UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the October/November 2010 question paper for the guidance of teachers

7115 BUSINESS STUDIES

7115/11 Paper 1 (Short Answer/Structured Response), maximum raw mark 100

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This mark scheme includes a summary of appropriate content for answering each question. It should be emphasised, however, that this material is for illustrative purposes and is not intended to provide a definitive guide to acceptable answers. It is quite possible that among the scripts there will be some candidate answers that are not covered directly by the content of this mark scheme. In such cases, professional judgement should be exercised in assessing the merits of the answer and the senior examiners should be consulted if further guidance is required.

Examples of possible answers are also included in this mark scheme. Again, it should be emphasised that this is for illustrative purposes and the examples chosen represent only some of the many possible responses that would merit reward.

1 (a) What is meant by a loss leader? [2]

Loss leader is a product sold below cost price [1] in order to encourage customers to buy other products sold by the business [+1]
Answers like: products they make no money (make a loss) on [1]
form of promotion [1]

Do NOT credit an answer which simply says it is a product on which they make the biggest loss, as this is incorrect.

1 mark for simple understanding of what the term means
1 mark for saying why it is used

(b) Identify <u>two</u> overhead costs that you think Leo's garage would have to pay. [2]

Any recognised fixed or indirect cost example acceptable
- rates
- interest
- heating
- lighting
- salaries NOT wages

One mark per valid example

Do NOT credit expenses/taxes/stock/transport

(c) The government in country A has raised interest rates. Explain the impact that this increase might have on the profits of Leo's garage. [4]

Interest rate rises will increase his business costs as cost of his debt rises. They will also reduce sales, as cars are usually bought on some kind of credit. Given that most of his profit comes from car sales, this is particularly damaging to the business.
Identification of areas of impact [max 2], e.g. costs rise, sales fall, profits fall
Explanation/analysis of impact [max 3] – explain why profit falls

The above mark scheme implies that at least **two** ways have been identified. This is, however, not necessary to gain four marks, e.g. an answer which focuses on why sales would fall and the impact this would have on the profitability of his garage could gain four marks if well developed.

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(d) Identify and explain <u>three</u> ways in which Leo could promote his business. [6]

Promotions can take various forms. Likely ones to include:
- short-term price cuts or special offers, e.g. 10% off indicates short-term
- gifts
- competitions
- after-sales service
- samples
- advertising (only credit once)
- personal selling

Identification of methods [3]
Showing **how** the promotion works and help increase business [3]: the way the methods work is by means of increasing awareness and attractiveness of the business, e.g. a special offer tempts people into the business and encourages extra sales and/or repeat purchases.

(e) Although Leo's business is profitable it has a cash flow problem. Recommend <u>two</u> methods that Leo could use to help solve the problem. Justify your recommendations. [6]

Cash flow problems stem from an imbalance in the amounts and timing of cash in and out of a business. Thus any measures that favourably improve the amounts and/or time of cash movements are acceptable. Probable answers to include:
- speed up debtor payments
- delay payment to creditors
- reduce level of stock held (cars)/selling assets
- reduce working capital needs
- increase stock turnover rates
- overdraft or <u>short-term</u> loan

Method of cutting costs, e.g. finding a cheaper supplier (do not accept cutting costs alone)
Do NOT accept a price cut as an appropriate method, unless specifically says this will shift the stock faster.

Identification of methods [2]
Explanation/analysis as to how method will impact on cash flow [2]
Evaluation of methods in context [2]
The evaluation might make reference to the ease and suitability of the method identified.

2 (a) Identify <u>two</u> examples of fringe benefits that shop workers are likely to receive. [2]

Content:
- staff discount on products
- subsidised meals
- transport to work
- health insurance
- assistance with accommodation
- days off/holiday

To be acceptable, examples must be **appropriate to context**. One mark per acceptable example. [2]
In this context, **do NOT** accept company car/payment of school fees/sick pay/bonus or any form of financial payment.

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(b) Identify <u>two</u> reasons why recruiting shop workers might be difficult. [2]

Difficulties might be to do with:
- low rates of pay in the store
- poor reputation of the store
- shortage of labour in the area
- lack of skills
- poor working conditions or long hours proving unattractive (putting off people from applying)

Other answers possible. One mark per reason identified. [2]

(c) Identify and explain <u>two</u> reasons why shop workers might lack motivation. [4]

Motivation is in effect having a positive attitude towards work. The lack of this might be due to:
- dislike of nature of work
- unhappy with surroundings
- do not like fellow workers and/or boss
- do not like style of management
- lack of prospects
- low rates of pay

N.B. terms like pay and prospects alone insufficient. Must say low pay or lack of prospects.
Identification of reasons [2]
Explanation to show why it might result in a lack of motivation [2], e.g. unhappy with surroundings resulting in low morale at work and hence a negative attitude.

