



Examiners' Report

Principal Examiner Feedback

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Pearson Edexcel International Advanced Level
In Business (WBS13/01)
Unit 3: Business Decisions and Strategy

Introduction

This was the third paper for WBS13 paper and overall, candidates' performance showed a sound grasp of business concepts. Answers suggested that candidates, on the whole, had been well prepared for this paper. There appeared to be good use of business terminology throughout all sections of the paper.

The better candidates demonstrated excellent application of their knowledge to the precise question set, compared to candidates who attempted questions from a 'common sense' approach rather than demonstrating any business concepts.

The examination paper required candidates to apply their understanding; better candidates performed strongly, with clear development of points. Examination timing appeared to be very good with the majority of candidates completing the paper in the allocated time.

Question 1a:

This was marked using a points based mark scheme with Knowledge =1, Application =2, Analysis = 1. The Knowledge mark was awarded for benefit of test marketing and not the definition and this will always be the case for an 'Explain' question.

Many candidates once again started their response with a definition which cannot be rewarded. Marks were awarded for a valid benefit and most candidates focused on how test marketing could be used to reduce risk when launching worldwide. Application marks were awarded for **USING** the information from the Extracts rather than just copying large amounts. Some candidates only used one example of Application and this question requires two separate examples of Application. For the Analysis mark, marks were awarded for the development of how test marketing could benefit McDonald's.

This response scored all 4 marks:

1 (a) Explain **one** benefit of test marketing for McDonald's.

(4)

Test marketing will involve exposure of McDonald's new plant-based products to a limited number of customers to help examine the market's reaction - consumer response. McDonald's will test their PLT in one of their markets - Canada throughout 29 restaurants and is setting a new test marketing in North America. It is serving this new type of meal in limited markets before its global launch. Consequently, it will enable McDonald's to see customer's reaction and modify the menu based on their feedback and reviews. This will ensure a more successful launch worldwide had the new PLT been tested in certain markets and ^{see} how well it has performed.

Question 1b:

This question was very poorly answered overall with many candidates unable to correctly calculate the mark-up figure. When candidates did correctly calculate the mark-up, answers were not given to two decimal places or often the percentage sign was omitted. Correct answers which do not include the percentage sign can only achieve a maximum of 3 marks so it is essential the correct units are always used. This is the same for not giving the answer to two decimal places. It is advisable to show all workings including the formula. Marks can still be awarded for showing a correct mark-up formula and correct workings even with an incorrect answer.

This response scored 3 marks due to omitting the percentage sign:

(b) Using Extract B, calculate, to two decimal places, the mark-up on an *Impossible Foods* burger. You are advised to show your working.

(4)

$$\begin{aligned} &= \frac{\text{average selling price} - \text{cost per burger}}{\text{cost per burger}} \times 100 \\ &= \frac{9.99 - 3.64}{3.64} \times 100 \\ &= 174.45 \quad (2 \text{ d.p.}) \end{aligned}$$

Levels-based questions – a holistic approach

The new IAL specification continues to use marking descriptors for all levels-based questions. It is essential that centres look at these and understand how these are different to the legacy specification. The levels-based mark schemes are applied in a holistic way rather than looking for individual Assessment Objectives. This means that a candidate who attempts evaluation with some context will not necessarily be placed in the top levels and could only achieve a lower level if the evaluation is weak.

Question 1c:

This was the first levels-based question on the paper and marks were awarded for use of the Extracts to discuss the possible impact on physical resources from the introduction of plant-based products. Some candidates were able to talk in detail about how McDonald's may have to buy more physical equipment to be able to storage and cook the new plant-based products. Unfortunately, many candidates simply copied large chunks of the information from the Extracts rather than **using** it to support their argument. For the counter argument marks were awarded for some understanding of how McDonalds has already ventured in this area before so the impact might be minimal in terms of the impact on the physical resources required. Many candidates ignored the command word 'Discuss' and only gave a one-sided response. A conclusion is not required for 8 mark questions.

This response scored level 3 and 7 marks:

(c) Discuss how the physical resources in McDonald's restaurants might be affected by the introduction of plant-based products.

