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AS-LEVEL

# Business Studies

BUSS2 Managing a Business  
Mark scheme

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2130  
June 2015

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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 Assessment Writer.

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.

Further copies of this mark scheme are available from [aqa.org.uk](http://aqa.org.uk)

	<b>Assessment Objectives</b>
	The Assessment Objectives represent those qualities which can be demonstrated in students' work and which can be measured for the purposes of assessment.
AO1 Demonstrate knowledge and understanding of the specified content	Students give accurate definitions of relevant terms. Students can also gain credit for identifying a point relevant to the question.
AO2 Apply knowledge and understanding to problems and issues arising from both familiar and unfamiliar situations	Students should apply their knowledge to the business context in which the question is set, through recognition of some specific business aspect, the management of the business or the problems or issues faced by the business. Students will not be rewarded for simply dropping the company name or product category into their answer.
AO3 Analyse problems, issues and situations	Students use relevant business theory and select information from a range of sources, using appropriate methods, to analyse business problems and situations. For example, students may be asked to build up an argument that shows understanding of cause and effect.
AO4 Evaluate, distinguish between and assess appropriateness of fact and opinion, and judge information from a variety of sources	Students evaluate evidence to reach reasoned judgements. This can be shown within an answer, through the weighting of an argument or it can also be shown within a conclusion, perhaps by weighing up the strength of the candidate's own arguments for and against a proposition. Students will not gain credit by the simple use of drilled phrases such as "On the other hand" or "Business operates in an ever-changing environment".
<b>Quality of Written Communication</b>	The quality of written communication is assessed in all assessment units where students are required to produce extended written material. Students will be assessed according to their ability to: <ul style="list-style-type: none"> <li>• ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear.</li> <li>• select and use a form and style of writing appropriate to purpose and complex subject matter</li> <li>• organise information clearly and coherently, using specialist vocabulary when appropriate</li> </ul> The assessment of the quality of written communication is included in <b>Assessment Objective 4</b> .

## GUIDANCE FOR MARKING

When marking a response it is important to take an overview of the answer at the end. You should read the response as a whole to see how the arguments develop and how effective the skills are within the overall response.

Having read the whole response you must make a decision on the overall quality of the different skills demonstrated- is the quality of the application good? What about the analysis of the question? What about the quality of the evaluation of the question?

Markers should mark from the top down – is it good? If not, is it reasonable? If not, it is limited? Start with the top level and work downwards rather than the other way around.

In making a decision about whether a particular response is good or reasonable, use the following guidelines.

## APPLICATION

Application occurs when a response is in context. For example, it relates to the given scenario or the particular issues and problems facing the business or industry. Application may also be shown through an awareness of real word data or real world cases.

**Good application** means the response is well applied to the context. It should be annotated as Gap. This can be demonstrated in different ways; for example, the response may

- **Be firmly embedded in the context.** The arguments made within a response may, overall, relate well to the given context recognising key aspects of the situation. This insight into the context may occur in one instance or be a combination of insights that show a good awareness of the specific issues facing the business.
- **Combining information effectively.** For example, candidates may appreciate the meaning and significance of one aspect of the case in the context of another aspect of the business situation. This combination of factors can show a good insight into the context.
- **Manipulating data effectively.** For example, candidates may use some numerical data in one part of the case and relate this to another relevant and significant figure elsewhere in the case; by combining these effectively candidates can show a good grasp of the context.

**Reasonable application** makes some reference to the context in support of the argument(s) but:

- is not necessarily well developed or consistent.
- does not show much appreciation of the significance of aspects of the context.

It should be annotated as Rap.

**Weak application** is a mainly descriptive reference to the context this would be a limited response and be L1.

## ANALYSIS

Analysis occurs when students build arguments that show an understanding of cause and effect.

**Good analysis** should be annotated as Gan . It may occur when:

- the answer as a whole has analysed key issues in the question well
- one line of argument is well developed.

