CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge Ordinary Level

MARK SCHEME for the October/November 2015 series

7115 BUSINESS STUDIES

7115/22 Paper 2 (Case Study), maximum raw mark 80

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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1 (a) RRM is a small business. Identify and explain <u>two</u> reasons why RRM might remain small. [8]

Knowledge [2 × 1] – award one mark for each reason
Analysis [2 × 1] – award one mark for a relevant explanation for each reason
Application [2 × 2] – award two application marks for each reason

Award one mark for each relevant reason (maximum of two), such as:

- Lack of demand/market size
- Owner wants the business to remain small/owner objective
- Lack of capital for investment
- Offers a personal service
- Close contact with customers
- Close contact with employees
- Wants to keep the business in family ownership/control
- Easier to control
- Less stressful

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context**.

Indicative response:

A lack of demand (k) as the motorbikes may not have a large number of potential customers in the local area (ap). Without a large demand there is no point in trying to expand (an) to sell large number of motorbikes and so the business will remain small (ap).

Possible application marks: sole trader; motorbikes; bikes; family owned business; started 15 years ago; cannot afford to buy car; located 100 km from Main City; 10 workers employed; repair, sell and deliver motorbikes; customers are mainly young men; Rafael's son is taking over the business.

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

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(b) Rafael thinks he could increase his sales by using market segmentation. Consider the advantages and disadvantages of each of the following methods to segment the market. Recommend which method he should use. Justify your answer.
[12]

Relevant points might include:

	Advantages	Disadvantages
Age	Easy to segment the market Can target different age groups with different products Different styles/models appeal to different ages	Other age groups may be omitted from sales as advertising is not seen by them Particular age groups may not like the same models/income levels different
Income group	Can target lower and higher income groups with different prices/quality Targeting promotion at these groups makes it more effective	Lower income groups may not be able to afford the motorbikes Other income groups may not buy the motorbikes as do not know about them
Gender	Males already the main customers Change designs to appeal to both genders Advertising made to appeal to male interests	Lose a large potential market as feel the product is not for them Half the population are women and not being targeted at the moment Expensive to stock different models to target different segments

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the most effective method to segment the market and a comparison justifying why the alternative methods are rejected. 7–8 marks for some limited judgement shown in recommendation as to the most effective method to segment the market.
Level 2	4–6 marks Detailed discussion of a range of advantages and disadvantages of age, income and gender groups as methods to segment the market.
Level 1	1–3 marks Outline of advantages and disadvantages of age, income and gender groups as methods to segment the market.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Promotion targets young age groups

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Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Promotion targets young age groups which are most likely to be customers of RRM. By targeting a particular age group the advertising is likely to be effective and put in places which are seen by the target age group that will lead to increased sales of motorbikes. (4 marks for L2 answer + 1 application mark for mentioning young age groups and motorbikes).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which is the best method to choose.

Award up to 2 additional marks for relevant application.

Possible application marks: motorbikes; located 100 km from Main City; repair, sell and deliver motorbikes; customers are mainly young men; imports high quality motor bikes; wants to open a new showroom; cars; scooters; bicycles; reference to population statistics from appendix 1; financial information from appendix 2; accessories for motorbike riders. There may be other examples in context which have not been included here.

2 (a) Rafael's son wants to know more about motivating employees. Identify and explain <u>four</u> levels of Maslow's hierarchy of needs as they might apply to Rafael's employees.

[8]

1 mark for each level of the hierarchy named plus 1 mark for explanation of the level possibly applied to this business.

Level	Explanation of the level including examples in context
Physiological/Basic needs	Obtaining food, paying for essentials – Rafael pays his workers well
Safety/security needs	Feeling secure in job – not likely to lose job – good working conditions – business well established – 15 years – workers remain in the business for many years. Health and safety training provided
Social needs /love and belonging	Working in a team with colleagues – Rafael is a democratic leader – only 10 workers so have close working relationship
Esteem needs	Given recognition for job well done – praised – Rafael seeks workers views – paid high wages
Self-actualisation	Realising full potential – promotion giving new job assignments – workers feel valued and appreciated as shown by Rafael's concern to maintain motivation

Indicative response:
Physiological needs (1) which requires wages to be high enough to meet weekly bills and his workers are paid well (1).

