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Unit 1: Business and Markets

Mark scheme

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

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

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How to mark

Aims

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

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

Approach

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

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

Assessment Objectives

This component requires students to:

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

The marking grids

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

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

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

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

Using the grids

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

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

Step 1 Determine a level

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

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

Step 2 Determine a mark

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

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

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

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

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

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

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

Annotating scripts

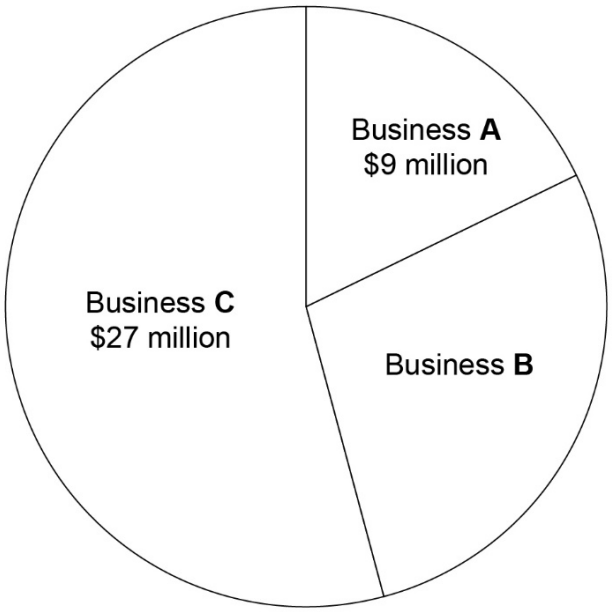
You should summarise your judgement briefly at the end of each response. This will help you decide on the overall level and is helpful for others to understand the mark given. Ensure the comments fit with the level awarded and the language of the level descriptors used in the mark scheme. Next to your comment put the level awarded, eg L4. Please do not write negative comments about students' work; this is unprofessional and it impedes a positive marking approach.

Section A **Total for this section: 17 marks**

Question	Part	Marking guidance	Total marks
1		Which **one** of the following types of business has making profit as its main objective? Answer key: B – Public limited company	**1** **AO1 = 1**

Question	Part	Marking guidance	Total marks
2		Which **one** of the following is a motivation for an entrepreneur to set up in business? Answer key: D – To gain independence	**1** **AO1 = 1**

Question	Part	Marking guidance	Total marks
3		Statement 1: opportunity cost refers to the value of all alternatives not chosen when making decisions. Statement 2: a business can increase efficiency if it increases its output using fewer resources. Choose **one** option. Answer key: B – Statement 1 is false and statement 2 is true.	**1** **AO1 = 1**

Question	Part	Marking guidance	Total marks
4		There are three businesses in a market. **Figure 1** shows the sales of these businesses. Total market sales are $50 million. **Figure 1**  Using **Figure 1**, calculate the market share of Business **B**. $14m/$50m × 100 = 28% or 28 (2) Sales of Business B = $50m – $27m – $9m = $14m or 14 (1) Market share = Sales of Business B/Market size × 100 (1) OFR applies	**2** **AO1 = 1** **AO2 = 1**

<table>
<tr><th>Question</th><th>Part</th><th>Marking guidance</th><th>Total marks</th></tr>
<tr><td>5</td><td></td><td>
Table 1 shows the predicted outcomes of launching a new product.

Table 1

<table>
<tr><td colspan="3">Cost of new product launch = $3.5 million</td></tr>
<tr><th>Outcome</th><th>Probability of outcome</th><th>Predicted extra sales (in $ million)</th></tr>
<tr><td>High success</td><td>0.3</td><td>12</td></tr>
<tr><td>Limited success</td><td>0.5</td><td>4</td></tr>
<tr><td>Failure</td><td>0.2</td><td>(2)</td></tr>
</table>

Using Table 1, calculate the predicted net gain of launching a new product in $ million.

