CAMBRIDGE INTERNATIONAL EXAMINATIONS

International General Certificate of Secondary Education

MARK SCHEME for the May/June 2014 series

0450 BUSINESS STUDIES

0450/12 Paper 1 (Short Answer/Structured Response), maximum raw mark 100

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2014 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

1 (a) What is meant by 'span of control'? [2]

Good knowledge [2], e.g. number of people who answer directly to one manager in a hierarchy.
Some knowledge [1], e.g. number of people who work for you some knowledge plus example can gain 2 marks, e.g. regional manager has a span of 20.

(b) Identify <u>two</u> factors (other than offering choice of products and having good communication) which could help make LEK more competitive. [2]

Application [2 × 1] award one mark per factor.

Factors could include: lower prices OR price promotions, improve quality of goods sold, change location of shops, offer sales promotions/incentives/advertising, increase quality of service offered, offer free delivery, click and collect, opening hours, free/extended warranty.

Accept any reasonable answer. Accept advertising only once.
Do not accept references to production, as this is a retailer.
Do not accept promotion on own [TV] or market research.

(c) Identify and explain <u>two</u> benefits to LEK of having an organisational chart. [4]

Knowledge [2 × 1] – award 1 mark for each relevant benefit.
Application/analysis [2 × 1] – award 1 mark for each relevant explanation.

Relevant points might include:
- Clear structure so everyone knows their roles [k] which is important in a large organisation [app]
- Clear chain of command [k] so everyone knows who to report to [an] OR so orders can be passed effectively between directors and shop managers [app]
- Can show where possible problems of control/communication might be [k] e.g. 20 is a very large span of control for each region manager [app]
- Helps retention of workers [k] as shop managers can see how to progress up the organisation [app]
- Allows for effective delegation [k]

Points must be related to business, not employees, e.g. do not reward 'makes employees have a sense of belonging'.

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(d) Identify and explain <u>two</u> suitable methods of communication that LEK could use to communicate with its customers [6]

Knowledge [2 × 1] – award 1 mark for each relevant method identified.
Application [2 × 1] – award 1 mark if relevant reference made to LEK.
Analysis [2 × 1] – award 1 mark for each relevant explanation (e.g. how the method works or advantage of using this method).

For each reason: maximum 3 marks [1k + 1ap + 1an].

Methods could include:

- Emails/mailshots [k] could be targeted at individual customers [an] who are interested in different electrical products [app]
- Social media e.g. on facebook or twitter [k] as many people use it these days to find out about the latest offers [an] phones [app]
- Telephone [k] as two way communication would allow LEK to explain specific product details to customers who could ask questions [an]
- Website [k] would allow customers to access instant news about appliances [app] without having to spend a lot of money on advertising [an]
- Press releases [k] can be used to inform existing customers in the different regions [app] so business is able to control the information that is given out [an]
- Newsletters [k] to inform customers about the latest technology or appliances [app] to keep them up to date with what is available [an]
- Text messages [k] which can be sent directly to customers, phones [app]
- Market research methods [accept only once] e.g. consumer panels [k] to find out what existing customers think about its products [an] and whether it should stock new types of phones [app]

Methods of communication can only be accepted if aimed directly at existing customers.
Do not accept advertising (e.g. posters, leaflets) as this is too general.
Do not accept internet, verbal/face to face or written as too vague.

(e) Do you think that the takeover of the competitor would benefit LEK? Justify your answer. [6]

Knowledge [2] – award up to 2 marks for identification of relevant issue(s).
Application [1] – award 1 mark if relevant reference made to LEK's business.
Analysis [1] – award 1 mark for relevant development of point(s).
Evaluation [2] – justified decision made as to whether the takeover would benefit LEK. Either viewpoint is acceptable.

Relevant points might include:

- Possible economies of scale (accept only once) e.g. buy in bulk [k] will help reduce unit costs [an] so might be able to reduce prices to become more competitive [app]
- Gain brand name of rival [k] may widen range which could help them be competitive [app]
- Increased market share [k] as could offer wider coverage of shops [an] across the 4 regions [app]
- Reduce competition [k]
- Management issues e.g. communication problems between businesses [k] as current structure of regional managers might need to change [app]
- No guarantee that benefits will happen [k] as their 40 shops might be in the same towns as LEK's [app]

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- Increased overheads [k] as 40 more shops [app] so a lot more rent to be paid [an]
- Duplication of shops in the same location [k] which shop to close [app] leading to additional redundancy costs [an]
- Possible clash of culture/reaction of employees [k] so difficult to integrate two businesses [an] especially as they operate in the same regions [app]

2 (a) What is meant by 'retained profit'? [2]

Good knowledge [2]: e.g. net profit reinvested back into business [1] after tax and/or dividends [+1].
Some knowledge [1]: e.g. money left after dividends and/or taxes paid, money kept by business.
Do not accept net profit or definition of profit [0].