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(b) Rafael wants to recruit a new employee to help repair motorbikes. Consider how important each of the following factors are when choosing between the applicants for the job. Which is the most important factor? Justify your answer. [12]

Relevant points might include:

Age	Young may not have any training or experience but willing to learn/older workers may be more experienced; age they are legally allowed to work
Experience	If experienced then training costs saved but may not be trained in the skills wanted by Rafael; becomes effective in the business faster; more ideas gained from previous work places; workers will expect higher wages.
Reason for leaving last job	If left last job because of inefficiency then will not want to recruit them but this may not be fair and may be as a result of a personality clash; bad attitude cannot be changed easily

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified judgement shown in conclusion comparing the most important factor when choosing between job applicants and why other factors are less important. 7–8 marks for some limited judgement shown in conclusion of the most important factor when choosing between job applicants.
Level 2	4–6 marks Detailed discussion of why each of the factors affects who is recruited or balanced discussion of benefits and drawbacks of using each factor
Level 1	1–3 marks Outline of how each of the factors affects who is recruited

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. If the applicant is experienced then training costs may be saved.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. If the applicant is experienced then training costs are saved but they may not be trained in the skills of repairing motorbikes which is what is wanted by Rafael. (4 marks for L2 answer).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a well justified conclusion as to which factor is the most important when recruiting a new employee.

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Award up to 2 additional marks for relevant application.

Do NOT reward motorbikes as this is in the question.

Possible application marks: sole trader; sell and deliver motorbikes; customers are mainly young men; imports high quality motor bikes; wants to open a new showroom. There may be other examples in context which have not been included here.

3 (a) Complete the <u>two</u> different forms of presentation shown below for the population data in Appendix 1. Explain the advantages of each form of presentation. [8]

2 marks for each form of presentation correctly plotted = 1 mark for accuracy and 1 mark for correct labelling of the chart.

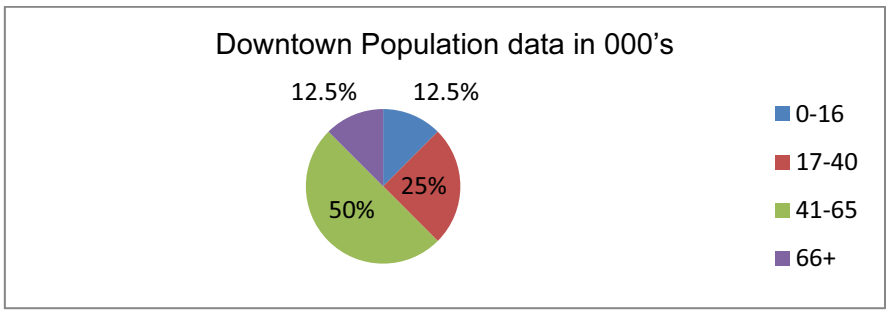
Plus 2 additional marks for explaining why it is suitable to use for this data.

e.g.:
A **pie chart** shows the proportion or percentage of each age group (1) and this clearly shows which age group has the highest proportion or the smaller proportion in the total population (1).

A **bar chart** is suitable to show the different numbers of the population information (1). It makes it easier to distinguish between the highest categories and the lowest categories of the population statistics (1).

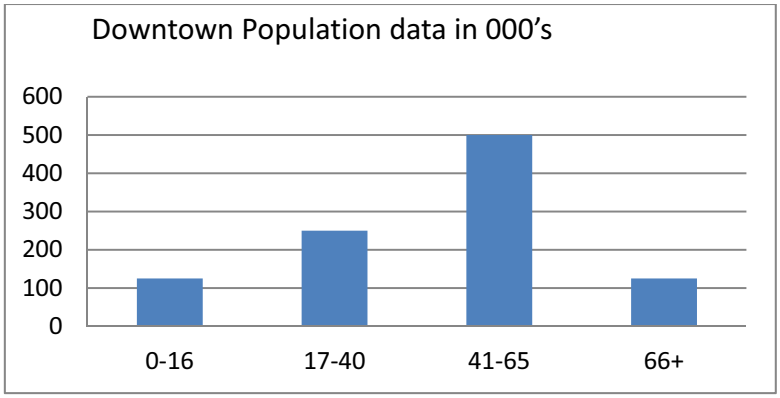
Downtown Population data in 000's:

Age	0–16	17–40	41–65	66+
Number of people	125	250	500	125



NB – accept 12%/13%/12.5% for 0–16 and 66+

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(b) Do you think Rafael should be pleased with the profitability of his business in 2014? Use the data in Appendix 2 (including appropriate ratios) to justify your answer. [12]

Relevant points might include:

	2013	2014	
Gross Profit Margin	66.66%	75%	
Profit (net) margin	16.66%	12.5%	= $500 000 for both years (L1)
ROCE	25%	25%	

	Knowledge/Application/Analysis/Evaluation
Level 3	At least 2 × Level 2 correct calculations + 9–10 marks for well justified conclusions as to whether Rafael should be pleased with the profitability of the business. 7–8 marks for some limited judgement shown in conclusion as to whether Rafael should be pleased with the profitability of the business.
Level 2	4–6 marks Calculation of profitability ratios
Level 1	1–3 marks Outline of what is meant by the profitability ratios or statements on the differences in the figures in Appendix 2.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. yes because Rafael has an increase in sales revenue.

