UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

International General Certificate of Secondary Education

MARK SCHEME for the October/November 2010 question paper for the guidance of teachers

0450 BUSINESS STUDIES

0450/23 Paper 2 (Case Study), 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.

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This mark scheme includes a summary of appropriate content for answering each question. It should be emphasised, however, that this material is for illustrative purposes and is not intended to provide a definitive guide to acceptable answers. It is quite possible that among the scripts there will be some candidate answers that are not covered directly by the content of this mark scheme. In such cases, professional judgement should be exercised in assessing the merits of the answer.

Examples of possible answers are also included in this mark scheme. Again, it should be emphasised that this is for illustrative purposes and the examples chosen represent only some of the many possible responses that would merit reward.

Application marks are not awarded for the name of the business or person from the case material. Application is by answering in the context of the case or by using the information in the case to help answer the question.

1 (a) The Four J's Café is a small business. Identify <u>two</u> ways of measuring the size of a business and explain one problem with each of these ways of measuring size. [8]

Content: number of employees; capital employed; value of output and sales.

The marks available for this question are as follows: 2 marks for knowledge and 6 marks for explanation/analysis.

1 knowledge mark + up to 3 explanation marks (4 marks × 2 ways)

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 3 additional marks.

Method: the number of employees (1 knowledge mark)

Simple explanation: the number of employees – the more employees the business has, the larger it is but not all businesses are labour-intensive. (1 additional mark for simple explanation)

Developed explanation: the number of employees (1) – the more employees the business has, the larger it is but not all businesses are labour-intensive (1). For example, one business could use labour-intensive methods of production and employ many people, whereas another business could be capital-intensive and employ few employees (1). However, they could both produce a similar output and be a similar size but using the number of employees to measure size would give a misleading result. (1) (2 further explanation marks for a developed explanation)

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(b) Governments often help small businesses. Identify <u>four</u> ways the Government could help small café businesses. For each of these ways explain why you think it will be effective. Justify your answer. [12]

Content: grants provided for new businesses; advice given to the owners of existing businesses; low-interest loans given to the owners of existing businesses; if businesses move to an area of high unemployment they could be free of tax for a number of years.

Level 1 – E.g. the Government could provide advice free for new businesses. 1 mark for each statement.

Level 2 – E.g. the Government could provide advice free for new businesses. This would help existing businesses to grow by advising them on the best way to do this. The owners of the business might not have the knowledge and skills to manage expansion effectively.
5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. 2 level 2 answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.
However, if the level 2 answer is very well explained, 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also very well explained, 8 marks in total can be awarded.

Level 3 – Detailed explanation of at least 3 factors at Level 2 and well-explained judgements about why these methods are effective in helping small businesses. E.g. the Government could provide advice free for new businesses. This would help existing businesses to grow by advising them on the best way to do this. The owners of the business might not have the knowledge and skills to manage expansion effectively. If the owners of the business did not have advice from business experts, they might make mistakes and lose money – they may even go bankrupt.

Possible application marks: food prices; partnership limited funds; business only 3 years old; located in area of high unemployment; high crime rate in area; tourists; empty buildings in the area; edge of city by a lake; advice on equipment for a new start-up café; security measures. There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks 3 × Level 2 + Good judgement shown about why these methods are effective in helping small business.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of how different methods help the business. Some limited judgement shown about the effectiveness of different methods in helping small business.

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Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Methods of helping small business listed.

2 (a) Internal and external communication is important to any business. Identify <u>four</u> methods of communication which might be suitable for the café to use and explain why each method would be suitable. [8]

Content: email; telephone; notice board; poster; fax; letter; memo.

The marks available for this question are as follows: 4 marks for knowledge; 4 marks for explanation of why it is suitable for the cafe.

1 knowledge mark + 1 application mark for each example (2 marks × 4 methods)

E.g. the managers at the café can use the telephone (1) to contact waiters about the hours they need to work. This is a very quick way of contacting employees to confirm when they are working and most people have a telephone. (1 explanation mark)

Possible application marks: contacting customers; new menu; waiters; food prices; meals; food suppliers; full-time/part-time employees; tourists; franchise. There may be other examples in context which have not been included here.

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(b) The owners of the café want to encourage young people to visit the café in the evenings. Consider <u>four</u> suitable methods of advertising or promotional offers the owners of the café could use to attract these customers. Recommend which method would be the most effective to use. Justify your choice. [12]

Content: advertising – posters/billboards; local newspaper; fliers; local radio.
Promotional offers – reduced price coupons; BOGOF; competitions.

Level 1 – Advertise on billboard near to schools. 1 mark for each suitable suggestion.

Level 2 – E.g. advertise on a billboard near to schools. This will be seen by lots of teenagers and will give them information about where the café is located and when it is open for them to visit. It should be attractive to persuade the teenagers to go to the café. 5 marks for level 2 answer plus 1 application mark for mentioning teenagers going to the café and the advertising being near to schools.
5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. 2 level 2 answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.
However, if the level 2 answer is very well explained, 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also very well explained, 8 marks in total can be awarded.

