CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the May/June 2014 series

9707 BUSINESS STUDIES

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

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1 (a) Niche marketing is identifying and exploiting a small segment of a large market and developing products to fit that segment – the opposite of mass marketing.

- Partial definition – limited understanding. [1]
- Full definition – sound understanding. [2]

(b) Possible disadvantages could include:

– Small niche markets do not allow economies of scale to be achieved.
– Niche markets involve more risk than mass markets – fewer customer – if their buying habits change it could mean rapid decline in sales.
– The lack of customers in a niche market may well limit total profit.
– If the niche market becomes more attractive, then more competition may well affect original entrants (particularly small businesses).

A limited reference to the disadvantages of niche marketing or a partial explanation of **one** disadvantage or a list of **two**. [1]

- Sound explanation of **one** disadvantage or a partial explanation of **two**. [2]
- Sound explanation of **two** disadvantages. [3]

2 (a) Disciplinary procedures defined as a written step-by-step process which a business commits to follow in every case where an employee needs to be warned, reprimanded or dismissed – action taken by an employer to review and correct serious performance issues, e.g. habitual absenteeism, sexual harassment.

- Partial definition – limited understanding. [1]
- Full definition – sound understanding. [2]

(b) Disciplinary procedures are important for a business because:

– Provide information for employees about what is acceptable and unacceptable in the organisation.
– Give employees a clear statement of disciplinary rules and measures in place to review certain performance activities.
– Protect management from allegations of discriminatory practice leading to actions for unfair dismissal or unlawful discrimination.
– An important and valuable management tool and a safeguard for employees.
– May be used to enable employers and employees to agree suitable goals and timescales for improvement in performance and conduct.
– May reveal need for more employee training and development – a tool of HRM.
– Guarantees fairness for all employees and protects reputation of the business.

- Limited general statement on importance, or a partial explanation of **one** reason or a list of **two**. [1]
- Sound explanation of **one** reason or partial explanation of **two**. [2]
- Sound explanation of **two** reasons. [3]

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3 Explanation of factors affecting the level of inventory in any business could include the following:

– Type of product/materials (e.g. perishable goods).
– Depends very much on the particular industry / activity of a business – a manufacturing business will probably need to hold high levels of raw materials, work in progress and finished goods – whereas a retailer would hold mainly finished goods.
– A business needs to decide and predict inventory levels to meet anticipated demand now and in the near future and ensure continuing production.
– A business may need to order and hold inventory levels in order to qualify for bulk order discounts, or special promotions, or to meet suppliers' requirements for minimum order levels.
– A business needs to weigh up the costs and benefits of holding inventory – too much and costs are high – too little and sales may be lost.
– A business will be concerned about stock wastage as stock becomes out of date.
– Internal and external factors affect business decisions on levels of inventory.

- Some general and limited reference to factor(s) affecting the level of inventory held by a business or a list of factors. [1]
- Limited explanation of factor(s) affecting level of inventory held by a business (perhaps one or two factors only given and little development). [2 – 3]
- Developed explanation of factors affecting the level of inventory. [4 – 5]

4 **(a)** Break-even is defined as the level of output at which total costs equal total revenue – neither a profit nor a loss is made – a management accounting tool.

- Partial definition – limited understanding. [1]
- Full definition – sound understanding. [2]

(Accept correct formula on its own as a full definition)

(b) Ways in which break-even analysis could provide useful information for manufacturing business decisions could include the following:

– Indicates break-even levels of production.
– Indicates the margin of safety – how much sales could fall without falling into loss.
– Useful indicator of the impact of a price decision, e.g. a marketing decision to increase a product price.
– Useful indicator of the impact of an operations management decision to lower variable costs with new equipment.
– A simple quantitative tool for managers that can be used in making a wide range of business decisions, including setting prices, preparing competitive bids, applying for loans and location decisions.

- Limited statement on break-even analysis and business use or a partial explanation of **one** use or a list of **two** uses. [1]
- Sound explanation of **one** use or a partial explanation of **two** uses. [2]
- Sound explanation of **two** uses. [3]

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5 (a) – Non-financial rewards can include increased responsibility, job enrichment, development opportunities – to ensure staff is engaged emotionally with the organisation.
– Higher order needs (Maslow) and intrinsic motivators (Herzberg) are accepted motivational theories by employers.
– Financial rewards may have been tried and failed or recognised to have limited effect.
– Companies may be unable to afford financial rewards.
– A business may have employees that will likely respond more to non-financial rewards.
– In time of economic recession more appropriate – engage employees.

