CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the May/June 2014 series

7115 BUSINESS STUDIES

7115/22 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.

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.

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General Marking Guidance

- Marking should be positive: marks should not be subtracted for errors or inaccuracies.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.
- Errors that are carried forward (e.g. when an incorrect numerical answer to one part of a question is used as the starting point for a calculation in the next part of the question) should not be compounded – use the 'own figure rule'.
- Poor spelling, handwriting or grammar should not be penalised as long as the answer makes sense.
- Answers that are not written on the answer lines should be marked.
- Scoris annotations to be used for part (b) questions are – 'L1', 'L2' and 'L3' should be used to indicate the level being awarded to a response. 'App' should be used to indicate where the application marks are being awarded. Annotations for part (a) questions should be green ticks to indicate where credit is being given and 'App' to indicate application marks.
- A blank space, dash, question mark and a response that bears no relation to the question constitutes a 'no response'.

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 and the senior examiners should be consulted if further guidance is required.

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.

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1 (a) Identify and explain <u>two</u> disadvantages to Manuel of operating as a sole trader. [8]

Content:

- Lack of capital
- No one else to help make decisions
- Unlimited liability
- No continuity
- May have limited range of skills
- Long working hours / difficult to take holidays

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

1 mark for each disadvantage (2 marks maximum). Up to two further marks are available for explaining the disadvantage. 2 application marks are also available.

Possible application marks: shop; fruit and vegetables; been in business for 10 years; one month credit given to regular customers; 5 employees / part time.

There may be other examples in context which have not been included here.

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

Disadvantage: He will have unlimited liability (1 mark for knowledge)

Developed explanation: He will have unlimited liability (1) which means that if the shop goes bankrupt he could lose all his personal possessions, (2) which means he could lose not just the money he put into the shop but all the other debts of the shop would have to be paid by Manuel. (3)

Application: The application mark could be achieved as the answer makes reference to the shop (1 application mark).

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(b) Consider <u>three</u> ways Manuel could use to improve the cash flow of his business. Recommend which way would be the best one to choose. Justify your answer. [12]

Content:

- Reduce wages
- Buy cheaper stocks of fruit and vegetables
- Raise price of products
- Sell more fruit and vegetables
- Reduce fixed costs
- Overdraft facility
- Loan (Bank or family and friends)
- Delay paying suppliers / improved terms
- Reduce credit terms for customers
- Increased advertising
- Reduce wastage

Level 1 – 1 mark for each statement, e.g. Manuel needs to raise his prices (1 mark).

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks.
E.g. Manuel needs to raise his prices as this may increase his shop revenue and improve his financial position. However, there is a danger that if he increases his prices he will be less competitive with other fruit and vegetable shops and may lose customers to the competitors' shops. Hence his cash flow would not improve. 5 marks for level 2 answer plus one application mark for mentioning fruit and vegetable shops.

Level 3 – Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which is the best way to choose compared to the other ways.

Possible application marks: shop; fruit and vegetables; been in business for 10 years; reference to delivery costs; one month credit given to regular customers; finance figures from App 1; 5 employees down to 4; 100% mark-up.

There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/ Evaluation
Level 3		9–10 marks At least 2 × Level 2 + well justified recommendation as to the best way to choose compared to the other ways.
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 advantages/disadvantages of each way to improve the cash flow OR balanced argument. Some limited judgement shown in recommendation about the best way to choose.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Outline of advantages/disadvantages of each way to improve the cash flow.

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2 (a) Identify and explain <u>four</u> reasons why customers may prefer to buy fruit and vegetables from Manuel's shop rather than from large supermarkets. [8]

Content:

- Personal service / local reputation
- Business customer relationship / loyalty
- Credit given
- Proposed /delivery service
- Meets the needs of local customers
- More convenient / better location
- Longer opening hours
- Fresh / good quality produce

1 mark for each reason identified plus 1 explanation mark for each reason.

1 knowledge mark + 1 explanation mark (2 marks × 4 reasons)

Reason: The shop is more convenient (1 knowledge mark)

Explanation: The shop is more convenient (1) as it is located near to the customer's house whereas large supermarkets are located some distance away and will need transport to get there (1 explanation mark).

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(b) Manuel is considering how to transport his stock of fruit and vegetables to the shop. Consider the costs and benefits of the following <u>three</u> options. Recommend which is the best one to choose. Justify your answer. [12]

Content:

(i) *Buy own truck* – use when needed; no delays; cost of running vehicle; cost of buying old vehicle or $12,000 for new truck ($19.23 for 4 deliveries a week = ($4000/52)/4).

