CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the May/June 2015 series

9707 BUSINESS STUDIES

9707/23 Paper 2 (Data Response), maximum raw mark 60

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1 Enterprise Electricals (EE)

(a) Explain the following terms:

(i) Economies of scale [3]

An idea of falling average/unit costs (1 mark)
An idea that this is due to an increase in size/scale (1 mark)
Example/some other way of demonstrating good understanding (1 mark)

Content:
Reductions in a business' unit (average) costs that result from an increase in the scale of its operations.

Examples help.

Falling costs (not average or unit) should not be awarded but does not restrict award of further two marks.

(ii) Inventory control [3]

An understanding of what inventory is (i.e. stock) (1 mark)
An understanding of how/why inventory can be controlled (1 mark)
Example/some other way of demonstrating good understanding of inventory control (1 mark)

Method for managing inventories (stocks).
Examples include JIT, JIC, buffer stock, etc.

Beware of tautological explanations:
i.e. inventory control is a way of controlling a firm's inventory
This shows no understanding.

(b) (i) Calculate the price elasticity of demand for refrigerators. [3]

$$\text{PED} = \frac{\%\text{ change in demand}}{\%\text{ change in price}}$$

% change in demand = 5%
% change in price = –20%

Elasticity = –0.25 (accept a quarter, or –0.3)

Correct answer: **3 marks** *no need for working or minus sign*
Good attempt : **2 marks** *i.e. correct use of figures (i.e. percentage change in QD), attempt with one error*
Attempt: **1 mark** *i.e. formula or identification of correct figures (i.e. absolute change in QD)*

Minus sign is NOT necessary for full marks.

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(ii) Using your answer to (i), comment on the usefulness to EE of price elasticity of demand. [3]

Usefulness of PED could include:
- decide on price changes
- to forecast sales
- to model pricing options

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Knowledge and Application		
Level 2:	Shows understanding of the *usefulness* of PED in the context of the business	**(3 marks)**
Level 1:	Shows understanding of the *usefulness* of PED	**(1–2 marks)**

No reference to **(b)(i)** marks limited to 2. Reference could be an interpretation of the figure (i.e. inelastic) (OFR)
The question asks about the usefulness, so this must be the focus of the MS. As it stands there are no marks for knowledge of elasticity (i.e. interpreting the answer as inelastic) unless the candidate shows why this is useful.

(c) Analyse EE's financial problems. [8]

NPM	Decreased which means that EE make less net profit for each $ of sales, bigger change than GPM, could suggest problem with expenses/indirect costs which EE has control over.
GPM	Decreased which means that EE make less gross profit for each $ of sales, smaller than change in NPM
Inventories	Doubled, reasonable for a retailer to hold some inventory, but should not have increased with lower revenue (less sales)
Trade receivables	Increased, suggesting EE is not getting customers to pay quick enough and/or offering more credit
Cash	Decreased, might suggest cash flow problem or better use of working capital – how much cash does a retailer need to hold?
Current liabilities	Doubled, does the business have problems with creditors? This could be bad, but could be trying to use as a short term source of finance.
Current ratio	CR seems to fall to lower end of normally accepted range, so no immediate worry; however, the trend is worrying. However, how relevant are accepted levels to a retail business like this?
Acid test ratio	ATR fallen to well below normally accepted level. However, how relevant are accepted levels to a retail business like this?

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Knowledge and Application	Analysis
Level 2: Shows understanding of EEs financial problems **(3–4 marks)**	**Level 2:** Good analysis of EEs financial problems **(3– 4 marks)**
Level 1: Shows understanding of business finances **(1–2 marks)**	**Level 1:** Limited analysis of financial problems **(1–2 marks)**

No context: Marks limited to 2 + 2 = 4
Weak analysis in context: Marks limited to 4 + 2 = 6
Analysis of only 1 problem in context: Marks limited to 3 + 3 = 6

Please be aware of the difference between limited analysis as compared with good analysis.

