CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge Ordinary Level

MARK SCHEME for the October/November 2015 series

7115 BUSINESS STUDIES

7115/11 Paper 1 (Short Answer/Structured Response), maximum raw mark 80

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1 (a) What is meant by 'average cost'? [2]

Clear understanding [2] e.g. Total cost divided by the total number of units produced
Some understanding [1] e.g. cost to make one product/cost per unit

(b) Calculate the output per employee per week in 2014. [2]

Good application [2] e.g. 520
Some application [1] e.g. total output/number of employees or 260 000/500
Note: ignore $ sign

(c) Identify and explain two possible advantages to TWH of using batch production. [4]

Knowledge [2 × 1] – award 1 mark for each relevant advantage [max 2]
Application [2 × 1] – award 1 mark for each relevant explanation in context of TWH

Relevant points might include:

- some variety in workers' jobs [k] leading to better motivation [app]
- allows more variety of products to be made [k] so can respond to changes in demand for different toys [app]
- if machinery breaks down other work can continue [k] so could improve efficiency [app]
- flexible way of working [k]
- economies of scale/bulk buying [k] so lower average costs [app]
- More output than job production [k]

Application marks may be awarded for appropriate use of the following: relevant use of numbers, toys, motivation, average cost, efficiency, new technology

Do not accept cheaper, faster, more output (if just this is stated)

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(d) Identify and explain <u>two</u> ways that TWH could improve the motivation of its employees. [6]

Knowledge [2 × 1] – identification of relevant way [max 2]
Application [2 × 1] – award 1 mark for each way if relevant reference made to TWH
Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Job rotation [k] swapping between making different toys [app] they are not bored doing the same thing [an]
- training [k] on the new technology [app] so employees feel valued [an]
- better communication with management [k] so workers feel that they are important to the business [an] so efficiency improves [app]
- improve pay [k] they pay $6 [app] as pay $.50 less per hour [an] **OR** bonuses/piece rate [k] so make more toys [app] to get paid above their usual wage [an]
- improved working conditions/environment [k]

Note: other options acceptable e.g. fringe benefits (allow only once), job enrichment, promotion

Do not accept work harder alone as analysis because a reason for this must be given

Application marks may be awarded for appropriate use of the following: relevant use of numbers, toys, average costs, efficiency, new technology.

(e) TWH can either use retained profit or a long term loan to finance the purchase of new technology. Which option do you recommend TWH should use? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant point(s) [max 1]
Application [1] – award 1 mark if relevant reference made to TWH's business
Analysis [2] – award up to 2 marks for relevant development of point(s)
Evaluation [2] – justified decision as to which source of finance is best option to use
For 6 marks must explain why chosen source is the better option for this business

Points might include:
Retained profits–

- no need to repay/readily available [k] which can help keep average costs low [app] so no time wasted in trying to secure the finance [an]
- may not have sufficient funds available [k] so might still need a bank loan [an]
- no funds available for other uses [k]

Long term loan –

- can plan repayments over time/know repayments [k]
- interest costs to pay [k] which would increase average costs [app] which has to be repaid whether they make a profit or not [an]
- have retained profits available in case of need [k]

Note: Candidate's final decision can be for either option.

Application marks may be awarded for appropriate use of the following: relevant use of numbers, toys, lower average costs.

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2 (a) What is meant by a 'private limited company'? [2]

Clear understanding [2] e.g. a business whose shares cannot be sold to the general public [2] Or shares only sold to family and friends [2]
Some understanding [1] e.g. outlines general features of limited companies e.g. have limited liability/separate legal identity from owners/can sell shares/incorporated

Do not accept in private sector/no Government involvement as generic statement also applies to unlimited businesses.

(b) Identify two causes of business failure. [2]

Knowledge [2 × 1] 1 mark per cause

Points might include:
- lack of management skills
- actions of competition
- change in government laws
- poor product range/outdated products
- lack of demand/recession
- lack of/poor market research
- lack of finance/cash flow problems
- diseconomies of scale/over expansion

Note: points could refer to either new or established business. Accept any reasonable answer.

(c) Identify and explain two diseconomies of scale that Ramford might experience. [4]

Knowledge [2 × 1] – award 1 mark for each relevant diseconomy [max 2]
Application [2 × 1] – award 1 mark for each relevant explanation in context of Ramford

Relevant points might include:
- Poor communication [k] as messages need to be sent/received from 4 factories [app]
- Low morale/motivation [k] as worried products they make might be cut [app]
- Slow decision making [k] as 80 products to consider [app]
- Lack of control [k]

Application marks may be awarded for appropriate use of the following: calculations/use of numbers, factories, 80 products, reduced profit, financial performance, wide range, private limited company.

