

Examiners' Report June 2016

IAL Business Studies WBS04 01

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Introduction

This paper offered candidates a mix of topics, some familiar from previous exams and some less so. The questions seemed to discriminate well, with a wide variety of responses – some of which were very good indeed. Many centres appear to have benefited from previous exams and the feedback that followed. Many candidates were well prepared and had clearly brought the benefit of wider reading and study into their answers, showing a real understanding of the topics, with coherent arguments reinforced by valid examples.

However, there are still too many responses that rely too much on assertion and generic answers. Candidates must remember to justify the arguments they make and back them up with examples. Some candidates weakened their responses by failing to apply the terms and theory they have been taught, using generalities and non-specialist language. This does not convince examiners that answers deserve high reward.

The main reasons for otherwise able candidates underachieving are the usual ones of not heeding command words and not reading the questions carefully enough. Command words are still being ignored by a sizeable number. Instructions to 'Assess' and 'Evaluate' were not followed by some candidates.

Some candidates missed out on marks because they did not answer the question that was set. Very few candidates failed to finish all the questions.

Question 1 (a)

This definition caused problems for some candidates who were far too general in their approach. The example below is a good illustration of this. To get both marks candidates needed to comment on the speed or pace of the change in GDP and make a comparative comment such as contrasting it with a more mature or developed economy.

1 (a) What is meant by the term growing economies? (Evidence A line 5)

(2)

By the term growing economies what is meant is that ^{the} countries that is growing, expanding, rising in GDP and etc in comparison to other countries. And developing day by day. For example: India, Brazil, Russia and Mexico.



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Examiner Comments

This response scored two marks, helped by some good examples.

Question 1 (b)

Another definition that caused some candidates a problem because it was confused with either globalisation or a global marketing strategy.

(b) What is meant by the term global market? (Evidence A line 5)

(2)

Global Market means the process of buying or selling goods and services in all the countries of the world, or the value of the goods and services sold. For e.g.: ~~At~~ Mc. Donalds operates in the global market as most of the countries in the world is have Mc Donalds outlet.



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Examiner Comments

A good definition that scored 2 marks.

Question 2

Most candidates dealt well with this question, showing that trade barriers and protectionism are a well understood part of the specification. The most popular reasons were to protect infant/domestic industries and to raise tax revenue.

Most candidates answered this well enough to gain 4 marks but many missed out on the extra 2 marks by not offering any application or examples.

A number of candidates offered reasons that were almost identical and so were only credited once.

2 Explain **two** reasons for the existence of trade barriers.

To protect infant industries: Trade barriers such as tariff or quota may be implemented to protect a new or small local industries from fierce foreign competition. This will enable them to grow.

To prevent
To ~~increase~~ ^{improve} the balance on current account balance: Using ~~pro~~ barriers will make the foreign goods more expensive. This will lead to a reduction in demand for those goods. So imports will decrease. This will give the economy a chance to improve their current account balance.



ResultsPlus Examiner Comments

Two good and well balanced reasons but only scoring 4 marks because there is no application.



ResultsPlus Examiner Tip

For each possible reason we are looking for an identification of that reason (Knowledge 1 mark), then putting it into context with a valid example (Application 1 mark) and then developing that reason by explaining the consequences (Analysis 1 mark). Make sure you cover these three assessment objectives.

Question 3

This question was again answered well, with many candidates showing good understanding of various push and pull factors. Common problems included failure to include any application or examples and insufficient development of the analysis. Candidates need to go further with this question to get all 8 marks compared to the previous 6 mark question. This means developing two analytical points per reason.

- 3 Analyse **two** possible reasons why UK businesses might be planning to enter the international markets shown in Evidence B.

International markets ~~are the entire~~ is the overall world market.
Where it is It is a combination of all market of the world.
Pull factors are the reasons why a business wants to go to international market from domestic markets.
Plastics Capital produces products for niche market. Their product range includes industrial films, specialised plastic rods etc. ~~These~~ These products may have growing demand in developing countries such as Brazil, China, Saudi Arabia, Turkey, India, Mexico etc. ^{By} This entering these markets will not only increase the sales and profit of Plastics Capital but will also increase market share and brand image.
Moreover entering so many markets will spread the risk evenly. As a result if one country isn't making profit then retained profits from other countries country operations can support the Jam making company.
However Plastics Capital may need to do proper global market research firm before entering the market which is going to be expensive and time consuming.



ResultsPlus Examiner Comments

This response shows good knowledge and application, and does make an analytical point for each reason, but does not develop them enough to get the second analysis mark. This response therefore only scored 6 marks.



