Cambridge O Level

Cambridge Assessment International Education
Cambridge Ordinary Level

BUSINESS STUDIES **7115/21**

Paper 2 Case Study **May/June 2018**

MARK SCHEME

Maximum Mark: 80

Published

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.

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Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

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Question	Answer	Marks
1(a)	**Identify and explain <u>two</u> ways a business plan could have helped Peter when setting up Value Gym.** Award one mark for each way (maximum of two), such as: • To help gain finance from a bank/other investors/government grants • To set objectives/goals/targets • To encourage careful planning that will reduce risks of financial failure • To be clear how the business is going to operate • To identify the human and physical requirements of the business • To identify the target market from market research/identify the level of demand for the gym Award a maximum of three additional marks for **each** explanation of the way – **2 of which must be applied to this context.** Indicative response: Peter will have written the business plan to help him gain finance. (1) Peter will have taken it to show the bank manager to help persuade him to give VG the loan needed to start the gym. (ap) The business plan will show financial forecasts to show that the business will be able to repay the loan. (1) Therefore after the bank has given Peter the loan he will have the capital he needs to set up the gym and start signing up members. (ap) Possible application marks: Fitness instructor; membership fee for many gyms is monthly; payment each visit to the gym; demand for low-priced gyms; a bank loan was used to finance the opening of the gym; as a sole trader; $5,000 was put into the business; expects a good profit at the end of a successful first year; needs to employ 4 personal trainers; 2 receptionists; gym is open 7 days a week; Information from Appendix 1 listing gym equipment; information from Appendix 3 such as government grants are available to encourage the provision of gym facilities. There may be other examples in context that have not been included here.	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>
Consider the following <u>three</u> roles of marketing in Peter's business. Which one of these is the most important role? Justify your answer.

Relevant points might include:
<table>
<tr><td>Identify customer needs

The answer should be focused on how market research can find out what the customer wants</td><td>• Carrying out market research to be sure the business delivers the service that customers want
• So that they would know what types of equipment customers would wish to use
• So they would know what exercise classes customers would wish to attend
• So they would know what price customers were willing to pay
• So they would know what hours/days the customers would want to use the gym
• However, it can be expensive to carry out the market research necessary to identify these needs accurately</td></tr>
<tr><td>Satisfy customer needs

The answer should be focused on how well the services are delivered</td><td>• So the gym equipment works correctly to make the customers happy
• So the exercise classes are run well to make the customers happy
• The customers are content with the prices that are charged
• So the opening hours of the gym are convenient for customers' lifestyle
• However, Peter may need to buy more gym equipment and/or recruit more personal trainers to work in the gym
• However, it can be expensive to maintain the equipment</td></tr>
<tr><td>Build customer relationships

The answer should focus on how loyalty and good reputation of the business are developed</td><td>• Peter needs VG to retain a good reputation with customers
• VG needs to maintain customer loyalty
• Customers need to feel like their opinions matter
• Customers need to feel valued
• However, if customers are dissatisfied they may go to a competitor
• However, it may be difficult to satisfy all customers and therefore some may still give the business a bad reputation if unhappy</td></tr>
</table>
Level 1 [1–3 marks]
1 mark for each outline of the advantages and/or disadvantages of each of the roles of marketing. (Max of 3 marks)

E.g. Carry out market research to find out what gym equipment customers want
</td><td>12</td></tr>
</table>

Question	Answer	Marks
1(b)	Level 2 **[4–6 marks]** Detailed discussion of the advantages and/or disadvantages of each of the roles of marketing. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) E.g. Carry out market research to find out what gym equipment customers want. The right equipment, such as a cross trainer, needs to be purchased so that customer needs are met. However, it can be time consuming and expensive to carry out the market research required to ensure this happens. (Level 2 plus one application mark for answering in the context of the gym and its equipment) Level 3 **[7–10 marks]** For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion of the most important role of marketing. 7–8 marks for limited conclusion of the most important role of marketing OR why the other roles are less important. 9–10 marks for well justified conclusion of the most important role of marketing AND why the other roles are less important. **Award up to 2 additional marks for relevant application.** Possible application marks: Fitness instructor; helps people lose weight and get fit; membership fee for many gyms is monthly; payment each visit to the gym; demand for low-priced gyms; needs to attract more customers to continue to expand the gym; needs to employ 4 personal trainers; 2 receptionists; gym is open 7 days a week; Information from Appendix 1 listing gym equipment. There may be other examples in context that have not been included here.	