$1.7m or 1.7 or $1.7 (3)

($12m × 0.3) + ($4m × 0.5) + (–$2m × 0.2) = $5.2m or 5.2 (2)

$3.6m + $2m –$0.4m = $5.2m or 5.2 (2)

$5.2m or 5.2 or $5.2 (2)

One error in expected value calculation less $3.5m (2)

Two errors in expected value calculation less $3.5m (1)

OFR applies
</td><td>3

AO1 = 1
AO2 = 2</td></tr>
</table>

Question	Part	Marking guidance	Total marks
6		Average incomes in a country are falling. Explain **one** reason why a coffee shop in this country may choose **not** to lower its prices. **Indicative content** • A coffee shop may not lower prices due to cost increases, such as higher wages of staff who work there or increases in the price of coffee beans or other overhead costs. Even though incomes are falling it may not lower prices as it may not cover these extra costs and would not be able to survive. • The coffee shop may target a market niche by, for example, offering speciality coffees not offered by other coffee shops. In this case, demand might be price inelastic meaning lower prices may not increase sales of the coffee shop. • The coffee shop may be a local business that is mainly unaffected by the fall in average incomes of the country as a whole. In this case, the decreasing prices may not affect the sales of the coffee shop. • The coffee shop may attract customers on the basis of factors other than selling prices, such as the environment of the coffee shop, the service offered to customers and loyalty programmes. This means that falling prices may not positively affect the sales and profit of the shop. • Price may not be reduced so to maintain brand image. Lower prices may be interpreted by consumers as lower quality. The coffee shop may want to preserve an image of a premium drinks or premium consumer service being offered by the staff in the coffee shop (eg superior knowledge of the coffee beans, etc.) and therefore want to maintain a higher price. Credit valid alternative content. **Good response (3 marks)** Explains one reason why a coffee shop might choose not to lower its prices in a country where average incomes are falling. **Reasonable response (2 marks)** Explains one reason why a business might choose not to lower its prices where average incomes are falling but not in the context of a coffee shop. **Limited response (1 mark)** Shows relevant knowledge of why a business might lower prices but with little or no explanation.	**3** **AO1 = 1** **AO2 = 2**

Question	Part	Marking guidance	Total marks
7		A business in the USA imports raw materials used in production. Explain **one** way this business may respond to a fall in the US Dollar ($) exchange rate. **Indicative content** • It may switch to a cheaper supplier. A fall in the exchange rate makes imports more expensive as it imports raw materials, it will see its input costs increase. • It may increase selling prices. This is because the cost of imported raw materials will rise after a fall in the exchange rate. It may raise their selling price to maintain its profit margins. • It may look to cut costs elsewhere in the business. If production costs rise due an increase in the cost of imports, it may want to save money elsewhere to maintain its profit margin/profits. Credit valid alternative content. **Good response (3 marks)** Explains one way a business that imports raw materials may respond when there is a fall in its exchange rate. **Reasonable response (2 marks)** Explains one way a business may be affected by a fall in the exchange rate. **Limited response (1 mark)** Shows relevant knowledge of exchange rates/imports.	**3** **AO1 = 1** **AO2 = 2**

Question	Part	Marking guidance	Total marks
8		Explain **one** use of big data for a business operating in a market with many competitors. **Indicative content** • Big data is the process of collecting or analysing large data sets to identify trends and patterns to be used in decision-making. • Having access to large amounts of information should make it easier for a business to understand its customers better. By analysing large amounts of data, the business can identify what customer preferences are and allow a business to personalise its products and other aspects of the service it provides. In a market with many other businesses, this may enable a business to maintain or improve its position in the market. • By being able to analyse large quantities of consumer data, a business should be able to design promotions, such as personalised offers for customers that are more closely tailored to what those individuals require (eg money off products that they regularly purchase). In a competitive market this makes it easier for a business to maintain or even increase its sales. • Large volumes of data should make the marketing research more useful. Qualitative data which cannot always be easily quantified and analysed will become easier to form judgements from if large amounts of data are used within the research. This will be important when trying to maintain a competitive edge over all the other businesses in the market. Credit valid alternative content. **Good response (3 marks)** Explains one use of big data for this business in the context of a market with many competitors. **Reasonable response (2 marks)** Explains one use of big data for this business but not in a context of a market with many competitors. **Limited response (1 mark)** Shows knowledge of big data, such as a definition.	**3** **AO1 = 1** **AO2 = 2**

