



Mark Scheme (Results)

Summer 2018

Pearson Edexcel GCE

In Business (9BS0)

Paper 3 Investigating business in a competitive environment

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Publications Code 9BS0_03_1806_MS

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question Number	Indicative content	Mark
1(a)	<p>Knowledge 2, Application 2, Analysis 2, Evaluation 2</p> <p>Marks for application and analysis include up to 2 marks for quantitative skills</p> <p>Quantitative skills assessed:</p> <p>QS2: calculate, use and understand percentages and percentages changes</p> <p>QS8: use and interpret quantitative and non-quantitative information in order to make decisions</p> <ul style="list-style-type: none"> • Branding is about creating an image or name that gives a product an identity which is recognizable and positive. The more product branding, the greater the probability of sales. • It therefore aids promotion and helps in creating, maintaining and increasing sales <p>Benefits:</p> <ul style="list-style-type: none"> • The product branding in the table shows that for example Mars UK Ltd can achieve a greater number of sales in a market by having more products – in 6 out of 10 highest positions amounting to £198.9m in 2015, 64% of the top 10 added together, stronger than in 2014 when the same bars achieved £190.8m out of £308m - 62% • Having a well known product brand could be transferable to other products, such as Mars milkshakes, which can increase sales further Or enable higher prices to be charged as consumers will come to trust the quality of the product (PED is relatively price inelastic) <p><i>Possible counter-balance</i></p> <ul style="list-style-type: none"> • Branding can be expensive because of the need to develop new products, change production processes, packaging, advertising and marketing for such products as Mars bars. • Branding can also be negative if a single product suffers a problem such as food poisoning, the reputation of businesses may suffer and also the sales of its product range 	(8)

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Level 2	3–5	Accurate knowledge and understanding Applied accurately to the business and its context. Chains of reasoning are presented, showing cause(s) and/or effects(s) but may be assertions or incomplete. An attempt at an assessment is presented, that is unbalanced and unlikely to show the significance of competing arguments.
Level 3	6–8	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Logical chains of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, well contextualised, using quantitative and/or qualitative information and shows an awareness of competing arguments/factors leading to a supported judgement.

Question Number	Indicative content	Mark
1 (b)	<p>Knowledge 2, Application 2, Analysis 3, Evaluation 3</p> <ul style="list-style-type: none"> • Flexible working is moving away from fixed tasks, working hours and locations • Flexible working hours may make it easier to recruit and retain staff <p>Value of having flexible working:</p> <ul style="list-style-type: none"> • Enables Nestle to have greater flexibility in the way they deploy their staff ability to vary the way of working whilst controlling costs. • Finance staff would be able to work from home to complete Nestle's accounts, which could make them more productive as they will not waste time travelling to, and from the office • Flexible job roles across different departments should allow Nestle to respond with the appropriate level of staffing to meet changes in demand in the chocolate market • Marketing staff at Gatwick HQ may feel more motivated if they can take their dog to work which may increase productivity <p><i>Possible counter-balance</i></p> <ul style="list-style-type: none"> • Production staff are unlikely to be able to work from home given the need to work with machinery and plant to make chocolate • Staff without dogs may resent others who do take their dogs to work which might affect staff relations and productivity • Dogs may be distracting, so reduce productivity • Home working staff may be less productive because they are not closely monitored (McGregor X-type employees) <p><i>Possible judgement</i></p> <ul style="list-style-type: none"> • The success of flexible working as an approach to staffing, very much depends on the nature of the business and the job. It is less likely to be used in engineering and production occupations given that practicalities need to be overcome such as changing from one type of chocolate bar to another on the production line 	(10)

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Level 4	7–10	Accurate and thorough knowledge and understanding, supported by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced and well contextualised, using quantitative and qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.

