

Paper 1: Investigating small business mark scheme

Section A

| Question number | Answer | Mark |
|-----------------|--------|-------------|
| 1(a) | B | (1) AO1a |

| Question number | Answer | Mark |
|-----------------|--------|-------------|
| 1(b) | B | (1) AO1a |

| Question number | Answer | Mark |
|-----------------|--|-------------------------|
| 1(c) | <p>Award 1 mark for identification of a benefit, plus 2 further marks for explaining this benefit, up to a total of 3 marks.</p> <p>The market map will help to identify key features of competitors (1), which allows the business to spot a gap in the market (1) so they can focus on features to make themselves different (1).</p> <p>A market map can help a business make decisions about its products (1) so that the features of the products are different from their competitors (1), which makes it likely that they will get more customers (1).</p> <p>Accept any other appropriate response. Answers that list more than one benefit with no explanation will be awarded a maximum of 1 mark.</p> | (3) AO1a=1 AO1b=2 |

| Question number | Answer | Mark |
|-----------------|---|-------------------------|
| 1(d) | <p>Award 1 mark for identification of a disadvantage, plus 2 further marks for explaining this disadvantage up to a total of 3 marks.</p> <p>Unlimited liability will increase the personal financial risks (1) for a sole trader. This is because they become responsible for all losses made by the business (1), which could result in them having to sell personal assets to pay any losses (1).</p> <p>The sole trader could lose personal possessions (1). As there is no distinction between the business and the individual (1), losses made by the business have to be paid by the individual (1).</p> <p>Accept any other appropriate response. Answers that list more than one disadvantage with no explanation will be awarded a maximum of 1 mark.</p> | (3) AO1a=1 AO1b=2 |

| Question number | Answer | Mark |
|-----------------|--------|-------------|
| 2(a) | C, E | (2) AO1a |

| Question number | Answer | Mark |
|-----------------|--------|-------------|
| 2(b) | A, D | (2) AO1a |

| Question number | Answer | Additional guidance | Mark |
|-----------------|--------|--------------------------------|------------|
| 2(c)(i) | 7,230 | Do not accept any other answer | (1) AO2 |

| Question number | Answer | Additional guidance | Mark |
|-----------------|--------|--------------------------------|------------|
| 2(c)(ii) | 11,680 | Do not accept any other answer | (1) AO2 |

| Question number | Answer | Mark |
|-----------------|--|-------------------------|
| 2(d) | <p>Award 1 mark for identification of a method, plus 2 further marks for explaining how this method will add value, up to a total of 3 marks.</p> <p>One method is by having a unique selling point (USP) (1). This will help the product to stand out against competitors by having something they do not have (1). As a result customers will be willing to pay more for a product they see as more original (1).</p> <p>One method to add value is by having a distinct brand image (1). This will help the business to be easily recognised by customers (1). As a result, customers are more prepared to pay a higher price for a product as they recognise and trust the name (1).</p> <p>Accept any other appropriate response. Answers that list more than one method with no explanation will be awarded a maximum of 1 mark.</p> | (3) AO1a=1 AO1b=2 |

| Question number | Answer | Mark |
|-----------------|--|---|
| 2(e) | <p>Award 1 mark for identification of a reason, plus 2 further marks for explaining this reason, up to a total of 3 marks.</p> <p>To provide information for the bank when applying for a loan (1). The bank will be able to see important information about how the business will operate (1), and can therefore make a judgement about the ability of the business to repay the loan (1).</p> <p>To enable the entrepreneur to collect information about the business to plan ahead (1). Projections of sales and costs help the entrepreneur to make decisions about buying stock (1) so that the business can meet customer needs (1).</p> <p>Accept any other appropriate response. Answers that list more than one reason with no explanation will be awarded a maximum of 1 mark.</p> | <p>(3) AO1a=1 AO1b=2</p> |

| Question number | Answer | Mark |
|-----------------|--------|------------------------------------|
| 3(a) | D | <p>(1) AO1a</p> |

| Question number | Answer | Additional guidance | Mark |
|-----------------|---|---|-----------------------------------|
| 3(b) | <p>Substitution into correct formula:</p> <p>Total costs = £1 100 + (240 × 0.45) (1)</p> <p>Answer: £1 208 (1)</p> | <p>Award full marks for correct numerical answer without working.</p> | <p>(2) AO2</p> |

