GCE

New Business

H431/01: Operating in a local business environment

A Level

Mark Scheme for June 2025

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

MARKING INSTRUCTIONS

PREPARATION FOR MARKING
RM ASSESSOR

1. Make sure that you have accessed and completed the relevant training packages for on-screen marking: *RM Assessor Online Training: OCR Essential Guide to Marking*.

2. Make sure that you have read and understood the mark scheme and the question paper for this unit. These are available in RM Assessor

3. Log-in to RM Assessor and mark the **required number** of practice responses ("scripts") and the **number of required** standardisation responses.

MARKING

1. Mark strictly to the mark scheme.

2. Marks awarded must relate directly to the marking criteria.

3. The schedule of dates is very important. It is essential that you meet the RM Assessor 50% and 100% (traditional 40% Batch 1 and 100% Batch 2) deadlines. If you experience problems, you must contact your Team Leader (Supervisor) without delay.

4. If you are in any doubt about applying the mark scheme, consult your Team Leader by telephone or the RM Assessor messaging system, or by email.

5. **Crossed Out Responses**
Where a candidate has crossed out a response and provided a clear alternative then the crossed-out response is not marked. Where no alternative response has been provided, examiners may give candidates the benefit of the doubt and mark the crossed-out response where legible.

Rubric Error Responses – Optional Questions
Where candidates have a choice of question across a whole paper or a whole section and have provided more answers than required, then all responses are marked and the highest mark allowable within the rubric is given. Enter a mark for each question answered into RM Assessor, which will select the highest mark from those awarded. *(The underlying assumption is that the candidate has penalised themselves by attempting more questions than necessary in the time allowed.)*

Multiple-Choice Question Responses

When a multiple-choice question has only a single, correct response and a candidate provides two responses (even if one of these responses is correct), then no mark should be awarded (as it is not possible to determine which was the first response selected by the candidate).

When a question requires candidates to select more than one option/multiple options, then local marking arrangements need to ensure consistency of approach.

Contradictory Responses

When a candidate provides contradictory responses, then no mark should be awarded, even if one of the answers is correct.

Short Answer Questions (requiring only a list by way of a response, usually worth only one mark per response)

Where candidates are required to provide a set number of short answer responses then only the set number of responses should be marked. The response space should be marked from left to right on each line and then line by line until the required number of responses have been considered. The remaining responses should not then be marked. Examiners will have to apply judgement as to whether a 'second response' on a line is a development of the 'first response', rather than a separate, discrete response. *(The underlying assumption is that the candidate is attempting to hedge their bets and therefore getting undue benefit rather than engaging with the question and giving the most relevant/correct responses.)*

Short Answer Questions (requiring a more developed response, worth two or more marks)

If the candidates are required to provide a description of, say, three items or factors and four items or factors are provided, then mark on a similar basis – that is downwards (as it is unlikely in this situation that a candidate will provide more than one response in each section of the response space).

Longer Answer Questions (requiring a developed response)

Where candidates have provided two (or more) responses to a medium or high tariff question which only required a single (developed) response and not crossed out the first response, then only the first response should be marked. Examiners will need to apply professional judgement as to whether the second (or a subsequent) response is a 'new start' or simply a poorly expressed continuation of the first response.

6. Always check the pages (and additional objects if present) at the end of the response in case any answers have been continued there. If the candidate has continued an answer there, then add the annotation 'SEEN' to confirm that the work has been seen and mark any responses using the annotations in section 11.

7. There is a NR (**No Response**) option. Award NR (No Response):

   - if there is nothing written at all in the answer space

- OR if there is a comment which does not in any way relate to the question (e.g., 'can't do', 'don't know')

- OR if there is a mark (e.g., a dash, a question mark) which is not an attempt at the question.

  Note: Award 0 marks – for an attempt that earns no credit (including copying out the question).

8. The RM Assessor **comments box** is used by your Team Leader to explain the marking of the practice responses. Please refer to these comments when checking your practice responses. **Do not use the comments box for any other reason.**

9. Assistant Examiners will send a brief report on the performance of candidates to their Team Leader (Supervisor) via email by the end of the marking period. The report should contain notes on particular strengths displayed as well as common errors or weaknesses. Constructive criticism of the question paper/mark scheme is also appreciated.

