MARK SCHEME for the May/June 2015 series

7115 BUSINESS STUDIES

7115/11 Paper 1 (Short Answer/Structured Response),
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.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2015 series for most Cambridge IGCSE®. Cambridge International A and AS Level components and some Cambridge O Level components.
1 (a) What is meant by ‘revenue’?  

Clear understanding [2] Income/money made by the business [1] from the sale of goods or services [1] OR Quantity sold \( \times \) price per unit [2]

Some understanding [1] e.g. Income/money made by the business [1]

(b) What is meant by a ‘variable cost’?  

Clear understanding [2] costs that change [1] with the level of output produced/sales made [1]

Some understanding [1] e.g. costs that change [1] or costs that vary with sales/output [1]

Do not accept examples of variable costs

Do not accept the phrase ‘costs that vary’ as this is re-wording the question

(c) Using the information in Table 1, draw a break even chart for Gomez’s business.  

- Accurately plotted TR line [1]: start at 0, at 100 units is $3000
- Labelling: TR and TC [1] only if layout is correct. TR must start at zero and lines must cross
- Notes:
- Accurately drawn unlabelled break-even chart [3].
- For 4 marks TR [revenue] and TC must be clearly labelled.
- Max 1 mark for inaccurately plotted break-even chart with TR and TC correctly labelled.
(d) Identify and explain two methods that Gomez could use to maintain customer loyalty.

Knowledge [2 × 1] – award one mark for each method identified [max 2]
Application [2 × 1] – award 1 mark if relevant reference made to Gomez’s business
Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:
- Communicate with customers e.g. newsletters, social media [k] so that they remember your business [an] when they next need computer repaired [app]
- Offer good quality service [k] so that customers want to return [an] rather than go to one of its many rivals [app]
- Extra services [k] e.g. delivery/credit facilities/after sales/ training
- Offer rewards [discounts] to existing customers/loyalty card [k] such as free software [app] so consumers have an incentive to return [an]
- Train staff [k] so they are able to offer a good quality service [an]
- Ask for feedback e.g. surveys [k] to provide the repairs/service [app] that customers require [an]
- Resolve complaints quickly [k] so that customers don’t go to rivals [an] to repair their computer [app]
- Application marks may be awarded for appropriate use of the following: competitive market/many rivals, computer repairs, software, small business.

Each application to be awarded only once.

(e) Gomez thinks the best way to lower the break-even point is to raise prices. Do you agree? Justify your answer.

Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1]
Application [1] – award 1 mark if relevant reference made to Gomez’s business
Analysis [2] – award up to 2 marks for relevant development of point(s)
Evaluation [2] – justified decision made as to whether raising prices is the best way lowering the break-even point. Candidate’s final decision can be either for or against the statement.

Relevant points might include:
- raise in price will increase revenue [k] so need to do less repairs [app]
- effect of elasticity [k] if demand price elastic, increasing prices will see a greater fall in demand [an]
- depends on actions of competitors [k] as it is a competitive market [app]
- is the business able to lower costs [k]
- lower costs [k] might mean quality of work is reduced [an] so lose customer loyalty [app]

Application marks may be awarded for appropriate use of the following: use of break-even information, competitive market, small computer shop, customer loyalty.

2 (a) Identify two stages of the recruitment process.

Knowledge [2 × 1] award one mark per stage identified
Points might include: Job analysis, job description, person specification, advertising, shortlisting, interview, selection.
Note: Answer must be from the business viewpoint not the applicant.
(b) **What is meant by an ‘economic boom’?**

**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

**Do not** credit characteristics of economic boom as these are stated in the stem

(c) **Explain how falling unemployment might affect All Active.**

**Knowledge [2]** award up to 2 marks for identification of points/knowledge of unemployment

**Application [2]** award up to 2 marks for relevant explanation in context of All Active

**Relevant points might include:**
- customers have more income [k] so can spend money on luxuries such as leisure activities [app]
- problem recruiting workers [k] as need more for each club [app]
- higher wages may be needed [k] for the new staff [app]
- more people in work [k] less time to spend at sports club [app]

Application could include: Leisure/sports clubs, new workers/expansion/more clubs, gym membership, fitness is an elastic product

(d) **Identify and explain two factors that All Active should consider when deciding on the location of the new clubs.**

**Knowledge [2 × 1]** – identification of relevant sources [max 2]

**Application [2 × 1]** – award 1 mark for each way if relevant reference made to their business

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

**Relevant points might include:**
- customers/level of demand[k] need to be in places where people are interested in fitness [app] as they will get more customers [an];
- availability of suitable land [k] as likely to need a large space [an] to build a **sports** club [app];
- government regulations [k] which could stop them from building in some locations [an];
- competitors [k] customers might be loyal to a rival gym [app] so difficult to gain customers [an]
- suppliers [k] training equipment is heavy [app] so costs of transport will be high [an]
- Infrastructure/transport links/Utilities [k]
- access to employees [k] as they will need trainers [app] to help/advise customers [an]
- cost of land/rent [k]

