



A-level BUSINESS 7138/3

Paper 3 Business 3

Mark scheme

Sample assessment materials

Version: 1.1

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 learners' 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 learners' 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 learners' 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.

No learner should be disadvantaged on the basis of their gender identity and/or how they refer to the gender identity of others in their exam responses.

A consistent use of 'they/them' as a singular and pronouns beyond 'she/her' or 'he/him' will be credited in exam responses in line with existing mark scheme criteria.

Further copies of this mark scheme are available from aqa.org.uk

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Where appropriate, real company data will be provided. However, in some instances, data may be fabricated solely for illustrative purposes (question 01.4, question 01.5). Any such fabricated data is not affiliated with, nor does it represent, any actual business or organisation.

Farmoor Cycles is a fictional business.

Levels of response marking instructions

Levels of response mark schemes are broken down into levels, each of which has a descriptor. The descriptor for the level shows performance at the top of the level. There are marks in each level.

Before you apply the mark scheme to a learner's answer, read through the answer and annotate it (as instructed) to show the qualities that are being looked for. You can then apply the mark scheme.

Step 1 Determine a level

Begin at the lowest level and work upwards, comparing the learner's response to each descriptor until you find the best match. The descriptor for the level indicates the different qualities that might be seen in the learner's answer for that level. If it meets the lowest level, then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer. With practice and familiarity, you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

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 learner has not performed quite as well as 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. For example, if a response mostly fits Level 3 but starts to extend into the features of Level 4 without meeting the Level 4 descriptors entirely, place it in Level 4, but award a lower mark within that level to reflect the limited extent of Level 4 content.

Step 2 Determine a mark

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

Answers placed at the top of the level will securely address the descriptors; answers at the lower end of the level will securely address the descriptors below and begin to show the qualities of the level into which the examiner is placing them. Careful judgements need to be made about marks in the middle of the range; here it is likely that the key descriptors will be more intermittent but still clearly evident.

There will be occasions when an answer addresses descriptors in different levels; in such cases, the best-fit model applies. Here examiners will need to exercise a different kind of judgement, looking to see where the answer can be most fairly and appropriately placed in terms of its quality against the descriptors.

Use the full range of marks available. Avoid clustering scripts in the middle of the level unless justified by the quality of the response. Top-level marks are attainable if learners could not be expected to do more in the time and under the conditions in which they are working.

Examiners should avoid making early snap judgements before the whole answer has been read. Some learners begin tentatively but go on to make relevant points.

Examiners should mark positively. Although the mark scheme provides some indicators for what learners are likely to write about, examiners should be willing to reward what is actually there – provided, of course, that it is relevant to the question being asked.

Examiners should remember that length and quality are not synonymous. Some brief answers may be relevant and concise. Equally, long answers may be diffuse and repetitive. If answers are short or

incomplete, examiners can only reward what is there and assess accordingly. Some further credit may be given to answers finished in note form.

Examiners should remember that there are not always right answers. Learners' views which are relevant, well-argued and supported by appropriate evidence must receive credit whether the examiner agrees with the views or not. It is important to try to remain flexible if a learner introduces unusual or unorthodox ideas.

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

Indicative content

Indicative content is provided in the mark scheme as a guide for examiners. It is not intended to be exhaustive, and you must credit other valid points. It is important to note that learners do not have to cover all of the points mentioned in the indicative content to reach the highest level of the mark scheme.

Assessment objectives indicators have been included within the indicative content to clarify where assessment objectives are met. These are not indicators of where individual marks should be awarded. Marks should be awarded holistically by a best fit approach to the levels of response grids

Assessment objectives (AOs)

There are four AOs:

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

Knowledge: a learner demonstrates knowledge of a relevant factor or concept, for example, risk taking is an entrepreneurial concept

Understanding: a learner uses this knowledge to show understanding of how this knowledge is relevant to the question, for example, risk taking can lead to someone identifying a potential new business opportunity and trying it out which can create a new market; this is relevant understanding for a question which asks about entrepreneurial characteristics and business success

AO2: Apply knowledge and understanding to various business contexts to show how individuals and organisations are affected by and respond to issues

Application occurs when a learner makes use of the context provided in the case study or question. Basic application identifies relevant factors in the context and attempts to relate this to the analysis; for example, selecting relevant numbers for a calculation. Better application makes use of the context to support the analysis in the answer. Better application may combine contextual factors in an item, undertake a calculation with data provided or relate the analysis throughout to the business context.

Note: simply repeating elements from the case study is not creditworthy.

AO3: Analyse issues within business, showing an understanding of the impact on individuals and organisations of external and internal influences

Analysis occurs when there is a chain of reasoning. Basic analysis will have perhaps just one step in the chain or will be missing steps in the chain of reasoning. For example:

- if the demands of a question are that the impact of a particular action is analysed in relation to profit and the answer provides a chain of reasoning which ends with sales, this chain of reasoning is still missing a step to get to profit
- if a question asks for an analysis of lean production in relation to profit, for example, and the answer jumps from lean production to lower costs to profit but does not explain how lean production reduces costs then there is a step in the chain of reasoning which is missing.

Stronger analysis has logical, relevant chains of reasoning which have an appropriate start and end point and are clearly relevant to the question rather than generic. For example, if the question relates to an entrepreneurial characteristic and business success the highest level of analysis will link the two with logical steps.

AO4: Evaluate quantitative and qualitative information to make informed judgements and propose evidence-based solutions to business issues

Evaluation relates to judgements made or solutions proposed. Judgements may be made on a particular argument in an answer as well as in an overarching judgement of the arguments made. Weak judgement has few links to the application and analysis in the answer. Better evaluation may make a judgement of an issue and/or of the question but be unbalanced, for example, ignore the counter arguments made. The strongest evaluation weighs up the arguments made effectively and convincingly answers the question set. The response is coherent because it builds logically on the arguments. Evaluation which is simply an assertion or a statement with no support is not creditworthy. Evaluation may include challenging the data presented.

Quantitative skills

Papers 1 and 2 will include two quantitative questions, assessed through either 9-mark or 15-mark formats (e.g. two 9-mark, two 15-mark, or one of each). Each question will carry 6 marks for quantitative skills, totalling 12 marks per paper. Paper 3 will feature a single quantitative question, worth either 9 or 15 marks, including 6 marks for quantitative skills. Learners are expected to perform calculations and apply the results in their analysis and evaluation. Quantitative skills will be assessed across all assessment objectives (AO1–AO4):

- knowing what the formula is and which numbers to select is rewarded as knowledge and understanding (AO1) (2 marks)
- undertaking the calculation is rewarded as application (AO2) (2 marks)
- interpreting and using the results in an argument is rewarded as analysis (AO3) (1 mark)
- using the findings to support a judgement is evaluation (AO4) (1 mark).

Own Figure Rule

When asked to undertake calculations, the Own Figure Rule will always apply. Learners will receive credit for correctly interpreting their own calculated result, even if the calculation itself is incorrect; this could be in the analysis and in the evaluation. The overall mark will be lower than a learner who undertook the calculation and interpreted it correctly but there is positive marking to reward the correct interpretation of an incorrect result.

