CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge Ordinary Level

MARK SCHEME for the May/June 2015 series

7115 BUSINESS STUDIES

7115/22 Paper 2 (Case Study), maximum raw mark 80

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1 (a) Samah and Selina wrote a business plan before FF started trading 5 years ago. Identify and explain <u>two</u> ways their business plan might have helped to make the business successful. [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:

- It helps to secure a bank loan or overdraft
- The entrepreneur thinks ahead and plans out carefully the next few years
- Reduces risks of failure as the owners have thought through problems the business might have
- To clarify the aims and objectives / targets to aim for
- Aids financial planning

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** - of the way a business plan might help make the business successful.

Indicative response:

A business plan reduces risk for the business (k) as Samah and Selina will have thought through problems such as where to source their ingredients for the ice cream and what it will cost them (ap). This will allow them to prepare for any problems and stop these causing difficulties for the business (an). This might include preparing for cash flow problems at times of the year when demand is low (ap).

Possible application marks: partnership; produces ice cream; high quality ingredients; expensive ingredients; ice cream sold for a high price; borrow finance easily from the bank; sales increased for four years; demand high for 6 months; cost / revenue data from appendix 3; new products / flavours; redundant workers; have taken out a bank loan; high income consumers.

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

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(b) Consider the advantages to FF of employing full-time workers and the advantages to FF of employing part-time workers. Do you think a combination of these two types of workers would be best? Justify your answer. [12]

Relevant points might include:

	Advantages
Full-time workers	Likely to be better trained More committed to the business More likely to be trained / skilled than part-time workers Feel secure in job – more motivated (although several made redundant)
Part-time workers	More flexible hours Easier to extend hours at busy times Accept lower pay as fits in with family commitments

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 type of worker to employ compared to the other type of worker. 7–8 marks for some limited judgement shown in recommendation as to the best type of worker to employ.
Level 2	4–6 marks Detailed discussion of advantages of part-time and / or full-time workers.
Level 1	1–3 marks Outline of advantages of part-time and / or full-time workers.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. part-time workers are more flexible in the hours they are willing to work.

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. part-time workers are more flexible in the hours they are willing to work. This will allow Samah and Selina to reduce the hours of these workers when demand for ice cream is low for 6 months of the year, thus reducing wage costs (4 marks for L2 answer + 1 application mark for mentioning ice cream and demand being low for 6 months of the year).

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 combination to choose.

Award up to 2 additional marks for relevant application.

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Possible application marks: produces ice cream; ice cream sold for a high price; borrow finance easily from the bank; multinational food company; sales increased for four years; demand high for 6 months; workers made redundant each year; 100 full-time production workers; cost / revenue data from appendix 3; new products.

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

2 (a) Identify and explain <u>two</u> benefits to FF of targeting a specific market segment for its products. [8]

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

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

- makes advertising / promotion more effective
- a more focused marketing mix
- product meets customer needs of specific niche
- price suitable for target market
- suitable channel of distribution chosen
- meets specific customer needs
- more effective use of marketing budget
- more likely to have higher sales to that target market
- lower competition in a specific market

N.B. the discussion should focus on marketing as opposed to production

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** - of the benefit of targeting a specific market segment for its products.

Indicative response:

The marketing mix is likely to be more effective (k) because FF has identified the particular high income customers (ap) who are likely to buy their ice cream. The advertising can be in a form which reaches these target customers and so make the promotion more effective [an]. The cost of promotion is likely to be more cost effective in turning advertising expenditure into sales of ice cream (ap).

Possible application marks: produces ice cream; high quality ingredients; expensive ingredients; ice cream sold for a high price; sales increased for four years; increasing economic growth leading to economic development; high income customers; essential / luxury products;

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

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(b) Samah and Selina will want to promote the new flavour of ice cream. Consider the advantages and disadvantages of the following three methods of promotion. Recommend which is the best method for Samah and Selina to use. Justify your answer. [12]

Relevant points might include:

	Advantages	Disadvantages
Advertising on social networks	Can reach a specific target market Cheap method of advertising	May not reach the target market being aimed at Sponsored links can be expensive
Handing out leaflets with a discount offer on them	Cheap to produce Encourages purchases with discount	Loss of revenue with the discount Leaflets can be discarded
Giving out free samples in shopping malls	Encourages customers to try the product Realise how nice it tastes Increases awareness of the new product	Cost of employing additional staff and cost of the product to give out free

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 method of promotion compared to the other methods. 7–8 marks for some limited judgement shown in recommendation as to the best method of promotion.
Level 2	4–6 marks Detailed discussion of advantages and / or disadvantages of the ways to promote the new product.
Level 1	1–3 marks Outline of the advantages and / or disadvantages of the ways to promote the new product.

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Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. can reach a specific target market on social networking sites.

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. can reach a specific target market on social networking sites. This is a quick and cheap way of reaching a large number of potential customers. However, as the ice cream is expensive and aimed at high income groups they may not be the sort of people who use Facebook and therefore this method will not reach the intended target market. (4 marks for L2 answer + 1 application mark for mentioning high income customers buying ice cream).

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 method to choose.

Award up to 2 additional marks for relevant application.

Possible application marks: produces ice cream; high quality ingredients; expensive ingredients; ice cream sold for a high price; multinational food company; taste new flavours; sales increased for four years; demand high for 6 months; new product financed by bank loan.

