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O Level

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BUSINESS STUDIES **7115/12**

Paper 1 Short Answer/Structured Response **May/June 2017**

MARK SCHEME

Maximum Mark: 80

Published

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Question	Answer	Marks	Guidance
1(a)	**What is meant by 'market research'?** Clear understanding [2]: e.g. • Process of finding out what consumers want or need [1] before a product is made [1] • Process of finding out what consumers want or need [1] depending on age group, income and location [1] • Process of gathering (primary and secondary) data [1] on the buying habits and attitudes of potential customers [1] • Process of gathering data about customers, competitors and market trends [2] Some understanding [1]: e.g. find out what customers want, find out about competition	**2**	**Do not award** examples of primary research or secondary research.
1(b)	**Identify what will happen to each of the following when Cheung's shop rent increases.** Application [2 × 1]: award 1 mark for each correct answer. (i) **Variable cost:** No change / same (ii) **Fixed cost:** Increase	**2**	**Do not award** 'fixed costs will change' as this is too vague.

Question	Answer	Marks	Guidance
1(c)	**Identify and explain two possible reasons why Cheung thinks the shop is in a good location.** Knowledge [2 × 1]: award 1 mark for each way identified Application [2 × 1]: award 1 mark for each explanation in context Points might include: • Near potential target market OR customers [k] so need to be somewhere where there are lots of children [app] • Busy area OR high footfall [k] as many people likely to visit city centre [app] • Good access OR there is parking [k] • Good Image of site [k] as sell fashion items [app] • There are utilities or other facilities [k] to reduce other costs [app] • Proximity (far from or near) to competitors [k] • Near to other shops and services [k] • Low transport costs OR already has relationship with supplier [k] as near wholesaler [app]	**4**	Application marks may be awarded for appropriate use of the following: city-centre, small, clothing or related words such as t-shirts, fashion, children, competitive market, market research, wholesaler in nearby town, need to increase revenue or reduce other costs, manufacturer in another country, increase in rent. **Do not award** location factors on its own as this does not necessarily explain why this may make it a good location. E.g. transport cost is a factor but it is low transport costs, which makes it a good location. **Do not award** shop as application as it is stated in the question. **Note:** Points such as 'In city centre' or 'competitive market' are too vague to be awarded as knowledge.

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Question	Answer	Marks	Guidance
1(d)	**Identify and explain two ways that Cheung could use to increase revenue.** Knowledge [2 × 1]: award 1 mark for each way identified Application [2 × 1]: award 1 mark for each relevant reference made to this business Analysis [2 × 1]: award 1 mark for each relevant explanation Points might include: • Increase advertising (allow only once) [k] attracting or persuading or encourage new customers [an] to his shop [app] • Sell to different target market [k] so do not sell only to children [app] so able to attract different customer [an] • Increase prices [k] increases amount of revenue per item sold [an] • Lower price or offer price promotions OR discounts [k] acts as incentive to buy more [an] • Offer new OR additional products [k] e.g. different clothing [app] to appeal to a new market segment [an] • Loyalty schemes [k] could encourage existing customers to buy more from him [an] • Use of sales promotions e.g. competitions [k] • Increase quality [k] • Use e-commerce or sell via website [k]	**6**	Application marks may be awarded for appropriate use of the following: city-centre, small, shop, clothing or related words such as t-shirts, fashion, children or parents, competitive market, market research, wholesaler, manufacturer in another country. **Note**: this business is a retailer not a manufacturer. **Do not award** the same analysis twice. E.g. persuade OR encourage OR attract are the same analysis points, as is create awareness OR inform. To be awarded, development must be different in each point e.g. attract more existing customers or different types of customer. **Do not award** ways to lower costs as this does not answer the question. **Do not award** free sample as not appropriate for this context.

