



A-level BUSINESS 7138/1

Paper 1 Business 1

Mark scheme

Sample assessment materials

Version: 1.0

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 02.5). Any such fabricated data is not affiliated with, nor does it represent, any actual business or organisation.

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 candidate demonstrates knowledge of a relevant factor or concept, for example, risk taking is an entrepreneurial concept.

Understanding: a candidate 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. Students 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

Level	The learner will typically demonstrate	Marks
	<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) - 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>	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 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)	7–9

Level	The learner will typically demonstrate	Marks
	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>	
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
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 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.

0 1 . **1** Ben Francis has demonstrated several entrepreneurial characteristics in his career

Analyse how **one** of these entrepreneurial characteristics has contributed to the success of Gymshark Ltd.

[6 marks]

AO1 = 2, AO2 = 2, AO3 = 2

Demands of the question

- To demonstrate knowledge and understanding of how an entrepreneurial characteristic contributes to business success (AO1)
- To apply this knowledge and understanding to the context of Gymshark Ltd (AO2)
- To analyse how this entrepreneurial characteristic contributes to the success of Gymshark Ltd (AO3).

Markers' guidance

A Level 2 response will identify an entrepreneurial characteristic that can be supported by the context given and will provide a clear link between the characteristic selected and a measure of success of Gymshark Ltd, such as profit or sales.

Indicative content

- Entrepreneurial characteristics which can contribute to the success of a business are personal features of an entrepreneur such as being a risk taker to seize opportunities, hardworking to cope with the pressure and workload, passionate to get things done, innovative to create new products and ways of doing things (AO1).
- Ben Francis is a risk taker; he took the risk of dropping out of university to start Gymshark Ltd (AO1, AO2). This allowed him to dedicate his time and energy to building the brand, identifying a gap in the market, and therefore ultimately contributing to the company's success. Taking risks can be essential for innovation and seizing opportunities (AO3).
- Ben Francis is passionate about Gymshark Ltd, as shown by his willingness to invest his savings, learn to sew, and attend bodybuilding events to promote the brand (AO1, AO2). This passion helped sustain the business in its early stages and therefore raised brand awareness, which was crucial to its later success (AO2, AO3).

Credit all relevant knowledge, understanding, application and analysis.

0 1 . 2 Ben Francis wants to make the Gymshark Ltd brand as strong as Nike's.

Analyse **one** way in which having a brand as strong as Nike's could affect the price elasticity of demand for Gymshark Ltd's products.

[6 marks]

AO1 = 2, AO2 = 2, AO3 = 2

Demands of the question

- to demonstrate knowledge and understanding of how a brand might affect the price elasticity of demand (AO1)
- to apply this knowledge and understanding to the context of Gymshark Ltd (AO2)
- to analyse how a strong brand might affect the price elasticity of demand (AO3).

Markers' guidance

- A Level 2 response is likely to show understanding of how a strong brand, such as Nike, affects customers and demand. There will be a logical and accurate line of analysis from the strength of the brand to its impact on the value of the price elasticity of demand; it will clearly link the sensitivity of demand to changes in price.
- At Level 1 the analysis is unlikely to logically connect the strength of the brand to the impact on how sensitive demand is to price, for example, it may just focus on the impact on the level of sales or the popularity of the product.

Indicative content

- A strong brand is a product or service that is clearly distinguishable from competitors, usually through a logo or slogan and is one where customers are likely to be more loyal which could affect the sensitivity of demand to price (AO1).
- Building a strong brand such as Nike, which is worth billions and globally recognised, may mean that Gymshark Ltd has more loyal customers (AO1, AO2). Loyal customers are more likely to be prepared to pay higher prices and be less sensitive to price changes of a brand they trust, therefore meaning the price elasticity of demand is likely to become more inelastic (i.e. have a value of less than 1) (AO3).
- Gymshark Ltd operates in a competitive and fast-moving market. Even with a strong brand, its price elasticity of demand may remain relatively price elastic due to the presence of other strong competitors like Decathlon. This could, therefore, mean customers still respond to price changes despite brand strength (AO1, AO2, AO3).