Section B **Total for this section: 27 marks**

Question	Part	Marking guidance	Total marks
9		A business sells innovative consumer goods. Analyse **one** advantage and **one** disadvantage to this business of only selling online.	**9** **AO1 = 3** **AO2 = 3** **AO3 = 3**

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

Level	Marks	Descriptor
3	7 – 9	**A good response that focuses on many of the demands of the question** • includes well-focused analysis with logical chains of reasoning • includes well-focused application to the given context • shows sound knowledge and understanding of business terminology and concepts with few, if any, errors • is well-structured.
2	4 – 6	**A reasonable response which focuses on some of the demands of the question** • includes reasonable analysis but the analysis might not be fully developed or may lack some accuracy in places • includes reasonable application to the given context • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of business terminology and concepts but some weaknesses may be present.
1	1 – 3	**A limited response that has little focus on the demands of the question** A limited response with some understanding that may: • include some limited analysis but lacks focus and development • include some limited application to the given context • include some limited knowledge and understanding of business terminology and concepts but some errors are likely.
	0	**No credit worthy material.**

The demands of the question are:

- analyse **one** advantage and **one** disadvantage of only selling directly to consumers online,
- for a business that produces and sells,
- in a market for innovative consumer goods.

Indicative content

Advantages:

- There are cost savings for the business as it will not need to invest in the physical premises to act as retail stores. There will also be cost savings in staffing these stores. Often the price or rental charges for retail property can be very expensive if they are in prime locations to attract consumers. This may be especially important if the business needs to devote more of its budget to innovative products which may be more expensive to develop.
- The profit margin may be higher by avoiding the use of an intermediary, such as a retailer, when selling goods. Selling products through a retailer may mean that the retailer will keep revenue from the sale for itself, thus reducing the profit earned on each product sold. Innovative products are more likely to have price inelastic demand and this means there is less of a need for price reductions to generate sales, thus keeping the profit margin high.
- A business is not limited in geographical sales by where its outlets are as online sales are not tied down to a particular area. This means that there is the potential for higher sales due to the wide market coverage. Innovative products may have a lower demand and this means wide market coverage is desirable.
- Innovative goods are less likely to be bought on impulse and are more likely to be researched before a purchase is made. This means that there is less of a need for a shop to be used for the place where the sale is made.

Disadvantages:

- For innovative products, it is more likely that the consumer will want to see the product in person and, perhaps, in action. This is not as easy to do if the sales are only online. Being able to visit a store and see the product for closer inspection may be more important for this business.
- Innovative products may be more likely to need technical advice and in-store staff can answer questions from potential consumers about the product. This would not be possible if sales were only available online.
- It may be harder to develop a brand or a strong image for the product that helps sales if the product is only sold online. Other aspects of the marketing mix, such as the physical environment, may matter more. For an innovative product the layout of a store may help enhance the product's experience and help to generate sales.
- A business will have to spend money on developing a functioning website and sales portal. It will also need to consider how the products are to be distributed – is it going to use a third-party delivery company or do the deliveries itself. Although this may be cheaper than having a store. The need for technically skilled staff to manage the online aspect may generate a considerable cost which is problematic given the need to fund new product launches.

Credit valid alternative content.

