A-level

Business

7132/3
Final Mark scheme

7132
June 2017

Version/Stage: v1.0

Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the 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 Assessment Writer.

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, ie 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 limited response? A reasonable one? A good 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; refer back to standardisation scripts regularly
- 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.

0	1	Analyse, with reference to Kotter and Schlesinger's work, **two** barriers to change that KMH plc will face when implementing its new strategy.
		[12 marks]

Marks for this question: AO1=3, AO2=3, and AO3=6

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, applied effectively to the context and considers a range of issues in the question	**9 – 12 marks**
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, applied to the context and considers some of the issues in the question	**5 – 8 marks**
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 mainly descriptive application to the context	**1-4 marks**

The focus of the question is on:

- Analysing two reasons why people resist change that may occur when KMH plc implements its new strategy

- Using Kotter and Schlesinger's theory

Indicative content:

Kotter and Schlesinger identified 4 main reasons why change might be resisted:

- Self-interest – they would be worse off if the change occurred, e.g. one of the 140 who would lose their job. Average loss of salary would be substantial if 140 redundancies would save £12m
- Fear and misunderstanding – they do not trust the managers' motives – especially if new production machinery is to be introduced. This may be caused by inadequate information or a lack of communication

- Different assessments – they understand the reasons for the change but disagree with them; they may think they have a better plan – especially in the case of senior managers who may 'blame' sales staff for falling revenue or production staff for failing to control costs effectively. Many may question the ability of a former microchip company CEO to properly understand this market/business
- Prefer things as they are, low tolerance to change; they do not like change – especially as KMH has been investing heavily in people, with significant spending on training. KMH are one of Britain's favourite employers

0	2	Analyse, using **two** financial ratios, the financial constraints faced by KMH plc in attempting to fund the new strategy.
		[12 marks]

Marks for this question: AO1=3, AO2 =3, and A03=6

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, applied effectively to the context and considers a range of issues in the question	**9 – 12 marks**
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, applied to the context and considers some of the issues in the question	**5 – 8 marks**
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 mainly descriptive application to the context	**1-4 marks**

The focus of the question is on:

- using the results from two appropriate ratios (only 2016 is required)

- show how KMH's current financial position limits the availability of finance for the new strategy

Indicative content:

2016 gearing = 4567.5 / (4567.5 + 2508) * 100 = 64.55% (2015 was 56.07%)
Gearing with an extra £50m borrowed = 4617.5 / (4617.5 + 2508) * 100 = 64.8%

Borrowing to finance strategy may not be a sensible choice – though arguments could question the relative cost of loan vs share capital with interest rates still relatively low for a large borrower such as KMH plc

2016 current ratio = 6058.0 / 4086.5 = 1.48 (2015 = 1.46)
Current ratio with £50m cash deducted = 6008.0 / 4086.5 = 1.47

This implies the firm's liquidity, would be reduced; it may be argued that this could be low and create liquidity problems; however the ratio is still higher than in 2015

2016 ROCE = 6.9% (2015 was 9%). This relatively low level (especially the decline) suggests it may be hard to attract external equity investment. It could also be an indicator of the firm's inability to fund the investment through retained profit.

Other acceptable ratios include profitability margins used to assess either the attractiveness of KMH to external investors or their ability to use retained profit as a way of raising finance

	2015	2016
Gearing (%)	56.1	64.6
Current	1.46	1.48
ROCE (%)	9	6.9
Operating margin (%)	8.8	7.1
Gross margin (%)	21.0	20.4

Share price has fallen from a high of over £12 to under £7 – suggests financing the new strategy through sale of shares may not be a sensible option since a greater number of new shares would have to be issued at this lower price to raise the funding needed – diluting ownership further

Note – if only 2015 figures used, responses should still be credited. It is possible to argue that investment in the new strategy took place in the second half of 2015.