Question types

When marking a particular question, the distribution of AOs for that question is shown above the levels of response grid. It is important that you consider the weighting of AOs for each question.

There are three different question types:

6-mark questions

These questions will always have the command word 'Analyse'.

A 6-mark question has the following distribution of AOs: AO1 = 2 marks, AO2 = 2 marks, AO3 = 2 marks.

For example:

- a response that demonstrates only knowledge and understanding (AO1) can only receive a maximum of 2 marks.
- a response that demonstrates good knowledge and understanding (AO1) and good analysis (AO3) but has no application of knowledge to the context (AO2) can gain a maximum of 4 marks.

6-mark levels of response grid

AO1=2, AO2=2, AO3=2

Level	The learner will typically demonstrate	Marks
2	A good response overall which focuses on the demands of the question. A response in this level is likely to demonstrate: • knowledge and relevant understanding of the factor which is the basis of the question (AO1) • the effective application of knowledge and understanding to the context throughout the answer (AO2) • analysis which shows an accurate and relevant chain of reasoning, effectively linking the two key elements of the question (AO3) <i>The key to achieving this level rather than Level 1 is likely to be greater application to the context and the analysis of relevant factors.</i>	4–6
1	A limited response overall with little focus on the demands of the question. A response in this level is likely to demonstrate: • knowledge and relevant understanding of the factor which is the basis of the question (AO1) • an attempt to apply knowledge to the context (AO2) • a lack of relevant analysis (AO3)	1–3
0	Nothing creditworthy in the response	0

Distribution of AOs in 6-mark questions

Level	AO1	AO2	AO3	AO4
2	2	2	2	0
1	2	1	0	0

9-mark questions

9-mark questions will always have the command word 'Assess'.

A 9-mark question has the following distribution of AOs: AO1 = 2 marks, AO2 = 2 marks, AO3 = 2 marks, AO4 = 3 marks.

For example:

- a response that demonstrates only knowledge and understanding (AO1) can only receive a maximum of 2 marks
- a response that lacks any evaluation (AO4) could be awarded a maximum of 6 marks
- a response that has knowledge and understanding (AO1) and analysis (AO3) but no use of context or judgement (AO2; AO4) can be awarded a maximum of 4 marks.

The 9-mark questions require learners to weigh up the case for and against a given issue. For example, whether to spend more on X, whether to launch a product or whether to raise the price. The question requires a decision on this particular issue; it does not require learners to consider other issues. To answer this question, learners need to demonstrate relevant knowledge and understanding, consider both sides of the issue, use the context in their analysis and reach an overall judgement for or against. You should consider how strong the response and judgement are for this particular business/situation and how logical and convincing the evaluation is given the arguments made.

There is no set structure that learners' answers must follow - for example, some learners may argue for/against and then reach a conclusion; some may evaluate individual arguments throughout; or some may start with a judgement and then support this with the rest of the answer. However, for the top level there must be a clear answer to the question set which has a weighing up of an argument and counter argument.

9-mark levels of response grid

AO1=2, AO2=2, AO3=2, AO4=3

Level	The learner will typically demonstrate	Marks
3	A good response overall that focuses on all the demands of the question. A response in this level is likely to demonstrate: • knowledge of relevant factors that is explained to show understanding (AO1) • good application of knowledge and understanding to the context (AO2) • logical, relevant chains of reasoning (AO3) • evaluation which effectively weighs up the arguments made and reaches a convincing and coherent judgement, and fully addresses the question (AO4)	7–9

	<i>The key to achieving this level compared to Level 2 will include the quality of the analysis and the overall judgement.</i>	
2	A reasonable response overall that focuses on some of the demands of the question. A response in this level is likely to demonstrate: • knowledge of relevant factors that is explained to show understanding (AO1) • good application of knowledge and understanding to the context (AO2) • basic, relevant chains of reasoning (AO3) • evaluation which has some support (AO4) <i>Compared to Level 1, a response at this level includes evidence of better application, some analysis and evaluation with some support, but may not weigh up the different arguments made.</i>	4–6
1	A limited response overall with little focus on the demands of the question. A response in this level is likely to demonstrate: • knowledge of relevant factors that is explained to show understanding (AO1) • some attempt to apply knowledge and understanding to the context (AO2) • a lack of relevant analysis (AO3) • evaluation based on assertion and without support (AO4)	1–3
0	No creditworthy content	0

Distribution of AOs in 9-mark questions

Level	AO1	AO2	AO3	AO4
3	2	2	2	3
2	2	2	1	1
1	2	1	0	0

9-mark questions with a quantitative focus

A 9-mark question with a quantitative focus will always feature the command word ‘Assess’. The question will indicate the required calculation. Learners will use this to analyse and evaluate.

There will be 6 marks available for quantitative skills. These are as follows:

- knowing what the formula is and which numbers to select is rewarded as knowledge and understanding (AO1) (2 marks)
- undertaking the calculation is rewarded as application (AO2) (2 marks)
- interpreting and using the results in an argument is rewarded as analysis (AO3) (1 mark)
- using the findings to support a judgement is evaluation (AO4) (1 mark).

There are an additional 3 marks available (AO3 = 1 mark, AO4 = 2 marks) for further qualitative analysis and evaluation in relation to the calculation.

9-mark levels of response grid for questions with a quantitative focus**AO1=2, AO2=2, AO3=2, AO4=3**

Level	The learner will typically demonstrate	Marks
3	A good response overall that focuses on all the demands of the question. A response in this level is likely to demonstrate: • good knowledge and understanding of the quantitative concept (AO1) • a correct calculation (AO2) • logical, relevant chains of reasoning including interpreting and using the calculation findings (AO3) • evaluation which effectively weighs up the arguments made and uses the calculation findings to reach a convincing and coherent judgement, and fully addresses the question (AO4) <i>The key to achieving this level compared to Level 2 will include the quality of the analysis and the overall judgement.</i>	7–9
2	A reasonable response overall that focuses on some of the demands of the question. A response in this level is likely to demonstrate: • good knowledge and understanding of the quantitative concept (AO1) • a correct calculation (AO2) • basic, relevant chains of reasoning which may be based on calculation findings (AO3) • evaluation which has some support and may be based on the calculation findings (AO4) <i>Compared to Level 1, a response at this level includes evidence of better application, some analysis and evaluation with some support but may not weigh up the different arguments made.</i>	4–6
1	A limited response overall with little focus on the demands of the question. A response in this level is likely to demonstrate: • good knowledge and understanding of the quantitative concept (AO1) • an attempt to undertake a calculation but may have inaccuracies (AO2) • a lack of relevant analysis (AO3) • evaluation based on assertion and without support (AO4)	1–3
0	No creditworthy content	0

Distribution of AOs in 9-mark questions with a quantitative focus

Level	AO1	AO2	AO3	AO4
3	2	2	2	3
2	2	2	1	1
1	2	1	0	0

Additional marking guidance

Level 3 responses will typically feature a correct calculation with effective analysis stemming from it. We would expect to see a comparison between the calculated figures and other information available in the extracts. Evaluation could consider the context of the business situation before making an appropriate, well-supported judgement. There may be consideration of the limitations of the data.