ResultsPlus Examiner Tip

There is no need to evaluate on this question because there are no evaluation marks available when the command word is 'Analyse'.

Question 4

In this well answered question, most students demonstrated a good knowledge and understanding of trade blocs. If there is an area that needs development, it is application. Many responses used the question wording to drive their answer by sticking closely to the EU. In many cases, there could have been further development in the analysis.

- 4 Assess the importance of trade blocs such as the EU to the growth of international trade.

(10)

Trading blocs are a group of country joining together and promoting free trade between the member countries.

Members of a trading bloc enjoy facilities such as low or no tariff or quotas. No^{or less} trade barriers between the member countries.

Ee European Union is a trading bloc. European Union joined in a free trade agreement with South Korea, Chile, Mexico and

and south Africa. By doing so international international trade is increasing. ^{EU and South Korea} Due to this trading bloc FTA it has a sizeable

impact on the UK's trade with South Korea. UK's exports to the country grew by 80% in 2012 after the FTA FTA came into place. UK also had a trade surplus of £1.5bn for the first time with South Korea since 1990's mid 1990's.

European Union is also considering making deals with Canada, Japan, China, Singapore, Argentina, Brazil, Uruguay, Paraguay, Venezuela. Thus international international ^{trade} trade is increasing.

However trading blocs trade more within the member countries so they may not trade too much internationally unless they need to.



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Examiner Comments

A good answer that uses examples and context well to explain how trade blocs can lead to increased international trade. There is an attempt at evaluation but it is not developed. As a result this response remains in L3 scoring 7 marks.

4 Assess the importance of trade blocs such as the EU to the growth of international trade.

(10)

Trading Blocs are governmental agreements where the member countries join together to facilitate an area of free trade. Examples of trading blocs include, European Union (EU), North America Free Trade Agreement (NAFTA) etc.

The EU comprises of 28 member countries where 12 of them share a common currency, the Euro. The EU has negotiated trade deals on behalf of member countries and created an area of free trade with South Korea, Chile, Mexico and South Africa since 2000. This would help the 28 member countries of the EU trade ~~and~~ free of barriers with the said countries and vice versa.

As within the EU, there are no forms of trade barriers, member countries can trade easily with each other. With no tariff, quotas, etc., imports are relatively cheaper now. Thus, countries would experience higher exports and imports based on their comparative advantage.

UK exports to South Korea grew by more than 20% in 2012. As a result, UK firms would have earned higher profits. This would improve their living standards thus instigating economic growth. As the EU also has created Free Trade Agreements with South Korea, Chile, Mexico and South Africa, their exports would also increase as there is no trade barriers.

Thus, increasing international trade. The EU is also in the process of negotiating deals with 9 more countries including Brazil, Canada, India and Japan. This would further increase international trade as trade barriers would be further reduced.

However, trading blocs encourage regional trade as opposed to

(Total for Question 4 = 10 marks)

international trade. This ~~way~~ is an example of regionalisation where countries cluster together to trade only within themselves. Member countries have to pay a common tariff when trading with a non-member country and vice versa. Thus non-members of the EU would be discouraged to trade as imports would be more expensive.

Only 28 countries are part of the EU. However the world has almost 210 countries. So they are ignored. The EU has been important to the growth of international trade.



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Examiner Comments

A stronger response that has context and evaluation and so reached level 4 and 9 marks.

Question 5

Answers to this question generally demonstrated a good understanding of niche markets, but once again application/context was either limited to a repetition of the case study material or non-existent. This meant that many otherwise technically proficient answers failed to gain access to the full range of marks.

- 5 Assess the effects of operating within a global niche market on businesses such as *Plastics Capital* and *Leeds Test Objects Limited*.

(12)

Global Niche Marketing means identifying and exploiting a small segment of a larger market by developing products to suit it.

The market segment in niche marketing can be a very small section of the whole market and may be one that has not yet been identified and filled by competitors.

Example of firms employing niche marketing include *Versace* designs and *Clinique* perfumes.

Business such as *Plastics Capital* and *Leeds Test Objects Limited* have benefit of operating in niche market is:

1) Small firms may be able to survive and thrive in markets that are dominated by large firms.

2) If market is currently unexploited by competitors, then filling a niche can offer the chance to sell at higher prices and high profit margins - until the competitors react by entering too. Consumers will often pay more for an exclusive product.

3) Niche market products can also be used by large firms to create status and image - their mass products may lack these qualities.



ResultsPlus

Examiner Comments

This is an example of rather limited response that just makes a couple of brief analytical points lacking development. There is no evaluation and this response was placed in L3 scoring 5 marks.

