 1184 530">32 m</td> </tr> <tr> <td data-bbox="437 530 810 571">Business Y</td> <td data-bbox="810 530 1184 571">28 m</td> </tr> <tr> <td data-bbox="437 571 810 611">Business Z</td> <td data-bbox="810 571 1184 611">33 m</td> </tr> </tbody> </table> <p>Calculate the percentage market share for Business X.</p> <p>Market share = Sales of a business/Total market size × 100</p> <ul style="list-style-type: none"> • 25% (2 marks with or without working) • 1 mark for calculating total market size (\$128 m) • 1 mark for 0.25 • 1 mark for correct method (\$32 m / \$128 m × 100) but calculation error or 1 mark for stating formula alone • 0 marks for incorrect calculation | Business | Sales (\$) | Business W | 35 m | Business X | 32 m | Business Y | 28 m | Business Z | 33 m | <p>2</p> <p>AO1 = 1 AO2 = 1</p> |
| Business | Sales (\$) | | | | | | | | | | | | |
| Business W | 35 m | | | | | | | | | | | | |
| Business X | 32 m | | | | | | | | | | | | |
| Business Y | 28 m | | | | | | | | | | | | |
| Business Z | 33 m | | | | | | | | | | | | |

| Question | Part | Marking guidance | Total marks |
|----------|------|---|---|
| 5 | | <p>A start-up business has collected marketing data which has a confidence level of only 68%. Explain one possible drawback for this business of using this data.</p> <p>Indicative content</p> <ul style="list-style-type: none"> • Confidence levels indicate the likelihood that the result of the research will fall within two parameters. • 68% is a low confidence level, which means it is possible the research results may lack validity. • A start-up business may make key decisions, for example pricing, based on research as they have no historical data. • Making incorrect decisions could result in lower demand/cash flow issues/business failure. <p>Credit valid alternative content.</p> <p>Good response – 3 marks Response is likely to clearly explain one problem with a 68% confidence interval in the context of a start-up business.</p> <p>Reasonable response – 2 marks Is likely to recognise the limitations of a 68% confidence interval, but fails to link to a start-up business.</p> <p>Limited response – 1 mark Identifies what is meant by confidence intervals, for example provides a definition.</p> | <p>3</p> <p>AO1 = 1 AO2 = 2</p> |

| Question | Part | Marking guidance | Total marks |
|----------|------|---|--|
| 6 | | <p>Explain how a business acting in a more ethical way might impact on its level of customer retention.</p> <p>Indicative content</p> <ul style="list-style-type: none"> • Being ethical makes making decisions which benefit stakeholders/based on morals. • Customers are increasingly concerned with ethical issues. • By acting in an ethical manner, customer retention could increase as customers may remain more loyal to the business. • The business could use this new approach in its marketing/make it clear during the sales process. This could encourage customers to use the business again. • Use of more ethical supply chains, such as Fairtrade, can be used on its packaging and therefore be clear to customers. This could encourage customers to repeat purchase. <p>Credit valid alternative content.</p> <p>Good response – 3 marks Response is likely to clearly explain the link between acting in an ethical manner and the impact to customer retention.</p> <p>Reasonable response – 2 marks Is likely to recognise an advantage of setting an ethical objective, but fails to link to improving customer retention.</p> <p>Limited response – 1 mark Identifies what is meant by either customer retention or ethical issues, for example a definition.</p> | <p>3</p> <p>AO1 = 1 AO2 = 2</p> |

| Question | Part | Marking guidance | Total marks |
|----------|------|--|--|
| 7 | | <p>Explain one benefit to a business of using penetration pricing when entering a competitive market.</p> <p>Indicative content</p> <ul style="list-style-type: none"> • Penetration pricing means setting a low price initially when entering a market. • This can help to attract customers, which is important for any new business, but particularly when entering a competitive market as it needs to set itself apart from other businesses. • If the market is competitive, the businesses already in the market may have loyal customers. By offering a low price, this could attract customers away from them and towards this business. • Once the business has built up customer loyalty, it could later increase the price and its margins. <p>Credit valid alternative content.</p> <p>Good response – 3 marks Response is likely to clearly explain how penetration pricing can benefit a business when entering a competitive market.</p> <p>Reasonable response – 2 marks Is likely to recognise a benefit of using penetration pricing, for example higher demand, but fail to link to a competitive market.</p> <p>Limited response – 1 mark Identifies what is meant by penetration pricing or a competitive market, such as a definition.</p> | <p>3</p> <p>AO1 = 1 AO2 = 2</p> |

