

**A-level
BUSINESS
7132/1**

Paper 1 Business 1

Mark scheme

June 2021

Version: 1.0 Final Mark Scheme



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.

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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, eg 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.
- 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, eg 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, eg 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 FOR MARK SCHEMES

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

Section C and Section D – 25-mark essay questions

The following should be used at the end of the response:

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

Section A**Objective Test Answers****Total for this section: 15 marks**

Question number	Answer
01	D Statement 1 is false. Statement 2 is false.
02	D the current market price of the shares is the same as the initial share price.
03	D from impoverished leader to team leader.
04	B Situation B
05	B dog.
06	C Statement 1 is false. Statement 2 is true.
07	D increased by dynamic pricing and increased by penetration pricing.
08	A Company A
09	A Statement 1 is true. Statement 2 is true.
10	B Statement 1 is true. Statement 2 is false.
11	D from an international strategy to a transnational strategy.
12	C Project C
13	B Growth through creativity.
14	D manipulation to overcome self-interest.
15	B Statement 1 is true. Statement 2 is false.

Section B

16	.	1	State the activities on the critical path.
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[1 mark]

Marks for this question: AO1 = 1Critical path activities are **ACF**

16	.	2	What is the float time, in days, for Activity D?
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[1 mark]

Marks for this question: AO2 = 1Float time for D = $14 - 4 - 4 =$ **6 days**

The business has learned that Activity E will now take 7 days to complete.
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16	.	3	Given this change, state the activities on the critical path.
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[1 mark]

Marks for this question: AO2 = 1New critical path is **BEG**

16	.	4	Given this change, what is the duration of this critical path, in days?
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[1 mark]

Marks for this question: AO2 = 1Duration in days = $4 + 7 + 7 =$ **18 days**

17	.	1	Referring to Figure 3 , calculate the expected value and the net gain of Option 1. Show your working.
			[3 marks]

Marks for this question: AO1 = 1 and AO2 = 2

Correct answers to Option 1 – Net gain = Minus £3m (or (£3m):

Broken down as follows:

Option 1 – **Expected value** = $[0.6 \times 20] + (0.4 \times -25) = 12^* - 10^* = \underline{\text{£2 million}}$ (2 marks)

* Award **1 mark** for one correct element: **EITHER 12 OR -10**

Option 1 – **Net gain** = £2m – £5m = Minus £3 million or (£3m) (1 mark)

OFR applies. For example, if a student answer shows $12 + 10 = 22$, then award 1 mark for the 12 which is a correct element. However, if they then show the net gain as 17 ($22 - 5$) then this is correct using the OFR and so a 2nd mark should be awarded for the final calculation.

17	.	2	Using these calculations and the other data in Figure 3 , state which one of the three options the business should choose.
			[1 mark]

Marks for this question: AO2 = 1

Net gains are:

Option 1: (£3m)

Option 2: (£1m)

Option 3: Zero

Best choice = Option 3 OR ‘Do nothing’ (1 mark)

Award 1 mark for the above answer, even if no working is shown.

Note

OFR applies. If a student provides an answer for Option 1 that gives a positive net gain then award 1 mark for a choice that is consistent with the own figure rule. That is, they should be given 1 mark if their choice has the highest net gain according to their calculations.

1	8	A business decides to increase the price of a product in order to improve its profit.
		Analyse how the success of this decision is affected by the product's price elasticity of demand.
		[9 marks]

Marks for this question: AO1 = 2, AO2 = 3 and AO3 = 4

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: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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 understand the meaning of price elasticity of demand
- to analyse how the impact of an increase in price on sales (volume or value) will be affected by whether a product has inelastic or elastic demand
- to use this analysis to draw a conclusion on the possible effect on profit.

