

AS LEVEL

Exemplar Candidate Work

H031

BUSINESS

The local business environment
(Component 1)

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INTRODUCTION

This resource has been produced by a senior member of the AS Business examining team to offer teachers an insight into how the assessment objectives are applied. It has taken the two high mark questions from the sample question paper and used them to illustrate how the questions might be answered and provide some commentary on what factors contribute to overall levels.

As these responses have not been through full moderation, they are banded to give an indication of the level of each response.

Please note that this resource is provided for advice and guidance only and does not in any way constitute an indication of grade boundaries or endorsed answers.

The sample assessment material for these answers and commentary can be found on the GCE Business web page and accessed via the following link: [the local business environment sample assessment material](#)

QUESTION 19

19 Evaluate like impacts on *Mostly Kids* of holding too much stock.

[12]

LEVEL 1 ANSWER

"One impact on a business of holding too much stock is that capital is tied up in stock and does not earn any reward until sold. Purchasing too much stock increases outgoings, reducing the cash flow position of *Mostly Kids*. Potentially this may mean that *Mostly Kids* does not have sufficient available funds to pay its utility bills."

EXAMINER COMMENTARY

The candidate suggests two impacts on a business of holding too much stock. The first, clearly referenced in the first sentence, relates to capital being tied up limiting entrepreneurial profit. The second, less clearly signposted, begins in the second sentence and concerns the impact on cash flow. This impact on cash flow has been explained (increased outgoings). There is also an attempt to analyse this impact as the candidate goes on to link the reduced cash flow position with *Mostly Kids*' potential inability to pay its bills.

The quality of the candidate's answer needs to be judged against the level of response grid at the beginning of the mark scheme for each of the three skills. Knowledge and Understanding: While the candidate shows a reasonable awareness of the impacts of holding too much stock this has not been applied contextually to *Mostly Kids*. Simply dropping in the name of the business is not contextualisation. Since, according to the grid, context is required for 'reasonable' knowledge and understanding this response can only be classified as 'limited' for knowledge and understanding. Analysis: The candidate gives some links in the chain of argument relating to cash flow – increased outgoings, reduced cash flow position, inability to pay bills. The **analysis for the first impact is limited but the analysis for the second impact is good. Evaluation: There is no attempt at evaluation.**

Now looking at the level of response requirements for the question itself it can be seen that the candidate must be awarded a Level 1 mark as, whilst there is some analysis, the answer is cannot be awarded Level 2 because the **knowledge and understanding has been rated as 'limited'** rather than 'reasonable' because of the lack of contextualisation in the response. The candidate would likely be awarded a Level 1 (the mark scheme limits a non-contextualised response to two marks as there are only two AO1 marks available for this question).

Contextualisation is required to move beyond 'limited' for knowledge and understanding. This candidate could easily have achieved this by referring to 'clothing' or by making reference to *Mostly Kids*' current poor performance and, therefore, likely cash flow issues. A simple change in the wording of the second sentence so that it begins 'Purchasing too many items of clothing...' would have been sufficient to bring this answer into context and allow the examiner to consider awarding more marks.

LEVEL 2 ANSWER

"Holding too much stock could be a problem to *Mostly Kids* because clothing goes out of fashion. This would mean that clothing items could not be sold or needed to be sold at a discounted price, either way reducing revenue and profit.

In addition, there is the risk that the clothing may get damaged; this risk increases the longer that the stock remains unsold. A potential customer may snag the material or put a muddy foot print on stock which has fallen off a hanger. Alternatively, there could be a more widespread risk of fire or flood damage. The greater the value of the stock which Barbara holds, the greater her insurance premium is likely to be. This will also negatively impact cash flow and profit.

The impact on cash flow is likely to have the greatest impact on Barbara because she runs a small sole-tradership with very limited funds."

EXAMINER COMMENTARY

The candidate suggests two impacts – the clothing becoming out of date and the risk of damage. Several words or expressions are used which show that the candidate is writing in context and not churning out a merely theoretical answer from a text book - see 'clothing', 'fallen off a hanger', 'snag the material' etc. The candidate also analyses both impacts with several links in the chain. The 'going out of fashion' argument includes consequential links of unsold stock or lower price, leading to reduced revenue and reduced profit. The 'damage to stock' argument includes both causal and consequential links including damage from customer or damage from the elements, links to insurance cover and further impacts on cash flow and profit. There is also some evaluation, the candidate states that cash flow is likely to have the greater impact on *Mostly Kids* and makes some attempt to explain the influencing factors by referring to the limited funds of a small, sole proprietor business.

