



A-level **BUSINESS** **7132/1**

PAPER 1 BUSINESS 1

Mark scheme

June 2019

Version: 1.0 Final

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.

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

Level of response marking instructions

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

Before you apply the mark scheme to a student'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

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptor for that level. The descriptor for the level indicates the different qualities that might be seen in the student'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 student 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, i.e. if the response is predominantly 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. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which 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 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.

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

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

Marking guidance

- Be clear on the focus of the question.
- Read the response as a whole; follow the flow of the argument as a whole.
- Remember that the indicative content provides possible lines of argument but there may be others that are equally valid. Be willing to credit other lines of argument.
- Annotate the script as you read in accordance with the instructions given at standardisation.
- Consider what it all adds up to, e.g. is this a good response? A reasonable one? A limited one? Refer back to the standardisation scripts and guidance to help you benchmark. You are marking to the standard agreed at standardisation. Be careful of the standard you are marking at drifting when you have a big centre; refer back to standardisation scripts.
- Summarise your findings briefly at the end of the response. This will help you decide on the overall level and is helpful for others to understand the mark given, e.g. for an extended response 'well-argued' but does not focus fully on the issue of 'long term' feels as if it might be good rather than excellent. Make sure the comments fit with the level awarded: 'unbalanced and not comparing with alternative solutions' does not sound as if it is 'good'.
- Next to your comment put the level awarded, e.g. L4.
- If in doubt about an approach contact your Team Leader, do not make up your own rules because we must have a standardised approach across all marking. Be positive in your marking. Look to reward what is there.

Annotations:

K U	Knowledge and Understanding
AN	Analytical but lacks context
ARG	Argument
DEV	Developed argument
J	Judgement with support
NFF	Not Fully Focused on the demands of the question
Bal	Balanced response e.g. both sides acknowledged
Rng	Range of arguments e.g. two arguments presented
BOD	Benefit of the Doubt
NAQ	Not answering the question
OFR	Own Figure Rule
SEEN	Seen
✓	TICK
X	CROSS
☐	Txt Box
?	Unclear
Highlighter	Highlighter
[REP]	Repetition

The following comments should be used at the end of the response.

- **Section B**

L1	A limited response
L2	A reasonable response
L3	A good response

- **Essays**

L1	A weak response
L2	A limited response
L3	A reasonable response
L4	A good response
L5	An excellent response

Section A

Objective Test Answers

Total for this section: 15 marks

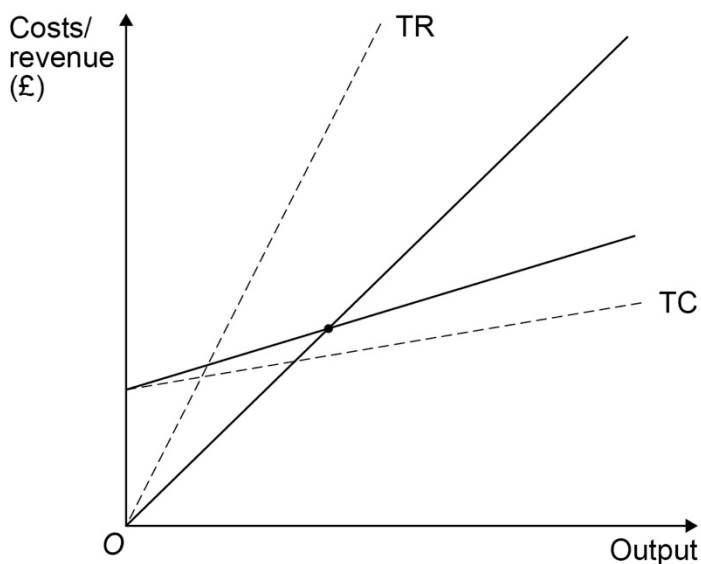
Question number	Answer
1	B
2	C
3	B
4	D
5	A
6	C
7	D
8	D
9	A
10	C
11	B
12	C
13	C
14	D
15	B

Section B

1	6	Two changes take place: • there is a fall in the cost of raw materials • the business increases the selling price of the product. Draw two new lines on Figure 3 to show how these changes might affect the break-even chart. Label the new total revenue line TR and label the new total cost line TC. [4 marks]
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Marks for this question: AO1 = 2 and AO2 = 2

Answer = *See example lines in Figure 3 (4 marks)*



Broken down as follows:

- | | |
|---|-----------------|
| TR line starts at the origin and is labelled TR | (1 mark) |
| TR line slopes upwards more steeply than the original TR line | (1 mark) |
| TC line starts at the same point as the original TC line and is labelled TC | (1 mark) |
| TC line slopes upwards less steeply than the original TC line | (1 mark) |

1	7	A business has non-current liabilities of £200 000 and a gearing ratio of 40%. It then takes out a long-term loan of £100 000 from the bank. Calculate its new gearing ratio after taking out this bank loan. [4 marks]
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Marks for this question: AO1 = 1 and AO2 = 3

Answer = 50% **(4 marks)**

50 (but no percentage) **(3 marks)**

:

Formula Gearing ratio = $\frac{\text{Non-Current liabilities}}{\text{Capital employed}} \times 100$
Or

$$\frac{\text{Non Current Liabilities(NCL)}}{\text{NCL} + \text{Equity}} \times 100$$

Or

$$\frac{\text{Long Term Liabilities(LTL)}}{\text{Capital Employed}} \times 100$$

Marks broken down as follows

Original gearing: 40% = £200 000/‘X’

Therefore, original capital employed ‘X’ = £200 000/0.4 = £500 000 **(1 mark)**

Loan adds £100 000 to long-term liabilities AND capital employed

New gearing ratio = £300 000 **(1 mark)**/£600 000 **** (1 mark)** x 100 = 50% **(1 mark)**

**** Apply OFR, if applicable**

Award 3 marks for: £300 000/£500 000 x 100 = 60%

Award 3 marks for £200 000/£600 000 X 100 = 33.3%

Use OFR if appropriate

Awards 2 marks if original gearing is calculated but new gearing is not calculated

$$\frac{£200,000}{£500,000} \times 100 = 40\% \text{ (1 Mark)}$$

1 Mark

***** Award 1 mark for correct formula if no calculation marks earned.**

1	8	The Marketing Manager of a business is considering whether to choose Option A or Option B. Option A: Introduce a new product. Option B: Use a new promotion for an existing product. Figure 4 shows the results of a decision tree for these options and the 'do nothing' option. Based on this decision tree, the Marketing Manager chooses Option A. Using Figure 4, analyse why choosing Option A might not be the best decision. [9 marks]
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Marks for this question: AO1 = 3, AO2 = 3 and AO3 = 3

Level	The student will typically demonstrate:	Marks
3	A good response overall that focuses on many of the demands of the question. Provides an answer to the question set that: • demonstrates a depth and range of knowledge and understanding of issues in the question • demonstrates analysis which is well developed and is applied effectively to the context.	7–9
2	A reasonable response overall that focuses on some of the demands of the question. Provides an answer to the question set that: • demonstrates a limited knowledge and understanding of a range of issues in the question or a good knowledge and understanding of relatively few issues in the question • demonstrates analysis which is developed and is applied to the context.	4–6
1	A limited response overall with little focus on the demands of the question. Provides an answer to the question set that: • demonstrates a limited range and depth of knowledge and understanding of issues in the question • demonstrates analysis with little development and with mainly descriptive application to the context.	1–3

The demands of this question are:

- to examine the data in the decision tree
- to analyse the possible reason/reasons why Option A, the option with the highest EV and net gain, should NOT be chosen.

Indicative content:

- recognising that Option A is very high risk, with only a 20% chance of success
- arguing that Option B is a lower risk option, with a 60% chance of success (only 40% chance of

failure)

- assessing risk v net gain. Option A net gain is +£3m but 0.8 chance of failure; Option B is +£2.4m and only 0.4 chance of failure
- identifying that option C has no risk (but no profit or loss)
- Option a has a higher initial cost (adding to risk) in comparison to option B
- Net gain from option B is greater than initial cost (£2.4m > £2.0m) whereas for option A the net gain is much lower than the initial cost (£3m < £10m). Noting that option B is likely to provide a better return.
- Product development is usually more risky than new promotion (Ansoff)

Further Guidance

If an argument is solely based on Ansoff or related ideas then award a maximum of 4 marks. More marks can be awarded if other elements of the answer are included.