| Question | Part | Marking guidance | Total marks |
|----------|------|--|---|
| 8 | | <p>Managers have an important role within a business. Explain one way that the actions of managers can improve the performance of a business.</p> <p>Indicative content</p> <ul style="list-style-type: none"> • Managers in a business are responsible for ensuring how the business runs, for example they supervise staff. • Efficiency is making the most of resources within the business/reducing waste. • By supervising staff and ensuring all members of staff are working hard, this can avoid any wasted time. • They may also set targets for staff to meet, which can motivate them to work harder and increase efficiency as output will be maximised. <p>Credit valid alternative content.</p> <p>Good response – 3 marks Response is likely to clearly explain how the actions of managers can improve the performance of a business.</p> <p>Reasonable response – 2 marks Is likely to recognise how the actions of managers in a business could benefit a business, but does not link to business performance.</p> <p>Limited response – 1 mark Demonstrates knowledge of business performance or managers, for example a definition.</p> | <p>3</p> <p>AO1 = 1 AO2 = 2</p> |

Section B

Total for this section: 27 marks

| Question | Part | Marking guidance | Total marks |
|----------|------|---|------------------------------------|
| 9 | | Analyse the benefit to a business of having a strong brand in a competitive market. | 9 AO1 = 3 AO2 = 3 AO3 = 3 |

Examiners are reminded that AO1, AO2 and AO3 are regarded as interdependent. When deciding on a mark all should be considered together using the best fit approach. In doing so, examiners should bear in mind the relative weightings of the Assessment Objectives for this question.

| Level | Marks | Descriptor |
|-------|-------|--|
| 3 | 7 – 9 | A good response that focuses on many of the demands of the question <ul style="list-style-type: none"> includes well-focused analysis with logical chains of reasoning includes well-focused application to the given context shows sound knowledge and understanding of business terminology and concepts with few, if any, errors is well-structured. |
| 2 | 4 – 6 | A reasonable response which focuses on some of the demands of the question <ul style="list-style-type: none"> includes reasonable analysis but the analysis might not be fully developed or may lack some accuracy in places includes reasonable application to the given context focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of business terminology and concepts but some weaknesses may be present. |
| 1 | 1 – 3 | A limited response that has little focus on the demands of the question A limited response with some understanding that may: <ul style="list-style-type: none"> include some limited analysis but lacks focus and development include some limited application to the given context include some limited knowledge and understanding of business terminology and concepts but some errors are likely. |
| | 0 | No credit worthy material. |

Indicative content

The demands of the question are:

- to analyse the benefit
- of having a strong brand
- in a competitive market.

Indicative content includes:

- A strong brand is an intangible asset to a business. It means that the business will be highly recognised, for example through a logo.
- In a competitive market, businesses compete on either low price or high quality. A strong brand can result in a USP which can illustrate high quality. This can help the business to stand out against its competitors and increase its market share/sales.
- Having a strong brand can often result in high levels of repeat business. This could mean the business does not have to spend as much on advertising, lowering the costs to the business. In a competitive market, this additional profit margin could help the business increase its investment into new products/R&D etc.
- If the business launched a new product, it should be easily recognised and accepted as a result of the brand, helping it to stand out against the high level of competition with ease.

