

Cambridge International AS & A Level

BUSINESS**9609/31**

Paper 3 Business Decision-making

May/June 2026**MARK SCHEME**Maximum Mark: 60

Published

This mark scheme contains the instructions and marking guidance that our examiners used to mark candidate responses for this component.

Before they start marking, examiners complete a standardisation process. They review a range of candidate responses and discuss the mark scheme in detail to agree which answers can and cannot be accepted. Examiners award marks where it is clear that candidate responses have met the requirements of the mark scheme. These requirements may vary between different components or different versions of the same component, depending on the exact requirements of the question and the candidate responses seen during the standardisation process.

Sometimes, our mark schemes may allow marks to be awarded to responses which contain elements that are factually incorrect or for content not covered by the syllabus. We do this in response to the demands of a specific question to support candidates and make sure that our assessments are fair. However, these allowances should not be used as a guide for teaching and learning.

We cannot discuss the mark scheme with schools, and we recommend that schools read the mark scheme together with the assessment material and the Principal Examiner Report for Teachers.

This document consists of **27** printed pages.

General marking principles

All examiners must apply these marking principles when marking candidate responses.

1	Examiners must award marks for each response in line with: - the specific content defined in the mark scheme - the specific skills defined in the mark scheme or in the level descriptions - the standard of response required as exemplified by the standardisation scripts.
2	Examiners must award whole marks (not half marks, or other fractions).
3	Examiners must award marks positively . This means that: - marks are not deducted for errors or omissions - marks are awarded for correct/valid answers as defined in the mark scheme and also for other valid answers which go beyond the scope of the syllabus and mark scheme referring to your team leader as appropriate - the quality of spelling, punctuation and grammar are judged only when the mark scheme indicates that these features are specifically assessed in the question. However, the meaning of all responses must be unambiguous.
4	Examiners must consistently apply the requirements of the mark scheme and any rules for what to do when candidates have not followed instructions correctly.
5	Examiners must use the full range of marks defined in the mark scheme, unless limited by the quality of the candidate responses seen.
6	Examiners must award marks according to the mark scheme and must not award marks with grade thresholds or grade descriptions in mind.

**Social Sciences-Specific Marking Principles
(for point-based marking)****1 Components using point-based marking:**

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

- a** DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
- b** DO credit alternative answers/examples which are not written in the mark scheme if they are correct
- c** DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require n reasons (e.g. State two reasons ...).
- d** DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
- e** DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities
- f** DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
- g** DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. corrasion/corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

Annotations guidance for centres

Examiners use a system of annotations as a shorthand for communicating their marking decisions to one another. Examiners are trained during the standardisation process on how and when to use annotations. The purpose of annotations is to inform the standardisation and monitoring processes and guide the supervising examiners when they are checking the work of examiners within their team. The meaning of annotations and how they are used is specific to each component and is understood by all examiners who mark the component.

We publish annotations in our mark schemes to help centres understand the annotations they may see on copies of scripts. Note that there may not be a direct correlation between the number of annotations on a script and the mark awarded. Similarly, the use of an annotation may not be an indication of the quality of the response.

The annotations listed below were available to examiners marking this component in this series.

Annotations

Annotation	Meaning
	For objective points that are correct.
	For objective points that are wrong.
	When the candidate has attempted something, but the mark/skill has not been awarded as the answer is not sufficiently clear.
	To highlight a point or section of an answer that justifies the mark/annotation.
	When the candidate has attempted something, and the mark/skill has been awarded.
	To show a page/section has been seen/read.
	The repetition of a previous point in a response or the candidate is copying the case study/data.
	The own figure rule applies – acts as a mark/tick.
	When AO1 has been awarded. The number of Ks should match the mark awarded.

Annotation	Meaning
APP	When AO2 has been awarded. The number of APPs should match the mark awarded.
AN	When AO3 at Level 1 has been awarded.
L2 AN	When AO3 at Level 2 has been awarded.
EVAL	When AO4 at Level 1 has been awarded.
L2 EVAL	When AO4 at Level 2 has been awarded.
L2	When AO3 or AO4 has been awarded at Level 2.
L3	When AO4 has been awarded at Level 3.