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1(c)	<p>Knowledge 2, Application 2, Analysis 4, Evaluation 4</p> <ul style="list-style-type: none"> • Culture refers to shared attitudes, values, customs and expectations. Social differences come into play when different groups of people have different ways of communicating and ways of life. They affect consumer product preferences and patterns of consumption • Packaging and ingredients will need to be adapted to suit the different languages and climates otherwise sales could suffer <p>Important of:</p> <ul style="list-style-type: none"> • Changing eating habits in India, for example snacking, may have caused an increase in the demand for on-the-go convenience foods like chocolate • As income in emerging economies increase, the demand for western products such as chocolate may rise • Indian consumers appear to have a taste preference in favour of dark chocolate (dark Kit Kat Senses) and therefore production and sales should be aptly targeted <p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"> • Growing prosperity and incomes are more significant because chocolate is a luxury good to most consumers in the Indian economy • Heavily marketed and branded chocolate such as Cadbury or Nestle may represent a status symbol to consumers so products will be sold regardless of taste • Mistakes to do with unintended meanings, inappropriate or inaccurate translations are less common now given the growth of globalisation. <p><i>Possible judgement</i></p> <ul style="list-style-type: none"> • Businesses that want to expand into new markets must allow time to get to know their target markets by possibly seeking out partners and so may decide whether to have a joint venture, use local agents or employees who have a good understanding of the Indian chocolate/confectionary market. • Consumer tastes and preferences need to be met not only in terms of the actual flavour and packaging of chocolate but also the appropriateness of its marketing campaigns. Celebrity endorsement through Bollywood actors in India for example, may be a way to combine a respect for culture with promotional methods to increase sales. 	(12)

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Level 4	9–12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.

Question Number	Indicative content	Mark
1(d)	<p>Knowledge 4, Application 4, Analysis 6, Evaluation 6</p> <p>Marks for application and analysis include up to 2 marks for quantitative skills</p> <p>Quantitative skills assessed:</p> <p>QS2: calculate, use and understand percentages and percentages changes</p> <p>QS8: use and interpret quantitative and non-quantitative information in order to make decisions</p> <ul style="list-style-type: none"> • A takeover occurs when one business buys over half the shares in another business to gain control. <p>Thorntons</p> <ul style="list-style-type: none"> • Expediency, given access to more expertise, assets and resources to enable an increase in production in the UK without having to build new plant or recruit, employ and train new staff • Thorntons was sold for £112m which ought to be affordable for FI given revenues of over £8bn (1.4% of 2015's turnover). This may then help to maximize shareholder wealth for FI. • Strategically it would provide access to more sales for FI through high street stores, in a market with more potential for sales growth (worth £6bn) • Could have been a useful longer term defensive strategy to reduce the number of luxury chocolate competitors in the UK so that it could increase the sales of FI • However, Thorntons is struggling, possibly because retail sales in its stores are not covering costs and supermarket sales are competed against by other brands such as Nestle or Mars. A takeover would therefore not necessarily reverse these trends • The cost of the Oltan Group may well have been greater, especially given the size of the business and its annual turnover of £600m <p>Oltan Group</p> <ul style="list-style-type: none"> • By purchasing the Oltan Group, FI may be able to reduce its costs as it is undertaking backward vertical integration with a supplier which removes an otherwise intermediary profit mark-up. • Ownership of the Oltan Group, may provide access to the emerging Turkish market or other developing countries which have a tradition of importing hazelnuts from Oltan 	

- Longer term profits may be higher because hazelnuts are a key commodity for FI given that they are used in Nutella, Kinder Bueno and its luxury FI chocolates.
- Having ownership of a hazelnut processor may increase market dominance for FI for chocolates which contain nuts, especially if the plant was invested in to be able to process other nuts such as almonds or brazil nuts.
- However, FI may lack expertise or knowledge of the hazelnut production process. This may therefore lead to culture clashes resulting in diseconomies of scale

Possible recommendation

- It very much depends on the nature of the takeovers. If either were 'hostile' there may be resentment from other shareholders or employees which might make stakeholder relationships and operations more difficult. In which case the long term profitability for FI could suffer.
- If the Thorntons takeover had been 'friendly' because by FI taking over the UK company, jobs were saved or indeed the business, then this may be a better choice than the Oltan Group. Labour productivity may therefore improve and thus lead to better profits for FI in the short term