Level 2 responses may contain some incorrect calculation (own figure rule) but relevant chains of analysis stemming from them. Alternatively, the calculations may be accurate but with less developed analysis than that at Level 3. There may be some consideration of the other information in the extracts, but this will be more limited than Level 3. Judgements are likely to have some reference to the calculation.

Responses that feature a correct calculation, but no analysis or evaluation would be placed at the bottom of this level (4 marks).

Level 1 responses might have an incorrect calculation with no relevant analysis stemming from this. We are likely to see answers that only display knowledge, understanding and application in response to the demand of the question. There may be some very basic consideration of the business' situation without the use of quantitative methods, displaying some limited knowledge/understanding. Any judgement will be based on assertions and will not be derived from numerical analysis or the context of the business (no relevant evaluation).

15-mark extended response questions

A 15-mark extended response question will either ask a learner to select and evaluate two possible courses of action and then provide a judgement as to which is the better course of action or evaluate two courses of action which have been given to them. In either case, the command word will always be 'Evaluate.'

A 15-mark extended response question has the following distribution of AOs: AO1 = 3 marks, AO2 = 3 marks, AO3 = 4 marks, AO4 = 5 marks.

For example:

- an answer that demonstrates only knowledge and understanding can only receive a maximum 3 marks
- an answer that lacks any evaluation can be awarded a maximum of 10 marks
- an answer that has knowledge and understanding (AO1) and analysis (AO3), but no use of context or evaluation can be awarded a maximum of 7 marks.

15-mark levels of response grid**AO1=3, AO2=3, AO3=4, AO4=5**

Level	The learner will typically demonstrate	Marks
5	An excellent response overall that is fully focused on the demands of the question. A response in this level is likely to demonstrate: - knowledge of relevant factors which is explained to show understanding that is precise and well-selected (AO1) - application of knowledge and understanding to the context throughout the answer (AO2) - well-developed, logical chains of reasoning of both options which, where appropriate, make use of sophisticated concepts (AO3) - evaluation is well supported and weighs up both options, provides a coherent overarching judgement and fully addresses the question set (AO4) <i>The key to this level, compared to Level 4, is the quality of the analysis and evaluation including the overall judgement.</i>	13–15
4	A good response overall that focuses on many of the demands of the question. A response in this level is likely to demonstrate: - knowledge of relevant factors which is explained to show understanding that is precise and well-selected (AO1) - application of knowledge and understanding to the context throughout the answer (AO2) - logical, developed, relevant chains of reasoning for both options (AO3) - evaluation which is supported, has some balance of the arguments and has a focus on the question (AO4) <i>Compared to Level 3, this level is likely to have application throughout, analysis of both options and better supported judgements.</i>	10–12
3	A reasonable response overall that focuses on some demands of the question. A response in this level is likely to demonstrate: - knowledge of relevant factors which is explained to show understanding that is precise and well-selected (AO1) - application of knowledge and understanding to the context (AO2) - some logical, developed, relevant chains of reasoning (AO3) - evaluation which has some support but may lack balance of arguments and is not fully focused on the question (AO4). <i>Compared to Level 2, a response at this level is likely to include stronger understanding, analysis and evaluation.</i>	7–9

Level	The learner will typically demonstrate	Marks
2	A limited response overall with little focus on the demands of the question. A response in this level is likely to demonstrate: - knowledge of relevant factors with understanding (AO1) - application of knowledge and understanding to the context (AO2) - some basic, relevant chains of reasoning (AO3) - evaluation with limited support (AO4) <i>Compared to Level 1, features of a response at this level are likely to include better application, some basic analysis and evaluation.</i>	4–6
1	A weak response overall lacking focus on the demands of the question. A response in this level is likely to demonstrate: - knowledge of relevant factors with understanding (AO1) - basic application of knowledge and understanding to the context (AO2) - a lack of relevant analysis (AO3) - evaluation based on assertion and without support (AO4)	1–3
0	Nothing creditworthy in the response	0

Distribution of AOs in 15-mark questions

Level	AO1	AO2	AO3	AO4
5	3	3	4	5
4	3	3	3	3
3	3	2	2	2
2	2	2	1	1
1	2	1	0	0

Additional marking guidance

You should consider how relevant the options chosen are given the context, how strong the arguments made are and how clear, convincing and coherent the evaluation is. Does the overall judgement fit with what was asked in the given situation? Does it fit with the arguments made? If the judgement does not address all the issues in the question or leaves out some of the issues it has raised (for example, the counter argument) this is unlikely to demonstrate the qualities of a top level of response.

Given the weighting of the AOs, you can see that a strong response to this type of question must have strong evaluation. There must be an overarching judgement to the question set and this must be supported by evaluation.

There is no set structure that answers must follow: for example, learners may evaluate each option before making an overall judgement; they may be clear from the start why one option is better than another in these circumstances; or they may weigh up their arguments at the end of the answer.

15-mark extended response questions with a quantitative focus

A 15-mark question with a quantitative focus will always feature the command word 'Evaluate'. The question will indicate the quantitative method to be used in the question. Learners will use this to analyse and evaluate a business's position.

A 15-mark extended response question has the following distribution of AOs: AO1 = 3 marks, AO2 = 3 marks, AO3 = 4 marks, AO4 = 5 marks.

There will be 6 marks available for quantitative skills. These are as follows:

- knowing what the equation is and which numbers to select is rewarded as knowledge and understanding (AO1) (2 marks)
- undertaking the calculation is rewarded as application (AO2) (2 marks)
- interpreting and using the results in an argument is rewarded as analysis (AO3) (1 mark)
- using the findings to support a judgement is evaluation (AO4) (1 mark).

There are an additional 9 marks available (AO1 = 1 mark, AO2 = 1 mark, AO3 = 3 marks, AO4 = 4 marks) for further qualitative analysis and evaluation.

15-mark levels of response grid for questions with a quantitative focus

AO1=3, AO2=3, AO3=4, AO4=5

Level	The learner will typically demonstrate	Marks
5	An excellent response overall that is fully focused on the demands of the question. A response in this level is likely to demonstrate: • knowledge of the quantitative concepts and relevant factors which is explained to show understanding that is precise and well-selected (AO1) • application of knowledge and understanding to the context throughout the answer, including a correct calculation (AO2) • well-developed, logical chains of reasoning for both options which include interpreting and using the calculation findings and, where appropriate, makes use of sophisticated concepts (AO3) • Evaluation is well supported, weighs up both options, and provides a coherent overarching judgement using the calculation findings and fully addresses the question set (AO4) <i>The key to this level, compared to Level 4, is the quality of the analysis and evaluation including the overall judgement.</i>	13–15
4	A good response overall that focuses on many of the demands of the question. A response in this level is likely to demonstrate: • knowledge of the quantitative concepts and relevant factors which is explained to show understanding that is precise and well-selected (AO1) • application of knowledge and understanding to the context throughout the answer, including a correct calculation (AO2)	10–12