| Question number | Answer | Mark |
|-----------------|---|---|
| 3(c) | <p>Award 1 mark for identification of a possible conflict, plus 2 further marks for explaining why this conflict exists, up to a total of 3 marks.</p> <p>Conflict can exist between workers and owners (1). This is because workers typically want more pay (1), whereas owners often want to increase their profits (1).</p> <p>Conflict can exist between owners and suppliers (1). This is because suppliers want to be paid on time to preserve their cash flow (1), but businesses want to retain cash as long as possible (1).</p> <p>Accept any other appropriate response. Answers that list more than one conflict with no explanation will be awarded a maximum of 1 mark.</p> | <p>(3) AO1a=1 AO1b=2</p> |

| Question number | Answer | Mark |
|-----------------|--|---|
| 3(d) | <p>Award 1 mark for identification of a disadvantage, plus 2 further marks for explaining this disadvantage up to a total of 3 marks.</p> <p>There will be a lot of competitors (1). Therefore the business may have to charge a lower price (1). This may mean that the business does not generate as high a profit (1).</p> <p>Competitors put pressure on a business to provide a high-quality product (1). If it does not do this, customers will choose one of the rivals (1). As a result of this, sales and revenue are likely to fall (1).</p> <p>Accept any other appropriate response. Answers that list more than one disadvantage with no explanation will be awarded a maximum of 1 mark.</p> | <p>(3) AO1a=1 AO1b=2</p> |

| Question number | Indicative content | Mark |
|-----------------|---|---|
| 3(e) | <ul style="list-style-type: none"> Proximity to market (AO1b). The amount of competition in the area (AO1b). This increases the likelihood of being visible to potential customers so the business can attract more passing trade (AO3a). This might impact on the pricing strategy of the business as they may have to charge lower prices to be competitive (AO3a). | <p>(6) AO1b=3 AO3a=3</p> |

| Level | Mark | Descriptor |
|---------|------|--|
| | 0 | No rewardable material. |
| Level 1 | 1-2 | <ul style="list-style-type: none"> Demonstrates elements of knowledge and understanding of business concepts and issues, with limited business terminology used (AO1b). Attempts to deconstruct business information and/or issues, finding limited connections between points (AO3a). |
| Level 2 | 3-4 | <ul style="list-style-type: none"> Demonstrates mostly accurate knowledge and understanding of business concepts and issues, including appropriate use of business terminology in places (AO1b). Deconstructs business information and/or issues, finding interconnected points with chains of reasoning, although there may be some logical inconsistencies (AO3a). |
| Level 3 | 5-6 | <ul style="list-style-type: none"> Demonstrates accurate knowledge and understanding of business concepts and issues throughout, including appropriate use of business terminology (AO1b). Deconstructs business information and/or issues, finding detailed interconnected points with logical chains of reasoning (AO3a). |

Section B

| Question number | Answer | Mark |
|-----------------|---|------------|
| 4(a) | <p>Award up to 2 marks for linked points outlining a suitable method of promotion for <i>Meringue</i>. Award a maximum of 1 mark if points are not linked.</p> <p>By offering free food samples to passers-by (1) potential customers can taste the high quality ingredients (1).</p> <p><i>Meringue</i> can print a voucher offering a discount in a local newspaper (1) to encourage customers to come in on quieter days (1).</p> <p>Do not accept methods of promotion that would not be appropriate for a small town centre bakery and cafe such as <i>Meringue</i>, for example a national TV advertising campaign.</p> | (2) AO2 |

| Question number | Indicative content | Mark |
|-----------------|--|------------------------|
| 4(b) | <ul style="list-style-type: none"> Ordering in advance allows customers to spend less time queuing in the shop as they will not need to wait for the food to be prepared (AO2). As customers are not having to queue for as long as before, the chance of getting negative TripAdvisor® reviews, such as in Figure 2, is reduced (AO2). The slow service appears to be the only negative aspect, so by addressing this, the owners are helping to meet the needs of their customers and will gain repeat purchase as a result (AO3a). This improves the convenience for customers, who are unhappy at the time it can take to queue to pay (AO3a). | (6) AO2=3 AO3a=3 |

