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O Level

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BUSINESS STUDIES **7115/22**

Paper 2 Case Study **May/June 2016**

MARK SCHEME

Maximum Mark: 80

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1 (a) Identify and explain <u>two</u> possible reasons why Thao and Liang have set 'excellent customer service' as the main business objective. [8]

Knowledge [2 × 1] award one mark for each relevant reason identified
Analysis [2 × 1] award one mark for a relevant explanation of each reason
Application [2 × 2] award two application marks for each relevant reason

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

- To gain a good reputation
- To keep customer loyalty/customer satisfaction/meet customer needs
- To attract new customers
- To reduce customer complaints
- Unique Selling Point (USP)/Brand Image
- Added Value.

Award a maximum of three additional marks for <u>each</u> explanation – <u>two of which must be applied to this context</u> – of each of these reasons.

To gain a good reputation (k) because then customers will tell their friends about the service and this will increase sales revenue (an). Customers will not use a photography business very often (ap) and Thao and Liang will rely on gaining new customers for wedding photographs from hearing about them from other happy customers (ap).

Possible application marks: face-to-face meetings with customers; private limited company; profitable and grown over last 5 years; photographs; photographers; photography; getting married; weddings, birthdays, family photographs; business customers as well as private individuals; taking over another photography business; growing externally rather than internally; photographs received on the internet; use an app to download photographs.

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

(b) Consider the effects on FF of the following <u>three</u> legal controls which are being introduced next year. Which legal control do you think will have the biggest effect on FF? Justify your answer. [12]

Relevant points might include:

- *Health and safety training now required for all employees* – most of the work is at customer's place of work and photography is not very dangerous; increased training costs; loss of output when being trained.
- *Increase of 20% in the legal minimum wage* – photographers are skilled so will be paid above minimum wage anyway; maintains motivation as well paid; higher costs than competitors if they do not also pay higher wages.
- *Protection from unfair dismissal now applies to employees who have been employed for only 6 months instead of 2 years* – more difficult to get rid of unsuitable employees; workers feel more secure and so better motivated.

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Knowledge/Analysis/Evaluation – award up to ten 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 to which of the legal controls will have the biggest effect on FF and why the other legal controls will have less effect. 7–8 marks for some limited judgement shown in the conclusion as to which of the legal controls will have the biggest effect on FF.
Level 2	4–6 marks Detailed discussion of each legal control.
Level 1	1–3 marks Statements made about each legal control.

Level 1 One mark for each L1 statement (max of three marks) e.g. Photographers are skilled workers and paid above minimum wage.

Level 2 One L2 explanation can gain four marks and a further mark can be awarded for each additional L2 explanation (max six marks) e.g. Photographers are skilled workers and paid above minimum wage so the minimum wage will probably have little effect on FF. However, if the minimum wage is set at a high level then it may mean that the photographers will expect a wage increase so that they are paid proportionately more than these workers. (Four marks for L2 answer + one application mark for considering the photographers.)

Level 3 For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion which justifies which legal control is likely to have the biggest effect and why the other legal controls will have less effect.

Award up to two additional marks for relevant application.

Possible application marks: private limited company; profitable and grown over last 5 years; provides excellent customer service; photographs; photographers; photography; weddings, business customers as well as private individuals; employed 2 additional photographers; 8 photographers; 2 part-time office workers; taking over another photography business; growing externally rather than internally; pay existing photographers 50% above minimum wage; information in Appendix 3.

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> possible benefits to FF from changes in IT. See Appendix 1. **[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:

- Increased efficiency/productivity/time saved – increased number of customers served relative to inputs
- Lower costs per customer – lower prices
- Attract more customers – Improved/faster customer service – greater customer satisfaction/loyalty
- Fewer workers may be needed – possibly leading to lower total costs
- More motivated workers – feel meet customer needs/do a good job.

Award a maximum of three additional marks for explanation – <u>two of which must be applied to this context</u> – of each benefit.

Indicative response:

Fewer workers may be needed (k) because each photographer can do more of the jobs without help (ap). Therefore, if each photographer can go out and perform a wedding without help then this will increase the productivity of each worker and fewer will be needed (an). Thao and Liang can therefore reduce the number of photographers from 8 to 4 (ap).

