CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the March 2016 series

9609 BUSINESS

9609/22 Paper 2 (Data Response), maximum raw mark 60

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1 (a) (i) Define the term 'sole trader' (line 2). [2]

Knowledge	Marks
A correct definition	2
A partial, vague or unfocused definition	1
No creditable content	0

Answers could include:
A business owned and controlled by one person. A sole trader has unlimited liability, the owner has full control of the business and is able to keep all the profits.

Exemplar	Mark	Rationale
A business owned (and controlled) by one person.	1	This could also apply to other business structures (i.e. a Ltd)
They run the business and are able to keep all the profits for themselves.	1	See above
A business owned by one person with unlimited liability.	2	This correctly defines a sole trader and not any other common business structure
One owner who is not legally separated from the business.	2	See above

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(ii) Briefly explain the term 'start up capital' (lines 2–3). [3]

Application of knowledge, e.g. an example	1 mark
Link to the start-up of a business	1 mark
Explanation of capital	1 mark

Answers could include:
The money required to setup a new business. Could be used for fixtures and fittings, property etc. Sometimes called 'seed money'. Can come from owner's capital, bank loan etc.

Exemplar	Mark	Rationale
The capital required to start a business	0	Tautology
Money needed by a business	1	Only explained capital
What is needed by a business when it starts trading	1	Only explained start-up
Funding to buy the equipment needed when a business is new	2	Explanation of capital and link to start up
The seed money required by a business when it is initially set up, for example to buy machinery	3	Explanation of capital, link to start-up and good understanding

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(b) (i) Refer to Table 1. Calculate the profit margin for 2015. [2]

Correct answer (with or without working or %)	2
Correct formula or right method with a mistake	1
No creditable content	0

$\frac{\text{Profit}}{\text{Revenue}} \times 100$ (1)

(10 000/60 000) × 100 = 16.67% (1)

Answer = 16.67% (accept 16.7% and 17%) (2)

Note: 'profit margin' is the new term for what used to be called '<u>net</u> profit margin'.

(ii) Explain how LJ might have benefitted from <u>one</u> economy of scale. [4]

Level	Knowledge and Application	Marks
2b	Shows good understanding of the benefit of an economy of scale to LJ	4
2a	Shows limited understanding of the benefit of an economy of scale to LJ	3
1b	Shows understanding of an economy of scale	2
1a	Shows knowledge of economies of scale	1
0	No creditable content	0

Answers could include:

- Purchasing economies of scale – bulk buying of raw materials that might be used in making jewellery which may have led to an increase in gross profit from $15 000 (37.5% GPM) to $30 000 (50% GPM).
- Marketing economies of scale – Sara may have generated enough of a brand name to benefit from cross promotion. Sara may also have grown to the extent that she benefits from word of mouth promotion. Both of these may have led to the move from a loss to a profit of £10 000 (16.67 NPM or OFR (Own Figure Rule) from **Q1(b)(i)**) in 2015.
- Technical economies of scale – Sara may have been able to purchase jewellery making machinery and tools that she can only afford now that the business has grown, this may have led to the move from a loss to a profit of £10 000 (16.67 NPM or OFR from **Q1(b)(i)**) in 2015.
- Financial economies of scale – LJ may be able to access finance at lower interest rates because of the growth of the business, this may have led to the move from a loss to a profit of £10 000 (16.67 NPM or OFR from **Q1(b)(i)**) in 2015.
- Concentration economies of scale – LJ may be situated in an area with other jewellery shops and gain from reduced cost deliveries, passing trade etc. this may have led to either a decrease in direct or indirect costs or an increase in revenue, either of which could have contributed to the increased profits and profit margins.

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(c) Analyse <u>two</u> appropriate sources of finance that Sara could use to fund the opening of the new shop. [8]

Level	Knowledge and Application (4 marks)	Marks	Analysis (4 marks)	Marks
2b	Shows understanding of two sources of finance in the context of the business	4	Good analysis of two or more sources of finance in the context of the business	4
2a	Shows understanding of one source of finance in the context of the business	3	Good analysis of one source of finance in the context of the business	3
1b	Shows understanding of two sources of finance	2	Limited analysis of two sources of finance	2
1a	Shows understanding of one source of finance	1	Limited analysis of one source of finance	1
0	No creditable content			

Answers could include:

- Bank loan – Sara would gain the money immediately allowing her to open the shop quickly to start paying it back. However, LJ has only just started to make a profit in 2015 and therefore the bank may not give the business a loan. Sara will also have to pay interest on the loan reducing the businesses profits.
- Mortgage – Could be taken out on any property that Sara personally owns (she does NOT own the current shop and is planning to rent the new property). Mortgages tend to have cheaper interest than a loan but are likely to be taken out for a longer period of time. Can take longer to arrange which might affect the speed of being able to open the new shop.
- Grant – Sara may be eligible for a grant from the Government or other organisation. Sara may not have to pay back some or any of the grant but there may be a great deal of paperwork involved and no guarantee of gaining any finance.
- Sale of assets – could give quick access to finance but may reduce the ability to trade if Sara sells assets which she needs.
- Become incorporated – sells shares to gain finance, but Sara might lose control of the business and she would have to share the profit.
- Hire purchase or leasing – would allow Sara to pay for the equipment she may need when she has started trading.
- Taking on a partner – would allow Sara to gain capital from the other owner (as well as possibly new skills) but she may lose some control and need to share the profits.

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(d) Using Table 2 and any other relevant information, recommend which location Sara should choose for the new shop. Justify your choice. [11]

Level	Knowledge and Application (4 marks)	Marks	Analysis and Evaluation (7 marks)	Marks
			A justified recommendation that follows on from a balanced argument based on the impact of two or more factors in context	7
			A recommendation that follows on from a balanced argument based on the impact of two or more factors in context	6
			A two-sided argument based on the impact of two or more factors in context	5
2b	Shows understanding of two or more factors affecting location in the context of the business	4	Argument based on the impact of two or more factors in context	4
2a	Shows understanding of one factor affecting location in the context of the business	3	Argument based on the impact of one factor in context	3
1b	Shows knowledge of factors affecting location	2	Limited analysis of two or more factors affecting location and no evaluation	2
1a	Shows knowledge of location	1	Limited analysis of one factor affecting location and no evaluation	1
0	No creditable content			

Answers could include:

Arguments for Location A:

- Busy high street – high footfall
- Large store room to allow Sara to design jewellery – or for another purpose
- Concentration economies of scale from other jewellery shops nearby
- Customers may expect all the jewellery shops in one place (i.e. in the jewellery quarter)
- Small shop window may increase the security of the property – important due to the nature of the products.

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However:

- High rent – reduce profitability of new shop
- No parking – will customers/suppliers be able to access the shop? – unlikely to be large items so is parking necessary?
- Small shop window – will Sara be able to display enough jewellery to attract customers into the shop?

Arguments for Location B:

- Low rent
- Lack of competition nearby may allow for higher prices, more customers
- Near high income residents may mean more of Sara's likely target market (more likely to purchase jewellery)
- Large shop window which is likely to attract customers into the shop

However:

- Quiet road – little footfall
- No storage space – where would Sara design and produce her jewellery?
- Will a large shop window be a security risk?
- Will customers expect a jewellery shop in an area with no other jewellery shops? – often customers may browse from shop to shop.

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2 (a) (i) Define the term 'batch production' (line 2). [2]

Knowledge	Marks
A correct definition	2
A partial, vague or unfocused definition	1
No creditable content	0

Answers could include:
Batch production is a method of production where items are made in groups with similar characteristics. Each item in a group of products passes through a stage of production at the same time.

Exemplar	Mark	Rationale
When a batch of products are produced	0	Tautology
Products are made in groups	1	Partial definition of batch production but not enough on its own
Batch production is a method of production where items are made in batches with similar characteristics.	1	Partial tautology, but 'similar characteristics' is rewardable
Within each stage of the production process, work will be completed for the whole set of products before the next stage is begun.	2	True for batch and would not apply to job or flow
Each item in a group of products passes through a stage of production, at the same time.	2	True for batch and would not apply to job or flow

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(ii) Briefly explain the term 'product portfolio' (line 17). [3]

Application of knowledge, e.g. an example	1 mark
Link to goods/items/services/brands of a business	1 mark
Explanation of portfolio, i.e. range, more than one product	1 mark

Answers could include:
A product portfolio is the range of products sold by a business. For example FF sells different flavours of juice. Product portfolio can be shown on a PLC or analysed using the Boston Matrix.

