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Principal Examiner Feedback

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Pearson Edexcel GCE A Level
In Business (9BS0)

Paper 3: Investigating business in a competitive
environment

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Introduction:

This report provides feedback on the performance of students for 9BS03 'Investigating business in a competitive environment'. It should be used to provide teachers and learners with guidance as to how to best approach the various question types. This report could be used to fine-tune the approach students use to answer the questions in future examination series.

This year, the cohort was a small fraction of the normal entry, with only 183 students opting to sit this examination. Therefore, it is likely that very limited conclusions may be drawn from the performance of students. This should be taken into consideration when acting on the following comments and recommendations.

Question 1(a):

Few students' defined revenue, which really was *necessary* to be able to explain reasons why revenue might have increased, let alone analyse and evaluate successfully.

Most supply and demand diagrams, when drawn correctly, indicated a positive shift in demand to cause an increase in sales volume and potential price increases. However, rarely did students use the diagram to help support analysis. Examiners expected to see that if sales increase and prices increase then revenue must increase, by definition. Students could have stated that since $P_2 \times Q_2$ is greater than $P_1 \times Q_1$, then this indicates an increase in revenue.

Some students indicated shifts in supply rather than increases in supply caused by shifts in demand; it is the consumers that stimulate the changes. However, credit was given if explanations as to why such as shift in supply had caused increases in revenue were validated.

Students were able to make use of the evidence in Extract A, such as the increasing popularity of musicals like Hamilton. However, a significant number simply lifted, paraphrased or used examples to *describe* why revenue increased rather than analyse. In other words, chains of reasoning were either missing or incomplete.

A significant number of students wrote two one-sided reasons why revenue might have increased rather than two reasons, with balance. Teachers should remind learners that 'assess' questions at 8, 10 or 12 marks require balanced analysis to achieve Level 3 for 8 marks questions (or Level 4 for 10/12 mark questions).

See 'good answer' and 'answer which requires development' exemplars in Appendix, 1a (i) and 1a (ii)

Question 1(b):

This was a well-answered question. Familiarisation with the context of the cinema appeared to enable students to write well contextualised responses. On the whole, many students produced balanced answers with an attempted judgement.

However, a number of students did not really show critical knowledge and understanding of value added. Some students took it to mean augmented product. Better students identified costs associated with installing seats, which would decrease profitability in the short term or at least worsen cash-flow. Would the installation of luxury seats, often larger seats, reduce capacity? Chances are they would be more expensive to consumers than standard seats, so begs the question: Would the luxury seats be occupied? One student made an effective comparison with providing 3D screens to watch the same film; sometimes these are not popular with customers so that particular screening is shown at well below capacity, which can reduce contribution let alone increase profits for a cinema.

Alternative ways to add value which are low cost and less difficult to implement and more flexible should any changes be necessary to make them financially viable. But can still be regarded as a useful 'extra' to customers and so provide value added, eg self-service booking facilities in cinema foyers, a range of popular branded refreshments, a licensed bar for adults, hot food, popular in cinema concessions like Costa Coffee, etc. Indeed, these have become almost expected, just like you might find at the theatre.

Weaker students did not appreciate the need to assess whether or not providing luxury seats was the **best** way to provide value added. Instead they simply attempted to analyse why luxury seats might be a form of value added. Few students were able to provide an effective judgement but rather repeated one of their analytical chains of reasoning.

See 'good answer' and 'answer which requires development' exemplars in Appendix, 1b (i) and 1b (ii)

Question 1(c):

Marks for this question, included up to 2 marks for quantitative skills QS8 and QS9. Therefore examiners expected to see use and interpretation of numerical data in their assessment, such as the significance of the £2bn in extra revenue from the UK consumers or the 7.4% growth rate of the OTT (over-the-top) market, compared to the decline of video at -1.7% over the period 2018-22. (All found in Extract B) A key statement to help support an argument in favour of global growth in Extract C was rarely used: 'its [Netflix's] international markets are driving growth'.

Good students discussed the arguments in terms of push-pull factors, limited opportunities for growth in consumers and revenue and therefore sources of improved profitability from 130 million users in 190 countries.

Weaker students misinterpreted the question and wrote about pros and cons of expanding internationally, missing the point about **saturated markets**.

Those students who assessed and provided balance in their answers often recognised that new markets equate to higher risks, especially if consumer behaviour is unknown or not understood. Better students used the Ansoff Matrix to help frame effective discussions. Validated judgements were able to draw upon an aspect of MOPS (Market, Objectives, Product, Situation) such as referencing the nature of the product and market, ie technological/dynamic.

See 'good answer' and 'answer which requires development' exemplars in Appendix, 1c (i) and 1c (ii)

Question 1(d):

Often student misread the question to read as 'joint venture' and so were drawn into writing about the benefits and limitations of such, often with little application. A significant number of students failed to select and use the appropriate data from Extracts A to D to help support their analysis and evaluation, despite this being signalled in the question by the phrase 'Using the data...' (Please see mark scheme for appropriate examples).

Better students recognised that if ITV were to join forces with other public broadcasters, then they might be able to share development and operating costs, pool resources and expertise, and build on existing customer loyalties.

Chains of reasoning were balanced by more able students who argued that the CMA (Competition and Markets Authority) might block the **'join forces'** option, just as they did with Kangaroo initiative in 2007. The same students went on to say how significantly different the PSBs (Public Service Broadcasters) are to the BBC in terms of corporate culture, and the more able in terms of corporate aims and objectives which *may* serve as a barrier to such a proposal.

Unfortunately, few students presented an overall supported judgement or conclusion and resorted to simply emphasising previous chains of reasoning in the recommendation. The phrase in the question 'best rival Netflix' indicates that students are expected to make a judgement call. Students and teachers are reminded that reference to a business's market, objectives, service/product or situation (MOPS) is a proven effective way to demonstrate this skill and thus are more likely to match the demands of Level 4 criteria.

Likewise, judgements or recommendations that make reference to long-term versus short-term can also be an effective approach to achieving higher marks. Using either approach, provided responses are framed strongly in the contexts of the business are written with complete chains of reasoning and with balance, should enable access to marks of 15-20.

See 'good answer' and 'answer which requires development' exemplars in Appendix, 1d (i), 1d (ii) and 1d (iii)

Question 2(a):

A question some students struggled to answer, often because they confused **liquidity** with profitability, so most scored Level 1 and Level 2 with very few Level 4 responses. More successful answers included a definition of liquidity and then went on to explain how and why Derby Theatre might actually achieve improvements. Coherent and logical chains of reasoning proved to be critical for success. Some students suggested improving liquidity by making some of the 40 non-managerial Theatre staff redundant in order to reduce wage costs. However, these students failed to explain the likely implications for the Theatre, therefore missed an opportunity to provide a balanced and well contextualised answer.

Interestingly, better students were able to reference the organisation chart (Extract F) to explain why redundancies or delayering might not be appropriate for Derby Theatre, given the relatively few numbers of key staff. More able students recognised that many staff were freelancers or likely to be part-time/temporary, in which case redundancies need not be used but that Derby Theatre could simply be more efficient in employing staff as and when needed.

Most students suggested that charging higher prices in the bar to boost revenues (assuming low price elasticity of demand) might improve cash flow and therefore liquidity. Other suggestions included seeking local business sponsorships, improving marketing communications, offering discounts during off-peak periods or for group bookings.