Indicative content:

- recognising that a higher price should lead to a decrease in the quantity demanded
- analysing the impact of the price rise on sales revenue:
 - if the product has price elastic demand a given % increase in price leads to a larger % decrease in the quantity sold and so sales revenue will fall
 - if the product has price inelastic demand a given % increase in price leads to a smaller % decrease in the quantity sold and so sales revenue will rise
- because fewer products are sold total costs should be lower

- therefore, profitability will increase if demand is price inelastic because sales revenue will rise but total costs will fall.
 - the effect on profit will depend on the level of unit costs if demand is price elastic. The profit margin will rise but sales volume will fall significantly, so the impact on profit is not known without further information on costs.

(This final argument should be credited at L3 if it is included by a student, but it is not necessary for Top L3 which should be given for the indicative content shown above this final bullet point)

1 9**Table 3** below shows data on GDP and exchange rates for Country X in 2019 and 2020.

The currency of Country X is the peso.

Table 3 GDP and exchange rates for Country X

	2019	2020
Index of GDP	200	210
Value of peso in US \$	\$1.00	\$1.10

A business manufactures and sells its products in Country X, but imports raw materials from the United States of America (US).

Analyse the possible impact of the changes in this data on the profitability of this business.

[9 marks]**Marks for this question: AO1 = 2, AO2 = 3 and AO3 = 4**

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: <ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> 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 the data in the table might improve or worsen the profitability of a business that manufactures and sells its products in Country X, but which imports raw materials from the USA.

Indicative content:

- Analysing that an increase in GDP (of 5%) should lead to an increase in demand (of possibly/approximately 5%). Higher GDP may also help the business to charge a higher price as incomes should increase in Country 'X'. This will increase profitability.
- Analysing that a 10% increase in the exchange rate of Country 'X's currency to the USA \$ will lead to a fall in the price (possibly about 10%) of any raw materials imported from the USA.
- Analysing that lower raw material prices should lead to lower costs (the exact level depending on the extent of other manufacturing costs).
- Analysing that lower costs will lead to a higher profit margin (or more sales volume if the selling price is cut).
- Analysing that both factors in the table will lead to an improvement in overall profitability.
- Credit should also be given to students who argue why the 5% increase in GDP might change demand by a different amount, possible using income elasticity of demand in their argument. Similarly, arguments can relate to the possible impact of these two factors on selling price and thus profitability.

2	0	Managers undertake a number of roles. Analyse how the reviewing role of a human resource manager can improve the performance of the workforce.	[9 marks]
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Marks for this question: AO1 = 2, AO2 = 3 and AO3 = 4

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: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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:

- examining the benefits received from managers' role of reviewing
- in the context of the human resources function.

Indicative content:

Reviewing allows managers to:

- Monitor objectives and assess whether they are retaining the requirements of SMART objectives. For example, updating a target retention rate in response to changes in local demographic changes.
- Assess the effectiveness of strategies that have been implemented and the relative success of different tactics that have been used to achieve the aims of HR. Reviewing low levels of employee motivation might lead to a change from financial to non-financial methods of motivation.
- Identify poor performance and take remedial action, such as retraining schemes.
- Using benchmarking to identify examples of excellent HR practice that can be used more widely in the business.
- Use SWOT analysis to detect changes in strengths, weaknesses, opportunities and threats, such as anticipating HR policies before new legislation makes it compulsory.
- Monitor and control activities of subordinates in order to improve their efficiency; such as using staff appraisal to support under-performing employees.

Section C

2	1	Will the use of non-financial methods to motivate a workforce always be more successful than the use of financial methods?
		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	<p>An excellent response overall that is fully focused on the key demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> • 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	<p>A good response overall that focuses on many of the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> • 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	<p>A reasonable response overall that focuses on some demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> • 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	<p>A limited response overall with little focus on the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> • 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 	6–10

	<ul style="list-style-type: none"> • makes judgements or proposes solutions which have limited links to analysis or limited focus on the question as a whole. 	
1	<p>A weak response overall lacking focus on the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> • 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 motivation – the reasons one has for behaving in a particular way
- understanding the meaning of financial and non-financial incentives
- analysing how non-financial incentives can influence motivation
- analysing how financial incentives can influence motivation
- evaluating situations which impact on the relative success of the two types of incentives and using this to draw a reasoned conclusion.