- 5 Assess the effects of operating within a global niche market on businesses such as Plastics Capital and Leeds Test Objects Limited.

(12)

A global niche market is a submarket of the global market where the needs and wants of the custom consumers are tailored and vary from the needs of the mass population. The effects of operating within a global niche market can be both positive and negative. The positive effects being consumer loyalty and the negative being the inability to exploit economies of scale.

Plastics Capital operates in a global niche market producing plastic ball bearings and specialised tools. Leeds Test makes specialised products for testing medical imaging equipment. As demand for goods produced by both the firms are limited and tailored, they operate in a global niche market.

By operating in a niche market the demand is limited and customized, demand for the goods and services are price inelastic. As a result, Plastics Capital and Leeds Test objects can ~~expand~~ charge premium prices to recover high costs of research and development. Therefore by operating in a global niche, they can earn

high profits. Plastic Capital made "has an annual turnover of approximately £35m.

There is high consumer loyalty in the global niche as only a few producers are supplying - the result of high consumer

loyalty, firms are somewhat guaranteed repeat purchases which further increases their turnover.

Also, global niche markets can add up to a large market.

Plastic Capital exports to 80 countries. Therefore they can exploit economies of scale by enjoying lower costs of production. They can pass this low cost in the form of low prices and hence increase profits.

However, the success of Plastic Capital and Lead's Test may attract other firms. This would increase competition and they would thus have a decreased market share leading to lower profits.

By operating in a global niche, production will be low

(Total for Question 5 = 12 marks)

TOTAL FOR SECTION A = 40 MARKS

for the firms. Hence they will lose the opportunity to exploit economies of scale.

Firms in a niche market have to undertake extensive research and development to satisfy needs of the consumer. As a result, it is costly to operate in a global niche. They are also highly vulnerable to changes in consumer demands and as they only supply a small market, external shocks such as a recession would leave them with no demand.



ResultsPlus

Examiner Comments

A much better response that uses context well and has depth in both analysis and evaluation. This was placed in level 4 and scored 11 marks.



ResultsPlus

Examiner Tip

When a question includes a phrase "... businesses such as *Plastics Capital* and *Leeds Test Objects Limited*" you can use any relevant business you like and do not have to mention *Plastics Capital* and *Leeds Test Objects Limited* at all. It may be that you have much better knowledge of another business and can use the examples/context to much better effect.

Question 6

This question was answered well with responses that demonstrated good application and analysis, often including points from personal experience but being relevant. Inorganic growth is well understood and the majority of answers showed good understanding of the pros and cons. Most candidates were able to use the evidence to support the arguments for the benefits of inorganic growth, but the evaluative counter argument was often generic. Students should get into the habit of learning examples along with the theory.

6 Evaluate the benefits of inorganic growth for a multinational such as *Mahindra & Mahindra (M&M)*.

(20)

Inorganic growth or external growth is a method of business growth where a business grows in size either by a merger or by an acquisition or takeover. According to Evidence E, Mahindra and the multinational company Mahindra and Mahindra (M&M) took over Punjab Tractors Limited (PTL) in 2005. Such an inorganic growth can benefit multinational such as Mahindra and Mahindra (M&M) to many extent.

By taking over another firm in the operating in the same industry, Mahindra and Mahindra was able to enjoy the combined market share of both firms. An increase in market share will make the company's market position more secure and having a larger market share means they will face less pressure from competitions. According to Evidence E, after the takeover of Punjab Tractors Limited, Mahindra and Mahindra's market share increased to 40%. As a result,

m&m now face less threat from its rival firm TAFE. The takeover will increase the joint production capacity of m&m and as a result of mass production, they might enjoy from economies of scales due to lower production cost which will make them more productively efficient. If such low cost of production is passed down to the customers in the form of lower price, then the demand for their product will increase which will give them a competitive advantage and help them develop a strong brand image. Also, an increase in market share to 40% will give them monopoly power which will help them make flexible pricing decisions. Moreover, an acquisition is seen as a rapid form of business growth. Unlike merger, Mahindra and Mahindra will have full control over the other firm and avoid cultural conflicts. Not just that, the shareholders of m&m will be benefitted due to making larger profits and earning more dividends, which might attract other shareholders to invest as well.

However, despite the many benefits of a takeover, there are some dramatic drawbacks too. An increase in operational size might lead to a loss of co-ordination and control which might lead to diseconomies of scale and increase operational costs. According to Evidence F, some companies may overpay for the acquisition or might face problems in integrating the two companies after a takeover, which is a major drawback. Takeover or acquisitions can be quite costly for business. Moreover, if the size of business gets too large, then they might face pressure from government to demerge or sell off its subsidiary to ensure that monopoly powers are not being exploited.