See 'good answer' and 'answer which requires development' exemplars in Appendix, 2a (i) and 2a (ii)

Question 2(b):

Unfortunately, a high proportion of students failed to answer this question at all. Those students who did, mainly wrote about contingency planning in general or 'planning for success' answers which focused on the need to have the right product, marketing strategies, skilled staff, etc. the same students often continues to write lengthy responses about the nature, pros and cons of general business planning eg the need to set business aims and objectives.

However, it was encouraging to read that some students knew and understood the concept succession planning and were able to select and use the appropriate information in Extracts F and H to support their answers *without* being prompted to do so.

Clearly the most challenging question on the paper for many, simply because they were guessing at the meaning of the term. Since succession planning is a form of contingency planning, some credit was given usually at Level 1. However, in order to access Levels 2, 3 and 4, students' knowledge needed to be secure, applied accurately to Derby Theatre (for which there was plenty of stimulus in the organisational chart), causes explained and balance of reasoning as to its validity, respectively.

Better students recognised succession planning might be a good idea for certain key roles such as Head of Production or Head of Marketing as it might incentivise less senior staff in each department, eg Beth Williams (Company Stage Manager), to be more productive. Likewise, Heidi McKenzie (Press and Marketing) might be encouraged by Emma Hogan (Head of Marketing) to develop the skills and competencies to become the future Head of Marketing, should Emma be promoted to Executive Director or leave the business altogether. Effective, balanced responses suggested that there might be roles in Derby Theatre that might be less appropriate to succession plan for, given their expertise/stand-alone nature, eg Creative Learning Director. Referencing footnote 'specialist management roles are often advertised through national media' supported this judgement.

See 'good answer' and 'answer which requires development' exemplars in Appendix, 2b (i) and 2b (ii)

Question 2(c):

Most students answered this question well and showed a good understanding of cultural diversity and why a business like Derby Theatre might choose to recognise this in terms of productions (employing staff, the type of performances), and staging (appeal to a range of consumer tastes/market segments).

The significance of the data in Extract G was often recognised by many students, such as Derby's 25% non-white British population, which is 5% greater than the UK average at 20%. Likewise, students who noted that Derby's Asian-Pakistani population is three times the UK average (6% as opposed to 2%) and used it in their arguments to support diversity, gained credit. Better students acknowledged that cultural diversity determines the level of Arts Council funding (Extract H).

The most able students provided balanced chains of reasoning, explaining that a desire to pursue culture diversity operations assumes that there will be an interest from ethnic minority consumers. For example, the growing number of migrants from Eastern Europe (3% in 2011 to 4.2% in 2016). They went on to question the validity of the data and state that Derby's population in general not important, rather it's the 'thespian' population that matters – those who are most likely to attend the Theatre. However, this requires market research to gauge the likely level of interest from ethnic minority/BAME (Black, Asian and Minority Ethnic) groups.

Some students made observations but sadly did not provide complete chains of reasoning, eg by simply stating 'what about the core 75% of Derby's population?' Better responses went on to say that something like surely Derby Theatre ought to concentrate its productions on the cultural tastes of this market segment in order to operate near capacity and maximise revenues.

Counter arguments such as perhaps the senior managers of Derby Theatre, Sarah Bringham (Chief Executive) and Rachael Thomas (Executive Director), should think longer term; so if Derby's population of non-white British was now (2020) greater than 25% and this was an upward trend, then more should be done to target this growing market segment. Heidi McKenzie (Press and Marketing) could be asked as part of her role to undertake market research with these groups.

Judgements centred around ideas such as attendance may not be at full capacity; ethical branding/inclusivity costs money and is often unprofitable; the data is limited for me to be able to make a sound judgement - it might be better to have pie charts which show hobbies/interests of Derby's population or income groups.

See 'good answer and 'a slightly better' exemplars in Appendix, 2c (i) & 2c (ii)

Question 2(d):

On the whole, well answered by students. Responses showed effective chains of reasoning both for and against each of the options, use of retained profits and bank loan. Those who argued in favour of retained profits recognised the £20,000 net retained profits (£120,000 -£100 capital costs), explained that no interest would be paid – unlike with a bank loan – but it would involve opportunity costs of the £100,000 capital, for example general refurbishment of the Theatre or a new sound system or new lighting.

Arguments for use of the retained profit also recognised that there would be no need for loan repayments which might improve liquidity; besides gearing may already be high, so interest on the loan for funding the café may be quite high to correlate with an increased risk of defaulting on repayments. Some students resorted to more general ‘text book type’ arguments which although valid, did not show a *critical understanding* and appreciation of the actual business situation, eg loans take time to apply for and process, does Derby Theatre have sufficient collateral, often a long term commitment given repayment periods, etc.

Balanced responses recognised that taking out a loan would not sacrifice contingency funding, which might be especially important given ‘lockdown’ and the cost and revenue implications of Derby Theatre’s temporary closure (at least) Indeed, reference to Covid-19 and ‘lockdowns’ was often used in successful conclusions and to support convincing, final recommendations.

See ‘good answer’ and ‘answer which requires development’ exemplars in Appendix, 2d (i) and 2d (ii)

Paper Summary:

Based on the exemplars that have been seen by the Principal Examiner and Assistant Examiner, centres and students are offered the following advice:

- Answer the actual question set. Too often students are so keen to demonstrate how much they have learned and know and will attempt to cram this knowledge into an answer. This wastes time and presents an opportunity cost in answering other questions, which a student may be better using their limited time answering.
- Know and understand the demands of the command words (taxonomy) and mark tariffs in questions. This will mean appreciating that for 8 mark 'Assess **two...**' questions that students need to simply discuss each of the two factors, reasons, causes, consequences, etc. Whereas for 'Evaluate and recommend' 20-mark questions, not only are balanced discussions required, but also a range of arguments, a supported judgement, conclusion and recommendation. This must be justified and not simply a repeat of previous points (see MOPS exemplars in mark schemes for 1d and 2d).
- Learn the key terms in the specification, eg value added and succession planning. Basis for 'accurate knowledge'.
- Learn how to read, interpret and question data. Eg pie charts in Extract G, quants data and qualitative data in Extract H; construct and interpret a range of graphical forms – supply and demand diagrams - the formulae in the specification and set out 'calculate' questions clearly. Quantitative Skills (QS) worth *at least* 10% of the total marks available.
- Recognise that 8 mark 'Assess two...' questions do not require a conclusion.
- Use the data in the Extracts, both quantitative data and qualitative, especially if the question invites you to do so, eg question 1(c) stated 'Using the data in Extracts B and C...' There are, in fact, quantitative skills marks attached to such questions so a student will not be able to access the top of Level 3 or 4 (depending on the question) without using the data in their answers.
- 'Frame it or fail it' In other words, make sure that your answers to **all** the questions in this paper (8, 10, 12 and 20 markers) make use of the information in the extracts to actually answer the question being asked. For example, without referencing aspects of Derby Theatre's actual operations, (bar prices, staffing numbers/job titles, etc.), marks scored will most likely be limited to bottom mark in the range of Level 2.

