UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the October/November 2011 question paper for the guidance of teachers

7115 BUSINESS STUDIES

7115/21 Paper 2 (Case Study), maximum raw mark 100

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.

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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.

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.

Application marks are not awarded for the name of the business or person from the case material. Application is by answering in the context of the case or by using the information in the case to help answer the question.

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1 (a) Simon wants to motivate his production workers to work harder. Identify <u>two</u> methods he could use to motivate production workers at Everyday Suits. Explain why these methods would be effective. [8]

Content:
Increased wages; bonus; use piece-rate; fringe benefits; training; job rotation/enrichment; non-financial benefits.

NB do not credit any negative features of the motivational methods.

The marks available for this question are as follows: 2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis – the methods must be appropriate for production workers.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each method. (4 marks × 2 methods)

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Possible application marks:

suits (any reference to any aspect of suits reward once only); batch production; 100 production workers; profits increased as grown quickly; continue to expand the business; employ skilled workers; invest in new machinery; information from Appendix 3; private limited company.

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

Method: Introduce piece-rate to pay production workers. (1 knowledge mark)

Simple explanation: Introduce piece-rate to pay production workers as this will encourage them to work harder as the more suits they make the more they will get paid. (1 additional mark for simple explanation)

Developed explanation: Introduce piece-rate to pay production workers as this will encourage them to work harder as the more suits they make the more they will get paid. This will mean that the workers' pay will increase if they make more suits and they will feel that their efforts are being rewarded. (1 further explanation mark for a developed explanation)

Application: The application mark could be achieved as the answer refers to suits. (1 application mark)

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Appendix 2 shows the proposed new organisation chart for Everyday Suits. Simon will not be able to do all the work himself if the business grows bigger.

(b) Choose <u>four</u> departments that Simon could create and justify why each department could be important to the success of the business. [12]

Content:
Marketing/Market Research; Human Resources; Sales; Purchasing; Production/Operations; Administration; IT; R&D.

NB do not accept Finance.

Level 1 The marketing department is needed. 1 mark for each suitable functional area.

Level 2 E.g. The marketing department is needed to carry out market research into the styles of suits which customers like the most. This will enable the company to produce suits which should meet customer demand and sell well. It is vitally important that the company makes a product which meets customer needs or the business may lose profit or even make a loss.

6 marks for a good level 2 answer plus 1 application mark for mentioning the style of suits they should sell.

5 marks for the first level 2 answer plus 1–2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks; 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded. 6 × L2 = 10 marks.

Possible application marks:

suits (any reference to any aspect of suits reward once only); private limited company; batch production; 100 production workers; 5 office workers; profits increased as grown quickly; a lot of competition; employ skilled workers; invest in new machinery; information from Appendix 3.

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

	Application	Knowledge/Analysis/Evaluation
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–10 marks Good discussion of the role of the functional area would gain one L2 and then good judgement shown as to why the functional area is important to the business a second L2 can be awarded.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Suitable functional area listed/stated. Limited judgement shown as to why functional area is needed.

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2 (a) Refer to Appendix 3. Identify and explain <u>two</u> ways Simon could <u>increase</u> the added value of his current business. [8]

Content:
Increase price; decrease input costs; adding features to suits; exclusive brand name/logo; recognisable packaging.

The marks available for this question are as follows: 2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each factor (4 marks × 2 ways).

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Possible application marks:

suits (any reference to any aspect of suits reward once only); batch production; 100 production workers; a lot of competition; employ skilled workers; invest in new machinery; information from Appendix 3, e.g. cloth/fabric.

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

Reason: They could reduce the cost of the cloth purchased for making the suits. (1 knowledge mark)

Simple explanation: They could reduce the cost of the cloth purchased for making the suits. This will reduce the input costs and increase the difference between the input costs and price. (1 additional mark for simple explanation)

Developed explanation: They could reduce the cost of the cloth purchased for making the suits. This will reduce the input costs and increase the difference between the input costs and price. Simon could find a cheaper supplier or negotiate a lower price from cloth suppliers to increase the added value. (1 further explanation mark for a developed explanation)

Application: The application mark could be achieved as the answer refers to cloth to make suits. (1 application mark)

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(b) To expand the business Simon may need new machinery. To finance this, he is considering using an overdraft or leasing the equipment or selling more shares. Consider these <u>three</u> options for raising finance and recommend which one he should choose. Justify your choice. [12]

Content:
Overdraft – quickly arranged; flexible; can be expensive; repayable on demand; high interest rates; only borrow small amount.
Lease – capital not needed; payments spread out over time; updates possible; asset not owned; maintenance/repairs covered.
Selling more shares – don't have to be repaid; no interest paid; may lose some control; profits shared; takes time to arrange.