Question	Answer	Marks	Guidance
1(e)	**Do you think Cheung should change his supplier? Justify your answer.** Knowledge [1]: award 1 mark for identification of relevant point(s) Application [1]: award 1 mark for a relevant reference made to this business Analysis [2]: award up to 2 marks for relevant development of point(s) Evaluation [2]: award up to 2 marks for justified decision made as to whether Cheung should change his supplier Points might include: • Build relationship with supplier [k] in the nearby town [app] • Wholesaler offers choice OR variety OR feedback [k] which could help increase revenue [app] • Wholesaler breaks bulk [k] helpful for a small shop [app] as do not have to worry about storing additional stock [an] • More time OR paperwork [k] if buy from manufacturer overseas [app] • Cheaper to buy direct [k] from overseas manufacturer [app] as do not have to pay anything to third party [an] • Purchasing economies of scale OR buy in larger quantities when buy direct [k] leading to lower average costs [an] of its clothing [app] • Quicker access to inventory (stock) [k] from wholesaler [app] so can satisfy any increases in demand [an] • Not able to check quality [k] as manufacturer is based in another country [app]	**6**	Application marks may be awarded for appropriate use of the following: wholesaler, city-centre, small, shop, clothing or related words such as t-shirts, fashion, competitive market, market research, increase in rent cost, looking to reduce costs or increase revenue, manufacturer in another country. **Do not award** fabric or materials as application as this suggests it is a manufacturer. **Note:** Can award points that focus on either advantages OR disadvantages of using a wholesaler OR buying inventory from overseas.

Question	Answer	Marks	Guidance
2(a)	**What is meant by 'liquidity'** Clear understanding [2]: ability of a business to pay back its short-term OR day to day debts OR ability of a business to pay its current liabilities using its current assets OR A measure of how quickly you can turn (current) assets into cash to pay short term debts Some understanding [1]: whether business can pay its debts OR how easily is it to convert assets to cash OR Amount of cash available	**2**	**Do not award** measures of liquidity such as current asset ratio or acid test ratio as these do not explain the term.
2(b)	**Identify two reasons why a director might want to measure business performance.** Knowledge [2 × 1]: award 1 mark for each reason Points might include: • See how well meeting objectives OR see how well business is doing OR indicates what a business objective might be e.g. level of profitability or levels of sales or productivity • Aid decision making OR Identify strengths and weaknesses OR Identify what needs to be done to improve OR practical examples such as to determine rewards for employees • Way to compare with competitors • To compare with previous years OR Spot trends • Report to shareholders	**2**	

Question	Answer	Marks	Guidance
2(c)(i)	**Calculate the Return on Capital Employed (ROCE) for 2016** Good application [2]: e.g. 25 or 25% Some understanding [1]: e.g. profit / capital employed *100 [1] OR incomplete answer 1000 / 4000 [1]	**2**	
2(c)(ii)	**Explain what this result shows about LWM's performance** Good application [2]: ratio has fallen [1] which shows that profitability fallen OR not using capital as efficiently as last year OR ratio fallen from 33% to 25% [2] OR for every $100 invested the business generates $25 in profit [2] Some application [1] e.g. not as good	**2**	Answer can compare results between years or outline what the ratio figure means. OFR rule does apply but answer must be linked to their ROCE ratio calculation.

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Question	Answer	Marks	Guidance
2(d)	**Identify and explain one advantage and one disadvantage to LWM of using batch production.** Knowledge [2 × 1]: award 1 mark for one relevant advantage and one disadvantage identified Application [2 × 1]: award 1 mark for each relevant reference made to this business Analysis [2 × 1]: award 1 mark for each relevant explanation Advantages might include: • Flexible OR easy to switch production [k] to help meet changes in demand [an] for the 15 different sizes [app] • Variety of products [k] leading to possibly more sales [an] of tyres [app] • Some variety in workers' jobs [k] • Some economies of scale [k] helping reduce unit cost [an] • Less effect on production if machinery breaks down [k] • Spread risk as not focusing on only one type of product [k] Disadvantages might include: • Time lost switching OR reset machines between batches [k] could lead to lower productivity / lost output [an] • A fault with one product is likely to affect entire batch [k] which could increase waste [an] • Inventory (Stock) may be sitting around between stages [k] • Added cost of moving OR storing semi-finished goods [k] • Demotivating for employees as work is repetitive [k]	**6**	Application marks may be awarded for appropriate use of the following: increased competition, correct use of data from table 1, correct use of numbers e.g. 66%, 15, (Different) size, tyres or related words such as wheels or rubber, liquidity is important. **Do not award** points that can be applied to any other production method. **Do not award** variety in jobs or economies of scale unless qualified by the word some or compared to another method of production. **Do not award** 'motivated' or 'demotivated' as knowledge unless explained. The analysis must explain the impact on the business e.g. lower output. **Do not award** knowledge mark for reference to whole production as this implies flow. Answer must relate to idea of it being semi-finished or between stages to be awarded.