Level	The learner will typically demonstrate	Marks
	- logical, developed, relevant chains of reasoning for both options which include interpreting and using the calculation findings (AO3) - evaluation which is supported, has some balance of the arguments, may use the calculation findings to support a judgement and has a focus on the question (AO4) <i>Compared to Level 3, this level is likely to have application throughout, analysis of both options and better supported judgements.</i>	
3	A reasonable response overall that focuses on some demands of the question. A response in this level is likely to demonstrate: - knowledge of the quantitative concepts and relevant factors which is explained to show understanding that is precise and well-selected (AO1) - application of knowledge and understanding to the context which may include a correct calculation (AO2) - some logical, developed, relevant chains of reasoning, which may include interpreting and using the calculation findings (AO3) - evaluation which has some support and may use the calculation findings but may lack balance of arguments and is not fully focused on the question (AO4). <i>Compared to Level 2, a response at this level is likely to include stronger understanding, analysis and evaluation.</i>	7–9
2	A limited response overall with little focus on the demands of the question. A response in this level is likely to demonstrate: - knowledge and understanding of relevant factors which may include the quantitative concept (AO1) - application of knowledge and understanding to the context, which may include a correct calculation (AO2) - some basic, relevant chains of reasoning which may include interpreting and using the calculation findings (AO3) - evaluation with limited support (AO4) <i>Compared to Level 1, features of a response at this level are likely to include better application, some basic analysis and evaluation.</i>	4–6
1	A weak response overall lacking focus on the demands of the question. A response in this level is likely to demonstrate: - knowledge and understanding of relevant factors, which may include the quantitative concept (AO1) - basic application of knowledge and understanding to the context, which may include an attempt at a calculation (AO2) - a lack of relevant analysis (AO3) - evaluation based on assertion and without support (AO4)	1–3

Level	The learner will typically demonstrate	Marks
0	Nothing creditworthy in the response	0

Distribution of AOs in 15-mark questions with a quantitative focus

Level	AO1	AO2	AO3	AO4
5	3	3	4	5
4	3	3	3	3
3	3	2	2	2
2	2	2	1	1
1	2	1	0	0

Additional marking guidance

Level 5 responses will feature correct calculations with effective analysis stemming from them. However, in Level 5, evaluation will consider the context of the business situation before making an appropriate, well-supported recommendation.

In addition to the quantitative skills, we would expect a Level 5 response to analyse the other information available and use this analysis to support a recommendation. Evaluation is likely to consider the highest priority to the business given the context, for example, short-term, long-term returns.

Level 4 responses will feature correct calculations with effective analysis stemming from them. Analysis may be slightly less developed than Level 5. A recommendation will be made weighing up the two options but will perhaps not fully consider the circumstances of the business.

We would expect a Level 4 response to analyse the other information effectively but perhaps not fully utilise this to support the final recommendation. Responses are likely to show judgement which takes an overview of the two options and weighs them up effectively but without the clear focus on the business' priorities seen at Level 5.

Responses that do not make use of the calculations cannot be awarded above 9 marks (low Level 4). This is an explicit demand of the question.

Level 3 responses may have some incorrect calculations (own figure rule) but relevant chains of analysis stemming from them. Alternatively, the calculations may be accurate but with less developed analysis than that at Level 4. Judgements are likely to have some reference to these calculations.

We might expect some analysis of the other information available, however there may be some imbalance between the options. The judgement is likely to have some justification but may not weigh up the analysed factors effectively. There will be some focus on the business' priorities.

Level 2 responses will have attempted a calculation and at least partial knowledge/understanding will have been displayed (for example, relevant formula, correct figures identified). There may be some attempts to analyse these figures, but they are unlikely to be analysed in significant detail.

Answers which execute the calculation correctly but have no relevant analysis or evaluation stemming from them should be placed at the bottom of Level 2.

Other information is likely to be analysed to support the recommendation but there are likely to be incomplete chains of reasoning making it less effective at supporting the recommendation. The context of the business is likely to have lower consideration in such answers (responses here could be generic in nature).

Level 1 responses may have an incorrect calculation with no relevant analysis stemming from this. We are likely to see responses that only display knowledge and application in response to the demand of the question. Any judgements will be based on assertions and will not be derived from numerical analysis or the context of the business (no relevant evaluation).

Learners may also demonstrate knowledge of the other information and concepts relevant to the questions. There is likely to be no effective analysis or evaluation stemming from this.

Typical features of higher-level responses for 9-mark and 15-mark questions

- High-level responses integrate application (AO2) and analysis (AO3) to form coherent arguments.
- Strong chains of reasoning are rooted in the context of the case study.
- In weaker responses, application and analysis are often disconnected or generic.
- In quantitative questions, strong application includes accurate calculations as required by the question.
- Top-level responses feature evaluative thinking throughout, not just at the conclusion.

Use of sophisticated concepts

Learners that make use of relevant theories, concepts, models and frameworks in their responses, that are not the direct focus of a question, are making use of sophisticated concepts. The appropriate use of these sophisticated concepts strengthens the quality of their analysis.

- Sophisticated concepts refer to relevant theories, models, or frameworks used appropriately, even if not directly required by the question.
- Their use strengthens analysis and demonstrates a deeper understanding of business issues.
- Examples include:
 - Ansoff Matrix for market penetration strategies.
 - Boston Matrix for portfolio analysis.
 - Break-even and margin of safety for cost-related decisions.
 - Kotter's barriers to change for organisational change.
 - Investment appraisal techniques (for example, ARR, NPV) for spending decisions.
- The key is relevance and accuracy—sophisticated concepts must be applied meaningfully to enhance the argument.

The use of sophisticated concepts is identified as a typical characteristic of a Level 5 response; it demonstrates a strong, sophisticated understanding of the subject. However, where the use of sophisticated concepts is demonstrated in any response, the impact on the quality of analysis will be recognised.

Challenging Assumptions

As part of effective evaluation, high-level responses should critically assess the reliability and origins of the data used to support a chosen action or situation. This includes questioning the credibility of the data sources, considering whether alternative information might offer a more accurate or relevant perspective, and evaluating the potential impact of changes in the external environment on the data over the short or long-term. These considerations are not mutually exclusive, and any evaluation that thoughtfully challenges the assumptions underlying either quantitative or qualitative data should be credited.

Synopticity

Synopticity occurs when learners draw on knowledge from different parts of the specification. This is especially relevant in Paper 3, where strategic topics like SWOT can be linked to earlier functional areas. Synoptic responses show a holistic understanding of business and are often characteristic of top-level answers.

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1

 Analyse **one** advantage to the owners of Finlay's Farm Ltd of keeping the business small.

[6 marks]

AO1 = 2, AO2 = 2, AO3 = 2

The demands of the question are:

- to demonstrate knowledge and understanding of one advantage of being a small business (AO1)
- to apply this knowledge and understanding to the context of Finlay's Farm Ltd (AO2)
- to analyse one advantage to the owners of keeping the business small (AO3).

Markers' guidance

Level 2 responses will provide a logical link between being small and an advantage to the owners of Finlay's Farm Ltd.

