CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge Ordinary Level

MARK SCHEME for the October/November 2015 series

7115 BUSINESS STUDIES

7115/12 Paper 1 (Short Answer/Structured Response), maximum raw mark 80

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1 (a) What is meant by a 'focus group'? [2]

Clear understanding [2] e.g. selection of people who have similar characteristics to target market [1] who give their opinions on a product/service [1]
Some understanding [1] e.g. some idea that they provide comments/opinions about product OR get market research information/find out consumer wants or needs

Do not reward answers which just explain what a group is OR refers to secondary market research.

(b) Identify <u>two</u> reasons why packaging might be important for the new computer game. [2]

Application [2 × 1] – award 1 mark for each relevant reason

Points could include:
- (Method of) advertising/attract customer attention
- (Promote or reinforce) brand image/recognition/differentiation
- Legal requirement
- Information about the product
- Protection/storage
- Ease of display
- Ease of transport

(c) Explain why the profit margin might be important for Walt's business. [4]

Knowledge [2] – award up to 2 marks for each relevant point/knowledge of importance of profit margin (do not credit definitions or formulae) [max 2]

Application [2] – award up to 2 marks for each relevant explanation in context of this business

Relevant points might include:
- Profit as a proportion of sales revenue, a higher margin would mean more profit [k] is made for each game sold [app]
- Influence price charged [k] if he sells to wholesaler [app] it could mean he needs more adults to buy product [app]
- Indicates efficiency [k]
- Measure of success/performance/comparison with other years [k]
- Comparison with other real world businesses specified by the candidate [k]

Do not award answers that explain reasons why profit rather than profit margins matter.

Application might include: wholesaler, adults, many countries, game, computer or other related terms e.g. software.

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(d) Identify and explain <u>two</u> advantages to Walt if he decided to use a wholesaler to distribute his products. [6]

Knowledge [2 × 1] – award 1 mark for identification of relevant advantage [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:

- Access to many retailers/markets [k] as wholesaler might have links in many countries [app] leading to more sales [an]
- Hold less inventory [k] so improve his working capital [an] as does not need to store games [app]
- Wholesaler provides distribution/transportation [k] so lower costs for Walt [an] which helps his profit margin [app]
- Able to focus on other tasks/no need to deal with lots of retailers [k] saving Walt time [an]
- Wholesalers buy in bulk [k]
- Help advertising [k] as packaging important [app] so more people aware of the product [an]
- Lower administration costs/no additional employees [k] as fewer invoices to send/chase [an]
- Wholesaler gives feedback from customers/identify trends [k]
- May receive cash more quickly [k] improving cash flow [an]

Do not credit answers which simply state ‘saves time’ or ‘saves cost’ on own unless explained.

Do not accept ‘wholesaler breaks bulk’ as this is a benefit to retailers.

Application might include: profit margin, packaging (important), adults, many countries, computer game or related terms.

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(e) Consider <u>two</u> possible methods of promotion that Walt could use for the new game. Recommend which method he should use. Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant method(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 which method of promotion is best option to use

NOTE: For 6 marks must explain why chosen method is better than the other option

Relevant points might include:

- Advertising/use of social media (accept only once) [k] in computer magazines [app] which can attract customers' attention [an]
- Public relations/sponsorship/celebrity tie-in with/endorsements [k]
- Promotional pricing (short-term discounts/vouchers) [k] as product becomes more affordable [an] but this will lower profit margin [app]
- Special offers e.g. bonus content [k] such as additional levels/software [app]
- Competitions [k] aimed at adults [app]
- Free trials/test/demonstrations [k] have limited access to some levels [app] which generate consumer interest/raise awareness [an]
- Trade fairs [k] so wholesalers find out what it is [app]
- Free gifts/merchandise [k]

Application might include: (impact on) profit margin, packaging important, wholesaler, adults, many countries, computer or software or other related terms.

Do not accept 'new' or 'game' as application because stated in question.
Do not accept methods which are not appropriate for this type of product e.g. after sales service, BOGOF.