Good analysis is focused on the precise question, it will provide a logical, coherent, multi stage argument overall examining the causes and effects of an event as appropriate and linking the different aspects of the question effectively. It may make use of relevant theory to develop the argument, selecting relevant information and use appropriate methods effectively to build up the links between the stages.

**Reasonable analysis** is shown when there are relevant arguments explained but:

- these are less developed
- there are less clear chains of argument (for example, stages in the argument may be missing or unclear or assumed)
- these are generic rather than addressing the issues in the question directly.

Reasonable analysis may be less complete than “Good” or less directly focused on the specific question. Annotate as Ran.

**Weak analysis** that is basically undeveloped arguments in response to the question is a limited response and be L1.

## EVALUATION

This occurs when a judgement is made. Judgements may occur throughout a response.

**Good judgement** directly answers the specific question set. It:

- provides a clear and well supported overall response to the question set
- is built on analysis and evidence and is in the context of the given question.

**Reasonable judgement** may:

- be making judgements on relevant arguments but not the question as a whole
- address some aspects of the question but not directly answers the specific question set
- have some support but is not built on effective analysis
- may be rather generic, incomplete or not fully consistent given the arguments made.

**Limited evaluation** is judgement that is based mainly on assertion or only limited support.

The decision on the **Quality of Written Communication** should be used to adjust a mark within the level selected on the basis of the student’s evaluation. For example, a student may have been awarded the lower mark in E2 for evaluation but the response may be particularly well structured with highly effective use of technical terms. In this case, the mark may be adjusted upward to the maximum for E2. A well written answer without any evaluation can receive one mark for quality of language.

**1 (a) Calculate the net profit margin for PLG Ltd's cinema operations in 2014.**

**[6 marks]**

Revenue from PLG's cinema operations in 2014:  $£5.50 \times 2\,500\,000$  **(1 mark)**  
 $= £13\,750\,000$  **(1 mark)**

Costs of PLG's cinema operations in 2014:  $£10\,500\,000 + £3\,050\,000 = £13\,550\,000$  **(1 mark)**

Profits for 2014 =  $£200\,000$  **(1 mark)**

Profit margin for 2014  $= \frac{£200\,000 \times 100}{£13\,750\,000}$  **(1 mark)** = 1.45% **(1 mark)**

Accept 1.46% and 1.5% with relevant workings shown **(1 mark)**

One mark is available for demonstrating knowledge of profits or two marks for demonstrating knowledge of the profit margin.

**Common Answers and Marks**

1.45% 1.46% 1.5% 6

**Only award answers with supporting workings**

1.45 1.4, 1.5 with no % 5

Single arithmetic error with % 5

Used sales volume so:  $\frac{£200,000}{2\,500\,000} \times 100 = 8\%$  5

Used incorrect year, selling price of £6.33 with % = 14.37% or 14.38% 5

Misplaced decimal with % so: 14.5% 0.145% or 0.00145% 5

Net profit over sales revenue x 100  $\frac{£200\,000}{£13\,750\,000} \times 100 = ?\%$   
 with incorrect final figure 5

Used incorrect year, selling price of £6.33 without % = 14.37 or 14.38 4

Net profit over sales revenue without %  $\frac{£200\,000}{£13\,750\,000} \times 100 =$   
 with incorrect or no final figure 4

Just calculates net profit  $£200\,000$  4

Calculates net profit for selling price £6.33 =  $£2\,275\,000$  3

Calculates sales revenue  $£13\,750\,000$  and total cost  $£13\,550\,000$  3

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Calculates sales revenue/total cost	$\frac{\pounds 13\,750\,000}{\pounds 13\,550\,000} \times 100 = 101.47\%$	3
Just calculates sales revenue £13 750 000		2
Calculates sales revenue incorrect year for selling price £6.33= £15 825 000 and total cost £13 550 000		2
Just calculates sales revenue incorrect year for selling price £6.33= £15 825 000		1
Just calculates total cost £13 550 000		1

**Formula**

Marks awarded for formula are not cumulative nor in addition to calculation marks. Award either calculation or formula to the benefit of the candidate.