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(d) Identify and explain <u>two</u> factors that Ramford should consider in deciding which products to remove from its product range. [6]

Knowledge [2 × 1] – identification of relevant factor [max 2]
Application [2 × 1] – award 1 mark for each way if relevant reference made to this business
Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Stage in product life cycle [k] if some foods are in decline [app] few people are likely to be buying them anyway [an]
- Availability of substitutes/competition [k] if many breakfast cereals [app] so might not be cost effective to keep making it [an]
- Cost of producing each product [k] as worried about financial performance [app] might want to stop making expensive items [an]
- Current level of sales/popularity/demand [k] as profits falling [app] need to remove the least popular lines [an]
- Not suit current season [k]

Application marks may be awarded for appropriate use of the following: calculations/use of numbers, food, cereal, ice cream, factories, 80 to 10 products, reduce profit, financial performance.

(e) Do you think the Finance Director is right to be worried about the financial performance of Ramford in 2014? Justify your answer using the data in Table 2 and appropriate ratios. [6]

Knowledge [1] – award 1 mark for identification of relevant point(s) [max 1]
Application [1] – award 1 mark if relevant reference made to this business
Analysis [2] – award up to 2 marks for relevant development of point(s)
Evaluation [2] – justified decision as to whether Ramford should be worried about its performance

Points include:

- Sales down [k] which is a 25% fall [app + an]
- (net) profit down [k] by $10m [app]
- Profit margin increased [k] to 40% [app+ an] showing better control of fixed costs [an]
- ROCE has fallen [k] to 20% [app + an] showing a lower return on each $ invested [an]
- Financial Director is aware of the problem [k] as they are cutting the number of products to 10 [app]

Note: using percentage calculation or ratio award <u>application and analysis</u>. Max 1 for application.

Application marks may be awarded for appropriate use of the following: appropriate calculations/use of numbers, diseconomies of scale, four factories, 80 to 10 products

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3 (a) What is meant by 'mass market'? [2]

Clear understanding [2] where there are a large number of (potential) customers willing to buy product(s). Allow: a large number of sales of a product
Some understanding [1] lots of customers/sales/buyers/people, shown by comparison to niche

(b) What is meant by 'market share'? [2]

Clear understanding [2] e.g. percentage of the total market sales [1] held by one brand or business [+1] **OR** business sales/total market sales × 100
Some understanding [1] e.g. share of all sales made/percentage of customers a business has

(c) Identify and explain <u>two</u> advantages of market research to Grimshaw. [4]

Knowledge [2 × 1] – award 1 mark per advantage.
Application [2 × 1] – award 1 mark for each relevant explanation (i.e. show how it is an advantage to Grimshaw)

Advantages could include:
- greater awareness of consumer needs [k] so can adapt its phone/features to match what customers want [app]
- able to forecast likely future trends [k] so can improve focus of new product development [app]
- appreciate the strength of competitors [k] so can change marketing strategy to compete
- knowledge of consumers' views of company products/image [k] as first time entering country T [app]
- reduces risks/products launched with more confidence [k] as know what features customers want [app]
- help gain competitive advantage [k] as can set effective pricing/promotion strategy to suit country T's customers [app]
- produce the correct amount of product [k] to avoid wastage of expensive parts [app]
- helps set price [k]

Note: knowledge points must relate to purpose of market research.

Application marks may be awarded for appropriate use of the following: mobile phones, market share increased (by 3%), mass market, factory, new model, multinational, technology, country T

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(d) Identify and explain two advantages to Grimshaw of developing new products. [6]

Knowledge [2 × 1] – identification of relevant point [max 2]
Application [2 × 1] – award 1 mark for each way if relevant reference made to Grimshaw's business
Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:
- gain competitive advantage [k] to target other phone users [app] so increasing their sales [an]
- Keep customers [k] in a competitive market [an]
- spread risk [k] so if demand for one model falls [app] they have new ones to rely on [an]
- expanding into new markets/market segments [k] so able to increase market share [app] as targeting more customers [an]
- can charge a higher price [k]

Note: economies of scale alone is too vague unless it is appropriately explained
Application marks may be awarded for appropriate use of the following: mobile phones, market share, mass market, factory, new model, multinational, technology.