Application marks may be awarded for appropriate use of the following: equipment, sport/fitness, gym, trainers
(e) Consider the advantages and disadvantages for All Active of being converted to a public limited company? Do you think All Active should become a public limited company? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s). Positive or negative points allowed [max 1]
Application [1] – award 1 mark if relevant reference made to All Active’s business
Analysis [2] – award up to 2 marks for relevant development of point(s)
Evaluation [2] – justified decision made as to whether All Active should become a public limited company. Candidate’s final decision can be either for or against the statement.

Relevant points might include:
Advantages:
- Access to greater sources of finance [k] so help fund expansion [an] of 5 more clubs [app]
- Greater prestige/status [k] so might be able to attract better managers/employees [an]
Disadvantages:
- More legal requirements to meet [k]
- Already have limited liability [k] as private limited company [app] so is there much benefit [eval]
- Business is already successful [k] as profits have increased [app] so might have funds for expansion already [an]
- Greater Risk of takeover [k]

Application marks may be awarded for appropriate use of the following: 5 more clubs, private limited company, fitness, 20 clubs, increasing profits

3 (a) What is meant by a ‘partnership’? [2]

Some understanding [1] – e.g. 2 or more people run a business
Do not accept features

(b) Identify two methods of primary market research that Si and Ramon might have used. [2]

Application [2 × 1] – award 1 mark for each relevant method
Points could include: questionnaire/survey, interview, consumer panel, observation, focus group
Note: Do not accept field research/internet – too vague
(c) Identify and explain two possible sources of finance that they could use to obtain the equipment. [4]

Knowledge [2 × 1] – identification of relevant sources [max 2]
Application [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:
- Bank loan [k] so can spread cost of cameras over a period of time [app]
- Savings [k] so no need to pay interest on the $4000 [app]
- Borrow from family and friends [k]
- Leasing [k] as there may not be enough demand [app]
- Hire purchase [k] so their new business does not have to pay a large one off cost [app]
- Government grant [k]
- Additional partner [k]

Do not accept retained profits or overdraft as this is a new business

Application marks may be awarded for appropriate use of the following: new business, $4000, partnership, cameras or examples of relevant equipment [not equipment on its own], business plan

(d) Identify and explain two advantages to Si and Ramon of having a business plan. [6]

Knowledge [2 × 1] – award 1 mark for each relevant advantage [max 2]
Application [2 × 1] – award 1 mark if relevant reference to Si and Ramon’s business
Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:
- Support loan applications [k] as bank/lenders will want to know that the $12 500 [app] can be repaid [an]
- Clear aims/guidance for business [k] so they know what they have to do to get there [an]
- help decision making [k] as Si believe there is customer demand for service before start [app] so will not waste time and money targeting the wrong people [an]
- helps understand the possible risks [k] as they might not have run a business before [app]
- provides an estimate of costs [k] for the photography business [app] so they will know how much they need [an]
- provides a checklist [k] as they set up [app] so that they don’t forget any important task [an]

Application marks may be awarded for appropriate use of the following: $12 500/$8000/$4000, $500 photography business, new business, set up
(e) Consider two methods of promotion that would be suitable for Si and Ramon to use. Which of these two methods would be most appropriate? 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 Si and Ramon’s 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 methods might include: advertising [can include leaflets, posters, radio, television, newspapers, direct mail, social media, websites], sponsorship, promotional pricing (short-term discounts), special offers, branding, competitions, PR.
Note: do not accept internet – too vague
Application marks may be awarded for appropriate use of the following: – photography, pictures, new business, $500, partnership, weddings, birthdays, special events

4 (a) What is meant by ‘batch production’? [2]

Clear understanding [2]: e.g. products are made in groups.blocks [1] followed by another block/group [1]
Some understanding [1]: identifies one distinct feature of batch e.g. made in (small) groups or sets
Do not accept ‘batch’ as part of answer as stated in question.

(b) Identify two advantages (other than cutting costs) to the company of using new technology. [2]

Application [2 × 1] award 1 mark per advantage

Points include:
- less errors/wastage/consistent quality
- less risk of injury
- higher output
- able to make new products
- speed of production/efficiency
- 24/7 operation

Note: do not accept less wages or less employees as these are examples of cutting costs
(c) Identify and explain two reasons why the quality of chocolates might be important to this company.  

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

Points could include:
- helps establishes brand image/loyalty [k] as they make a luxury product [app]
- ensure sales [k] as if they don’t taste right, people won’t buy [app]
- maintain reputation [k] which is important as it is a competitive market [app]
- maintain standards [k]
- no need to replace faulty products [k] which will help reduce costs [app]
- Charge/maintain high prices [k]
- Add value [k]
- Must meet legal requirements [k] for food products [app]

Application marks may be awarded for appropriate use of the following: competitive market, luxury product, food products, taste.