(Total for Question 6 = 20 marks)



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Examiner Comments

This is an example of a reasonable answer that illustrates the points made in the introduction above: good knowledge, analysis and evaluation but lacking application in the counter arguments. This just reached mid L4 scoring 15 marks.



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Examiner Tip

Questions 6 and 7 carry eight marks each for evaluation and can make the difference between a top grade and an average one. Make sure that you do fully evaluate and use suitable context throughout.

Question 7

This was perhaps not as well answered as the previous 20 mark question but many candidates showed good understanding of this part of the specification. In too many cases application was limited to the use of *Kellogg's* from the evidence. Weaker answers just copied out large chunks of the extract without adding much of value. As with the previous question there are many other good examples that students could have brought in from wider reading.

7 Evaluate the importance of social and cultural differences when trading internationally.

(20)

International trade is the buying and selling of goods or products aiming to make a profit which takes place in an international market.

Whenever a company goes to trade in an international market if they don't know their social or cultural differences they may supply products which goes against a country's tradition, so it is very important to know the country's legal differences in order to make good sales revenue and operate a successful business.

By knowing the social and cultural differences a business can know about the likes and dislikes of a country hence it will help them to produce products which would be demandable to the customers and would meet their requirements.

It is likely that there will be less possibility for a company to make losses when they are trading in a foreign country if they know their differences because the company would not supply something which is not demanded by the society.

~~When~~ By knowing social and cultural differences it can lead them to produce the exactly demanded products in a country and the company can also ~~get~~ target wider range of customers if they ~~do~~ supply maintaining their differences. The company's brand image will also get better internationally as they would not supply banned products.

⇒ If the company's products are of not improved quality and it proves to be faulty than even if knowing ~~the~~ a country's differences it will not help them to do a profitable business because consumers will stop buying the out of date products.

◦ If a company goes to trade internationally they ~~may~~ face fierce competition from the existing brands and if their competitor's products are more demandable to the customers than even if supplying products knowing the differences will give a company lower sales revenue.

Even if maintaining the social and cultural differences of a business supplies products in a market, the consumer's tastes changes from time to time and it might not be always possible for a company to meet all the demands from customers. Government regulations or trade barriers are also some important factors which is needed to be considered by a business when they go to trade internationally.

Overall, knowing social and cultural differences will help a company to operate a profitable business internationally but they should also ^{follow} ethical behaviour and try to be environmental friendly when they are trading internationally, quality of the products are also needed to be maintained.

**ResultsPlus****Examiner Comments**

This response has two main problems that severely limit the marks that can be gained. It is a generic list of points that have no context or examples and there is no evaluation of merit. This response was therefore limited to the top of L2, and scored 6 marks.

In Evidence H, it is stated that in order to be successful in international market, products need to be adopted according to regional needs. Regional ~~needs~~ differences need to be understood by firms in order to serve a market as no country has same legal proceedings, history or culture. As a result social and cultural differences are very important to consider while trading internationally.

However, it also depends on the kind of product we are launching in the market. Kellogg or Unilever were not successful ~~mostly~~ ~~too~~ because their products were food items and ~~the~~ food habits and tastes always varies from region to region. But if it was a motorbike or car it would have mattered that much as motorbikes or cars are used in every country and culture. So product is also a factor while considering social and cultural differences.

Also some products hold their unique brand image and are mainly product orientated and not market orientated. If iPhone launched a new IOS device ^{in India}, it does matter what cultural and social differences are but consumers will always buy the product because of its unique and specialized brand image.

Before entering a market business should always consider social and cultural differences specially when they are trading internationally. This would help firms' gain more market share and thus revenue. Although sometimes this difference do not matter much depending on the product.



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Examiner Comments

A good answer well supported by evidence from the extract and from the candidate's own knowledge. Examples are used in both sides of the argument and this response reached the top of mid level 4 and scored 17 marks.



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Examiner Tip

On the longer questions it is always a good idea to end with a reasoned conclusion. This should bring the arguments to a closing judgement and not just repeat the main points again. Perhaps this candidate ran out of time but a suitable conclusion would have gained more marks.

Paper Summary

Based on their performance on this paper, candidates are offered the following advice:

- Do read the question carefully and answer the question that is set
- Do watch out for command words such as Assess or Evaluate
- Do use examples to illustrate your argument
- Do use the language of the subject and avoid generalities
- Do watch your timing and do not spend too long on one question
- Do write concisely
- Do add a conclusion to the longer questions

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