(ii) *Pay the supplier a delivery charge* – may be expensive if many small deliveries; do not have to pay large amount of capital to purchase vehicle; $80 per week for delivery; not responsible for maintenance and wear and tear.

(iii) *Rent a truck when needed* – only pay when using the vehicle; may be cheaper/more expensive than buying own vehicle – it depends on usage; need to book and pay in advance – may not need it; $200 plus fuel for 4 days a week; not responsible for maintenance and wear and tear.

Level 1 – 1 mark for each statement.
E.g. *Rent a truck when needed* – Manuel will only pay when using the truck (1 mark).

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks.
E.g. *Rent a truck when needed* – when renting a truck Manuel will only pay when using the vehicle and so it may be cheaper than buying his own lorry if he doesn't make many journeys. However, if he hires a truck 4 times a week to fetch stock for the shop then it will cost $200 and it may be cheaper to buy his own lorry. He also needs to book the delivery truck in advance to make sure he can hire one and they have not all been booked out. He needs to be organised to do this and he may find he does not need the truck and so wastes money. 5 marks for level 2 answer plus one application mark for mentioning the cost figures and needing to book the delivery truck in advance.

Level 3 – Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which is the best option to choose compared to the other options.

Possible application marks: located on a main road; been in business for 10 years; reference to delivery costs; reference to financial information from Appendix 1; $4000 for old truck or 3 × $4000 for new truck; $20 for delivery; $50 hire charge; wholesale supplier; cash flow problems; sole trader.

There may be other examples in context which have not been included here.

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	Application	Knowledge/Analysis/ Evaluation
Level 3		9–10 marks At least 2 × Level 2 + well justified recommendation as to the best option to choose compared to the other 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 advantages/disadvantages of each option OR balanced argument. Some limited judgement shown in recommendation about the best option to choose.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Outline of advantages/disadvantages of each option.

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3 (a) Identify and explain <u>two</u> reasons why many governments help small businesses such as Manuel's. [8]

Content:

- To increase employment
- To increase economic growth / local economy
- Small businesses may grow into large businesses
- Increased competition
- To help them survive

1 mark for each reason identified (2 marks maximum). Up to three further marks are available for explaining the reason.

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

Simple explanation: To raise employment levels (1 mark for knowledge)

Developed Explanation: To raise employment levels (1) as small businesses will employ many workers in their shops and factories and so reduce unemployment (2). Without government help, businesses like Manuel's fruit and vegetable shop may not open and therefore these workers would not have a job (3). This may reduce benefit payments or increase tax for the government (4).

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(b) Manuel needs to order fruit and vegetables on a regular basis from his supplier. Consider the advantages and disadvantages of <u>three</u> methods of communication he could use to place orders with his supplier. Recommend the best method for him to use. Justify your answer. [12]

Content:

- Email
- Telephone
- Fax
- Post order form
- SMS
- Face to face

Level 1 – 1 mark for each statement
E.g. Manuel could use email to place orders for fruit and vegetables (1 mark).

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks.
E.g. Manuel could use email to place orders for fruit and vegetables with the wholesaler because email is quick and cheap to use. He only needs a computer and internet access. The order will get there straight away. The only problem may be if he uses the wrong email address or the email gets lost then Manuel may not know whether the order has been received as there is not necessarily any feedback.
5 marks for level 2 answer plus one application mark for mentioning wholesaler.

Level 3 – Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which is the best method of communication to choose compared to the other methods of communication.

Possible application marks: shop; been in business for 10 years; sole trader; wholesaler. There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/ Evaluation
Level 3		9–10 marks At least 2 × Level 2 + well justified recommendation as to the best method of communication to choose compared to the other methods of communication.
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 advantages/disadvantages of each method of communication OR balanced argument. Some limited judgement shown in recommendation about the best method of communication to choose.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Suitable method of communication named/outline of advantages/disadvantages of each method of communication.

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4 (a) Having well motivated employees is very important to Manuel. Identify and explain <u>two</u> ways Manuel could use to motivate his shop employees. [8]

Content:

- Raise their wages
- Give discount on shop products
- Job rotation
- Job enlargement
- Bonus
- Commission
- Working conditions
- Fringe benefits
- Recognition of good work
- Leadership style
- Training

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

1 mark for each way identified (2 marks maximum). Up to two further marks are available for explaining how the method of motivating the employees will be effective **for a sole trader.** 2 application marks are also available.

Possible application marks: fruit and vegetables; been in business for 10 years; sole trader; 5 employees; part time; reference to delivery/new service. There may be other examples in context which have not been included here.