Level 2 – 1 × L2 calculation can gain 4 marks and a further mark can be awarded for each additional L2 calculation (max 6 marks) e.g. the gross profit margin in 2014 is 75%. (4 marks for L2 answer)

Level 3 – For L3 to be awarded there needs to be at least two L2 calculations awarded and then a well justified conclusion as to whether Rafael should be pleased with the profitability of the business.

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Award up to 2 additional marks for relevant application.

Possible application marks: sole trader; motorbikes; repair, sell and deliver motorbikes; customers are mainly young men; imports high quality motor bikes; wants to open a new showroom; wants to expand the business.

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

4 (a) Identify and explain the possible effects on Rafael's business of each of the following: [4 + 4]

Knowledge [2 × 1] – award one mark for each relevant effect
Analysis [2 × 1] – award one mark for a relevant explanation for each effect
Application [2 × 2] – award two application marks for each effect

Award one mark for each possible effect (maximum of two), plus up to three additional marks for the explanation of each effect – **2 of which must be applied to this context**.

(i) Import quota on motorbikes – fixed quantity allowed to be imported (k) – leads to a shortage of imported motorbikes (ap) which leads to higher prices of imported higher quality (ap) motorbikes and so the motorbikes sold by RRM which are domestically produced will increase (an).

(ii) An appreciation of country X's currency – imports become cheaper (K) leading to imported motorbikes and motorbike parts becoming cheaper for Rafael to buy (ap). The price of repairs and bikes could be reduced (an) leading to higher sales and making it easier to expand the business (ap).

Do NOT award application for motorbikes alone and country X as they are in the question.

Possible application marks: sole trader; repair, sell and deliver motorbikes; customers are mainly young men; imports high quality motor bikes; wants to expand and open a new showroom; statistics from appendix 1; financial information from appendix 2; planning to expand the business; locally produced motorbikes of lower quality.

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

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(b) Rafael wants to open another showroom in Main City. He has two options as outlined in Appendix 3. Consider the advantages and disadvantages of each option for RRM. Recommend which location Rafael should choose. Justify your answer. [12]

Relevant points might include:

	Advantages	Disadvantages
Option A – near Main City	(Low rent) = low fixed cost (Housing nearby) = workers/customers live nearby (No other shops nearby) = no competition in the area – easier to make sales (Grants available) = contribute to start-up costs (High unemployment) = easy to recruit workers – wages kept lower	(High unemployment) = means incomes low leading to low demand (High crime rate) = leading to high security costs – deters customers from visiting the area
Option B – in the centre of Main City	(Near to other shops including competitors) = high footfall – high demand in the area (Good transport links) = easy access encourages customers to visit area (Free car parking nearby) = encourages customers to visit the area (Good security/low crime) = lower security costs – less likely to have damage/theft	(High rent) = high expenses (Centre of city) = not easy access to delivery lorries

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best location to choose compared to the alternative. 7–8 marks for some limited judgement shown in recommendation as to the best location to choose.
Level 2	4–6 marks Detailed discussion of advantages and/or disadvantages of each option.
Level 1	1–3 marks Outline of advantages and/or disadvantages of each option.

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Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Rent is high which leads to high costs

Level 2 – 1 x L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Rent is high which leads to high costs. This might mean the price of motorbikes has to be higher and so less competitive. However, the shop is in the centre of the city which will have a high footfall and therefore higher sales. (4 marks for L2 answer + 1 application mark for referring to motorbikes).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which is the best option to choose.

Award up to 2 additional marks for relevant application.

Do NOT reward showroom in Main City as it is in the question

Possible application marks: sole trader; motorbikes; started 15 years ago; located 100 km from Main City; repair, sell and deliver motorbikes; customers are mainly young men; imports high quality motor bikes; financial information from appendix 2; location information from appendix 3.
There may be other examples in context which have not been included here.

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