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Question	Answer	Marks	Guidance
2(e)	**Explain two ways in which LWM might respond to increased competition. Recommend which way LWM should choose. Justify your answer.** Knowledge [1]: award 1 mark for each relevant way(s) identified Application [1]: award 1 mark for a relevant reference made to this business Analysis [2]: award up to 2 marks for relevant development of point(s) Evaluation [2]: award up to 2 marks for justified decision made as to which is the best option for LWM to choose. For second mark must explain why choice made is better than the other option Points might include: • Introduce new products [k] as its main product accounts for 66% of its sales [app + an] • Lower prices [k] for its 15 different sizes [app] customers might want cheaper products [an]; • Merge or takeover [k] with another tyre company [app] which would increase its market share [an] • Advertise OR use promotion [k] to raise awareness [an] of its tyres [app] • Keep costs low [k] so able to offer more competitive prices [an] • Keep improving existing products OR quality [k] allowing them to stay ahead of the competition [an] • Provide good customer service [k] so that customers want to keep buying from them [an]	**6**	Application marks may be awarded for appropriate use of the following: correct use of numbers e.g. 60 or 40 million, 15 (different) sizes, correct use of data from Table 1, tyres or related words such as wheels or rubber, liquidity is important, batch production. **Do not award** the same analysis twice. E.g. persuade OR encourage OR attract are the same analysis points, as is create awareness OR inform. To be awarded development must be different in each point e.g. attract more existing customers or different types of customer. **Note:** Maximum of 4 marks if candidates only discuss 1 valid way.

Question	Answer	Marks	Guidance
3(a)	**What is meant by an 'economic boom'?** Clear understanding [2]: strong rise in level of economic activity OR Period of time when GDP rising rapidly Some understanding [1]: e.g. economy doing well [high GDP] or rise in level of economic activity or GDP rising OR identifies a relevant feature(s) MAX 1 mark, such as: • Low OR falling unemployment OR shortage of skilled workers, • Rising inflation • Resource shortages • High levels of disposable income • Increased number of business start ups • High levels of consumer confidence OR demand • High levels of business confidence OR profits	**2**	**Note:** For two marks must recognize that GDP increasing and the speed of growth. Maximum of 1 mark for identifying features. Answers must refer to the whole economy not a single business or product.
3(b)	**Identify two factors which might affect demand for Manisha's products.** Knowledge [2 × 1]: award one mark per factor Points may include changes in any of the following: • Price charged by Manisha • Fashion and trends • Consumer tastes and preferences • Stage in economic cycle OR changes in economic factors e.g. interest rates, taxes • Level of consumer income • Actions of competitors e.g. new products or changes in prices • Complementary goods • Increase in population • Level OR effectiveness of advertising • Quality of product	**2**	

Question	Answer	Marks	Guidance
3(c)	**Identify and explain two ways in which higher interest rates might affect Manisha's business.** Knowledge [2 × 1]: award 1 mark for each way identified Application [2 × 1]: award 1 mark for each explanation in context Points might include: • Increase in cost (of borrowing) OR expenses OR cash outflows [k] if used loan to purchase shop [app] • Reduced demand for products OR consumers reduce spending [k] as can afford fewer cakes [app] • Look to sell assets for cash to reduce existing loans [k] • Workers may want a pay rise [k] • May have to increase prices (to remain profitable) [k] • Business less likely to expand OR reduce investment [k] so may struggle to meet the increase in demand [app]	**4**	Application marks may be awarded for appropriate use of the following: correct use of numbers e.g. 500%, celebration cakes or related words such as ingredients, shop or bakery, economic boom,3 employees, increase in demand, sole trader, work every day, profitable (at last), friend (as business partner), product quality is important, started her business 5 years ago.