Guidance on using levels-based marking

Marking of work should be positive, rewarding achievement where possible, but clearly differentiating across the whole range of marks, where appropriate.

The examiner should look at the work and then make a judgement about which level statement is the best fit. In practice, work does not always match one level statement precisely so a judgement may need to be made between two or more level statements.

Once a best-fit level statement has been identified, use the following guidance to decide on a specific mark:

- If the candidate's work **convincingly** meets the level statement, award the highest mark.
- If the candidate's work **adequately** meets the level statement, award the most appropriate mark in the middle of the range.
- If the candidate's work **just** meets the level statement, award the lowest mark.
- L1, L2 etc. must be clearly annotated on the response at the point where the level is achieved.

Assessment objectives**AO1 Knowledge and understanding**

Demonstrate knowledge and understanding of business concepts, terms and theories.

AO2 Application

Apply knowledge and understanding of business concepts, terms and theories to problems and issues in a variety of familiar and unfamiliar business situations and contexts.

AO3 Analysis

Analyse business problems, issues and situations by:

- using appropriate methods and techniques to make sense of qualitative and quantitative business information
- searching for causes, impact and consequences
- distinguishing between factual evidence and opinion or value judgement
- drawing valid inferences and making valid generalisations.

AO4 Evaluation

Evaluate evidence in order to make reasoned judgements, present substantiated conclusions and, where appropriate, make recommendations for action and implementation.

Question	Answer				Marks
1	Analyse <u>two</u> impacts on SLS of operating in a market with many competitors				8
	Level	AO1 Knowledge and understanding 2 marks	AO2 Application 2 marks	AO3 Analysis 4 marks	
	2			3–4 marks Developed analysis - Developed analysis that identifies connections between causes, impacts and/or consequences of two points. - Developed analysis that identifies connections between causes, impacts and/or consequences of one point.	
	1	1–2 marks - Knowledge of two relevant points is used to answer the question. - Knowledge of one relevant point is used to answer the question.	1–2 marks - Application of two relevant points to a business context. - Application of one relevant point to a business context.	1–2 marks Limited analysis - Limited analysis that identifies connections between causes, impacts and/or consequences of two points. - Limited analysis that identifies connections between causes, impacts and/or consequences of one point.	
	0	0 marks No creditable response.	0 marks No creditable response.	0 marks No creditable response.	
Note: - If more than two elements are referred to, reward the best two. - L2AN (3 marks) is possible for just one point made. All annotation (K APP AN L2) should be in the left margin.					

Question	Answer	Marks
1	Responses may include: AO1 Knowledge and understanding Definition of relevant terms (max K 1 mark) • A competitor is a business that sells similar products or services, or targets the same customers. • Competitive market: A market structure with many firms selling similar products. Knowledge of impacts on SLS of operating in a market with many competitors – (max K 2 marks): • Drive to be efficient to reduce costs. • Innovation – regularly upgrade products. • Customer centric focus – SLS will need to prioritise quality, competitive pricing and customer service. • Lower profitability and profit. • More intensive marketing and advertising. • Greater focus on customer loyalty. • Downward pressure on prices. • Higher cost of acquiring customers. • Need for differentiation. • Reduced market share. AO2 Application <i>Limited application, APP applies knowledge to SLS once.</i> <i>Developed application, APP + APP applies knowledge to SLS twice.</i> <i>Max one APP for application for the first element and max one APP for application for the second element.</i> Application is making use of relevant case information not just repeating it. • Reduce costs: Possible location in country Z with no minimum wage and reduced corporation tax. • Ice cream market is growing – \$500 million USD in 2023 – 15% growth per year until 2030. • Five large businesses control 60% of the ‘zero-sugar ice cream market’. • SLS has only a 5% market share. • Many new businesses offer similar products. • Small companies account for 40% of the market. • Innovation and product range: 10 flavours – individual and share size packs. • Customer focus: 65% of customers want greater selection of flavours and pack sizes. • May be difficult for SLS to increase price from \$3.50 to \$4.00.	