Credit valid alternative content.

| Question | Part | Marking guidance | Total marks |
|----------|------|--|------------------------------------|
| 10 | | Analyse one advantage and one disadvantage of using multi-channel distribution to a retail business. | 9 AO1 = 3 AO2 = 3 AO3 = 3 |

Examiners are reminded that AO1, AO2 and AO3 are regarded as interdependent. When deciding on a mark all should be considered together using the best fit approach. In doing so, examiners should bear in mind the relative weightings of the Assessment Objectives for this question.

| Level | Marks | Descriptor |
|-------|-------|---|
| 3 | 7 – 9 | <p>A good response that focuses on many of the demands of the question</p> <ul style="list-style-type: none"> includes well-focused analysis with logical chains of reasoning includes well-focused application to the given context shows sound knowledge and understanding of business terminology and concepts with few, if any, errors is well-structured. |
| 2 | 4 – 6 | <p>A reasonable response which focuses on some of the demands of the question</p> <ul style="list-style-type: none"> includes reasonable analysis but the analysis might not be fully developed or may lack some accuracy in places includes reasonable application to the given context focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of business terminology and concepts but some weaknesses may be present. |
| 1 | 1 – 3 | <p>A limited response that has little focus on the demands of the question</p> <p>A limited response with some understanding that may:</p> <ul style="list-style-type: none"> include some limited analysis but lacks focus and development include some limited application to the given context include some limited knowledge and understanding of business terminology and concepts but some errors are likely. |
| | 0 | No credit worthy material. |

Indicative content

The demands of the question are:

- to analyse one advantage and one disadvantage
- to a retail business
- of using multi-channel distribution.

Indicative content includes:

- Multi-channel distribution means utilising more than one channel from the business to the consumers, for example a physical store, an e-commerce store, an app etc.

Advantages may include:

- The ability to target a number of market segments, for example through the use of e-commerce in addition to a retail store. This could increase the number of sales/awareness for the business.
- This could help the retail business to remain competitive, as more and more businesses are offering multi-channel distribution to provide ease for customers.
- If a retail store is out of stock, customers can still access the product via a different channel, which means the business would not lose the sale.
- The channels can be available at different times, which means the business can make the purchasing experience more flexible for customers.

Disadvantages may include:

- Multi-channel distribution can result in cannibalisation of sales rather than increasing them. This would increase costs but not necessarily increase revenue.
- Having a number of outlets can result in differences in the marketing mix, for example different prices. This can cause irritation and confusion amongst customers.

Credit valid alternative content.

| Question | Part | Marking guidance | Total marks |
|----------|------|---|---|
| 11 | | <p>In the last 12 months, the three firm concentration ratio in the airline industry has changed from 90% to 70%.</p> <p>Analyse the possible impact of this change on the profits of the three largest airlines.</p> | <p>9</p> <p>AO1 = 3 AO2 = 3 AO3 = 3</p> |

Examiners are reminded that AO1, AO2 and AO3 are regarded as interdependent. When deciding on a mark all should be considered together using the best fit approach. In doing so, examiners should bear in mind the relative weightings of the Assessment Objectives for this question.

| Level | Marks | Descriptor |
|-------|-------|---|
| 3 | 7 – 9 | <p>A good response that focuses on many of the demands of the question</p> <ul style="list-style-type: none"> • includes well-focused analysis with logical chains of reasoning • includes well-focused application to the given context • shows sound knowledge and understanding of business terminology and concepts with few, if any, errors • is well-structured. |
| 2 | 4 – 6 | <p>A reasonable response which focuses on some of the demands of the question</p> <ul style="list-style-type: none"> • includes reasonable analysis but the analysis might not be fully developed or may lack some accuracy in places • includes reasonable application to the given context • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of business terminology and concepts but some weaknesses may be present. |
| 1 | 1 – 3 | <p>A limited response that has little focus on the demands of the question</p> <p>A limited response with some understanding that may:</p> <ul style="list-style-type: none"> • include some limited analysis but lacks focus and development • include some limited application to the given context • include some limited knowledge and understanding of business terminology and concepts but some errors are likely. |
| | 0 | No credit worthy material. |

Indicative content

The demands of the question are:

- to analyse the impact
- of a changing market concentration ratio
- of the profits of the three largest airlines.