| Level | Mark | Descriptor |
|---------|------|---|
| | 0 | No rewardable material. |
| Level 1 | 1–2 | <ul style="list-style-type: none"> Limited application of knowledge and understanding of business concepts and issues to the business context (AO2). Attempts to deconstruct business information and/or issues, finding limited connections between points (AO3a). |
| Level 2 | 3–4 | <ul style="list-style-type: none"> Sound application of knowledge and understanding of business concepts and issues to the business context although there may be some inconsistencies (AO2). Deconstructs business information and/or issues, finding interconnected points with chains of reasoning, although there may be some logical inconsistencies (AO3a). |
| Level 3 | 5–6 | <ul style="list-style-type: none"> Detailed application of knowledge and understanding of business concepts and issues to the business context throughout (AO2). Deconstructs business information and/or issues, finding detailed interconnected points with logical chains of reasoning (AO3a). |

| Question number | Answer | Mark |
|-----------------|--|------------|
| 5(a) | <p>Award up to 2 marks for linked points outlining an impact of lengthy queues on <i>Meringue</i>. Award a maximum of 1 mark if points are not linked.</p> <p>Long queues may lead to customers not returning to <i>Meringue</i> (1), preferring to visit competing cafes where paying for food is more efficient (1).</p> <p>Long queues may deter customers who are passing and look into the cafe (1), which may mean that they go elsewhere and <i>Meringue</i> loses potential sales (1).</p> <p>Do not accept impacts that would not be appropriate for the context of a small town centre bakery and cafe such as <i>Meringue</i>, for example going to another branch.</p> | (2) AO2 |

| Question number | Answer | Additional guidance | Mark |
|-----------------|---|--|------------|
| 5(b) | <p>Loan = £4,500</p> <p>Total repayments = $36 \times £136.50$ = £4 914</p> <p>Interest = £4 914 – £4,500 = £414</p> <p>Substitution into correct formula: Total interest = $414/4500 \times 100$ (1)</p> <p>Answer: 9.2% (1)</p> | Award full marks for correct numerical answer without working. | (2) AO2 |

| Question number | Indicative content | | Mark |
|-----------------|--|---|------------------------|
| 5(c) | <ul style="list-style-type: none"> The owners of <i>Meringue</i> have a number of priorities, including the development of the website, and therefore need to use some external finance to fund the work, which will increase their costs (AO2). Higher fixed costs will increase the amount of food and drink that needs to be sold to break even (AO2). This will mean that monthly fixed costs for the business will increase, which might affect profitability. However, if the contactless system helps to improve customer experience, <i>Meringue</i> is likely to see increased customer numbers, which will offset the increased costs (AO3a). Neil and Sue need to ensure that the size of the monthly payment does not result in a break-even level of sales that is unrealistic. Competition from local cafes is present and any increase in costs may result in the need to charge higher prices, which could be damaging (AO3a). | | (6) AO2=3 AO3a=3 |
| Level | Mark | Descriptor | |
| | 0 | No rewardable material. | |
| Level 1 | 1–2 | <ul style="list-style-type: none"> Limited application of knowledge and understanding of business concepts and issues to the business context (AO2). Attempts to deconstruct business information and/or issues, finding limited connections between points (AO3a). | |
| Level 2 | 3–4 | <ul style="list-style-type: none"> Sound application of knowledge and understanding of business concepts and issues to the business context although there may be some inconsistencies (AO2). Deconstructs business information and/or issues, finding interconnected points with chains of reasoning, although there may be some logical inconsistencies (AO3a). | |
| Level 3 | 5–6 | <ul style="list-style-type: none"> Detailed application of knowledge and understanding of business concepts and issues to the business context throughout (AO2). Deconstructs business information and/or issues, finding detailed interconnected points with logical chains of reasoning (AO3a). | |

| Question number | Answer | Mark |
|-----------------|--------|------------|
| 6(a) | 200 | (1) AO2 |

| Question number | Answer | Mark |
|-----------------|--|------------|
| 6(b) | <p>Award 1 mark for shading the region where the total revenue line is above the total costs line (as indicated below).</p> <p>Revenue and costs (£)</p> <p>Number of sales</p> <p>— Fixed costs — Variable costs - - - Total costs ···· Total revenue</p> | (1) AO2 |

| Question number | Answer | Mark |
|-----------------|--|------------|
| 6(c) | <p>Award 1 mark for stating a benefit to <i>Meringue</i> of having a low break-even level of output.</p> <p>Need to sell fewer sandwiches to make a profit (1). More profit to invest in their website redesign (1).</p> <p>Accept any other appropriate response. Do not accept benefits that would not be appropriate for a small town centre bakery and cafe such as <i>Meringue</i>, for example being able to pay higher dividends to shareholders.</p> | (1) AO2 |