Question	Answer	Marks
1	AO3 Analysis <i>Limited analysis</i> AN – candidate shows one link in the chain of analysis. <i>Developed analysis</i> L2AN – candidate shows two or more links in the chain of analysis. Chains of reasoning highlighting likely impacts of operating in a competitive market: - Many competitors gives consumers more choice therefore SLS may be unable to raise prices significantly without losing customers AN resulting in lower profit margins L2AN. - Due to there being many competitors SLS must invest more in social media/free trials to differentiate its brand resulting in higher costs AN and therefore profits may fall unless sales increase L2AN. - Competition will drive SLS to reduce costs through being more efficient. This could be through lower wages by locating in country Z AN. Lower fixed costs would lead to higher retained profits which could be used to develop new product lines. L2AN - SLS would need to be innovative in order to continue to attract customers from the 5 large companies who dominate the market and the many smaller competitors in the zero-sugar ice cream market. By launching new flavours or pack sizes, which are different from competitors product ranges, SLS would attract customers to their brand AN which would lead to increased revenue and knowledge of the brand. L2AN - By extending product ranges to more than 10 flavours and 2 pack sizes SLS can encourages customers to buy more/wider variety of products AN which would lead to a higher spend per customer and increased revenue. L2AN - Operating alongside ‘five large businesses’ that control 60% of the market makes it difficult for SLS to expand. - These larger competitors likely benefit from economies of scale, allowing them to undercut SLS prices AN. Consequently, SLS must rely heavily on its USP of ‘distinctive flavours’ to justify its higher retail price L2AN. Accept all valid responses.	

Question	Answer				Marks
2	Analyse <u>two</u> reasons why quality is important to SLS.				8
	Level	AO1 Knowledge and understanding 2 marks	AO2 Application 2 marks	AO3 Analysis 4 marks	
	2			3–4 marks Developed analysis - Developed analysis that identifies connections between causes, impacts and/or consequences of two points. - Developed analysis that identifies connections between causes, impacts and/or consequences of one point.	
	1	1–2 marks - Knowledge of two relevant points is used to answer the question. - Knowledge of one relevant point is used to answer the question.	1–2 marks - Application of two relevant points to a business context. - Application of one relevant point to a business context.	1–2 marks Limited analysis - Limited analysis that identifies connections between causes, impacts and/or consequences of two points. - Limited analysis that identifies connections between causes, impacts and/or consequences of one point.	
	0	0 marks No creditable response.	0 marks No creditable response.	0 marks No creditable response.	
	Analyse two reasons why quality is important to SLS. Note: - If more than two reasons are referred to, reward the best two. - L2AN (3 marks) is possible for just one point made.				

Question	Answer	Marks
2	Responses may include: AO1 Knowledge and understanding Definition of quality within a business (max K 1 mark) identification of reasons (up to K 2) • Quality is the standard of a product or service, or how well it performs. It is often defined as the ability of product to satisfy customer requirements. Reasons why quality is important: • Helps create customer loyalty and brand reputation. • Reduces cost of customer complaints. • Helps prolong the product lifecycle. • Reduces the cost of advertising. • Increases the price that can be charged. AO2 Application <i>Limited application, [APP] applies knowledge to SLS once.</i> <i>Developed application, [APP] + [APP] applies knowledge to SLS twice.</i> <i>Max one [APP] for application for the first benefit and max one [APP] for application for the second benefit.</i> Application is making use of relevant case information not just repeating it. • Mission statement: 'bringing quality to the zero-sugar ice cream market'. • SLS ice cream is sold in premium supermarkets. • SLS already has 10 flavours, 2 sizes and the packaging is 100% recyclable. • Distinctive flavours are its USP. • SLS uses the best natural ingredients • SLS ice cream is a premium priced product. • Product retails for a higher price than competitors. • It is a competitive market with many small and large competitors.	