Just formula No supporting calculation(s)	$\frac{\text{net profit}}{\text{sales revenue}} \times 100$	2
Just formula with no % No supporting calculation(s)	$\frac{\text{net profit}}{\text{sales revenue}}$	1
Profit formula No supporting calculation(s)	Profit = revenue – total cost	1
Upside down, incorrect or formula with alien terms present		0

**1 (b)** *Analyse how an understanding of the Boston matrix might help PLG Ltd to manage its product portfolio successfully.*

**[8 marks]**

LEVEL	DESCRIPTOR	MARKS
L5	Good analysis <b>and</b> Good application	8
L4	Good analysis <b>and</b> Reasonable application <b>or</b> Reasonable analysis <b>and</b> Good application	7–6
L3	Reasonable analysis <b>and</b> Reasonable application <b>or</b> Good analysis <b>or</b> Good application	5–4
L2	Reasonable analysis <b>or</b> Reasonable application	3
L1	Answer contains relevant knowledge – basic points and/or evidence of understanding of relevant term(s).	2-1

**Relevant answers may include the following:**

- the Boston matrix is a method of product portfolio analysis that examines a business's products in terms of their market share and market growth
- product portfolio analysis examines the market position of a business's products.

**Possible themes for application may include:**

- PLG operates a business with four different products in four distinct markets
- the markets in which the company trades are changing
- the company's nightclubs hold 30% of market share whilst its bingo halls hold only 4%
- the restaurant market is growing; that for bingo halls is in decline
- PLG is contemplating investing £2.5 million in its cinemas.

**Lines of analysis may include the following:**

- the use of the matrix could help the company's managers to ensure that it has a balanced portfolio of products with some generating cash for investment whilst others have potential for future growth and may become cash cows of the future
- the matrix will assist the company in identifying and protecting question mark (problem child) products such as its restaurants. The company can invest in marketing these products to realise their potential
- the company needs to raise £2.5 million to refurbish its cinemas. Identifying cash cows such as its nightclubs might allow it to use this as an ongoing source of finance to fund refurbishing the cinemas
- PLG Ltd's bingo halls operate in a market that is declining. The company's market share is only 4% which would classify these as dogs. It may be appropriate to divest these given the



company's flat overall profitability and to use the resources to fund the development of its star products

- the restaurant market is growing quickly and the company holds a small market share making this product a question mark (problem child). The use of the Boston matrix identifies this and could lead to a decision to fund the promotion and expansion of this product within the company's portfolio.

Good analysis should focus on how this understanding assists in managing the company's product portfolio successfully, and not just individual products.

**1 (c)** *PLG Ltd's financial position is relatively weak. To what extent should this be the most important influence on its promotional mix given its objective of growth?*

**[13 marks]**

LEVEL	DESCRIPTOR	MARKS
L5	Good analysis <b>and</b> Good application	9
L4	Good analysis <b>and</b> Reasonable application <b>or</b> Reasonable analysis <b>and</b> Good application	8–7
L3	Reasonable analysis <b>and</b> Reasonable application <b>or</b> Good analysis <b>or</b> Good application	6–5
L2	Reasonable analysis <b>or</b> Reasonable application	4–3
L1	Answer contains relevant knowledge – basic points and/or evidence of understanding of relevant term(s).	2–1

**Relevant answers may include the following:**

- the promotional mix refers to the combination of ways in which the business communicates about its products.

**Possible themes for application may include:**

- the company's overall net profit margin has declined recently and is significantly lower than that of rivals
- the company makes effective use of technology in promoting its products
- the company's competitors have higher levels of spending on promotion
- some of the company's products are bought by consumers who use the internet extensively
- PLG Ltd has a number of brands aimed at different groups of customers
- different growth rates in its markets
- the company sells diverse products in a regional market.