Indicative content

- Advantages of small businesses include quick decision making and easy communication with employees. Other advantages accepted (AO1).
- Finlay's Farm Ltd only has four employees including the two founders/owners. This may make it easier to communicate with employees as there are less people involved in decisions (AO1, AO2). This level of good communication may improve the sense of shared objectives and lead to less conflict (AO3). Finlay's Farm Ltd has a clear focus on ethical decisions; with only four people it should be possible to share and build a common set of values and ensure that decisions are aligned to this more easily than if the business had many potentially conflicting views (AO1, AO2). This should help avoid the problems that large scale businesses can encounter, i.e. diseconomies of scale due to coordination and control issues and help to compete against the bigger farms (AO3).
- The owners may see the smallness of the business as an important element of its attraction. Customers may welcome working with a small business and dealing directly with the owners. David and Wilma have built good long-term relationships with customers (AO1, AO2). This may help when holding on to customers and getting repeat business. Customers may value the fact they can talk to the person who actually makes the decisions. This might also help Finlay's Farm Ltd with its positioning as a niche business rather than major high-volume producer. This may support higher prices (AO2, AO3).

Credit all relevant knowledge, understanding, application and analysis.

0 1 . **2** Analyse **one** way in which a change in the legal environment might affect the profits of Finlay's Farm Ltd.

[6 marks]

AO1 = 2, AO2 = 2, AO3 = 2

The demands of the question are:

- to demonstrate knowledge and understanding of the legal environment and its effect on profits (AO1)
- to apply this knowledge and understanding in the context of Finlay's Farm Ltd (AO2)
- to analyse one way a change in the legal environment might affect Finlay's Farm Ltd's profits (AO3).

Markers' guidance

- Level 2 responses will link logically a relevant change in the legal environment of Finlay's Farms to the effect on its profits.
- Responses might argue profits increase or decrease.

Indicative content:

- The legal environment includes laws relating to employment, consumers and trade. These laws can restrict business behaviour and add costs which can affect profits (AO1).
- Employment laws. Finlay's Farm Ltd employs four people who will have employment rights such as maternity, dismissal and redundancy rights (AO1, AO2). Changes in these laws could increase employment costs, for example, maternity pay, minimum wages, redundancy pay, and this increase in costs could reduce profits (AO3).
- Consumer laws. Finlay's Farm Ltd sells cheese and ice cream and so will have regulations on labelling and how it promotes its products (AO1, AO2). Changes in the law could affect the company's marketing mix and could increase costs and reduce profits, for example, if it has to change labels or find ways of producing differently to meet new standards. The additional regulations may reduce revenue and increase costs reducing profits (AO2, AO3).

Credit all relevant knowledge, understanding, application and analysis.

0 1 . 3 Assess the value to Finlay's Farm Ltd of introducing Environmental, Social, and Governance (ESG) reporting.

[9 marks]

AO1 = 2, AO2 = 2, AO3 = 2, AO4 = 3

The demands of the question are:

- to demonstrate knowledge and understanding of Environmental, Social, and Governance (ESG) reporting (AO1)
- to apply knowledge and understanding of this to the context of Finlay's Farm Ltd (AO2)
- to analyse the value to Finlay's Farm Ltd of introducing Environmental, Social and Governance (ESG) reporting (AO3)
- to evaluate the value to Finlay's Farm Ltd of introducing Environmental, Social and Governance (ESG) reporting (AO4).

Markers' guidance

- Level 3 responses will have a clear supported judgement on the value of ESG reporting with a focus on the introduction of this by Finlay's Farm Ltd.
- A response may make a judgement that introducing ESG reporting will be very valuable to Finlay's Farm Ltd or that it will not be valuable. An overall judgement on the value of ESG reporting to Finlay's Farm Ltd may be qualified.

Indicative content

- ESG reporting involves disclosing of environmental, social and corporate governance data. Its purpose is to highlight a company's ESG activities while improving investor transparency. It can help a business make better decisions in relation to ESG and can attract investors (AO1).
- ESG reporting may help raise the profile and appeal of Finlay's Farm Ltd. It may appeal to some customers or potential investors who like this approach to reporting rather than narrower financial reporting (AO1). Therefore, this might help with future crowdfunding or other efforts to attract investment and may attract more visitors to the farm visitor centre (AO2, AO3).
- ESG reporting may help Finlay's Farm Ltd to understand the impact of its actions and ensure it meets the standards it sets itself (AO1, AO2). The business is clearly very focused on ethical and environmental issues and therefore its owners would probably want to know how it was doing in these areas either to confirm it was doing well or highlight areas where they could improve to ensure the actions of the farm are positive in terms of its environmental and social impact (AO2, AO3).
- ESG reporting may help with publicity and bookings for the owners to speak at events and win awards (AO1, AO2). This is good for the business and helps David and Wilma promote their messages about organic farming. This can generate more investment and visitors (AO2, AO3).
- There may be costs and time involved in auditing and producing reports, for example, if external auditors are used, they will charge a fee for the research and writing of the report (AO1). If this reporting covers all areas of the business (ice cream, dairy and potentially glamping) it may therefore increase costs further as separate reports may need doing or different indicators may be used (AO2, AO3).
- No major external investment/outside investors are involved in Finlay's Farm Ltd and so there may not be the need for such reports and no need to incur these costs (AO1, AO2). Those involved may feel close enough to what is happening anyway given it is a small business and therefore not feel the need for the additional efforts required for formal reporting (AO2, AO3)

Evaluation

The value of introducing ESG reporting depends on:

- what is measured: there are no set items to be included in an ESG report and so its value lies in what is being measured and how useful these indicators are to Finlay's Farm Ltd and stakeholders (AO4)
- how it is undertaken – the value of the report will depend on how accurate it is, and the depth of insights provided. This may be linked to who is undertaking it and their expertise. A report the farm produces itself may potentially be of less value than an external one as they may find what they want to find but this may be more expensive (AO4)
- who does it and what it finds and what is done in response to the findings. The value of the report will be greater if those who receive it are open to responding and investing resources where needed (as opposed to simply reading it but taking no action) (AO4)
- where it is published. The impact of an ESG report will depend on where it is published for example, is it open to all stakeholders to comment on or kept within the business? If no-one except the owners sees it, then the value may be more limited as they are less accountable (AO4)
- given that this reporting is being introduced, there may be initial challenges getting the process to work. For example, deciding what to measure, who to use to do the report, the format of the report and how to action recommendations. These issues may be resolved over time so the value may change from when it is first introduced (AO2, AO4).

Credit all relevant knowledge, understanding, application, analysis and evaluation.

0 1 . 4 Assess whether diversifying into glamping would be a good decision for Finlay's Farm Ltd.

[9 marks]

AO1 = 2, AO2 = 2, AO3 = 2, AO4 = 3

The demands of the question are

- to demonstrate knowledge and understanding of diversification (AO1)
- to apply this knowledge and understanding of this to the context of Finlay's Farm Ltd (AO2)
- to analyse the impact of diversifying into glamping for Finlay's Farm Ltd (AO3)
- to evaluate whether diversification would be a good idea for Finlay's Farm Ltd (AO4).

Markers' guidance

- Level 3 responses will have a clear supported judgement on whether diversifying into the glamping market would be a good decision for Finlay's Farm Ltd.
- Responses may argue it is, or it is not, a good decision.