- Do not make assertions. Use of the words like 'will' and 'would' are best avoided. It is better to use words like 'could', 'might', or 'may' in coherent and complete chains of reasoning.
- Structure your answers carefully. For example, if a question invites a definition (eg question 1(b) and 'value added'), then open your response with a definition. On the other hand, if a question does not invite a definition, it is unlikely to be required. This would apply to question 2(d) as it is unlikely that a student's mark would improve by including a definition of loan or retained profit. In these instances, it might be better and more expedient for students to answer the question directly, eg in this case by outlining the benefits of using the retained profit or bank loan.
- Students are encouraged to use appropriate connectives to make it clear that answers are coherent, well-reasoned (with completed chains) and, above all, balanced. Connectives give emphasis, make comparisons clearer and indicate contrasting ideas. For example, use words and phrases like 'however'; 'on the other hand'; 'in the short term'; 'generally...but in the case of...'; 'more importantly'; 'more significant'; 'firstly'; 'overall', etc.
- Use paragraphs. Separate paragraphs are written to emphasise different aspects or themes of an answer. This makes balanced arguments and coherent reasoning clearer to examiners and is therefore likely to gain credit more readily. In stating this, Levels of Response answers are judged holistically so examiners are expected to.
- If you are asked to draw a diagram, such as a supply and demand diagram, make sure it is large and clear enough to interpret (see Appendix 1(a) (i) and (ii).
- Use the evidence which is available to you to build up your arguments for and against, or for/against option A as compared to option B. Extracts include the relevant evidence or information to prompt you to think about what might apply, hence why such extracts are called 'stimulus material.' You can, of course use you own knowledge and evidence to support your arguments provided it is relevant.

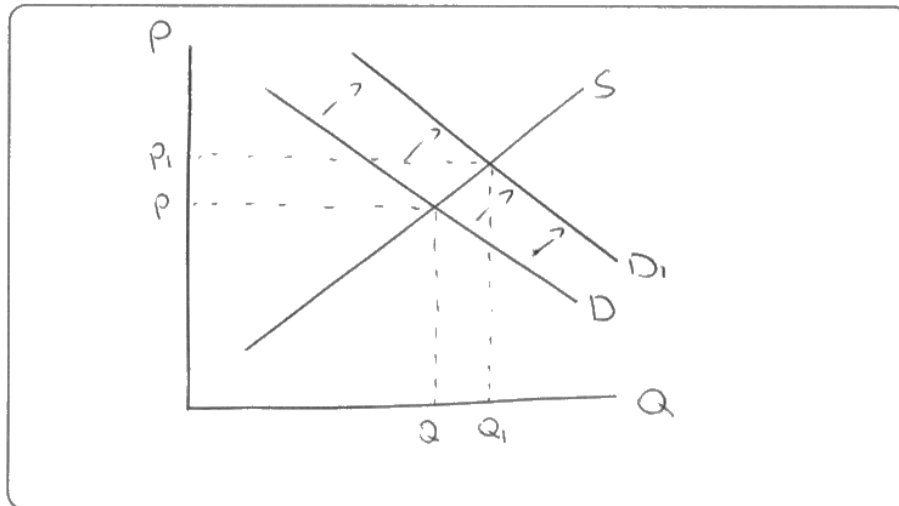
- For this paper there is a pre-release available to centres in November, which should enable teachers and students to immerse themselves in the business context well before the exam. For example, in the SAMs (Sample Assessment Materials) the business context was snacks; EAMs (Extra Assessment Materials) the car industry; 2017 health it was clubs/gyms; 2018 chocolate; 2019 holidays and travel; 2020 Entertainment. Reading around the areas of the context signalled in the bullets of the pre-release and doing practice questions ahead of the exam not only familiarises students with the industry, market and businesses but it also expands their knowledge and vocabulary, but is likely to boost students' confidence to answer live exam questions.

APPENDIX

1a (i) 'A good answer'

- 1 (a) Using a supply and demand diagram, assess **two** reasons why live entertainment business revenues in the UK might have increased in 2017.

(8)



Revenue is a businesses reward for selling goods. It is the price of one unit multiplied by the amount of units that business is able to sell.

One reason for the increase in revenue in 2017 is increased levels of disposable income. As people become more affluent they are more able to purchase luxury goods and services such as "attending music and arts festivals". Moreover, the stage of the economic

* Marketing

any cycle aids this. If in 2017, the UK \pounds was in a boom with high levels of employment with low interest rates then sales for entertainment are expected to increase as people have more money, and are more incentivised to spend it.

However, just because people have the money to spend doesn't guarantee they will spend it. Meaning there may be other factors pushing people towards the entertainment industry over holidays or retail experiences.

Another reason is the introduction of mass market advertising campaigns. These advertising campaigns both on TV and social media are more likely to reach a much larger target market than previously possible. This might explain the "14bn in revenues last year". However, this is dependant on the success of those marketing campaigns. Moreover, large names such as "Star Wars" often don't need large advertising schemes. ~~as it is done through~~

Examiner Comment:

A well-drawn and accurately labelled supply and demand diagram, indicating a positive shift in demand, causing (at least in theory) a rise in price and sales volume. The student starts answering with clear definition of revenue, and then identifies one factor (income). Explains that because in 2017 levels of disposable income increased, why this may have increased demand and therefore attendance revenues for music and arts festivals increased. The student correctly identifies entertainment as a 'luxury good'. Provides balance with the suggestion that this extra income may have been used to boost the demand for other purposes, eg holidays.

The student then goes on to examine second factor – advertising – explains why this increases demand and then provides balance, using the context, ie the reference to Star Wars.

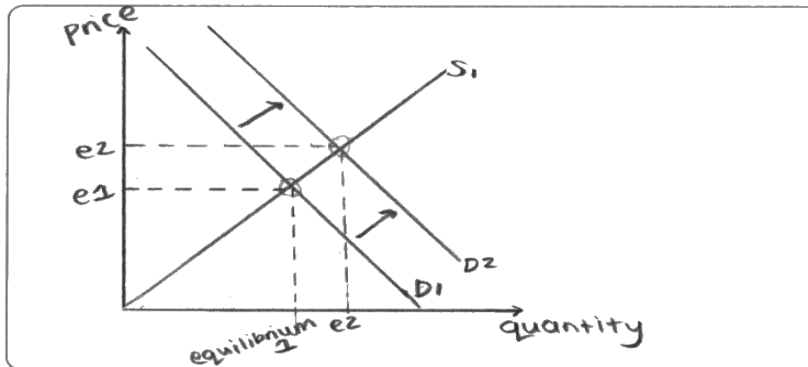
Mark = Level 3-8 marks

You might award this script just short of 8 marks as second factor assessment could have been clearer/more complete in terms of chain of reasoning (see Level 3 criteria descriptors). However, overall, this response matches all of the Level 3 criteria.

1a (ii) 'Answer which requires development'

- 1 (a) Using a supply and demand diagram, assess **two** reasons why live entertainment business revenues in the UK might have increased in 2017.

(8)



~~are~~ Business revenues ~~are~~ ^{are} the amount of money generated, calculated by selling price \times the number of goods sold. One reason why live entertainment business revenues may have increased is because of ~~new~~ growth within the industry and an ~~an~~ increasing supply of new live content. New musicals such as 'Hamilton' and 'mega concerts' trigger the boost in revenues for entertainment business and create a demand from early adopters. This may be driven by increased competition which results in increased ~~profits~~

awareness for production but also a race to capture the majority of the market. However, these revenues will only continue to increase if theatre and film companies continue to update their product portfolio and continue to release new live entertainment when the performance comes to its decline stage.

