

## **GCE**

### **New Business**

#### **H031/01: The local business environment**

Advanced Subsidiary GCE

#### **2020 Mark Scheme (DRAFT)**

This is a DRAFT mark scheme. It has not been used for marking as this paper did not receive any entries in the series it was scheduled for. It is therefore possible that not all valid approaches to a question may be captured in this version. You should give credit to such responses when marking learner's work.

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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## 1. Annotations

	Blank page
	Tick
	Cross
	Highlighting tool
	Not answered question
	Own Figure Rule
	Benefit of Doubt
	Repeat
	Noted but no credit given
	Too vague/No use of context
	Unclear
	Knowledge
	Application of knowledge and understanding
	Analysis
	Developed Analysis
	Evaluation
	Effective evaluation

**EVERY PAGE, INCLUDING BLANK PAGES (use the BP annotation), MUST HAVE SOME ANNOTATION**

Please ensure that, wherever possible, annotations are placed in the margins and not over the candidate's answer. This makes it very difficult to read when the paper is printed out in black & white.

**[Questions 1-15 should ONLY be annotated with ticks, crosses or NAQ. Questions 16, 17, 18, 20 & 21 should be annotated with ticks, crosses, BOD, REP, TV, OFR, NAQ or ?. The number of ticks plus OFR MUST match the final mark awarded for that question. Ticks MUST NOT be used in Questions 19 & 22.]**

**IT IS VITAL THAT YOU SHOW AS MUCH ANNOTATION ON EACH PAGE AS POSSIBLE. IN PARTICULAR, WHERE AOs ARE REACHED, SO THAT YOUR TEAM LEADER CAN LOOK TO AGREE WITH YOUR FINAL MARK.**

## **Subject-specific Marking Instructions**

### **INTRODUCTION**

Your first task as an Examiner is to become thoroughly familiar with the material on which the examination depends. This material includes:

- the specification, especially the assessment objectives
- the question paper and its rubrics
- the mark scheme.

You should ensure that you have copies of these materials.

You should ensure also that you are familiar with the administrative procedures related to the marking process. These are set out in the OCR booklet **Instructions for Examiners**. If you are examining for the first time, please read carefully **Appendix 5 Introduction to Script Marking: Notes for New Examiners**.

Please ask for help or guidance whenever you need it. Your first point of contact is your Team Leader.

## Levels of response – Level descriptors

	<b>Knowledge and understanding/ Application</b>	<b>Analysis</b>	<b>Evaluation</b>
<b>Strong</b>		An explanation of causes and consequences, fully developing the links in the chain of argument.	A conclusion is drawn weighing up both sides, and reaches a supported judgement.
<b>Good</b>	Precision in the use of the terms in the question and applied in a focused way to the context of the question.	An explanation of causes and consequences, developing most of the links in the chain of argument.	A conclusion is drawn weighing up both sides, but without reaching a supported judgement.
<b>Reasonable</b>	Awareness of the meaning of the terms in the question and applied to the context of the question.	An explanation of causes and consequences, which omit some key links in the chain of argument.	Some attempt to come to a conclusion, which shows some recognition of the influencing factors.
<b>Limited</b>	Awareness of the meaning of the terms in the question.	Simple statement(s) of cause and consequence.	An unsupported assertion.

Candidates will be awarded marks for the demonstration of each skill (Knowledge and Understanding/Application/Analysis/Evaluation) according to the level (Strong/Good/Reasonable/Limited) seen. Their overall mark for Levels of Response questions will comprise the total of these four marks.

The descriptions in each levels of response question in this mark scheme describe a typical response at the top of that level.

## USING THE MARK SCHEME

Please study this Mark Scheme carefully. The Mark Scheme is an integral part of the process that begins with the setting of the question paper and ends with the awarding of grades. Question papers and Mark Schemes are developed in association with each other so that issues of differentiation and positive achievement can be addressed from the very start.

This Mark Scheme is a working document; it is not exhaustive; it does not provide 'correct' answers. The Mark Scheme can only provide 'best guesses' about how the question will work out, and it is subject to revision after we have looked at a wide range of scripts.