0	3	KMH plc uses a soft approach to Human Resource Management. Using the information provided, assess whether KMH plc should change its approach to Human Resource Management to help boost its profit. **[16 marks]**

Marks for this question: AO1=2, AO2 =3, A03=4 and AO4 =7

Level	The student will typically demonstrate:	Marks
4	**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.	13-16 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, 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.	9-12 marks
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, 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.	5-8 marks
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, 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.	1-4 marks

The focus of the question is on:

- HR management approach – how the company attempts to make best use of its people

- The impact of changing KHM's HR approach on profit – notably the ability for KMH to boost profit

- A judgement on whether a change in HR approach would boost profit

Indicative content:

HR approach can be considered in a broad sense, as actions taken by the business with a direct effect on their people, which can include, payment, structure, training

Keep current (soft) approach:

- Low labour turnover – especially important with such highly skilled work, following substantial investment in training. Shifting to a harder approach may lead to increased use of temporary staff and worsening conditions of employment resulting in staff leaving the business
- This may be the key to a better service for customers who buy the support package. There is a risk that changing the strategy could lead to a loss of trained technicians would be hard to replace should they leave – threatening KMH's ability to fulfil the promises made to customers who buy their support package
- The excellence of staff is considered to be a major source of competitive advantage – removing a major source of advantage may be a strategic disaster in a competitive market

Change approach:

- Poor financial performance – are staff remuneration ('generous salaries') and training too high. With £48.5m spent on training staff in 2016 – the equivalent of around 10% of operating profit.
- Planned redundancies would help to boost profit

Evaluation may consider:

- the likely impact on profitability of a shift in the approach to HR

- the short-term impact on cost reduction and the increased likelihood of negative impacts in the long-term.

- the major significance of the role of highly skilled staff in the performance of the business and the risk if any change is made

0	4	To analyse its competitive environment in the cruise ship engine market segment, KMH plc uses Porter's five forces model. Use the information provided to decide whether the power of buyers or the likelihood of new entrants is the bigger threat to KMH plc.
		[16 marks]

Marks for this question: AO1=2, AO2 =3, A03=4 and AO4 =7

Level	The student will typically demonstrate:	Marks
4	**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.	13-16 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, 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.	9-12 marks
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, 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.	5-8 marks
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, 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.	1-4 marks

The focus of the question is on:

- The impact on the business of the power of buyers and the likelihood of new entrants
- Applying information from the item to assess the effects of these two forces for KMH
- Reaching a judgement as to which poses the greater threat

Indicative content:

Power of buyers

- Buyers are cruise ship operating companies - relatively few buyers and so these pose a threat in terms of negotiating hard with KMH plc
- There are relatively few contracts in the market so KMH rely on these buyers and will be very keen to win every possible order

Likelihood of new entrants

This is a hard market to enter, with substantial barriers to entry:
- KMH enjoys economies of scale
- KMH holds thousands of patents for its engines
- KMH possesses technical expertise that would be hard to gather for a new entrant
- New entrants would require huge investment in equipment and specialist staff to successfully enter this market
- This makes the threat of new entrants relatively low.

Themes for evaluation:
- Buyer power may be the bigger threat. Buyer power may be becoming the bigger threat due to consolidation in the cruise market – shifting this factor against KMH plc
- The likelihood of new entrants remains strongly in favour of KMH plc
- Reward other arguments based on the quality of the analysis, application and evaluation

0	5	Most journalists blamed the fall in KMH plc's profits on either a failure to control costs or a slowdown in the growth of the global economy. Which of these two reasons do you believe is the main cause? Justify your answer using information from the case study and Table 2. **[20 marks]**

Marks for this question: AO1 = 4, AO2 = 3, AO3 = 5, AO4 = 8

Level	The candidate 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 judgments or provides solutions which are built effectively on analysis, show balance and have a clear focus on the question as a whole throughout.	17–20
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 and is 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	13–16
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	9–12
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 and with 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	5–8

1	**A weak response overall lacking focus on the demands of the question**	**1–4**
	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.	

