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

9707/13 Paper 1 (Short Answer/Essay), maximum raw mark 40

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General Marking Guidance

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)
- Job enrichment is where employees have their jobs extended (vertically) to get more experience of the total production/service process.
- Linked to Herzberg and McGregor.
- Work is organised so that workers can use their full abilities/skills.
- Given more responsibility, work made more interesting.

NB sole focus on money = no marks.

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

(b) Benefits may be suggested in terms of employees and/or the organisation. May include:
- provides a new challenge to employees
- allows them to acquire new skills
- become more involved, take more ownership of work
- become more productive, more motivated
- better prepared for promotion
- less absenteeism
- opportunity for mentoring – succession planning etc.
- may reduce labour turnover.

ONE benefit with limited explanation. [1]
ONE benefit with good explanation or TWO benefits with partial explanation. [2]
TWO benefits with good explanation. [3]

2 (a) Gross profit margin is gross profit divided by turnover/revenue/sales expressed as a percentage and is the profit a business makes on cost of sales/goods sold. A very simple ratio: how much gross profit per $ of turnover a business earns or profit earned before any admin costs are taken off.

GPM = (GP ÷ sales) x 100 = 2 marks. Correct formula gets 2 marks.

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

(b) Answers may initially explain why ratios are used – e.g. to assess profitability, liquidity, measure/indicate business performance.
Limitations might include:
- danger of using ratios in isolation
- simplistic approach – need to use in context of strategic objectives and long-term goals of the business
- figures may not be accurate – out of date (best available figures often used, historical data)
- ratios do not take into account the intangibles of a business, such as culture/staff issues
- need to benchmark with market trends and competitor results
- management may already have taken action and made changes
- window dressing.

Partial explanation of ONE limitation. [1]
Good explanation of ONE limitation or partial explanation of TWO limitations. [2]
Good explanation of TWO limitations. [3]

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3 Answers might interpret the question as a small business (probably so but not necessarily always). Estimated that 60% – 70% of small businesses fail in early years.

Reasons given may include:
- lack of focus – unclear objectives – priorities not determined
- failure to deliver a product/service demanded by customers
- business model may be flawed
- poor cash management – inadequate budgeting and planning
- growing too fast
- lack of business and management skills
- under-capitalised
- staffing problems
- environmental/economic conditions.

Credit examples and frameworks used e.g. internal v external factors.

Limited response – a few factors identified/stated (possibly a list). [1–2]
Identification and explanation of at least two relevant factors. [3–4]
Identification and explanation of a good range of relevant factors which **clearly** relate to early business failure. [5]

4 **(a)** Flow production is the production (usually large scale) of identical, standardised products using continuous production methods with highly specialised inputs e.g. vehicles moving from one operation to another on a conveyor belt.

Definition indicates partial understanding. [1]
Definition indicates full understanding. [2]

(b) Depends on type of product produced or demanded but the following benefits may result:
- unit costs reduced
- economies of scale secured
- process can be highly automated
- production/quality control through computers, or robots
- fewer staff required
- reduced need to stock-pile finished goods.

Accept uniformity of quality.

Partial description of ONE benefit. [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) Strengths might include:

- offers opportunity to entrepreneurs
- little start-up money may be required
- large percentage of revenue can be converted to profit
- flexible business organisation
- quick response to customer demands
- more personalised approach
- managing the assets may not be too demanding
- internal factors such as good internal communication, likelihood of workers feeling 'included' and recognised in a small organisation.

Weaknesses might include:

- lack of capital to expand
- difficult to build a customer base
- diseconomies of small scale
- owners may lack core management skills
- customers may prefer to trade with larger established companies
- difficulty with cash flow
- external competition with large businesses.

Analysis of strengths **and** weaknesses of small businesses. [7–8]
Good explanation of strengths **and** weaknesses of small businesses. [5–6]
Explanation of strengths and/or weaknesses of small businesses. [3–4]
Some understanding of features of small businesses. [1–2]

(b) Discussion might initially define stakeholders: anyone affected by a business and/or able to influence the decisions of a business.