**Lines of analysis may include the following:**

- the slight decline in the company's profitability will restrict the size and growth of its budget for promotion limiting its ability to use more expensive promotional techniques
- technological is an important influence as it allows the company to continue to use forms of promotion such as sales promotions and internet advertising to reach some of its targeted segments relatively cheaply and more effectively than other forms of promotion. This may become an increasingly important influence as social media and the internet becomes more widely used and relevant to more of the company's operations, but also attractive to the company due to its cost effectiveness

- given PLG Ltd's objective of growth its promotional mix will be strongly influenced by the relative growth rates in the markets in which it trades. It is likely to design its promotional mix to allow it to target those markets which are growing most quickly as this could provide it with large number of new customers
- PLG Ltd sells a very diverse range and this is an important influence on PLG Ltd's promotional mix. Consumers may learn about and make buying decisions about PLG Ltd's products in different ways meaning it will have to continue to use diverse forms of promotion to attract growing numbers of its customers.

Good analysis should link arguments about influences on the company's promotional mix to the company's growth objective.

**For Evaluation**, you should award marks using the grid below.

**Note:** Evaluation also assesses students' quality of written communication.

LEVEL	DESCRIPTOR	MARKS
E3	Judgement with well supported justification.	4
E2	Judgement with reasonable attempt at justification.	3–2
E1	Assertion or judgement which is unsupported.	1

**Ideas for evaluation might include:**

- If the company is to achieve its growth objective it will need to ensure that its promotional mix is fit for purpose and is flexible enough to meet the company's changing customer base, making its target audience the most important influence. The company will not grow unless it wins new customers
- PLG Ltd will make a lot of use of technologically-based promotional techniques, partly because it is suitable for many of its customers, but this will also be attractive due to its cost. Although finance is playing a role here technology is the most important factor
- ultimately the company's financial position must be the most important influence as the company sets a marketing budget, including one for promotion, and will have to operate within it. It cannot afford to overspend, certainly in the longer term.

A good judgement must decide whether the relatively weak financial position is the most important influence (as opposed to, eg deciding whether it is an influence); this will require a comparison.

**1 (d)** *Is increasing ticket prices the best way for PLG Ltd to increase the future profits of its **cinema operations**? Justify your view.*

**[13 marks]**

LEVEL	DESCRIPTOR	MARKS
L5	Good analysis <b>and</b> Good application	9
L4	Good analysis <b>and</b> Reasonable application <b>or</b> Reasonable analysis <b>and</b> Good application	8–7
L3	Reasonable analysis <b>and</b> Reasonable application <b>or</b> Good analysis <b>or</b> Good application	6–5
L2	Reasonable analysis <b>or</b> Reasonable application	4–3
L1	Answer contains relevant knowledge – basic points and/or evidence of understanding of relevant term(s).	2–1

**Relevant answers may include the following:**

- profits are sales revenue less total costs over a trading period.

**Possible themes for application may include:**

- the company is considering a large (15%) increase in its prices
- PLG's cinema tickets are cheaper than those of its rivals
- the price elasticity of demand for cinema tickets is elastic and estimated at - 2.0
- price elasticity of demand for food and drinks within cinemas is inelastic and estimated to be - 0.4
- the company is spending £1.2 million refurbishing the facilities at its cinemas
- the refurbishment will reduce the number of seats by an average of 10%.

**Lines of analysis may include the following:**

- the company is investing £1.2 million to refurbish its facilities and this may make the cinemas more attractive to customers which might offset the increases in price and may make demand for the company's cinema tickets less price elastic. If sales hold up the increased margins will have a positive impact on profits
- the refurbishment will reduce the number of seats by 10% which could mean that an increase in prices is essential to maintain revenue and profitability, although low capacity utilisation suggests this may not be a critical factor
- demand for cinema tickets in the UK is estimated to be strongly price elastic and an increase in price will reduce the revenue received by the company. This is likely to reduce profits as fixed costs will be spread across fewer customers increasing unit costs
- the company could increase the prices of its food and drink within cinemas as demand is price inelastic. This would increase revenue without affecting costs and should increase profit margins on increased sales thereby increasing profits

- the cinemas have a relatively low level of capacity utilisation and a reduction in price could provide more revenue as sales might increase by twice the percentage of the price reduction and plenty of spare capacity exists. This could result in higher revenue with little impact on costs (which are mainly fixed) thereby increasing profits.