Question	Answer	Marks
2	AO3 Analysis <i>Limited analysis</i> AN – candidate shows one link in the chain of analysis. <i>Developed analysis</i> L2AN – candidate shows two or more links in the chain of analysis. • High quality helps create customer loyalty which for a growing business will result in increased repeat customers for SLS's 10 flavours of ice cream which will lead to higher revenue AN which will allow Cali and Faiza to invest in further product development. L2AN • Reduces cost of customer complaints – SLS will spend less on replacing defective products which means they will have more money retained in the business AN which they could use to carry out further research or use towards the expansion into country Z L2AN. • Helps prolong the product lifecycle. Customer will continue to buy the ice cream as it enters maturity which will ensure sales are made for a longer period of time which may mean SLS do not need to launch new products AN as regularly which will result in a cost saving for new product development. L2AN • Reduces the cost of advertising – the brand will establish a quality image through the performance of its products which means SLS do not need to allocate as much money to advertising AN and this can be used for NPD in order to satisfy the 65% of customers who would like to see more flavours. L2AN • Supports premium pricing: High quality ingredients/flavours ensures that customers perceive greater value and are therefore willing to pay higher prices AN which may result in increased revenue/profit L2AN. • Quality is central to the mission statement of bringing quality to the zero-sugar market. Consistently high-quality builds brand loyalty among consumers in country A AN. This brand loyalty reduces the risk that the 20% reduction in demand predicted by Faiza will actually occur if prices are increased L2AN. Accept all valid responses.	

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Question	Answer	Marks
3(a)	Refer to lines 33–35, calculate the price elasticity of demand of increasing the price per individual carton of ice cream from \$3.50 to \$4.00. PED = % change in quantity demanded / % change in price (1 mark if no accurate calculation) % change in price = $4.00 - 3.50 / 3.50 = 14.29\%$ (1) PED = $-20 / 14.29 = -1.4$ (2) 1.4 (1 mark)	2
3(b)	Refer to lines 30–32, calculate the income elasticity of demand for SLS's products sold through retailers. YED = % change in quantity demanded / % change in income (1 mark if no accurate calculation) % change in Demand – 8% – given in case study % change in income = $510 - 500 / 500 \times 100 = 2\%$ (1) $8/2 = 4$ (2)	2

Question	Answer				Marks
3(c)	Evaluate the likely impact on the marketing behaviour of SLS of an increase in the average income in country A.				12
	Level	AO1 Knowledge and understanding 2 marks	AO2 Application 2 marks	AO3 Analysis 2 marks	AO4 Evaluation 6 marks
	3				5–6 marks Developed evaluation in context - A developed judgement/conclusion is made in the business context. - Developed evaluative comments which balance some key arguments in the business context.
	2	2 marks Developed knowledge of relevant key term(s) and/or factor(s) is used to answer the question.	2 marks Developed application of relevant point(s) to the business context.	2 marks Developed analysis that identifies connections between causes, impacts and/or consequences.	3–4 marks Developed evaluation - A developed judgement/conclusion is made. - Developed evaluative comments which balance some key arguments.
	1	1 mark Limited knowledge of relevant key term(s) and/or factor(s) is used to answer the question.	1 mark Limited application of relevant point(s) to the business context.	1 mark Limited analysis that identifies connections between causes, impacts and/or consequences.	1–2 marks Limited evaluation - A judgement/conclusion is made with limited supporting comment/evidence. - An attempt is made to balance the arguments.
	0	0 marks No creditable response.	0 marks No creditable response.	0 marks No creditable response.	0 marks No creditable response.

