UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2011 question paper

for the guidance of teachers

9707 BUSINESS STUDIES

9707/11 Paper 1 (Short Answer/Essay), maximum raw mark 40

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This mark scheme includes a summary of appropriate content for answering each question. It should be emphasised, however, that this material is for illustrative purposes and is not intended to provide a definitive guide to acceptable answers. It is quite possible that among the scripts there will be some candidate answers that are not covered directly by the content of this mark scheme. In such cases, professional judgement should be exercised in assessing the merits of the answer.

Examples of possible answers may also be included in this mark scheme. Again, it should be emphasised that this is for illustrative purposes and the examples chosen represent only some of the many possible responses that would merit reward.

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Section A

1 (a) Two objectives of a private sector business could include:
- make a profit
- satisfy shareholder demands
- grow the business
- increase market share
- provide employment
- survive.

ARA

ONE relevant objective stated. [1]
TWO relevant objectives stated. [2]

(b) Two methods of measuring the size of a business could include:
- market share
- level of sales turnover
- number of employees
- value of capital employed (cost of replacement)
- the value of a business/market capitalisation.

Do NOT accept profit.

Partial description of ONE method OR two or more methods listed/stated. [1]
Sound description of ONE or partial description of TWO methods. [2]
Sound description of TWO methods. [3]

2 (a) $\text{Net profit margin} = \dfrac{\text{net profit}}{\text{turnover (or sales)}} \times 100$

Correct formula gets 2 marks.

Net profit is the amount of profit earned by a business after taking into account the cost of sales, administration costs, selling and distribution costs and all other costs.

A definition that indicates limited understanding. [1]
A definition that indicates full understanding. [2]

(b) Ways in which **profitability** ratios could be used to measure the performance of a business:
- provide important financial signals for a business
- one measure of the efficiency of a business
- indicate aspects of current performance and can be compared with previous performance ratios (trends)
- compare with competitor ratios
- indicate issues such as possibility of dividend distribution, need to reduce costs (or raise prices), overheads
- profitability ratios are only one set of ratios used to measure the performance of a business.

Very limited reference to profitability ratios. [1]
Sound understanding but explanation is limited. [2]
Sound understanding with developed explanation. [3]

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3 Reasons why a mobile phone manufacturer might use a penetration pricing strategy:

- A penetration pricing strategy may initially be used to:
  - gain market share
  - establish brand loyalty
  - attract new customers.
- Candidates may recognise that this is a highly competitive market.
- In areas such as banking, utilities, telecommunications there is much customer inertia and hence markets may be very attractive to new and existing players to pursue a penetration pricing strategy to capture and retain market share.
- Establish habit in the mind of the consumer.
- PPS is often used by large companies in mass markets to maintain established products and to break into new product areas.

Limited knowledge of a penetration pricing strategy. [1]
Limited explanation of why a penetration pricing strategy might be chosen. [2–3]
Full explanation of why a penetration pricing strategy might be chosen. [4]
Full explanation with an appropriate contextual reference to a mobile phone company. [5]

4 **(a)** Definition of batch production:

- a production process where several identical items are made simultaneously
- one part of the process is completed on each product before the next process is started
- completing one operation at a time on all units before going on to the next.

A valid example may clarify a weak definition.

Partial definition given. [1]
Full definition given. [2]

(b) Two benefits of batch production might include:

- more flexible than flow production
- each batch can be changed to meet customer requirements
- settings on machines can be changed according to different specification sizes
- employees can concentrate on specific operations
- reduced need for expensive skilled employees
- possible to use standardised machinery
- partly finished items can be processed quickly through final production stages to meet urgent orders
- more interesting work for employees than flow production.

Partial description of ONE benefit OR two or more benefits listed/stated. [1]
Sound description of ONE benefit or partial description of TWO benefits. [2]
Sound description of TWO benefits. [3]

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Section B

5 (a) Ways in which a business might segment its market might include:

- Segmentation is dividing a market into distinct sub-groups using either the product or the consumer as the basis for segmentation.
- Consumers can be segmented according to such characteristics as age, spending and saving habits, gender. Some products are gender influenced (cosmetics).
- Socio-economic status e.g. income levels, tastes, leisure etc.
- National, regional, local cultural factors.
- Products can be segmented e.g. cars for safety, economy, power, capacity, price, perceived quality.