8. For answers marked by levels of response:
    a. **To determine the level** – start at the highest level and work down until you reach the level that matches the answer
    b. **To determine the mark within the level**, consider the following

Descriptor	Award mark
On the borderline of this level and the one below	At bottom of level
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
Consistently meets the criteria for this level	At top of level

11. **Annotations**

Annotation	Meaning	Annotation	Meaning
BP	Blank page (this MUST be used rather than SEEN)	K	Knowledge
✔	Tick	APP	Application of knowledge and understanding
✘	Cross	AN	Analysis
(highlighter)	Highlighting tool	DEV	Developed Analysis
NAQ	Not answered question (candidate writes irrelevant material)	EVAL	Evaluation
OFR	Own Figure Rule	EE	Effective evaluation
BOD	Benefit of Doubt (replaces tick in short answer questions)	?	Unclear
REP	Repeat (material already rewarded)	TV	Too vague/No use of context
SEEN	Noted but no credit given (use where no other annotation is appropriate)		

EVERY PAGE, INCLUDING BLANK PAGES (use the BP annotation), MUST HAVE SOME ANNOTATION.

Please ensure that, wherever possible, annotations are placed in the margins and not over the candidate's answer. This makes it very difficult to read if the paper is printed out in black & white.

[Questions 1-15 should be annotated with ticks, crosses or NAQ. Question 16(a) should be annotated with ticks, crosses, BOD, TV, OFR, NAQ or ?. The number of ticks plus OFR MUST match the final mark awarded for this question. Ticks MUST NOT be used in Questions 16(b), 17, 18, 19 and 20.

IT IS VITAL THAT YOU SHOW AS MUCH ANNOTATION ON EACH PAGE AS POSSIBLE. IN PARTICULAR, WHERE AOs ARE REACHED, SO THAT YOUR TEAM LEADER CAN LOOK TO AGREE WITH YOUR FINAL MARK.

12. **Subject Specific Marking Instructions**

Candidates will be awarded marks for the demonstration of each skill (Knowledge and Understanding/Application/Analysis/ Evaluation) according to the level (Strong/Good/Reasonable/Limited) seen. Their overall mark for Levels of Response questions will comprise the total of these marks.

The descriptions in each level of response question in this mark scheme describe a typical response at the top of that level.

This Mark Scheme is a working document; it is not exhaustive; it does not provide 'correct' answers. The Mark Scheme can only provide 'best guesses' about how the question will work out.

The Examiners' Standardisation Meeting will ensure that the Mark Scheme covers the range of candidates' responses to the questions, and that all examiners understand and apply the Mark Scheme in the same way. The Mark Scheme will be discussed and amended at the meeting, and administrative procedures will be confirmed. Practice scripts will be issued at the meeting to exemplify aspects of candidates' responses and achievements; the practice scripts then become part of this Mark Scheme.

In your marking, you will encounter valid responses which are not covered by the Mark Scheme: these responses must be credited.

Please read carefully all the scripts in your allocation and make every effort to look positively for achievement throughout the ability range. Always be prepared to use the full range of marks.

				SECTION A

Question	Answer	Marks	AO	Rationale
1	**D**	1	1	Co-operatives are owned by their members and all profits are shared with them.
2	**D**	1	1	Deducting the cost of inputs from the selling price shows how much value has been added to the product. Answer (a) calculates budget variance. Answer (b) calculates working capital. Answer (c) calculates profit.
3	**A**	1	2	Purchasing e-textbooks rather than paper copies reduce paper usage and paper waste; it also reduces the need for physical distribution minimising fuel use. Answers (b) and (c) relate to ethical actions rather than actions for sustainability. Answer (b) reduces sustainability, broken IT equipment is widely recyclable.
4	**D**	1	1	Budgets set spending limits/recommendations according to the needs of the business. Budgets are, therefore, not set automatically but according to need. Answer (a) wrongly states budgets don't set spending limits (b) and (c) state they are automatically fixed each year Answer (d) correctly states they help managers to monitor perfomance
5	**A**	1	2	Activity C is scheduled to take 5 weeks, so twice as long will take 10 weeks. Since there is 19 weeks of float the additional 5 weeks will not delay the project. Answer (b) erroneously deducts the 9-week EST shown in node 2 from the 10-week duration, i.e., 10-9=1. Answer (c) erroneously deducts the 5-week delay from the 9-week EST shown in node 2, i.e., 9-5=4. Answer (d) takes no account of float and erroneously assumes that all the 5 weeks of additional time on activity C will lead to a similar delay in the overall project.
6	**A**	1	1	A mission statement gives a general idea of what the business exists to do and is often used to market the business. It is not a financial document, nor does it turn objectives into strategy. A mission statement is likely to encourage corporate vision, rather than limit it.
7	**C**	1	2	Quality circles, improving ergonomics, and JIT all minimise waste (in the widest sense) and so are examples of lean production. Job production is not. If anything, it would be more wasteful as it is a far more expensive way to make tomato ketchup than using batch production or flow production.
8	**B**	1	1	A strategic alliance is a form of external growth. It involves businesses temporarily co-operating with each other for mutual benefit. A dominant firm will be large but this is not a form of growth, likewise international trade. A works council is used to increase employee participation.
9	**C**	1	1	Organisational culture affects the way a business operates and is a reflection of the attitudes, values, and beliefs of the business. Organisational culture does not require the involvement of a trade union. Answer (a) relates to marketing models, such as AIDA and ATR, attempt to explain consumer buying behaviour. Answer (b) relates to value analysis for innovation.
10	**B**	1	2	£540m - £220m = £320m (or £299m + £21m = £320m). Answer (c) erroneously adds expenses to gross profit (rather than deducting it), i.e., £540m + £220m = £760m. Answer (a) erroneously deducts finance costs from profit before

