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Edexcel

Mark Scheme (Results)

Summer 2019

Pearson Edexcel GCE A Level
In Business (9BS0)

Paper 03 Investigating business in a competitive
environment

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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 style="text-align: center;">Knowledge 2, Application 2, Analysis 2, Evaluation 2</p> <p style="text-align: center;">Marks for application and analysis include up to 4 marks for quantitative skills</p> <p>Quantitative skills assessed: QS7: interpret values of price and income elasticity of demand QS9: interpret, apply and analyse information in written, graphical and numerical forms</p> <p>Indicative content</p> <ul style="list-style-type: none"> ● Income elasticity of demand (YED) measures the responsiveness of changes in demand to changes in consumer income ● Holidays are considered a luxury which makes them income elastic; holidays abroad are usually more expensive so this makes them even more income elastic ● The bigger the share of income spent on holidays makes them more income elastic ● Uncertainty can determine YED; A weaker pound could make overseas holidays potentially more expensive and therefore increase YED <p><i>Possible counter-balance</i></p> <ul style="list-style-type: none"> ● Demand for holidays depends on the individual's circumstances. Holidays may be considered necessary (reduce stress) so making the demand for them less sensitive to changes in income ● Demand for holidays varies according to the type of holiday; when incomes fall demand for all-inclusive holidays may increase given that total costs are more certain; likewise the demand for shorter holidays or staycations may increase. 	(8)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
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.

Question Number	Indicative content	Mark
1 (b)	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 3, Evaluation 3</p> <p>Indicative content</p> <ul style="list-style-type: none"> ● Factors include levels and growth of disposable income; ease of doing business; infrastructure; political stability; government incentives; skills and availability of workforce; marketing strategies; strong brand ● Higher disposable income in China makes visits to Shanghai Disney generally more affordable to ensure sales ● Increased provision of infrastructure is needed otherwise transport bottlenecks could arise which would reduce sales ● Disney is a well-known brand which is associated with fun and happiness which should support immediate sales ● Shanghai Disney working with a Chinese partner (Fosun International) which has local knowledge should have helped alleviate any issues with planning, politics, infrastructure, etc. <p><i>Possible counter-balance</i></p> <ul style="list-style-type: none"> ● Short term novelty may wear off so sales could suffer long term, especially if other 'western theme park' or competition from Chinese companies increases ● Government incentives provided to encourage job creation may reduce costs initially to encourage the set up but may be withdrawn over the longer period ● Staff training may be required, which may prove expensive if managers from Disney in the US are utilised to ensure the consistency of the company's culture <p><i>Possible judgement</i></p> <ul style="list-style-type: none"> ● The long term success of Shanghai Disney may depend on maintaining effective business strategies such as the company's ability to extend the theme parks product-life cycle through launching new rides (Toy Story Land) 	(10)

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Level 2	3–4	Elements of knowledge and understanding, which is applied to the business example. Chains of reasoning are presented, but may be assertions or incomplete. A generic or superficial assessment is presented.
Level 3	5–6	Accurate knowledge and understanding, supported by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and/or qualitative information, though unlikely to show the significance of competing arguments.
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/or qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.