Another reason why business revenues may have increased is due to a rise in consumer incomes. This perhaps may be due to a state of economic boom in 2017 which encouraged individuals to spend as they obtain more disposable income ~~and therefore~~. Consumers therefore have a more income inelastic approach to ~~the~~ spending on live performances as this is considered a luxury ~~an~~ experience. This can be explained by the 'record £17bn in revenues' which demonstrates increased demand and further increased sales of tickets for live performances. However,

Q1 | this may not continue as the economy destabilises and forecasted revenues may not be as accurate as individuals prefer to save and instead of attend live performances, they may resort to entertainment online.

Examiner Comment:

A well-drawn and accurately labelled supply and demand diagram, indicating a positive shift in demand, causing (at least in theory) a rise in price and sales volume. Revenue is defined. The student explains why early adopters of new shows like Hamilton might increase demand and therefore revenues, but the counterargument is a little vague in terms of responding to the actual question. Like the previous student, explains that because in 2017 levels of disposable income increased, why this may have increased demand. Attempts to explain the significance of the income inelastic nature of entertainment, but the chain of reasoning is not quite complete. Balance is attempted by explaining that some individuals might choose to save the increase in income.

Mark = Level 3-7 marks

Overall, slightly less coherent than the first response in this report. Neither student referred to $P_2 \times Q_2$ being greater than $P_1 \times Q_1$ (could have shaded this area); this would have helped make analysis more succinct.

1b (i) 'A good answer'

Mark Maitland, Media and Entertainment Leader at PwC UK, suggested cinemas might make more use of opportunities to add value, such as providing luxury seats.

(b) Assess whether providing luxury seats is the best way for cinemas to increase added value.

(10)

In this question, there is a clear product/service differentiation which is a part of Porter's generic strategies of cost leadership and differentiation.

Providing luxury seats may benefit the cinemas objective of increasing the value of the experience because this differentiation from competitors in the market may help ~~to~~ cinemas to become more competitive within the entertainment market and therefore potentially increase their market share by an increase in demand for the 'luxury seats' because it would be perceived by customers as a more comfortable and enjoyable experience, which could mean that cinemas increase prices of tickets because of the differentiation (although this increase in prices would depend on the price elasticity of demand of the cinema tickets).

Although providing luxury seats may not be the best way to increase added value. Cinemas may also consider a low cost approach to increase added value. A low cost approach would mean that cinemas could decrease their prices which would create a perceived added value as there is a forecasted increase of consumers

spending habits of '2.6%' in 2022 and a forecasted increase in revenues of '£1.5bn'. The ~~elasticity~~ price elasticity of demand could be a factor when considering how to 'increase added value'. A decrease in prices may mean that there would be an increase in the demand for cinema tickets. This process would help cinemas as they are already facing a challenging future with the rise in demand for OTT media such as Netflix where potential customers are happy to wait for films to be released onto streaming sites. If cinemas decide to lower prices and stimulate a perceived value in their tickets they may stimulate demand through a perceived increase in value due to the decrease in prices.

In conclusion I think that providing luxury seats is the best way for cinemas to increase added value because when providing luxury seats, cinemas are able to stimulate a demand for their service.

Although, it may depend on how they price their tickets and whether they take into account price elasticity of demand. But the most important aspect is the product differentiation and the increase in customer experience, which will increase added value to cinemas.

Examiner Comment:

Outstanding response which shows accurate knowledge and understanding, excellent grasp of context, coherent and logical chains of reasoning, balance and a supported judgement.

Mark = Level 4-10 marks

1b (ii) 'Answer which requires development'

allows the cinema operator to appeal to price in-elastic customers who might be willing to spend more to have the ultimate cinema experience, they would likely be willing to pay more for a seat with a better view, and the seat being much more comfortable too, perhaps with more leg-room and reclining features. The cost to implement these extra features would be small, one-off costs, and the cinema operator would easily be able to make this back in short-term.

Luxury Seats also helps to add value because the cinema is still offering the same experience, the same movie, the same screening, just with slightly better conditions for the guest/customer to watch in, which they feel is worth paying more for.

Adding some luxury seats within a screening would be a much better way than having only luxury seats, this is because customers unwilling to spend more on a ticket who might be more price-elastic have the option to buy both, this isn't the case with Odeon Luxe which is a special brand of cinemas from Odeon, often in out of town retail parks where all the seating is luxury, they have locations close-by to regular Odeon cinemas and in towns such as Warrington, this goes above and beyond providing luxury seating as in OdeonLUXE, luxury seating is standard. I would argue in this case, it does a good job of adding value but in terms of increasing revenue which is the most crucial point, I don't feel it would work as more expensive tickets would mean patrons would be more likely to go to a rival such as VUE or Cineworld.

Another way of adding value which a cinema should consider is promoting the sale of drinks

and snacks, perhaps offering a new ticket which includes a food/drink voucher. Many people take their own food and drink into cinemas right now, this is lost revenue for the cinema as they would have previously been able to sell this to the customer, with a voucher scheme where this is now discounted, it would encourage customers to spend more, by offering a ticket which was more expensive and included discounted or free food and drink, this would encourage the customer to go to the food counter and spend. Perhaps a Loss Leader approach where each cinema ticket comes with a free fizzy drink, adding into the terms and conditions this must be claimed at the desk would mean that each customer would go to the popcorn/snack/drink desk and would likely spend more money compared to what they would have done previously, due to the temptation of going to the counter where they would queue to get their drink. This would be a loss leader approach because although the cinema company is not charging for the drink, by making the customer get the drink from the food counter, they are hoping they would see something else they'd like and buy it, which they wouldn't normally if the customer didn't have a free drink and brought their own.

On the other hand, luxury seats wouldn't always increase added value and this is because that many luxury seats take up more room within a cinema screen in comparison to regular seats, this means that for every so many seats, they lose a seat which could have been filled by another customer. This means that in the latest premiers and movie-screenings, they could be losing out on a couple of customers, this means their revenue could actually decrease once you consider the ticket price and any extras in turn that person might buy including soda and popcorn.

In conclusion, while adding luxury seating is a good way for a cinema to increase added value; it isn't the best way. I feel promoting the sale of snacks and drinks, by increasing ticket prices to include free or discounted food or drink would encourage people to spend more, hence bringing added value to the cinema. This is better than luxury seating because, luxury seating can only appeal to a small number of people depending on how many luxury seats a cinema has, meanwhile my idea can appeal to everyone with a ticket which means they have more chance of getting further added value from multiple guests, which especially at a big-screening of the latest movie, such as the upcoming Catherine Tate and James Bond Movie's could be a really good approach. This also means saving some seats for price-elastic customers, in comparison to brands such as OdeonLUXE which only has expensive luxury seating which wouldn't appeal to them.

Examiner Comment:

Not the most succinct answer but matches most of the assessment criteria for a Level 4 mark. The student chooses to answer the question directly and does not provide a clear definition of added value, which this question invites. However, a clear appreciation of the context, and strong arguments for and against, make this a reasonably good assessment.

Mark = Level 4-8 marks

1c (i) 'A good answer'

(c) Using the data in Extracts B and C, assess the extent to which saturated markets might stimulate a business such as Netflix to trade internationally.