1	9	To fund a new project, a business increases the proportion of its long-term funding that is debt. Analyse how this change might affect the level of dividends received by shareholders.
		[9 marks]

Marks for this question: AO1 = 3, AO2 = 3 and AO3 = 3

Level	The student will typically demonstrate:	Marks
3	A good response overall that focuses on many of the demands of the question. Provides an answer to the question set that: • demonstrates a depth and range of knowledge and understanding of issues in the question • demonstrates analysis which is well developed and is applied effectively to the context.	7–9
2	A reasonable response overall that focuses on some of the demands of the question. Provides an answer to the question set that: • demonstrates a limited knowledge and understanding of a range of issues in the question or a good knowledge and understanding of relatively few issues in the question • demonstrates analysis which is developed and is applied to the context.	4–6
1	A limited response overall with little focus on the demands of the question. Provides an answer to the question set that: • demonstrates a limited range and depth of knowledge and understanding of issues in the question • demonstrates analysis with little development and with mainly descriptive application to the context.	1–3

The demands of this question are:

- analysing how having a higher proportion of long-term funding that is debt might affect the profit available for dividends
- explaining that the new project might affect profit
- explaining how this influences the potential payment of dividends to shareholders.

Indicative content:

- higher level of debt means that a business must set aside revenue each year to pay interest on the loan
- higher level of debt means that a business must set aside revenue each year to pay back the loan, although a long-term loan means this payment can be spread over the duration of the loan
- if the new project increases (decreases) profit then this will mean potentially higher (lower) dividends to shareholders higher-level of debt means that a relatively small % of funding is provided by shareholders.

The implications of these factors are:

- if interest rates are low, the business has a low cost source of finance, leaving it with more profit to be retained or given to shareholders as dividends. The opposite argument applies to high interest rate loans
- the longer the term of the loan, the lower the annual cost of repayment. Thus a 5 year loan of £100m requires repayment of £20m a year (+ interest); but if the loan was for 25 years it would be £4m a year therefore a short-term loan has a much greater impact on dividends in the short-term, but the impact is of more limited duration
- during a period of low profits, such as a recession, the interest rates might lead to no profit available to shareholders and could lead to a threat of liquidation
- with relatively few issued shares, profit per share will be higher and so high dividends are more likely
- low cost loans may enable a business to retain more profits, leading to higher profits and dividends in the long run
- a profitable project could lead to a long-run increase in profits, changing future dividend payments (or the reverse if it is unprofitable).

NOTE

To achieve L3, an answer will need to consider two possible effects.

2	0	Managers in a business have a range of leadership styles.
		Analyse how different leadership styles might impact the effectiveness of a strategy to decentralise this business.
		[9 marks]

Marks for this question: AO1 = 3, AO2 = 3 and AO3 = 3

Level	The student will typically demonstrate:	Marks
3	A good response overall that focuses on many of the demands of the question. Provides an answer to the question set that: • demonstrates a depth and range of knowledge and understanding of issues in the question • demonstrates analysis which is well developed and is applied effectively to the context.	7–9
2	A reasonable response overall that focuses on some of the demands of the question. Provides an answer to the question set that: • demonstrates a limited knowledge and understanding of a range of issues in the question or a good knowledge and understanding of relatively few issues in the question • demonstrates analysis which is developed and is applied to the context.	4–6
1	A limited response overall with little focus on the demands of the question. Provides an answer to the question set that: • demonstrates a limited range and depth of knowledge and understanding of issues in the question • demonstrates analysis with little development and with mainly descriptive application to the context.	1–3

The demands of the question are:

- analysing how different leadership styles can impact on outcomes in a business
- assessing the differences in these outcomes in the context of decentralisation of a business

Indicative content:

- a team leader or country club leadership style requires involvement of a wide range of staff and works well with delegated power, such as decentralisation. Similarly, subordinate-centred leadership works better with delegated power
- leadership styles with low concern for people, focus on top-down management with little delegation. It tends to work best in centralised structures. Similarly, manager-centred leadership works more effectively in centralised structures
- laissez-faire or country club leadership will work well if subordinates are keen to become involved (eg through a decentralised structure) but is unlikely to succeed if subordinates are not able or prepared to take decisions because authority is not decentralised
- decentralisation passes responsibility away from the centre of the organisation, to take advantage of local skills and knowledge. This delegates responsibility down the hierarchy and is more likely to be successful if employees are empowered through a more democratic form of leadership
- decentralisation leads to greater empowerment for local managers. However, its success will

depend on the willingness to show trust by providing resources and encouraging managers to use delegation also

- decentralisation reduces bureaucracy from the centre (headquarters) of the business. However, where customers expect consistency it may mean a loss of efficiency unless autocratic leadership is used
- decentralisation should lead to more flexibility as the decentralisation process brings decisions closer to the customer; this requires a laissez-faire or democratic leadership if employees have autonomy in their dealing with customers.

