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Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the October/November 2015 series

9707 BUSINESS STUDIES

9707/22 Paper 2 (Data Response), maximum raw mark 60

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1 (a) Explain the following terms:

(i) unique selling point (line 4) [3]

Example or some other way of showing good understanding, e.g. higher selling price/increases demand/example etc. **Do not allow repetition from the case**
From competitors/other products/businesses
Something that makes it different (do not allow 'unique' as this is a tautology) – and/or an additional feature

Level 2: Good explanation (2/3 marks)
Level 1: Partial explanation/understanding (1 mark)

(ii) cash flow forecast (line 27) [3]

Uses of cash flow forecast – manage cash flow effectively, identify negative cash flow, to gain external finance etc.
Prediction/future/estimated/forthcoming period etc.
Cash in **and** cash out (net cash flow)

Level 2: Good explanation (2/3 marks)
Level 1: Partial explanation/understanding (1 mark)

(b) (i) Jack hopes to sell 20 vases in PP's first month of trading. Calculate the gross profit he would make. [3]

Gross profit = revenue – direct costs/cost of sales (1)
OR Gross profit per unit = price – direct costs per unit (1)

Proposed selling price for PP $45 * 20 = $900 (1 for revenue) Less ($20 vase + $10 engraving) * 20 = $600 (1 for direct costs) Gross Profit = $300 (1 for correct GP, Own Figure Rule applies)	Proposed selling price for PP $45 Less $20 vase + $10 engraving = $30 (1) $15 * 20 vases (1) = $300 (1)

3 marks – correct answer (with or without working, with or without $)
2 marks – right method (calculates revenue **and** direct costs)
1 mark – attempt by calculating either revenue **or** direct costs **or** knowledge of formula

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(ii) Explain <u>one</u> disadvantage to PP of using a penetration pricing strategy. [3]

Definition – setting a relatively low price to achieve a high volume of sales (1 mark)

Might not cover indirect costs	Examples of indirect costs for PP; rent, costs of finance, promotional costs, market research costs (all mentioned in text)
Might not cover all variable costs	Extra cost of the free card and gift wrapping
Might be seen as poor quality (compared to competition)	Customers may perceive vase as being lower quality than competitors vases which sell for $55-$125
May lead to a price war	At least two competitors (shop A and B) who are more established and could drive down prices in market and reduce profit margin
Product may not be price elastic	So a lower price than competitors may not lead to significant increase in sales/revenue
Based on estimated costs/costs may change	Jack may be confident but he may be wrong as he has little experience. Also he has no relationship with suppliers so the cost may go up/change

All reasonable answers acceptable.

Level 3: Explanation of a disadvantage of penetration pricing **in context** (3 marks)
Level 2: Knowledge of a disadvantage of penetration pricing (2 marks)
Level 1: Knowledge of penetration pricing (1 mark)

(c) Analyse the reasons why PP could fail to survive in its first year. [8]

- Lack of cash: PP is a new business, suppliers may not extend credit, need initial inventories etc. Jack has not completed his cash flow forecast yet.
- Lack of demand: Jack has completed market research but will this equate to sales in reality? Will his USP be enough to beat established competitors? Is the market price responsive?
- Competition: Shop A and Shop B are more established. Shop A has centre of town location and Shop B specializes in handmade, expensive gifts – Jack has no reputation which may be particularly important in the gift market (i.e. because people are buying for others).
- Lack of profits
- Access to finance
- Location
- Effective marketing
- Effective staff/training
- Lack of record keeping
- External factors (i.e. economic, social, Technology etc.)

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All reasonable answers acceptable.

Knowledge and Application		Analysis	
Level 2	Shows understanding of reasons of business failure in context (3–4 marks)	**Level 2**	Good analysis of reasons of business failure in context (3–4 marks)
Level 1	Shows understanding of business failure (1–2 marks)	**Level 1**	Analysis of reasons of business failure (1–2 marks)

(d) Discuss additional suitable sources of finance that Jack could use to start up PP. [10]

- Loan: An obvious source if Jack can get one – business plan will help but Jack has not completed the finance section yet. A new business so no trading history – likely to be unlimited liability so Jack's own possessions will be at risk. Interest charged, can be paid back over time, immediate finance. Jack is not expecting to make a profit for a year – will the bank wait for repayments or will this push the break-even point even further away?
- Government grant
- Take a partner: Making the assumption that Jack is a sole trader at the moment. Could inject capital into the business but Jack is likely to lose control of the business. Profits will be shared.
- Sale of shares: Is Jack willing to incorporate the business? Costs involved in becoming a private limited company (very unlikely to become a public limited company as the value and capital in the business is not high enough). Would anyone be interested in buying shares in an untried business? Could inject capital into the business but Jack is likely to lose some control of the business. Profits will be shared through dividends.
- Family/friends
- Overdraft
- Trade credit
- Hire purchase and leasing
- Venture capital
- Sale of assets
- Debt factoring
- Retained profit
- Microfinance

All reasonable answers acceptable.