Good analysis will link the arguments to the impact on profits rather than simply whether it will increase revenue or sales.

**For Evaluation**, you should award marks using the grid below. **Note:** Evaluation also assesses students' quality of written communication.

LEVEL	DESCRIPTOR	MARKS
E3	Judgement with well supported justification.	4
E2	Judgement with reasonable attempt at justification.	3–2
E1	Assertion or judgement which is unsupported.	1

**Ideas for evaluation might include:**

- the PED figure for ticket prices makes increases look unattractive but this is an estimate for average prices and PGL is at the lower end of the price range. Hence the impact may be less than expected and this could have a direct, positive impact on profitability
- there has been a significant fall in the net profit margin for PLG's cinema operations from over 3% to 1.45% between 2013 and 2014. Before making any decision, the company's managers should investigate the reasons for this decline and then take appropriate corrective action
- it may depend upon how PLG Ltd's competitors react. If they offer price cuts/special offers at the same time, sales may fall damaging profitability at least in the short term
- the company could promote the refurbished facilities strongly at the same time it increases ticket prices to lessen the impact of a price rise on profits.

**2 (a)** Analyse **one** reason why it is important for SEB Ltd to monitor its levels of customer service.

**[6 marks]**

LEVEL	DESCRIPTOR	MARKS
L5	Good analysis <b>and</b> Good application	6
L4	Good analysis <b>and</b> Reasonable application <b>or</b> Reasonable analysis <b>and</b> Good application	5
L3	Reasonable analysis <b>and</b> Reasonable application <b>or</b> Good analysis <b>or</b> Good application	4
L2	Reasonable analysis <b>or</b> Reasonable application	3
L1	Answer contains relevant knowledge – basic points and/or evidence of understanding of relevant term(s)	2–1

**Relevant answers might include the following:**

- customer service describes the range of actions taken by a business in order to meet the needs of its customers.

**Possible themes for application:**

- the company has a '7day delivery' promise; currently delivery time is 15 days
- there is a threat of competition emerging in this niche of the bed market
- Sleep-E-Beds Ltd is facing cash flow problems because of its rapid growth
- the company constantly attracts new customers.

**Lines of analysis include:**

- the company uses its delivery promise as a USP and this aspect of customer service should be monitored to check that it is meeting expectations
- monitoring customer service allows the company to identify problems early which helps to conserve precious cash reserves to help to meet rapidly growing demand
- monitoring of this market could be important because it is changing rapidly and the company will have relatively few repeat customers because most customers do not purchase beds frequently. This means the company will need to continually elicit the views of new customers. Sleep-E-Beds Ltd may use online methods of monitoring customer service as a means of identifying key issues before choosing to conduct more in-depth research and analysis with smaller numbers of customers
- monitoring customer service will allow the company to have the potential to gather the views of large numbers of customers relatively easily and to analyse these effectively and quickly using technology, thereby allowing the necessary decisions to be implemented promptly.