Credit all relevant knowledge, understanding, application and analysis.

0 1 . 3 Assess whether increasing spending on influencers would lead to higher profits for Gymshark Ltd.

[9 marks]

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

Demands of the question

- to demonstrate knowledge and understanding of the advantages and disadvantages of using influencers (AO1)
- to apply this knowledge and understanding to the context of Gymshark Ltd (AO2)
- to analyse the case for and against Gymshark Ltd spending more on influencers (AO3)
- to evaluate whether spending more on influencers to promote Gymshark Ltd would increase profits (AO4).

Markers' guidance

- Level 3 responses must include a judgement on whether spending more on influencers would increase profits. This judgement may be qualified (for example, "it depends on...").
- To reach the top of Level 3 (9 marks), the judgement must directly address the impact on profits, not just weigh up the general pros and cons of using influencers.
- Responses may argue that spending more on influencers would either increase or decrease profits, provided the reasoning is logical and supported.

Indicative content

- An influencer is someone who can affect the purchasing decisions, opinions, or behaviours of others because of their relationship with their audience—especially on social media platforms. This can have a positive or negative effect on the sales of a business and its reputation and profits (AO1).
- Influencers can offer a high return on investment due to their reach and engagement levels (as shown in Appendix C) (AO1, AO2). If the cost of influencer marketing is low relative to the revenue it generates, this could increase profits (AO3).
- Gymshark Ltd can select influencers who align with its brand (such as sportspeople) which may resonate with its target market (AO1, AO2). This targeted approach could boost sales, and if revenue increases more than costs, profits will therefore rise (AO3).
- Ben Francis already has a large social media following. Instead of spending more on external influencers, Gymshark Ltd could leverage Ben's personal brand to promote products at a lower cost (AO1, AO2). This could lead to higher profits by reducing marketing expenses (AO3).
- There are risks associated with influencer marketing. If an influencer behaves inappropriately, it could damage Gymshark Ltd's brand image (AO1, AO2). This reputational risk could reduce sales and harm profits (AO3).

Evaluation

The use of influencers seems to fit well with the Gymshark brand, target audience and previous approach to non-traditional forms of promotion. These have worked to date suggesting further spending may make sense and could generate more profits (AO2, AO4). However, it would depend on the costs of the influencers relative to the impact on revenue. It would also depend on the selection of the influencers and how risks were controlled; if there were thorough systems to check any potential issues and strict legal clauses regarding behaviour, this might reduce concerns over what could go wrong and help ensure that spending more on marketing in this area generated a worthwhile profit (AO4).

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

- 0 1** . **4** Assess whether Gymshark Ltd's current ratio indicates that the business was in a strong financial position in 2024.

Calculate the current ratio for Gymshark in 2024 to support your answer.

Give your answer to two decimal places.

[9 marks]

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

Demands of the question

- to demonstrate knowledge and understanding of the current ratio as a measure of the financial position of a business (AO1)
- to apply this knowledge and understanding to calculate the current ratio for Gymshark Ltd in 2024 (AO2)
- to analyse the financial position of Gymshark Ltd in 2024 (AO3)
- to make a judgement on whether Gymshark Ltd was in a good financial position in 2024 (AO4).

Markers' guidance

- Typically, responses in Level 3 will feature a correct calculation with effective analysis stemming from it. We would expect to see a comparison between Gymshark Ltd's current ratio and the industry average. Evaluation could consider the context of the business situation before making an appropriate, well-supported recommendation. We might expect some consideration of the limitations of using the current ratio as a means of measuring the financial health of the business or the limitations of only looking at a relatively short period of time for the business.
- At Level 2 there may be some incorrect calculations (own figure rule) but relevant chain of reasoning stemming from this. Alternatively, the calculations may be accurate but with less developed analysis than that at Level 3. There may be some consideration of Gymshark Ltd's current ratio in relation to the industry average, but this is likely to be more limited than that at Level 3. Judgements are likely to have some reference to these calculations.
- Responses that feature a correct calculation, but no analysis or evaluation would be placed at the bottom of this level (4 marks).
- A response may argue that Gymshark Ltd was in a strong financial position or that it was not. A response may qualify any overall judgement made (for example, "it depends on").