(12)

A saturated market is a market that already has high levels of competition and therefore may be harder to break into due to an already established customer loyalty.

Saturated markets may stimulate Netflix and its fellow streaming services to trade internationally because in the second paragraph in Extract C, it states that Netflix has done the best it can in the U.S and it is now looking further afield 'so it's international markets are driving growth' this means that the majority of the streaming services revenue is coming from overseas which could lead to Netflix having an interest to trade internationally.

Furthermore, ~~the~~ Netflix has 'almost 10 million UK subscribers' this shows that an international trade in the UK is a major contribution to Netflix's performance because they are able to continue their growth by trading internationally. ~~Also~~ there is a predicted rise of '7.4%' in UK consumer spending habits in the OTT video market, this ~~will~~ will stimulate an OTT video provider to enter the UK market because of the predicted rise in spending habits and rise in potential revenue.

Even though that Netflix is the dominant OTT ~~provider~~ streaming provider in the US and they have branched into the UK as well, they are already almost

at '10 million UK subscribers' along with Amazon Prime videos '7.3 million subscribers'. These statistics demonstrate an already established market in the UK for OTT streaming services, which would be an existing product, in an existing market on the Ansoff matrix. The US being dominated by Netflix would certainly stimulate the globalisation of OTT media, although choosing the UK may present some challenges as the market already has established providers of entertainment in Sky and Amazon, this may mean an increased cost in promotion of Netflix's service in a market where their industry is forecast to grow by '7.4%' but other areas of entertainment and leisure are growing with digital music streaming growing at more than 2x the rate of Netflix at '18.9%' and VR growing at '34.5%'

this demonstrates that, although OTT may be gaining '£2bn' in revenue digital music streaming and VR are growing faster therefore may become market leaders in the UK, demonstrating to Netflix that they aren't the only ~~provider~~ main stream provider of entertainment in the UK. This means that trading internationally in the UK would mostly be stimulated by saturated markets in the US as a push factor but the pull factor into the UK may not be prevalent because of the different forms of entertainment

Examiner Comment:

Sound response, which opens with an effective definition to enable the student to build an answer. Demonstrates accurate knowledge and understanding. There is effective use of the data, excellent grasp of context, coherent and developed chains of reasoning, wide-ranging assessment and a supported judgement.

Mark = Level 4-12 marks

1c (ii) 'Answer which requires development'

(c) Using the data in Extracts B and C, assess the extent to which saturated markets might stimulate a business such as Netflix to trade internationally.

Push
pull
factors (12)

Once a market is fully saturated, there is no more room for expansion domestically. Therefore, international expansion is the ~~an~~ way to continue to grow and expand global market share. As Netflix already has 10 million subscribers in the UK, they have established international demand for the streaming service, this ~~introduces~~ ^{ensures} less risk when expanding. Lower risk ~~is~~ is beneficial as there ~~are~~ are so many intense competitors such as Amazon Prime. However, ~~A~~ another way of growing ~~the~~ Netflix in a saturated market would be to diversify and enter new markets with their well established brand name. This would likely be of even lower risk, targeting customers who ~~are~~ may already be familiar with Netflix's streaming service.

~~Other~~ International markets may present less competition. This means Netflix can more easily dominate market share. Less competition means less choice for consumers, which means more consumers choose Netflix, which results in higher sales, profits, and a higher market share. As Netflix already have customers in 190 countries around the world, they

already have broad recognition globally, likely resulting in instant demand when expanding, which means lower risk for Netflix when entering new markets. However, ~~it~~ not all ~~the~~ countries may demand a streaming service, or sales may prove lower ~~than~~ than expected. This may arise due to cultural differences, lower disposable incomes or other external factors which * decrease demand for Netflix.

In conclusion, I believe that saturated markets massively influence the decision to expand. This is because future growth opportunities are massive internationally, and limited in the US. Therefore, to continue to grow and expand rapidly, new markets need to be entered. ~~to~~

Examiner Comment:

Definition of saturated market could have been made more explicit. There is some use of the data, a reasonable grasp of context, but the balance in this response is less obvious. Seems that the student agrees that saturated market will prompt seeking of overseas markets.

Mark = Level 3-8 marks

1d (i) 'A good answer'

ITV could either join forces with the UK's other public broadcasters or operate on its own to offer a viable rival to Netflix for UK consumers.

(d) Using the data in Extracts A to D and your own business knowledge, evaluate these two options and recommend which **one** ITV should use to best rival Netflix.

(20)

One way in which ITV could offer a viable rival to Netflix is by joining forces with the UK's other public broadcasters. This could either be accomplished by a merger, takeover or perhaps a joint venture, which is only for a period of time. Using a merger or takeover is one of the best and fastest ways for a business to grow.

This is when one business buys a controlling power in another business or when two businesses come together and create a new single business.

By joining forces with another UK broadcaster will firstly increase their market share and power, considering they have two customer bases coming together and forming one. This increased market share will help them successfully compete with their rival Netflix who currently hold the highest proportion of the market share. So by doing this will increase their

customer base which as a result will increase their revenues and therefore profits.

This may also have the ability to attract

new customers given that two parties have come together, increasing and combining both their content. Given that alot of the consumers of this market care most about and make their decision down to the content of the produced over any other factors; so by ~~combining~~ combining both, gives the consumer more content and options for them to choose from.

In addition a joint force between ITV and another broadcaster will enable them to combine and share their ideas but also their knowledge of the market, helping them to successfully compete against rivals.

However ITV may encounter some issues when going down this approach. By joining with another broadcaster may enable a clash of cultures between the two. In addition they may have different ownership and leadership structures as well as different objectives. All these factors may have a negative impact and may result in some problems for them.

Another route in which ITV could take in order to offer a viable rival for Netflix, is by operating on its own.

The main benefit of operating on your own is that you don't have to try and agree with anyone else, which you would have to do in a joint venture, merger or takeover.

Therefore you can produce and accomplish your own objectives, create and follow your own leadership style and ownership structure, and not have to worry about a clash of culture or lose your own company culture.

In addition by operating on your own you know what works best for you and your target market and current customer base.

Even though growing inorganically is the best and quickest way to achieve growth it is proven to be very difficult; Therefore perhaps choosing to grow ~~the~~ organically is the best viable option. ITV have also proven to be successful in the past and do currently hold a fairly high proportion of the market share, so if they go about it the right way they can successfully compete with their rival Netflix. Perhaps by focusing on producing original content that consumers can exclusively get only from them

1d) Overall, for ITV, joining forces with the UK's other public broadcasters would offer a better viable rival to Netflix. Mainly because it will help to increase their market share and bargaining power of customers. This would be hugely beneficial to them as Netflix are the current market leaders by

quite a high percentage, therefore ITV would not be able to compete effectively on their own if they want to beat their rival Netflix.

Examiner Comment:

The assessment covers a number of aspects and therefore shows developed chains of reasoning *showing a range of effects* and arguments that are fully developed. Numerical data is not used, despite the instruction 'Using the data...'. The recommendation could have been more robust, and the validity/significance of competing arguments is not made clear, therefore minimum of Level 4 criteria are met.

Mark = Level 4-15 marks

1d (ii) 'Answer which requires development'

1d)

When looking at extract A and D there are a number reasons as to why a broadcasting company such as ITV would want to expand in to the OTT entertainment market (predicted to have consumers spend over £2 bn by 2022) by providing a palpitable streaming service to compete with others such as Prime Videos and Netflix. However as there are already many successful alternatives on the market in is easy to see why ITV is pondering wether to tak ethe venture alone or with other UK public broadcasting companies.