Using the level of response grid at the beginning of the mark scheme we can rate the candidate's response for all three skills – knowledge and understanding, analysis and evaluation. First, knowledge and understanding – the candidate shows precise understanding and provides a contextually focused answer. Knowledge and understanding can be judged to be 'good'. The analysis gives an explanation of both causes and consequences and develops most of the links in the chain and therefore can also be rated as 'good'. The evaluation is supported, albeit it weakly. There is some recognition of the influencing factors. The evaluation can, therefore, be rated as 'reasonable'

Now looking at the level of response requirements for the question itself it can be seen that the candidate cannot be awarded a Level 3 mark because whilst the response meets the criteria of **'good' for knowledge and understanding and analysis it was let down by its 'reasonable' evaluation**. The response must, therefore, be awarded a Level 2 mark, likely a top Level 2 mark.

To move into Level 3 this candidate needed to improve their evaluation. An extension of their current argument which related more specifically to the financial performance figures of *Mostly Kids* after three years of trading may have helped, likewise a reference to the fact that Barbara had put all of her £3000 savings into the business and was unlikely to have any contingency funding available for the business would have strengthened the justification that the negative impact on cash-flow would have the greatest impact on *Mostly Kids*. Such improvements to the evaluation would have moved this response into Level 3, possibly achieving an additional three marks.

LEVEL 4 ANSWER

"Holding too much stock is likely to make Barbara's shop look cluttered. The clothes may not be displayed to their best advantage and this may reduce sales because shoppers do not see some of the ranges which the shop sells. Pregnant women and parents with small children are likely to want a spacious, carefree shopping experience without the risk of falling over piles of stock or having to fight past the hangers. This is quite likely to be the case in a shop as small as Barbara's. As there is not even space to provide a small changing room there must be very little space to display or store stock. Such a shopping experience may stop potential customers returning to the shop, limiting repeat custom. If the business cannot secure sufficient revenue then it may not be able to pay the rent to the Landlord or the business rates to Whickham Council.

Furthermore, the clothing may get damaged in the shop by children with sticky fingers or by muddy feet trampling clothing underfoot. Such clothing would need to be sold as 'seconds' at a reduced price, reducing the profit margin on that item. If the price for which the item had to be sold was lower than cost price then this would mean a loss being made on the sale on that item. As a sole trader, who relies on the profits which the business makes to support her young family, such a loss of profits could seriously affect the family's lifestyle.

The problem is further compounded by the fact that clothes are time sensitive items. Whilst summer stock could be held over until the following summer by then the clothing is likely to be outdated and out of fashion. This stock would be difficult to sell, certainly not with a mark-up which Barbara would need.

The financial repercussions of holding too much stock are likely to have the greatest impact on *Firstly Kids*. Indeed, looking at the budgeted figures for the first three years of trading it is difficult to see how the business could remain viable if the business remains overstocked. The business would almost certainly be running at a trading loss, and Barbara and her family apparently having no other means of financial support. Given that Barbara, as a sole trader, has unlimited liability this could lead not only to the closure of the business but to the loss of Barbara's personal possessions to repay the debt."

EXAMINER COMMENTARY

This candidate gives a thorough report, which is specifically contextualised and detailed in its analysis as the links in the chain of argument are expounded. Whilst the concluding paragraph is not the strongest of evaluations there is also some **evaluative comment throughout the answer**. In the first paragraph the candidate considers how the chances of having a cluttered shopping experience in Firstly Kids are high because it does not even have space for a changing room. In the second paragraph the seriousness of a lack of profit is judged in relation to it being Barbara's sole means of financial support. The third paragraph adds to the magnitude of the problem. Finally the conclusion suggests that being overstocked might lead to a trading loss and, worse, because of her unlimited liability status, may actually impact on the personal wealth of herself and her young family.

Using the level of response grid at the beginning of the mark scheme we can rate the candidate's response for all three skills. Knowledge and understanding is detailed, precise and contextually focused. Analysis shows a fully developed linked argument of causes and consequences. There is also a supported evaluative judgement. **All three skills would be rated as 'strong'**.