Calculation (AO1 and AO2)

- Current assets = inventory + receivables + cash

$$\begin{array}{r} \pounds 74\,210 \\ + \pounds 13\,497 \\ + \pounds 54\,676 \\ = \pounds 142\,383 \end{array}$$
- Current liabilities = payables due within a year + other current liabilities

$$\begin{array}{r} \pounds 191\,478 \\ + \pounds 586 \\ = \pounds 192\,064 \end{array}$$
- Current ratio = current assets $\div$ current liabilities
- Current ratio = $\pounds 142\,383 \div \pounds 192\,064 = 0.74$

- If the correct numbers are selected but there is a mathematical error (for example, addition or division error) or if the wrong units are given, for example, £0.74 then this is an inaccurate calculation.
- If the wrong numbers are selected, this is not creditworthy as a calculation.
- A correct calculation demonstrates knowledge and understanding and application and would be awarded 4 marks (at the bottom of Level 2).
- An answer that is based solely on the current ratio calculation in isolation can gain a maximum of 6 marks.

Indicative content

- The current ratio is a measure of liquidity and is calculated using the equation: $(\text{current assets} \div \text{current liabilities})$. If the business is liquid this could contribute to a strong financial position (AO1).
- A low current ratio can suggest potential liquidity problems. A current ratio of 0.74 may cause concerns in terms of the ability of the business to pay its current liabilities. The ratio is lower than the UK clothing industry average which again suggests liquidity may be an issue (AO1, AO2). As a result, the business may need to sell assets, take out a loan, delay payables to over a year; these solutions each bring consequences such as interest payments or unhappy suppliers (AO3).

Evaluation

- The current ratio is lower than the average for the UK clothing industry suggesting a weak financial position (AO2, AO4).
- We do not have information on past years, competitors or the external environment to compare. Ideally, we would have these comparisons with other businesses, and an understanding of the strategy would help to place these numbers in context. The figures give an indication of financial position, but we would want to understand the reasons behind these figures (AO4).
- The comparison with the UK clothing industry may not be valid as Gymshark focuses on sports clothing not all clothing; also, the conditions and objectives of each business should be considered individually rather than assume this ratio should be the same as the UK clothing industry average (AO2, AO4).
- There are limitations of only using the current ratio to assess the financial position of a business because it only measures liquidity; a business may be liquid but not profitable and not generating a high return on capital employed (AO4).

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

0 1 . **5** Ben Francis has ambitious plans for Gymshark Ltd.

Evaluate **two** sources of external finance that Ben could use to fund these plans and recommend which **one** he should choose.

[15 marks]

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

Demands of the question

- to demonstrate knowledge and understanding of appropriate external sources of finance (AO1)
- to apply this knowledge and understanding to the context of Gymshark Ltd (AO2)
- to analyse two sources of raising external finance (AO3)
- to evaluate two sources of external finance Ben could choose to fund Gymshark Ltd's ambitious plans and recommend which one to choose (AO4).

Markers' guidance

- Do not credit internal finance.
- Appropriate sources of finance must be considered (overdraft for example is not appropriate to raise the amounts of finance required).
- Top-level responses will be firmly rooted in the context of ambitious plans.
- Learners may judge that a particular external source of finance is most effective for Gymshark Ltd provided that it is appropriate to the context.
- Allow any appropriate sources of external finance.

Indicative content

External sources of finance relevant to financing ambitious plans include loans, private equity, sale of shares. Loans have interest payments but no loss of control. Share issue and private equity involve loss of ownership but no interest (AO1).