(b) Identify <u>two</u> advantages to Cutter of being a private limited company. [2]

Application [2 × 1] – award one mark per advantage.
Advantages could include: no need to publish (detailed) accounts, limited liability, control over who can buy shares, easier to raise money, more credibility with suppliers, separate legal identity, continuity after death of owners.

(c) Identify and explain <u>two</u> possible benefits to Cutter of using batch production. [4]

Knowledge [2 × 1] – award 1 mark for each relevant benefit.
Application [2 × 1] – award 1 mark for each relevant explanation in context.

Relevant points might include:
- Quantity is still limited [k] so able to check reaches luxury standard [app]
- Some economies of scale are possible [k] so able to reduce unit costs of each coat [app]
- Can add some variety into products [k] so customers can have choice of coats [app]
- Flexibility/easy to switch [k] as able to quickly change production to meet new design [app]

Do not accept cheaper/less waste/consistency of product as all too vague.
Points must be related to business not employees.

(d) Identify and explain <u>two</u> possible elements of a suitable marketing mix for Cutter's products. [6]

Knowledge [2 × 1] – award 1 mark for each relevant element identified.
Application [2 × 1] – award 1 mark if relevant reference made to Cutter.
Analysis [2 × 1] – award 1 mark for each relevant explanation.
For each reason: maximum 3 marks [1k + 1ap + 1an].

Relevant points might include:
- Price/premium pricing/price skimming [k] as luxury brand [app] or competitive pricing (to be able to compete with rivals) or promotional pricing (to encourage increase in sales revenue)
- Product/branding [k] so able to maintain a quality image [app] which helps retain consumer loyalty [an]

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- Promotion/use of celebrity endorsement [k], the right choice of magazines [k] which reinforces the image of a high quality product [app]
- Place – only allow coats to be sold in selective stores [k] to maintain luxury image [app] which could allow them to justify charging high prices [an]

Do not accept packaging on its own due to nature of the product [tv].
Accept only one example from each category.

(e) Do you think it is better for Cutter to use on the job or off the job training? Justify your answer. [6]

Knowledge [2] – award up to 2 marks for identification of relevant issue(s).
Application [1] – award 1 mark if relevant reference made to Cutter's business.
Analysis [1] – award 1 mark for relevant development of point(s).
Evaluation [2] – justified decision made as to whether it is better for Cutter to use on the job or off the job training. Either viewpoint is acceptable.

Relevant points might include:
- Off the job training might not be focused on the specific needs of the business [k] which might not help maintain luxury brand image [app] so is not cost effective [an]
- Expensive [k] as have to pay more for off the job training which will increase costs [an]
- Skills might not be available in the business [k] so must use off the job training to benefit from new techniques [an]
- Off the job training allows for mistakes to be made [k] so building confidence in an employee who is more likely to produce good quality coats [app], thus reducing waste [an]
- On the job training might reinforce errors/bad practices will be reinforced [k] which could lead to poor quality coats being made [app] which could reduce sales/damage the reputation of the business [an]
- With on the job training it is less likely that new ideas/skills will be taught [k]
- On the job training allows Cutter to control which skills are being taught [k] so that workers do not learn unnecessary skills [an] so could help increase its profits
- With on the job training the worker is immediately able to produce/no loss in production time [k] so more coats [app] improving productivity [an]

Do not accept definitions of terms as knowledge.

3 (a) What is meant by 'capital intensive?' [2]

Good knowledge [2]: e.g. machinery is the key resource rather than labour.
Some knowledge [1]: e.g. use machines.

(b) Identify <u>two</u> possible reasons why cameras might have a short product life cycle. [2]

Application [2 × 1]: 1 mark per reason.
Reasons include: Actions of competitors, fashion/changing tastes, availability of new technology, availability of substitutes (e.g. phones with camera features).
Do not accept 'low sales' on own as too vague.

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(c) Identify and explain <u>two</u> possible advantages to SENG of using lean production. [4]

Knowledge [2 × 1] – award 1 mark for each relevant advantage.
Application/analysis [2 × 1] – award 1 mark for each relevant explanation.

Relevant points might include:
- Saves storage costs [k] so less capital tied up in stock [an]
- Reduces the risk of obsolete stock [k] as cameras have a short life cycle [app]
- Saves space [k] as larger part of factory can be used for the machinery [app]
- Lower rent as less space needed [k] so lower fixed costs [an]
- Reduction in waste [k] so can save money on expensive components [app]
- Cutting out some processes [k] so quicker production of cameras [app]
- Better use of equipment [k]

Do not accept points such as 'increased efficiency' or 'better motivation' for knowledge [tv].