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)</td><td>Identify and explain <u>four</u> reasons why making a profit is important to Peter.

Award one mark for each reason (maximum of four), such as:
• Source of finance/retained profit/Peter could use the profit for reinvestment – expand the gym by buying new equipment
• To ensure survival of the business/avoid closure
• Reward for enterprise – reward for Peter’s hard work/good ideas to start the business
• Reward for risk taking – Peter risked losing his investment of $5,000
• Indicator of success – the more profit Peter makes the more his success will be recognised by customers/employees

Note: Do not reward payment of day-to-day expenses

Award a maximum of one additional mark for each explanation suitable for this context.

Indicative response:
It is a reward for risk taking (1) as Peter has risked $5,000 of his own money in the business and could have gained interest on this money if he had put it in the bank.(1)</td><td>8</td></tr>
<tr><td>2(b)</td><td>Peter is considering the following <u>two</u> options. Recommend which option he should choose. Justify your answer.

<table>
<tr><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Employ his own personal trainers</td><td>• Full control over trainers
• Higher profit especially when busy with many clients</td><td>• Pay trainers whether or not they have clients
• More expensive when not busy</td></tr>
<tr><td>Charge a fixed fee to personal trainers who work for themselves to use VG facilities with their clients</td><td>• Fixed amount paid to VG
• Risk of low demand taken by the trainer
• Less expenses as no wages to pay each month</td><td>• Additional revenue/profit lost to gym
• Cannot control the quality of the training provided for clients
• Maybe unreliable and this could affect reputation of VG</td></tr>
</table>

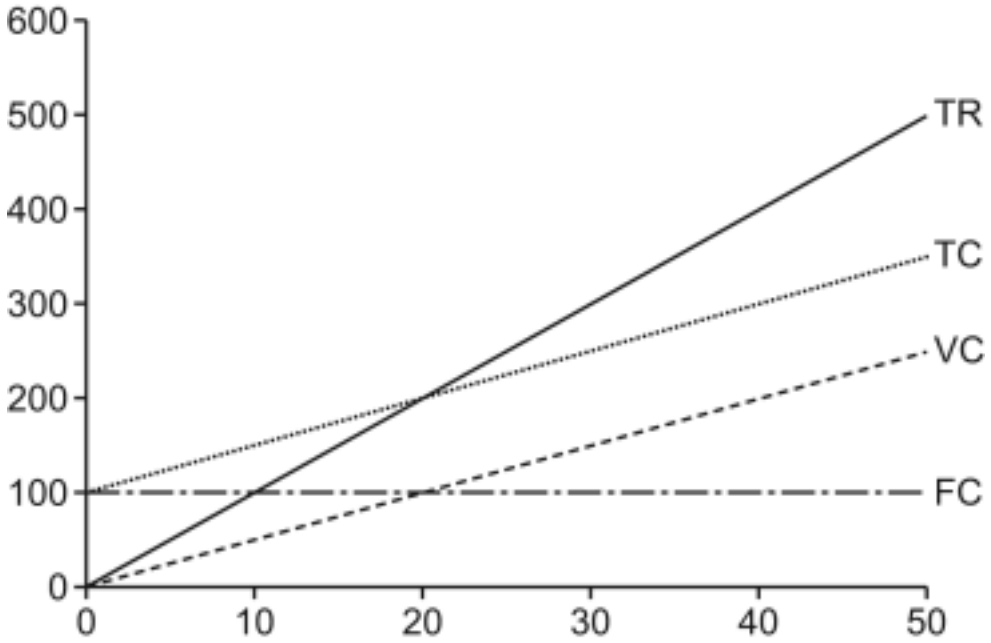
Level 1 [1–3 marks]
Outline of advantages and/or disadvantages of each option. (max of 3 marks)

E.g. Peter has full control over his own trainers if he employs them.