It may be ideal for ITV to join forces with the UK's other public broadcasters to provide a streaming service as there is potential to use their collective market power to combat Netflix's and gain from eachother's industry knowledge. There is also an added potential to create more diverse TV shows in both storytelling from a British perspective adding value to the streaming service through differentiaiton. In turn this would allow them to tap in to the market successfully as (porter's five forces) they'd be able to combat the threat of substitute products/services in the market.

It may be ideal for ITV to operate on its own to provide a streaming service as ITV'S Chief Executive stated negotiations are "proving difficult" and it is likely to be hard to achieve all the UK's public broadcaster's objectives. In turn it would be much easier for ITV to procede individually. It would also give ITV the ability to focus advertising on their shows, rather than other broadcasting companies such as the BBC. This would likely to allow them to both gain more exposure and allow them to set marketing strategies in a paticular style that would draw focus on their personal TV shows.

In judgement, it would be ideal for a broadcasting company such as ITV to provide a rival streaming service through a joint venture rather than alone due to not only the need to have a large marketing power to combat Netflix's plan to raise £2 billon on investing in more TV shows. To see success the idea of the joint ventures unique British selling point in likely to add a key differentiating factor paired with the added ability /chance to produce a variety of shows that can compete with Netflix's vast range.

In conclusion when evaluating this potential venture when looking at MOPS, it is clear to see there is more potential in the UK offering a viable competitor to Netflix to reveal there 10 million users in the UK alone. This is as Netflix has a monopoly in the market, the objective of offering a viable rival would prove difficult due to Netflix having both a diverse range of TV that not only they provide but their proven ability to easily work with other studios and broadcasting companies worldwide (such as networks similar to BBC and ITV in Korea - JTBC, SBS and KBS). As they want their streaming service to not only provide "quality" TV but also compete with Netflix, by drawing forces and building on each others reputation, ITV is likely to achieve a larger amount of success due to their reputations and familiarity with their audience.

Examiner Comment:

Although the student makes use of numerical data, this answer really lacks balance. It starts with a good rationale and argues for a collective approach but then fails to explain why this option might prove problematic. The case for ITV going it alone is presented with no arguments against (eg investment costs cannot be shared). Judgment repeats previous ideas. Conclusion and recommendation are unclear. The examiner therefore judged this response to match some of the Level 3 criteria.

Mark = Level 3-12 marks

1d (iii) 'Answer which requires development'

(d) Using the data in Extracts A to D and your own business knowledge, evaluate these two options and recommend which **one** ITV should use to best rival Netflix.

(20)

If ITV join forces with other broadcasters to rival Netflix and do a joint venture, this may be good for ITV because they may gain more customers in the UK to rival Netflix, by gaining market share, they may be able to increase revenue and be able to rival the US firm. They attempted this in 2007 when ITV did a joint venture with Channel 4 and the BBC to create 'The OTT service Kangaroo' this would certainly help the company rival Netflix by gaining more customers.

Although, this option above would turn the OTT market into a conglomerate and this is not

possible because it stops the competitiveness in the market and therefore it has to be blocked, which it was by the 'UK competition regulator in 2009'

The second option for ITV is to offer a viable rival to Netflix, if ITV operate on their own they won't be starting a conglomerate and therefore won't face legal action, although operating on their own will incur large costs and they may not gain the economies of scale that being larger would

provide them.

Netflix has a plan to raise '\$2bn' for their new project, but they have costs of '\$30bn' this is a very negative cash flow problem and may be hard for ITV to cover if they operate on their own.

Overall I think that ITV should join forces with other companies in the UK, even though they may be starting a conglomerate, they could at least attempt to compete with Netflix.

Examiner Comment:

This question did not invite a definition, but simply an assessment of each option and a supported judgement and recommendation. This student fails to provide a comprehensive, balanced response, which really is necessary for a 20-mark question. The assessment focuses on a narrow range of aspects and therefore fails to show developed chains of reasoning *showing a range of effects* and arguments are not fully developed. The validity/significance of competing arguments is not made clear, but otherwise most of the Level criteria are met.

Mark = Level 3-12 marks

2a (i) 'A good answer'

2 (a) Assess two ways Derby Theatre could improve its liquidity.

(8)

One way Derby Theatre could improve its liquidity is to ~~increase~~ ^{make} use of ~~leasing~~ ^{cash} payments. As a theatre, they are likely to have a lot of equipment and props. However, the box office incomes vary and a lot 'depends on performances' and the local competition. Therefore, there are times where equipment will go unused, however Derby Theatre would be paying for the maintenance costs. Therefore, leasing equipment would mean it is only paid for when it is going to be in use and Derby Theatre do not need to pay unnecessary costs, ~~increasing~~ ^{improving} their liquidity. However, in the long-term leasing can become more expensive than purchasing the equipment outright, so this could have a damaging effect on their liquidity.

Derby Theatre could also promote cash payments when receiving incomes. This would mean that there is an immediate inflow at the box offices and the cash received can almost instantly be used for another business process ~~that~~ ^{that} Derby Theatre may have to undertake ~~and~~ such as paying business rates. However, ~~if~~ if trade credit is requested in order for cash to be paid to Derby Theatre, this would actually have a negative effect on liquidity as Derby Theatre may have to borrow while awaiting payment.

Examiner Comment:

Two ways assessed and despite there being no definition of liquidity, it is clear that this student know and understand what it means. Second way lacks clear balance, so could not be awarded 8/8.

Mark = Level 3-7 marks

2a (ii) 'Answer which requires development'

2 (a) Assess **two** ways Derby Theatre could improve its liquidity.

(8)

Liquidity refers to a company's ability to pay its bills.

One way Derby Theatre could improve its liquidity would be to provide high end performances that have good customer loyalty, this means that more customers will want to come and watch their performances, leading to a potential increase in revenue due to a potential to increase sales and sales revenue.

Another way to improve the company's liquidity would be to change its organisational structure, which looks more like a matrix in Extract F than a regular hierarchical structure, the structure probably contains lots of communication problems due to so many leaders having different inputs.

As well as this the title of extract F says that this picture is 'a section from' the structure, this indicates that there is a greater problem within the organisation which needs to become less matrix like in order to improve liquidity.

Examiner Comment:

A set of two one-side responses which show effective use of the evidence/context and there is fluid, complete chains of reasoning. A hint of assertions. The definition could have been clearer and there was no attempt at providing balance therefore limited to Level 2.

Mark = Level 2-4 marks

2b (i) 'A good answer'

(b) Assess the likely value of succession planning to Derby Theatre.

(10)

Succession planning is when Derby Theatre might plan for the loss of a key member of staff such as "Andy" who is the head of production. By identifying and developing another member of staff to take over as the head of production, Derby Theatre can ensure that the theatre can keep operating if Andy is lost or leaves a staff. This could reduce the theatre's recruitment costs as they wouldn't have to hire a temporary "head of production" to cover if for example he left. This could improve the theatre's ability to survive, which it is currently struggling to do as it would likely have lower costs to cover if it used succession planning.