(e) Do you think the Government of country T should help businesses such as Grimshaw set up in its country? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant point(s) [max 1]
Application [1] – award 1 mark if relevant reference made to the benefit of the country
Analysis [2] – award up to 2 marks for relevant development of point(s)
Evaluation [2] – justified decision as to whether the Government of country T should help businesses such as Grimshaw to set up in its country

Points might include:
- jobs created [k] as build factory there [app] so reduces unemployment [an]
- investment in infrastructure [k] to transport parts to/from factory [app] so locals benefit from new roads [an]
- new ideas [k] which could improve local business practices [an]
- taxes paid [k] which Government could use to pay for public services [an]
- more choice for consumers [k] as will have access to new model [app]
- more competition [k] so consumers could benefit from lower prices/force local businesses to close [an]
- exploitation of resources [k]
- lack of respect for local customs and cultures [k]
- flow of profits out of a country [k]

Application marks may be awarded for appropriate use of the following: mobile phones, mass market, factory, new model, can build anywhere, multinational.

Note: Candidate's final decision can be either for or against the statement.

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4 (a) What is meant by 'made redundant'? [2]

Clear understanding [2] e.g. The worker is no longer required through no fault of their own [2]
Some understanding [1] e.g. means that his job role has gone [1]

Note: If the answer includes dismissed, fired or sacked plus any relevant point maximum 1 mark

(b) Identify <u>two</u> functions of management that Tebo might have to perform. [2]

Application: [2 × 1] 1 mark per function
Points might include: organise/co-ordination, planning, control, decision making or practical examples e.g. motivation, recruitment, delegation, strategic tasks

Do not accept any task which can be completed by any employee e.g. pay bills, training

(c) Explain why managing his cash flow will be important for Tebo's business. [4]

Knowledge [2] award up to 2 marks for identification of points/knowledge of cash flow
Application [2] award up to 2 marks for relevant explanation in context of Tebo's business

Relevant points might include:
- Cash flow needed to pay its day to day expenses [k]
- Business could fail due to lack of cash [k] if used all his savings to buy franchise [app]
- Help reduce need for finance [k] for a **new** business [app]
- Able to predict/plan for cash flow problems [k]
- Help a business get a loan [k]

Application marks may be awarded for appropriate use of the following: car repair, no management experience, $15 000/all his savings, new business, FIXIT franchise.

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(d) Identify and explain two factors Tebo should consider when deciding where to locate his business. [6]

Knowledge [2 × 1] – identification of relevant factor [max 2]
Application [2 × 1] – award 1 mark for each way if relevant reference made to Tebo's business
Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Demand/customers [k] – he needs to be convenient so that he can get sales [an];
- personal preference [k] – he might want to locate near his home [an],
- cost of property/rent [k] if too high he might not be able to afford it [an] especially if used all his savings for the franchise [app];
- suitable/size of space [k] as will need access for cars [app]
- legal controls [k] as garage is likely to be noisy [app] there might be rules which restrict where he can go [an]
- competition [k]
- franchisor's views [k] if he becomes a franchise [app]
- transport links/access [k]
- availability of suitable employees [k] as need mechanics [app]
- near to supplier [k] because the car repair equipment might be heavy [app]

Note: accept franchisor as the supplier if it is made clear that they supply materials/equipment.

Application marks may be awarded for appropriate use of the following: franchisees, car repair, $15 000/all his savings, new business, redundant, FIXIT franchise, cash flow important, workshop.

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(e) Do you think that buy a FIXIT franchise is the best way for Tebo to start his business? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant point (s) [max 1]
Application [1] – award 1 mark if relevant reference made to Tebo/FIXIT business
Analysis [2] – award up to 2 marks for relevant development of point(s)
Evaluation [2] – justified decision as to whether buying a FIXIT franchise is the best way for Tebo to start his business

Points might include:

- Less chance of business failure [k] if he set up his own business, it would take time to build a reputation [an]
- Training provided [k] as he has no management experience [app]
- Lower advertising/training costs [k] as he has used all his savings to buy the franchise [app] so he may not be able to afford advertising/training [an]
- Supplies from central source [k] so less suppliers to deal with [an] so has more time to do repairs [app]
- Banks more likely to lend to franchisee [k] the $15000 needed [app] as seen as lower risk [an]
- Recognition [k] FIXIT already has 36 franchisees [app]
- Lack of control [k] as FIXIT will have a say in many decisions [an]
- Problem at one franchise affects all others [k] of the 36 [app] might lower his revenue [an]
- Less profits as only received a percentage [k] so if successful, it will not maximise profits [an]
- Does Tebo want the responsibility? [k]

Application marks may be awarded for appropriate use of the following: 36 (franchisees), car repair, no management experience, $15 000/all his savings, cash flow important.

Note: Candidate's final decision can be either for or against the statement.

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