(8)

Physical sources refer to the equipment, machinery, supplies and raw material that goes into the production of a product. Plant-based products are planned to be introduced in McDonald's menus and these do not contain any animal ingredients or animal derived ingredients. The burger itself which is a main ingredient has a meat texture. This shows that McDonald's have to shift the supply of their ingredients to vegan ingredients and ensure they have no animal derived ingredients. The physical resources will mainly involve stock of ingredients and other kitchen supplies. The physical change will be the need of 'vegan burgers' and any alternative vegan ingredients that goes into making plant-based burgers. Other physical resources include the display on menus to make customers aware of the ^{newly} introduced plant-based burger. Before, menus will have to be updated and this represents a physical resource change. McDonald's has already an experience of launching a plant-based burger which means it has gone through the process of change in physical resources and known the certain aspects that need to be altered. However, it is unlikely that the change in physical resources will be significant as PLP represents a ^{single} product in McDonald's menu and many other resources will remain the same to produce normal meat burgers. Moreover, according to Extract B a beef burger has similarities in terms of ingredients with a plant-based burger - lettuce, bun, tomato - so many of the same resources used to make beef burger will be utilized in the new plant-based product, thus, not impacting physical resources greatly.

Question 1d:

Marks were awarded for an assessment of the opportunities and threats from McDonald's introducing plant-based products. The Extracts did provide many examples of data which candidates could use to help contextualise their responses for both sides of the assessment. Many candidates were able to show how plant-based products might create opportunities for McDonald's particularly from the growth in demand for non-meat products in restaurants. The counter argument was often centred on the fact rivals such as KFC had already entered this market and only a small percentage of people interviewed considered themselves to be vegetarian. A conclusion/judgement was required for 12 mark question but was not often seen. Candidates must provide a balanced assessment and an awareness of competing arguments to access the higher levels.

This response achieved level 4 and 10 marks:

Strategic decisions are those that set out the long-term direction a business must take to achieve its objectives.

Based on the data in Extract C, developing plant-based fast food products in the US is a great opportunity for McDonald's as between 2014 and 2018 there has been a 29% growth in the servings of meatless burgers and sandwiches at fast food restaurants so selling products such as PLT and the 'Big Vegan!' will allow the company to remain competitive against rivals such as Burger King and therefore, to keep increasing its market share and power.

Furthermore, 48% of those aged 18-29 who were surveyed stated they wanted ~~the~~ fast food restaurants to offer more vegetarian and vegan food options and young people usually make up the largest percentage of fast food restaurants' customer base meaning that selling pea or soy-based burgers will result in McDonald's satisfying ~~the~~ consumers' tastes and preferences leading to loyal customers who feel their opinion is taken into account.

However, Extract B provides evidence which shows that producing a plant-based Impossible Foods burger is ~~\$3.4~~ \$4 more expensive than producing a beef burger. Therefore, McDonald's will either have to charge higher prices leading to ~~the~~ the company losing its USP of being a cheap restaurants or it will have to suffer from lower profit margins.

On top of that, plant-based fast food products are a new concept which still are in its introduction phase meaning McDonald's has no proof as to whether they will be ~~success~~ ^{risky} successful or not and hence, the strategic decision is quite ^{risky}.

In conclusion, in the short-term, the decision to develop plant-based fast food products might cause some uncertainties and mistakes but, in the long-term, McDonald's should benefit from it as vegan products are gaining popularity and the company might develop a first-mover advantage.

Question 1e:

The second 12 mark Assess question was focused on the benefits for McDonald's of using CPA to help to redesign the drive-throughs. Unfortunately, it was evident that many candidates did not know what was meant by CPA. Instead many candidates incorrectly focused their assessments on whether McDonald's should redesign its drive-throughs or not. The counter argument, when provided, tended to be generic in nature. A conclusion was required for this question but was often lacking.

This response achieved level 4 and 10 marks:

(e) Assess the likely benefits for McDonald's of using critical path analysis (CPA) to help redesign its drive-throughs.

(12)

Critical path analysis is a model to help aid strategic planning and plan a project in a way that limits the use of limited resources and minimises the time required to complete the project. McDonald's is planning to invest money to reduce the time spent ordering on its drive-throughs and make the experience a better one for customers. It involves introducing IT systems and new lanes. This project will involve a number of tasks to help reshape the drive-through into a more efficient one. Steps would include installing technology systems and building lanes. By identifying and following the critical path, the McDonald's could ensure that the delays in the redesign project are assessed, identified and prevented. This minimises the time needed to complete such projects so that McDonald's can operate their new drive-throughs and meet high demand quickly. Critical path analysis allows a more objective and scientific approach to be taken to planning. The management will look at the project thoroughly ^{ahead} of time and analyse the order in which tasks should be done, when resources are required and also helps with resource management. This network analysis would reduce the risk and costs associated with such huge investment projects.