Exemplar	Mark	Rationale
The range of products in a business	1	Explanation of portfolio but tautology over product
The range of things a business sells/produces	2	Explanation of portfolio and link to product
When a business sells a number of products, for example a specific business that has a range of different soft drinks in their portfolio	3	Explanation of portfolio, link to goods implied through example
The range of things sold by a business. These could be analysed using the product life cycle.	3	Explanation of portfolio, link to products and good understanding

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(b) (i) Calculate the total payment received by salesperson A for February 2016. [3]

Correct answer (with or without working or $)	3
Good attempt	2
Formula or correct method with mistakes	1
No creditable content	0

Basic pay + commission (1)
$400 basic pay
Commission = ($24 000/100)*2 = $480 (1)
Total pay for February = $400 + $480 = $880 (1)

Answer = $880 (3)

(ii) Explain <u>one</u> benefit to FF of using commission as a payment method for sales staff. [3]

Level	Knowledge and Application	Marks
2	Shows understanding of a benefit of commission as a payment method in context	3
1b	Shows understanding of a benefit of commission as a payment method	2
1a	Shows knowledge of commission/payment methods – simple statements	1
0	No creditable content	0

Context is likely to be a simple reference to sales.

Answers could include:

- Encourages salespeople to sell more – the more they sell, the more payment they receive – motivational
- Reduces FF costs – if a salesperson does not sell very much, then their total salary will be lower, reducing the costs of the business
- Improves the cash flow of FF – salespeople only paid proportion of salary when money is coming into the business.

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(c) Analyse the person specification shown in Table 4. [8]

Level	Knowledge and Application (4 marks)	Marks	Analysis (4 marks)	Marks
2b	Shows understanding of two or more elements of the person specification created by Trey	4	Good analysis of two or more elements of the person specification created by Trey in the context of the business	4
2a	Shows understanding of one element of the person specification created by Trey	3	Good analysis of one element of the person specification created by Trey in the context of the business	3
1b	Shows knowledge of a person specification	2	Limited analysis of two or more elements of the person specification created by Trey	2
1a	Shows knowledge of recruitment documentation	1	Limited analysis of one element of the person specification created by Trey	1
0	No creditable content			

Answers could include:

- Person specification may allow potential employees to judge their suitability for the job of Marketing Manager, reducing the number of unsuitable people applying for the position and therefore reducing the costs of the business.
- Does the position really require a university degree in Business? Would a Marketing degree be equally useful?
- How likely is it that the business will find enough applicants with specific experience in the health food/drink market?
- May be illegal/unethical to advertise for a specific aged worker – why does Trey want someone this age?
- How can an applicant measure their own ethics? Everyone would say ‘yes’ to this so it does not narrow down the applicants.
- If they must manage the two salespeople then it would be essential to have good HRM skills.
- The responsibility for two salespeople does not belong on a person specification, rather on a job description.
- Is the format suitable – should the aspects be grouped as essential or desirable to make it easier for applicants to use and therefore attract more applicants?

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(d) Discuss appropriate pricing strategies for the launch of Fusion Plus. [11]

Level	Knowledge and Application (4 marks)	Marks	Analysis and Evaluation (7 marks)	Marks
			A justified recommendation that follows on from a balanced argument based on the impact of two or more pricing strategies in context	7
			A recommendation that follows on from a balanced argument based on the impact of two or more pricing strategies in context	6
			A two-sided argument based on the impact of two or more pricing strategies in context	5
2b	Shows understanding of two or more pricing strategies in the context of the business	4	Argument based on the impact of two or more pricing strategies in context	4
2a	Shows understanding of one pricing strategy in the context of the business	3	Argument based on the impact of one pricing strategy in context	3
1b	Shows understanding of pricing strategies	2	Limited analysis of two or more pricing strategies and no evaluation	2
1a	Shows knowledge of pricing	1	Limited analysis of one pricing strategy and no evaluation	1
0	No creditable content			

Answers could include:

- Skimming – new product with no direct competition – high price to recover any costs of research and gain higher profits
- Cost based pricing – new product so Trey may not have any benchmark to base pricing strategy on, so using costs as a basis for setting price would be easier
- Penetration pricing possibly unsuitable as there is little competition. However may be necessary to gain a foothold in the market, since FF has not tried to sell through this distribution channel before.
- Price discrimination likely to be unsuitable for this product. Possibly could be used by charging different prices in different venues; gym and health food shops with higher mark-up compared with cafés and bars.
- Competitive pricing, again likely to be unsuitable due to no direct competition. However product will have substitutes, even if not direct, so price could be set based on taking their market share.

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