Question	Answer	Marks
3(c)	Responses may include: AO1 Knowledge and understanding <i>Limited knowledge [K] will be demonstrated through knowledge of the key element(s) of the marketing mix – Place, Promotion, Product, Price OR knowledge of income elasticity / link between income and demand.</i> <i>Developed knowledge [K] + [K] + will be demonstrated through knowledge income elasticity / link between income and demand <u>and</u> knowledge of impact of change in income on marketing decisions.</i> Elements of marketing mix (4Ps). Increase in income – people have more money to spend on luxury goods. Elastic. Luxury good. Definition of YED – responsiveness of quantity demanded to a change in income. - Income elastic – demand changes by a higher proportion than a change in income. - The good or service is income elastic, meaning that demand is very responsive to changes in income. This is typical of luxury goods. - Place – increasing locations for availability of SLS ice cream. - Product – new product launches – Introducing new flavours / pack sizes. - Promotion – increase promotion. - Price – amount charged to customers for the product. AO2 Application <i>Limited application, [APP] applies knowledge to SLS once.</i> <i>Developed application, [APP] + [APP] applies knowledge to SLS twice.</i> - YED = 4 (answer from 3(b)). OFR applies - SLS sells through retailers – available in premium supermarkets. 65% of survey wanted a greater selection of flavours and pack size. - Already 10 flavours, 2 sizes, packaging is 100% recyclable. - Social media marketing and free trials at some supermarkets - Price of SLS ice cream is higher than other ice cream brands.	

Question	Answer	Marks
3(c)	AO3 Analysis <i>Limited analysis</i> AN – candidate shows one link in the chain of analysis. <i>Developed analysis</i> L2AN – candidate shows two or more links in the chain of analysis including link to marketing decision. - SLS should increase output by selling through more retailers. This is because as SLS ice cream is income elastic as incomes rise, demand will increase AN so by having the ice cream in more retailers more people will buy the products and SS will have increased revenues. L2AN - If there is a greater choice of flavours and pack sizes it is more likely that consumers will try the new products because there is demand for new flavours AN and the ice creams are a luxury good which people will have more money to spend on which means SLS will sell more ice creams through retailers. L2AN - SS should increase promotion because the ice-cream market is competitive so customers will already have a choice of products they can buy this means that they will be more aware of SLS's products AN and will be more likely to recognise the brand and therefore buy the ice creams which will lead to an increase in revenue. L2AN - Because YED is +4, a rise in income leads to a more than proportionate increase in demand (8% growth from 2% income rise). Therefore, SLS may shift its marketing focus away from 'free trials' towards 'premium' lifestyle branding to better appeal to the increasingly wealthy consumer base AN. AO4 Evaluation <i>Limited evaluation</i> EVAL – limited supported judgement and/or a weak attempt at evaluative comment. <i>Developed evaluation</i> L2EVAL – supported judgement and/or reasonable evaluative comment. <i>Developed evaluation in context</i> L3EVAL – supported judgement in context and/or reasonable evaluative comment in context. 'However' statements after evaluation showing an alternative view of the point being explained. 1 EVAL for an answer showing a balanced view. - A judgement on the most important change in marketing mix as a result of an increase in income. - Strongest judgement likely that marketing strategy becomes more growth-oriented because YED of +4 suggests income changes have a significant impact on demand. - Weighing up of relevant arguments	

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Question	Answer	Marks
3(c)	- What the judgement may depend on: Competitors may also target higher-income consumers. The impact depends on how ‘five large businesses’ react; if they also increase marketing, SLS's gains might be cancelled out. Extent depends on whether income growth continues. Cost of making the changes Demand growth may be due partly to health trends, not only income. - The high YED suggests that income growth is a major opportunity for SLS to increase its 5% market share, but they must ensure production can meet the 8% growth rate. Example evaluation The most likely change in the short term will be the increase in promotion that SLS should carry out. By spending more on their advertising, instead of only relying on social media and word of mouth, they will be able to tell more potential consumers about the new zero sugar ice cream brand and because the YED is 4, elastic, and wages are increasing more people are likely to buy the ice cream. However, in the long term, producing more flavours will help to attract even more customers to the SLS brand and therefore improve the brand recognition and revenue of the business. L3EVAL. Accept all valid responses.	