The Examiners' Standardisation Meeting will ensure that the Mark Scheme covers the range of candidates' responses to the questions, and that all Examiners understand and apply the Mark Scheme in the same way. The Mark Scheme will be discussed and amended at the meeting, and administrative procedures will be confirmed. Co-ordination scripts will be issued at the meeting to exemplify aspects of candidates' responses and achievements; the co-ordination scripts then become part of this Mark Scheme.

In your marking, you will encounter valid responses which are not covered by the Mark Scheme: these responses must be credited.

Please read carefully all the scripts in your allocation and make every effort to look positively for achievement throughout the ability range. Always be prepared to use the full range of marks.

**INSTRUCTIONS TO EXAMINERS:**

**A INDIVIDUAL ANSWERS**

- 1 The indicative content indicates the expected parameters for candidates' answers, but be prepared to recognise and credit unexpected approaches where they show relevance.
- 2 Be prepared to use the full range of marks. Do not reserve high band marks 'in case' something turns up of a quality you have not yet seen. If an answer gives clear evidence of the qualities described in the band descriptors, reward appropriately.

**B TOTAL MARKS**

- 1 The maximum mark for the paper is **60**.
- 2 The quality of extended responses is assessed in parts of this paper. The assessment of this skill is embedded within each of the levels and must be considered when determining the mark within the appropriate level

SECTION A				
Question	Answer	Marks	AO	Rationale
1	D	1	2	Charity shops are retailers who operate for the benefit of a cause not-for-profit, rather than for profit. A shop provides a service so is tertiary. Not-for-profit organisations operate in the third sector. Secondary organisations are involved in manufacturing. Private sector organisations aim to make profit for their owners.
2	C	1	2	Employees are internal stakeholders of a partnership. Suppliers and customers are external stakeholders. A partnership does not have directors.
3	B	1	1	Uncertainty makes planning more difficult because it is hard to predict what the future holds. Likewise, decision making is more difficult and the risk of making poor decisions higher. Uncertainty does not alter the likelihood of an adverse event occurring, although a contingency plan might limit the damage caused.
4	D	1	1	Return on equity is a financial measure. The ratio compares the level of profit with the shareholders' funds used to create that profit. Labour turnover refers to workers quitting their jobs and should not be confused with sales turnover. Labour turnover is a non-financial measure of business performance, as is margin of safety and market share.
5	C	1	2Q	At a market price of £0.75, 70,000 drinks would be produced against a demand of only 40,000. Thus, an excess supply of 30,000 drinks. (a) and (b) erroneously state that demand would be greater than supply. With equilibrium at 50,000 (a) erroneously deducts the 40000 demanded i.e. $50,000 - 40,000 = 10,000$ . (b) erroneously works out the shortage at £0.25. (d) correctly believes there would be excess supply, but erroneously calculates the shortage at £1.00.
6	B	1	2Q	The break-even point is 2000 T-shirts, as this is the level of output where total costs equals total revenue. The break-even point always refers to quantity, so answers (a) and (c) cannot be correct. (d) the candidate appears to know that the answer must be a number of T-shirts, but erroneously reads across from the intersection of the total costs and revenue line to the vertical axis, rather than down to the horizontal axis.
7	A	1	2Q	$(£2m \times 0.909) + (£4m \times 0.826) + (£4m \times 0.751) - £8m = £1.818m + £3.304m + £3.004 - £8m = £8.126 - £8 = £0.126m$ . (c) candidate does not deduct the initial cost (Year 0). (d) candidate adds the initial amount of £8m rather than deducting it. (b) the candidate erroneously believes the NPV is the value of the most discounted year, i.e. the final year figure i.e. $£4m \times 0.751 = £3.004m$ .
8	D	1	1	Trade payables, i.e. creditors, are listed in the current liability section of a statement of financial position. Cost of sales and Gross profit are found on an income statement. Budget variance is not found in the final accounts, rather it is part of variance analysis, a management accounting tool.