Question	Part	Marking guidance	Total marks
10		A business sells machinery in the business-to-business market. Analyse **one** advantage and **one** disadvantage of this business using exhibitions as part of the promotional mix.	**9** **AO1 = 3** **AO2 = 3** **AO3 = 3**

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

Level	Marks	Descriptor
3	**7 – 9**	**A good response that focuses on many of the demands of the question** • includes well-focused analysis with logical chains of reasoning • includes well-focused application to the given context • shows sound knowledge and understanding of business terminology and concepts with few, if any, errors • is well-structured.
2	**4 – 6**	**A reasonable response which focuses on some of the demands of the question** • includes reasonable analysis but the analysis might not be fully developed or may lack some accuracy in places • includes reasonable application to the given context • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of business terminology and concepts but some weaknesses may be present.
1	**1 – 3**	**A limited response that has little focus on the demands of the question** A limited response with some understanding that may: • include some limited analysis but lacks focus and development • include some limited application to the given context • include some limited knowledge and understanding of business terminology and concepts but some errors are likely.
	0	**No credit worthy material.**

The demands of the question are:

- analyse **one** advantage and **one** disadvantage of using exhibitions as the main part of the promotional mix,
- for a business selling machinery,
- in the business-to-business market.

Indicative content

Advantages:

- Exhibitions are a method of promotion for the business where the product is presented as part of an industry exhibition (or trade fair). This would be visited by potential customers involved in the industry itself as other businesses and potential customers.
- An exhibition allows customers to see the equipment in action. This will be useful as potential customers and other businesses can see how the equipment functions and the various features of the equipment. This would not easily be possible using advertising or other forms of promotion. Given their customers are other businesses, an exhibition would be targeted at only those who are connected with the industry and the market itself. This should increase the chances of making sales.
- Appearing at an exhibition will allow customers to ask questions about the equipment. These may be questions businesses have so that they can make informed judgements on buying the equipment. Equipment is more likely to be high priced and not a regular purchase. Those purchasing the equipment are likely to need to gather as much information as possible about the equipment before purchasing it. Therefore exhibitions are more appropriate.
- Closer links can be made with current and potential future customers at the exhibitions. People from the business can meet with these and form good relations. In some sense this is a form of relationship marketing. This personal contact is possible with other methods of promotion but exhibitions are more likely to be attended by the other businesses that will be their future customers so it is more likely there will be the concentration of customers present.

Disadvantages:

- There is no guarantee that the exhibition will be well attended. This means there is no guarantee that customers are present at the exhibition. As a business-to-business market, there are likely to be fewer customers in total, therefore a reduction in the number present could lead to a significant lack of sales made. The revenue generated from each piece of equipment sold could be a significant amount of money for the business.
- The business may need to travel extensively to attend exhibitions. There may be exhibitions in multiple locations which means that the business may find it hard to generate sales unless it attends all/majority of these exhibitions to generate sales.
- The business will need to have fully trained staff available for attending these exhibitions. Staff in attendance will need to be capable of explaining how the equipment works and the various features of the equipment to potential customers. This could be time-consuming and also expensive.

Credit valid alternative content.

Question	Part	Marking guidance	Total marks
11		Businesses operating in a market now face a significant increase in competition. Analyse **one** advantage and **one** disadvantage of being a large business in this market.	**9** **AO1 = 3** **AO2 = 3** **AO3 = 3**

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

Level	Marks	Descriptor
3	**7 – 9**	**A good response that focuses on many of the demands of the question** • includes well-focused analysis with logical chains of reasoning • includes well-focused application to the given context • shows sound knowledge and understanding of business terminology and concepts with few, if any, errors • is well-structured.
2	**4 – 6**	**A reasonable response which focuses on some of the demands of the question** • includes reasonable analysis but the analysis might not be fully developed or may lack some accuracy in places • includes reasonable application to the given context • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of business terminology and concepts but some weaknesses may be present.
1	**1 – 3**	**A limited response that has little focus on the demands of the question** A limited response with some understanding that may: • include some limited analysis but lacks focus and development • include some limited application to the given context • include some limited knowledge and understanding of business terminology and concepts but some errors are likely.
	0	**No credit worthy material.**

The demands of the question are:

- analyse **one** advantage and **one** disadvantage,
- of being a large business,
- in a market facing a significant increase in competition.