Level 2 [4–6 marks]
Discussion of advantages and/or disadvantages of each option.1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)</td><td>12</td></tr>
</table>

Question	Answer	Marks
2(b)	Level 3 **[7–10 marks]** For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which option to choose. 7–8 marks for limited recommendation on which option to choose OR why not the other option. 9–10 marks for well justified recommendation of which option to choose AND why not the other option. **Award up to 2 additional marks for relevant application.** Possible application marks: Fitness instructor; membership fee for many gyms is monthly; payment each visit to the gym; demand for low-priced gyms; needs to attract more customers to continue to expand the gym; gym is open 7 days a week; information from Appendix 3; qualifications to meet health and safety requirements. There may be other examples in context that have not been included here.	

Question	Answer	Marks
3(a)	**Identify and explain <u>two</u> legal controls that could affect Peter when recruiting and employing workers.** Award one mark for each legal control (maximum of two), such as: • Pay minimum wage • Employer liability insurance required • Legal citizenship/work permit/licence required • Ensure a safe working environment/Health and Safety laws observed • No discrimination when recruiting workers • Not employing children • No unfair dismissal • Number of hours worked may have a maximum limit Award a maximum of three additional marks for **each** explanation of the legal control – **2 of which must be applied to this context.** Indicative response: It is important to pay at least the minimum wage (1) set by the government or the owner will be prosecuted. (1) This may mean that Peter has to pay higher wages than he wants to pay and the wage costs of the gym might be high. (ap) It might mean that Peter cannot afford to employ as many trainers as he wants at the gym due to the high cost. (ap) Possible application marks: Fitness instructor; needs to employ 4 personal trainers; 2 receptionists; gym is open 7 days a week; Information from Appendix 1 listing gym equipment; information from Appendix 3; health and safety regulations must be met; shortage of personal trainers; need to have qualifications in personal training; most personal trainers are paid the minimum wage. There may be other examples in context that have not been included here.	**8**

Question	Answer	Marks
3(b)	**Refer to Appendix 2. Complete the break-even chart below by drawing the Total Revenue line.**	**12**
3(b)(i)	**1 mark for correct TR line – starts at 0 and goes up to $500** **Identify the break-even number of customers per day.**	
3(b)(ii)	**1 mark for break-even number of customers = 20** 	

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)(iii)</td><td>

Consider the following <u>two</u> ways Peter could use to try to increase profit. Recommend which way he should choose. Justify your answer.

Relevant points might include:

<table>
<tr><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Increase prices</td><td>• Increase in revenue if same number of gym members remain
• Increase inflows of cash
• Reduces break-even number of customers</td><td>• Possible decreased demand – as situated in low income area – so overall effect may not be to increase revenue and inflows
• Expect higher quality facilities so may need to invest in more equipment</td></tr>
<tr><td>Reduce variable costs</td><td>• Less outflows
• Increased profit
• Reduces break-even number of customers</td><td>• Lower quality provision
• Deter customers as perceived as reduced service</td></tr>
</table>

Level 1 **[1–3 marks]**
Outline of advantages and disadvantages of each option. (max of 3 marks)

E.g. Increasing prices will increase inflows from increased revenue.
Level 2 **[4–6 marks]**

Detailed discussion of advantages and disadvantages of each option. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)

E.g. Increasing prices will increase inflows from increased revenue which will help to increase the profit at the gym. However, if prices are much higher than similar competing gyms then VG will lose customers and cash inflows will fall.

Level 3 **[7–10 marks]**
For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation that justifies which option to choose.
7–8 marks for limited judgement shown in recommendation as to which option to use OR why the alternative option is not chosen.
9–10 marks for well justified recommendation as to which option to use AND why the alternative option is not chosen.