However, the information gathered to estimate duration and dependency of tasks may be naturally imperfect and is ^{only} accurate as the information and quality of data used to compile it which may be from past projects. However, it could be argued that ^{thus} this type of has special "and new" requirements that has not been done before. For example, the new IT systems may be installed for the first time and may be difficult to predict the duration

of such tasks. Moreover, critical path analysis does not account for changes that can happen during the life of the project such as the impact of external shocks, bad weather and unreliable suppliers. These circumstances would require extra aid of contingency planning to help deal with unforeseen circumstances and that would result in delays.

Question 2:

This question required candidates to carry out an evaluation of whether the turnaround for Tesco was due to Dave Lewis' transformative leadership style or if other factors contributed to its success. Unfortunately many candidates failed to achieve the higher levels due to simply copying out large parts from the source material rather than demonstrating any clear understanding of transformative leadership. Better responses did refer to changes in culture, motivation of employees and inspiring change from the top down. The counter argument saw candidates using the data in the charts to argue that interest rates and the external economic environment caused the financial improvement for Tesco rather than Dave Lewis' leadership style.

The quality of the evaluation is key to accessing the higher levels on the 20 mark questions. Some of the better responses were much more selective in their approach, focusing on the depth of evaluation rather than breadth. Better candidates used the information in the Extracts to help contextualise responses rather than copy out large chunks. Many of the responses in level 4 were able to provide an effective conclusion that suggested a solution and/or recommendation.

This response achieved level 4 and 18 marks.

2 Evaluate the extent to which the transformative leadership of Dave Lewis was the main reason for Tesco's improved financial position.

(20)

Transformative leadership is when a new CEO drives changes within the organization and its culture with the aim of improving its financial performance. The new CEO 'Lewis' was appointed to address issues concerning poor performance such as loss of market share and customer dissatisfaction. The new transformative leadership would be important in addressing the main business functions including cost, branding, sales and therefore profitability. The new CEO set objective profitability as an objective and has devised strategies to help increase Tesco's profits. He has closed down unprofitable parts which could be referred to as 'dogs' in the Tesco's product portfolio. This means that removing product lines that do not generate enough returns would help decrease overall costs as no more investment would support it. This would likely increase profitability. Moreover, ^{new} brands were given priority and updated which means that product development strategies were devised so that they closely align and meet customer needs. This would address the ~~the~~ customer dissatisfaction issues. It could be argued that the new strategies guided by Lewis will help reposition Tesco's market position. Profit margins were rising and reached 3.7% as a result of cost savings. The new CEO has transformed Tesco from a loss making position of \$6.4bn in 2015 to a projected 2bn profit in 2019. This suggests strong evidence that transformative leadership improved the Tesco's financial position as both costs were reduced and

profits were increased. The brand was repositioned well in the market and Tesco has been getting better feedback from its customers.

However, only issues relating to profitability and costs were stated. It is not clear whether Tesco was successful enough to regain its market to lower cost retailers such as Aldi. The new CEO has only addressed profit and ^{may} not have not devised enough strategies to improve sales levels through promotion^s and competitive pricing.

Moreover, other additional factors such as the state of the economy and economic variables could have led to an improvement in financial performance. The interest rate has fell sharply between 2015 and 2016 and has stabilised ~~at~~ until 2017. ~~lower~~ interest rates would give customers cheaper opportunity to credit and more affordability which could be why sales has been improving in Tesco. Moreover, the sharp increase in interest rate from 0.25% in 2017 to 0.75% in 2019 could be an external factor in itself to impact Tesco's financial performance. Higher interest rates could deter customers to purchase on credit or spend less and could mean that they switch to lower price retailers such as Aldi. According to Extract F, there is a ^{strong} positive correlation between interest rates and its impact on sales figures of retail business in the UK. Higher sales are attributed to lower interest rates, whereas negative sales arise due to higher interest rates. This shows that Tesco and other retail businesses are vulnerable to interest rate changes. In other words, other external factor beyond the control of leaders could impact its performance in terms of sales and profitability.

It would be argued that the new CFO has significantly improved Tesco's financial position due to ~~lower cost~~^{cut cutting} that has improved profits. However, other aspects such as sales figure and market share are important indicators of financial performance. These are influenced by other factors such as the competitive environment - changes and actions of competitors and economic variables such as income levels and interest rate changes. The impact and analysis of PESTLE factors and wider ~~economic~~^{competitive} environment should be taken into consideration when leaders develop strategies that address financial performance.