Question Number	Indicative content	Mark
1(c)	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 4, Evaluation 4</p> <p>Indicative content</p> <ul style="list-style-type: none"> ● Exchange rates are the price of one currency in terms of another ● If the £ depreciates this increases the effective price of holidays priced in Euros and US dollars, which makes the booking of a hotel in Spain more expensive, for example. ● Over the period 2014 to 2017, the £ has depreciated against the \$US, whilst the trend for holidays abroad has increased from 1.2 to 1.7 which suggests that exchange rates do not necessarily affect demand for overseas holidays, despite the loss in purchasing power of the £ ● The trend in UK holidays has increased from 1.8 to 2.1 which might suggest that a depreciation in the £ might cause more people to holiday in the UK instead <p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"> ● Increased consumer incomes may have compensated for the depreciation of the pound, which means that UK holidaymakers may still choose more expensive holidays overseas. ● Changes in technology which has improved accessibility for consumers to budget for and book their own holidays ● Uncertainty and/or job losses may have caused the increase in demand for holidays in the UK as they tend to be cheaper. <p><i>Possible judgement</i></p> <ul style="list-style-type: none"> ● Exchange rates can determine both the price of booking of a holiday (given that hotel rooms and flights may be priced in a foreign currency) and the costs of a holiday (meals in restaurants) so would have an impact ● Whilst exchange rates can determine the price/overall cost of a holiday, this alone does not determine demand. Other factors may be more significant such as the climate/quality of hotels/opportunity to experience different culture/different foods/develop ability to speak foreign language/desire visit family/changes in demographics/preference for shorter holidays. 	(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 style="text-align: center;">Knowledge 4, Application 4, Analysis 6, Evaluation 6</p> <p style="text-align: center;">Marks for application and analysis include up to 6 marks for quantitative skills</p> <p>Quantitative skills assessed: QS1: calculate, use and understand ratios, averages and fractions QS8: use and interpret quantitative and non-quantitative information in order to make decisions</p> <p>Indicative content</p> <p>Answers to A & C is the 8 period total / 8 for 2016 Q4 is $590/8 = 73.75$ for 2017 Q1 is $610/8 = 76.25$</p> <p>Answers to B & D is sales – four-quarter moving average. for 2016 Q4 is $60-73.75 = -13.75$ for 2017 Q1 is $60 -76.25 = -16.25$</p> <p>Offer winter activity holidays</p> <ul style="list-style-type: none"> • Live the Adventure Ltd is a seasonal business which, based on the data for 2015-2017, is clearly experiencing lower sales revenues in Q1 and Q4 when compared to Q2 and Q3, the spring and summer periods. This is causing the four quarter moving average sales to fall below what might otherwise be the case, e.g. by 18,750 for 2015 Q3. • The variation in winter quarters are both negative (2016 Q4 -13.75 and 2017 Q1 -16.25) so despite sales growth, sales in these quarters are below trend, therefore a better source of growth may be winter activity holidays in Europe. • Winter activity holidays may therefore provide a revenue stream to help even out cash inflows whilst at the same time enable more regular business activity • Permanent staff might therefore be better utilised given the work opportunities in Europe rather than experience under capacity or suffer because of a lack of capacity utilisation in Shropshire. • There may be less need for appointing and training temporary staff which might improve customer service and the businesses reputation and could lower costs <p>Expand its existing operations</p> <ul style="list-style-type: none"> • Live the Adventure is experiencing an increase in sales revenues when comparing each same quarter over the three year period which suggests that the business is succeeding; there may not be a need to smooth out incomes over the year. Winter months are compensated for in the summer months. • Indeed the four-quarter moving averages are increasing over the periods 2015 Q3 from £61,250 through to £78,750 by 2017 Q2. 	

- The trend is upwards from 71.25 in 2016 Q3 to 73.75 in 2016 Q4 to 76.25 in 2017 Q1, which suggests that the overall trend for sales is increasing for existing operations.
- Staffing costs could actually increase as winter sports may require further training and increases in pay to attract and retain the right personnel.

Possible recommendation

- The data only refers to sales not costs and therefore we do not know about profits (or losses)
- It very much depends on whether Live the Adventure can continue to expand and develop its business operations in Shropshire and Nepal. If so, then given the upward trend in sales from £61,250 to £78,750 it would appear to be sensible to focus on the business that has worked successfully since 1984.
- Diversification into a new market may spread risk as the sales data for UK and Nepal is past data and provides no guarantee for business growth.

Examples of possible 'MOPS' recommendations

- Market – By extending operations to offer winters holidays to Europe, Live the Adventure Ltd would probably grow more in the longer term given that there is a bigger new customer base and they could have several sites located across Europe, such at the Pyreness and Alps
- Objectives – Maximising revenues and minimising costs determine profitability and in turn income for investment and growth. Surely this would be more likely if LTA were to stick with what they know best and gain economies of scale to keep costs down and develop their loyal customer base in Shropshire
- Product – winter holidays are relatively expensive so may not be as affordable given the current economic climate
- Situation – Presently (having not left the EU) there are no barriers to entry or exit which should enable LTA to trade and gain a foothold in what could be a lucrative market given the growing levels of disposable incomes from former Soviet Union countries' populations of consumers, e.g. Latvians

(20)

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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 knowledge and understanding, supported 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 developed. Quantitative and/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 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 recommendations.