9	C	1	1	In a centralised organisation the chief executive is involved in all decision-making at all levels, including the setting of objectives. This then is not a feature of a decentralised organisation. In a decentralised organisation, employees at regional offices or sub-branches, not based at head office or lower down in the business hierarchy are allowed to take part in the organisation's decision-making process and span of control will be wide.
10	D	1	2	Contributions into an appraisal process vary across organisations. Since the company is large and multinational and Noel is near the bottom of the organisational hierarchy, it is extremely unlikely that the Finance Director would be involved in the appraisal, despite Noel working in that department. In the context of Noel's appraisal, therefore, the organisation is more likely to use managerial assessment, peer assessment and self-assessment to contribute to Noel's appraisal.
11	A	1	1	Whistle blowing involves an employee making a disclosure in the public interest which draws attention to potential malpractice within an organisation. (c) potentially confuses whistle blowing with the colloquial expression 'blow your own trumpet', e.g. highlighting business strengths. (d) potentially confuses whistleblowing with giving praise or recognition. (b) an alert following research into the competition.
12	B	1	1	The most accurate way to describe this company is as being 'customer orientated'. A customer orientated business researches the needs of specific customers and attempts to create products to meet these needs. Conversely, a product orientated business focuses on producing new products and then tries to persuade the market of the need for the products. The business may, or may not, be productively efficient or action-centred (a leadership style).
13	B	1	2Q	Cross elasticity of demand is calculated by dividing the percentage change in the demand for ice cream by the percentage change in the price of the cinema ticket i.e. $(-200/1000 \times 100)/(4/10 \times 100) = -20\%/40\% = -0.5$ . Cinema tickets and concession ice cream are complements. (a) attempts to calculate the percentage changes but divides by the new values rather than the original values i.e. $(-200/800 \times 100)/(4/14 \times 100) = -25\%/29\% = -0.86$ . (d) uses the absolute changes rather than the percentage changes during the calculation i.e. $\pounds 200/4$ , then adds a percentage sign to get 50%. (c) does the same as (d) but also inverts the formula i.e. $\pounds 4/200$ , to get 0.02%.
14	D	1	1	Rail transport is a physical distribution method, it is used to transport physical goods from one location to another. Rail transport is a physical rather than non-physical market; an example of a non-physical market would be the market for e-books. A digital method of distribution would be used to deliver digital products, e.g. delivering an e-book via internet download. The term 'channel of distribution' does not refer to the logistics used to transport goods but rather to the chain of businesses or intermediaries through which a good or service passes until it reaches the end consumer e.g. producer, wholesaler, retailer etc.

15	A	1	2	<p>The bakery makes one type of product then the next, in strict rotation. This is batch production. Despite working 365 days a year this is not flow production, as the production line is not continuous. Instead it changes at least four times a day. Job production would be used to make a one-off or bespoke item, only likely to be used by a bakery for a specific special order e.g. a cake for a Royal wedding. Cell production refers to splitting the production process into stages, each with a team of specialists which perform a task and send the process on to the next team. Cell production is more commonly seen in technological industries.</p>
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Question	Answer	Marks	Guidance
16	<p><b>Explain two factors of production needed by a new business.</b></p> <p>One mark for each correct identification up to a maximum of two identifications, plus one mark for each of two explanations.</p>	<p><b>4</b> (AO1 4)</p>	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• Land</li> <li>• Labour</li> <li>• Capital</li> <li>• Enterprise</li> </ul> <p><b>Exemplar response:</b> A new business will need capital (1). This will be used to produce the good or provide the service e.g. a bakery would need ovens (1).</p> <p>Award explanation mark (up to a maximum of two) for appropriate example of any factor of production.</p> <p><b>No</b> context required.</p>
17	<p><b>Identify one disadvantage to The Cow Shed of setting up as a private limited company.</b></p> <p>One mark for correct identification.</p>	<p><b>1</b> (AO2 1)</p>	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• Setting up a company can be expensive</li> <li>• Running the company can be expensive e.g. paying an accountant to prepare/audit the accounts</li> <li>• Setting up a company can be a time-consuming/slow process e.g. completing legal documents</li> <li>• Shareholders are involved in the decision-making process</li> </ul> <p>Identification does not explicitly need to be in context, but the disadvantage <b>must</b> be relevant to a business such as The Cow Shed.</p> <p style="text-align: right;"><b>ARA</b></p>