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2 (a) What is meant by a 'business plan'? [2]

Clear understanding [2] e.g. a document containing the business aims/objectives and important details about the operations, finance and owners of a business OR states aims/objectives and shows how business aims to achieve them
Some understanding [1] states one element of plan e.g. shows marketing strategy/production costs

(b) What is meant by a 'balance sheet'? [2]

Clear understanding [2] e.g. shows value of business assets and liabilities [1] at a particular point in time [+1]
Some understanding [1] e.g. shows assets and liabilities OR what is owned, owed and how the business is funded

Do not accept 'financial statement' as it is too vague

(c) Identify and explain <u>two</u> possible benefits for CLW of holding high inventory (stock) levels. [4]

Knowledge [2 × 1] – award 1 mark for each relevant benefit [max 2]

Application [2 × 1] – award 1 mark for each relevant explanation in context of this business

Relevant points might include:
- Gain economies of scale/bulk buy [k] so can increase scale of production [app]
- Can meet orders/inventory always available [k] as demand is rising [app]
- Production does not need to stop [k] so can keep making furniture [app]
- Avoid supply problems [k] as some types of wood might be difficult/long time to obtain [app]

Application could include: use of numbers, demand risen (rapidly), furniture, factory, tables, chairs, wood.

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(d) Identify and explain <u>two</u> factors (other than finance) that CLW's management need to consider when increasing the scale of production. [6]

Knowledge [2 × 1] – identification of relevant issues [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:

- Enough workspace [k] so might have to relocate [an] away from city centre [app]
- Access to sufficient supplies [k] if there is a shortage of wood [app] might not be able to meet orders [an]
- Labour issues e.g. need to recruit/train more workers [k] to make furniture [app] adding to business expenses [an]
- Market demand/increase in demand permanent [k] as demand risen quickly [app] if tastes change again could be left with unwanted inventory [an]
- Diseconomies of scale e.g. communication issues [k] as larger scale might mean current methods do not work [an]
- Storage issues e.g. have they sufficient storage space [k] as already have high levels of inventory [app] as may need to rent additional unit [an]
- Quality issues e.g. are they able to check standard [k] of tables made [app]? could lead to bad reputation [an]
- Machinery issues e.g. is condition/level of machinery sufficient [k]?

Application could include: use of numbers, demand risen rapidly, high level of inventory, low unemployment, near city centre, factory, furniture, tables, chairs.

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(e) Do you think the Finance Director is right to be pleased with the liquidity of CLW in 2014? Justify your answer using the data in Table 1 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 CLW should be pleased with its liquidity in 2014

Points include:
- Current assets increased [k] by $60 m [app]
- Current liabilities fallen [k] by 8.33% [app +an]
- Current ratio improved [k] from 1.25:1 to 1.50:1 [app + an] but only because inventory increased by $150 m so not as liquid [an]
- Acid test value fallen [k] from 0.875:1 to 0.75:1 [app + an] so not able to pay short-term debts from its liquid assets if needed [an]
- Cash fallen [k]
- Trade receivables down [k] which could mean customers paying quicker [an] but could mean less sales overall therefore less trade receivables [an]

Note: **using** percentage calculation or ratio award application and analysis. Max 1 for application.

Application could include: calculation of relevant ratios/use of numbers, demand risen rapidly, increased scale.

3 (a) What is meant by 'flow production'? [2]

Clear understanding [2] e.g. where large quantities of a product [1] are produced in a continuous process [1]
Some understanding [1] e.g. 'makes lots of the same thing' OR identifies one distinctive feature e.g. large scale production/large volumes, identical products, continuous production, capital intensive, repetitive tasks, inflexible.

Do not credit examples as this does not answer the question.

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

Application [2] e.g. 60 (cars per employee)
Some application [1] e.g. method = total output/number of employees OR 168 000/2 800

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(c) Identify and explain <u>two</u> ways in which induction training might benefit NCE. [4]

Knowledge [2 × 1] – award 1 mark for each relevant way [max 2]

Application [2 × 1] – award 1 mark for each relevant explanation in context of this business

Relevant points might include:
- Helps employees to settle into their job quickly/familiarise workers with the business/provide information about the business [k] so can cope with flow production [app]
- Aware of health and safety/legal issues [k] in the factory [app]
- Know who to ask if there is a problem [k] preventing wastage of expensive parts [app]
- Opportunity to communicate culture [k] so all car workers get same message [app]
- Help keep productivity/efficiency high [k] so NCE remains competitive [app]

Application could include: (efficient) factory, cars, car parts, productivity, flow production, competitive market.

Do not accept generic points such as increase output, less mistakes or more ideas as these could relate to any type of training.