NOTE

The question does not specify a particular style of leadership. The indicative content in the mark scheme is based mainly on Tannenbaum & Schmidt and Blake Mouton. However, other relevant theories of leadership should be credited, where used appropriately.

For example:

- according to Tannenbaum and Schmidt, subordinate-centred leadership is likely to be more compatible with a decentralised structure. Therefore, decentralisation will be most effective if a 'share' approach is used. Furthermore, a 'consult' approach will provide better results than 'selling' which itself will be more effective than 'telling'
- Blake Mouton would suggest that an approach that shows high concern for people and production – a 'Team leader' or 'Sound leader' approach – would be most compatible with decentralisation, with an 'impoverished' or 'indifferent' leader likely to lead to the poorest level of performance.

NOTE

A L3 response does NOT require consideration of more than one style of leadership, but does require two separate effects. These two effects may relate to two different circumstances (but may also relate to different effects arising from different leadership styles).

Further Guidance

Award a maximum of 5 marks for an answer that just focuses on the effect of leadership styles on 'outcomes', with no reference to decentralisation.

Section C

2	1	Online sales have grown significantly in recent years.
		To what extent has this led to distribution (place) decisions becoming a more important element of an effective marketing mix?
		[25 marks]

25 mark evaluative questions: AO1 = 5, AO2 = 4, AO3 = 6 and AO4 = 10

Level	The student will typically demonstrate:	Marks
5	An excellent response overall that is fully focused on the key demands of the question. Provides an answer to the question set that: • demonstrates a depth and range of knowledge and understanding that is precise and well selected in relation to issues in the question • demonstrates analysis throughout which is well developed, is applied effectively to the context and considers a balanced range of the issues in the question • makes judgements or provides solutions which are built effectively on analysis, show balance and have a clear focus on the question as a whole throughout.	21–25
4	A good response overall that focuses on many of the demands of the question. Provides an answer to the question set that: • demonstrates a depth and range of knowledge and understanding of issues in the question • demonstrates analysis which is well developed, applied effectively to the context and considers a range of issues in the question • makes judgements or provides solutions which are built on analysis, show balance and address the question as a whole.	16–20
3	A reasonable response overall that focuses on some demands of the question. Provides an answer to the question set that: • demonstrates a limited knowledge and understanding of a range of issues in the question or a good knowledge and understanding of relatively few issues in the question • demonstrates analysis which is developed, applied to the context and considers some of the issues in the question • makes judgements or provides solutions which are built on analysis, but lack balance and are not fully focused on the question as a whole.	11–15

2	A limited response overall with little focus on the demands of the question. Provides an answer to the question set that: • demonstrates a limited range and depth of knowledge and understanding of issues in the question • demonstrates analysis with little development, mainly descriptive application to the context and considers a limited number of issues in the question • makes judgements or proposes solutions which have limited links to analysis or limited focus on the question as a whole.	6–10
1	A weak response overall lacking focus on the demands of the question. Provides an answer to the question set that: • demonstrates isolated or imprecise knowledge and understanding • demonstrates undeveloped analysis with descriptive application to the context and lacking focus on the question • makes judgements or proposes solutions based on assertions.	1–5

The demands of the question are on:

- the extent to which online sales have influenced the role of place (distribution) in the marketing mix
- circumstances in which online sales have affected (or not) the marketing mix
- an assessment of circumstances in which the significance of place has changed or an overall judgement of whether or not place has become a more important element of the marketing mix
- an assessment of whether these changes have made place a more important element of an effective marketing mix.

Indicative content may include:

- nature of changes in distribution, such as more sales directly from producers
- retailers adapting to online by delivering directly to customers and/or redesigning stores for click and collect
- more focus on design of websites
- greater integration of physical and online facilities and an assessment of the importance of distribution in these processes
- promotion shifting from traditional media to online and social media
- the impact of online sales on the other elements of the marketing mix, such as:
- less need for packaging; demand becoming more price elastic goods as the number of outlets has increased and price comparison is easier for customers; physical environment becoming less important or emphasis shifting to the appearance of company websites.