Possible application marks: private limited company; profitable and grown over last 5 years; provides excellent customer service; photographs; photographers; photography; getting married; weddings, birthdays, family photographs; business customers as well as private individuals; employed 2 additional photographers; 8 photographers; 2 part-time office workers deal with administration and accounts; taking over another photography business; growing externally rather than internally; photographs received on the internet; use an app to download photographs; pay existing photographers 50% above minimum wage; information in Appendix 3.

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

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(b) To expand, FF needs to attract new customers. Consider the following <u>three</u> methods of market research. Which method do you think will be most effective in identifying the needs of potential customers? Justify your answer. [12]

Relevant points might include:

Secondary research on weddings	Low cost Quite a quick way to gain information Information on the market size i.e. number of weddings taking place	Not qualitative information Past trends no guarantee of future trends Information out of date Information not match exact requirements of research required
Questionnaires given out at wedding dress shops	Gathers the opinions of target customers Quantitative and qualitative data Information gathered is tailored to exact requirements of FF	Information may not be accurate if questions are poorly phrased Expensive, as time-consuming
Interviews with photographers from other parts of the country	Detailed qualitative information gathered Customer needs identified	Can be expensive to carry out as time-consuming Must be careful of interviewer bias Trends in other parts of the country is no guarantee of sales in their region

Knowledge/Analysis/Evaluation – award up to ten 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 to which method of research will be the most effective and why it will be more effective than the alternatives. 7–8 marks for some limited judgement shown in the conclusion as to which method of research will be the most effective.
Level 2	4–6 marks Detailed discussion of the advantages and/or disadvantages of each method of market research to identify customer needs. *(Not how the information can be used.)*
Level 1	1–3 marks Outline of the advantages and/or disadvantages of each method of market research to identify customer needs. *(Not how the information can be used.)*

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Level 1 One mark for each L1 statement (max of 3 marks) e.g. Detailed qualitative information gathered from interviews.

Level 2 One × L2 explanation can gain four marks and a further mark can be awarded for each additional L2 explanation (max six marks). E.g. Detailed qualitative information gathered from interviews as follow up questions can be asked by the interviewer. However, if the interviewer is not very experienced they can lead the interviewee in their answers to questions meaning the results are biased. (Four marks for L2 answer.)

Level 3 For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion of which method of market research will be the most effective in identifying customer needs.

Award up to two additional marks for relevant application.

Possible application marks: profitable and grown over last 5 years; provides excellent customer service; birthdays, brides and grooms, private individuals; photographs; photography; getting married; taking over another photography business; growing externally rather than internally; wedding photographs, photographs received on the internet; use an app to download photographs; information in Appendix 3.

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

3 (a) Identify four stakeholder groups who would want to see FF's accounts and explain why each group would want to see them. [8]

Application	[4 × 1]	award one application mark for each relevant stakeholder group (maximum of 4)
Analysis	[4 × 1]	for explaining why each stakeholder group would want to see the accounts

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

- Owners/shareholders
- Bank manager
- Potential investors
- Government
- Employees
- Managers
- Creditors/suppliers
- Competitors
- Trade Union.

Award a maximum of one additional mark for each explanation of why they will want to see the accounts.

Indicative response:

Bank manager (ap) because the bank will want to be certain that if it gives a loan to FF that the company will be able to pay it back (an).

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(b) Consider the income statement extracts for the <u>two</u> businesses in Appendix 3. Include profitability ratio calculations in your answer. Recommend which business FF should take over. Justify your answer. [12]

<u>Relevant points might include:</u>

Business A 2 years old $250 000 to take over Same market segment/competitor plus additional market segment/growing market	• Less sales revenue than Business B • Gpm = 50% • Npm = 25%
Business B 20 years old $500 000 to take over Same market segment/competitor	• 5 × times higher sales revenue • Gpm = 75% • Npm = 25%

Knowledge/Analysis/Evaluation – award up to ten 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 company to take over and why not the other company. 7–8 marks for some limited judgement shown in recommendation as to the best company to take over.
Level 2	4–6 marks Correct profitability ratios calculated.
Level 1	1–3 marks Outline of differences in the figures or comments on the differences between the two businesses.

Level 1 One mark for each L1 statement (max of three marks) e.g. Business A has lower sales revenue than Business B.