Indicative content includes:

- The change in concentration ratio suggests that there are a larger number of smaller firms in the market, or that the existing firms in the market have become more competitive and increased their market share.
- This could result in lower profits for the largest three airlines, because a higher number of airlines in the market could mean lower sales of tickets and therefore capacity utilisation may fall. Costs would remain the same (eg fuel, rental of the gate) but revenue would fall, decreasing profits.
- A lower three firm concentration ratio could mean the three largest airlines need to alter their marketing strategies in order to attract more customers (eg increase the amount of advertising). This is likely to increase costs and as they probably have a fixed capacity on each aeroplane, this would lower profits.
- The increased competition could force the three largest airlines to lower prices to remain competitive. The lower prices could result in lower profits due to the difficulty of airlines to lower costs.

Credit valid alternative content.

Section C

Total for this section: 36 marks

| Question | Part | Marking guidance | Total marks |
|----------|------|---|--|
| 12 | | <p>A business based in China has decided to launch its product in the USA. It believes that primary marketing research would be a good method of gathering data to inform its marketing decisions.</p> <p>Assess the arguments for and against this business using primary marketing research and make a judgement.</p> | <p>12</p> <p>AO1 = 2 AO2 = 2 AO3 = 3 AO4 = 5</p> |

Examiners are reminded that AO1, AO2, AO3 and AO4 are regarded as interdependent. When deciding on a mark all should be considered together using the best fit approach. In doing so, examiners should bear in mind the relative weightings of the Assessment Objectives for this question. More weight should therefore be given to AO4 than AO1, AO2 and AO3.

| Level | Marks | Descriptor |
|-------|---------|--|
| 4 | 10 – 12 | <p>An excellent response that focuses fully on the demands of the question</p> <p>Likely to demonstrate sound, focused analysis and well-supported evaluation:</p> <ul style="list-style-type: none"> • includes supported evaluation in a final conclusion and within response • includes well-focused analysis with clear, logical chains of reasoning • includes well-focused application to the given context • shows sound knowledge and understanding of business terminology and with few, if any, errors • is well-structured and well-focused on the question. <p>A complete and coherent overall argument with a clear conclusion. The conclusion is arrived at through a balancing of arguments, with appropriate weight given to each argument and to the argument overall. Where there are crucial arguments, these are distinguished from less crucial ones.</p> |
| 3 | 7 – 9 | <p>A good response that focuses on many of the demands of the question</p> <p>Likely to demonstrate sound, focused analysis and some supported evaluation:</p> <ul style="list-style-type: none"> • includes some reasonable, supported evaluation • includes analysis with some logical chains of reasoning • includes some good application to the given context • shows sound knowledge and understanding of business terminology and concepts with relatively few errors • is relatively well-structured and generally focused on the question. <p>A relatively complete and coherent argument leading to an attempt to conclude. The content is detailed and correct and most of it is integrated. There is recognition of arguments and counter-arguments, but balance is not always present and the weight to be given to each argument is not always fully clear.</p> |

| | | |
|-----------------|---------------------|---|
| <p>2</p> | <p>4 – 6</p> | <p>A reasonable response which focuses on some of the demands of the question</p> <p>Some reasonable analysis but generally unsupported evaluation:</p> <ul style="list-style-type: none"> • there is likely to be some attempt to make relevant evaluation but this has little support from arguments or does not address the question as a whole • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes reasonable application to the given context • shows satisfactory knowledge and understanding of business terminology and concepts but some weaknesses may be present. <p>There is an attempt to answer the question. There is likely to be a conclusion but it has little support and response may lack balance. The content is largely correct, though there may be some gaps and lack of detail.</p> |
| <p>1</p> | <p>1 – 3</p> | <p>A limited response that has little focus on the demands of the question</p> <p>A limited response with some understanding:</p> <ul style="list-style-type: none"> • includes no evaluation or attempts evaluation but this is unsupported • includes some limited analysis but it may lack focus and/or become confused • includes some limited application to the given context • includes some limited knowledge and understanding of business terminology and concepts but errors are likely. |
| | <p>0</p> | <p>No credit worthy material.</p> |

The demands of the question are:

- to develop arguments for and against
- a Chinese business launching its product in the USA
- conducting primary marketing research
- and make a judgement as to whether or not this is an effective method of research for this business.