(d) Identify and explain two problems that a fall in profits might cause for the company.

Knowledge [2 × 1] – identification of relevant problem [max 2]  
Application [2 × 1] – award 1 mark for each relevant reference made to the business  
Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:
- Lack of finance [k] to introduce new technology [app] because of less retained profits [an]  
- Lenders/investors unwilling to give money [k] as seen as higher risk [an]  
- Workers insecure [k] which results in poor motivation [an] as they fear job losses as the company try to cut costs [app]  
- Damaged reputation [k] suppliers/customers might think the business is struggling [an] so look for alternative chocolate makers [app].  
- Shareholders may sell shares [k] because the company can’t pay dividends [an]

Accept points which refer to either gross profit or profit

Application marks may be awarded for appropriate use of the following: new technology, chocolate, cutting costs, increased competition. Profit is not used to pay costs therefore do not accept answers which suggest they can no longer afford items.  
Do not accept solutions e.g. Making workers redundant.
Do you think that the introduction of new technology would benefit Javid’s workers? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s). Positive or negative points allowed [max 1]
Application [1] – award 1 mark if relevant reference made to Javid’s business
Analysis [2] – award up to 2 marks for relevant development of point(s)
Evaluation [2] – justified decision made as to whether new technology would benefit Javid’s workers. Candidate’s final decision can be either for or against the statement.

Relevant points might include:
- need for re-training [k] which could create opportunities for promotion [an]
- impact on motivation (either positive or negative) [k]
- fear of change [k] as production process likely to change how they do things [an]
- fear of redundancy/job losses as machines replace jobs [k] could decrease motivation [an]
- less skills needed [k] so could mean lower wages [an] leading to lower living standards [an]
- opportunities to learn new skills [k] because they make new types of chocolate [app]
- chances for promotion [k] as new job roles created [an]
- safer conditions [k] in the manufacturing process [app] so less risk of injury [an]
- company survives [k] because they remain competitive [app] so workers keep their jobs [an]

Note: Do not accept points such as ‘more efficient’ unless clearly link issue to employees.

Application marks may be awarded for appropriate use of the following: chocolates, sales falling, need to cut costs, increased competition
Note: Answer must focus on the benefit or not to the workers.
MARK SCHEME for the May/June 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 ‘quality assurance’? [2]

Some Understanding [1] – e.g. checking work done
Do not accept ‘checking at end / checking end product’ in this instance as this defines quality control

(b) Identify two ways in which break even analysis might be helpful to PJK. [2]

Application [2 × 1] – award 1 mark for each relevant way
Points could include:
• Planning / forecasting / decision making / help set prices
• Help work out level of profit at different levels of output
• Show margin of safety
• Shows how much needed to produce to cover costs / avoid loss / breakeven point
• Help apply for finance

Do not accept points such as shows costs / sales / profit on their own as too vague

(c) Using the information in Table 1, draw a break even chart for PJK. [4]

• Accurately plotted TR (revenue) line [1]: start at 0, at 4000 units should be at $400000
• Labelling: TR and TC [1] only if layout is correct. TR must start at zero and lines must cross

Notes:
• Accurately drawn unlabelled break-even chart [3]
• For 4 marks TR [revenue] and TC must be clearly labelled
• Max 1 mark for inaccurately plotted break-even chart with TR and TC correctly labelled

(d) Identify and explain two advantages to PJK of using skilled workers. [6]

Knowledge [2 × 1] – award 1 mark for identification of each relevant advantage [max 2]
Application [2 × 1] – award 1 mark if relevant reference made to this business
Analysis [2 × 1] – award 1 mark for each relevant explanation
Relevant points might include:
• Work quicker / more efficient / more productive [k] so lower average costs [an]
• More output [k] so able to meet any increase in customer demand [an] for watches [app]
• Higher quality / fewer mistakes [k] so less wasted materials [app] so can buy less inventory [an]
• Brand image / good reputation [k] as it’s a luxury product [app] so people trust / buy [an]
• Less training needed [k] so saves cost [an]
• Less supervision needed [k] so managers have time to do other jobs [an]
• More flexible workforce [k] as able to switch between different stages of production [app]

Application marks may be awarded for appropriate use of the following: luxury product, watches, quality assurance, handmade, production process, materials / parts

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(e) Do you think that investing in new technology is the best way to improve profitability at PJK? Justify your answer  