(d) Identify and explain <u>two</u> possible extension strategies that SENG could use for one of its types of camera. [6]

Knowledge [2 × 1] – award 1 mark for each relevant strategy identified.
Application [2 × 1] – award 1 mark if relevant reference made to SENG's business/cameras.
Analysis [2 × 1] – award 1 mark for each relevant explanation.
For each reason: maximum 3 marks [1k + 1ap + 1an].

Relevant points might include:
- Add new features/version
- Change colour of camera to suit popular tastes
- Update image with new packaging
- Target new markets or market segments

Accept practical examples.
Do not accept general marketing strategies such as advertising or lower prices on own OR new products.

(e) Do you think that an increase in market share will always lead to higher profits for SENG? Justify your answer. [6]

Knowledge [2] – award up to 2 marks for identification of relevant issue(s).
Application [1] – award 1 mark if relevant reference made to SENG's business.
Analysis [1] – award 1 mark for relevant development of point(s).
Evaluation [2] – justified decision made as to whether an increase in market share will always lead to higher profits. For 6 marks must address the word 'always'.

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Relevant points might include:

- Lower prices could increase sales [k] but might lead to lower revenue as people only buy cameras [app] because they are cheaper [an]
- If larger share of a smaller market [k] sales volume might have fallen [an] as people now have cameras in phones [app]
- Larger market share due to increased sales volumes may lead to purchasing economies of scale [k] when buying camera components/materials [app] reducing unit cost increasing margins [an]
- Stronger brand recognition [k] which could improve competitiveness [an] as customers are more likely to trust and buy Seng's camera [app]
- More power to charge higher prices [k] if new design or camera feature [app] to gain additional revenue [an], which leads to an increase in profits (if costs rise at lower rate) but the market share might not increase

4 (a) What is meant by the 'private sector'? [2]

Good knowledge [2]: e.g. when business activities are owned by individuals/groups of individuals.
Some knowledge [1]: not government controlled/controlled or run by individuals/owned by shareholders.
For two marks, must have idea of ownership and by whom.
Do not accept 'privately owned' as does not explain term OR 'owned by the people' as it is too vague

(b) Identify <u>two</u> ways the government might support RU Air and other private sector business activity (other than building a new airport). [2]

Application [2 × 1] – award 1 mark per reason.

Ways could include: financial help such as grants OR subsidies, low tax rates, cheap rent areas, low interest rates, provide training, offer advice, organise business fairs, improve infrastructure, reduce regulations, tariffs on imports.

(c) Identify and explain <u>two</u> benefits to RU Air of high profits. [4]

Knowledge [2 × 1] – award 1 mark for each benefit.
Application [2 × 1] – award 1 mark for each relevant explanation in context.

Benefits:

- Source of finance/money to reinvest [k] so can fund expansion into country B [app]
- Sign of success [k] so stay one of the world's most profitable airlines [app]
- Able to pay out larger dividends [k] so encourage shareholders to invest in company [app – as RU Air is public limited company]
- Able to pay out larger bonuses [k] so employees are motivated to provide better service to passengers [app]
- Reduce risk of takeovers [k] as other airlines have to pay more for its shares [app]
- Help ensure long term survival of business [k]
- Measure of performance [k]

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Do not accept 'expansion' or example of it on own as many types of finance allow this.
Do not accept 'decreasing prices' as too vague.
Do not accept use profits to 'pay bills'; 'give wage rises'; 'buy stock'; 'pay debts'.

(d) Identify and explain <u>two</u> benefits for RU Air of having a website. [6]

Knowledge [2 × 1] – award 1 mark for each relevant benefit identified.
Application [2 × 1] – award 1 mark if relevant reference made to RU air.
Analysis [2 × 1] – award 1 mark for each relevant explanation.

For each reason: maximum 3 marks [1k + 1ap + 1an]

Relevant points might include:
- Improved communication [k] as ability to have email/phones mean airline employees [app] are in contact so able to respond to customer requests quickly [an]
- Increases public awareness/advertise [k]
- Reinforces image [k] as a leading airline [app] customers will expect business to have website these days [an]
- Increased sales potential [k] as allows customers to easily view options [an] before they book flights [app]
- Lower marketing costs [k] as can advertise latest rates/new destinations [app] quickly without having to reprint brochures [an]
- Lower fixed costs [k] as do not need to pay rent [an] so can close travel shops/call centres [app]
- Can sell/advertise to people around the world [k] which increases their potential market [an]

Note: Points must be advantages to business, not customers.