Indicative content

Possible arguments for:

- Primary marketing research can be tailored to the needs of the business, allowing it to ask specific questions in relation to its product, increasing the chance of success in the USA.
- It can also provide qualitative data which can help with the design of the product. As this is a new market, detailed feedback could help the business adapt to suit the needs of American consumers.
- China and America are culturally very different. Specific data from primary marketing research may assist the business to identify any amends it needs to make to the marketing mix.
- The introduction of technology means primary marketing research can be conducted online more easily (eg via zoom, online surveys etc) which would be easy to arrange and run from China.

Possible arguments against:

- Primary marketing research is often more costly than secondary, which could be difficult for a business if it also has high costs associated with entering a new market.
- The USA is a large and diverse market and therefore it is unlikely that the business will be able to conduct primary marketing research with a big enough sample to be representative enough to support the business in making decisions.
- Secondary marketing research could allow them to collect information much faster, which could allow for first mover advantage into the market in the USA.

Overall, it depends on the product that is being sold and the information the business is looking to achieve from conducting the research. If it requires an adaptation to the market mix, conducting primary marketing research should allow it to get specific feedback which would help with product decisions. However, if the business is selling a standardised product, secondary research may be more appropriate if it is more easily accessible. It may also depend on the budget this business has to conduct the research.

Credit valid alternative content. No decision is right or wrong but should be assessed on the quality of argument.

| Question | Part | Marking guidance | Total marks |
|----------|------|--|--|
| 13 | | <p>A private limited company is growing rapidly. It is considering changing to a public limited company.</p> <p>Assess the arguments for and against becoming a public limited company and make a judgement.</p> | <p>12</p> <p>AO1 = 2 AO2 = 2 AO3 = 3 AO4 = 5</p> |

Examiners are reminded that AO1, AO2, AO3 and AO4 are regarded as interdependent. When deciding on a mark all should be considered together using the best fit approach. In doing so, examiners should bear in mind the relative weightings of the Assessment Objectives for this question. More weight should therefore be given to AO4 than AO1, AO2 and AO3.

| Level | Marks | Descriptor |
|-------|---------|--|
| 4 | 10 – 12 | <p>An excellent response that focuses fully on the demands of the question</p> <p>Likely to demonstrate sound, focused analysis and well-supported evaluation:</p> <ul style="list-style-type: none"> • includes supported evaluation in a final conclusion and within response • includes well-focused analysis with clear, logical chains of reasoning • includes well-focused application to the given context • shows sound knowledge and understanding of business terminology and with few, if any, errors • is well-structured and well-focused on the question. <p>A complete and coherent overall argument with a clear conclusion. The conclusion is arrived at through a balancing of arguments, with appropriate weight given to each argument and to the argument overall. Where there are crucial arguments, these are distinguished from less crucial ones.</p> |
| 3 | 7 – 9 | <p>A good response that focuses on many of the demands of the question</p> <p>Likely to demonstrate sound, focused analysis and some supported evaluation:</p> <ul style="list-style-type: none"> • includes some reasonable, supported evaluation • includes analysis with some logical chains of reasoning • includes some good application to the given context • shows sound knowledge and understanding of business terminology and concepts with relatively few errors • is relatively well-structured and generally focused on the question. <p>A relatively complete and coherent argument leading to an attempt to conclude. The content is detailed and correct and most of it is integrated. There is recognition of arguments and counter-arguments, but balance is not always present and the weight to be given to each argument is not always fully clear.</p> |

| | | |
|-----------------|---------------------|---|
| <p>2</p> | <p>4 – 6</p> | <p>A reasonable response which focuses on some of the demands of the question</p> <p>Some reasonable analysis but generally unsupported evaluation:</p> <ul style="list-style-type: none"> • there is likely to be some attempt to make relevant evaluation but this has little support from arguments or does not address the question as a whole • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes reasonable application to the given context • shows satisfactory knowledge and understanding of business terminology and concepts but some weaknesses may be present. <p>There is an attempt to answer the question. There is likely to be a conclusion but it has little support and response may lack balance. The content is largely correct, though there may be some gaps and lack of detail.</p> |
| <p>1</p> | <p>1 – 3</p> | <p>A limited response that has little focus on the demands of the question</p> <p>A limited response with some understanding:</p> <ul style="list-style-type: none"> • includes no evaluation or attempts evaluation but this is unsupported • includes some limited analysis but it may lack focus and/or become confused • includes some limited application to the given context • includes some limited knowledge and understanding of business terminology and concepts but errors are likely. |
| | <p>0</p> | <p>No credit worthy material.</p> |

The demands of the question are:

- to develop arguments for and against
- a rapidly growing private limited company
- changing to a public limited company
- and to make a judgement.