| Question number | Indicative content | | Mark |
|-----------------|---|--|--|
| 6(d) | <ul style="list-style-type: none"> Neil and Sue's competitive advantage comes from non-price factors, such as quality (AO2). Raising price may be risky as <i>Meringue</i> is located in the town centre, close to competing cafes (AO2). Non-price factors mean most customers will stay loyal despite price increases. This will mean that total revenue will increase despite the increase in price and therefore will reduce the amount they need to sell to break even (AO3a). Competition may result in a loss of customers as higher prices deter existing customers preferring cheaper alternatives (AO3a). The most appropriate option for Neil and Sue is to raise prices. The main feature of the business is 'quality' and anything that puts this at risk must be avoided. Lower-priced ingredients could impact on quality (AO3b). The break-even chart shows that the cost of ingredients is a very small proportion of total costs for Neil and Sue. This means that it will have a very small impact on their ability to break even. Therefore, an increase in price would be the most effective option to reduce the amount they have to sell (AO3b). | | (9) AO2=3 AO3a=3 AO3b=3 |
| Level | Mark | Descriptor | |
| | 0 | No rewardable material. | |
| Level 1 | 1-3 | <ul style="list-style-type: none"> Limited application of knowledge and understanding of business concepts and issues to the business context (AO2). Attempts to deconstruct business information and/or issues, finding limited connections between points (AO3a). Makes a judgement, providing a simple justification based on limited evaluation of business information and issues relevant to the choice made (AO3b). | |
| Level 2 | 4-6 | <ul style="list-style-type: none"> Sound application of knowledge and understanding of business concepts and issues to the business context although there may be some inconsistencies (AO2). Deconstructs business information and/or issues, finding interconnected points with chains of reasoning, although there may be some logical inconsistencies (AO3a). Makes a judgement, providing a justification based on sound evaluation of business information and issues relevant to the choice made (AO3b). | |
| Level 3 | 7-9 | <ul style="list-style-type: none"> Detailed application of knowledge and understanding of business concepts and issues to the business context throughout (AO2). Deconstructs business information and/or issues, finding detailed interconnected points with logical chains of reasoning (AO3a). Makes a judgement, providing a clear justification based on a thorough evaluation of business information and issues relevant to the choice made (AO3b). | |

Section C

| Question number | Answer | Mark |
|-----------------|---|--------------------------|
| 7(a) | <p>Award 1 mark for stating one risk Sally will face when starting her business.</p> <p>Financial risks as she is giving up her current paid employment (1). Insecurity of sales due to falling consumer incomes (1).</p> <p>Accept any other appropriate response. Do not accept risks that would not be appropriate for a personal trainer business such as Sally's, for example not being able to source trade credit.</p> | (1) AO2 |

| Question number | Answer | Mark |
|-----------------|--|--------------------------|
| 7(b) | Competitor 1: 'Vitality' personal instructor | (1) AO2 |

| Question number | Answer | Mark |
|-----------------|--|--------------------------|
| 7(c) | <p>Award up to 2 marks for linked points outlining one impact of the economic climate on Sally's business. Award a maximum of 1 mark if points are not linked.</p> <p>If unemployment is rising, people will have less disposable income (1). This will mean that luxuries, such as Sally's personal trainer service, are more likely to become less popular (1).</p> <p>Do not accept economic factors that would not be appropriate for a personal trainer business such as Sally's, for example changes in exchange rate.</p> | (2) AO2 |

| Question number | Indicative content | Mark |
|---------------------------------------|--|--|
| <p>7(d) Justify</p> | <ul style="list-style-type: none"> • Sally has saved enough money to start her business and can therefore afford the costs associated with a franchise. (AO2). • Starting up on her own without buying a franchise will give Sally more freedom. She has her own ideas for differentiating her service, for example by the use of social media, and a franchise may not allow her to pursue some or all of them (AO2). • Becoming a franchisee means she could benefit from the established name that comes with taking out a franchise and will not have to spend time and money establishing her own name. There are established competitors in the market and a franchise name may help (AO3a). • If the franchise does not allow Sally to implement some of her ideas to target a younger target market, her service may not be differentiated from rival personal trainers, such as 'Vitality' (AO3a). • Establishing a new business, especially in a market where competition exists, requires strong brand recognition. Sally is likely to get this from a franchise in a way that she is unlikely to gain by herself. Despite the costs involved, this appears to be the most suitable option for Sally at this time, especially given the worsening economic climate, which will only add to the uncertainty in this market (AO3b). • Starting up on her own without buying a franchise appears to be the best option for Sally. Although the franchise option would provide reassurance of an established name, the market she is entering does not have much competition (just two rivals). Her ideas for differentiating her business will undoubtedly help her to stand out in a fairly small but growing market. Freedom is more important than brand name at this stage (AO3b). | <p>(9) A02=3 A03a=3 A03b=3</p> |