Loans

- One advantage of using loans is that there is no loss of control, as lenders do not have voting rights and therefore cannot influence the direction of the business (AO1). When shares were previously sold, Ben retained 70% of them, which suggests maintaining control may be important for him (AO1, AO2) - this might be because giving up control could lead to decisions, such as in marketing, that conflict with his vision, as the founder, of what the brand represents (AO2, AO3). Choosing a bank loan would allow Ben to maintain control and therefore is the source of finance he should choose (AO3, AO4).
- The suitability of a loan also depends on the nature of the ambitious plans and the returns they are expected to generate (AO1, AO2). If the returns are high, the cost of borrowing may be justified because they can cover the costs (AO3). However, loans carry risk due to fixed interest payments, which must be made regardless of business performance (AO4).

Share capital

- There was demand last time Gymshark Ltd sold shares so there may be again if it goes public or issues more shares so this would help raise funds (AO1, AO2). If Gymshark's ambitious plans are convincing and compelling it may find it easy to raise the funds, especially given the apparent brand strength, and therefore this, initially is a cheap way of raising funds which does not incur interest payments (AO2, AO3).
- Issuing share capital involves a loss of control. There are no fixed repayments (AO1) but in a successful year shareholders may require high dividends which may be greater than the interest payments would be, and this therefore reduces the retained profits available, and this could mean less investment available for Gymshark Ltd, for example, to open more stores and implement its ambitious plans (AO2, AO3).

Private equity

- Using private equity could allow Gymshark Ltd to remain as a Ltd but Ben would need to sacrifice some ownership. This therefore means others have votes on what happens at the business (AO1, AO2). However, Ben could choose an investor or venture capital firm with experience in physical stores and/or the Asian market which might prove helpful. This might provide insight into issues in that market such as customer needs or competitors and therefore help Gymshark Ltd make better decisions and make less mistakes leading to better long-term rewards (AO2, AO3).
- The potential clash of objectives is an issue. Typically, private equity focuses on short term returns which, if Ben takes more of a long-term view, may clash with his objectives. For example, there may be less focus on training and investment for long term projects (AO1, AO2). This clash may mean that decisions are halted, and business opportunities are missed, and it may mean that it causes tension and people want to leave resulting in less effective staffing (AO3).

Possible links to sophisticated concepts (AO3) include

- Linking the fixed costs of interest payments to break-even output and margin of safety.
- Linking the impact of borrowing to the impact on financial ratios such as gearing and return on capital employed.
- Linking the involvement of more investors to the importance of such a group in terms of interest and power in a stakeholder mapping or disagreements between current and new owners using Kotter's resistance to change model.

Credit other examples of use of sophisticated concepts.

Evaluation

A key issue is likely to be linked to ownership and whether Ben and the current owners want to retain control. If so, do they have sufficient funds to invest in the business? If not, and they want to maintain control they might need to raise finance from loans which will incur interest charges. Whether this is attractive or not will depend on the interest charges involved; if these are high this will be less appealing as a source of finance (AO4).

If the current owners are willing to bring in new investors, they can make the business a public limited company or bring in a private equity investor. The Gymshark brand is doing well, so it is likely that shares would sell well and for a high price. Ben can control the proportion of the business he chooses to sell. However, it will depend on:

- the owners' willingness to do this which will also depend on the price they will get
- the objectives of the potential investors and whether the current owners are happy if this is different from their own objectives - how much of a clash will there be? (AO2, AO4)

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

- 0 2** . **1** Apple often sets a high price for its products, such as Vision Pro, compared to its competitors.

Analyse **one** way in which setting a high price might affect the revenue Apple earns from its products.

[6 marks]

AO1 = 2, AO2 = 2, AO3 = 2

The demands of the question are:

- to demonstrate knowledge and understanding of pricing and revenue (AO1)
- to apply this knowledge and understanding to Apple setting a high price for its products, such as Vision Pro (AO2)
- to analyse the impact of setting a high price on Apple's revenue (AO3).