Question 3:

This question required a detailed evaluation of the use of share ownership to improve productivity and employee retention for Richer Sounds. Better candidates also consider the benefits of using share ownership over other non-financial methods and supported their evaluation with the data from the Extracts. Overall the performance and the quality of evaluation was significantly better compared to Question 2.

This response achieved level 4 and 20 marks. It is an outstanding response.

Richer Sounds is giving employees shares in the business.

3 Evaluate the effectiveness of this strategy to increase productivity and employee retention for a business, such as Richer Sounds.

(20)

Share schemes are examples of financial incentives that are given to employees above their basic salary. The CEO of Richer Sounds is planning to give employees a percentage share of his business (60%) which means that they become co-owners or partners entitled to the company's share of profit. Those who have worked more in Richer Sounds will ~~receive~~ ^{receive} more financial rewards representing the value of contribution they have provided to the company. Such schemes will link employees' wages or pay to the performance of the company. They will likely be motivated to work harder, reach targets and increase their commitment to quality and innovation. This will increase employees' productivity and likely encourage them to utilize their potential in reaching set objectives. Employees will feel that their contribution is valued and are likely to stay in the company for longer, especially if other electronics business do not offer share schemes. This is because their financial gain will be higher, they may own shares and work hard to prospect the business and enjoy in capital gain received from increased share prices. ^{Moreover,} ~~They will~~ higher payouts to those who stay longer would encourage employee retention so that they also stay a part of the workforce for longer and receive ^{financial} benefits when their loyalty to the business has been proved.

Moreover, the Employee Ownership Trust will take into account views and interests of employees who are a part of the system. Recognising employees as valuable stakeholders in the business could increase their job satisfaction. Their interests are communicated through open and set channels which is likely to motivate them to contribute positively to the business in terms of loyalty - improved retention and productivity.

However, key performance indicators would show that operating such schemes would be costly to the business given its current financial performance.

Although the Gross profit margin and revenue have increased slightly, profitability has declined since 2017. Net profit margin decreased from 6.9% to 6.2% between 2017 and 2018, showing a slight deterioration in performance. Most importantly, the profit per employee ~~about~~ showed a more noticeable decline falling from £21,187 in 2017 to £19,690 in 2018 which shows that each employee is contributing less towards the business profits so share scheme may be an unappropriate rewarding scheme. However, the same trend is shown in ROCE percentage and earning per share.

Employees ~~were~~ ^{would have} witnessed that the earning per share has decreasing so no substantial gains are made from share ownership. So improvement in productivity and employee retention may not be seen. In addition, according to Herzberg two-factor theory 'pay' is considered a hygiene factor so it could prevent dissatisfaction but not ^{motivate} improve in itself. It is unlikely that all employees will respond positively in terms of their motivation and productivity only by financial schemes. Other non-financial strategies could help improve productivity and employee retention. Empowerment strategies such as more delegation of responsibility and authority over tasks and projects could increase productivity because job enrichment

can challenge employees to do better and meet their management expectations.

It could be argued that both non-financial and financial schemes would be combined to increase employee's commitment and retention.

Identifying their needs and what they expect their job roles to provide them could help devise better strategies to improve long term productivity.

Summary

There are several points which could raise performance in future sittings. Based on their performance on this paper candidates are offered the following advice:

- Read the questions carefully in terms of the command words. It was clear that some candidates were not aware of the demands of the question or how to structure their responses.
- Quantitative Skills will be tested throughout the paper and these may be in the form of calculations, diagrams or using the data from the Extracts.
- For calculation questions, it is essential that the answer has the correct units or is to two decimal places (if specified).
- The 'Explain' questions will always have two Application marks so ensure that there is enough context in the response to gain both marks. Do not simply copy out the Extracts – for Application to be rewarded, it must be used within the response and not tagged on at the beginning or end of the response.
- Do not define the key term in the 'Explain' questions. The Knowledge mark is for the reason, the impact or the aim.
- Discuss – this question requires both sides of an argument and is **not** one-sided. A conclusion is not required.
- The command words 'Assess and 'Evaluate' are evaluative command words so candidates must provide both sides of a business argument in order to achieve full marks with a supported conclusion.
- Use of relevant context is required throughout and this can be from the Extracts provided or using examples provided by the candidate themselves. The Extracts are there for a reason – so use them however do not copy out large sections of the Extracts. For Application to be rewarded, it must be used and integrated into the response rather than separate.
- Use business concepts rather than generic 'common sense' answers.
- Examination timings – make sure there is enough time to answer the 20 mark questions in Section B and Section C.