

Name: _____

Topic 7: Financial planning

Date:

Edexcel AS Level Business

Mark Scheme

Time:

Total marks available: 40

Total marks achieved: _____



EXAM PAPERS PRACTICE

Mark Scheme

Q1.

Question Number	Indicative content	Mark
	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 6, Evaluation 6</p> <p>Indicative content</p> <ul style="list-style-type: none"> • Ryanair’s pricing strategy has to be conscious of prices charged by rivals/competitors and ensure that the price is competitive. • The demand in the budget aviation market is price elastic, therefore a competitive price is necessary for Ryanair to increase revenue. • If this pricing strategy increases passenger numbers it might increase revenue per flight. • Might lead to a higher gross profit overall but a lower margin on each ticket. • Could increase operating profitability owing to higher capacity utilisation (fewer empty seats) on each aircraft. This would reduce average fixed costs. • Might encourage customers to book a long time in advance of flying which could help cash flow • Might force Ryanair to make frequent adjustments to prices to match competitors and this will have an impact on the accuracy of sales forecasting and the reliability of the budgeting process. • By giving passengers a range of potential ‘add-ons’ which they may or may not choose to pay for, there may large variations in revenue per passenger which makes budgeting difficult. • Ryanair’s brand image is to be a ‘no-frills’/budget airline operating in a very competitive and challenging business environment. This pricing strategy will therefore not damage brand image or threaten future revenues. 	

Question Number	Indicative content	Mark
	<p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"> • It is very difficult for other aviation companies not to respond with price changes of their own to any price cuts/deals made by Ryanair. This can become a price war/a race to the bottom. • This pricing strategy may just defend market share rather than increase it and so higher sales revenue may not be the result. • The increase in the number of passengers per plane may require extra fuel as well as more check-in/flight/baggage handling staff which would increase costs. If staff numbers are not increased and passenger numbers rise then customer service might be compromised. 	

Question Number	Indicative content	Mark
	<ul style="list-style-type: none"> • The increase in revenue may not be proportionally as great as the increase in cost of sales (the extra revenue from each extra seat filled might be lower than the cost of the extra fuel used to carry that extra passenger and their luggage). • May depend on how much spare capacity there is on any particular route/plane. If close to full capacity anyway it may leave some potential customers disappointed. If competitive pricing is used to fill empty seats at the last minute, the impact on cash flow may not be as great as getting advance bookings. Cash flow might also be affected if Ryanair has to react to competitors dropping prices. • Forecasts can take this into account by producing upper and lower forecasts to take this into account. • Ryanair will continually be collecting data of passenger behaviour and budgets can be adjusted, taking into account a 'smoothing' approach to fluctuating averages. • May stop Ryanair developing into a premium player. 	(20)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Isolated elements of knowledge and understanding. Weak or no relevant application of business examples. An argument may be attempted, but will be generic and fail to connect causes and/or consequences.
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 causes and/or consequences are incomplete. Attempts to address the question. A comparison or judgement may be attempted, but it will not successfully show an awareness of the key features of business behaviour or business situation.
Level 3	9–14	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Uses developed chains of reasoning, so that causes and/or consequences are complete, showing an understanding of the question. Arguments are well 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 relevant and effective use of the business behaviour/context. Uses well-developed and logical, coherent chains of reasoning, showing a range of cause and/or effect(s). Arguments are fully developed. Quantitative and/or qualitative information is/are used well to support judgements. A full awareness of the validity and significance of competing arguments/factors, leading to balanced comparisons, judgements and an effective conclusion that proposes a solution and/or recommendations.

Q2.

Question Number	Indicative content	Mark
	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 6, Evaluation 6</p> <p>Increased costs</p> <ul style="list-style-type: none"> • Jamie’s Italian has made a £9.9m loss, this could in part be because of increase costs of rent, which is high for high street outlets. Jamie may need to negotiate lower rent or move restaurants to cheaper locations. • Increased food costs may mean that Jamie’s Italian has lower gross profit on menu items, which could be reduced by switching to cheaper suppliers. • By closing more of his Italian restaurants this could further reduce fixed costs making it easier for the remaining business as a whole to survive. 	

	<p>Adapting to change</p> <ul style="list-style-type: none"> • The casual dining market is dynamic and customers want to try new things so it is important that Jamie’s Italian keeps updating its menu to reflect this. • Veganism is a growing trend and customers are looking for restaurants that meet these needs, which Jamie’s Italian is not known for. This presents an opportunity for Jamie to adapt his menus in order to regain customers. • Jamie’s Italian has lots of direct competition such as Ask Italian, Prezzo, Zizzi and Pizza Express as well as indirect competition such as Byron the burger chain, JD Wetherspoon and Nando’s, so it is important that they stay ahead by adapting to the changing needs of customers. <p><i>Potential recommendation</i></p> <ul style="list-style-type: none"> • The rising cost of rent and ingredients could have affected all the restaurant chains, but some are still profitable. Therefore, by changing suppliers and negotiating costs, Jamie could prevent further business failure. • The casual dining market is dynamic as customer tastes and preferences are constantly changing. So, keeping up to date with current trends and meeting customer needs is the most important factor to maintain sales and preventing further business failure. 	(20)
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Level 1	1-4	<p>Isolated elements of knowledge and understanding.</p> <p>Weak or no relevant application of business examples.</p> <p>An argument may be attempted, but will be generic and fail to connect cause and/or consequences.</p>
Level 2	5-8	<p>Elements of knowledge and understanding, which are applied to the business example.</p> <p>Arguments and chains of reasoning are presented, but connections between causes and/or consequences are incomplete. Attempts to address the question.</p> <p>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.</p>
Level 3	9-14	<p>Accurate knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context.</p> <p>Uses developed chains of reasoning, so that causes and/or consequences are complete, showing an understanding of the question.</p> <p>Arguments are developed.</p> <p>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.</p>

Level 4	15-20	<p>Accurate and thorough knowledge and understanding, supported throughout by 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 and/or effect(s).</p> <p>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>
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