Indicative content

Possible arguments for:

- Shares can be sold on the stock market which can help raise a large amount of capital quickly. As the business is growing rapidly, it may need to invest heavily into purchasing materials, marketing, new stores, etc to support their growth.
- Due to the rapid growth, it is possible the costs may also be rising rapidly. This could result in negative cash flow (possibility of over trading). Raising a large amount of share capital can help with this.
- This may be a better option than a loan because it does not have to be repaid. A rapidly growing business may struggle to make repayments as there will be other demands on its budget.

Possible arguments against:

- Remaining as a private limited company would allow the business to retain control over who purchases the shares, ensuring the business can focus on its objectives/the rapid growth.
- As a PLC, there may be more pressure to pay dividends, meaning less money to be able to invest into the company, for example financing future growth.
- A private limited company requires less paperwork than a public limited company which may be preferable to the business as it is growing quickly so will have a number of other demands to manage.
- As a PLC, public image will be important in order to maintain a high market capitalisation. If something was to go wrong, this could damage the market capitalisation.

Overall, it may depend on the current cash position of the company. If it needs finance to be able to support its growth, operating as a public limited company would allow it to do this without getting in to debt. It may also depend on the reputation of the business. If it is not well known, the shares may struggle to sell or they may achieve a low price for them on the stock market.

Credit valid alternative content. No decision is right or wrong but should be assessed on the quality of argument.

| Question | Part | Marking guidance | Total marks |
|----------|------|--|--|
| 14 | | <p>Tapas Entrega plc (TE) is a profitable chain of food takeaways. This year, it is facing increasing competition. Should it continue to pay high dividends to shareholders?</p> <p>Assess the arguments for and against paying high dividends and make a judgement.</p> | <p>12</p> <p>AO1 = 2 AO2 = 2 AO3 = 3 AO4 = 5</p> |

Examiners are reminded that AO1, AO2, AO3 and AO4 are regarded as interdependent. When deciding on a mark all should be considered together using the best fit approach. In doing so, examiners should bear in mind the relative weightings of the Assessment Objectives for this question. More weight should therefore be given to AO4 than AO1, AO2 and AO3.

| Level | Marks | Descriptor |
|-------|---------|--|
| 4 | 10 – 12 | <p>An excellent response that focuses fully on the demands of the question</p> <p>Likely to demonstrate sound, focused analysis and well-supported evaluation:</p> <ul style="list-style-type: none"> • includes supported evaluation in a final conclusion and within response • includes well-focused analysis with clear, logical chains of reasoning • includes well-focused application to the given context • shows sound knowledge and understanding of business terminology and with few, if any, errors • is well-structured and well-focused on the question. <p>A complete and coherent overall argument with a clear conclusion. The conclusion is arrived at through a balancing of arguments, with appropriate weight given to each argument and to the argument overall. Where there are crucial arguments, these are distinguished from less crucial ones.</p> |
| 3 | 7 – 9 | <p>A good response that focuses on many of the demands of the question</p> <p>Likely to demonstrate sound, focused analysis and some supported evaluation:</p> <ul style="list-style-type: none"> • includes some reasonable, supported evaluation • includes analysis with some logical chains of reasoning • includes some good application to the given context • shows sound knowledge and understanding of business terminology and concepts with relatively few errors • is relatively well-structured and generally focused on the question. <p>A relatively complete and coherent argument leading to an attempt to conclude. The content is detailed and correct and most of it is integrated. There is recognition of arguments and counter-arguments, but balance is not always present and the weight to be given to each argument is not always fully clear.</p> |