Markers' guidance

A Level 2 response will clearly link setting a high price to the impact on revenue in the context of this product. A response may argue that revenue will increase, decrease or be unchanged.

Indicative content:

- Revenue measures the value of sales, i.e. price multiplied by quantity sold. Setting a high price leads to a high revenue per unit; the overall effect on revenue is linked to the level of sales (AO1).
- By setting a high price, Apple will earn more revenue on any item sold. If sales are high, then with a high price the revenue will also be high. Apple products such as Vision Pro, have a strong brand and often have technological advantages over competitors. This means that whilst competitors may be cheaper, they may not be perceived as good as Apple and so Apple sales may remain high. Given the technology and the brand, demand may be price inelastic and therefore a high price increases revenue. This is because demand is relatively insensitive to price (AO1, AO2, AO3).
- If the potential advantages of Apple are not perceived as important, or perhaps there are some design issues as with Vision Pro, then the high price may affect sales as customers choose alternatives such as Meta's product. This means that demand could be price elastic and therefore revenue may fall with a high price compared to a lower one (AO1, AO2, AO3).

Credit all relevant knowledge, understanding, application and analysis.

0 2 . **2** Apple's share price changed between September 2021 and September 2023 (Appendix E).

Analyse **one** factor that might have caused this change in share price.

[6 marks]

AO1 = 2, AO2 = 2, AO3 = 2

The demands of the question are:

- to demonstrate knowledge and understanding of factors influencing share prices (AO1)
- to apply this knowledge and understanding to the context of Apple and Appendix E (AO2)
- to analyse one factor that might have caused this change in share price between September 2021 and September 2023 (AO3).

Markers' guidance

A Level 2 response will clearly link the factor selected to the impact on the Apple's share price. It will show a good understanding of what determines a share price.

Indicative content:

- A share represents part ownership of a business. Share prices are determined by market forces of supply and demand (AO1).
- Apple's share price rose from \$142.65 per share to \$171.21 between September 2021 and September 2023. Shareholders buy shares for a dividend and because of future expected increase in price enabling them to be sold at a profit (AO1, AO2). The increase in price could be due to a rise in the demand for the shares. This could be linked to shareholders' views of future dividends or share price changes. They may have expectations that the profits for the company will grow as some commentators are optimistic of long-term sales, the business will be worth more and the share price will rise enabling it to be sold for even more in the future (AO3).
- Investment in new product development is higher in 2023 than 2021 and investors may think this will lead to successful products and higher profits in the future (AO1, AO2). This could increase demand for Apple's shares which could have increased the price because if demand is higher than supply it can pull up the price because of the high demand (AO3).

Credit all relevant knowledge, understanding, application and analysis.

- 0 2** . **3** Assess whether an increase in spending on market research could be profitable for Apple.

[9 marks]

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

The demands of the question are:

- to demonstrate knowledge and understanding of market research and how this might affect profit (AO1)
- to apply this knowledge and understanding to the context of Apple (AO2)
- to analyse spending on market research (AO3)
- to evaluate whether an increase in spending on market research is likely to be profitable for Apple (AO4).

Markers' guidance

A Level 3 response will make a well-supported judgement on when increased spending by Apple is likely to be profitable. This judgement may be qualified. For the very top of the level (9 marks), there must be a clear sense of there being an increase in its spending.