Evaluation may consider:

Overall distribution/place is changing in nature but has always been an important element. Overall judgement will depend on the arguments presented, but possible lines of evaluation are:

- place changing in importance depending on whether the good needs to be tried before purchase
- opportunity for free returns is encouraging untried orders, so place changing from shops to delivery of goods
- certain aspects of the 7 Ps changing, rather than becoming more or less important
- place becoming more important in markets where direct delivery is used
- a fully-integrated marketing mix is still crucial.

2	2	A competitive advantage can be achieved through low-cost or through differentiation.
		Which of these types of competitive advantage is it easier for a UK business to maintain? Justify your view.
		[25 marks]

25 mark evaluative questions: AO1 = 5, AO2 = 4, AO3 = 6 and AO4 = 10

Level	The student will typically demonstrate:	Marks
5	An excellent response overall that is fully focused on the key demands of the question. Provides an answer to the question set that: • demonstrates a depth and range of knowledge and understanding that is precise and well selected in relation to issues in the question • demonstrates analysis throughout which is well developed, is applied effectively to the context and considers a balanced range of the issues in the question • makes judgements or provides solutions which are built effectively on analysis, show balance and have a clear focus on the question as a whole throughout.	21–25
4	A good response overall that focuses on many of the demands of the question. Provides an answer to the question set that: • demonstrates a depth and range of knowledge and understanding of issues in the question • demonstrates analysis which is well developed, applied effectively to the context and considers a range of issues in the question • makes judgements or provides solutions which are built on analysis, show balance and address the question as a whole.	16–20
3	A reasonable response overall that focuses on some demands of the question. Provides an answer to the question set that: • demonstrates a limited knowledge and understanding of a range of issues in the question or a good knowledge and understanding of relatively few issues in the question • demonstrates analysis which is developed, applied to the context and considers some of the issues in the question • makes judgements or provides solutions which are built on analysis, but lack balance and are not fully focused on the question as a whole.	11–15

2	A limited response overall with little focus on the demands of the question. Provides an answer to the question set that: • demonstrates a limited range and depth of knowledge and understanding of issues in the question • demonstrates analysis with little development, mainly descriptive application to the context and considers a limited number of issues in the question • makes judgements or proposes solutions which have limited links to analysis or limited focus on the question as a whole.	6–10
1	A weak response overall lacking focus on the demands of the question. Provides an answer to the question set that: • demonstrates isolated or imprecise knowledge and understanding • demonstrates undeveloped analysis with descriptive application to the context and lacking focus on the question • makes judgements or proposes solutions based on assertions.	1–5

The demands of the question are:

- explaining how a business can achieve or maintain a competitive advantage for its products through cost advantage and differentiation
- assessing the ease/difficulties of maintaining competitive advantage through cost advantage
- assessing the ease/difficulties of maintaining competitive advantage through differentiation
- comparing and evaluating the relative ease/difficulties of maintaining competitive advantage from cost advantage and differentiation
- arguments in the context of a UK business.

Indicative content may include:

- showing an understanding of competitive advantage
- analysing different ways in which a competitive advantage may be retained and the ease/difficulties of maintaining this advantage, such as:
- cost advantage may depend on:
 - the level of economies of scale achieved and whether other businesses can match these economies
 - whether there are diseconomies of scale for the business if it grows further
 - the costs of equipment that allow the business to achieve low costs and whether this equipment or methods are protected from copying
 - the ease with which other businesses can replicate the methods used by the business to achieve low cost.
- differentiation may depend on:
 - investment in capital and technology which cannot be surpassed by competitors
 - innovation and patents, which can be expensive to maintain and protect and which can be eradicated by a competitor getting a patent for a newer product but which can restrict competition
 - the position of the product in terms of its stage of the product life cycle
 - possessing a superior workforce, but facing other businesses whose workforces can become more qualified or better trained
 - higher quality products that can be surpassed by competitors using improved quality assurance approaches
 - more effective marketing and greater brand loyalty, which can become ineffective because customer tastes change

Evaluation may consider:

The relative ease/difficulty will depend on certain factors, such as:

- the nature of the economy – is the business located in a low-cost economy or one with high levels of innovation; with which other countries does it compete?
- ease of entry/barriers to entry into the market
- levels of profitability of existing firms, which may encourage competition but make it harder for new entrants to compete
- growth prospects for that market/product
- the current level of competitive advantage enjoyed by the business.