Analysis of how market segmentation might be achieved. [7–8]
Good explanation of how market segmentation might be achieved. [5–6]
Limited explanation of ways of segmenting markets. [3–4]
Little understanding of market segmentation. [1–2]

(b) Benefits to a business of segmenting its market could include:

- opportunity to identify your most and least profitable customers
- focus your marketing on those customers most likely to buy your products or services
- avoid unprofitable markets
- build loyal relationships with selected customers by offering them what they really want
- get ahead of the competition in specific parts of the market
- identify new product opportunities
- lower marketing expenses with more effective marketing campaigns
- improve competitive position and better serve targeted customers
- increase responsiveness to market demands.

Some evaluative comment on the potential benefits of market segmentation (is it always positive?). [11–12]
Analysis of a number of segmentation benefits. [8–10]
Shows understanding of a number of segmentation benefits. [3–7]
Limited understanding of market segmentation benefits. [1–2]

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6 The discussion may describe different types of cost information and relate them to general business situations as well as to the food processing company:

- The production, classification and interpretation of costs allows a business to analyse the current cost situation and also trends.
- Such analysis can relate to key performance issues and indicators such as:
  - product pricing decisions
  - payments for resources
  - valuation of stock
  - relative profitability levels of product lines
  - absorption of overheads
  - break-even for new products.
- Raises key performance questions such as:
  - cost effectiveness
  - opportunity costs
  - management controls to monitor costs
  - cost reduction initiatives
  - benchmarking with industry levels
  - planning and reviewing policies to optimise performance
- Cost information is at the heart of business improvement generally – in a food processing company specific costing issues will include:
  - resource costs (especially raw material costs)
  - pricing of food products
  - mix of machinery and staff.

Evaluative reference to use and importance of cost information in monitoring and improving business performance with an attempt to apply to the specific context of food processing company. [17–20]
Analysis of the use and importance of cost information with examples of how performance can be monitored and/or improved – answers towards the top of this band will include context. [14–16]
Good understanding of how cost information might be used to monitor and/or improve performance. [11–13]
Some understanding shown of cost information and use in assessing business performance. [5–10]
Limited understanding of cost information. [1–4]

7 **(a)** Explanation could initially define HRM – using and managing staff as a strategic resource to improve business performance to meet business objectives.
Reference may be made to the key areas of responsibility e.g.:

- recruitment and selection
- workforce planning (e.g. redeployment, redundancy, succession planning)
- training and staff development
- appraisal
- welfare
- consultation and negotiation.
- In the context of a large business significant issues might well be: staff needs, turnover, complexity of workforce etc.

Analysis of HRM issues and responsibilities in a large business. [7–8]
Good explanation of HRM issues and responsibilities generally. [5–6]
Limited explanation of HRM issues and responsibilities generally. [3–4]
Little awareness of HRM issues. [1–2]

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(b) Discussion might well initially distinguish between internal and external recruitment choices generally before focussing on this particular job position:

- Internal recruitment has advantage of:
  - candidates known to the organisation
  - motivates internal staff with possibility of promotion
  - less expensive to recruit internally
  - possibility of 'acting up' etc.
- External recruitment has advantage of:
  - more choice for business
  - there may not be any suitable internal applicants
  - specialist roles may require external recruitment
  - company may want to bring in new and fresh thinking and ideas and different experience
  - opportunities to head hunt from competitors.
- Internal and external are options – may depend on situation internally and the market situation externally. In this case the head chef is a very vital role – specific expertise is required – if no mentoring or succession planning may well have to recruit externally.

Some evaluative comment on the internal/external recruitment choice with specific reference to the context of this job. [11–12]
Analysis of the internal/external recruitment choice with some reference to the job context. [8–10]
Shows understanding of internal/external recruitment decisions. [3–7]
Limited understanding of recruitment and selection issues. [1–2]

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