- Analysis of the use of only non-financial rewards. [7 – 8]
- Good explanation of why non-financial rewards could be used. [5 – 6]
- Limited explanation of why non-financial rewards could be used [3 – 4]
- Little understanding of non-financial rewards. [1 – 2]

(b) – Workforce planning is the activity of systematically identifying and analysing what a business needs in terms of the size, type, and quality of workforce to achieve its objectives.
– It determines what mix of experience, knowledge and skills is required and sequences the steps to get the right number of right people in the right place at the right time.
– Effective workforce planning ensures that decisions are made on staffing – decisions that are linked to an organisation's mission, strategy, budgetary resources and a set of defined workforce competences.
– Without effective workforce planning a business will not be equipped to achieve performance targets and will likely drift and ossify.
– Workforce planning affects most parts of a business
– While considered to be a necessary requirement for successful business performance, it is not, of course, the only requirement and on its own does not ensure successful business performance.

- Evaluative comment on the importance of effective workforce planning to successful business performance. [9 – 12]
- Analysis of the importance of effective workforce planning to successful a business performance. [7 – 8]
- Discussion of the importance of workforce planning. [3 – 6]
- Limited understanding of the importance of workforce planning. [1 – 2]

6 Corporate responsibility is said to operate when a company decides to go beyond normal business / market principles and creates wealth in ways that avoid harm to, or protect, or enhance social assets. There is recognition that there is a multiplicity of stakeholders not just shareholders. Social and environmental concerns and objectives are integrated with business concerns and objectives.

Advantages are said to be:

– Companies exercise their moral duty to promote social justice.
– It is good business practice.
– Such approaches can become powerful competitive advantages.
– It encourages greater loyalty from customers.
– It enhances the reputation of the business.
– It affects the bottom line-increases profitability.
– Contributes to company and environmental sustainability.
– Companies have a duty to correct any adverse social impacts caused.

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Drawbacks are said to be:

- Costs are imposed that make businesses less efficient and this will subtract from overall social welfare.
- It is unfair to shareholders as profits that belong to them are diverted to social projects.
- The market is likely to allocate resources more efficiently than political pressures – 'the business of business' should be business and the making of profits.
- Accountability should be only to shareholders.
- Customers will have to pay higher prices.
- Leads to lack of business focus and is often done for negative reasons as a defensive measure rather than for positive reasons.

- Evaluative discussion on advantages and drawbacks of setting corporate responsibility objectives. [17–20]
- Analysis of advantages and drawbacks of setting corporate responsibility objectives [13 – 16]
- Good discussion of advantages and drawbacks of setting corporate responsibility objectives. [11 – 12]
- Discussion of advantages and/or drawbacks of setting corporate responsibility objectives. [5 – 10]
- Limited understanding of corporate responsibility / objectives. [1 – 4]

7 (a)
- Sole traders have sole responsibility for raising business finance such as own capital, bank overdrafts and loans and have unlimited liability. Likely to mean severe restrictions on the amount of finance that can be raised. The formation of a limited company could lead to greater access to funds and would limit personal liability.
- Public limited companies have the legal right to sell shares to the public and thus have the potential to raise significant initial and new investment capital. Likely to be large businesses and more able to access alternative funding sources.
- Each has its own distinctive features and each will have particular access routes for short, medium and long term sources of finance.
- Each will have different internal and external financial requirements and sources.

- Analysis of the two legal business structures and their sources of finance. [7 – 8]
- Good explanation of the two legal business structures and their sources of finance. [5 – 6]
- Limited explanation of the two business structures and/or their sources of finance. [3 – 4]
- Little understanding of the two business structures and/or sources of finance. [1 – 2]

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(b) – The production, classification and interpretation of costs allow a business to analyse the current cost position and past trends.

Such analysis of costs raises performance issues such as:

– cost effectiveness.
– opportunity costs.
– cost reduction opportunities.
– pricing decisions.
– existing management methods to monitor costs and control costs.
– benchmarking with industry levels.

– Cost information is considered to be fundamental to business performance and business improvement – it provides critical data for management action.
– The application of these general issues and principles to a hotel business could include a focus on the following:

Examine the current costs of hotel activities such as:

– cost of food for restaurant.
– cost of front of house staff.
– cost of cleaning, maintaining rooms.
– cost of marketing.
– cost of running events / services generally.
– compare with planned budget.
– compare these with industry average.
– examine trends in terms of cost / profitability levels.
– relationship between cost and price and hotel facilities offered.
– look for cost saving initiatives.
– use cost information to adopt marginal cost pricing during off-peak periods to increase revenue (and hence performance).
– Review cost / budget objectives/targets and in the light of cost information available, set new targets.

- Evaluative comment on the use of cost information to monitor and improve the performance of a hotel. [9 – 12]
- Analysis of the use of cost information to monitor and improve the performance of a hotel. [7 – 8]
- Discussion of the use of cost information to monitor and improve business performance. [3 – 6]
- Limited understanding of cost information. [1 – 2]

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