Indicative content

- Offering glamping involves offering new products to new markets which is an example of diversification in the Ansoff Matrix (sophisticated concept). This brings opportunities but also risks because so much is new for Finlay's Farm Ltd (AO1). It will be a new product and a new target market for the business and therefore there is a risk that a loss could be made. Furthermore, the time taken to develop this business could divert attention from the farm and have an impact on the farm's success (AO1, AO2, AO3)
- Entering this market can link to the farm's focus on sustainability and environmental issues (AO1, AO2). The farm already attracts people to learn about biodiversity and so these people may be interested in a glamping stay which can increase business at the shop and mean the overall returns are higher than the forecast suggests (AO2, AO3).
- Finlay's Farm Ltd receives government agricultural grants and subsidies. It also faces more complex exporting regulations after the UK left the European Union. In addition, a risk that the business faces is that customers may become more price sensitive (AO2). All of these factors may mean that the current market becomes less attractive. For example, the loss of subsidies may affect costs. The increased complexity may mean time is taken on administration and reduce the level of exports. The price competition may reduce profit margins. As a result, moving into glamping may be an option to sustain profits (AO3).
- The business will need to raise £90 000 to finance the setting up of the glamping and given that it is already highly geared this may not be easy (AO1, AO2). It will therefore need to make sure any interest costs have been taken into account, to ensure it can make an informed decision (AO3).
- In the first year, a profit of £36 000 is forecast to be made. This is lower than the target profit for the first year of £38 000 (AO1, AO2). This may mean Finlay's Farm Ltd may not want to go ahead with the glamping as the objective is not met. However, it is not much below the target figure and the glamping market is forecast to keep growing quickly which may create longer term opportunities and therefore justify a decision that this is a good idea (AO2, AO3, AO4).

Evaluation

- Diversification has more unknowns than expanding in the industry that the owners know already (as shown by the Ansoff matrix theory). It may depend on the degree of risk David and Wilma are willing to take and how much they trust the data provided (AO4).
- It may depend on the expected growth and market conditions of the dairy industry, in that this will affect the pressure and incentives to diversify (AO4).
- The forecast calculations are based on 120 rental weeks for eight lodges. This is a relatively small number of weeks per lodge. This forecast may be optimistic or pessimistic. The likelihood of this

outcome depends on how the forecast has been made. Over time, the number of weeks may grow as the glamping becomes more well known and so profits may rise (AO2 and AO4).

- The data for the glamping is only for one year; to make a good decision the business may want to forecast for a longer period to understand the long-term returns (AO4)
- The business has already diversified successfully with the farm shop and having a broader portfolio may protect them from any long-term negative trends in any of the other business areas. By having a range of products, this can help ensure that if there are dog products there are others such as stars and up and coming question marks to offset these (the Boston Matrix, sophisticated concept) (AO4).
- The farm is said to be operating close to capacity. To increase scale, it would need to buy more cows and invest in new production facilities (AO2). This means that the business needs to invest if it wants to grow. Therefore, David and Wilma may want to consider the likely return on investment for glamping compared to investing further in the farm to decide whether this is a good decision or not (AO4).

Credit all relevant knowledge, understanding, application, analysis and evaluation.

0 1 . **5** Finlay's Farm Ltd faces many risks.

Evaluate **two** ways the business could reduce the risks it faces and recommend which **one** Finlay's Farm Ltd should implement first.

[15 marks]

AO1 = 3, AO2 = 3, AO3 = 4, AO4 = 5

The demands of the question are:

- to demonstrate knowledge and understanding of risk (AO1)
- to apply this knowledge and understanding to the context of Finlay's Farm Ltd (AO2)
- to analyse how Finlay's Farm Ltd can reduce the risks it faces (AO3)
- to evaluate two ways Finlay's Farm Ltd can reduce the risks it faces and recommend which one to implement first (AO4).

Markers' guidance

- A Level 5 response will have clear recommendations on how the business can reduce risk.
- Accept any relevant ways of reducing risk.
- The judgement made will depend on the ways of reducing risks that are chosen. Accept any judgement that is supported. A judgement may be qualified.

Indicative content

- Risk refers to any event or circumstance that could negatively impact the operations of a business, its profitability, or its ability to achieve its goals. A business may try to mitigate risk in many ways such as a market research, succession planning and investment in IT systems to protect itself from hacking (AO1).
- Market research. For the risk of a change in market conditions, the business could undertake market research to understand its market and its customers better. By gathering information on the market and possible developments it can forecast potential changes. For example, it could estimate future sales using confidence intervals to forecast the future sales of ice cream or dairy products (AO1, AO2). This would then affect finance projections such as cashflow forecasts and budgets, and the business can adapt human resource and operations planning accordingly. If demand is declining, for example, the business may not replace staff who leave (AO3). However, Finlay's Farm Ltd will need to decide how to undertake this market research – can it afford primary market research for example, and, if not, is secondary research going to give enough specific insights? (AO4).
- Succession planning. If there is a risk of the founders, David and Wilma, retiring then there needs to be a succession plan (AO1, AO2). The business needs to identify the skills and experience required for effective leadership and then ensure that suitable training or recruitment plans are in place so that there is no gap if the founders leave. The current leaders set up the business and therefore will have a deep insight into how things work. Sufficient time needs to be left to train others or develop a suitable handover plan (AO2, AO3). However, whether the founders will want to do this could be debatable; founders sometimes fail to prepare for their departure because they don't want to think about it (AO4).
- Invest in systems to protect and back up IT data. This could protect against the loss of data if systems are hacked. Investment in protection might reduce the risks and threat of data being taken. Finlay's Farm Ltd will have customer and financial data that it may not want to be shared and made available publicly, for example, to competitors (AO1, AO2). It will also have consumer and supplier data which could be used to scam customers and hack their accounts. This might make the business legally liable and damage its brand image affecting the willingness of stakeholders to work with them in future (AO3). To protect its systems, Finlay's Farm Ltd may want to install firewall and backup systems (AO1). However, this can be expensive and IT systems are continually being

tested and stretched so it is likely to require ongoing investment to try and keep safe, and, even then, there remain risks given the skills of hackers (AO4).

Possible links to sophisticated concepts include:

Opportunity costs

Evaluation

- May have to decide which risk is greatest and focus on this. For example, if the founders have no immediate desire to retire, this may not be the priority. IT protection could probably be implemented relatively quickly and easily so perhaps focus on this and then look at some form of market research to understand market trends in dairy and ice cream. In deciding on what to prepare for, the business might consider the probability of an outcome occurring and the likely impact of it if it does as used in decision trees. (AO2, AO4).
- May not be able to protect against all risks, so it is a question of how to allocate resources best. The business may want to consider the opportunity costs of any action (AO4).

Credit all relevant knowledge, understanding, application, analysis and evaluation.

- 0 2** . **1** According to Porter's five forces model, bicycles create a substitute threat for cars.

Analyse **one** action that might be taken by the UK Government that might affect the strength of this substitute threat.

[6 marks]

AO1 = 2, AO2 = 2, AO3 = 2

The demands of the question are:

- to demonstrate knowledge and understanding of a substitute threat (AO1)
- to apply this knowledge and understanding to the given context (AO2)
- to analyse one action that might be taken by the UK government to affect the strength of this substitute threat (AO3)

Markers' guidance

- A Level 2 response will make a clear logical link between UK government action and the impact on the strength of the substitute threat in the context given. It could be to increase or decrease the strength of the threat.
- The response is likely to focus on the impact of government spending, taxation or legislation, but any relevant form of government action is creditworthy.