Indicative content may include:

- Using Taylor's theory to explain the view that workers are motivated by financial rewards that can be linked to performance, such as piece rate or commission.
- Recognising situations in which Taylor's theory may apply, such as agricultural workers motivated by the quantity of production or an organisation that uses hard HRM. In such situations, financial incentives are more effective.
- Using Herzberg's two-factor theory to argue that 'motivators' are non-financial incentives, such as the work itself, recognition and a sense of achievement. Herzberg believed that non-financial factors were more likely to create motivation.
- Analysing methods that a business can use to ensure that motivators are provided (alongside hygiene factors to prevent dissatisfaction).
- Assessing the relative importance of the job itself as a source of motivation.
- Using Maslow's hierarchy of needs to argue for or against a specific incentive. For example, at level 1 of the hierarchy physiological needs still need to be met and so financial incentives are more likely to be effective. At higher levels of the hierarchy different non-financial incentives become more important, such as teamwork to help social needs and promotion to boost esteem needs. Therefore, as a worker progresses beyond level 1 of the hierarchy, motivation is best achieved by non-financial rather than financial incentives.
- The indicative content above is based around theories of motivation. Students may choose to answer this question by focusing on the different financial and non-financial incentives and analysing their impact in different situations (possibly with some references to motivation theory). This analysis then leads to an overall judgement on the success of the different incentives, rather than using motivation theories as the foundation of their answer.

Evaluation

- Full marks may be awarded to an answer that concludes that financial incentives will be more successful; but may be earned by a conclusion that non-financial incentives are likely to be more successful.
- Evaluation may consist of an assessment of different circumstances in which the two different incentives are effective or ineffective OR it may be based on the extent to which the arguments presented suggest that one method is more successful than the other.

2	2	An understanding of Hofstede's model of national cultures is vital to the success of a business that is entering an overseas market.
		Do you agree? 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	<p>An excellent response overall that is fully focused on the key demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> • 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	<p>A good response overall that focuses on many of the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> • 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	<p>A reasonable response overall that focuses on some demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> • 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	<p>A limited response overall with little focus on the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> • 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	<p>A weak response overall lacking focus on the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> • 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:

- recognising the key features of Hofstede's national cultures
- analysing how these features might influence a business's success overseas
- assessing the importance of Hofstede's ideas in order to achieve success.

Indicative content may include:

Analysis of how an understanding of Hofstede might help success. For example:

- if the Power Distance Index (PDI) is high, strong leadership and direction will help success
- if Individualism (IDV) is high, this will negatively impact on a business that uses teamwork extensively in its operations
- high Masculinity (MAS) will create issues for a business that has equality as a corporate objective
- a low Uncertainty Avoidance Index (UAI) will help a business that requires an innovative and creative workforce, whereas a high UAI will suit a business that is risk averse
- high long-term orientation (LTO) will suit a business that requires time to reap the benefits of growth in the overseas market, as the workforce will be more prepared to wait for rewards
- a high Indulgence versus restraint index (IVR) will indicate a society with greater freedom and desire for leisure; this will affect the creativity and productivity of the workforce.

Evaluation

- The arguments shown above can help a business to decide whether a country is a desirable market.
- Hofstede's cultures can guide a business towards successful strategies in an overseas market as it can assist a business in its approach to human resource management, operations management and the best way to market its products.

BUT

- There are many other factors that may influence success, such as the size of the overseas market, its accessibility and competitiveness, stability, and accessibility of materials.
- In addition, PESTLE factors are likely to have a major impact on success and the business may have less understanding of PESTLE factors in an overseas market.

Although it is logical to argue that it is less vital than other factors, the question is focused on Hofstede and so a good response must show understanding of Hofstede in this context. Arguments about non-Hofstede factors can form part of any evaluation of how vital it is, but analysis must incorporate how Hofstede's ideas can help success or explain why it may not help.