Question	Answer	Marks																		
4(a)	Using data in Table 1.1, calculate the new gearing ratio if SLS borrows \$3 million to open a factory and a regional office in country Z. <table> <tr> <th>Note</th><th>Answer</th><th>Mark</th></tr> <tr> <td>Correct answer</td><td>77.38% OR 77.4% OR 77%</td><td>4</td></tr> <tr> <td>Correct method but no correct final answer OR Correct formula AND calculation of non-current liabilities AND calculation of capital employed</td><td>77.38 OR 77.4 OR 77 OR $6500 / 8400 \times 100$ OR Gearing = Non-current liabilities / capital employed $\times 100$ AND 6500 (\$6 500 000) AND 8400 (\$8 400 000)</td><td>3</td></tr> <tr> <td>Calculation of non-current liabilities AND Capital employed</td><td>$3500 + 3000 = 6500$ (\$6 500 000) AND $500 + 1400 + 6500 = 8400$ (\$8 400 000)</td><td>2</td></tr> <tr> <td>Knowledge of gearing formula OR Calculation of non-current liabilities OR Calculation of capital employed</td><td>Gearing = Non-current liabilities / capital employed $\times 100$ OR $3500 + 3000 = 6500$ (\$6 500 000) OR $500 + 1400 + 6500 = 8400$ (\$8 400 000)</td><td>1</td></tr> <tr> <td>To award zero marks, there must be • One ✗</td><td>No creditable response</td><td>0</td></tr> </table> OFR applies to calculations	Note	Answer	Mark	Correct answer	77.38% OR 77.4% OR 77%	4	Correct method but no correct final answer OR Correct formula AND calculation of non-current liabilities AND calculation of capital employed	77.38 OR 77.4 OR 77 OR $6500 / 8400 \times 100$ OR Gearing = Non-current liabilities / capital employed $\times 100$ AND 6500 (\$6 500 000) AND 8400 (\$8 400 000)	3	Calculation of non-current liabilities AND Capital employed	$3500 + 3000 = 6500$ (\$6 500 000) AND $500 + 1400 + 6500 = 8400$ (\$8 400 000)	2	Knowledge of gearing formula OR Calculation of non-current liabilities OR Calculation of capital employed	Gearing = Non-current liabilities / capital employed $\times 100$ OR $3500 + 3000 = 6500$ (\$6 500 000) OR $500 + 1400 + 6500 = 8400$ (\$8 400 000)	1	To award zero marks, there must be • One ✗	No creditable response	0	4
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To award zero marks, there must be • One ✗	No creditable response	0																		

Question	Answer				Marks
4(b)	Evaluate the likely impact on the shareholders of SLS of the decision to increase long-term borrowing by \$3 million.				12
	Level	AO1 Knowledge and understanding 2 marks	AO2 Application 2 marks	AO3 Analysis 2 marks	
	3				
	2	2 marks Developed knowledge of relevant key term(s) and/or factor(s) is used to answer the question.	2 marks Developed application of relevant point(s) to the business context.	2 marks Developed analysis that identifies connections between causes, impacts and/or consequences.	
	1	1 mark Limited knowledge of relevant key term(s) and/or factor(s) is used to answer the question.	1 mark Limited application of relevant point(s) to the business context.	1 mark Limited analysis that identifies connections between causes, impacts and/or consequences.	
	0	0 marks No creditable response.	0 marks No creditable response.	0 marks No creditable response.	

Question	Answer	Marks
4(b)	Responses may include: AO1 Knowledge and understanding <i>Limited knowledge [K] will be demonstrated through knowledge of gearing OR shareholders OR one impact of increased borrowing on shareholders.</i> <i>Developed knowledge [K] + [K] will be demonstrated through knowledge of two relevant points including at least one impact of increased borrowing on shareholders.</i> • Shareholders own the business through their shareholding. • Shareholder objectives including increased profit or increased dividends or increased share value. • Definition of gearing: the ratio of debt to capital employed within the business. • High gearing – more reliance on loan capital = greater risk taken by shareholders. • Low gearing = safe strategy = not borrowing to invest or expand. • Debt finance doesn't dilute control of existing shareholders. AO2 Application <i>Limited application, [APP] applies knowledge to SLS once.</i> <i>Developed application, [APP] + [APP] applies knowledge to SLS twice.</i> • Gearing increases from 'safer' but not ideal 64.81% to (very) high 77.38%. • Shareholders include founders and venture capitalists SLS is 48% owned by 2 venture capitalists. Cali & Faiza still own 52% of the company. • Already has existing borrowing of \$3.5m. • Borrowing will increase to \$6.5m an increase of 85.7% • Finance to be used to expand into country Z – open a factory and regional office • There is limited recognition of SLS in country Z.	

