CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge Ordinary Level

MARK SCHEME for the May/June 2015 series

7115 BUSINESS STUDIES

7115/21 Paper 2 (Case Study), maximum raw mark 80

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1 (a) Identify and explain <u>two</u> characteristics David needs to be a successful entrepreneur. [8]

Knowledge (2 × 1) – award one mark for each <u>relevant</u> characteristic identified
Analysis (2 × 1) – award one mark for a <u>relevant</u> explanation of each characteristic
Application (2 × 2) – award two application marks for each <u>relevant</u> characteristic

Relevant characteristics might include:

Award one mark for each relevant characteristic (maximum of two), such as:

- Hard working
- Risk taker
- Creative
- Optimistic
- Self-confident
- Innovative
- Independent
- Effective communicator
- Forward thinker
- Determined

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of why these characteristics are needed to be a successful entrepreneur.

Indicative response:

Hard working (k) as the business has only been established for 10 years and has non-current assets worth $100m (ap). David worked long hours 7 days a week to find customers so the business has grown (ap). He has had to work hard to manage the business effectively so that it is successful (an).

Possible application marks: cake manufacturing; food; shareholder; private limited company; started 10 years ago in country x; invested all his savings; profits have been constantly increasing every year; constantly develops a new range of cakes; works 7 days a week; has four managers for each department; e-commerce; Figures from Appendix 2; new markets abroad.

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

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(b) David has appointed a manager to control each department as shown in Appendix 1. Identify and explain <u>three</u> management functions of the Operations manager. Which do you think is the most important management function? Justify your answer. [12]

Relevant points might include:

- Planning – sets aims/targets; plan for necessary resources
- Organising – delegate tasks; people and resources; ensure everyone working effectively/no duplicated tasks
- Coordinating – ensure departments working together; aims/tasks linked together; chair regular meeting between departments
- Commanding – guiding employees; leading/supervising employees; ensure employees keep to targets/tasks
- Controlling – measure/evaluate work of employees; identify poor performance/identify problems

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the most important management function of the Operations Manager compared to the other functions 7–8 marks for some limited judgement shown in recommendation as to the most important management function of the Operations Manager.
Level 2	4–6 marks Detailed discussion of each management function of the Operations Manager.
Level 1	1–3 marks Name management function and/or identifies key tasks Operations manager will carry out.

Level 1
1 mark for each L1 statement (max of 3 marks), e.g. the Operations Manager needs to control the department.

Level 2
One L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks), e.g. the Operations Manager needs to control the department. This will involve ordering the ingredients to ensure that the planned production of cakes can be made otherwise bakers may not be able to bake the batches of cakes ordered. (4 marks for L2 answer + 1 application mark for mentioning bakers and making cakes.)

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Level 3
For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies the most important management function, e.g. planning will be the most important management function because if the Operations Manager does not plan efficiently then workers may not work effectively. They could be waiting for ingredients to arrive and not be able to work. This is more important than commanding the workers to do their work as if they do not have ingredients then commanding them to work will not be effective.

Award up to 2 additional marks for relevant application.

Possible application marks: cake manufacturing; constantly develops a new range of cakes; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops; 125 workers; may need to make some workers redundant; automated production line; efficiency increases by 10% for option A; investment of $8m; 10 production employees for option B.

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

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2 (a) Identify and explain <u>two</u> ways in which marketing is important for DD. [8]

Knowledge [2 × 1] – award one mark for each relevant way
Analysis [2 × 1] – award one mark for a relevant explanation for each way
Application [2 × 2] – award two application marks for each way

Award one mark for each relevant way (maximum of two), such as:

- to identify customer needs
- to satisfy customer needs
- to maintain customer loyalty
- to gain information about customers/conduct market research/collecting data
- to anticipate changes in customer needs
- to raise awareness of new products
- to advertise/promote the new products
- to create a brand image
- to persuade people to buy products
- to increase sales
- to attract new customers
- reference to importance of the four P's
- to help the business become more competitive

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the ways marketing is important.

Indicative response:

To identify customer needs [k] because David needs to know what types of cakes to bake [ap]. By producing the types of cakes which customers most want to buy will lead to higher sales [an]. Therefore the company is more likely to be successful and return a good dividend to David and his shareholders [ap].