				SECTION A
Question	**Answer**	**Marks**	**AO**	**Rationale**
				tax (rather than adding it), i.e., £299m - £21m = £278m. Answer (d) erroneously adds £880m revenue to £540 gross profit, which equals £1420m.
11	**B**	1	2	An agreement to supply, be it verbal or in writing, is legally binding under the law of contract. Consumer protection legislation protects consumers rather than businesses. Financial conduct law protects borrowers from unjust or unscrupulous credit arrangements. Intellectual property law protects creators.
12	**D**	1	1	Contingency planning creates plans to deal with negative eventualities in advance of them happening, so it is proactive. Crisis management firefights problems as and when they arise so is reactive. Both are internal methods, and both include quantitative and qualitative elements. Contingency planning is optional, a business does not have to be proactive.
13	**A**	1	2	Doubling sales to a particular market segment is an example of a marketing objective. Answer (c) also relates to marketing but would mean that the manufacturer's advertising is less effective which would be detrimental to the business. Answer (d) would also be detrimental to the business, 'dogs' are likely to be dropped from a product portfolio rather than actively sought after. Answer (b) is an operations management objective, rather than a marketing objective.
14	**D**	1	1	Emerging markets usually have lower labour costs than developed markets. Emerging markets increase the size of the global market and provide additional opportunities for overseas investment in infrastructure and product. Whilst emerging markets provide many opportunities for UK businesses, they also pose threats including a reduced emphasis on UK exports and being able to produce goods more cheaply than domestic markets.
15	**D**	1	2	£3.50 - £0.65 = £2.85 unit contribution. £26,000/£2.85 = 9122.8. 9123 doughnuts need to be sold to cover all business costs. Answer (c) erroneously calculates contribution by adding the two elements i.e., £3.50 + £0.65 = £4.15 and, therefore, calculates BE to be £26,000/£4.15. Answers (a) and (b) are the cost/revenue figures at the output levels of (c) and (d) i.e., 6266 x £3.50 and 9123 x £3.50, respectively. The break-even point refers to the level of output where total costs equal total revenues, rather than the monetary value at this point.