Question	Answer	Marks
4(b)	AO3 Analysis <i>Limited analysis</i> AN – candidate shows one link in the chain of analysis. <i>Developed analysis</i> L2AN – candidate shows two or more links in the chain of analysis. - Increased risk as SLS is now more reliant on loans to fund the business. This means that if interest rates rise in country A, the loans will cost more to pay back AN. This means business costs will increase which will lead to less retained profit which leads to less potential dividends to be paid to shareholders. L2AN - Being highly geared may mean SLS cannot borrow funds in the future for further expansion. This may limit their growth to organic growth AN, which is slower and may mean debts are paid back more slowly and therefore dividends remain lower for longer L2AN. - High gearing could put off investment from other investors which could limit the expertise within SLS. AN - Borrowing funds for expansion could result in successful entry into country Z and therefore higher profits AN resulting in potentially higher dividends for shareholders L2AN. - Higher borrowing means increased interest commitments which results in lower net profit if expansion underperforms AN and therefore reduced shareholder returns L2AN. AO4 Evaluation <i>Limited evaluation</i> 1 EVAL – limited supported judgement and/or a weak attempt at evaluative comment. <i>Developed evaluation</i> L2 EVAL – supported judgement and/or reasonable evaluative comment. <i>Developed evaluation in context</i> L3 EVAL – supported judgement in context and/or reasonable evaluative comment in context. ‘However’ statements after evaluation showing an alternative view of the point being explained. 1 EVAL for an answer showing a balanced view – one positive and one negative or one positive/negative with a however for balance. - Most important impact with justification. Risk. Ability to pay dividends. Long term growth. - Factors impact depends on: Depends on success of expansion into country Z. - Weighing up of relevant arguments. - Short/long term impact on shareholders.	

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Question	Answer	Marks
4(b)	Example conclusion The most important factor for SLS to consider is the risk to shareholders being taken by increasing gearing to 77.38%. They are a relatively new business operating in a relatively new market and should any external factors change they may be unable to raise further finance to cover any costs that arise unexpectantly which means they increase the risk of their business failing and therefore their corporate investors losing their investment. L3EVAL Accept all valid responses.	

Question	Answer				Marks
5	Evaluate the likely benefits to SLS of decentralising decision making to its new regional office in country Z.				12
	Level	AO1 Knowledge and understanding 2 marks	AO2 Application 2 marks	AO3 Analysis 2 marks	AO4 Evaluation 6 marks
	3				5–6 marks Developed evaluation in context - A developed judgement/conclusion is made in the business context. - Developed evaluative comments which balance some key arguments in the business context.
	2	2 marks Developed knowledge of relevant key term(s) and/or factor(s) is used to answer the question.	2 marks Developed application of relevant point(s) to the business context.	2 marks Developed analysis that identifies connections between causes, impacts and/or consequences.	3–4 marks Developed evaluation - A developed judgement/conclusion is made. - Developed evaluative comments which balance some key arguments.
	1	1 mark Limited knowledge of relevant key term(s) and/or factor(s) is used to answer the question.	1 mark Limited application of relevant point(s) to the business context.	1 mark Limited analysis that identifies connections between causes, impacts and/or consequences.	1–2 marks Limited evaluation - A judgement/conclusion is made with limited supporting comment/evidence. - An attempt is made to balance the arguments.
	0	0 marks No creditable response.	0 marks No creditable response.	0 marks No creditable response.	0 marks No creditable response.