(d) Suki is also responsible for making sure that workers follow Health and Safety laws in her department. Identify and explain <u>three</u> ways in which such laws might help protect employees and customers. [6]

The legislation is likely to deal with the following issues: physical conditions at work such as heating, lighting, ventilation/provision of sanitation/danger from environment such as trailing wires or exposed electrical sockets/lifting of heavy stock items etc.
N.B. context is important in assessing relevance of an answer.
Do not accept food hygiene or consumer legislation issues.

Identification of areas on which laws might impinge [3]
Explanation of how employees and/or customers are protected [3]

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(e) The sales of the shop have fallen recently. The management think that costs must be cut. Two suggestions have been made to do this:

- **Make 50% of the shop workers redundant**
- **Reduce the hours of all shop workers by 50%.**

Which one of these <u>two</u> options do you think the management should choose? Justify your recommendation. [6]

Reducing the staff by 50%:
Might incur redundancy costs/affect morale by introducing insecurity/reduce wage bill/reduce ability to sell and hence might cut sales revenue by even more/those who leave suffer real financial loss while those who remain may have to work harder.

Reducing hours by 50%:
Would mean all staff are part-time/reduced wages for all/may not be acceptable to many who would leave/no redundancy costs/may involve breach of employment contract laws/also has impact on sales and revenue/easy to change if market sales pick up.
On balance, reduction in staff numbers probably the best way to proceed if cost savings have to be made.
[**NB** quality of argument key factor here, not the direction of the answer]

Identification of relevant issues [2]
Analysis of issues showing their consequences [2]
Evaluative judgement on outcomes [2]
A one-sided answer cannot exceed more than 4 marks [1k/2An/1E max]

3 (a) What is meant by a financial budget? [2]

A financial budget is a numerical/quantitative plan showing future financial targets (goals or limits) for a specific time period. [2]
Answers like:

- amount that can be spent
- financial plan
- future plan
- financial target

will gain 1 mark
An answer which excludes either limits or time has a maximum of 1 mark.

(b) Calculate the net profit <u>margin</u> for BTX in 2009. [2]

Profit margin is profit/sales %. [1]
250/1100 × 100 = 22.72% **Answer** = 22.72% [2]
22% – 23 % acceptable for [2]

Method alone or arithmetic error [1], correct number **without** % [1]
If figures for 2008 are used (correctly) then 1 method mark could be available.

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(c) Explain what the current ratio tells Manfred about BTX's financial position. [4]

Current ratio is a measure of the relationship between quick assets (current) and short-term debts (current) it is a liquidity test designed to show the ease by which a company can pay off debts on demand. A fall in the ratio shows a decline in liquidity and hence is not seen as a good thing because it implies that not all short-term debts can be met quickly.
Knowledge of current ratio [2]
Analysis of usefulness [2]

Knowledge of current ratio can be shown by indicating what it is or how it is calculated [2] an answer that simply says 'shows current assets and current liabilities of a business' [1]
Analysis of usefulness: analysis implies saying something about what the change means to BTX using the data [2]
So an answer that says 'the figure has changed from 1.2 to 0.7' is merely a description not an analysis and therefore would not be credited.

(d) BTX wants to raise new funds in 2010 to help finance its growth plans. Identify and explain three ways it could do this. [6]

Methods must be appropriate for long-term finance for them to be acceptable. Answers likely to include:

- share issue
- long-term bank loans
- debenture
- retained profit (including reducing dividends to shareholders)
- sale and lease back or other method of releasing cash from assets

Do NOT accept government grants/debt factoring/fundraising
Identification of methods [3]
Explanation of methods showing why they generate appropriate funds [3]

(e) Do you think that the management of BTX should be worried about the performance of the company in 2009? Justify your answer. [6]

Analysis of the data shows the following:

- sales fall (8.3%) bad
- net profit rise (25%) good
- profit margin rise (16.6 % to 22.72%) good
- return on capital (ROCE) down (20% to 16.6%) bad
- current ratio down (below safe levels) bad

Identification of directional changes in relevant indicators of BTX's success [2]
Analysis of data [2] Interpretation of the information could be quantitative or qualitative
Evaluative comment [2] This will involve a positive assertion supported by a justification comment based on the analysis.

Evidence suggests that 2009 has not been a successful year for the business because the ROCE has fallen. However, an alternative argument would be valid if supported appropriately.

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4 (a) What is meant by a product life cycle? [2]

Content: product life cycle shows the level or pattern (stages) of the sales of a product [1] over time [+1]
To gain 2 marks, the answer must include reference to both pattern/level of sales and time either stated or at least implied, for example by a starting and end point.
Answers like 'shows sales' [0] and 'sales over time' [1]

(b) Identify the four stages of the product life cycle of product X. [2]

Stages likely to be identified are:
- Stage 1: launch or introduction
- Stage 2: growth
- Stage 3: maturity or saturation
- Stage 4: decline

The sequence must also be correct to gain credit. The correct term must be next to the appropriate stage.
Thus mark allocation:
4 correct = 2 marks
2 or 3 correct = 1 mark
1 correct = 0 marks

(c) Identify and explain <u>two</u> main differences in the life cycles of the two products shown in Fig. 1 and Fig. 2. [4]

Content: main differences centre on the rapidity of the growth and decline phases and the duration of the maturity phase. (Growth and decline represent two distinct features and hence can gain full marks.)