Level 1 E.g. They could sell more shares and so they would not need to pay any interest on the loan.
1 mark for each statement.

Level 2 E.g. They could sell more shares and so they would not need to pay any interest on the loan. The money would be used to buy the new equipment so that an increasing number of suits would be produced. The money would not have to be repaid and so it would not add to the debt of the company. Not paying any interest means that the business would have less money to pay out and should improve the cash flow of the business. However, there would be more shareholders and they would expect dividends paid out of the profits.

6 marks for a good level 2 answer plus 1 application mark for mentioning the production of suits.

5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks; 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded.

Level 3 Detailed discussion of at least three level 2 answers which consider which option to choose and justify why it is better than the other two sources. E.g. level 2 answer + selling more shares will be better than an overdraft because the business will not be able to borrow very much money using an overdraft and it is repayable on demand. It is also better than leasing because the business will still need to pay more than the purchase price of the equipment when leasing and so selling more shares will be the cheapest option for the company.

Possible application marks:

suits (any reference to any aspect of suits reward once only); private limited company; batch production; 100 production workers; profits increased as grown quickly; bank loan of $15 000; continue to expand the business; financial information from Appendix 1.

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

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	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks At least 3 options explained at Level 2 + good judgement shown as to which source of finance to choose and why it is better than the other two sources.
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of the advantage/disadvantage of any of the sources of finance listed. Or balanced argument (even if listed). Some judgement shown about which one they should choose in recommendation.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Advantage/disadvantage of any of the sources of finance listed.

3 (a) As Everyday Suits expands it will need to employ new managers. Identify and explain <u>four</u> parts of an induction training programme for new managers. [8]

Content:
Shown round the business/facilities; introduce colleagues; go over the contract; shown to work area; outline the job; history of company; fire drill; safety procedures/safety equipment; aims/objectives of the business.

The marks available for this question are as follows: 4 marks for knowledge and 4 marks for explanation.

1 knowledge mark + 1 explanation mark for each example (4 × 2 marks for each item).

E.g. The new manager would be introduced to new colleagues (1 knowledge mark) so that they will feel more comfortable starting to work having met the other employees they will be managing. (1 explanation mark)

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(b) Simon thinks that Option 1 would require a different marketing mix to Option 2. In what ways do you think each of the elements of the marketing mix will be different for Option 1 and Option 2? Justify your answer. [12]

Content:
Product – individual suits for Option 1 but mass-produced product for Option 2.
Price – premium pricing for Option 1 and competitive pricing for Option 2.
Place – Option 1 sold through specialist shops while Option 2 sold through chain stores.
Promotion – newspapers aimed at high income groups for Option 1 but popular newspapers for Option 2.

NB the answers must focus on marketing and not production and cost.

Level 1 E.g. The product is different – for Option 1 it is an individual product but for Option 2 it is a mass-produced product. 1 mark for each statement.

Level 2 E.g. The product is different – for Option 1 it is an individual product but for Option 2 it is a mass-produced product. Option 1 requires the suits to be made to measure for each individual customer and the suit will be unique to each customer. However, Option 2 will have to be standard size suits made of standard cloth. There will be a restricted range of sizes and fabrics/colours to choose from. The cloth for Option 1 will be of better quality than Option 2.

5 marks for level 2 answer.

5 marks for the first level 2 answer plus 1–2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks; 4 level 2 answers = 8 marks; 6 level 2 marks = 10 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded.

Possible application marks:

suits (any reference to any aspect of suits reward once only; a lot of competition; information from Appendix 3; niche market.

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

	Application	Knowledge/Analysis/Evaluation
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–10 marks Comparisons/contrast made (even if listed) to show why the marketing mix will be different for the two options for each of the elements of the marketing mix would gain one L2. For justification or further development of the differences, award a second L2.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Elements of the marketing mix listed/stated for each option.

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4 (a) As Everyday Suits expands it could gain from economies of scale. Identify and explain <u>two</u> examples of economies of scale the business might benefit from as it expands. [8]

Content:
Financial; marketing; technical; risk-bearing; managerial; bulk buying/purchasing.

The marks available for this question are as follows: 2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each economy of scale (4 marks × 2 economies of scale).

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Possible application marks: suits (any reference to any aspect of suits reward once only); material/fabric; buttons; thread; one finance manager; invest in new machinery. There may be other examples in context which have not been included here.