Examples of possible 'MOPS' recommendations

Market – The chocolate market is highly competitive and therefore faced with competition from companies like Nestle and Mars, by having another manufacturing company in its portfolio, Ferrero International might be more able to take advantage of economies of scale and so reduce its average costs to make it more competitive

Objectives – Maximising revenues and minimising costs determine profitability. Therefore by taking over a supplier (Oltan Group) production costs should be reduced giving Ferrero International and opportunity to increase profits

Product – Hazlenuts are only one ingredient in a limited range of products, therefore unlike cocoa, the ability to save costs in this area might not be too significant to production costs as a whole

Situation – The chocolate market is becoming increasingly competitive on an international level (takeover of Cadburys by Kraft, then becoming Mondelez International) so it may be less risky and more profitable in the long run to purchase suppliers of ingredients, especially given the Oltan Group's monopoly position. Under Ferrero International, high prices could be charged to other chocolate manufacturers like Nestle to support Ferrero International's long-term profits.

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Level 2	5–8	Elements of knowledge and understanding, which are applied to the business example. Arguments and chains of reasoning are presented, but connections between cause(s) and/or consequence(s)/effect(s) are incomplete. Attempts to address the question. A comparison or judgement may be attempted, but it will not successfully show an awareness of the key features of business behaviour or business situation.
Level 3	9–14	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Uses developed chains of reasoning, so that cause(s) and/or consequence(s)/effect(s) are complete, showing an understanding of the question. Arguments are well developed. Quantitative or qualitative information is introduced in an attempt to support judgements, a partial awareness of the validity and/or significance of competing arguments and may lead to a conclusion.
Level 4	15–20	Accurate and thorough knowledge and understanding, supported throughout by use of relevant and effective use of the business behaviour/context. Uses well-developed and logical, coherent chains of reasoning, showing a range of cause(s) and/or effect(s). Arguments are fully developed. Quantitative and/or qualitative information is/are used well to support judgements. A full awareness of the validity and significance of competing arguments/factors, leading to balanced comparisons, judgements and an effective conclusion that proposes a solution and/or recommendation(s).

Question Number	Indicative content	Mark
2(a)	<p>Knowledge 2, Application 2, Analysis 2, Evaluation 2</p> <ul style="list-style-type: none"> • Quality control refers to traditional methods of checking that final products are of a good enough standard, capable of doing what they were intended to do <p>Benefits:</p> <ul style="list-style-type: none"> • For chocolate this might mean sample inspections to check the different shapes of chocolates, the taste, the packaging before being sold to suppliers/consumers • It should prevent faulty chocolates such as Wispas (misshapes, discoloured, damaged) reaching the customer and so prevent a loss of reputation and a fall in sales in other chocolates like Flakes. • It avoids costly returns of chocolates through the retailer, which could prove particularly problematic if sold as a gift for Easter. <p><i>Possible counter-balance</i></p> <ul style="list-style-type: none"> • Quality control does not attempt to find out why the chocolates were misshaped or damaged as it is simply a way of preventing faulty chocolates being sold to the consumer such as TQM • The process reinforces the idea that mistakes in the chocolate manufacturing process are unavoidable which may cause the production staff to be complacent as its is the responsibility of the quality controller (quality assurance) to find the faulty chocolates/packaging 	(8)