Identification of differences [2] A clear difference between the two diagrams (products) must be made. Also rapidity of the change is needed for credit to be given. So, <u>growth alone is not enough</u>.
NB do not accept 'sales of W are greater than sales of X'.

Explanation of the difference [2]
For example:
- Product W shows a rapid growth of sales, implying that in the growth stage sales revenue has risen faster than product X. Similar point can be made about decline stage.
- Maturity stage for product X is longer than that for product W. This implies sales value was maintained for a longer period of time for product X.

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(d) Sweet Scent is soon to launch a new range of toothpaste called Gleam. Identify and explain <u>three</u> factors that the management of Sweet Scent should consider before setting a price for Gleam. [6]

Content:
The factors might include:
- unit production costs
- competitor prices
- segment of market aimed at
- pricing strategies such as penetration or skimming
- market research information gathered
- quality of product

Identification of factors [3]
Explanation or analysis of factors [3]
Thus answer might say the unit cost of the product has to be considered.
[1 mark for identification]
This is because costs have to be covered at a minimum so that profits can be made.
[1 mark for explanation]

(e) The management of Sweet Scent believe that the more the company spends on advertising, the more profitable the product will be. Do you think they are right? Justify your answer. [6]

Content:
The issues that could be identified are:
- adverts can be cost-effective
- however advertising might be misdirected
- markets might be saturated
- other factors influence sales, not just advertising

Identification of relevant points [2]
Analysis of points [2]
Evaluation of points [2] Argument rests on the validity of the link between advertising spending and sales revenue.
A one-sided answer cannot exceed more than 5 marks. [2k/2An/1E max]

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5 (a) What is meant by communication feedback? [2]

Feedback is a response from a receiver to a source to indicate that a message has been received and/or understood. [2]
Answer like 'someone responds'. [1]

(b) Identify <u>two</u> business situations in which one-way communication would be suitable. [2]

Must be a clear situation, not just simply two people who might communicate, e.g. manager to secretary.
Situations could include the following:

- order or instruction is given
- informing someone about a decision that has been made
- any situation when a comment or discussion is not required, e.g. "when no feedback is needed".

Answers can be of an example type or a situation type. [1 mark per valid point]
Do not accept an autocratic manager because this is a choice not a suitable <u>situation</u>.

(c) Identify and explain <u>two</u> ways in which information technology has affected how a business communicates with its stakeholders. [4]

Identification of <u>ways</u> [2] business has been affected, such as:

- speed of communication greater (faster)
- cost of communication reduced
- efficiency of communication improved
- easier
- less security of information
- greater potential for miscommunication

Explanation showing how it operates/how it has replaced another form of communication. [2]
Information technology has achieved the above through:

- intranet, e.g. to replace newsletters
- video conferencing, e.g. to replace meetings
- emails within a business, e.g. replacing memos and telephone calls
- website/Internet to communicate with customers, e.g. replacing mail shots and letters
- Internet to communicate with suppliers, e.g. orders replacing faxes and telephone calls

(d) ATC employs 10 000 staff throughout the world. Identify and explain <u>three</u> benefits that ATC might gain from delegating decision-making to its staff around the world. [6]

Content:
Benefits might include:

- increased speed of decision-making
- making decisions appropriate to local conditions
- increased morale/motivation for staff
- more ideas generated
- reduction in levels of bureaucracy in business
- trusted or valued may be acceptable if it shows how the business benefits (not the employee)

Identification of benefits [3]
Explanation of benefits [3]

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(e) ATC has a policy of recruiting staff for the senior jobs from within the business. It is changing its policy so that external recruitment will be used to recruit senior staff in the future. Do you think that the change will benefit ATC? Justify your answer. [6]

The implications of external recruitment are:
- wide pool of candidates to choose from
- new ideas brought into the company
- increased costs of recruitment
- new recruits lack insight/knowledge of this business

Present policy has the following benefits, which would be lost when the change is implemented:
- motivation goal for staff
- people know the business
- company knows the people
- generate stability and experience

However, the current policy:
- reduces the pool of applicants
- may not have the best person to choose from
- can lead to friction between staff
- can create problems of leadership and control
- can lead to a lack of change and innovation.

Identification of issues [2]
Analysis of issues [2]
Evaluation of issues leading to recommendation [2]
A one-sided answer (only benefits are considered) cannot exceed more than 5 marks [2k/2An/1E max] as evaluation would be deemed to be limited.

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