Section B

Question	Answer	Mark	Guidance
16 (a)	**If the price per repair does not change, calculate the increase in revenue over the next 12 months.** 5 marks for a **correct answer** of £1188 with or without workings. 4 marks for an answer of £99 or £7128 (*calculation of revenue change per month/year*). *Working must be shown.* 3 marks for an answer of £5940. *Working must be shown.* 2 marks for an answer of £495. *Working must be shown.* **TICKS MUST EQUAL MARKS AWARDED UNLESS A CORRECT ANSWER IS ON THE ANSWER LINE – ONE TICK ONLY REQUIRED.**	5 (AO1 1) (AO2 3) (AO3 1)	Revenue = Price x Quantity (1) [This can be implied from the calculation] Current revenue per *month* = £16.50 x 30 = £495 (1) Current revenue per *year* = 495 x 12 = £5940 (1) **OFR** £5940 x 1.2 = £7128 (1) **OFR** £7128 - £5940 = **£1188 (1) OFR** <u>Alternative method</u> Revenue = Price x Quantity (1) [This can be implied from the calculation] A 20% increase is 6 more repairs (1) Extra revenue per month = 6 x £16.50 (1) = £99 (1) Extra revenue per year = £99 x 12 = **£1188** (1) <u>Alternative method</u> Revenue = Price x Quantity (1) [This can be implied from the calculation] Current revenue per *month* = £16.50 x 30 = £495 (1) New revenue per *month* = £16.50 x 36 = £594 (1) Extra revenue per month = £559 - £495 = £99 (1) Extra revenue per year = £99 x 12 = **£1188** (1)
16 (b)*	**Evaluate the usefulness to Shanti of using price elasticity of demand calculations.** **Level 3 (11–15)**	15 (AO1 2) (AO2 2) (AO3 4) (AO4 7)	**NB:** 'Technical' *economic* terminology such as the use of the term 'ceteris paribus' or use of 'the minus sign' is **not** necessary.

Question	Answer	Mark	Guidance
	Candidate shows **strong** knowledge and understanding, analysis and evaluation of the usefulness to Shanti of using price elasticity of demand calculations. *There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.* **Level 2 (6–10)** Candidate shows **good** knowledge and understanding, analysis and evaluation of the usefulness to Shanti of using price elasticity of demand calculations. *There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.* **Level 1 (1–5)** Candidate shows **limited** knowledge and understanding of using price elasticity of demand calculations with **limited or no** analysis and evaluation. *The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.* **NB** – award **maximum** of **two** marks for non–contextualised impacts.		Price elasticity of demand (PED) measures the responsiveness of quantity demanded for a product to a change in price. It is a measure of how changes in price impact on consumers' buying behaviour and therefore the likely effects on the business' *revenue (**NOT** profit)*. Use of PED could help Shanti make informed decisions as to what price to charge. Candidates could use the data in Table 1 but there is no requirement to do so. The following relates to incremental £2 cuts in price. <table><tr><th>£22 to £20</th><th>£20 to £18</th><th>£18 to £16</th></tr><tr><td>Price change 2/22 = 9.1%</td><td>Price change 2/20 = 10%</td><td>Price change 2/16 = 12.5 %</td></tr><tr><td>Q change 3/15 = 20%</td><td>Q change 4/18 = 22.2%</td><td>Q change 4/22 = 18.1%</td></tr><tr><td>**PED 20/9.1 = (-)2.20** **ELASTIC** Revenue at £22 = £330 Revenue at £20 = £360 **An increase of £30 if price is cut.**</td><td>**PED 22.2/10 = (-)2.22** **ELASTIC** Revenue at £20 = £360 Revenue at £18 = £396 **An increase of £36 if price is cut.**</td><td>**PED 18.1/12.5 = (-)1.4** **ELASTIC** Revenue at £18 = £396 Revenue at £16 = £416 **An increase of £20 if price is cut.**</td></tr></table>

Question	Answer	Mark	Guidance
	0 marks no response or no response worthy of credit.		**'Going the other way':** £16 to £18 PED = (-) 1.23 **ELASTIC** £18 to £20 PED = (-) 1.63 **ELASTIC** £20 to £22 PED = (-) 1.66 **ELASTIC** Cuts in price could also be £22 to £18 47/18 = (-) 2.16 £22 to £16 73/27 = (-) 2.7 £20 to £16 44/20 = (-) 2.2 **Possible Advantages** • **The use of PED could allow Shanti to develop an effective pricing strategy for SSL.** There is reference to 'guesswork' for pricing. If a particular service that SSL offers has price elastic PED, then it can increase revenue by lowering price. Those with price inelastic PED can increase revenue by raising their price. If Shanti 'tries to calculate' PED on the various services she offers (repairs, alterations etc) she can, theoretically, maximise revenue for SSL. • **It could enable Shanti to forecast sales.** Depending on elasticity if she changes price(s) she can predict stock requirements and any additional hours employees might need to work. Implications for SSL's costs, • **Shanti can see whether it will be easy to pass on cost increases to customers.** e.g., increases in wages. The same applies to energy, material, or rental costs. (Easier if price inelastic). **Possible Disadvantages** • **Shanti using PED means considering SSL's revenue *and not profit.*** Therefore, for example, a price elastic