| | | |
|-----------------|---------------------|---|
| <p>2</p> | <p>4 – 6</p> | <p>A reasonable response which focuses on some of the demands of the question</p> <p>Some reasonable analysis but generally unsupported evaluation:</p> <ul style="list-style-type: none"> • there is likely to be some attempt to make relevant evaluation but this has little support from arguments or does not address the question as a whole • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes reasonable application to the given context • shows satisfactory knowledge and understanding of business terminology and concepts but some weaknesses may be present. <p>There is an attempt to answer the question. There is likely to be a conclusion but it has little support and response may lack balance. The content is largely correct, though there may be some gaps and lack of detail.</p> |
| <p>1</p> | <p>1 – 3</p> | <p>A limited response that has little focus on the demands of the question</p> <p>A limited response with some understanding:</p> <ul style="list-style-type: none"> • includes no evaluation or attempts evaluation but this is unsupported • includes some limited analysis but it may lack focus and/or become confused • includes some limited application to the given context • includes some limited knowledge and understanding of business terminology and concepts but errors are likely. |
| | <p>0</p> | <p>No credit worthy material.</p> |

The demands of the question are:

- to develop arguments for and against whether
- a profitable chain of takeaways
- should continue to pay high dividends to shareholders
- and to make a judgement.

Indicative content

Possible arguments for:

- Dividends to shareholders could increase the share price, which means if it wanted to sell more shares, it could raise a larger amount of money.
- As Tapas Entrega (TE) are facing increasing competition, it may need to sell more shares. This money could be invested into improving its service or updating its online platform which could create a stronger USP. This could help to counter the effects of the higher level of competition.
- Shareholders expect dividends. If they see that the business is profitable but they receive no dividends, they could sell their shares, causing the value of the business to fall. This could leave it even more vulnerable to new entrants into the market.
- The threat of the new market entrants may be low to TE as it is a chain, therefore is likely to have high levels of brand loyalty. The profits could be better distributed to shareholders as an intense marketing campaign may not be needed.

Possible arguments against:

- With increasing levels of competition, the business may see a fall in sales. If it chooses to pay dividends to shareholders, it could leave it with no cash reserves and therefore it could run into cash flow difficulties.
- Rather than paying dividends to shareholders, it may need to invest more money into promotional campaigns to encourage loyalty and minimise the risk of new competitors in the market.
- If dividends are paid, shareholders may continue to expect dividends, which could cause future problems for the takeaway as it may struggle to maintain this if sales and profits fall due to the higher level of competition.

Overall, it depends on the perspective of the shareholders and who they are. If they are prepared to wait for a return on their investment, they may be happy for the business to invest more into the business to improve competitiveness. It may also depend on its ability to borrow money, as it may prefer to pay dividends to keep their shareholders happy and borrow money in order to create new promotional campaigns etc. It may also depend on whether or not the business are intending on selling more shares in the future.

Credit valid alternative content. No decision is right or wrong but should be assessed on the quality of argument.

Assessment Objective Grid

| | AO1 | AO2 | AO3 | AO4 | Total |
|-------------------|------------|------------|------------|------------|--------------|
| Section A | | | | | |
| 1 | 1 | | | | 1 |
| 2 | 1 | | | | 1 |
| 3 | 1 | | | | 1 |
| 4 | 1 | 1 | | | 2 |
| 5 | 1 | 2 | | | 3 |
| 6 | 1 | 2 | | | 3 |
| 7 | 1 | 2 | | | 3 |
| 8 | 1 | 2 | | | 3 |
| Section B | | | | | |
| 9 | 3 | 3 | 3 | | 9 |
| 10 | 3 | 3 | 3 | | 9 |
| 11 | 3 | 3 | 3 | | 9 |
| Section C | | | | | |
| 12 | 2 | 2 | 3 | 5 | 12 |
| 13 | 2 | 2 | 3 | 5 | 12 |
| 14 | 2 | 2 | 3 | 5 | 12 |
| Unit Total | 23 | 24 | 18 | 15 | 80 |