Note: Do not award application marks in (iii)

</td><td></td></tr>
</table>

Question	Answer	Marks
4(a)	**Identify and explain <u>one</u> advantage and <u>one</u> disadvantage of leasing all the equipment used in the business.** Award one mark for each relevant advantage/disadvantage (maximum of one each), such as: Advantage • The business does not have to find a large sum of cash to purchase the equipment • Care and maintenance is carried out by the leasing company • When the lease expires the latest equipment could be obtained Disadvantage • Total cost of leasing higher than to purchase the equipment outright • The equipment is not owned by VG • Cannot sell the equipment if not needed any more Award a maximum of three additional marks for **each** explanation of the advantage/disadvantage – **2 of which must be applied to this context.** Indicative response: The business does not have to find a large sum of cash in one go (1) as the equipment can be leased even if VG does not have the cash to buy it outright. (ap) This means VG can have better quality equipment such as treadmills for the gym at the start (ap) which will allow Peter to get the gym set up quicker and with better equipment than if he had to find all the cash at the start. (1) Possible application marks: Fitness instructor; a bank loan was used to finance the opening of the gym; as a sole trader; $5,000 was put into the business; a business plan was written to support the bank loan application; expects a good profit at the end of a successful first year; Information from Appendix 1 listing gym equipment. There may be other examples in context that have not been included here.	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>

Consider how the following <u>three</u> changes will affect VG. Which one will have the biggest effect on the business? Justify your answer.

Relevant points might include:

<table>
<tr><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>A multinational chain of luxury gyms recently set up in country X</td><td>• Encourages increased gym membership for all gyms as it becomes more fashionable to go to a gym
• May have no effect as aimed at different market segment
• Little effect as low income workers cannot afford luxury gym membership</td><td>• Increased competition so may lose some existing gym members
• May lose some staff such as personal trainers to the new gyms so will need to be replaced
• May need to increase wages to retain staff</td></tr>
<tr><td>There is an increased proportion of elderly people in the population</td><td>• Increased demand for exercise classes for the elderly because they have more leisure time
• More potential elderly customers leads to increased revenue
• Elderly people more likely to lead a healthier lifestyle – encouraged by government campaign</td><td>• May change the image of the gym and puts off potential younger customers
• Increased costs of providing trainers specialised in providing classes or tuition for elderly members
• Revenue may fall if the elderly do not go to the gym</td></tr>
<tr><td>Interest rates have increased</td><td>• Higher costs of borrowing means pressure on family income – less demand for high priced luxury gyms – increased demand VG</td><td>• Increased costs of borrowing if VG needs to take loans to purchase more gym equipment for expansion or replacement of equipment
• Less discretionary income by members reduces less important spending</td></tr>
</table>

Level 1 **[1–3 marks]**

Outline of the advantages and disadvantages of each change. (max of 3 marks)

E.g. Lower demand for gyms as less income left over after essential bills paid.

</td><td>**12**</td></tr>
</table>

Question	Answer	Marks
4(b)	Level 2 **[4–6 marks]** Discussion of the advantages and disadvantages of each change. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) E.g. Lower demand for gyms as less income left over after essential bills paid. Therefore the number of members and therefore revenue might fall for VG. However, as VG is a low cost gym it might attract members from luxury gyms and so membership might increase. (Level 2 plus one application mark for answering in the context of the gym membership) Level 3 **[7–10 marks]** For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion as to which change will have the greatest effect on profit. 7–8 marks for limited judgement shown in the conclusion as to which change will have the greatest effect on VG AND why the alternatives will have less effect on VG. 9–10 marks for well justified conclusion as to which change will have the greatest effect on VG OR why the alternatives will have less effect on VG. **Award up to 2 additional marks for relevant application.** Possible application marks: Fitness instructor; helps people lose weight and get fit; membership fee for many gyms is monthly; payment each visit to the gym; demand for low-priced gyms; a bank loan was used to finance the opening of the gym; as a sole trader; needs to attract more customers to continue to expand the gym; needs to employ 4 personal trainers; 2 receptionists; gym is open 7 days a week; Information from Appendix 1 listing gym equipment; information from Appendix 3; government worried about increasing health problems of the population. There may be other examples in context that have not been included here.	

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