Looking at the level of response requirements for the question itself it can be seen that the candidate has met the criteria for the top level. Level 4 requires strong knowledge and understanding, analysis and evaluation. The candidate is likely to be awarded 11 marks. A more definitive evaluative final paragraph would have secured the full 12 marks.

QUESTION 20

20 Evaluate the extent to which *Mostly Kids* is likely to be affected by a major children's clothing retailer opening in the locality.

[20]

LEVEL 1 ANSWER

"A major children's clothing retailer opening in the locality may mean that shoppers in the area who are looking for baby and children's clothing may go to this new shop rather than *Mostly Kids*. Barbara might need to extend the opening hours of her shop from its current 10am to 3pm to match the competition. Even better would be to stay open later than the competition. A new children's clothing retailer opening in the area should, however, not affect maternity sales."

EXAMINER COMMENTARY

This candidate clearly answers in context. There are references to 'baby and children's clothing', '10am to 3pm' and 'maternity sales'. There is some understanding of the impact of increased competition. The candidate states that potential customers may go to the competition and that Barbara may need to combat this by changing the opening hours of *Mostly Kids*. There is only one link in the analytical chain of argument (losing customers – change opening hours). There is an attempt at evaluation, albeit lacking in explanation, the statement is true (the children's clothing retailer is unlikely to affect the sales of maternity wear).

Using the level of response grid at the beginning of the mark scheme we can rate the candidate's response for all three skills. **Knowledge and understanding is contextual and judged to be 'reasonable'.** The candidate only gives one simple linked consequence therefore the **analysis is deemed to be 'limited'. Evaluation comprises an unsupported assertion and is, therefore, also 'limited'.**

Turning to the level of response requirements for the question itself it can be seen that the candidate must be awarded a Level 1 mark as, whilst there is context, the answer cannot be awarded Level 2 because the analysis and evaluation are rated as 'limited' rather than 'reasonable'. The candidate would likely receive a top Level 1 mark of five.

In order to obtain a Level 2 mark the candidate needs to provide some simple analytical links in the chain to the point they made about customers going to the competition. References to *Mostly Kids* selling less and losing revenue, impacting on cash flow and the business' ability to pay its rent would have sufficed. Or perhaps a development with regards to the extended opening hours and how this might affect the variable costs and, therefore, the profitability of the business. In addition the candidate needed to support their assertion about maternity sales being unaffected. The fact that the candidate made the comment shows that they understand that a children's clothing retailer is unlikely to stock maternity wear, however the response does not actually state this. A simple explanation of their reasoning here would be sufficient for a Level 2 mark.

LEVEL 3 ANSWER

"*Mostly Kids* will experience increased competition; it will no longer be the only children's clothing retailer in the area. This means that Barbara's shop may lose out on sales revenue and, therefore, profit. Barbara did not do any marketing before opening the shop and does not appear to have done any since. *Mostly Kids* may need to market itself quite strongly if it is to counteract this incoming competition and secure future customers.

The degree to which *Mostly Kids* may be affected by the incoming retailer may depend on its targeted market. Barbara deliberately aims to provide children's clothing that is affordable and reasonably priced. If the incoming retailer is targeting a higher-end customer, by selling designer children's clothing then there may not have too much of an impact of *Mostly Kids* because the businesses will be meeting the needs of two different client bases. However, if the incoming business is targeting the mass, reasonably price market then Barbara may need to find ways to compete on grounds other than price. Possibly by focusing on personal customer service or offering a stock reservation scheme where customers pay a small amount each time they visit until the item is paid for."

EXAMINER COMMENTARY

This candidate suggests that *Mostly Kids* could lose customers and goes on to give some brief analytical consequential links in the chain of argument, through to profit. The answer also considers causes (targeting the same market) and consequences (how a solution might be found through marketing). The candidate also suggests that the degree of impact will depend upon whether or not the incoming retailer is targeting the same market as Barbara. This is evaluative.

Using the level of response grid at the beginning of the mark scheme we can rate the candidate's response for all three skills. Knowledge and understanding is contextual and focused and is judged to be 'good'. The candidate gives several explanations of cause and consequence, developing most of the links in their chain of argument and is judged to be just sufficient for 'good'. The evaluation makes a judgement after weighing up both sides of the argument (targeting similar or different target markets) and is, also, deemed sufficient for 'good'. **All three skills are therefore rated as 'good'.**

Turning to the level of response requirements for the question it can be seen that a Level 3 mark can be awarded to a response that shows good knowledge and understanding, analysis and evaluation. The candidate would likely be awarded a Level 3 mark of twelve.