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Question Number	Indicative content	Mark
2(b)	<p>Knowledge 2, Application 2, Analysis 3, Evaluation 3</p> <ul style="list-style-type: none"> CSR involves a business paying attention to the needs and preferences of all stakeholders, not just the shareholders who own the business. It includes customer care, staff working conditions, pay, product quality and value for money, impact of the business on the environment <p>Positive values of CSR:</p> <ul style="list-style-type: none"> For Cadbury, looking after employees (gift of chocolates, paying at least the living wage, providing housing and even amenities like schools), supporting the Government's voluntary obesity policies, has resulted in providing a quality chocolate bar because of improved employee motivation By supporting social initiatives, the reputation of Cadburys should improve and so consumers may be more likely to buy <p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"> Financial considerations are more important than CSR such as using value for money ingredients (sultanas) in Fruit & Nut bars to reduce costs Chocolate is often an impulse purchase, so consumers are not going to be discerning towards a chocolate manufacturer which exercises CSR Consumers may be seeking lower prices, for example during a recession, so will not be affected by the Cadbury decision not to use FairTrade cocoa beans. Indeed, the Cocoa Life farmer cocoa beans may be better quality, as might be the non-FairTrade sugar <p><i>Possible judgement</i></p> <ul style="list-style-type: none"> CSR may reduce profitability because costs increase (cocoa farmers paid £1,600 per tonne) which may reduce opportunities for product development and so limit consumer choice of chocolates in the future. CSR is a long-term attitude to operating a business, which may improve long-term profitability in a highly competitive chocolate market by providing a means of differentiation 	(10)

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2 (c)	<p>Knowledge 2, Application 2, Analysis 4, Evaluation 4</p> <p>Marks for application and analysis – include up to 6 marks for quantitative skills</p> <p>Quantitative skills assessed:</p> <p>QS6: calculate investment appraisal outcomes and interpret results</p> <p>QS8: use and interpret quantitative and non-quantitative information in order to make decisions</p> <p>QS9: interpret, apply and analyse information in written, graphical and numerical forms</p> <p>Indicative content (quantitative skills)</p> <ul style="list-style-type: none"> Payback = <p><u>Cumulative Cash Flows:</u></p> <p>Year 1 = 20</p> <p>Year 2 = 45</p> <p>Year 3 = 75</p> <p>= 3 years (workings not required)</p> <ul style="list-style-type: none"> NPV = £13.81m (workings not required) <table border="1"> <thead> <tr> <th>Net cash flows £m</th><th>Discount rate</th><th>DCF £m</th></tr> </thead> <tbody> <tr> <td>20</td><td>.909</td><td>18.18</td></tr> <tr> <td>25</td><td>.826</td><td>20.65</td></tr> <tr> <td>30</td><td>.751</td><td>22.53</td></tr> <tr> <td>22</td><td>.683</td><td>15.03</td></tr> <tr> <td>20</td><td>.621</td><td>12.42</td></tr> <tr> <td></td><td>Total</td><td>88.81</td></tr> <tr> <td></td><td>NPV</td><td>13.81</td></tr> </tbody> </table> <ul style="list-style-type: none"> It takes exactly three years to pay back the £75m investment which in business is very favourable; usually capital investments are longer term and take 10 years or more to pay for themselves. In the highly competitive chocolate market, earning back an investment quickly can mean that any profits which follow can be used for other investments such as new plants in emerging economies The NPV is positive (plus £13.81m) which given that the discount rates were set at 10%, is very favourable, especially given that training costs need to be afforded and pay increases of 2% are to be paid. 	Net cash flows £m	Discount rate	DCF £m	20	.909	18.18	25	.826	20.65	30	.751	22.53	22	.683	15.03	20	.621	12.42		Total	88.81		NPV	13.81	
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	<p><i>Possible counter-balance:</i></p> <ul style="list-style-type: none"> • All investment appraisal methods assume that predicted cashflows will be achieved. Should a new chocolate competitor enter the market or Cadbury production of chocolate suffer from a lack of cocoa beans due to drought in Africa, this may not be the case. • A senior manager at Cadbury may have manipulated the forecast data so as to promote the Mondelēz International investment in the Birmingham factory in order to save their career • 10% is a high discount rate when compared to the present based rate of 0.25% (2017) therefore a lower discount rate will give you a higher NPV <p><i>Possible judgement</i></p> <ul style="list-style-type: none"> • Focussing on the financial values of the £75m investment may miss out on the qualitative issues. The pros and cons of the project should be considered within the context of corporate objectives, CSR, market position, long term survival – the latter may be very appropriate given the investment enables better production by 'state of the art' production lines. • Given that Cadbury chocolate is worth £4bn in sales to Mondelēz International, rising to £6bn by 2020, and that the chocolate products have enjoyed consumer loyalty for many years, it is worth the investment. Also especially given the growing demand for Dairy Milk, Oreos and Marvellous Creations. 	(12)
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2 (d)	<p>Knowledge 4, Application 4, Analysis 6, Evaluation 6</p> <ul style="list-style-type: none"> Competitive advantage is a feature of a business and/or its products that enable it to compete effectively with rival producers/products. If the competitive advantage is based on cost, this may be down to achieving lower costs than competitors due to purchasing economies of scale of cocoa beans or sugar or mass marketing techniques, such as TV advertising The competitive advantage may be down to differentiation because of the quality of the chocolate. This may have been enabled by using high value ingredients, in batch production or made by hand by highly trained and skilled staff <p>Cost competitiveness</p> <ul style="list-style-type: none"> Cadbury have adopted Coco Life instead of Fairtrade to save on costs. Cadbury have managed to seek out low cost production locations in emerging economies (offshoring in Argentina, Brazil and India) which has enabled price competitiveness for chocolate products like Dairy Milk. The outsourcing of the production of some chocolate bars to low cost labour countries such as Poland could prevent a rise in prices caused by higher costs of ingredients like sugar caused by the fall in the £ sterling Cadbury could use cost leadership pricing strategies to target market segments that are most price-sensitive, for example by selling multipacks of CDM aimed at families on a limited budget who buy from supermarkets Productivity gains could be achieved by using more automation thanks to the £75m investment in the modernisation at the Birmingham plant which might enable 24 hour production of products such as Crème Eggs in the run up to Easter. <p>Product differentiation</p> <ul style="list-style-type: none"> Building a brand or reputation, which might be achieved through the promotion of the Cocoa Life partnership with farmers in Ghana. This CSR strategy should increase sales to the more discerning consumer, though it is less ethical than Fair Trade schemes Improve the quality of the chocolate by using more cocoa solids and cocoa butter so that customers who may be prepared to pay a premium price may help boost revenues above the current £4bn 	