Economy of scale: The business could gain financial economies of scale. (1 knowledge mark)

Simple explanation: The business could gain financial economies of scale because it has expanded and is now larger and banks will see it as being more likely to pay the money back and therefore less risk. (1 additional mark for simple explanation)

Developed explanation: The business could gain financial economies of scale because it has expanded and is now a larger company, so banks will see it as being more likely to pay the money back and therefore less risk. Less risk will mean that the interest rates will be lower to reflect the lower risk. (1 further explanation mark for a developed explanation)

Application: The application mark could be achieved as the answer refers to expanding to become a larger company. (1 application mark)

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(b) Using the information in Appendix 1, do you think Simon should be satisfied with the financial position of the business? Justify your answer using appropriate ratios. [12]

Content:
Level 1 – straight repetition of data in Appendix 1 no credit.
No cash in 2011 and overdrawn (L1).
Debtors increased in 2011 (L1).
Creditors decreased in 2011 (L1).

Level 2
Current ratio – 1:1 (L2) and 1:1.33 (L2).
Acid test 1:0.75 (L2) and 1:1 (L2).
Gearing ratio = 50%.

Level 1 E.g. No money at the bank.

1 mark for each statement up to a max of 4 marks.

Level 2 E.g. Current ratio 1:1.
Acid test 1:0.75.

5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer. I.e. two level 2 answers = 6 marks; 3 level 2 answers = 7 marks; 4 level 2 answers = 8 marks. However, if the level 2 calculation is explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 calculation is also explained then 8 marks in total can be awarded.

Level 3 This will include at least two calculations with comments on the figures and judgement explained as to whether the business is in a strong financial position or not.

	Knowledge/Analysis/Evaluation
Level 3	9–12 marks At least two L2 calculations and/or ratios. Decision made and justified on the calculations as to whether or not the financial position of the business is good.
Level 2	5–8 marks Financial information calculated and/or ratios calculated on the liquidity of the business.
Level 1	1–4 marks Basic statements about financial situations/limited judgement shown.

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5 (a) Everyday Suits currently uses batch production. However, if Simon chooses Option 1 job production will be used or if he follows Option 2 flow production will be used. Explain the main features of job production for Option 1 and the main features of flow production for Option 2. [8]

Content:
Job production – products are made to the specific design of the customer; often labour-intensive; highly skilled workers; high quality/individual product.
Flow production – uses machinery; production line used; low-skilled workers; standardised product; continuous production; large quantity produced.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each method of production (4 marks × 2 methods of production).

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Possible application marks: suits (any reference to any aspect of suits reward once only); 100 production workers; paid hourly; continue to expand the business; material/cloth; invest in new machinery; information from Appendix 3. There may be other examples in context which have not been included here.

Job/flow production: Job production will mean the suit is made to the individual design of the customer. (1 knowledge mark)

Simple explanation: Job production will mean the suit is made to the individual design of the customer and so will meet the customer's needs. It may be made by just one worker who does all the processes themselves. (1 additional mark for simple explanation)

Developed explanation: Job production will mean the suit is made to the individual design of the customer and so will meet the customer's needs. It may be made by just one worker who does all the processes themselves. The worker will need to be skilled so that they can carry out all the different processes involved in making the suit, such as cutting out and sewing together the fabric. (1 further explanation mark for a developed explanation)

Application: The application mark could be achieved as the answer refers to cutting out and sewing the suits together. (1 application mark)

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(b) Simon will need to use new machinery in the production of suits if he chooses Option 2. Do you think that the production workers at Everyday Suits would think the use of new machinery was a good idea or not? Justify your answer. [12]

Content:
Advantages of new machinery – increased skills required; higher wages; makes the job easier; business more competitive so jobs more secure; job can be done quickly; training.

Disadvantages of new machinery – jobs lost; sometimes job more boring; worried about future security of jobs; difficult to adjust to new machinery; resistant to change; reduce skills; maybe lower wage rate.

NB the answer should be related to the workers' view, not the managers' view.

Level 1 E.g. Increased skills will be required from employees. 1 mark for each statement.

Level 2 E.g. Increased skills will be required from employees and this will mean employees will be trained by the company to operate the new machinery and so they should make more suits and their wages will increase.

5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks; 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded.

Level 3 Detailed discussion of at least three level 2 answers plus consideration of whether employees will think it's a good idea or not.

Possible application marks:

suits (any reference to any aspect of suits reward once only); batch production; 100 production workers; paid hourly; no fringe benefits; continue to expand the business; employ skilled workers; information from Appendix 3.

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

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks 3 × Level 2 + justified conclusion of whether employees will think it's a good idea or not.
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–8 marks Advantages and disadvantages of new technology discussed or balanced view (even if listed).
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Advantages/disadvantages of new technology listed.

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