Overall, UK businesses tend to achieve competitive advantage in international markets through differentiation, but within the UK there are businesses that compete on low cost. This latter factor may increase if the UK adopts more protection but may fall if industries such as agriculture are no longer within the protection of EU regulations and restrictions.

Section D

2	3	More businesses are now using broad measures of overall business performance, such as Kaplan & Norton's Balanced Scorecard and Elkington's Triple Bottom Line, rather than focusing solely on financial ratio analysis. To what extent does this mean that financial ratio analysis is no longer important to a business? [25 marks]
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25 mark evaluative questions: AO1 = 5, AO2 = 4, AO3 = 6 and AO4 = 10

Level	The student will typically demonstrate:	Marks
5	An excellent response overall that is fully focused on the key demands of the question. Provides an answer to the question set that: - demonstrates a depth and range of knowledge and understanding that is precise and well selected in relation to issues in the question - demonstrates analysis throughout which is well developed, is applied effectively to the context and considers a balanced range of the issues in the question - makes judgements or provides solutions which are built effectively on analysis, show balance and have a clear focus on the question as a whole throughout.	21–25
4	A good response overall that focuses on many of the demands of the question. Provides an answer to the question set that: - demonstrates a depth and range of knowledge and understanding of issues in the question - demonstrates analysis which is well developed, applied effectively to the context and considers a range of issues in the question - makes judgements or provides solutions which are built on analysis, show balance and address the question as a whole.	16–20
3	A reasonable response overall that focuses on some of the demands of the question. Provides an answer to the question set that: - demonstrates a limited knowledge and understanding of a range of issues in the question or a good knowledge and understanding of relatively few issues in the question - demonstrates analysis which is developed, applied to the context and considers some of the issues in the question - makes judgements or provides solutions which are built on analysis, but lack balance and are not fully focused on the question as a whole.	11–15
2	A limited response overall with little focus on the demands of the question. Provides an answer to the question set that: demonstrates a limited range and depth of knowledge and understanding of issues in the question	6–10

	- demonstrates analysis with little development, mainly descriptive application to the context and considers a limited number of issues in the question - makes judgements or proposes solutions which have limited links to analysis or limited focus on the question as a whole.	
1	A weak response overall lacking focus on the demands of the question. Provides an answer to the question set that: - demonstrates isolated or imprecise knowledge and understanding - demonstrates undeveloped analysis with descriptive application to the context and lacking focus on the question - makes judgements or proposes solutions based on assertions.	1–5

The demands of the question are:

- showing understanding of financial ratio analysis as a measure of business performance
- showing understanding of broader measures of performance, such as Elkington and Kaplan & Norton
- analysing the importance of ratio analysis to a business, both as a measure of performance and as a source of improved performance
- evaluating the extent to which financial performance is important in comparison to other measures
- evaluating the extent to which financial performance is an important component in enabling broader objectives to be achieved.

Indicative content may include:

- financial ratio analysis can show whether a key objective – profitability – is being met
 - financial ratio analysis can assess other aspects of finance, such as liquidity, gearing and financial efficiency, all of which can be vital to the continued existence of a business
- (Students may focus on specific ratios and analyse their usefulness to the business)

BUT

- financial ratios may be based on unreliable or subjective data and valuations
- different approaches to accounting can make objective comparisons difficult
- financial ratio analysis looks at the past rather than the future

AND

- financial ratio analysis is based primarily on the needs of shareholders (the shareholder concept) and so this measure of performance is purely based on the needs of a single (but important) stakeholder
- businesses need to/should assess their performance in respect to all stakeholders
- Elkington does this by looking at people and planet (as well as profit)
- Kaplan & Norton assess performance through four perspectives: customer, internal business processes, learning and growth and financial'.

Evaluation may consider:

- financial ratio analysis is important because it is the key to shareholder concept measures of performance and one of the key factors in the broader measures of performance
- successful financial management is needed to finance broader measures of business performance
- broader measures provide more balance and reflect the need to look after the interests of all stakeholders. This factor is growing in importance
- all measures of performance can be influenced by external factors and therefore not be a precise way of measuring performance.

Further guidance

The main focus of the question is on ratio analysis. Specific understanding of non-financial measures of performance is not required, but a recognition of these types of measures is needed for a L4 or L5 answer.