Indicative content

Advantages:

- A large business is one that has a large number of workers, larger value of sales or large market share.
- A large business should be able to benefit from economies of scale. For example, a large business may be able to benefit from bulk buying discounts due to buying in large quantities. Average costs will be lower if the business benefits from economies of scale. This will let the business be more competitive in the market. If it faces a lot more competition, then being able to offer a lower price to consumers should prove an advantage as some of the new businesses may have lower costs.
- Large businesses should have more resources and should be able to use these to build up a strong brand identity. Brand loyalty and brand recognition are important factors for businesses when competing against others. If the competition can offer lower prices that the large businesses cannot match, the strength of the business brand may help the business maintain sales.
- Larger businesses are more likely to have a large workforce. This makes it more likely that the businesses have workers that can specialise in various tasks. This level of specialisation should either increase productivity or allow a business to produce higher quality output. In each case, this should make it easier for the business to compete with the significant increase in competition as it will become harder to stand out if there are lots of new competitors.

Disadvantages:

- Larger businesses may be slower to react to changes in the market place. Having large hierarchies is more likely in a larger business. This makes it slower to make decisions and make changes. With a significant increase in competition, the business may need to change more quickly in response to the threat from these new businesses.
- Diseconomies of scale are more likely to occur with larger businesses. These diseconomies could come from lower worker motivation, or slower communication, or increased spending on administration. In these cases, the average cost of production will rise due to the large size of output from the business. As a result, the business may find it harder to compete with the increased competition.
- It may be harder to offer a specific need or personalised product in a market. Large businesses may have a less close relationship with their target audience. With increased competition, not being offer the specific requirements of a market may lead to reduced sales – especially if there is plenty of competition that can focus on specific requirements of customers.

Credit valid alternative content.

Section C **Total for this section: 36 marks**

Question	Part	Marking guidance	Total marks
12		A business wants to target new market segments with a new product. It will mainly use primary marketing research for developing this product. Is mainly using primary marketing research a good idea for this business? Assess the arguments for and against and make a judgement.	**12** **AO1 = 2** **AO2 = 2** **AO3 = 3** **AO4 = 5**

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

Level	Marks	Descriptor
4	**10 – 12**	**An excellent response that focuses fully on the demands of the question** Likely to demonstrate sound, focused analysis and well-supported evaluation: • includes supported evaluation in a final conclusion and within response • includes well-focused analysis with clear, logical chains of reasoning • includes well-focused application to the given context • shows sound knowledge and understanding of business terminology and with few, if any, errors • is well-structured and well-focused on the question. A complete and coherent overall argument with a clear conclusion. The conclusion is arrived at through a balancing of arguments, with appropriate weight given to each argument and to the argument overall. Where there are crucial arguments, these are distinguished from less crucial ones.
3	**7 – 9**	**A good response that focuses on many of the demands of the question** Likely to demonstrate sound, focused analysis and some supported evaluation: • includes some reasonable, supported evaluation • includes analysis with some logical chains of reasoning • includes some good application to the given context • shows sound knowledge and understanding of business terminology and concepts with relatively few errors • is relatively well-structured and generally focused on the question. A relatively complete and coherent argument leading to an attempt to conclude. The content is detailed and correct and most of it is integrated. There is recognition of arguments and counter-arguments, but balance is not

		always present and the weight to be given to each argument is not always fully clear.
2	**4 – 6**	**A reasonable response which focuses on some of the demands of the question** Some reasonable analysis but generally unsupported evaluation: • there is likely to be some attempt to make relevant evaluation but this has little support from arguments or does not address the question as a whole • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes reasonable application to the given context • shows satisfactory knowledge and understanding of business terminology and concepts but some weaknesses may be present. There is an attempt to answer the question. There is likely to be a conclusion but it has little support and response may lack balance. The content is largely correct, though there may be some gaps and lack of detail.
1	**1 – 3**	**A limited response that has little focus on the demands of the question** A limited response with some understanding: • includes no evaluation or attempts evaluation but this is unsupported • includes some limited analysis but it may lack focus and/or become confused • includes some limited application to the given context • includes some limited knowledge and understanding of business terminology and concepts but errors are likely.
	0	**No credit worthy material.**

The demands of the question are:

- analyse the benefits and drawbacks of primary marketing research,
- for a business wanting to target new market segments,
- with a new product,
- and to make a judgement on whether mainly using primary marketing research is a good idea.