Accountability:

- the essence of business answerability – possibly the notion of corporate governance
- multiple levels of answerability – legal, financial, ethical; the responsibility and requirement to account to various stakeholders, not just the wealth maximisation of shareholders
- a range of business constituencies are concerned with business performance.

The extent of this accountability depends on a number of factors:

- the activity/influence of various stakeholders and the information made available to them
- the size and nature of the business organisation – different for a plc, private limited company, partnership, and sole trader
- extent to which mechanisms such as published accounts, annual general meetings, annual reports are used; role of media in revealing/exposing activity; inside a business the type and level of communication to staff, trade unions etc.
- the power of an organisation to withhold information or dress up accounts
- passivity of stakeholders etc.

Evaluative comment on the reasons for the 'why and how' and the extent of stakeholder accountability. [11–12]
Analysis of examples of the 'why and how' of stakeholder accountability – answers towards the top of this band will refer to the extent of stakeholder accountability. [8–10]
Shows understanding of the 'why and how' of stakeholder accountability. [3–7]
Limited discussion of stakeholders and/or business accountability. [1–2]

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6 The size of the business – a medium-sized limited business – may be seen to be significant here in that some internal sources of finance might be available, the business may not be completely dependent on external sources of finance. Strong answers might discuss some alternative assumptions before discussing and analysing options.

Whatever the assumptions, the finance for the factory is likely to be substantial so some short-term sources such as overdrafts and debt factoring are not appropriate (do not accept). However, the company may be cash rich with retained profits so internal funding may be possible.

If it is a private limited company, funds could be injected by the owners/shareholders. However, a conversion to a public limited company might also be a possible solution to raise substantial amounts of capital. If it is a public limited company, then a new share/rights issue might be a mechanism deployed.

Accept assumption/interpretation by candidates of either or both private limited company or public limited company.

Alternatively, substantial medium/long-term loans or lease back facilities may be sought. Current level of liabilities will be a determining factor – possibility of government/development agency grants.

This question is clearly more than a descriptive classification of sources of finance – it requires intelligent analysis of the context and for strong answers a suggested strategy.

Evaluative comment (perhaps a strategy) on the suitability of sources of finance for this business. [17–20]
Analysis of suitability of a sound range of finance source options (with specific reference to this business context at the top end of the mark range). [14–16]
Good understanding of sources of finance for a medium-sized company. [11–13]
Some understanding of sources of finance options for this or any business. [5–10]
Limited awareness of different sources of capital finance. [1–4]

7 **(a)** Part **(a)** of question is about **why** product promotion is important, not just 'what is product promotion'. Possible reasons might include:

- product promotion used by a business to convince potential customers to buy a specific product
- one of the 4 Ps of marketing
- important to get the word out to target audience and present an offer and a message that resonates
- take advantage of all various communication channels to persuade new customers to buy and build loyalty in existing customers
- stimulate customer purchasing
- use as a competitive weapon so as to contribute directly to profitability and to differentiate products in the market.

Analysis of the importance of product promotion. [7–8]
Good explanation of why product promotion is important. [5–6]
Limited explanation of the importance of product promotion. [3–4]
Little understanding of product promotion. [1–2]

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(b) Discussion might include a comment on the importance of sales performance in a retail environment that may well be very competitive.
Emphasis should be on HOW to increase sales:

- activities, methods
- campaigns
- to supplement or strengthen and diversify advertising and marketing approaches
- a new focus on market segmentation (domestic/international).

Such activities will be best discussed when rooted in the specific retail context: special displays, promotional discounts, storecards/points, gift offers, increased advertising, new pricing strategies, customer loyalty programmes, free delivery, customer/personal service etc.

Some evaluative comment on a range of practical proposals to improve sales in a retail business. [11–12]
Analysis of a range of practical proposals to improve sales in a retail business. [8–10]
Good understanding of how sales might be increased in a retail business. [3–7]
Shows limited understanding of sales issues. [1–2]

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