**2 (b)** *Analyse the possible benefits to SEB Ltd of introducing a new layer of production supervisors to its organisational structure.*

**[7 marks]**

LEVEL	DESCRIPTOR	MARKS
L5	Good analysis <b>and</b> Good application	7
L4	Good analysis <b>and</b> Reasonable application <b>or</b> Reasonable analysis <b>and</b> Good application	6–5
L3	Reasonable analysis <b>and</b> Reasonable application <b>or</b> Good analysis <b>or</b> Good application	4
L2	Reasonable analysis <b>or</b> Reasonable application	3
L1	Answer contains relevant knowledge – basic points and/or evidence of understanding of relevant term(s)	2–1

**Relevant answers might include the following:**

- an organisational structure shows the formal authority, responsibility and communication paths within a business
- greater supervision may ensure fewer mistakes – helping to reduce the level of errors in the factory
- narrower spans of control may mean staff feel valued – which could help to improve labour turnover rates
- narrower spans of control may reduce the pressure on senior managers allowing them to focus on strategic issues
- may motivate staff by offering clearer route for promotion and career progression.

**Possible themes for application:**

- 24% of output is identified in the factory as faulty, whilst customer complaints are running at 14% – these statistics may imply a lack of supervision
- each factory manager seems to have a span of control of 24 – supervisors would reduce this to a more manageable 6
- staff seem to lack skills ‘still learning on the job’
- directors are working 12 hour days to sort out each ongoing problems.

**Lines of analysis include:**

- fewer errors in production would boost output – aiding the firm in its attempts to keep up with demand
- fewer errors in production would reduce re-working costs – thus freeing up precious cash resources to deal with other problems in the business
- higher levels of supervision may help staff ‘learn on the job’ quicker and more effectively, thus boosting quality levels and perhaps productivity
- if a closer relationship with a supervisor improves morale, labour turnover may fall.

Good analysis must focus clearly on the benefits to the business, which should flow from solving the many existing problems it faces.

**2 (c)** *To what extent do you think that better recruitment and selection procedures will be the most effective way of improving the performance of SEB Ltd’s workforce?*  
**[13 marks]**

<b>LEVEL</b>	<b>DESCRIPTOR</b>	<b>MARKS</b>
<b>L5</b>	Good analysis <b>and</b> Good application	<b>9</b>
<b>L4</b>	Good analysis <b>and</b> Reasonable application <b>or</b> Reasonable analysis <b>and</b> Good application	<b>8–7</b>
<b>L3</b>	Reasonable analysis <b>and</b> Reasonable application <b>or</b> Good analysis <b>or</b> Good application	<b>6–5</b>
<b>L2</b>	Reasonable analysis <b>or</b> Reasonable application	<b>4–3</b>
<b>L1</b>	Answer contains relevant knowledge – basic points and/or evidence of understanding of relevant term(s).	<b>2–1</b>

**Relevant answers may include the following:**

- recruitment and selection is the process of attracting and choosing new employees
- workforce effectiveness can be measured using labour productivity or labour turnover.

**Possible themes for application:**

- rapid growth in sales necessitates continuous recruitment and selection of substantial numbers of employees
- all employees are currently recruited through personal recommendations from existing employees



- with a new supervisory layer, a new type of job is being created – it is important that these staff have effective skills
- the current level of labour turnover is very high adding to the company's recruitment needs
- Bob's proposal to appoint an HR specialist indicates that he feels recruitment is a major problem
- workforce effectiveness throughout the organisation is being hampered by excessive workloads
- effective training may be more important given evidence of mistakes and delays caused by staff errors.

**Lines of analysis include:**

- appointing staff with the right skills should result in fewer errors and the new employees may be able to work quicker, thus increasing productivity – a key measure of workforce effectiveness
- effective recruitment should ensure only workers who are competent are appointed, whilst ensuring candidates should be aware in advance of the demands of the job. These factors should reduce labour turnover – a second key measure of workforce performance
- demotivated staff are far more likely to leave, therefore motivating staff through improved job design may be more important as a way of reducing labour turnover and productivity
- with doubts over the skills of existing staff, as evidenced by the number of faulty products, training may be a more effective way to boost productivity levels by ensuring all employees have the necessary skills.

Good analysis should focus on improving workforce performance.