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

3 (a) Samah and Selina are considering buying ingredients from another supplier called ABC (see Appendix 2). Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to FF of changing to ABC. [8]

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

Award one mark for each relevant advantage / disadvantage (maximum of one each), such as:

Advantage	Lower costs / free delivery Reduce prices and possibly increase sales Increase profits Comply with government standards
Disadvantage	Reduce quality Reduce reputation for high quality product leading to lower sales Only deliver once a week Already have a good relationship with current supplier

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Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the advantage / disadvantage to the business of changing supplier.

Indicative response:

To lower costs of ingredients (k) which will allow Samah and Selina to reduce the price of the ice cream (ap) and possibly lead to an increase in sales [an]. However, as the ice cream is high quality the customers may not want to buy it if it is cheaper(ap).

Possible application marks: business 5 years old; produces ice cream; high quality ingredients; expensive ingredients; ice cream sold for a high price; multinational food company; supplier located near to factory; sales increased for four years; demand high for 6 months; free delivery; ABC only deliver once a week; any reference to details in Appendix 2; taste of product.

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

(b) Samah and Selina want to start selling a new flavour of ice cream. Consider the <u>two</u> options outlined in Appendix 3. Recommend which one they should choose. Justify your answer. [12]

Relevant points might include:

	Advantages	Disadvantages
Option A Strawberry– flavour	Break even at a lower output of 2 000 Profit is higher	Higher price might not sell all output
Option B Coconut– flavour	Higher sales predicted Lower production costs	Slower to breakeven – 3 200

	Revenue	Total Cost	Contribution	B / E	Profit
Option A Strawberry	30 000 (L1)	14 000 (L1)	2(L1)	**2 000 (L2)**	**16 000 (L2)**
	GPM = 66.7% (L2)	**NPM = 53.3%(L2)**			GP 20 000 (L1)
Option B Coconut	26 250 (L1)	11 500 (L1)	1.25(L1)	**3 200(L2**)	**14 750 (L2)**
	GPM = 71.4% (L2)	**NPM = 56.1% (L2)**			GP 18 750 (L1)

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

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	Knowledge / Analysis / Evaluation
Level 3	At least 2 × Level 2 + 9-10 marks for well justified recommendation as to the best option to choose compared to the other option. 7–8 marks for some limited judgement shown in recommendation as to the best option to choose.
Level 2	4–6 marks Break-even output and / or profit and / or profit margins correctly calculated.
Level 1	1–3 marks Outline of advantages and / or disadvantages of both options.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Option A has higher variable costs than Option B.

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. Option A has higher variable costs, a higher price and FF can break-even more quickly at 2 000 units of ice cream (4 marks for L2 answer + 1 application mark for mentioning units of ice cream).

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: high quality ingredients; expensive ingredients; demand high for 6 months; strawberry flavour; coconut flavour; may need bank loan. There may be other examples in context which have not been included here.

4 (a) The Government of country X has recently increased interest rates. Identify and explain <u>two</u> ways an increase in interest rates might affect FF. [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:

- Increased cost of new bank loan
- Increased cost of overdraft
- Higher mortgage costs for customers reduce spending
- Lower sales as consumers reduce spending
- Lower profits as costs higher
- Higher interest rates attract more savings from customer or company

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

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Indicative response:

Increased cost of a new bank loan [k] will raise costs as interest rates paid on the loan will be higher than before (an). This may reduce profit for FF if it cannot increase the price of its ice cream [ap]. However, because the ice cream is high quality may be able to increase its prices without losing many sales (ap).

Possible application marks: produces ice cream; high quality ingredients; expensive ingredients; ice cream sold for a high price; borrow finance easily from the bank; sales increased for four years; new product financed by bank loan; cost / revenue data from Appendix 3.

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

(b) A multinational food company is producing and selling its products in country X (see Appendix 1). Consider the advantages and disadvantages to FF of this multinational operating in country X. Do you think it is beneficial to FF? Justify your answer [12]

Relevant points might include:

Advantages	Disadvantages
• Improved infrastructure / roads • Jobs created – increase incomes – increased sales • Low competition as targeting different market segment	• Increased wages – due to increased demand • Influence government and economy • May only be unskilled workers so not much effect on spending • Increased competition – local businesses may not be able to compete

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 whether the multinational will be beneficial to FF. 7–8 marks for some limited judgement shown in recommendation as to whether the multinational will be beneficial to FF.
Level 2	4–6 marks Detailed discussion of advantages and / or disadvantages of the multinational company to FF.
Level 1	1–3 marks Outline of advantages and / or disadvantages of the multinational company to FF.

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Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. new jobs will be created in country X and so peo
ple will have higher incomes to spend.

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. new jobs will be created
and this should increase GDP in country X. The increase in GDP will increase incomes for people who live in country X and they may have more disposable income to buy luxury products like expensive ice cream leading to increased sales for FF. (4 marks for L2 answer + 1 application mark for mentioning luxury products such as expensive ice cream).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion which justifies whether the multinational company will be beneficial to FF.

Award up to 2 additional marks for relevant application.

Possible application marks: partnership; business 5 years old; produces ice cream; high quality ingredients; expensive ingredients; ice cream sold for a high price; production workers; increasing economic growth leading to economic development; government has built new roads; cost / revenue data from Appendix 3; increased wages; job security.

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

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