All that this candidate would need to do to achieve a Level 4 mark would be to more fully develop their analytical chain of argument and support their evaluative judgement. Analytically, the candidate could, perhaps, refer to the impact on *Mostly Kids* of its ability to pay its rent or utility bills, or the orientation of the business needing to be changed from being product focused to market focused in order to more closely meet the needs of its customers, or Barbara's reliance on the business' profits to support her young family. In addition, a consideration that the incoming retailer was deemed a 'major' retailer would have helped the candidate reach a supported judgement of their evaluation. An argument that, because the incoming retailer was deemed to be a 'major' children's clothing retailer, it would be unlikely to be targeting a niche market and far more likely be targeting the mass, reasonably priced market would have helped. The more likely the incoming retailer is to be targeting the same market as *Mostly Kids* the greater the negative impacts on *Mostly Kids* are likely to be, if the business failed to respond to the increased competition.

LEVEL 4 ANSWER

"*Mostly Kids* is located around the corner from Front Street, slightly off the beaten high street track. If the new children's clothing retailer is located on Front Street itself then this is likely to have a significant impact on the number of customers and sales that *Mostly Kids* receive. Given that the new competitor is a major retailer it is likely that it would be seeking a prominent, high street location. This may mean that a prospective customer's first port of call may be the new retailer rather than *Mostly Kids*. If the new retailer has in store what the customer is looking for they may never visit *Mostly Kids* at all. Given that Barbara sometimes only serves a handful of customers a day, any loss in custom would have a direct impact on the future viability of her business.

Furthermore, a major retailer is likely to benefit from significant economies of scale. Not only is the chain likely to be able to buy stock in bulk far more cheaply than Barbara can, they are also likely to be able to employ high calibre procurement staff, and have access to important social trend data which may accurately forecast consumer buying patterns. The business may even be able to commission its own branded children's clothing design to target the specific needs of high street customers.

For these reasons Barbara may be unable to compete on location, price or on product range. To have any hope of competing Barbara may need to find her business a USP. She could, perhaps, offer a far greater level of personal service – but this would require an uncluttering of the shop and a refit, say with changing room, chairs, toys to distract the children etc. Or she may concentrate on niche market such as ethically sourced clothing, thus attracting a different clientele. This may work well since, according to the data given, Whickham is a middle class, affluent commuter town. Shoppers in the area are likely to have a high enough disposable income to create an effective demand. Alternatively, Barbara may wish to change the strategic direction of the business by altering the business' product portfolio so that it specialises solely in maternity wear, which a children's clothing retailer is unlikely to sell. Barbara could also consider diversifying into men's wear; however she should be careful not to encroach on the other retailer in the area which sells formal attire.

While the impact on *Mostly Kids* sales of maternity wear may be negligible, the impact on its sales of children's clothing may be significant. Given the poor financial performance of *Mostly Kids* since its beginning, any negative impact on revenue, cash flow or profit (even from just the sales of children's clothing) could well prove too much. This is likely to be especially true since Barbara appears to have no back-up savings and relies entirely on the profit made by the shop to support her young family.

Unless *Mostly Kids* can find a new way to compete with the incoming major children's clothing retailer on its own terms it is unlikely to survive. Indeed, if the business is allowed to get into significant debt before being closed down then, because of unlimited liability, Barbara may find that her personal assets, as well as her business assets, may also be used to pay off the business debt. Given Barbara's lack of experience at running her business, her poor business acumen, and her constant desire to buy more and more stock for the shop this is all the more likely to happen."

EXAMINER COMMENTARY

The answer is logically presented and detailed given the confines of a time limited examination. The response is precise and contextually focused. It includes an explanation of causes and consequences fully developing the links in the chain of argument. The evaluation not only judges the impact, but the extent of the impact. The evaluation is well reasoned using contextually specific argument to support its judgements. As such this response is deemed to show **strong knowledge and understanding, analysis and evaluation**. Whilst by no means perfect, it meets all of the criteria for the top mark band and must be awarded a Level 4 mark.

The candidate considers financial, strategic, operational and personal issues whilst judging the extent of the impact on *Mostly Kids* of a major children's clothing retailer opening in the locality. In short, it answers the question set. It would probably be awarded a top Level 4 mark of 20.



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