**For Evaluation**, you should award marks using the grid below.

**Note:** Evaluation also assesses students' quality of written communication.

LEVEL	DESCRIPTOR	MARKS
E3	Judgement with well supported justification.	4
E2	Judgement with reasonable attempt at justification.	3–2
E1	Assertion or judgement which is unsupported.	1

**Ideas for evaluation might include the following:**

- if demand continues to grow, extra staff will need to be recruited – getting this right should boost overall productivity in the future
- improved recruitment and selection will only have an impact in the medium to long term
- yet the performance of the existing staff is more likely to be improved using training, job re-design or re-structuring
- different approaches may be needed in different parts of the business. The team responsible for collecting and collating internet orders may just need expanding
- operational issues, such as disorganisation may be the key to improving the performance of the workforce.

Good judgement must decide whether recruitment and selection will be the most effective way of increasing workforce performance (as opposed to e.g. being a “good” way); this will require a comparison.

**2 (d)** *Do you think that sub-contracting is the best way for SEB Ltd to ensure that its output continues to match demand? Justify your view.*

**[14 marks]**

Level	Descriptor	Marks
L5	Good analysis <b>and</b> Good application	9
L4	Good analysis <b>and</b> Reasonable application <b>or</b> Reasonable analysis <b>and</b> Good application	8–7
L3	Reasonable analysis <b>and</b> Reasonable application <b>or</b> Good analysis <b>or</b> Good application	6–5
L2	Reasonable analysis <b>or</b> Reasonable application	4
L1	Answer contains relevant knowledge – basic points and/or evidence of understanding of relevant term(s)	3–1

**Relevant answers might include the following:**

- sub-contracting involves engaging another business in order to help provide the products/services that you offer.

**Possible themes for application:**

- demand for the company's products is increasing rapidly - too rapidly for it to cope effectively
- the Polish sub-contractor is one of Europe's largest bed manufacturers and Sleep-E-Beds Ltd's orders would represent a small part of its production
- sub-contracting to Poland may damage the firm's ability to meet their 7 day delivery promise
- there is an unused 5% of capacity available within the current factory at present
- the company's staff are poorly trained offering potential to increase capacity
- the appointment of the new production supervisors may boost output levels up to match demand.

**Lines of analysis include:**

- sub-contracting may lead to quality issues – the subcontractor may care less about the importance of quality such as meeting customers' individual needs
- sub-contracting to the Polish firm may be risky as this company is very large and its work for Sleep-E-Beds Ltd would be a small part of its production and would be unlikely to be a priority for the company
- sub-contracting is likely to lower profit margins, which may already be narrow given the amount of wastage implied within the item

- sub-contracting, at least in the short-term, would allow Sleep-E-Beds Ltd to address its HR and operational problems and to implement its long-term strategy
- sub-contracting could be a quick solution may help to reduce delivery delays, which would help boost customer satisfaction
- sub-contracting prevents committing too much investment in case high demand is short-lived – competitors may be arriving shortly – this may also assist the company's weak cash position.

Good analysis should focus on how Sleep-E-Beds Ltd can best increase output to meet demand.

**For Evaluation**, you should award marks using the grid below.

**Note:** Evaluation also assesses students' quality of written communication.

LEVEL	DESCRIPTOR	MARKS
E3	Judgement with well supported justification.	5–4
E2	Judgement with reasonable attempt at justification.	3–2
E1	Assertion or judgement which is unsupported.	1

**Ideas for evaluation might include the following:**

- the '7 day delivery' promise may be critical to Sleep-E-Beds Ltd's competitiveness and sub-contracting to Poland may make this more difficult to achieve weakening the firm's appeal within its market niche
- the company is clearly extremely inefficient at the moment. Sub-contracting may not be necessary if the firm can fix its internal issues quickly, sub-contracting could offer a short-term solution while Sleep-E-Beds Ltd improve their own operational efficiency
- the decision will depend on how long demand is expected to stay at these high levels, especially if competitors are due shortly.
- alternative actions they may take for example, restricting the level of demand through price increases.

Good judgement must decide whether subcontracting is the best way (rather than just a good way) and so will require a comparison.