- *Limited analysis is any impact, effect, action, etc., but not taken to show the full impact on the business, e.g.*

  EE has a falling NPM from 15% to 4% which shows the firm is making less profit (K&A L2). This is likely to reduce the ability of EE to expand (Limited analysis).

- *Good analysis takes this further, e.g.*

  Which may mean that EE cannot re-invest to gain the same economies of scale that Meteor gains and compete effectively (Good analysis).

(d) Evaluate the importance to EE of applying the concepts of the 4Cs to improve the relationship between EE and its customers. [10]

4Cs: Customer solution
Cost to customer
Communication with customer
Convenience to customer

There is evidence that EE is getting some of this right compared with competitors. Survey shows:

There is a better product range – customer solution
People who shop at EE much more likely to return
Those who do know about EE more likely to shop there
Customer service is much better than competitor

However, very poor communication
Meteor more convenient location
Meteor's prices much more attractive
EE's brand image not strong

Main failings seem to be communicating with customers, convenience and cost. However, a re-focused marketing based on improved customer communication and convenience may mean higher prices are justifiable – the evidence is that customers may be prepared to pay more for better service.

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Knowledge and Application	Analysis
Level 2: Shows understanding of the importance of the 4Cs the context of the business **(3–4 marks)**	**Level 2:** Evaluation/Good analysis of the importance of the 4Cs to improve the relationship between EE and its customers **(3–6 marks)**
Level 1: Shows understanding of customer relationships and/or marketing mix **(1–2 marks)**	**Level 1:** Limited analysis of the customer relationships and/or marketing mix **(1–2 marks)**

One C + evaluation: limits marks to 3 + 4 = 7
No context: max 2 + 2 = 4
Weak analysis in context max 4 + 2 = 6
No balancing conclusion/evaluation: limit 4 + 4 = 8

Reward evaluation (based on good analysis) which states that 4Cs are not as important as other contextual factors, e.g. the 4Cs are not as important to EE as corporate responsibility because this has a bigger impact in the electrical market on consumer buyer behaviour.

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2 Frank's Farm (FF)

(a) Explain the following terms:

(i) Unit costs **[3]**

An idea of the amount to produce one item - **1 mark**
An idea that it the average/TC divided by output - **1 mark**
Example of a use of unit costs/some other way of demonstrating good understanding - **1 mark**

Content:
Total costs divided by the number of units produced.
Also known as average costs.
Useful for pricing, monitoring, decision making.

(ii) labour intensive **[3]**

An idea that it uses employees - **1 mark**
As opposed to capital - **1 mark**
Example/some other way of demonstrating good understanding - **1 mark**

Content:
Involves a high level of labour and little capital (machinery, equipment, facilities, etc.).
Examples help (e.g. retailing, software, call centres).

Beware of tautological explanations:
i.e. labour intensive is about using labour
This shows no understanding

(b) (i) Calculate the number of school visits needed each year for FF to break even. **[3]**

Fixed costs	$1000 per year.
Variable Costs	$30 per visit.
Income	$50 + $40 per visit = $90

$$B/E = \frac{\text{Fixed Costs}}{\text{Price} - \text{Variable costs}}$$

$$= \frac{1000}{90 - 30}$$

$$= \frac{1000}{60}$$

= 17 visits
Accept 16.66666 (any reasonable rounding)

Correct answer: **3 marks** *no need for units or working*
Good attempt : **2 marks** *i.e. correct use of figures, attempt with one error*
Attempt: **1 mark** *i.e. formula or identification of correct figures*

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(ii) Using your result to (i) comment on the usefulness of break even to FF. [3]

Usefulness of Break Even	Context
Decisions over how many to make/sell	FF need to have at least 17 school visits to stop making a loss and start to make a profit. If FF have less than 17 school visits then Frank will make a loss and this will not help the farm to survive.
To plan production	FF need to have the ability/facilities to accommodate at least 17 school visits otherwise they will make a loss. This seems to be a reasonable number in a year and probably won't affect the day to day workings of the farm.
To monitor costs	If Frank does not think that he will be able to sell 17 school visits then he may need to reduce the costs or may need to abandon the idea.
To model pricing options	*It seems unlikely that Frank can increase the price, so this is unlikely to lead to a valid contextual explanation.*