Question Number	Indicative content	Mark
2(a)	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 2, Evaluation 2</p> <p>Indicative content</p> <ul style="list-style-type: none"> ● Entrepreneurs takes risks and combine other factors of production (land, labour and capital) to set up a business/provide a product or service for profit ● Leadership is about inspiring and organising employees to achieve a common goal through delegation and authority ● O’Leary would need to be able to delegate and therefore trust employees to do a job and balance being supportive with interfering. He may not be prepared to do this as he is driven by the need to compete. ● It might be difficult for O’Leary to change from having only his own ideas to accepting other peoples’ ideas given that O’Leary considers himself ‘abrasive’ and ‘cold-hearted, and ruthless in business’ <p><i>Possible counter-balance</i></p> <ul style="list-style-type: none"> ● Having worked at Southwest Airlines O’Leary may have seen the benefits of listening and keeping an open mind as other employees may have had better ideas ● O’Leary considers himself to be ‘humble’, consequently he should be able to listen to the opinions of his employees in order to inspire 	(8)

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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.

Question Number	Indicative content	Mark
2(b)	<p style="text-align: center;">Knowledge 2, Application 2, Analysis 3, Evaluation 3</p> <p>Indicative content</p> <ul style="list-style-type: none"> ● Consumer protection legislation is aimed against any business' unfair selling practices. The consumer has basic legal rights if the product/service is given a misleading description, of an unsatisfactory quality, unfit for purpose ● Applies to flight cancellations, when it is the fault of the airline (pilot planning failure) and additional costs for passengers ● Short term costs - compensation payments of €25m were paid to passengers; long term costs - higher pay to flight crew €100m ● If ignored, expect to see bookings fall because of uncertainty and poor reputation of Ryanair as a result of media coverage and CAA action. <p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"> ● Budget airlines offer competitive prices so some passengers are not put off rebooking with Ryanair – 8% increase in October 2017, despite 20,000 flights being cancelled in September 2017 ● Ryanair flights are booked on-line in advance by passengers to secure cheaper fares still, so demand unlikely to suffer as a result ● Depends on the available competition from other budget airlines on routes and destinations; Ryanair may retain custom if this is poor <p><i>Possible judgement</i></p> <ul style="list-style-type: none"> ● The effects have not been detrimental to the business as profits are being forecast at €1.4bn for March 2018. This suggests that the costs of compensation and recruitment, caused by the legislation have been more than met by increased sales revenue. 	(10)

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Question Number	Indicative content	Mark
2 (c)	<p>Knowledge 2, Application 2, Analysis 4, Evaluation 4</p> <p>Indicative content</p> <ul style="list-style-type: none"> ● Business failure can be caused by internal and/or external factors, which can be financial or non-financial. ● In the case of Monarch when compared to Ryanair there was a lack of management planning long term which meant that it delayed changing to a budget airline until 2009 by which time Ryanair and Easyjet had grown to dominate the market ● Failing to replace the fleet of ageing Airbuses before 2018 meant that Monarch may have had higher fuel and maintenance costs, making them less competitive. ● Using more than one aircraft type during the switch from Airbus to Boeing-737 meant that maintenance and staff training costs may have been higher ● Monarch’s inability to learn from failure as they were bought in 2014 for £25m by Greybull Capital and rescued again in 2016 for £165m ● Monarch may have ignored customer requirements such as more popular destinations, free seats for children under 12, charging credit card fees, on-line check ins <p><i>Possible counter-balance:</i></p> <ul style="list-style-type: none"> ● External factors were largely to blame such as terror attacks and military coups in Monarch destinations such as Tunisia and Turkey which would have caused bookings to fall and reduced passenger numbers causing revenues to fall. ● Depreciation of sterling caused fuel costs (priced in \$) to increase which could have damaged cash-flow ● Competitors of Monarch such as Ryanair (Monarch was a tenth of the size of Ryanair) are considerably larger, therefore would be more likely to have benefitted from economies of scale. <p><i>Possible judgement</i></p> <ul style="list-style-type: none"> ● Monarch’s management may have needed to develop a USP or form of product differentiation against the budget airlines which may not have been possible given that it was a chartered airline originally ● The impact of external factors are not predictable and could have been made worse, for example if competing budget airlines had lowered their fares to ‘safer’ destinations, like Spain, causing Monarch’s sales to suffer further. 	(12)