- Ensuring that the chocolate is reliable in terms of taste, colour, safe to eat. The Cadbury salmonella outbreak in 2006 caused sales of certain chocolate products to fall by as much as 20%
- Enhance the core product through augmentation, such as the Cadbury World experience which serves to promote the image of Cadbury and its products to families and schools
- Advertising or promotion, such as by the £10m a year sponsorship of ITV's Coronation Street from 1997-2006. This had more impact than 30 second TV adverts

Possible recommendations

- Choice of strategy depends very much on the economic climate/ownership e.g. Mondelez International. Cost competitiveness strategies may be more successful as the market becomes more sensitive to rising prices due to a shortage of cocoa or as real incomes fall given lower than inflation pay increases
- As incomes in emerging economies like India rise, then product differentiation strategies may be more appropriate to attract those consumers who may buy less frequently the more indulgent type of chocolate rather than on the go snack bars. In which case Cadbury could improve its position in the global market by advertising itself as a lifestyle product, like Coca Cola.

Examples of possible 'MOPS' recommendations

Market - The chocolate market is highly competitive, (oligopoly) dominated by the Mars and Nestle. Cadbury, as part of Mondelez International, might gain more sales in new markets like India and Brazil if it extended consumer choice in these countries through product differentiation

Objectives – Product differentiation is what extends consumer choice, particularly important for impulse buys like chocolate. So by having a range of products, total sales of Cadbury products like Flake, Twirl and CDM should add up to provide a competitive advantage given the higher probability of consumer sales over, say, Mars products.

Product - World commodity prices for things like cocoa are rising. So, cost competitiveness is critical to competitive advantage in order to offset these significant rising costs over rivals like Nestle.

Situation - Choice of strategy depends very much on the economic climate. Cost competitiveness strategies may be more successful as the market becomes more sensitive to rising prices due to a shortage of cocoa or as real incomes fall given lower than inflation pay increases

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