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Knowledge and Application		
Level 2:	Shows understanding of the *usefulness* of Break Even in the context of the business	**(3 marks)**
Level 1:	Shows understanding of the *usefulness* of Break Even	**(1–2 marks)**

No use of **(i)**: limit to 2 marks

(c) Recommend which of the two options (line 24-25) Frank should choose. Justify your answer. [10]

Content:

Option 1 – Benefits of recruiting a manager:
- Will not demand a share of profits
- Probably a wider choice of people so can recruit the best person
- Frank maintains his independence
- Frank can retain overall control

Option 2 – Benefits of partner:
- New source of finance which is needed – Frank cannot afford expansion
- Shares decision making – important in an area in which Frank has no expertise or skills
- Frank could keep his focus on farming, where he feels comfortable and expertise
- The right person may bring contacts
- Partner more likely to be committed to the business than an employed manager

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Knowledge and Application	Analysis and Evaluation
Application **4 marks** – recruitment AND partnership **3 marks** – recruitment OR partnership	**Evaluation (must be based on two sided analysis)** **6 marks** – fully justified recommendation **5 marks** – recommendation
Knowledge **2 marks** – recruitment AND partnership **1 mark** – recruitment OR partnership	**Good Analysis** **4 marks** – recruitment AND partnership **3 marks** – recruitment OR partnership
	Limited analysis **2 marks** – recruitment AND partnership **1 mark** – recruitment OR partnership

Note: the above could equally well be argued though disadvantages. Evaluation likely to come from recommendation following balanced argument.

Knowledge and Application	Analysis
Level 2: Shows understanding of recruitment and/or partnership in context of the business **(3–4 marks)**	**Level 2:** Evaluation/good analysis of recruitment and/or partnership issues in context **(3–6 marks)**
Level 1: Shows knowledge of recruitment and/or partnership **(1–2 marks)**	**Level 1:** Limited analysis of recruitment and/or partnership **(1–2 marks)**

One sided analysis + evaluation: limits marks to 3 + 3 = 6
No context: max 2 + 2 = 4
Weak analysis in context max 4 + 2 = 6
No supported recommendation: limit 4 + 4 = 8

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(d) Analyse the factors (other than finding the right manager or partner) that might influence the success of the education centre. [8]

Factors:

- Finance – sole trader, reduced profits – will bank finance?
- Survival of the farm – on scale suggested, unlikely to become primary business so farm survival/profitability still priority
- Is the Government grant definite, will it be paid before costs need to be paid? Will the Government be interested in Frank's farm, especially as it is labour intensive?
- Will the visits interfere with farm business?
- How long will set-up take?
- Based on estimates – uncertainty – does Frank have the ability to make this estimate accurately?
- BE point is only 17 per year – scope for high profits with $60 contribution each visit
- Lack of experience – Frank has only managed family and has no experience beyond farming. His main skills will not help plan and implement visit business (hence need for manager/partner). However, good at managing finances.
- Health and safety concerns – children on a farm could cause be a hazard – qualifications to work with children? Insurance costs?
- Costs of employing the part-time employees
- External factors
- Marketing factors

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Knowledge and Application	**Analysis**
Level 2: Shows understanding of business success factors in context of the business **(3–4 marks)**	**Level 2:** Good analysis of business success factors in context **(3–4 marks)**
Level 1: Shows understanding of business success factors **(1–2 marks)**	**Level 1:** Limited analysis of business success factors **(1–2 marks)**

No context: Marks limited to 2 + 2 = 4
Weak analysis in context: Marks limited to 4 + 2 = 6
Analysis of only 1 success factor in context: Marks limited to 3 + 3 = 6

*Do not allow getting the right manager/partner as a valid FACTOR but it could be used as a subsequent piece of analysis (i.e. see **Lack of experience above**).*

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