Level 3 – Detailed discussion of two level 2 answers and then a conclusion at the end which justifies which is the best way rather than the other ways. E.g. advertise on a billboard near to schools. This will be seen by lots of teenagers every day and is quite a cheap way of advertising. It would be more effective than fliers as these are given out in the street and then just thrown away, so they will not remind young people about the café unless they keep the flier.
9 marks plus at least 1 application mark for making reference to using billboards near to schools.

Possible application marks: teenagers; school; cheap prices; like music played; food and drinks; days of the week.
There may be other examples in context which have not been included here.

	Application	Analysis/Evaluation
Level 3		9–10 marks 2 × Level 2 + Well-justified recommendation for the best form of advertising or promotion to use compared with the other three methods.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of the suggested methods to use. Some limited judgement shown about which suggestion should be used.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Suitable suggestions listed/stated.

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3 (a) Explain <u>two</u> reasons why profits are important to the Four J's Café. [8]

Content: return on investment to partners; to reinvest into the business; to attract new partners; to give a bonus to employees.

The marks available for this question are as follows: 2 marks for knowledge, 4 marks for explanation and 2 marks for application.

1 mark for each reason (2 marks max). 4 analysis marks are also available – 2 marks for explanation of why each reason is important. 2 marks for application – 1 mark for application of each reason.

Reason: the partners will want a return on their investment in the business. (1 knowledge mark)

Simple explanation: the partners will want a return on their investment in the business. Their money has been put at risk as the café could go bankrupt and they will want a reward for taking this risk. (1 additional mark for simple explanation)

Developed explanation: the partners will want a return on their investment in the business. Their money has been put at risk as the café could go bankrupt and they will want a reward for taking this risk. Otherwise, the money could have been put in the bank and they would have been paid a guaranteed rate of interest on the money. The money would be safe and paid back whenever they want it. (1 further explanation mark for a developed explanation)

Application: the application mark is achieved as the answer considers partners of the cafe. (1 application mark)

Possible application marks: partners; $5 000 for each owner; $20 000 net profit; buying a building; investment in security equipment; easier to sell franchise. There may be other examples in context which have not been included here.

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(b) Using the information in Appendix 1 and Appendix 3, do you think the owners of the Four J's Café should be satisfied with the profitability of the business? Justify your answer using profitability ratios. [12]

Content: Level 1
Net profit has been growing and is now $20 000
Sales revenue is $100 000
Gross profit is $76 000
ROCE for small businesses is 20% and the net profit margin is 15%.

Level 2
ROCE = 10%
Gross profit ratio = 76%
Net profit ratio = 20%
Food – sold for 4 times the cost
Drinks – sold for 5 times the cost

Level 1 – E.g. net profit has been growing and is now $20 000. 1 mark for each statement.

Level 2 – E.g. the café makes four times as much revenue on food but five times as much revenue on drinks. This shows that more profit is gained on drinks than food. 5 marks for level 2 answer.
5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. 2 level 2 answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.
However, if the level 2 answer is very well explained, 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also very well explained, 8 marks in total can be awarded.

Level 3 – Detailed discussion of at least two level 2 answers which consider the financial position of the business. There will be a conclusion at the end which justifies whether or not it is in a good financial position. E.g. the café is in a good financial position because, even though the ROCE is only 10% when the average for small businesses is 20%, it has a net profit margin of 20% when the average is 15% for small businesses, so it is making a good profit relative to other businesses.

	Application/Analysis/Evaluation
Level 3	9–12 marks Level 2 + Comments made on at least 2 calculations and/or ratios. Decision made and justified about whether or not the financial position of the business is good.
Level 2	5–8 marks Financial information calculated and/or ratios calculated on the profitability of the business. Interpretation of the calculations.
Level 1	1–4 marks Basic statements about financial situations/limited judgement shown.

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4 (a) Identify <u>two</u> stakeholder groups in the Four J's Café and explain one main objective for each of these stakeholder groups. [8]

Content: owners; employees; customers; government; local community; suppliers; banks.

The marks available for this question are as follows: 2 marks for knowledge, 4 marks for explanation and 2 marks for application.

1 mark for each stakeholder (2 marks max). Up to two further marks are available for explaining one main objective for each stakeholder. 2 application marks are also available – 1 application mark for each stakeholder.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each stakeholder (4 marks × 2 stakeholders)

Possible application marks: kitchen staff; food suppliers; teenager customers; unemployed people in the local area; tourists; franchisee; owners of nearby empty buildings. There may be other examples in context which have not been included here.