Indicative content

Arguments for:

- Primary marketing research is collected first-hand by the business itself (or commissioned by the business). It is specific to the needs of the business.
- Primary marketing research should be the most up-to-date research available. It is completed at the time of its need and therefore should reflect the latest trends and data from the market. A business wanting to sell new products stands a greater chance of success if the research is up to date. This is especially true in a new market than other markets and having up-to-date information is more important.
- Primary marketing research will be specific to the needs of the business. Given it is the business conducting the research it can ensure that the research covers the information that is required for the launch of a new product. New products are less likely to have existing marketing information already collected about them.
- If they are aiming a new product at new market segments then it is riskier than selling to their existing markets. This means it is important that the research is as reliable as possible. Primary marketing research is more likely to be appropriate in this case.

Arguments against:

- Primary marketing research is more likely to be expensive compared with other forms of research. Secondary research is more likely to be free and more widely available for business use. Launching new products can be very expensive and this means the business may need to save costs elsewhere. Using secondary marketing research allows greater scope for reducing expenses.
- Primary marketing research will normally take longer to collect than other forms of research. This is because it is more time consuming to have to first design, to collect and then to analyse the findings from the research. With secondary marketing research, the data has already been collected which will save time. With a new product being launched, it may matter that the process of researching the market does not take too long so that any competitive advantage can be maintained.

Potential judgement:

- The cost of the research may be a deciding factor. If the business has limited funds then it may have to focus more on secondary research.
- It will depend on how different the new product is to ones that exist – is it radically different from existing products or not? The more different it is, the more likely primary research is preferable to secondary.
- Businesses are likely to use a mix of primary and secondary marketing research in reality. For a new product and new market segments it would be very likely that some primary marketing research will be needed. However, some secondary research is likely to be used at the same time – such as an analysis of the market by size, age, shopping habits, incomes etc.
- It may be difficult to rely on primary marketing research as, with new products and new market segments, the information may not be as reliable given the situation is dealing with two unknowns.

Credit valid alternative content.

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

Question	Part	Marking guidance	Total marks
13		A UK luxury goods retailer sells only in the UK market. The directors think it should target international markets to increase profits. Is this a good idea? Assess the arguments for and against and make a judgement.	**12** **AO1 = 2** **AO2 = 2** **AO3 = 3** **AO4 = 5**

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

Level	Marks	Descriptor
4	10 – 12	**An excellent response that focuses fully on the demands of the question** Likely to demonstrate sound, focused analysis and well-supported evaluation: • includes supported evaluation in a final conclusion and within response • includes well-focused analysis with clear, logical chains of reasoning • includes well-focused application to the given context • shows sound knowledge and understanding of business terminology and with few, if any, errors • is well-structured and well-focused on the question. A complete and coherent overall argument with a clear conclusion. The conclusion is arrived at through a balancing of arguments, with appropriate weight given to each argument and to the argument overall. Where there are crucial arguments, these are distinguished from less crucial ones.
3	7 – 9	**A good response that focuses on many of the demands of the question** Likely to demonstrate sound, focused analysis and some supported evaluation: • includes some reasonable, supported evaluation • includes analysis with some logical chains of reasoning • includes some good application to the given context • shows sound knowledge and understanding of business terminology and concepts with relatively few errors • is relatively well-structured and generally focused on the question. A relatively complete and coherent argument leading to an attempt to conclude. The content is detailed and correct and most of it is integrated. There is recognition of arguments and counter-arguments, but balance is not always present and the weight to be given to each argument is not always fully clear.