Indicative content

- The substitute threat refers to how easy it is to switch from one product to alternatives, for example, the ease of switching from cars to bicycles or to other forms of transport (AO1).
- If the government legislates to ban cars from certain routes or city centres this would limit the value that cars can provide as a means of transport whereas bicycles can continue to use these areas. (AO1, AO2). This would therefore increase the appeal of bicycles and make this a stronger substitute threat for cars (AO3).
- If the government invests to create cycle routes, this might create more roads where cycling becomes a possibility. This makes cycling a more realistic way of getting to work or other locations (AO1, AO2). This therefore increases strength of the substitute threat that cycles create relative to cars (AO3).
- If the government subsidises the purchase of bicycles (for example, to encourage people to be healthier), this will reduce the costs of cycling (AO1, AO2) and therefore make cycles a stronger substitute threat because they become more appealing/more affordable as a way of travelling (AO3).

Credit all relevant knowledge, understanding, application and analysis.

- 0 2** . **2** Analyse **one** reason why the size of bicycle retail chains might lead to a higher operating profit margin than small independent retailers.

[6 marks]

AO1 = 2, AO2 = 2, AO3 = 2

The demands of the question are:

- to demonstrate knowledge and understanding of an operating profit margin (AO1)
- to apply this knowledge and understanding to the context (AO2)
- to analyse one reason why bicycle retail chains, have higher operating profit margins than independent bicycle retailers (AO3)

Markers' guidance

A Level 2 response will make a clear, reasoned link between the size of a large national chain (compared to smaller, independent retailers) and operating profit margins.

Indicative content

- An operating profit margin measures operating profit relative to sales. It is a percentage. A high operating profit margin may be due to low unit costs relative to the price (AO1).
- National chains are larger and so are likely to experience economies of scale. For example, they may buy some types of bicycles in bulk and so benefit from lower unit costs (AO1, AO2). Lower unit costs will increase operating profit margins assuming that the price is unchanged (AO3).
- National chains may have access to more expertise and specialists. This can lead to lower unit costs and higher operating profit margins. For example, access to a digital marketing specialist may enable lower click-through costs than the £7.80 Farmoor Cycles is paying (AO1, AO2). With lower unit costs this increases the profit per sale and therefore increases the operating profit margin (AO3).
- National chains may have more brand recognition. Customers may trust the brand and be willing to pay more for a product because of the reassurance of the brand and for example, perhaps greater confidence in the quality of the product or after sales service (AO1, AO2). This might therefore enable higher prices which would increase operating profit margins assuming unit costs are the same (AO3).

Credit all relevant knowledge, understanding, application and analysis.

0 2 . 3 Assess whether Farmoor Cycles should invest in the new inventory system.

Calculate the average rate of return of investing in the inventory system to support your answer.

[9 marks]

AO1 = 2, AO2 = 2, AO3 = 2, AO4 = 3

The demands of the question are:

- to demonstrate knowledge and understanding of average rate of return (AO1)
- to apply this knowledge and understanding to the context (AO2)
- to analyse factors relevant to investing in the new inventory system (AO3)
- to evaluate whether to invest in the new inventory system (AO4)

Markers' guidance

- A correct calculation of the average rate of return alone would be awarded 4 marks – bottom of Level 2.
- A response which was solely based on the result of the average rate of return calculation, but which included some analysis and evaluation of this result could gain a maximum of 6 marks.
- The very top mark (9 marks) will make a clear, supported decision of whether to buy the new inventory system including a correct calculation of the average rate of return.
- Accept judgements either to purchase the new inventory system or not. Judgements may be qualified (for example, 'it depends on').

Calculation (AO1 and AO2)

Total net inflow = (£50 000) + (£20 000) + £20 000 + £40 000 + £50 000 = £40 000

Average return per year (£) = Total net inflow ÷ number of years = £40 000 ÷ 4 = £10 000 per year

Average Rate of Return (ARR) (%) = £10 000 ÷ £50 000 x 100 = 20%

The Average Rate of Return (ARR) on the inventory system is 20% per year

Indicative content

- The Average Rate of Return (ARR) measures the average net inflow per year as a % of the initial investment. A high rate of return makes an investment attractive (AO1).
- ARR is given by the equation:
(Average net inflow per year ÷ initial investment) x 100. It is a % (AO1).
- The ARR for this inventory system is significantly higher than is usually expected by the business (20% v 10%). (AO1, AO2). This is a large difference and therefore this investment should be appealing. This suggests the business might go ahead with the inventory system (AO3, AO4).
- Borrowing costs are expected to be 8% a year and so if Farmoor Cycles can borrow the money it can generate sufficient returns to meet these repayments and make a profit given that the 20% return exceeds the costs to borrow the money. This would make the investment financially viable and suggest the business should invest in it (AO3, AO4).
- However, there are 2 years of outflows, and it takes until year 4 before the business has paid off its outgoings. If there were concerns over the timings of payments the investment may not proceed (AO3, AO4).

Evaluation

- It is likely that the investment would be judged worthwhile. This is because the overall profitability is so much higher than is usually required and higher than the cost of borrowing (AO4).

- However, the figures presented are those of the supplier of the equipment. Farmoor Cycles should check these to be sure they are accurate; it is in the interest of the supplier to present favourable numbers and so they may be optimistic (AO4).
- It depends on whether the timings of payments is a concern; is the business happy to wait until year four to earn positive returns? (AO4).
- The returns show only 4 years of data; the impact of the investment may last longer, and this might mean the project is more attractive (AO4).

Credit all relevant knowledge, understanding, application, analysis and evaluation.

- 0 2** . **4** Assess whether Farmoor Cycles' stakeholders would be likely to oppose the business becoming a private limited company.

[9 marks]

AO1 = 2, AO2 = 2, AO3 = 2, AO4 = 3

The demands of the question are:

- to demonstrate knowledge and understanding of how stakeholders might react if the business became a private limited company (AO1)
- to apply knowledge and understanding of this to the context of Farmoor Cycles (AO2)
- to analyse factors relevant to stakeholders' reaction to the business becoming a private limited company (AO3)
- to evaluate whether the stakeholders of Farmoor Cycles might oppose the business becoming a private limited company (AO4).

Markers' guidance

- A Level 3 response will use the context of changing from a worker cooperative to a private limited company. A judgement does not need to relate to all stakeholder groups individually but is likely to compare and contrast one group that might oppose and a group that might not.
- Any response is accepted if supported.
- Any judgement may be qualified e.g. 'it depends on'.