Example: employees are stakeholders in the café. (1 knowledge mark)

Simple explanation: employees are stakeholders in the café as they will be concerned about the success or failure of the café. If it fails, they might lose their job. (1 additional mark for simple explanation)

Developed explanation: employees are stakeholders in the café (1) as they will be concerned about the success or failure of the café. If it fails, they might lose their job (1) but if it is successful their jobs will be safe and the kitchen staff may even get paid a bonus. (1 further explanation mark for a developed explanation)

Application: the application mark will be gained as the answer refers to kitchen staff. (1 application mark)

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(b) The owners of the café want to expand the business. Consider the advantages and disadvantages of the <u>three</u> options outlined in the case and recommend which option they should choose. Justify your choice. [12]

Content:

Option 1 buy a building in New City centre.
For: busy area, more customers, near to tourist areas, new market segment.
Against: cost of land is high, competition nearby, need to raise finance.

Option 2 expand the existing café.
For: already known in the area, keep same employees, government grant.
Against: may not get permission to build, still in area of high crime, need to raise finance.

Option 3 sell franchise.
For: royalty payments, don't have to find the capital for expansion.
Against: may get bad reputation if franchisees do not run their businesses well.

Level 1 – E.g. building a new café in the city centre will cost a lot as land is expensive. 1 mark for each statement.

Level 2 – E.g. building a new café in the city centre will cost a lot as land is expensive. The costs will be higher but there will be more customers as the area is well known for tourists and they may want to visit a café. Therefore the higher sales revenue from customers will more than cover the higher costs and they will make a good profit because it will be so busy. 5 marks for level 2 answer.
5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. 2 level 2 answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.
However, if the level 2 answer is very well explained, 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also very well explained, 8 marks in total can be awarded.

Level 3 – Detailed discussion of at least two level 2 answers and then a conclusion at the end which justifies which is the best way for the cafe to expand compared with the other 2 options.

Possible application marks: tourists; government grant; low-interest loans; already successful business; café is relatively new to sell as a franchise; tax breaks.
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks 2 × Level 2 + Well-justified recommendation for the best way to expand compared with the other two options.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of the three options. Some limited judgement shown about the effectiveness of the ways to expand.

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Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Points for and against each option are listed.

5 (a) Identify and explain <u>two</u> reasons why the Four J's Café may want to use <u>internal</u> recruitment when selecting a new manager to run the café. [8]

Content: because the owners will know what the person is like; saves money on external recruitment; will act as motivation for other employees; may save money on training.

The marks available for this question are as follows: 2 marks for knowledge, 4 marks for explanation and 2 marks for application.

1 mark for each reason (2 marks max). Up to two further marks are available for explaining why each reason is important to the business. 2 application marks are also available – 1 application mark for each reason.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each reason (4 marks × 2 reasons)

Possible application marks: kitchen staff; already knows the café customers; café employees; full-time/part-time employees; expansion. There may be other examples in context which have not been included here.

Reason: the owners will know what the person is like (1 knowledge mark)

Simple explanation: they will know if the person is punctual, hard working and suitable for the job etc. (1 additional mark for simple explanation)

Developed explanation: the owners will know what the person is like. (1) They will know that the person has the relevant experience and is suitable for the job etc.(1) If the person has worked for them in the kitchen for several years, it will be clear whether they will be able to do the job of café manager. However, if they recruited someone externally, they may not be suitable and it may be harder to find out before they had been appointed to the job. (1 further explanation mark for a developed explanation)

Application: the application mark could be achieved as the answer refers to working in the kitchen. (1 application mark)

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(b) The market segment currently targeted by the business is young people. Identify a different market segment that the café could target. Recommend and explain a suitable marketing mix for the café if the owners decide to target the market segment you have identified. [12]

Content: high-income groups; middle-aged people; elderly people; tourist; health-conscious.

Level 1 – E.g. if they target older people, they may charge a higher price. 1 mark for each statement.

Level 2 – E.g. the pricing strategy may have to change to charging much higher prices for the drinks and food in the café as they are targeting older consumers. They have higher incomes than young people and the higher prices will be associated with higher quality food and drinks. So a pricing strategy of premium pricing could be used. 5 marks for level 2 answer plus 1 application mark for mentioning food and drinks in the café.
5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. 2 level 2 answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.
However, if the level 2 answer is very well explained, 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also very well explained, 8 marks in total can be awarded.

Level 3 – Detailed explanation of all four Ps (pricing, promotion, place and product) at Level 2 and all four Ps fit together to form a coherent strategy for the new target market.

Possible application marks: food; menus; meals; drinks; days of the week; music; high crime rate; café furniture. There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
		9–10 marks All four Ps explained at Level 2. All four Ps should link together to form a coherent strategy.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Explanation of any of the four Ps in terms of why these elements of the marketing mix would be effective. Some limited judgement shown about why the marketing mix would be suitable for the new target market.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Target market identified. Pricing, promotion, place or product mentioned.

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