Question	Answer	Mark	Guidance
			PED estimate on one of the firm's services might encourage the belief that a price cut would generate a lot of new sales for SSL. It might, but this may not increase *profit* because the extra costs (e.g., overtime hours) have not been considered by the calculation. This means that PED estimates are not an infallible guide as to how to increase SSL's profit.
			• **Some of SSL's work is dependent not so much on price as 'circumstance'** - how many people get married or tear their clothing.
			• **Similarly, PED assumes that factors other than price that may affect SSL's demand have remained constant** - i.e., it assumes the price change must be the cause of the demand change. This is very unlikely to be the case in practice. Other factors *do* change e.g., competitors' actions/behaviour in the market (two similar businesses within a few miles) such as putting up price or some bad publicity. This means that it is difficult, if not impossible, for Shanti to separate out these sorts of effects from any price change she makes. Thus, PED is always an estimate and as a guide to future action on her pricing it may be (very) unreliable. Additionally, the state of the (local) economy and rivals' actions will affect it, she would have to keep on doing the calculations.
			• **PED values will change over time.** A candidate might well use a figure from Table 1 (say the cut from £20 to £18) to comment that although this figure is quite price elastic this does not mean that it will always have this value for this service. Also, the elasticity calculation changes 'going the other way'.

Question	Answer	Mark	Guidance
			• **Opportunity cost of doing PED calculations** - It is unlikely that she would spend hours on these but a mention of the opportunity cost of her time is valid - she has other work to perform both in terms of management functions and 'doing the work I really love'. • **ARA**

Question	Answer	Mark	Guidance
17*	**Evaluate the impact on SSL of Shanti introducing appraisal.** **Level 3 (11–15)** Candidate shows **strong** knowledge and understanding, analysis and evaluation of the impact on SSL of Shanti introducing appraisal. *There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.* **Level 2 (6–10)** Candidate shows **good** knowledge and understanding, analysis and evaluation of the impact on SSL of Shanti introducing appraisal. *There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.* **Level 1 (1–5)** Candidate shows **limited** knowledge and understanding of the impact on SSL of Shanti introducing appraisal with **limited or no** analysis and evaluation. *The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.*	15 (AO1 2) (AO2 2) (AO3 4) (AO4 7)	Answers to this question should focus on Shanti considering the introduction of appraisal as a method of assessing employees' suitability to receive a bonus **rather than** the *impact of the bonus itself.* The question could be answered from a 'pros v cons' approach or/and 'it depends on the way she introduces/operates the appraisal system'. **Advantages** • It would allow for positive reinforcement of achievements/reward their loyalty, skills and excellence – 'So far SSL has never failed to complete an alteration on time'. • The loss of an employee in a small business such as SSL can be significant. ('I'd hate to lose any of them'). If one of them was 'unhappy' and had not had the opportunity to discuss why and then leaves (there are two other competitors nearby) this will have a huge impact on SSL. • It would give Shanti the opportunity to discuss with employees their roles, their accomplishments, and challenges – there may be issues of which she is unaware; perhaps someone would like to do more/less of a particular task. • It would offer the employees the opportunity to raise any development needs which (if followed up) by Shanti could improve morale/productivity.

Question	Answer	Mark	Guidance
	NB – award **maximum** of **two** marks for non–contextualised impacts. **0 marks** no response or no response worthy of credit.		• It would encourage employees to work harder and deliver a good customer service as they are being assessed **Disadvantages** • It will come with an opportunity cost to Shanti's time. Either spent on her usual managerial duties, doing the sewing that she loves or focusing on other areas of the business • All the employees are skilled and competent. There is no suggestion that any are underperforming or have any training needs. In the light of this, the employees may wonder why they are being monitored/checked up on/(or worse) 'spied on'. Implications for morale? • When appraisal is used to assess performance then it is very important that the process is transparent and consistent. Shanti is going to have to devote time (opportunity cost again) to deciding on what basis to assess performance, e.g., Some element of self-assessment/customer feedback? • Similarly, if there is a perception that Shanti is somehow favouring one employee over another this could lead to discontent. If 'it all goes wrong' employees could leave – there are two other similar businesses not far away. **Additionally** • Is it really necessary for a firm of this size where Shanti has personal contact the whole time with