(d) Identify and explain <u>two</u> factors that NCE would need to consider in deciding which workers to make redundant. [6]

Knowledge [2 × 1] – award 1 mark for each relevant factor [max 2]

Application [2 × 1] – award 1 mark for each explanation in context of this business

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:
- Identify which jobs are not essential [k] as market might recover the 20% lost [app] so would not want to spend money recruiting them again [an]
- Performance/output/experience/skills/flexibility [k] making cars [app] so will want to get rid of people who make mistakes [an]
- Wages/salary [k]
- Length of service/cost of redundancy [k] if worked at factory for a short time [app] might be cheaper to let go [an]
- Attitude/attendance/disciplinary record [k] in order to maintain productivity [app] will want to lose poor/bad workers [an]
- Age/physical ability [k]

Application could include: 20% fall in market size, factories, cars, (high) productivity/efficient, 400 (workers).

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(e) The HR Director thinks that 'a small business cannot survive in this competitive market'. Do you agree with this view? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1]

Application [1] – award 1 mark if relevant reference made to car industry

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision as to whether it is possible for small manufacturer to survive in a competitive market

Relevant points might include:

Advantages of being small:
- Able to specialise/cater to niche market [k] so might not need to compete on price [an]
- Small business able to react quicker to change in customer demands [k] for type of car wanted [app]
- Able to offer personal service [k]

Disadvantages of being small:
- Less opportunity for economies of scale/lack capacity [k] in factory [app] so higher unit costs [an]
- High cost of research and development [k] of, for example, 'greener' vehicles [app] might be too expensive for their budget [an]
- Can they attract best managers/employees [k] as larger businesses might offer better financial package/security [an]?
- Less visibility as a brand [k] so harder to get recognition/sales [an]
- Lower marketing budgets [k] so struggle to have a large market presence [an]

Application could include: 20% fall in market size, productivity, flow production, (efficient) factories, 400 redundancies, cars or examples of car companies.

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

4 (a) What is meant by an 'economic boom'? [2]

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 features of an economic boom
Features might include: low unemployment, rising inflation, resource shortages, high levels of disposable income, high levels of consumer/business confidence.

(b) Identify <u>two</u> stages (other than boom) of the business cycle. [2]

Knowledge [2 × 1] – award 1 mark for each other stage

Points either:
- Slump/trough
- Growth/recovery/expansion
- Recession/depression/contraction

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(c) Explain how a rise in interest rates might affect Nellis. [4]

Knowledge [2] – award up to 2 marks for relevant points [max 2]

Application [2] – award up to 2 marks for each relevant explanation in context of Nellis

Relevant points might include:
- Cost of borrowing increases [k] so less incentive to buy building land [app] for houses [app]
- Lower sales/consumers reduce spending [k] as cannot afford luxury/non-essential items [app]
- Increased cost of any current loan/overdraft [k] so profits do not increase [app]
- Higher interest rates attract more savings [k]

Application could include: luxury, (large) houses, economic boom, (increased) profits, building land

Note: Candidates can offer extended development of one point or two separate points to achieve both App marks

(d) Identify <u>two</u> stakeholder groups. Explain why each group is important to this business. [6]

Knowledge [2 × 1] – identification of relevant group [max 2]

Application [2 × 1] – award 1 mark for each explanation in context of Nellis

Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:
- Owner/Shareholders [k] may choose to sell their shares [app] reducing the market value of the company [an]
- Employees OR Managers [k] as they carry out/control the day-to-day operations [an]
- Customers [k] buy what the business make [an] allowing Nellis to increase profit [app]
- Banks/lenders [k] provide an important source of finance [an] which allows the business to take advantage of the economic boom [app]
- Government [k] as their new legal controls on environment [app] might restrict/influence way they operate [an]
- Local community [k] might object to building [app] delaying the start/stop the work [an]
- Pressure groups [k]

Application could include: luxury, (large) houses, economic boom, legal controls/environment, public limited company/sell shares, (increasing) profits, interest rates.

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(e) The Managing Director believes that the new legal controls to protect the environment will only make businesses (such as Nellis) less profitable. Do you agree? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1]

Application [1] – award 1 mark if relevant reference made to this type of business (construction)

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision as to whether new environmental laws will make businesses like Nellis less profitable

Relevant points might include:

- Might have to buy pollution permits/pay fines [k] which will increase costs [an] which could increase prices [an] so less houses sold [app]
- Might lead to higher standards [k] this could lead to better reputation [an] which could increase sales [an]
- Might make planning applications more difficult [k] to buy building land [app] which may delay the work [an]
- Might have to buy new machinery/introduce new technique [k] for construction [app]

Application could include: luxury, (large) houses, economic boom, building land, construction.

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

Do not accept profit/profitable as application or analysis as this is stated in the question.

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