Section D

2	3	Both supplier power and competitive rivalry have increased in recent years in a particular market. To what extent is it inevitable that this will lead to a decrease in the profits of all businesses in this market?
[25 marks]		

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

Level	The student will typically demonstrate:	Marks
5	<p>An excellent response overall that is fully focused on the key demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> 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	<p>A good response overall that focuses on many of the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> 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	<p>A reasonable response overall that focuses on some of the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> 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	<p>A limited response overall with little focus on the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> 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	<p>A weak response overall lacking focus on the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> • 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
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The demands of the question are:

- showing an understanding of supplier power and competitive rivalry in Porter's competitive forces
- analysing how greater supplier power and greater competitive rivalry might lead to a decrease in the profits of businesses in this market
- assessing whether it is inevitable that all businesses in this market will experience lower profits.

Indicative content may include:

- Analysing how an increase in supplier power is likely to result from fewer, larger suppliers and how this can lead to businesses having less choice of supplies.
- Developing this logic into showing possible negative consequences for businesses, such as having to pay higher costs for materials and receiving lower quality materials and fewer varieties of materials. These changes are likely to lead to lower profits.
- Analysing how an increase in competitive rivalry is likely to result from new competitors or greater intensity in effort by competitors trying to gain market share in the market. Analysing how a lower market share is likely to lead to lower profits.
- Extending this logic to examine the impact of strategies used when a market experiences greater rivalry, such as price wars, greater focus on new product development and greater expenditure on marketing.
- Developing this logic into showing possible negative consequences for businesses, such as having lower profit margins and greater R&D and marketing costs.
- Analysing circumstances in which profits may not fall (see evaluation section).

Evaluation

Whether profits fall for all businesses will depend on the extent of the increases in supplier power and competitive rivalry. Some businesses might also react by merging or taking-over suppliers and/or competitors, thus reducing the negative impact.

Businesses who employ successful tactics, especially where there is greater competitive rivalry, may drive competition out of the market (this is often the intention) and can thus gain greater market power. This will enable higher prices and profits to be made, and can lead to higher profits overall. Takeovers can also strengthen the bargaining power of a business and thus reduce supplier power.

2	4	In terms of Ansoff's matrix, is market penetration always a better strategic direction than diversification?
		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	<p>An excellent response overall that is fully focused on the key demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> • 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	<p>A good response overall that focuses on many of the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> • 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	<p>A reasonable response overall that focuses on some of the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> • 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	<p>A limited response overall with little focus on the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> • 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	<p>A weak response overall lacking focus on the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> • 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
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The demands of the question are:

- understanding the meaning of market penetration (growth in existing markets with existing products) and diversification (growth in new markets with new products)
- assessing the merits and problems of choosing market penetration as a strategic direction
- assessing the merits and problems of choosing diversification as a strategic direction
- comparing these merits and problems in order to judge the relative benefits of the two strategic directions
- evaluating the view that market penetration is always best and providing relevant arguments.

Indicative content may include:

Analysing how market penetration might be achieved and the impact on the business.

- Improving brand loyalty is likely to require significant marketing expenditure and the introduction of new elements to the marketing mix which may increase risk.
- Cutting price can lead to market penetration but this may mean lower profit margins. It will be more effective if the business has a higher market share and good cash flow, in order to force some competitors out of the market.
- Attracting new market segments can achieve market penetration, but if these market segments have not been reached before then the product being offered could be unsuitable. In this case, market penetration would not succeed.
- Diversification will add costs, as new product development is expensive and risky and moving into new markets will require a lot of new market research and significant organisational change. These changes can damage cash flow and are high risk.
- New products can complement existing products and thus help to achieve synergy.
- New markets with new products may also lead to scope for expansion into the new markets with existing products.

Overall, the success of both strategies will be affected by both internal factors, such as the workforce and the business's financial strength, and by external factors, such as the competitiveness of the market(s) and economic factors, such as growth rates.

Evaluation

Overall, market penetration is considered to be low risk but, for a business trying to grow and increase profit, it can be limiting. In contrast, diversification is much more risky, but is likely to offer greater potential rewards, if carried out successfully.

Evaluation may be based on potential circumstances in which one strategy is more appropriate than the other and a critique of whether one strategy can **always** be better than another.