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Question	Answer	Marks	Guidance
3(d)	**Identify and explain two reasons why product quality might be important to Manisha's business.** Knowledge [2 × 1]: award one mark for each relevant reason identified [max 2] Application [2 × 1]: award 1 mark for each relevant reference made to this business Analysis [2 × 1]: award 1 mark for each relevant explanation Points might include: • Helps maintain customer loyalty [k] which could lead to repeat purchases OR buy again and again OR keep buying [an] • Increase or ensure sales [k] as if cake does not taste right [app] people will find alternatives [an] • Poor quality damages reputation OR brand image [k] so sales may fall [an] • No need to replace faulty products [k] which will help reduce costs [an] of ingredients [app] • Charge/maintain high prices [k] for her cakes [app] which could improve her profit margin [an] • Way to add value [k] • To meet legal requirements OR poor quality could damage people's health [k] as it's a food product [app] • To gain competitive advantage [k] • To reduce complaints [k]	**6**	Application marks may be awarded for appropriate use of the following: correct use of numbers e.g. 500%, celebration cakes or related words such as ingredients, shop or bakery, economic boom,3 employees, increase in demand, sole trader, work every day, profitable (at last), interest rates increased, friend (as business partner), started her business 5 years ago. **Do not award** the same analysis twice. For example persuade OR encourage OR attract are the same analysis points, as is create awareness OR inform. To be awarded development must be different in each point e.g. attract more existing customers or different types of customer.

Question	Answer	Marks	Guidance
3(e)	**Do you think Manisha should have a business partner? Justify your answer.** Knowledge [1]: award 1 mark for identification of relevant point(s) Application [1]: award 1 mark for a relevant reference to this business Analysis [2]: award up to 2 marks for relevant development of point(s) Evaluation [2]:award up to 2 marks for a justified decision made as to whether Manisha should have a business partner Points might include: • Share workload OR responsibility [k] so does not have to work everyday [app] which could reduce her own stress OR allow her more free time [an] • More ideas OR skills [k] from her friend [app] which could make the business more competitive [an] • Extra source of finance [k] which is important as interest rates high [app] so less need to borrow money [an] • Still has unlimited liability status OR liability for debts [k] as being a sole trader [app] but possible losses can be shared [an] • Loss of some control [k] over type of cakes made [app] • Risk of disagreements OR slow decision making [k] so less responsive to changes in customer demand [an] • Have to share profits made [k]	**6**	Application marks may be awarded for appropriate use of the following: correct use of numbers e.g. 500%, celebration cakes or related words such as ingredients, shop or bakery, economic boom,3 employees, increase in demand, sole trader, work every day, profitable (at last), interest rates increased, friend (as business partner), started her business 5 years ago, product quality is important.

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Question	Answer	Marks	Guidance
4(a)	**What is meant by a 'stakeholder group'?** Clear understanding [2]: any person or people with a (direct) interest in the (performance) and activities of a business An individual or group which has an interest in a business because they are affected by its activities (and decisions) [2] Some understanding [1]: someone affected by a business Anybody inside or outside the business who cares about its operations [1]	**2**	**Do not award** examples as this does not explain the term. **Do not award** answers that define individual stakeholders e.g. people interested in business and who want to invest in it (as this defines a shareholder).
4(b)	**What is meant by 'private sector'?** Clear understanding [2]: e.g. when business activities are owned by individuals OR groups of individuals Some knowledge [1]: not government controlled or run by individuals/owned by shareholders	**2**	**Do not** award 'privately owned' as does not explain term OR 'owned by the people' as it is too vague. **Note:** for two marks, must have idea of ownership and by whom.