The focus of the question is on:

- The causes of falling profits for KMH
- Use of data in table 2 and the case study to quantify the significance of the two main causes
- Demonstrating causal links showing how each of the two major causes had a negative impact on KMH's profitability
- Weighing up the impact of the two main causes to decide which played the greater role in KMH's declining profits

Indicative content:

Global economy:

- Hurts sales of cruise ship engines, as cruise ship operators seek to cut costs to counter falling revenues, postponing investment in new ships

- Cruise ship operators also postponing new orders as oil price slump led to less pressure to cut running costs of engines by upgrading to new fuel efficient engines

- In the luxury yacht market, formerly rich customers found their wealth diminished due to falling oil prices

- The global economy mainly affects revenues. These can be seen to have fallen from 2014's high point, by around £894m (11.5%)

- Responses that suggest global economy is contracting should be credited – recognition that growth continues, but at a slow rate would be making more effective use of context

Failure to control costs:

- If revenues fall the firm would need to reduce costs to maintain profit and profitability

	2014	2015	2016	% change 2014-2016
Revenue (£m)	7756.5	7441.7	6862.5	-11.5
Cost of sales (£m)	6098.1	5879.1	5462.7	-10.4
Gross profit (£m)	1658.4	1562.6	1399.8	-15.6
Gross profit margin (%)	21.38	21	20.4	-4.6
Operating expenses (£m)	903.5	906.5	910.4	+0.76
Operating profit (£m)	754.9	656.1	489.4	-35.2
Operating profit margin (%)	9.73	8.82	7.13	-26.7

- Gross margins fell from 2014 through to 2016
- Expenses rose marginally at a time of falling revenue
- Operating margin fell from 2014 through to 2016
- Short's first move was to look to push expenses (esp. management salaries) lower – this could imply the company's acceptance that expenses had not been effectively controlled

Evaluation may consider:

- Profit margins have fallen, most notably operating margins. Cost of sales has fallen by a little less than revenue proportionately. However, expenses have risen at the same time. However – the increase in expenses has been marginal in percentage terms.
- Revenues have declined significantly – there have been several issues relating to the economic slowdown that combine to reduce revenues
- The economic slowdown seems to be the more likely culprit but the impact was worsened by the increase in expenses

0	6	The nature of KMH plc's target market is probably the biggest influence on its marketing mix. To what extent is the nature of the target market the most important influence on the marketing mix of **all** businesses?
		[24 marks]

Marks for this question: AO1 = 5, AO2 = 4, AO3 = 6, AO4 = 9

Level	The candidate 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 whole throughout	21-24
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 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 focus of the question is on:

• Influences on the marketing mix of KMH and/or other businesses
• The relative importance of the target market and other possible influences on the mix
• Explaining the causal links between influences and the marketing mix
• Assessing the relative importance of the target market as an influence on the mix for ALL businesses

Indicative content:

• The target market could be most important influence because:
• It dictates how purchases are made
• The target market affects a wide range of elements of the mix

Target market may be a particular segment or may be a mass market.

In the case of KMH for example the target market is a few major companies placing large orders. KMH will focus on the benefits of the product and the service. It will use the sales team to target these big companies, building a relationship and negotiating. It will sell direct. This is a very different mix compared to say, a business producing chocolate targeting a mass market. The target market will affect e.g. pricing, product, distribution, promotion, people decisions and is therefore very important.

An alternative example could be a firm with a tech-savvy target market may choose to distribute solely online and promote via social media, or a company targeting the mass market may choose the broadest distribution channels available.

However there are other influences, which could include:

- the position in the product life cycle e.g. the mix may vary at the introduction stage compared to the maturity
- the Boston Matrix e.g. a business may take different marketing decisions with a dog product compared to a star
- marketing objectives e.g. if the business is aiming for a high market share it may take different marketing mix decisions compared to a low market share
- competition e.g. in a competitive market KMH must use their mix to differentiate from rivals
- positioning e.g. there are plenty of examples of businesses whose mix is dictated by their market position – such as discount supermarkets
- type of product – expensive industrial goods such as KMH's marine engines will have a different mix to many consumer goods
- other influences on the mix, especially external environmental factors such as the state of the economy are valid

Evaluation may consider:

- The undoubted importance of the target market i.e. it is clearly essential to link your mix to your target customers

- The fact that other factors will also influence the decisions being made such as what stage in the life cycle the product is and what the objectives are for it