2	4	A business plans to improve its flexibility through mass customisation. Is it inevitable that improved flexibility will worsen other measures of its operational performance? Justify your view. [25 marks]
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25 mark evaluative questions: AO1 = 5, AO2 = 4, AO3 = 6 and AO4 = 10

Level	The student will typically demonstrate:	Marks
5	An excellent response overall that is fully focused on the key demands of the question. Provides an answer to the question set that: • demonstrates a depth and range of knowledge and understanding that is precise and well selected in relation to issues in the question • demonstrates analysis throughout which is well developed, is applied effectively to the context and considers a balanced range of the issues in the question • makes judgements or provides solutions which are built effectively on analysis, show balance and have a clear focus on the question as a whole throughout.	21–25
4	A good response overall that focuses on many of the demands of the question. Provides an answer to the question set that: • demonstrates a depth and range of knowledge and understanding of issues in the question • demonstrates analysis which is well developed, applied effectively to the context and considers a range of issues in the question • makes judgements or provides solutions which are built on analysis, show balance and address the question as a whole.	16–20
3	A reasonable response overall that focuses on some of the demands of the question. Provides an answer to the question set that: • demonstrates a limited knowledge and understanding of a range of issues in the question or a good knowledge and understanding of relatively few issues in the question • demonstrates analysis which is developed, applied to the context and considers some of the issues in the question • makes judgements or provides solutions which are built on analysis, but lack balance and are not fully focused on the question as a whole.	11–15
2	A limited response overall with little focus on the demands of the question. Provides an answer to the question set that: • demonstrates a limited range and depth of knowledge and understanding of issues in the question • demonstrates analysis with little development, mainly descriptive application to the context and considers a limited number of issues in the question • makes judgements or proposes solutions which have limited links to	6–10

	analysis or limited focus on the question as a whole.	
1	A weak response overall lacking focus on the demands of the question. Provides an answer to the question set that: • demonstrates isolated or imprecise knowledge and understanding • demonstrates undeveloped analysis with descriptive application to the context and lacking focus on the question • makes judgements or proposes solutions based on assertions.	1–5

The demands of the question are on:

- assessing the impact on a business's flexibility of introducing mass customisation
- identifying and explaining other possible measures of operational performance
- evaluating the possible effects of the change to mass customisation on flexibility and on selected measures of operational performance.

Indicative content may include:

- higher sales volume as goods are more likely to meet the needs of customers, possibly leading to economies of scale and lower unit costs
- more brand loyalty amongst customers and a willingness to pay higher prices; thus improving added value
- by not relying on one standardised product customers should regard this as an improvement in quality because the business is meeting their needs more effectively
- more motivated workforce because of more interesting job roles, which can improve efficiency of production
- less scope to benefit from internal economies of scale offered by traditional production methods and therefore higher unit costs
- potential for high wastage costs if goods are tailor made and then rejected by customer
- additional costs of market research required to discover customer wants.
- Quality may be reduced because workers need a greater variety of skills

Possible measures of operational performance include:

- unit costs
- capacity utilisation
- labour productivity
- speed of response
- flexibility
- added value
- dependability
- quality

Evaluation may consider:

Overall judgement will depend on the arguments used and the measures of operational performance chosen. Possible arguments include:

- unit costs are likely to worsen because there is less scope for internal economies of scale BUT personalised products are likely to be lower cost than individually made products
- arguably, capacity utilisation is likely to be lower on a multi-product production line
- labour productivity is likely to fall in terms of output per worker but may well increase in terms of the value of output per worker because of the higher price
- speed of response should worsen because of the customisation (but not in comparison to competitors who tailor-make their products)
- mass customisation offers greater flexibility than traditional production methods

- customisation is likely to enable a business to increase price more than the unit cost increase, so value added should rise
- dependability may improve or worsen, depending on how efficiently the customisation process operates in comparison to the main production line.

Further guidance

The term 'inevitable' is included to encourage and provide a route that allow students to make a judgement. However, L5 can be achieved through a comprehensive judgement based on how improved flexibility can affect (worsen or improve) other measures of operational performance. An answer that evaluates links between flexibility and other measures can reach L5 without a conclusion based on whether it is inevitable (or not).

A L3 response should show a clear connection between flexibility and ONE other measure of operational performance.

A L5 response is likely to show a clear connection between flexibility and TWO other measures of operational performance.

Award a maximum of L3 if the only connection made is to measures of performance that are not operational, such as ROCE%, market share and labour turnover.

For arguments linked to economies of scale only reward as knowledge **if** there is no logical argument relating to higher levels of production/larger scale.