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Question	Answer	Marks	Guidance
4(c)	**Identify and explain two effects on Steppa of a high number of workers leaving the business each year.** Knowledge [2 × 1]: award 1 mark for each effect Application [2 × 1]: award 1 mark for each explanation in context Points might include: • Additional training costs [k] as new workers need to learn how to make shoes [app] • Additional recruitment costs [k] to maintain its 200 employees [app] • Time taken to recruit new employees [k] • Damage to reputation OR harder to recruit [k] • Reduction in output OR efficiency [k] • Impact on motivation of other workers OR increased workload for remaining workers [k] so not be able to maintain happy workers [app] • New employees can provide new ideas [k] • Hard to maintain quality [k] so revenue does not increase by 10% [app]	**4**	Application marks may be awarded for appropriate use of the following: correct use of numbers e.g. 200 employees, shoes or related words, revenue increased by 10%, happy workers good for business, high hourly wage, democratic leadership. **Note:** candidates can be awarded for identifying two separate costs such as training and recruitment. 'Increased costs' can only be awarded if there is no other reference to costs made in their answer. Points can refer to either a positive or negative effect **Do not** a**ward** expensive or time consuming unless explained.

Question	Answer	Marks	Guidance
4(d)	**Identify and explain two possible advantages for Steppa of using a democratic leadership style.** Knowledge [2 × 1]: award one mark for each relevant advantage identified Application [2 × 1]: award 1 mark for each relevant reference made to this business Analysis [2 × 1]: award 1 mark for each relevant explanation Points might include: • Improves motivation OR sense of belonging [k] leading to increased output OR productivity [an] as they are happy workers [app] • Help keep worker loyalty [k] could help reduce high number of workers leaving [app] leading to lower recruitment costs [an] • Creates time to do other jobs [k] leading to fewer mistakes [an] • Better decision making possible [k] • More ideas [k] • Better communication OR better feedback [k] • Positive work environment OR better relations between managers and workers [k] • Workers have better understanding of business' objectives [k]	**6**	Application marks may be awarded for appropriate use of the following: correct use of numbers e.g. 200 employees, shoes or related words, revenue increased by 10%, happy workers good for business, high hourly wage, private sector. **Do not award** analysis marks for improved motivation OR workers feel important OR works harder as this does not explain the advantage to the business. **Do not award** definitions of democratic leadership

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Question	Answer	Marks	Guidance
4(e)	**Explain two methods of non-financial reward that Steppa might use to increase employee motivation. Recommend which method Steppa should use. Justify your answer.** Knowledge [1]: award 1 mark for identification of relevant method(s) Application [1]: award 1 mark for a relevant reference to this business Analysis [2]: award up to 2 marks for relevant development of point(s) Evaluation [2]: award up to 2 marks for a justified decision made as to which of the two non-financial methods Steppa should use Points might include: • Offer fringe benefits e.g. holidays or discounts [k] on shoes [app] • Job rotation [k] would be more interesting OR not as boring as doing the same thing [an] • Team working [k] could lead to increased output OR increased efficiency [an] • Training [k] so workers feel more valued as they gain more skills [an] • Praise [k] as feel their work has been recognised [an] • Opportunities for promotion [k] • Increased responsibility [k] • Award schemes such as employee of the month [k] • Job enrichment [k] • Job enlargement [k]	**6**	Application marks may be awarded for appropriate use of the following: correct use of numbers e.g. 200 employees, shoes or related words, revenue increased by 10%, happy workers good for business, high hourly wage, democratic leadership. **Do not award** answers referring to financial methods such as bonus, share options, pension or pay rises as question does not allow this. **Do not award** change leadership style e.g. democratic **Do not award** 'makes them work harder' as analysis on its own unless explained e.g. 'makes them work harder to earn more money'. **Note:** Maximum of 4 marks if candidates only discuss 1 valid method. Award examples of fringe benefits only once.

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