(e) Do you agree that there are likely to be more advantages for the local community from the new airport than disadvantages? Justify your answer. [6]

Knowledge [2] – award up to 2 marks for identification of relevant issue(s).
Application [1] – award 1 mark if relevant reference made to effect/impact of airport.
Analysis [1] – award 1 mark for relevant development of point(s).
Evaluation [2] – justified decision made as to whether there are more advantages or disadvantages for the local community.

- Improved infrastructure [k] so able to travel around the area more easily or overseas [an] as people have access to air travel [app]
- Economic growth of region as likely to lead to more jobs (e.g. taxis/hotels/tourism)/ higher profile for the area
- Job opportunities [k] as will need employees to work at check in/baggage [app] so can earn an income [an]
- Pollution e.g. air [k] as frequent flights will lead to fuel emissions [app] which could damage the environment/noise pollution as planes will be taking off at all times of day and night so people cannot sleep
- Loss of space/natural resources [k] as airport will take up a lot of land [app]
- Reduction in house prices [k] as they become less attractive [an] due to increased noise, traffic [app] OR prices might rise [k] making it difficult for locals to buy first property [app]

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5 (a) What is meant by an 'overdraft'? [2]

Clear understanding [2] e.g. when bank allows business to borrow/spend more money [1] than is available in their bank account [+1].

Some understanding or identifies one feature [1] e.g. repayable on demand OR ask for it back at any time, interest calculated daily OR only pay if use, short term source of finance, negative amount in bank.

Do not accept explanation of loan or short-term loan as this is different to an overdraft.

(b) Calculate the following [2]

Application [2 × 1] – award 1 mark for each correct value.
X = $ 15,000 000 or 15,000
y = $ (2000 000) or (2000)
$ sign not required. Note Y must be shown as negative value.

Note: Answer should be in millions but accept 15,000 and (2 000) due to question layout.

(c) Identify and explain <u>two</u> advantages to Anyshade of using flow production. [4]

Knowledge [2 × 1] – award 1 mark for each advantage
Application [2 × 1] – award 1 mark for each relevant explanation in context

Reasons might include:
- Costs are kept low [k] so might be able to reduce its prices [app]
- Capital intensive production [k] to help lower cash outflows for labour costs [app]
- Able to employ unskilled workers [k] as they only have to oversee the paint making machines [app]
- Goods can be produced quickly [k] so might help improve its cash inflows [app]
- Consistent/uniform standard of products [k] help to retain quality reputation [app]
- Production can continue 24/7 [k]
- Highest output [k] or higher output than batch production [k]
- Economies of scale [k] so able to reduce cash outflows [app]

Do not accept 'increased output' as too vague.

(d) Identify and explain <u>two</u> possible reasons why Anyshade has cash flow problems. [6]

Knowledge [2 × 1] – award 1 mark for each relevant reason identified.
Application [2 × 1] – award 1 mark if relevant reference made to data.
Analysis [2 × 1] – award 1 mark for each relevant explanation (calculations not necessary).

For each reason: maximum 3 marks [1k + 1ap + 1an].

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Relevant points might include:

- High fixed costs [k] of $70,000 is over half of the monthly cash outflows [app]. These must be paid whether sales are made or not [an]
- Sell stock on credit [k] which means that cash payments are delayed [an] as in Aug/Sep over half the cash inflow is from credit sales [app]
- Opening balance is negative to start with [k] with a value of ($9 000) [app]
- Poor cash flow management [k]
- Spend too much money [k]
- Wages fluctuate each month [k]

Note: Can accept comments based on general trend e.g. cash sales have fallen [k].

(e) Anyshade's Finance manager believes that reducing prices is the best way to increase sales revenue. Do you agree? Justify your answer. [6]

Knowledge [2] – award 1 mark for identification of relevant issue(s).
Application [1] – award 1 mark if relevant reference made to Anyshade.
Analysis [1] – award 1 mark for relevant development of point(s).
Evaluation [2] – justified decision made as to whether low prices are the best way for Anyshade to increase sales.

Relevant points might include:

- Low prices could make Anyshade more competitive [k] as paint [app] is cheaper than competitors so could increase volume of sales [an] but there is no guarantee that sales will increase [eval]
- Competitors reaction might lead to a price war which could result in fewer sales [k] if rivals offer better promotions [an]
- Price might not be reason why buy [k] as known for quality [app] so lower price might be seen as lower quality so fewer people want to buy [an]
- The business does not know why people buy paint [k] so lower prices might not affect its sales revenue [an]
- It depends on the price elasticity of demand
- Awareness of other issues affecting sales such as promotion, place could be discussed

Note: If candidate takes the view that reducing prices is not the best strategy, explains alternative strategies but does NOT discuss the advantages and/or disadvantages of reducing prices then max of 4 marks (with no marks for evaluation).

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