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Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the October/November 2015 series

9707 BUSINESS STUDIES

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

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1 (a) Explain the following terms:

(i) sole trader (line 1) **[3]**

Keeps all the profits, unlimited liability, work long hours etc.
Full control of the business
One owner/provider of finance

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

(ii) niche market (line 2) **[3]**

A niche market is the subset of a larger market. Often referred to as: a smaller but highly profitable section of the market. It is also a small market segment. Examples often linked to luxury goods and services.

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

(b) (i) Refer to Table 1 and other information. Calculate CC's total contribution from the sale of a collection of six cushions and covers. **[3]**

Revenue from 6 cushions/covers $175
Less direct costs ($10 × 6 + $6 × 6) = $96
Total contribution = $79

3 marks – correct answer
2 marks – right method, i.e. an understanding of contribution
1 mark – attempt by calculating direct costs **or** formula

(ii) Explain the importance of accurate cost data to CC. **[3]**

- Direct costs are high and so CC needs to be able to make sure it sets a selling price that makes enough profit to cover indirect costs too
- Important to make sure that CC is able to make sure its prices are not too high given the level of 'cheaper competition', so accurate costs data is essential to find the right price.
- Accurate data means Bernice can manage the business more effectively especially if she starts to make and sell the ready-made ranges.

Level 2: Explanation of the importance of accurate cost data for CC (2-3 marks)
Level 1: Identification of the importance of accurate cost data (1 mark)

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(c) Analyse the issues that CC should consider when deciding whether to use e-commerce for selling the new product range. [8]

Definition: Trading (including marketing) through the use of electronic media, usually the Internet.

Context/issue likely to come from:

- Assumption that CC/Bernice does not use e-commerce at the moment – so costs involved in setting up website, online sales, distribution etc. Also risks of e-commerce. Also lack of experience.
- Customers usually come to the store – unlikely with e-commerce.
- CC/Bernice would be moving from a niche to a mass market
- Larger retail stores (the competition) are likely to already use e-commerce
- Lack of control over sales – can CC/Bernice cope?

Issues surrounding the new sewing machine and the traditional production methods (sewing) are unlikely to be relevant as context in this question.

Knowledge and Application		Analysis	
Level 2	Shows understanding of issues for CC about the use of e-commerce for selling the new product range (3–4 marks)	**Level 2**	Good analysis of issues for CC about the use of e-commerce for selling the new product range (3–4 marks)
Level 1	Identification of issues surrounding the selling of a new product range (1–2 marks)	**Level 1**	Analysis of issues surrounding the selling of a new product range (1–2 marks)

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(d) Discuss the advantages and disadvantages to CC of using batch production. [10]

Context/issues likely to come from:

Advantages:
- Open up a new market for CC.
- Less time involved in the production of the cushions and will allow CC to compete more effectively with the department stores.
- Reduce the direct costs as production is very labour intensive.

Disadvantages:
- Impact on the employees – they may resist.
- Any issues with customer perceptions – lower quality for the hand-made range?
- Initial costs of buying and setting up the new machine.
- Managing the new production process – Bernice has no experience.

Evaluation is likely to come from developing the main advantage or main disadvantage with a justification as to why.

Knowledge and Application		Analysis and Evaluation	
Level 2	Shows understanding of the advantages and/or disadvantages of batch production in context (3–4 marks)	Level 2	Evaluation of the advantages and/or disadvantages of batch production in context (3–6 marks)
Level 1	Shows understanding of production methods (1–2 marks)	Level 1	Analysis of batch production (1–2 marks)

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2 (a) Explain the following terms:

(i) industrial markets (line 2) [3]

This is when a business sells products/services to other businesses rather than the final customer. The marketing mix when serving a producer is very different e.g. need for a different pricing and promotional mix.

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

(ii) management accounting (line 17) [3]

This is accounting data generated from within the business for decision making purposes. It is different from financial accounting in respect, i.e. it is mainly forward looking rather than historical and is often used to analyse individual products/services rather than the business as a whole.

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

(b) (i) Using Table 2, calculate the margin of safety for 2015. [3]

Actual sales – 10 050
Break-even sales calculated by FC/Cpu so $89 500/10 = 8950
So margin of safety = 10 050–8950 = 1100 units

3 marks – correct answer
2 marks – right method, one error
1 mark – attempt by using appropriate figures

(ii) Explain <u>two</u> limitations to WW of using breakeven analysis. [3]

Main context:

- Breakeven analysis assumes a stable selling price – clearly a price war is happening and so likely there will be a reduction in the selling price, this will increase the breakeven price.
- Breakeven analysis assumes all output will be sold – if sales targets are not being met then this is unlikely to happen.
- Any reasonable answer.

Level 2: Shows understanding of limitations of breakeven analysis – in context (2-3 marks)
Level 1: Identification of limitation(s) of using breakeven analysis – no context (1 mark)

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(c) Analyse the role of the 4Cs in ensuring WW can compete more effectively in its markets. [8]

Context/issue likely to come from:

- Cost to customer – producer market, builders/construction companies will need to keep their own costs low to protect their profits, hence the cost needs to be low (for WW)
- Convenience to the customer – delivery dates for windows to fit with when builders etc. will need to install them, they will not want to let their customer down.
- Communication with the customer – the importance of personal relationships is clearly stated in the case, the sales agents need to be able to relate and understand the needs of the business customers.
- Customer solution – window sizes, frames, types etc. will all need to meet the needs of the business customer.

Any reasonable answer.

*Understanding and analysis of the 4Cs can be as a complete strategy **or** individual elements of the 4Cs. An approach that analyses in context 2 (or more) elements of the 4Cs can access full marks, as can an approach that looks at the use of the 4Cs as a complete strategy (i.e. the 4Cs as a customer focused strategy).*

Knowledge and Application		Analysis	
Level 2	Shows understanding of the 4Cs in context (3–4 marks)	**Level 2**	Analysis of the 4Cs in context of the business (3–4 marks)
Level 1	Shows understanding of the 4Cs (1–2 marks)	**Level 1**	Analysis of the 4Cs (1–2 marks)

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(d) Evaluate suitable methods John could use to improve motivation of the sales staff. [10]

Context likely to come from:

Financial:
- Moving to a commission based system, particularly as sales targets are not being met. This will encourage agents to make sales and be competitive in order to generate pay, but could be costly for WW.
- Revenue has declined, so something needs to be done.
- Bonus could be retained for meeting actual targets.

Non-Financial:
- Meetings/ideas forums, the agents will be working closely on the ground and so will be able to feedback on what business customers are saying – listening to them and taking ideas on board will motivate.
- Awards schemes – how are the best sales agents recognised? Is it all about sales? Quality of service?

Candidates should consider the main method that is likely to boost motivation in order to demonstrate evaluation.

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

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