Indicative content

- A private limited company is owned by shareholders. Becoming a private limited company may involve new investors and this may be opposed by the existing stakeholders. A stakeholder is an individual or group affected by the activities of the business. This can include employees, the local community, society as a whole and suppliers (AO1).
- At the moment, the business is a worker cooperative which means decisions will be taken by employees and they will take their own interests into account. At the same time the mission and values of the business suggest it wants to offer value for money for customers to encourage cycling and promote socially responsible behaviour. If the business became a private limited company, it would be owned by shareholders (AO1, AO2). The investors would be the owners but may not directly work in the business and may have different objectives. Therefore, Farmoor Cycles may switch to focus more on profit, and this may come at the expense of the interests of employees. Employees will not be involved as much in decision making (AO2, AO3). This means that some employees may oppose any suggested change to the business becoming a private limited company and vote against it (AO4). However, others may want the benefits of bringing in investors and welcome the financial rewards this might bring and therefore vote in favour of the change (AO4).
- Customers may not benefit if Farmoor Cycles places less focus on providing "affordable bicycles for cyclists of all kinds"; the desire to encourage cycle ownership may be replaced by a greater profit focus (AO1, AO2). This could lead to higher prices and generate a focus on the most profitable segments and types of bicycles (AO2, AO3). This means customers may oppose the proposal and could potentially boycott the business if they felt strongly enough (AO3). However, this depends. It is possible that a greater focus on profits leads to improved customer service and greater efficiency which could improve things for customers and therefore even if there was initially opposition this might fade away if the service got better (AO4). What is likely to matter is the service provided and value for money rather than the ownership structure. Most customers would have no idea, and it may have little influence on their purchasing decisions (AO4).
- Farmoor Cycles' desire to be socially responsible may mean that suppliers are treated well for example, they are kept informed and paid promptly (AO1 and AO2). Under new ownership there may be a greater focus on trying to bargain down the amount paid to suppliers and a greater desire to pay later to improve cashflow and therefore suppliers may suffer (AO3). Suppliers might therefore oppose the change (AO4). However, this depends on the approach and strategy of the

new owners. If, ultimately, the new owners make the business more successful than suppliers may benefit from more orders (AO4).

Evaluation

- Overall, it will depend on who the shareholders are and what their values are. It is possible that new investors might bring finance and experience which will help the business as a whole and therefore this may create more jobs, more orders for suppliers and more spending in the local community (AO4).
- In the short run employees may benefit from their income from the sale of the business and they may keep their jobs. Over time the new owners may make changes to staffing and personnel and there may be opposition (AO4). In general, there may be a difference between a short term and long-term reaction - certain stakeholders may or may not oppose given their perception of what the change would bring but then change their mind once the changes took effect (AO4).
- It will also depend on the stakeholder group being considered. Employees are likely to be worse off in the long run as it is no longer their business and so overall there may be more opposition. Shareholders as a stakeholder group did not exist before so they will be better off (AO4).

Credit all relevant knowledge, understanding, application, analysis and evaluation.

0 2 . **5** Farmoor Cycles wants to improve the performance of the business.

Evaluate **two** actions the business should take to improve its performance and recommend which **one** it should focus on first.

Use information from **Appendices C–G** to support your answer.

[15 marks]

AO1 = 3, AO2 = 3, AO3 = 4, AO4 = 5

The demands of the question are:

- to demonstrate knowledge and understanding of business performance (AO1)
- to apply this knowledge and understanding to the context of Farmoor Cycles (AO2)
- to analyse actions relevant to improving the performance of Farmoor Cycles (AO3)
- to evaluate two actions Farmoor Cycles should take to improve its performance and recommend which one to choose first (AO4).

Markers' guidance

- A Level 5 response will select two relevant actions given the context and data provided. It will evaluate these actions in relation to their impact on performance and make a clearly supported recommendation of which one should be focused on first.
- Any supported judgement on actions to be taken should be accepted.
- A recommendation may be qualified i.e. 'it depends on'.

Indicative content

- Improve marketing. Sales revenue is falling at a time when there is still some growth in the market. This fall in sales is contributing to falling profits (AO1, AO2). This could be linked to the marketing activities of the business. The business has been spending less on marketing which could be contributing to the fall in sales, not least because the industry average spending as a percentage of revenue is much higher. The business may not be as successful as rivals at raising its profile and making customers aware of its offering (AO3). This means an action that could be taken would be to increase spending in marketing activities to try and reverse the decline in sales (AO4). However, what will matter is how this marketing spend is used and whether the right groups are being targeted in the right way. Simply spending more does not guarantee an improvement in performance (AO4).
- How the marketing spending is being used is a concern. Farmoor spends a lower proportion of revenue on digital marketing than the industry average; linked to this may be the fact that its online sales are lower than the industry average (AO1, AO2). This is potentially a concern because the growth of online sales is expected to be much higher than store sales (AO2, AO4). The fact the business is paying so much per click relatively suggests that the quality of what is being done is also weak and this could lead to a low return on marketing spend (AO3). Overall, an action may be to spend more on digital sales and look to make this spending more effective for example, by better targeting to ensure better impact and returns (AO4).
- Review human resource management. The business seems to be spending far more of its revenue on employees than the industry average (AO2); this may be linked to the fact it has been a cooperative and therefore wants to share the rewards more generously with staff (AO2, AO3). However, this proportion is high and increasing at a time when revenue is falling; this is contributing to the fall in operating profit margin and profit. The business has also increased staffing levels despite falling revenues, it could therefore look to reduce the number of staff it has and/or the reward available to them (AO1, AO2, AO3). Actions may include reducing wage costs and/or employment levels (AO4). However, if the business remained a worker cooperative this would involve the employees themselves deciding to make these changes with a negative impact on themselves, so this is unlikely (AO2, AO4).

- Farmoor Cycles could look at its spending on training which has decreased recently. The business seems to have used the expertise of its staff as part of its approach to compete against the larger national chains (AO1, AO2). Lower spending on training may weaken its competitiveness as shown by the fall in the customer service rating (AO2, AO3). This means an action may be to increase spending on training (AO4). However, the business would want to measure the impact of this training on costs, quality and revenue to ensure it represents value for money (AO4).
- Improve finances. Cashflow has gone from positive £125 000 to negative £5 000 (AO1, AO2) This could be linked to the payment terms. The business offers longer payment terms to customers and pays suppliers more quickly. Receivables days are three times payables days. This could be linked to its desire to act socially responsibly – by offering customers longer to pay this may make it possible more people can buy bikes which is an aim of the business. By paying suppliers quickly this may help their cashflow which could be seen as responsible behaviour (AO2, AO3). Nevertheless, to improve cashflow the business may want to extend the time it takes to pay suppliers and reduce the time customers take to pay it (AO4). However, this may lose customers' goodwill and sales because it will affect the customers' cashflow and so may not be a desirable action (AO4). In terms of suppliers, FarmoorCycles may not want to upset them by taking longer to pay, and as an independent business it may not have much bargaining power and therefore this may not be a desirable or realistic action (AO4).

Possible links to sophisticated concepts include:

Return on marketing spend.

Evaluation

Overall, the marketing actions may seem more straightforward in that some of the human resource decisions would require employees to reduce their own rewards given that Farmoor Cycles is currently a worker cooperative. Whatever the ownership of the business, better marketing could lead to better returns for the owners and so this is likely to be a focus. A worker cooperative may deliberately be choosing high returns to employees; although greater spending on training should be reviewed if this independent store is to compete against the national chains which have been gaining market share. Therefore, it may be that marketing is an area to focus on first (AO2 and AO4). However other relevant arguments will be accepted.

Credit all relevant knowledge, understanding, application, analysis and evaluation.