Question	Answer	Marks	Guidance
18	<p><b>Explain two benefits to Michelle and Mark of carrying out primary market research before opening the café.</b></p> <p>One mark for each correct identification up to a maximum of two identifications, plus one mark for each of two contextual explanations.</p>	<p><b>4</b> (AO1 2) (AO2 2)</p>	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>Helps to minimise risk by understanding what customers like/expect</li> <li>Research was carried out into competitors (with the aim of improving on what competitors are offering)</li> <li>Researching coffees means that they are offering a product which they believe to be the best/better than other options</li> <li>The owners collected the data/information that they thought most useful for starting their specific business</li> </ul> <p><b>Exemplar response:</b> This helps to minimise risk (1) as Michelle was able to research for herself the different types of coffee available (1).</p> <p>Context could include:</p> <ul style="list-style-type: none"> <li>Research into types of coffee</li> <li>Research into other cafes including the café environment</li> <li>Reference to any evidence in Extracts C, D or E</li> </ul> <p style="text-align: right;"><b>ARA</b></p>
19*	<p><b>Other than its current use of social media, evaluate promotional strategies The Cow Shed could use in the future.</b></p> <p><b>Level 4 (10–12)</b> Candidate shows <b>strong</b> knowledge and understanding, analysis and evaluation of appropriate promotional strategies for The Cow Shed. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p>	<p><b>12</b> (AO1 2) (AO2 2) (AO3 4) (AO4 4)</p>	<p>Candidates could consider the following forms of promotion:</p> <ul style="list-style-type: none"> <li>Advertising in local newspapers</li> <li>Advertising on local radio stations</li> <li>Including a link to a new website or social media pages on the Auburn Farm website</li> <li>Introducing a loyalty card/loyalty points</li> <li>Introducing their own website as not all potential customers will have social media accounts</li> <li>Producing promotional leaflets which could be distributed to local homes and/or tourist locations e.g. caravan sites, B&amp;B's</li> </ul>

Question	Answer	Marks	Guidance
	<p><b>Level 3 (7–9)</b> Candidate shows <b>good</b> knowledge and understanding, analysis and evaluation of appropriate promotional strategies for The Cow Shed. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> <p><b>Level 2 (4–6)</b> Candidate shows <b>reasonable</b> knowledge and understanding, analysis and evaluation of appropriate promotional strategies for The Cow Shed. <i>The information has some relevance and is presented with limited structure. The information is supported by limited evidence.</i></p> <p><b>Level 1 (1–3)</b> Candidate shows <b>limited</b> knowledge and understanding of promotional strategies with <b>limited or no</b> analysis and evaluation of appropriate methods for The Cow Shed. <i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i></p> <p><b>0 marks</b> no response or no response worthy of credit. One mark for correct identification, plus one mark for explanation.</p> <p><b>NB</b> – award <b>maximum</b> of <b>two</b> marks for non-contextualised explanation.</p>		<p>Issues to be analysed/evaluated could include:</p> <ul style="list-style-type: none"> <li>• Cost of any promotional activity versus the additional revenue generated</li> <li>• Due to the location of the café, they are likely to have two distinct groups of customers; locals and tourists, therefore a promotional strategy should consider both groups</li> <li>• Locals - need to create awareness of the cafe and then encourage customer loyalty</li> <li>• Social media and word of mouth are free forms of promotion but reliant on customer opinion i.e. out of the café's control (to an extent)</li> <li>• The café is in an isolated location so need to encourage people to visit all year round, not just in the summer months to ensure revenue in the winter months</li> <li>• Tourists - if tourists can be encouraged to visit then they might also pay to use the car park whilst spending a day on the beach and may even visit the caravan site in the future (additional revenue).</li> <li>• Tourists are unlikely to find the café without it being promoted due to its isolated location and locals need to be encouraged to visit all year round if revenue is to be maintained and fixed costs covered in the winter months.</li> </ul> <p>Answers may suggest that the business could expand on their current use of social media and/or ensure that all reviews are responded to, particularly negative ones.</p>