Possible application marks: cake manufacturing; food; shareholders; started 10 years ago in country x; constantly develops a new range of cakes; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops.

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

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(b) Consider the advantages of using e-commerce and the advantages of selling to supermarkets in other countries. Recommend which way DD should use to increase sales. Justify your answer. [12]

Relevant points might include:

Advantages of using e-commerce	Advantages of selling to supermarkets in other countries
• Can sell to a wider market • Can be used for advertising • Customers can order any time • New markets reached • Direct customer contact	• Large/regular orders placed • Administration savings on fewer but larger order/economies of scale • Feedback from supermarkets on which products sell well • Display in supermarket promotes the cakes

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best way to increase sales compared to the other way. 7–8 marks for some limited judgement shown in recommendation as to the best way to increase sales.
Level 2	4–6 marks Detailed discussion of advantages of e-commerce and advantages of selling to supermarkets in other countries. **N.B. do not reward disadvantages**
Level 1	1–3 marks Outline the advantages of e-commerce and advantages of selling to supermarkets in other countries.

Level 1
1 mark for each L1 statement (max of 3 marks), e.g. David can sell to a wider market.

Level 2
One L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks), e.g. David can sell to a wider market. This will allow the company to increase production and expand the business. If the cost of cake ingredients fall as output increases then this will help David to increase profits further. (4 marks for L2 answer + 1 application mark for mentioning cake ingredients.)

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Level 3
For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which is the best way. Overall there will be higher costs involved in expanding the business by selling cakes online especially as the company sell food items. It will be difficult to maintain the quality of the cakes when they are posted out to customers. (L3) So although they can sell to a wider market they should take this option because of the difficulties of maintaining the quality of the cakes. (L3) It is much easier to deliver large quantities of cakes to supermarkets abroad as delivery will be in specialised containers to keep the cakes fresh (L3) and administration costs will be kept low by fewer but larger orders to process. (L3)

Award up to 2 additional marks for relevant application.

Possible application marks: cake manufacturing; perishable products; food; constantly develops a new range of cakes; Figures from Appendix 2; new markets abroad; small food shops; automated production line; efficiency increases by 10% for option A; investment of $8m; 10 production employees for option B.

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

3 (a) The company Balance Sheet helps David assess the performance of the business.

(i) Calculate the current ratio and acid test ratio for 2014. [4]

(ii) Compare your two ratio results with those of 2013 (see Appendix 2) [4]

Knowledge [2 × 1] – award one mark for each correct ratio
Analysis [2 × 1] – award one mark for each correct calculation

(i) Current ratio 1000/600 = 1.66/ 1.67 (1K + 1Ap)
Accept 1300/600 = 2.16/ 2.17 if working shown

Acid test ratio 700/600 = 1.16/ 1.17 (1K + 1Ap)
Accept 1000/600 = 1.6/ 1.67 if working shown

2 marks for each correct answer; 1 mark if correct method/formula but incorrect answer

(ii) Application + Analysis [2 × 2] – award one application mark for the comparison between the figures and one analysis mark for each explanation of the calculation result from (i)

Indicative response:

The current ratio is lower [ap] because the current liabilities have increased [an].

The acid test ratio is higher (ap) because the amount of inventories has fallen so less working capital is being tied up in inventories [an].

NB do not reward 'better' or 'worse' for the comparison of the figures but an explanation of why the figure is better or worse can be credited.

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(b) David wants to increase efficiency in his factory. Consider Option A and Option B and then recommend which one he should choose. Justify your answer. [12]

Relevant points might include:

	Advantages	**Disadvantages**
Option A (training existing production employees)	• Cheaper • No redundancies • Increased output meets increased sales • Workers feel valued/increased job satisfaction	• Increase in efficiency only by 10% • Large wage costs • Loss of output from experienced workers when carrying out training • Large number of workers to retrain
Option B (automated production line)	• Labour efficiency will increase • Low wage costs • New markets	• High capital cost • Off-the-job training required • Cost of redundancy payments • Worker morale/motivation issues

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best option to choose to increase efficiency compared to the other option. 7–8 marks for some limited judgement shown in recommendation as to the best option to choose to increase efficiency.
Level 2	4–6 marks Detailed discussion of advantage/disadvantage of Option A and/or B. **NB do not reward mirror image arguments**
Level 1	1–3 marks Outline of advantage/disadvantage of Option A and/or B. **NB do not reward mirror image arguments**

Level 1
1 mark for each L1 statement (max of 3 marks), e.g. only needs to train existing workers and so it is cheaper.