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

Simple explanation: Give the workers discount on shop products (1 mark for knowledge).

Developed Explanation: Give the workers discount on shop products (1). This will mean that the part-time workers in the shop will get extra take-home pay as the fruit and vegetables they normally buy will cost less (2). This has the same effect as giving the workers a pay rise but it does not cost Manuel any more money and the workers will be happy (3).

Application: The application mark could be achieved as the answer makes reference to fruit and vegetables and part-time workers (1 application mark).

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(b) Manuel plans to deliver a box of fruit and vegetables every week to each of his regular customers. Consider the advantages and disadvantages of the following <u>three</u> promotional methods he could use for this new service. Recommend which promotional method he should use. Justify your answer. [12]

Content:

Advertising on local radio – reaches target customers; heard by a large number of people; can have a catchy song; relatively expensive; not everyone listens to the radio; no visual images.

Leaflets – cheap to produce; can be kept for reference; may not be looked at – just thrown away; need to pay for delivery.

Posters/billboards – poster*s* relatively cheap to produce; cheap especially if posters in shop windows; billboards in city centres can be expensive; seen by passers-by; may be ignored; may not be eye-catching.

Level 1 – 1 mark for each statement.
E.g. Manuel could put posters in his shop window (1 mark).

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks.
E.g. Manuel could put posters in his shop window as they are cheap to produce and it will be seen by all his regular customers when they come into the shop to buy their fruit and vegetables. They could see the poster and ask the shop assistant about the service and so they could get more details about it. However, with posters there is a danger that customers will not look at it when they pass the window each time they visit. 5 marks for level 2 answer plus one application mark for mentioning the shop selling fruit and vegetables.

Level 3 – Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which is the best method of promotion to choose compared to the others.

Possible application marks: shop; reference to financial information from Appendix 1; sole trader; been in business for 10 years; reference to delivery costs; located on a main road in capital city in country X.
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/ Evaluation
Level 3		9–10 marks At least 2 × Level 2 + well justified recommendation as to the best method of promotion to choose compared to the alternatives.
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 each method of promotion OR balanced argument. Some limited judgement shown in recommendation about the best method of promotion to choose.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Outline of each method of promotion.

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5 (a) Identify and explain <u>four</u> factors that affect how much stock of fruit and vegetables Manuel's shop should have. [8]

Content:

- Demand from customers
- How perishable is the stock
- Storage space in the shop
- Delivery charges
- Seasons/celebrations
- Amount of money

1 mark for each factor identified plus 1 explanation mark for each factor.

1 knowledge mark + 1 explanation mark (2 marks × 4 factors)

Reason: How perishable is the stock (1 knowledge mark)

Explanation: How perishable is the stock (1) because if the fruit and vegetables do not last very long before they go off then stock will be replaced often to ensure it is fresh (1 explanation mark).

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(b) Manuel has been operating his successful fruit and vegetable shop for ten years. He wants to expand by either opening more shops or becoming a franchisor and selling franchises to other people. Consider these two methods of expansion. Recommend which method he should choose. Justify your answer. [12]

Content:

Open own shops – can keep all the profits; more control over the operations; large amount of capital required; may need to take on partners or shareholders.

Selling franchises – capital injection from selling the franchise plus share of the profits; still have control over shop image; expand more quickly; get business name more widely known; rapid expansion may be difficult for him to control; success of the business will now depend on the skill of the franchisees (could improve or damage reputation).

Level 1 – 1 mark for each statement.
E.g. Manuel will gain a capital injection from selling the franchise plus he will receive a share of the profits made by the shops (1 mark).

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks.
E.g. Manuel will gain a capital injection from selling the franchise plus he will receive a share of the profits made by the shops. He will still have control over the shop image as the franchisee will have to keep the shop in the same colours as Manuel's shop, sell the stock supplied by Manuel, etc., as this will be part of the franchise agreement. 5 marks for level 2 answer.

Level 3 – Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which is the best option to choose compared to the other option.

Possible application marks: sole trader; located on main road; reference to financial information from Appendix 1; country X; capital city.

There may be other examples in context which have not been included here.

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	Application	Knowledge/Analysis/ Evaluation
Level 3		9–10 marks At least 2 × Level 2 + well justified recommendation as to whether to sell a franchise compared to opening his own shops.
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 advantages/disadvantages of selling a franchise and opening his own shops OR balanced argument. Some limited judgement shown in recommendation about whether to sell a franchise or open his own shops.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Outline of advantages/disadvantages of selling a franchise and opening his own shops.

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