Question	Answer	Marks	Guidance
20	<p><b>Calculate the percentage market growth in coffee shop sales that is forecast to occur between 2016 and 2021.</b></p> <p>Award 2 marks for the correct answer (with or without workings).</p> <p>1 mark for calculating the correct change in sales (0.9)</p> <p>Accept 26% if working is shown</p>	<p><b>2</b> (AO2 2)</p>	<p>4.3 – 3.4 (1)</p> <p><math>\frac{0.9}{3.4} \times 100 = \underline{\underline{26.47\% \text{ or } 26.5\%}}</math> (1)</p>
21	<p><b>Explain one social factor which could affect The Cow Shed.</b></p> <p>One mark for correct identification, plus one mark for explanation.</p> <p>Award maximum of <b>one</b> mark if <b>no</b> reference to context.</p>	<p><b>2</b> (AO1 1) (AO2 1)</p>	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• Changing patterns of employment e.g. more flexible working patterns to allow employees to fit employment around childcare</li> <li>• Demographic changes (Extract C) e.g. a growing number of older people may mean more people going to cafes during the day</li> <li>• Ethnic diversity e.g. may need to consider the demand for different food ranges</li> </ul> <p><b>Exemplar response:</b> There is a growing number of older people in the UK (1). These are people who are likely to visit a café on a week-day so this could increase the number of customers visiting (1).</p> <p>Response <b>must</b> be in context for full marks.</p> <p style="text-align: right;"><b>ARA</b></p>

Question	Answer	Marks	Guidance
22*	<p><b>Evaluate the importance to The Cow Shed of high quality customer service.</b></p> <p><b>Level 4 (16–20)</b> Candidate shows <b>strong</b> knowledge, understanding, analysis and evaluation of the <b>importance</b> to The Cow Shed of high quality customer service. <i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p><b>Level 3 (11–15)</b> Candidate shows <b>good</b> knowledge and understanding, analysis and evaluation of the <b>importance</b> to The Cow Shed of high quality customer service. <i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> <p><b>Level 2 (6–10)</b> Candidate shows <b>reasonable</b> knowledge and understanding, analysis and evaluation of the <b>importance</b> to The Cow Shed of high quality customer service. <i>The information has some relevance and is presented with limited structure. The information is supported by limited evidence.</i></p> <p><b>Level 1 (1–5)</b> Candidate shows <b>limited</b> knowledge and understanding of the importance to The Cow Shed and/or its stakeholders of high quality customer service with <b>limited or no</b> analysis and evaluation of the importance.</p>	<p><b>20</b> (AO1 2) (AO2 2) (AO3 8) (AO4 8)</p>	<p>Candidates could consider:</p> <ul style="list-style-type: none"> <li>• As the location is isolated there is no other café option for dog-walkers/beach-goers (therefore is customer service as important?)</li> <li>• As the café currently relies on word of mouth and social media for promoting the business, high quality service is key to good reviews</li> <li>• Beach-goers can bring their own food/drink so need to attract them to spend money</li> <li>• Cost of ensuring high quality customer service versus the impact on reputation – which is most important to the owners?</li> <li>• Creating an experience for customers is important in today's competitive market (Extract D)</li> <li>• High quality customer service can create a USP</li> <li>• High quality customer service may mean that higher prices can be charged (increased revenue/profit for the owners)</li> <li>• May require additional training for employees to achieve this high quality (potential additional cost)</li> <li>• The location is isolated, so customers have to be willing to travel to the café i.e. may need an incentive</li> </ul> <p>An answer may take a stakeholder approach, including:</p> <ul style="list-style-type: none"> <li>• The owners (Mark and Michelle – Extract A) – the café provides them with income/profit. It is only by encouraging customers to visit and return, by providing high quality customer service, that this will increase</li> <li>• Customers – locals will only stay loyal to a café which provides good customer service, tourists may rely on social media reviews (Extract B) or recommendations to choose places they want to visit. Customers want 'to experience something exceptional' (Extract D)</li> <li>• Employees – job security will be created if customers want to return and the café is busy all-year-round</li> </ul>

Question	Answer	Marks	Guidance
	<p><i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i></p> <p><b>NB</b> – award <b>maximum</b> of <b>two</b> marks for non-contextualised impacts.</p> <p><b>0 marks</b> no response or no response worthy of credit.</p>		<ul style="list-style-type: none"> <li>• Government – increased customer satisfaction should result in more customers and therefore higher profits. This will increase tax revenue for the Government.</li> <li>• Local community – as the café is in an isolated location (Extract A) this is not as relevant as other stakeholders. The majority of people will drive to the café.</li> </ul> <p>To achieve higher marks, candidates must clearly evaluate the <b>importance</b> of high quality customer service.</p> <p style="text-align: right;"><b>ARA</b></p>

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