Level 2 One L2 explanation can gain four marks and a further mark can be awarded for each additional L2 explanation (max six marks) e.g. The gpm for Business A is 50% (four marks for L2 answer).

Level 3 For L3 to be awarded there needs to be at least two correct L2 calculations and then a recommendation which justifies which is the best business to choose.

<u>Award up to two additional marks for relevant application.</u>

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Possible application marks:
Company A – $250 000 to take over – 2 years old – same market segment/competitors plus additional market segment – growing market – for photographs of families, children and pets;
Company B – $500 000 to take over – 20 years old/well-established business – same market segment/competitor;
private limited company; photographs; photographers; photography; getting married; weddings, birthdays, family photographs; business customers as well as private individuals; sales revenue for 2015 – $500 000; profit for 2015 - $125 000; growing externally rather than internally.

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

4 (a) The Government has increased interest rates to reduce inflation. 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 identified
Analysis	[2 × 1]	award one mark for a relevant explanation of each way
Application	[2 × 2]	award two application marks for each relevant way

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

- Decreased demand – as customers have increased mortgage/loan payments
- Increased cost on new loans – less likely to expand
- Increased cost of overdraft – increased expenses/reduced profit
- Increased costs from higher interest repayments – prices of FF services increases/reduces demand.

Award a maximum of three additional marks for <u>each</u> explanation – <u>two of which must be applied to this context</u> – of each of these ways.

Indicative response:

FF will have increased costs from higher interest repayments on new loans (k) therefore price of photographs may have to rise (ap). This may reduce profit if prices cannot be increased or if prices are increased then demand may fall (an). Other guests at weddings can take photographs so the elasticity of demand may be elastic, leading to falling revenue if prices are increased (ap).

<u>NB – answer should be clearly related to interest rates increasing and NOT just inflation increasing.</u>

Possible application marks: private limited company; profitable and grown over last 5 years; provides excellent customer service; photographs; photographers; photography; getting married; weddings, birthdays, family photographs; business customers as well as private individuals; taking over another photography business; growing externally rather than internally; business wants to expand further; increased minimum wage by 20%; pay existing photographers 50% above minimum wage; information in Appendix 3.

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

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(b) Thao and Liang need to raise finance to take over another business. Consider the advantages and disadvantages of the following <u>three</u> sources of finance which they could use. Recommend which source of finance Thao and Liang should choose. Justify your answer. [12]

<u>Relevant points might include:</u>

Retained profit	• Cheap form of finance as no interest to pay • Readily available • Not repaid • May not be sufficient funds available • May reduce dividends to shareholders
Issue of more shares	• Lose control if sell more than 50% of shares • Only sell to family and friends so limited amount of shares sold • Time consuming • No interest to pay but shareholders will expect dividends
Bank loan	• Repayments in regular amounts/spreads the costs • Borrow large sums • Varying lengths of time to repay the loan • Increased costs as needs to be paid each month – may lead to cash flow problem • Collateral/security may be required • Increases gearing

Knowledge/Analysis/Evaluation – award up to ten 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 source of finance to choose compared to the other methods. 7–8 marks for some limited judgement shown in recommendation as to the best source of finance to choose.
Level 2	4–6 marks Detailed discussion of the advantages and/or disadvantages of each source of finance.
Level 1	1–3 marks Outline of the advantages and/or disadvantages of each source of finance.

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Level 1 One mark for each L1 statement (max three marks) e.g. No interest to pay on retained profit.

Level 2 One × L2 explanation can gain four marks and a further mark can be awarded for each additional L2 explanation (max six marks) e.g. No interest is paid on retained profit. However, there may not be sufficient funds available to finance the takeover. The shareholders will expect a dividend to be paid and if the profit is used for reinvestment then they may not be able to pay this. This may restrict FF in the future and they may not be able to increase their photography service and expand into more business photography. (Four marks for L2 answer + 1 application mark for considering photography services for business.)

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 source of finance to choose.

Award up to two additional marks for relevant application.

Possible application marks: government increased interest rates; private limited company; profitable and grown over last 5 years; provides excellent customer service; photographs; photographers; photography; getting married; weddings, birthdays, family photographs; business customers as well as private individuals; profit for 2015 = $125 000; growing externally rather than internally; information in Appendix 3.

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

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