Question	Answer	Mark	Guidance
			people she has managed for years and whose work she is very familiar with? She can provide effective feedback all year round by the nature of SSL. • Similarly, it could be argued that introducing appraisal at SSL is too complicated and time consuming in its impact and that a more straightforward way to reward the employees is by just paying some sort of bonus (say, a percentage of profit) that Shanti feels is affordable and/or appropriate. **ARA**
18	**Analyse <u>two</u> ways Shanti could respond to the data in Table 2.** **Level 2 (4–9 marks)** Candidate shows **good** knowledge and understanding and shows **good** analysis of the ways in which Shanti could respond to the data in Table 2 **Level 1 (1–3 marks)** Candidate shows **limited** knowledge and understanding with **limited or no analysis** of ways in which Shanti could respond to the data in Table 2 (**NB** – **award two marks** for a non–contextualised answer)	**9** (AO1 2) (AO2 2) (AO3 5)	<table><tr><th>Month</th><th>Number of wedding dress and suit alterations</th><th>Three-period total</th><th>Three-period moving average (rounded)</th><th>Seasonal variation</th></tr><tr><td>May 2023</td><td>12</td><td></td><td></td><td></td></tr><tr><td>June 2023</td><td>29</td><td>80</td><td>27</td><td>2</td></tr><tr><td>July 2023</td><td>39</td><td>90</td><td>30</td><td>9</td></tr><tr><td>August 2023</td><td>22</td><td>70</td><td>23</td><td>-1</td></tr><tr><td>September 2023</td><td>9</td><td></td><td></td><td></td></tr><tr><td></td><td></td><td></td><td></td><td></td></tr><tr><td>May 2024</td><td>21</td><td></td><td></td><td></td></tr><tr><td>June 2024</td><td>34</td><td>97</td><td>32</td><td>2</td></tr></table>

Question	Answer	Mark	Guidance
	0 marks – no response or no response worthy of credit.		

July 2024	42	104	35	**7**
August 2024	28	81	27	**1**
September 2024	11			

It is **not** necessary to perform the calculation of seasonal variation (SV) or average seasonal variation (ASV) , but this could assist with application and analysis.
Insofar as a trend can be identified from two years' data, numbers of dress/suit alterations are rising in June, July, and August. The SV/ASVs may not be huge but July is clearly an important month.

SVs for June is 2 + 2 = +4   ASV 4/2 = **+2**
SVs for July is 9 + 7 = +16   ASV 16/2 = **+8**
SV for August is -1 + 1 = 0   No ASV

Shanti could consider:
- **Accepting less of this kind of work** but reference is made to how profitable it is and (being 'high profile') it could generate future business via word of mouth. This therefore seems unlikely.
- **Accepting less of other types of work** e.g., 'ordinary' alterations or repairs.
- **Extending the time quoted** to a customer for other types of alteration/repair work to be done.
- **Doing more (of any type of sewing) work herself** with a likely opportunity cost of this.

Question	Answer	Mark	Guidance
			• **More overtime working (see lines 37/38)** this would involve additional variable cost but presumably would be 'worth it'. • **Trying to recruit (temporary) employees** - issues of how they might 'fit in with the work', the other employees having worked together for years. Space/sewing machine available? • **Refusing to allow the employees to take three weeks holiday** instead of their usual two – implications on employee relations/motivation following this on Shanti/SSL. • **Trying to subcontract some of her work** to one of the other sewing businesses in the area (line 10) - implications of this reliability, quality etc. **ARA**
19	**Assume that the basic rate of VAT is reduced. Analyse <u>one</u> impact of this change on SSL.** **Level 2 (4–6 marks)** Candidate shows **good** knowledge and understanding and shows **good** analysis of the effect of the reduction in VAT on SSL. **Level 1 (1–3 marks)** Candidate shows **limited** knowledge and understanding with **limited or no analysis** of the effect of the reduction in VAT on SSL.	**6** (AO1 1) (AO2 2) (AO3 3)	Technical economic terms are **not** necessary. VAT is an indirect tax; it is paid by the customer when a product is bought. A percentage of the selling price therefore is paid by the business to the government as tax. If the rate of VAT is reduced: • If Shanti leaves price the same, since it now pays less tax to the government, SSL can now keep an extra amount of the selling price. Revenue/profit would hopefully rise. • Shanti could lower the selling price and (hopefully) will therefore 'sell more'. .ore revenue - and hopefully profit.