Knowledge and Application		Analysis and Evaluation	
Level 2	Shows understanding of sources of finance in context (3–4 marks)	**Level 2**	Evaluation of sources of finance in context (3–6 marks)
Level 1	Shows understanding of sources of finance (1–2 marks)	**Level 1**	Analysis of sources of finance (1–2 marks)

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2 (a) Explain the following terms:

(i) portfolio analysis (line 4-5) [3]

Example or some way of using the portfolio analysis, i.e. can be used to develop new units/products/services/markets/elements, link to Product Life Cycle (allow link to Boston Matrix), develop market share etc.
To understand the advantages and disadvantages:
a process of looking at the units/products/services/markets/elements of a business

Level 2: Good explanation (2/3 marks)
Level 1: Partial explanation/understanding (1 mark)

(ii) shareholders (line 7) [3]

Some way of showing good understanding, such as: invest to gain a return, paid part of the profits (dividends), may attend the AGM, of an incorporated business/company, owner/investor

Level 2: Good explanation (2–3 marks)
Level 1: Partial explanation/understanding (1 mark)

(b) (i) Refer to Table 1. Calculate the acid test ratio. [3]

$\frac{\text{CA-Inventory}}{\text{CL}}$ (1 mark for formula)

$700 - 200 = 500$ (1 for correct calculation of CA-Inventory)

$= \frac{500}{400} = 1.25$ (1 mark, Own Figure Rule applies)

Allow $5/4$ and $1\,1/4$

3 marks – correct answer (with or without working)
2 marks – right method by calculating CA-Inventory
1 mark – knowledge of formula

NB wrong method (i.e. calculating the wrong ratio or not subtracting inventory) award no marks)

(ii) In 2014 the acid test ratio was 0.85:1. Using your answer to (b)(i), comment on the implications for KQA of the trend in the acid test ratio over the last two years. [3]

This question asks about **implications** not causes of the change in the acid test ratio. There are no marks for knowledge of liquidity or causes of liquidity changes, only for implications.

Examples of likely implications:
- Pleased financial stakeholders e.g. shareholders, lenders, banks, creditors etc.
- Better inventory/debtor/cash management
- Better debtor management
- Easier to secure external finance

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Trend:
Improving trend in the acid test ratio, gone from less than 1 to a relatively healthy 1.25:1.
Candidates can access all the marks without specifically referring to the numbers, although this is an obvious way to gain context.

*If candidate has miscalculated their answer to **b(i)** then they can still gain all the marks in this question through the use of the own figure rule (OFR)*

However it could be considered to be too high and candidates should be equally rewarded for suggesting it is an inefficient use of the business assets.

Level 2: Explanation of an implication of the change in acid test ratio/liquidity for KQA (2–3 marks)
Level 1: Knowledge of an implication of acid test/liquidity ratio changes – **no context** (1 mark)

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(c) Analyse the economies of scale that KQA could benefit from as it grows. [8]

Definition: Economies of scale are the benefits gained, **in terms of cost reduction**, as a business grows in size

Purchasing
Increased orders from suppliers may lead to bulk buying discounts.
KQA's production is capital intensive, so bulk buying of equipment/machinery is also possible, leading to lower capital costs.

Technical
KQA uses capital intensive methods of production which could lead to mass/flow production techniques, and lower cost per unit.
Also due to their size they may be able to use CAD and CAM to reduce unit costs.
May also be able to afford latest technology to give better quality for lower costs.

Financial
Lenders are more likely to lend KQA money as they grow because there may be a lower risk associated with a larger business, leading to lower financial cost.
Also interest rates on any finance may be lower due to the lower risk.

Marketing
Marketing costs may be spread over a larger number of appliances produced.
As KQA grows, the brand may be more recognized reducing advertising costs.

Managerial
KQA may be able to afford specialist managers in areas such as finance and marketing, reducing expense costs.

Risk bearing
KQA can spread the cost risk across more output.

All reasonable answers acceptable.

Knowledge and Application		Analysis	
Level 2	Shows understanding of economies of scale in context (3–4 marks)	**Level 2**	Good analysis of economies of scale in context (3–6 marks)
Level 1	Shows understanding of economy/economies of scale (1–2 marks)	**Level 1**	Analysis of economies of scale (1–2 marks)

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(d) Discuss the role of human resource management in helping KQA solve the problems it has in country X. [10]

Contextual problems for KQA:
- Lack of skilled employees
- Difficulty to recruit, select and train
- Declining quality
- Meeting production targets
- Impact of growth

Role of HRM in solving these problems:
- Workforce planning
- Recruitment and selection
- Appraisal
- Training and development
- Preparing contracts of employment
- Staff morale and welfare
- Pay systems
- Measuring and improving staff performance

All reasonable answers acceptable.

Evaluation is likely to focus on the benefit of HR planning in overcoming the problems in country X; for example, by having the right skilled workers at the right time so quality is improved and KQA's reputation is not damaged.

Knowledge and Application		Analysis and Evaluation	
Level 2	Shows understanding of how HRM can solve the problems facing KQA in country X (3–4 marks)	**Level 2**	Evaluation of the role of HRM in solving the problems facing KQA in country X (3–6 marks)
Level 1	Shows knowledge of HRM (1–2 marks)	**Level 1**	Analysis of how HRM can solve problems (1–2 marks)

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