Indicative content

- Market research provides information which can be used to identify market opportunities, assess marketing plans and review their effectiveness. Market research involves the gathering and analysing of data relevant to the marketing process. This can lead to better decisions and therefore more profit but there are costs involved (AO1).
- Vision Pro has proven that Apple will not always know what consumers want. Increased spending on market research could have prevented its launch (AO1, AO2). This could end up being damaging to the brand and costing a lot of money in research and development and therefore reducing profits. Having the right information may enable the right marketing mix to be developed and therefore prevent losses being made (AO3).
- Apple has launched many successful products and may already have knowledge of what customers want (AO1, AO2). It has a database with a large amount of customer information, making any new market research potentially a waste of time as it may already have access to information to help make decisions around products etc. This means that increased spending on market research may be a waste of money and reduce profits from what they could have been (AO2, AO3).
- Apple operates in a very dynamic market. Market research takes time and therefore could slow down product launches and result in Apple being less successful (AO1, AO2). Apple may feel its products are anticipating what customers want but customers themselves may not know this yet, so the value of research may be limited. Apple is very innovative, and customers may indeed not know they want its products until they see them. This might suggest that market research would simply be a cost and may not help profits (AO1, AO2, AO3).

Evaluation

- Apple is experienced in the market and has so much data, there may not be a need to conduct any further market research. Market research could further add to the cost and reduce profits (AO2, AO4).
- However, current product launches show the need for Apple to find out the needs of its customers. Given the high spend on research and development, it is a costly mistake to make. Market research may identify profitable opportunities, lead to better, more effective marketing mix decisions and generate revenues which more than cover the costs of the research itself (AO2, AO4).
- It would depend on what the research was and how it was conducted. For example, if an unrepresentative sample of people participated this might be of limited value (AO4).

- On the other hand, a 'significant' increase in spending might suggest that the research will be extensive and could help lead to better marketing decisions and less waste. Done well, it might improve marketing outcomes and therefore generate a high return on investment and more profits for the business (AO4).

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

- 0 2** . **4** Assess whether a large investment in new product development is likely to increase Apple's market share.

[9 marks]

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

The demands of the question are:

- to demonstrate knowledge and understanding of new product development and its impact on market share (AO1)
- to apply this knowledge and understanding to the context of Apple (AO2)
- to analyse how investment in new product development might affect market share (AO3)
- to evaluate whether a high level of investment in new product development is essential to a large market share for Apple (AO4).

Markers' guidance

A Level 3 response will address whether a high level of investment will increase market share. For the top mark there must be a sense of 'market share' rather than just sales and whether this is 'essential' or not.

Indicative content:

- New product development involves investing in developing products. Market share measures the sales of a business relative to the total sales in the market. New product development might meet customer needs better and lead to more sales and market share (AO1).
- New product development is crucial to a business such as Apple which operates in such a dynamic market. Without new product development, there would be no new products to extend the sales and life of the business in the long run because product life cycles do have a decline phase. Products such as the iPhone represent one of Apple's top-selling products, but the product life cycle suggests the rate of growth of sales is slowing (AO1, AO2). Without new products, Apple may eventually see a fall in long-term sales and its share of the market. This could mean sales and market share fall (AO3).
- New products, such as new VR headsets will be launched by competitors such as Meta. If Apple does not invest in new product development, it may find itself falling behind competitors (AO1, AO2). This means it may miss out on emerging markets and or experience a declining market share in current markets as competitors develop improved versions of their products (AO3).
- Apple has a large product portfolio, and some products have had a long maturity stage, such as the iPhone, which seems to expect increasing sales, as shown in Appendix F (AO1, AO2). In this case the amount spent on new product development might not to be as high as it could be for a business that has products with shorter life cycles. Launching new products may reduce the sales of the existing ones which could have gone on for longer and whose life cycle could have been extended and therefore this might not increase market share (AO3).
- New product development is very expensive, as shown in Appendix D, (AO1, AO2) and for Apple it may be better to try and increase market share by extending the life of its existing products through advertising, price reductions etc at least in the short term. This is because it may be cheaper and generate higher short-term returns (AO3).

Evaluation

- If competitors are looking to launch a lot of new products, it would be advantageous for Apple to invest in new product development to remain competitive (AO4).
- New product development may not be essential to market share in the short term as Apple already has a large product portfolio of well-established products but at some point, improved products or new products will be required (AO2, AO4).