However, training another staff member such as senior producer "Frank Allen" to be able to carry out the head of production job (as an example), could be an expense for Derby Theatre and might not be worth the increase in training costs. This means succession

planning could reduce derby theatre's
profit if they have higher costs due to
the succession planning. therefore the theatre
might not be able to cover other costs
such as refreshments for audiences and
so may go insolvent if they can't expect
to pay suppliers due to the cost they
would pay for business planning.

but overall Derby Theatre could benefit
from succession planning as it could make
them more able to spend that's they use a
key staff member. therefore they could still be
able to operate even in case of some
important losses, which may impact ^{Derby} ability
to survive.

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

Examiner Comment:

This student clearly had a sound grasp of the concept succession planning and was able to use the evidence provided to help support his/her answer. The positive effects of succession planning are explained well, as are the limitations, notably with respect to Senior Producer Stuart Allen. The answer may not finish with a judgement as such, eg relating to Derby Theatre's situation or objectives, but there are clearly judgements made earlier, such as 'it could improve the theatre's ability to survive'.

Mark = Level 4-9 marks

2b (i) 'Answer which requires development'

(b) Assess the likely value of succession planning to Derby Theatre.

(10)

Succession planning is when a firm lines up employees to fill a job, before the employee has left for e.g. maternity.

This is beneficial to Derby Theatre. This is because it allows the new candidate to get to terms with the team and start preparing their script. This is important as theatre work is closely worked together as a team and each job contributor towards the service of those shows. For example, Andy Naim has a span of control of 2 of which Beth Williams and the technical manager will work together. Therefore, if the role is not filled quickly, it will put pressure on Beth Williams, who may not be qualified, therefore temporarily disrupting performance of the business. Consequently, succession planning is beneficial as it allows work to be started straight away and improves efficiency. However, it can also have negative effects on workers, such as job security as they may feel replaced.

On the other hand, succession planning results in staff feeling replaced and may worry for their

job when they get back. This is because the new worker will be taking over their job and ~~at~~ before they have even left. Consequently, staff may not feel valued, which may negatively impact on motivation, impacting performance. However, this depends on the culture of the business.

Based on the evidence, succession planning will have a positive impact on Derby Meats. This is because it will improve efficiency and allow performances to meet deadlines, thereby making customers happy ~~as they expect~~ ^{as}. However, there are also negatives such as staff feeling replaced and not motivated which may impact performance short term.

~~It~~ because workers are able to start straight away on projects such as checking lighting and technical management ~~without preventing~~

Examiner Comment:

Compared to a significant number of others who sat this paper, this student has a reasonable knowledge and understanding of succession planning. Whilst this may not be entirely accurate, the student has demonstrated an ability to select appropriate evidence to support their arguments and provide a balanced answer with chains of reasoning. Unfortunately, the final judgement was simply a repeat of what had been stated already, effectively denying this student access to a higher mark of 9-10.

Mark = Level 4-7 marks

2c (i) 'A good answer'

(c) Assess the likely value to Derby Theatre of producing and staging shows that recognise the cultural diversity of Derby's population.

(12)

Cultural diversity is ~~different ethi ethnicities~~,
~~showing the differences between each.~~

Combining and representing different ethnicities.

*1

It is valuable to Derby Theatre to recognise cultural diversity of the population. This is because it includes all different cultures, to make everyone feel included and prevents criticism. As a result, there is likely to be more demand for the production shows as the scripts will be applied to different ~~segme~~ ethnicities. ^{*2} For example, Derby has a population consisting of "25% white British" but then also 6% Asian, Pakistani, 3% Black African - Caribbean. Therefore, recognising these smaller segments will also gain their demand for the shows, therefore raising revenue. However, the research to find out different cultures and needs and wants will use resources and money, which may short term impact performance.

On the other hand, it may not be valuable to recognise cultural diversity. This is because the mass market segment is white British, making up 75% of the local population. ~~whereas~~ Therefore,

it is best to appeal to the larger market segment as there is more available consumers rather than a niche 25% of the market. This is because it will ~~require~~ require less research and is less dependent on a smaller market so is

less risky. Therefore, there will be higher revenue and higher profits. However it may have more intense competition, such as CES it is more a basic want in the market.

* 1 mass market is ~~giving~~ presenting to the large market, with many competitors.

Niche market is specialising and adapting to a smaller market, to specific wants.

* 2 Consequently, they may be willing to pay a higher price as it has been adapted to their specific needs.

Based on the evidence, it is valuable to adapt to the smaller, niche market or Derby's population.

This is because it has less competition due to being specialised and can charge higher prices, which will increase profits. However, ~~if~~ they should also consider the mass market of 75% of people as this is where they can base most needs and it does not require research which

can be costly. In the short term, if the market changes they may suffer due to dependence on a specific target market. However, they can also keep higher profits with little competition to worry about from other theatres.

Examiner Comment:

A balanced answer, which makes effective use of appropriate evidence and a clear understanding of the topic. Would have been better to have a final judgement that was not simply a repeat of earlier arguments.

Mark = Level 4-9 marks

2c (ii) 'A slightly better answer'

(c)

It would be a very useful approach for Derby Theatre to produce and stage shows that recognise the cultural diversity of Derby's population, I feel this way because it is recognising the local community's cultural background and it is bringing in a show that appeals to the needs and wants of the consumer, meaning people are more likely to visit Derby Theatre as they feel welcome and the shows suit them and their culture, this could give Derby Theatre a competitive advantage with many rivals in the small town.

Derby's population compared to the rest of the UK, includes 3x as many people who identify as White-Irish (1% in UK 3% in Derby), 3x as many Asian-Pakistani (2% in UK, 6% in Derby) and 5% less people who are White-British (75% Derby, 80% UK). This shows the diversity and cultures are much more mixed compared to the UK as a whole, and having generic shows might not appeal here. They can use this to then appeal to more customers who might have never visited, or even considered coming to Derby Theatre before previously who might have wanted to see more performances which value and celebrate their cultural diversity.

On the other hand, staging and producing the shows that recognise the cultural diversity of Derby's population might do more harm than good, this is because the people might feel it is just an example of virtue signalling, and they might feel unhappy not being given shows, they might feel that Derby Theatre is targeting shows based on their culture, this could involve using racist, draconian and outdated stereotypes. They are removing the right for the people who might just want to see classic shows which don't relate into their culture. The fact they feel like Derby Theatre are only offering shows on the theatre, might make them feel discriminated against as they want to watch more shows rather than ones which only recognise the diversity of Derby.

In conclusion, I feel producing and staging some shows to show the diversity and unity of Derby, celebrating different cultures is a good idea, but I feel this shouldn't be done too often, frequency and especially not as a main source of creating and producing shows, this is because many residents of Derby might just want to be treated normally, they wouldn't always want special treatment which could come close to racism. They might feel that Derby Theatre are saying they don't deserve and can't get shows in other theatres because of their culture or background which isn't something we should want to see or promote in the 21st-century, actually celebrating diversity could be showing regular shows we see around the country and a mix, perhaps a diversity night every so often to celebrate both worlds and keep the population happy and the patrons of Derby Theatre alike, who all can enjoy more shows than ever.

Examiner Comment:

Shows a sound understanding of cultural diversity and how it relates to successful business marketing decisions. Student makes good use of the data and other evidence to provide coherent and complete chains of reasoning which show a balance of opinion ('virtue signaling').