| Level | Mark | Descriptor |
|---------|------|--|
| | 0 | No rewardable material. |
| Level 1 | 1–3 | <ul style="list-style-type: none"> Limited application of knowledge and understanding of business concepts and issues to the business context (AO2). Attempts to deconstruct business information and/or issues, finding limited connections between points (AO3a). Makes a judgement, providing a simple justification based on limited evaluation of business information and issues relevant to the choice made (AO3b). |
| Level 2 | 4–6 | <ul style="list-style-type: none"> Sound application of knowledge and understanding of business concepts and issues to the business context although there may be some inconsistencies (AO2). Deconstructs business information and/or issues, finding interconnected points with chains of reasoning, although there may be some logical inconsistencies (AO3a). Makes a judgement, providing a justification based on sound evaluation of business information and issues relevant to the choice made (AO3b). |
| Level 3 | 7–9 | <ul style="list-style-type: none"> Detailed application of knowledge and understanding of business concepts and issues to the business context throughout (AO2). Deconstructs business information and/or issues, finding detailed interconnected points with logical chains of reasoning (AO3a). Makes a judgement, providing a clear justification based on a thorough evaluation of business information and issues relevant to the choice made (AO3b). |

| Question number | Indicative content | Mark |
|--------------------------------|--|--|
| 7(e) Evaluate | <ul style="list-style-type: none"> • Entrepreneurs use market research to identify gaps in the market (AO1b). • Some small businesses can suffer at times when consumer income is falling (AO1b). • Sally has conducted some primary research into competitors in her local area (as evidenced in Figure 6) and identified a gap in the market identified for personal trainers (AO2). • As unemployment is rising and consumer income is falling, Sally’s potential customers are likely to spend less on fitness and other non-essential services (AO2). • Sally plans to differentiate her business through the use of social media and technology. This will help her to create a USP which would appeal to younger market segments and help her business stand out from competitors (AO3a). • Sally currently has the security of a well-paid job but if she did not get enough customers in the short term she may find that she does not have enough income. If she chooses to be a sole trader, unlimited liability will mean her personal possessions are at risk (AO3a). • As there are just two main competitors in this market, Sally’s business idea has a good chance of success. By creating a USP based around technology, she has a good opportunity to differentiate her business from rival personal trainers (AO3b). • The success of the business idea depends on some factors that are beyond Sally’s control. However, if Sally gains a reputation as an excellent personal trainer the degree to which these factors will reduce her success are limited (AO3b). | (12) AO1b=3 AO2=3 AO3a=3 AO3b=3 |

| Level | Mark | Descriptor |
|---------|------|---|
| | 0 | No rewardable material. |
| Level 1 | 1–4 | <ul style="list-style-type: none"> • Demonstrates elements of knowledge and understanding of business concepts and issues, with limited business terminology used (AO1b). • Limited application of knowledge and understanding of business concepts and issues to the business context (AO2). • Attempts to deconstruct business information and/or issues, finding limited connections between points (AO3a). • Draws a conclusion, supported by generic assertions from limited evaluation of business information and issues (AO3b). |
| Level 2 | 5–8 | <ul style="list-style-type: none"> • Demonstrates mostly accurate knowledge and understanding of business concepts and issues, including appropriate use of business terminology in places (AO1b). • Sound application of knowledge and understanding of business concepts and issues to the business context although there may be some inconsistencies (AO2). • Deconstructs business information and/or issues, finding interconnected points with chains of reasoning, although there may be some logical inconsistencies (AO3a). • Draws a conclusion based on sound evaluation of business information and issues (AO3b). |
| Level 3 | 9–12 | <ul style="list-style-type: none"> • Demonstrates accurate knowledge and understanding of business concepts and issues throughout, including appropriate use of business terminology (AO1b). • Detailed application of knowledge and understanding of business concepts and issues to the business context throughout (AO2). • Deconstructs business information and/or issues, finding detailed interconnected points with logical chains of reasoning (AO3a). • Draws a valid and well-reasoned conclusion based on a thorough evaluation of business information and issues (AO3b). |