- It may be a question of how much investment in new product development Apple should undertake and how well this investment was used. Developing new products in any market, but especially in technology, is almost certainly essential in the long term, but it may be a question of the extent of investment required. The question refers to high levels of investment; this may indeed be necessary given the nature of the industry Apple is in, however, what also matters is how the money is used. Much investment in new product development is wasted as the products do not make it to launch or fail so the key is to use any investment well, not just spend more (AO2, AO4).

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

- 0 2** . **5** Appendix G shows market and financial data for launching the Vision Pro in two regions.

Evaluate whether Apple should launch the Vision Pro in Region A or Region B.

Calculate the return on investment in **Region B** in 2025 to support your answer.

[15 marks]

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

Demands of the question

- to demonstrate knowledge and understanding of relevant factors to choose which region to launch in, including return on investment (AO1)
- to apply this knowledge and understanding of relevant factors to the choice of region (AO2)
- to analyse factors influencing the choice of region to launch the product in (AO3)
- to evaluate which region to choose based on the return on investment and other factors (AO4).

Markers' guidance

- A response may argue that Apple should choose Region A or Region B. An overall judgement may be qualified.
- A correct calculation of the return investment is worth 4 marks.

Calculation for Region B (AO1 and AO2)

Operating profit = 22% of \$1500 million = \$330 million

Return on initial investment for 2025 = $(\$330 \text{ million} \div \$3000 \text{ million}) \times 100 = 11\%$

Indicative content

- The return on investment measures profit as a percentage of the investment required and, other factors being equal, the higher the return the more attractive an investment would be (AO1).
- The operating profit margin measures profit before interest and tax as a percentage of sales. The higher this is the greater the profit per sale and potentially the more attractive a market will be - although the size of the market should be considered to calculate the overall return (AO1).
- The income elasticity of demand measures the changes in quantity demanded in relation to income changes; this may affect how sales grow in the future and therefore the future market size and how attractive an investment is (AO1).
- The initial investment required to enter Region A is significantly less than Region B (\$1.2 billion v \$3 billion) (AO1 and AO2). A lower investment is a lower initial financial risk. This may be appealing if funds are limited although potentially slightly less of an issue for a business the scale of Apple (AO2, AO3).
- Although the market size of Region A is much smaller than Region B, the operating profit margin (profit per sale) is higher and the overall return in Region A is higher (14% v 11%) (AO1, AO2). This is because less is invested and so the relative return is higher [OFR for this analysis] and therefore may be more attractive (AO2, AO3).
- Region B has a bigger market size and so even with a slightly lower operating profit margin, the total operating profit in Region B is much greater (\$330 million v \$168 million) [OFR applies] (AO1, AO2). However, the rate of return is lower given the higher initial investment which may make this Region less attractive (AO2, AO3, AO4).
- The income elasticity of demand is higher in Region B (because it is elastic not inelastic) which means that demand is more sensitive to income changes (AO1, AO2); given that average income

growth is higher in Region B this means demand should grow faster in this region which might make it a more attractive long-term investment (other factors unchanged) (AO2, AO3).

Reference to sophisticated concepts may include:

- Reference to concept of risk and amount of risk Apple want to take with the initial investment.
- Reference to other methods of assessing an investment such as payback and net present value.
- Reference to Environmental, Social and Governance measures; Apple may not assess a region just on financial data.

Evaluation

- Region A is cheaper to enter and operating profit as a percentage of the initial investment is higher. If Apple was concerned about risking funds, Region A may be perceived as lower risk. Overall, Region A has a higher return on investment despite smaller sales due to higher operating profit margins and smaller initial investment. This may make this a more attractive region to launch at least in the short term (AO2, AO4).
- Region B has a higher absolute operating profit and seems to offer better long-term opportunities. Apple is likely to be entering a market for the long term and so the bigger Region B with more potential given the income growth and income elasticity of demand is likely to be more appealing (AO2, AO4).

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