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Question Number	Indicative content	Mark
2 (d)	<p>Knowledge 4, Application 4, Analysis 6, Evaluation 6</p> <p>Indicative content</p> <ul style="list-style-type: none"> • Competitive pricing is charging what the market will bear, usually following a price leader. Penetration pricing is to set a low price initially and accepting limited short-term profits/losses in order to build market share before switching to a more profitable price. • The partnership between Ryanair and Air Europa might be regarded as a product life cycle extension strategy or classified as market development (Ansoff) <p>Competitive pricing</p> <ul style="list-style-type: none"> • If there is strong competition from other airlines in the UK such as Virgin Atlantic, then the price set needs to be comparable as these airlines may have brand loyalty • Ryanair could afford other means of differentiation to make its flights more attractive than rivals such as extra leg room, in-flight hot meals, free transfers, free airport parking which may increase passenger numbers leading to increase in profits • GDP per capita in the US and the UK is much higher than in central and south American countries which may mean competitive prices can be charged to consumers in those countries • Economic growth is positive in the UK, Mexico and the US which may mean consumer incomes are rising so holidays overseas (luxury good) may still increase with competitive pricing <p>Penetration pricing</p> <ul style="list-style-type: none"> • UK-based consumers may be used to Ryanair being a market leader in low-cost travel. Therefore they may see this partnership as an opportunity to book long-haul flights to new destinations such as Mexico and Brazil. • If the Americas market is new to Ryanair, then by setting a lower price than rivals Iberia and Vueling should entice customers to give their flights a try. If satisfied then this should help build the brand/sales further and help to maximise profit • Ryanair is the largest airline in the worldwide in terms of passenger numbers. Therefore it can achieve economies of scale which enable it to lower costs and offer lower prices than competitors. This means that Ryanair can use penetration pricing and still make a profit. • GDP per capita is much lower in countries like Cuba and Brazil, in which case penetration pricing may be possible for Ryanair given that they may face lower operating costs e.g. airport ground staff wages, landing fee • Economic growth is negative in Argentina, Brazil and Cuba which may mean UK consumer purchasing power may be higher so Ryanair long-haul holidays (luxury good) may be encouraged with penetration pricing 	

	<p><i>Possible recommendations</i></p> <ul style="list-style-type: none"> • Competitive pricing may lead to higher profits as UK consumers may expect to pay higher prices for long-haul destination in return for a better customer experience e.g. food, entertainment and more leg room • In the short term penetration pricing may not lead to profits. But in the long term may enable Ryanair to establish itself in the long-haul flights market for UK consumers allowing it to raise prices at a later date to maximise profit. <p>Examples of possible 'MOPS' recommendations</p> <ul style="list-style-type: none"> • Market – The low cost airline market is increasingly highly competitive and therefore faced with competition from companies like Vuelling and Iberia it is important to gain a foothold in the market by offering penetration pricing • Objectives – Maximising revenues and minimising costs determine profitability, so whilst penetration pricing may cause revenues to be lower initially, (assuming price elastic demand) once prices increase any shortfalls in sales revenue from passengers could be compensated for over the longer term • Product – price competitively and in doing so maintain revenues over the period and instead gain extra customers through non-price factors such as offering better quality seats with extra leg room, better quality in flight meals, better customer service • Situation – 2016 GDP growth across the less developed economies in Extract H table (Argentina, Brazil, Cuba and Mexico) averages -1.3 which suggests that its is important for Ryanair/Air Europa to price these flights competitively because the economies are not growing and so incomes are not increasing for potential passengers, otherwise sales would suffer on the basis of affordability 	(20)
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Level 3	9–14	<p>Accurate knowledge and understanding, supported by relevant and effective use of the business behaviour/context.</p> <p>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 developed.</p> <p>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.</p>
Level 4	15–20	<p>Accurate and thorough knowledge and understanding, supported throughout by use of relevant and effective use of the business behaviour/context.</p> <p>Uses well-developed and logical, coherent chains of reasoning, showing a range of cause(s) and/or effect(s). Arguments are fully developed.</p> <p>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 recommendations.</p>

Question 1 (d) Source of data calculations for 4 Quarter Moving Averages

Year and Quarter	Sales	4 Quarter Total	8 Period Total	4 Quarter Moving Average	Variation
2015 Q1	40				
2015 Q2	70				
		240			
2015 Q3	80		490	61.25	18.75
		250			
2015 Q4	50		510	63.75	-13.75
		260			
2016 Q1	50		530	66.25	-16.25
		270			
2016 Q2	80		550	68.75	11.25
		280			
2016 Q3	90		570	71.25	18.75
		290			
2016 Q4	60		590	73.75	-13.75
		300			

2017 Q1	60		610	76.25	-16.25
		310			
2017 Q2	90		630	78.75	11.25
		320			
2017 Q3	100				
2017 Q4	70				