2	**4 – 6**	**A reasonable response which focuses on some of the demands of the question** Some reasonable analysis but generally unsupported evaluation: • there is likely to be some attempt to make relevant evaluation but this has little support from arguments or does not address the question as a whole • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes reasonable application to the given context • shows satisfactory knowledge and understanding of business terminology and concepts but some weaknesses may be present. There is an attempt to answer the question. There is likely to be a conclusion but it has little support and response may lack balance. The content is largely correct, though there may be some gaps and lack of detail.
1	**1 – 3**	**A limited response that has little focus on the demands of the question** A limited response with some understanding: • includes no evaluation or attempts evaluation but this is unsupported • includes some limited analysis but it may lack focus and/or become confused • includes some limited application to the given context • includes some limited knowledge and understanding of business terminology and concepts but errors are likely.
	0	**No credit worthy material.**

The demands of the question are:

- analyse the arguments for and against targeting international markets,
- for a luxury goods retailer,
- wanting to increase profits,
- and make a judgement as to whether targeting international markets is a good idea.

Indicative content

Arguments for:

- Selling in more markets increases the potential for more sales and (hopefully) more profits. Luxury goods are normally sold for higher profit margin or higher selling price which means increasing sales should lead to increased profits overall.
- The UK market for luxury goods is more likely to have a smaller number of consumers than the mass market, which means that profits may be difficult to increase if relying on that market alone. Targeting international markets is a valid way of increasing the potential market size and potential profits of the business.
- If international markets have large numbers of consumer/consumers with higher incomes, then targeting these markets with luxury goods is likely to be an effective way of increasing profits.
- Targeting a larger overall market for sales may mean that the business can benefit from economies of scale. This will mean average costs fall and profit per item sold increases – leading to increased profits overall.

Arguments against:

- If the international markets have established businesses already providing similar types of luxury goods then it may be difficult to break into the markets. Penetration pricing may not be applicable as a method of gaining market entry given luxury goods are normally sold for a premium price.
- Wanting to increase profits may be connected to an issue with the product itself (eg end of its product life cycle, changes in tastes, fashions and preferences) which may mean that targeting international markets does not lead to any significant increase in sales and profits.
- There are likely to be increased costs involved in targeting international markets. These extra costs may be both expected (eg transport costs, extra marketing costs) or unexpected costs (eg exchange rate movements). This means the ability to increase profits may not exist. For a luxury retailer there are likely to be significant costs of marketing the products if entering new markets.
- Luxury products may be more likely to be designed for a particular market. This means there may be more chance of the product not being successful in new markets. In international markets the differences in tastes and preferences may be more significant than targeting a new market segment in the UK. As a result, it may be difficult to increase profits by targeting international markets.

Potential judgement:

- The overall effect on profits will depend on the likely costs and revenues generated from entering new markets.
- Targeting international markets is likely to generate extra costs in the short term, especially with the marketing of luxury products. This means it is less likely to generate profits initially. However, if successful, the new markets may generate profits (given the high price likely to be charged for the products).
- If the domestic market has reached saturation point or is in decline then new customers from new markets would be a way of increasing profits. For a retailer of luxury goods, it may be difficult to get existing customers to simply buy more of the same product.
- The ability to increase profits may depend on how similar the international markets are to the UK.

Credit valid alternative content.

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

Question	Part	Marking guidance	Total marks
14		Sales have fallen in a market over recent years. The directors of a public limited company in this market want to reduce dividend payments. Is this a good idea? Assess the arguments for and against and make a judgement.	**12** **AO1 = 2** **AO2 = 2** **AO3 = 3** **AO4 = 5**