Question	Answer	Mark	Guidance
	(**NB** – **award one mark** for a non–contextualised answer) **0 marks** – no response or no response worthy of credit.		- If prices of goods and services fall in the economy generally the real income of consumers rises. If people have more income to spend, they may use SSL more/for the first time. So, SSL's demand/revenue/profit will rise. - If SSL's suppliers choose to lower prices as a result of the cut this lowers SSL's costs and will help increase profits. **ARA**

Question	Answer	Mark	Guidance
20*	**Evaluate the extent to which SSL can be considered a success.** **Level 3 (11–15)** Candidate shows **strong** knowledge and understanding, analysis and evaluation on the extent to which SSL can be considered a success. *There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.* **Level 2 (6–10)** Candidate shows **good** knowledge and understanding, analysis and evaluation on the extent to which SSL can be considered a success. *There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.* **Level 1 (1–5)** Candidate shows **limited** knowledge and understanding of measuring success with **limited or no** analysis and evaluation of the extent to which SSL can be considered a success. *The information is basic and communicated in an unstructured way. The information is supported by*	**15** (AO1 2) (AO2 2) (AO3 4) (AO4 7)	The question could be approached from the point of view of the typical measures of business performance and/or SSL's stakeholders. ***Measures of business performance*** **Financial factors** - **Cash flow -** SSL rarely has issues with cash-flow (Lines 20/21) - **Revenue** - e.g., from simple alterations, 'This work makes a nice little addition to our revenue'. Revenue from this work is expected to grow by 20% over the next 12 months. - **Profit** - wedding clothing work is very profitable (Line 43). Also, it generates good word of mouth publicity - meaning more profit. - **Trends in 'sales'** – the number of simple alterations has steadily grown. Shanti thinks the figure for simple alterations might grow by 20% over the next twelve months. *Wedding alterations:* Customers will typically buy clothing....in a standard size and then have it altered by a business such as SSL. (Line 30) - **Other factors** - answers could also mention that to form a judgement it would be useful to consider financial factors (which are not mentioned in the resource booklet) such as gross/net profit margin, return on capital employed, return on equity. **Non-financial factors** - **Competitive strength** - ability to survive and change; changing the nature of SSL to specialise in high quality repairs and alterations to expensive clothing rather than

Question	Answer	Mark	Guidance
	limited evidence and the relationship to the evidence may not be clear. **NB** – award **maximum** of **two** marks for non–contextualised impacts. **0 marks** no response or no response worthy of credit.		focussing on low prices. Ability to compete against the other two similar businesses nearby. **HRM/relationship with employees** - all three have been with her since she established SSL (so labour turnover is zero). 'They are excellent'. Shanti is so pleased with them that she wants to reward them with a bonus. No mention of absenteeism or lateness. **Relationship with customers** - SSL now has an excellent reputation for wedding garment alterations for which people are prepared to pay a premium price. **Whether tailoring is done on time/done the correct standard** - 'So far SSL has never failed to have an alteration ready on time'…'With a repair or a resize we can do just about anything, and you'd need to look very hard to notice we'd done it.' High level of customer satisfaction. *Stakeholders* *Presumably the stakeholders of SSL would regard the business as a success:* **Employees** - Shanti has a very positive relationship with her employees. SSL has provided secure employment for the employees. So far Shanti has always been able to accommodate their holiday requests. All three have been with her since she established SSL, so they presumably enjoy the work and how Shanti manages them. No mention of absenteeism or lateness. They may well be getting a bonus in the future. **Customers -** SSL offers many different types of tailoring service to customers (simple alterations and repairs to

Question	Answer	Mark	Guidance
			bespoke garment tailoring). Good word of mouth publicity - so customers must be pleased. Customers are prepared to pay premium prices. Expected rise in number of simple alterations. • **Government (local/national)** - SSL has become an established business and so local government receives business rates/a 'revenue stream' from SSL. National government gets corporation tax from SSL. The three employees pay income tax and national insurance. • **Suppliers** – SSL's survival/growth provides orders/revenue/profit for suppliers of (for example) thread, fabric, sewing machines etc. Shanti has a good relationship with them (Line 20) • **Competitors** - If SSL grows this could mean the other two businesses mentioned lose sales to SSL. Alternatively, mention is made of subcontracting (Line 10), and it may well be that Shanti subcontracts some work to these other businesses to concentrate on the more urgent/profitable work (such as wedding garment alterations) in which case they would benefit. **ARA**

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