Level 2
one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks), e.g. only needs to train existing workers and so it is cheaper. Also by using on-the-job training methods then training costs will not be high. However, output only increases by 10% and so not much additional output of cakes will be gained. (4 marks for L2 answer + 1 application mark for mentioning output of cakes.)

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Level 3
For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which is the best option to choose.
Award up to 2 additional marks for relevant application.

Possible application marks: cake manufacturing; food; off-the-job training; on-the-job training; perishable products; constantly develops a new range of cakes; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops; 100 production workers/10 remaining production workers; 90 redundancies; may need to make some workers redundant; automated production line; efficiency increases by 10% for option A; investment of $8m.

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

4 (a) Identify and explain <u>four</u> factors DD should consider when packaging cakes if they are exported. [8]

Analysis [4 × 1] – award one mark for each factor (maximum of 4)
Application [4 × 1] – award one mark for an explanation in context of each factor (maximum of 4)

Award one mark for each relevant factor (maximum of four), such as:

- protect the product
- easy to transport the product
- contains correct information about the product for that country
- promotes the brand image for the product
- is culturally sensitive
- appropriate language
- recyclable packaging
- cost of packaging

Award a maximum of one additional mark for **each** explanation of the factor in context.

Indicative response:

Contains the correct information about the cakes for that country it is being exported to [ap] because without the correct information the company could be charged with misleading information. [an]

Possible application marks: transporting over long distances; constantly develops a new range of cakes; food; labelling; ingredients; contamination; sell-by date; easily damaged/fragile; perishable; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops.

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

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(b) External factors can affect the profitability of a company. For each of the following changes consider how it might affect DD's profit. Which change is likely to have the greatest effect on DD's profit? Justify your answer. [12]

Relevant points might include:

Increasing GDP in country x	• higher incomes – increased demand • higher sales of luxury products – increased demand • may eat other products to cakes – so demand falls
Reduced supply of the raw materials used to make cakes	• less ingredients available – increased costs • higher prices – decreased demand • Prices same but lower profits
Television programme highlighting the effects on health of eating too many cakes	• Negative publicity – lower demand • Not many see the programme – little effect on sales • Consumers loyal and ignore the advice

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as which change has the greatest effect on profit compared to the other changes. **NB must be explicit reference to the effect on profit.** 7–8 marks for some limited judgement shown in conclusion as to which change has the greatest effect on profit.
Level 2	4–6 marks Detailed discussion of the changes and how they affect profits.
Level 1	1–3 marks Outline of the changes and how they affect profits.

Level 1
1 mark for each L1 statement (max of 3 marks), e.g. Increasing GDP means more people have jobs and incomes are higher.

Level 2
One L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks), e.g. increasing GDP means more people have jobs and incomes are higher. Higher incomes means more luxury products are bought and therefore people may buy more cakes to treat their family leading to increased demand for DD's cakes. (4 marks for L2 answer + 1 application mark for mentioning more cakes being bought.)

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Level 3
For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which change has the greatest effect on profits e.g. higher GDP will probably have the greatest effect on profits as it will lead to higher demand for the cakes.(L3) The television programme may have little effect as it depends on how many people watched it and how many people believed what they were being told. (L3) The rising cost of ingredients could be passed on to the customer and therefore there will be little effect on profits. (L3) It depends on how bad the harvest is and how big an increase there is in the costs of the ingredients. So overall increasing GDP is likely to have the greatest effect on profits. (L3)

Award up to 2 additional marks for relevant application.

Possible application marks: constantly develops a new range of cakes; ingredients; food; increased production workers; $8m investment; perishable products; luxury products; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops.

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

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