CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2013 series

9707 BUSINESS STUDIES

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

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1 (a) Piece rate is payment system to a worker for each unit produced.
Commission is a payment often to a sales person for each sale made, often a proportion of the value of the sale.

- **One** mark for each accurate definition given (maximum 2 marks) [2]

(b) The disadvantages of a piece rate are said to include:
- May lead to falling quality/safety levels as workers speed to complete production.
- May lead to a worker settling for a limited pay and productivity level.
- Leads to insecurity among workers – e.g., if production line breaks down, or supplies not available.
- Workers reluctant to accept change if it results in a loss of pay.
- It ignores all other possible motivating factors.
- System only possible if work can be measured and standardised.
- Lack of security of pay.
- Competitive environment could lead to jealousy/high staff turnover.
- Pressure to produce can lead to stress/illness.
- Low motivation due to pressure to produce.

- **One** disadvantage partially explained or a list of **two**. [1]
- **One** disadvantage soundly explained or **two** partially explained. [2]
- **Two** disadvantages soundly explained. [3]

2 (a) Cost-based pricing is when firms assess their costs of production or supply and then add an amount on top of this calculated cost (there are a number of different methods of cost-based pricing).

- Partial definition [1]
- Sound definition [2]

(b) Penetration pricing is setting a relatively low price, often supported by heavy promotion to achieve a high volume of sales:

- Gain a mass market (price may then be slowly increased).
- It is used to influence customers to switch to a new brand with the marketing objective of increasing market share in the short term rather than to make profits.
- Take the competition by surprise – appropriate when demand is highly price elastic.
- Once established get brand loyalty/price inelasticity/prices likely to increase in the long-run.

- Penetration pricing is defined or identifies business use. [1]
- Limited explanation of business use. [2]
- Sound explanation of business use. [3]

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3 – Efficiency is producing output at the highest ratio of output to input ('doing the thing right').
– Effectiveness is meeting business objectives by using inputs appropriately to meet customer needs ('doing the right thing').
– A business can become very efficiently ineffective – efficiency in operations is only one factor – the type and quality of goods/services produced has to meet customer needs and still make a profit.
– For any business the relationship between efficiency and effectiveness depends on the market segment it is aiming at, e.g. volume, value, exclusive designer range etc.

- Limited understanding of efficiency and/or effectiveness. [1]
- For an accurate definition of either efficiency or effectiveness. [2]
- Accurate distinction made but explanation is limited. [2–3]
- Sound explanation of the two concepts with good business concepts/examples. [4–5]

4 **(a)** 'Stakeholder' can be defined as people or groups of people who can be affected by, and therefore have an interest in, a business/organisation.

- Partial definition given. [1]
- Sound definition given. [2]

(b) Conflict may arise between different stakeholder groups due to:
– Stakeholders who insist on social responsibility policies may conflict with short-term shareholder interests (profit)
– Consumers/tax payers/communities may suffer at the expense of uncontrolled shareholder pursuit of profit.
– Employees lose out with companies outsourcing or mechanising or cost cutting.
– Management may receive performance-related pay – other employees basic wage and sickness, etc.

- Only a general reference to stakeholder groups. [1]
- Partial explanation of **one** conflict situation. [2]
- Sound explanation of **one** conflict situation. [3]

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5 (a) Inventory management is considered a critical business activity because without efficient inventory management there may be:

- insufficient stocks to meet demand and changes in demand.
- out of date stock.
- stock wastage.
- excessive storage costs.
- late deliveries.
- low discounts from suppliers.
- opportunity cost implications.

The factors above (especially the first 3) are vital for retail businesses with their potential impact on customers.

- Analysis of the importance of inventory management in context. [7–8]
- Good explanation of the importance of inventory management in context. [5–6]
- Limited explanation of inventory management. [3–4]
- Little understanding of inventory management. [1–2]

(b) The factors that might need to exist for JIT to work effectively are generally considered to be (after defining JIT):

- Relationships with suppliers need to be good – flexible.
- Production staff need to be multi-skilled and flexible.
- Similar flexibility required in equipment and machinery.
- Demand forecasts and production schedules need to be accurate.
- Up-to-date IT equipment will help.
- Sound employer-employee relations required.
- A distinctive organisation culture required.
- JIT might not always be the answer.