Question	Answer	Marks
5	Responses may include: AO1 Knowledge and understanding <i>Limited knowledge</i> K <i>will be demonstrated through knowledge of decentralisation</i> <i>Developed knowledge</i> K + K <i>will be demonstrated through knowledge of decentralisation <u>and</u> knowledge of how decentralisation will impact SLS.</i> • Decision making authority passed to managers further down the hierarchy . • Managers in functional areas take decisions that would have been made at head office. • More junior managers can develop their skills. • Employees are empowered. • Decisions taken closer to the action. • Decisions are quicker and more flexible. • Decisions made in the best interests of the whole business. • Weakening of brand identity. • Risk of inconsistent decisions and loss of central control. AO2 Application <i>Limited application,</i> APP <i>applies knowledge to SLS once.</i> <i>Developed application,</i> APP + APP <i>applies knowledge to SLS twice.</i> • Brand awareness in country Z is limited. • Social and demographic differences between consumers in the two countries. • The new regional office would have responsibility for production, distribution and marketing of SLS's ice cream in country Z. • Consumers in country Z may demand different flavours of ice cream to country A. • Average years of education is lower so may be a skill issue when recruiting employees. • Strong and growing market for zero sugar ice cream. • Country Z is a long way from country A. AO3 Analysis <i>Limited analysis</i> AN <i>– candidate shows one link in the chain of analysis.</i> <i>Developed analysis</i> L2AN <i>– candidate shows two or more links in the chain of analysis.</i> • Local decisions can be made. This means products can be made that match the demands from local consumers. AN This means there is more likelihood that customers will buy the zero-sugar ice cream. This means the brand will become more established in country Z. L2AN	

Question	Answer	Marks
5	- Junior managers can be developed through decentralisation allowing them some autonomy over decisions. This means these managers will be more motivated from the trust being put in them. AN This means they are less likely to leave which means the knowledge and experience will stay in SLS and C&F will not need to recruit and train new managers, which will save costs. L2AN - Decisions are quicker and more flexible because managers are closer to the action and can respond faster to changes in demand in the local area. AN This means there is less chance of new trends in flavours being missed and so SLS can maximise sales of products in the growing zero-sugar ice cream market in country Z. L2AN - Decentralisation will not utilise the experience C&F have from starting up and growing the business in country A. They have already been through the process and so will know how to overcome some issues AN and will make decisions in the best interest of the whole company, not just of the region they are in which means the business as a whole will be more successful. L2AN - Decentralisation may not utilise the skills and knowledge of the venture capitalists AN because they are located in country A. - Managers in country Z making decisions without checking them with C&F first may reduce the consistency in the SLS brand. This may mean that consumers are less likely to recognise the brand or brand values AN if they are not consistent. This may lead to less customers in the long run because the branding is less established. L2AN AO4 Evaluation Limited evaluation EVAL – limited supported judgement and/or a weak attempt at evaluative comment. Developed evaluation L2EVAL – supported judgement and/or reasonable evaluative comment. Developed evaluation in context L3EVAL – supported judgement in context and/or reasonable evaluative comment in context. ‘However’ statements after evaluation showing an alternative view of the point being explained. 1 EVAL for an answer showing a balanced view - Cultural and market differences make local knowledge particularly valuable - Short/long term impact on SLS of decentralisation - Judgement on the balance between benefits and drawbacks of decentralisation to SLS. - Overall decentralisation is likely to be beneficial because country Z differs significantly from country A and is geographically distant. - Benefits depend on quality of local managers. - Weighing up of relevant arguments.	

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Question	Answer	Marks
5	Example conclusion: In the long term the biggest impact on SLS of decentralisation will be the ability to react to differences in consumers in country Z. This will allow SLS to adapt their flavours of ice cream and pack sizes to ensure they are meeting the needs of consumers who are buying zero sugar ice cream. In the short term, having a motivated workforce, who are empowered by decentralisation will help to establish the new factory and office in country Z and help to ensure the longer term success of SLS. L3 EVAL Accept all valid responses.	