A little assertive in places, perhaps, which means that the judgement is not really supported. However, on the whole a good response - worthy of a Level 4 mark.

Mark = Level 4-10 marks

2d (i) 'A good answer'

Derby Theatre are currently considering between using their £120,000 retained profits or a bank loan to fund their catering investment of £100,000. I will explore the positives and negatives of each decision through this extended answer piece.

Derby Theatre might choose to use retained profits, this would be a good idea as it is much quicker and cost-effective than a bank loan, as the money is already within the business they don't need to spend time and money applying for it, it would also be cheaper as it is the business' own funds, this means that they won't need to risk the future of the business over repayments, and they also won't need to pay back high amounts of interest to the bank where they obtained the loan.

Another benefit for this would be the fact it would be easier to obtain a bank loan at a later date if one was required, as the bank can see more recent investment and if the catering improvements bring in more revenue this supports the fact even more, they would feel more confident getting a return on their loan which could lead to it being easier to obtain a loan and lower interest rates,

On the other hand, this could make shareholders unhappy as the retained profit used for this investment could have been used to give them a greater dividend, I don't feel this is a big deal as the retained profits could have been taken out to act as a rainy day fund after hanging out dividends anyway, and many shareholders would be happy to invest this back into the business if it means improving Derby Theatre so they are able to make more and increase their levels of revenue in the future, which would bring them a greater dividend in

the future.

Another risk of using retained profits would be the fact they'd lose the ability to act fast in case an unexpected event or external factor causes damage to their business, this could include fire or damage to the stage, seats or equipment, while they will likely have insurance, if something that isn't insured happens and affects Derby Theatre negatively, they would be unable to throw cash at the problem to fix it, which could mean having to cancel tickets and in turn losing revenue through having a lack of retained profits to deal with the problem. On the other hand, I feel this wouldn't be catastrophic for Derby Theatre. This is because although small and a fraction of what they would have had, £20,000 is still a respectable figure for a small theatre to have in retained profits, so they can still feel they have that added layer of protection/security, supported by insurance in case something goes wrong, they still have that fund there.

Using a bank loan would be a useful solution as it means that shareholders in Derby Theatre will get a dividend as the investment isn't coming out of their returned profits. As well as pleasing shareholders, who could get a larger dividend (return on their investment) it could also be used to keep money in the business if an emergency struck where they'd need access to funds straight away without having to wait for a loan approval.

Using a bank loan would be a bad idea, and it wouldn't be the method I would recommend to a business, especially one with a large amount of retained profits which could cover the required cost they would have obtained from the bank loan and leave some left-over (20

million GBP) this is because it would mean having to pay back interest to the bank, this means that the catering investment of £100,000 will cost significantly more in the long-run due to repayments to the bank. Having debt will also add doubt to the long-term survival of Derby Theatre, this is because they will be expected to make payments every month (this is most common but it will depend on what is agreed with the lender), even if they aren't doing very well, for example if this catering investment didn't pay off and didn't bring in the increased levels of revenue which they hope for, it'd mean that they'd have to find the money to pay back the loan from somewhere, or it could mean worse consequences of Derby Theatre beginning to lose its' assets and they could cease to exist due to mounting debt. For example, during the ongoing COVID-19 pandemic, Derby Theatre are being restricted and operate with a great degree of uncertainty due to constantly changing government legislation with very little notice under the Coronavirus Act 2020, the theatre was closed by law earlier this year and this meant they would have had no revenue coming in, this would have meant they would have been unable to repay this loan and could have risked the future of the business, which has already forced the closure of another entertainment business, Cineworld who have closed all cinemas until 2021. Derby Theatre want to avoid closure and having a bank loan with repayments adds risks onto that. The time taken to apply and get approved for a bank loan can also be limited, this means the catering investment will take longer to complete as they wait for approval for the loan.

In conclusion, I strongly feel using retained profits would be a better solution than the bank loan and this is because a kitchen and catering refurbishment is needed and the long-term benefits this would carry will outweigh the short-term benefits and opportunity cost of

Examiner Comment:

This response shows accurate and thorough knowledge, an effective use of the relevant evidence to provide coherent chains of reasoning for and against each option. Judgement is relevant and makes good use of own knowledge to support conclusion and recommendation. Difficult to imagine a better answer could be written by a student in an exam situation.

Mark = Level 4-20 marks

2d (ii) 'Answer which requires development'

Pre-theatre dining has been unpopular at Derby Theatre. Catering Consultant Andrew Dean has argued that a refurbishment of its cafe and kitchens is required.

^o retained ^o loan

In order to finance the £100 000 catering investment, Derby Theatre management is considering using either some of its £120 000 retained profit or a loan.

(d) Evaluate these two methods of finance and recommend which **one** might be most appropriate to finance the £100 000 catering investment at Derby Theatre.

(20)

<u>retained profit</u>	<u>loan</u>
<ul style="list-style-type: none">• own source, no cost• stronger opportunity cost.	<ul style="list-style-type: none">• high interest

To finance the investment at Derby Theatre, of a refurbished cafe and kitchen, Derby Theatre can either use retained profit or a bank loan. Below, I will explore these options.

Derby Theatre should use its own retained profit to finance the investment. This is because it ~~can be~~ is an immediate form of cash and will not cost the business anything. ^{unlike a loan} Therefore, the firm can start on the construction straight away to gain revenue as soon as possible from the dining.

Therefore, it will be beneficial to the business ^{short term} as it can start to payback the cost ^{straight away rather than apply} ~~quickly~~. ~~However,~~ ^{for a loan.} However, this will only leave the firm with £20,000 spare to run the business, which may cause liquidity problems for the firm, leading to insolvency if they have unexpected costs such as

Machinery breaking.

On the other hand, retained profit would not be appropriate to finance the investment. This is because it presents an opportunity cost for the money and therefore is risky for the business. Opportunity cost is the value of the next best thing foregone, of which could be invested into a new workforce better trained to provide better food. Therefore the firm needs to take into account the net present value of the investment and the payback to see if it is worthwhile. This is because if it takes a long time to earn back, the firm will face liquidity problems and could lead to cash flow problems, causing business failure. However this depends on it ~~also~~ $\$$ would mean the business would not have to pay high interest rates such as a bank loan.

~~On the other hand, a bank loan would not be a good way to finance the investment.~~ This is because, unlike retained profit, it consists of high interest repayments which can be costly to the business ~~and may impact~~ This may have a negative impact as demand depends on competitors and ~~the~~ the performance, thereby they may not have enough cash to pay the bank back, which could cause ~~the~~ liquidation.

However, as the repayments are structured a set amount each month, the theatre business will be aware of its liabilities and can prepare for the payment.

Based on the evidence, the firm theatre company should use retained profits to finance the investment. This is because it presents no cost to the company and can be safer as they can work out the payback and return on investment. However, demand depends on performances and competition actions so they don't have a stable income making it a risky investment. So a bank loan may be safer as it leaves them with spare cash, although high interest repayments and may be declined if they don't have the ability to pay.

Examiner Comment:

Encouraging to see a plan, even if brief. Good knowledge of retained profit, opportunity cost and loans. Student makes effective use of the theatre context to provide coherent chains of reasoning, although there are some assertions/contradictions.

There are developed arguments both for and against each option. Judgement and recommendation are clear, but these are based on previous arguments.

Mark = Level 4-15 marks