- Evaluative comment on the relative importance of the factors and/or recognition of the problematic application of the system. [9–12]
- Analysis of factors that will likely determine the effectiveness of a JIT system. [7–8]
- Discussion of factors that will likely determine the effectiveness of a JIT system. [3–6]
- Limited understanding of JIT and its application. [1–2]

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6 Business leadership is said to be about giving clear direction and vision for an organisation – often requiring charismatic attributes and strategic vision.

– Intellectual ability can be said to be important –
  ability to see the big picture
  ability to differentiate between tactical and strategic issues
  ability to analyse, evaluate, make decisions
  ability to understand and apply theory and concept
  ability to convince others – negotiate – compromise etc.
– Emotional intelligence – a recent concept is seen by many as important, if not more important than intellectual intelligence for effective leadership – the concept of multiple intelligences.
  definition of emotional intelligence – the ability to understand own emotions and that of their colleagues, manage them to support improved performance.
  the concept of Emotional Intelligence Quotient and Golemans EI competences.
  the potential liability of a leader without a competent EIQ.
– The relative importance of IQ and EIQ – reviewed – different assertions and conclusions in the literature.

- Evaluative comment on the statement vis-à-vis intellectual ability and emotional intelligence. [17–20]
- Analysis of the importance of emotional intelligence and intellectual ability. [13–16]
- Good discussion of the importance of emotional intelligence and intellectual ability [11–12]
- Some understanding of emotional intelligence and/or intellectual ability. [5–10]
- Very limited understanding of leadership and this assertion. [1–4]

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7 (a) The identification and calculation of business costs is considered important as:

- Cost information is vital in a wide range of business decision-making.
- Business costs are a key factor in calculating profit or loss.
- In making location decisions, pricing decisions, product profitability over time.
- Acting as a start point for future budgets.
- Decisions about resource use – if cost of labour is low, then focus on labour intensive methods.
- Cost information facilitates different options being analysed for decision-making – e.g. different location decision options. So cost calculation and data vital for so many business decisions.
- NB: Credit discussion of social costs

- Analysis of the importance of cost identification and calculation. [7–8]
- Good explanation of the importance of cost identification and calculation. [5–6]
- Limited explanation of cost identification and calculation. [3–4]
- Little understanding of cost identification and calculation. [1–2]

(b) The use of break-even analysis for introducing a new product could make the following points:

- Discuss how break-even analysis will categorise production costs and compare them with potential sales revenue to determine a break-even point where the costs of resources to create a new product are covered.
- Managers may also want to know the point at which the sales volume reaches a pre-set profit level.
- To help increase the odds of success for a new product a business needs to ask a number of questions such as what is the potential size of the market, how shall the product be priced?, where is the break-even point? Is one of these questions it can provide vital management information.
- E.g.: if the B/E point is over say 12 months, how does the business capitalise that product, and is it worth going ahead with this new product.
- B/E charts relatively easy to construct and interpret.
- However, there are limitations as to the use of B/E analysis – simplistic, a static model, the effectiveness depends on the quality and accuracy of the data used – assumes linearity, no account of possible changes in costs over time – does not allow for changes in market conditions in the time period etc.
- So some general limitations plus some specific to new product decisions – non-economic factors may influence such a decision – e.g. subjective personal owner preference decisions – political interference, social/cultural influences, etc.

- Evaluative comment on the usefulness of B/E analysis and its possible limitations, in context. [9–12]
- Analysis of how B/E analysis could be useful with some in context reference to extent of usefulness and/or limitations. [7–8]
- Discussion of how B/E analysis could be useful. [3–6]
- Limited understanding of B/E and its usefulness. [1–2]

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