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

Level	Marks	Descriptor
4	**10 – 12**	**An excellent response that focuses fully on the demands of the question** Likely to demonstrate sound, focused analysis and well-supported evaluation: • includes supported evaluation in a final conclusion and within response • includes well-focused analysis with clear, logical chains of reasoning • includes well-focused application to the given context • shows sound knowledge and understanding of business terminology and with few, if any, errors • is well-structured and well-focused on the question. A complete and coherent overall argument with a clear conclusion. The conclusion is arrived at through a balancing of arguments, with appropriate weight given to each argument and to the argument overall. Where there are crucial arguments, these are distinguished from less crucial ones.
3	**7 – 9**	**A good response that focuses on many of the demands of the question** Likely to demonstrate sound, focused analysis and some supported evaluation: • includes some reasonable, supported evaluation • includes analysis with some logical chains of reasoning • includes some good application to the given context • shows sound knowledge and understanding of business terminology and concepts with relatively few errors • is relatively well-structured and generally focused on the question. A relatively complete and coherent argument leading to an attempt to conclude. The content is detailed and correct and most of it is integrated. There is recognition of arguments and counter-arguments, but balance is not always present and the weight to be given to each argument is not always fully clear.

2	**4 – 6**	**A reasonable response which focuses on some of the demands of the question** Some reasonable analysis but generally unsupported evaluation: • there is likely to be some attempt to make relevant evaluation but this has little support from arguments or does not address the question as a whole • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes reasonable application to the given context • shows satisfactory knowledge and understanding of business terminology and concepts but some weaknesses may be present. There is an attempt to answer the question. There is likely to be a conclusion but it has little support and response may lack balance. The content is largely correct, though there may be some gaps and lack of detail.
1	**1 – 3**	**A limited response that has little focus on the demands of the question** A limited response with some understanding: • includes no evaluation or attempts evaluation but this is unsupported • includes some limited analysis but it may lack focus and/or become confused • includes some limited application to the given context • includes some limited knowledge and understanding of business terminology and concepts but errors are likely.
	0	**No credit worthy material.**

The demands of the question are:

- analyse the arguments for and against reducing dividend payments,
- in a market where sales are falling,
- for a public limited company,
- and make a judgement as whether reducing dividend payments is a good idea.

Indicative content

Arguments for:

- If sales in the market are falling then it is possible that profits will fall in size as well. In this case, there is less likely to be the same amount available for distribution as dividends. In this case, cutting dividend payments would be appropriate given the business has lower levels of profit available for shareholders.
- Reducing dividend payments will mean more profits can be kept and reinvested back into the business. Using retained profits as a source of finance is less expensive compared with external sources of finance which may require interest payments. Given market sales are falling, the business may be looking to save money and relying more on retained profits for finance may be a more cost-effective solution for financial problems that may be faced if the market growth rate remains negative.
- Shareholders are likely to understand why the dividends have been reduced. If sales are falling in the market then they may understand that the business cannot afford to maintain previous dividend payments. If other businesses are also cutting their dividend payments it would not be as hard for the shareholders of the business to accept.

Arguments against:

- Reducing dividend payments will risk generating conflict with shareholders. Shareholders usually buy shares in plcs to increase their returns in the form of capital gains or dividend payments. If these lead to shareholders becoming unhappy they may sell their shares which could lead to the market capitalisation falling. This may make the business more susceptible to a takeover. This may be more likely in a market where sales are falling, where businesses are looking to consolidate.
- Shareholders purchase shares in a plc based on the potential for returns such as from dividends. If the company is likely to issue more shares in the future, this is less likely to be successful if the business has a record of cutting dividend payments. A share issue of a plc may be difficult in the future if the market size is falling but this would be made worse by the company cutting dividend payments.
- Shareholders are one of the stakeholders of the business. If they are not happy then there could be conflict. This could lead to disagreement with the directors and managers at the annual general meetings. This conflict could provide a distraction which, given the falling sales in the market, may waste time with conflict between stakeholder groups when this time could be better used focusing on the approach to take with the market decline in sales.

Potential judgement:

- Cutting dividends in a market with falling sales is probably not a bad idea, as long as the business can justify the need for the cut – if profits have not fallen then it would be harder for shareholders to accept a falling dividend payment.
- Cutting them, but by a smaller amount than other businesses, may be a good idea as it will reduce the risk of conflict with the shareholders.
- The effect on profits would need to be known before we could provide a definitive answer as to whether it is a good or bad idea.

Credit valid alternative content.

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

Assessment Objective Grid

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