Knowledge [1] – award 1 mark for identification of relevant issue(s)
Positive or negative points allowed or alternative ways to improve profitability [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 made as to whether new technology is the best way to improve profitability. Candidate’s final decision can be either for or against the statement
Relevant points might include:
• Reduce labour costs [k] so lower costs [an]
• Less wastages or errors [k] so have to order less parts [app]
• Additional costs e.g. redundancy or training costs [k] initially reduce profitability [an]
• Impact on employee morale [k]
• Better quality / accuracy [k] for this luxury product [app] so customers might pay higher price [an] leading to bigger gap between costs and revenue [an]
• High initial costs of equipment [k]
• Speed up production [k] so leading to lower average costs [an]
• Might take away their USP [k] of being handmade [app] so reduce demand [an]
• Or Introduce more efficient working practices e.g. redesign factory layout [k]
• Or use cheaper materials [k] so lower variable costs [an] but could mean lower quality of watches [app]
• Or sell more through increased advertising [k] but could be expensive / may not work [an]

Application marks may be awarded for appropriate use of the following: luxury product / watches, skilled workers, quality assurance, handmade, production process, materials / parts

2 (a) What is meant by a ‘multinational company’?  

Clear Understanding [2] – a business with factories, production or service operations in more than one country OR a business with production or service operation in another country outside its normal area of operation
Some Understanding [1] – e.g. has businesses everywhere / works or operates in more than one country
Do not accept ‘sells in more than one country’ as could equally apply to exporter
Do not accept examples

(b) What is meant by a ‘brand’?  

Clear Understanding [2]: (unique) name, feature or design / logo or image of a product or business [1] that distinguishes it from other products or businesses [1]
Some Understanding [1]: e.g. something which makes a product ‘stand out’ [1]
Do not accept examples
(c) Identify and explain two reasons why effective communication might be important for Alkin. [4]

Knowledge [2 x 1] – award 1 mark for each relevant reason
Application [2 x 1] – award 1 mark for each relevant explanation in context of this business
Relevant points might include:
- Avoid diseconomies of scale [k] as communication can be difficult in a multinational [app]
- Everyone understands objectives [k] so no conflict in joint venture [app]
- Avoid language issues / misunderstandings [k] particularly when start selling in country Z [app]
- Different cultures / management styles [k] so able to work with the local business [app]
- Better / faster decision making [k] so able to quickly react to changing tastes / flavours [app]
- Able to exchange ideas [k]
- Better relations with suppliers [k]
- Inform customers about its products [k] so that customers are interested in their food [app]

Note: Points can relate to either existing business or planned joint venture
Do not accept ‘improves motivation’ unless explains the impact on this business

Application marks may be awarded for appropriate use of the following: joint venture, country Z or countries, multinational company, breakfast cereals or food, expansion

(d) Identify and explain two advantages to Alkin of using a joint venture to expand into country Z. [6]

Knowledge [2 x 1] – identification of relevant advantage [max 2]
Application [2 x 1] – award 1 mark for each relevant reference made to this business
Analysis [2 x 1] – award 1 mark for each relevant explanation
Relevant points might include:
- Access to new markets [k] increasing brand awareness [an] of its range of cereals [app]
- Access to local expertise / ideas [k] e.g. cultural knowledge as tastes differ [app] so better able to meet customer requirements / ensure sales [an]
- Wider range of contacts / better access to resources [k] so might be able to obtain cheaper ingredients [app]
- Increased capital / share costs [k] so less risk [an]
- Increased capacity [k] so can meet expected growth in demand [app] without affecting supply for other markets [an]
- Way to avoid government restrictions [k] so able to maximise potential sales [an]
- Less competition [k] as working with local business [app] so one less rival [an]
- Economies of scale [k]
- Build reputation [k]

Application marks may be awarded for appropriate use of the following: multinational company, breakfast cereals or food, fast-growing market, local business
(e) Do you think that the Government in country Z is right to be worried about the effect of multinational companies such as Alkin on consumers? Justify your answer  

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

Must relate to consumers  
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 made as to whether the Government in country Z is right to be concerned about the effect of multinational companies such as Alkin on consumers  
Candidate’s final decision can be either for or against the statement  
Relevant points might include:  
- Access to international brands [k] so more consumer choice [an] so better able to find cereal that suits their individual needs [app]  
- Increased competition [k] as local businesses have to respond [an] so lower prices [an]  
- Fewer choices [k] so smaller producers forced out of business [an] so prices may increase [an]  
- Minimum standard [k] as goods same all over the world [an]  
- Help meet customers demand [k] in fast growing market [app] as able to supply more [an]  

Application marks may be awarded for appropriate use of the following: food, cereals, brands, fast growing market

3 (a) Identify two ways that a business could ‘build good customer relationships’.  

Knowledge [2 × 1] award 1 mark per way  
Points might include:  
- Offer good / personal service e.g. be friendly with customers  
- Find out what customers want / offer the right product  
- Ask for feedback  
- Extra services e.g. delivery, credit terms, after sales, longer opening hours  
- Resolve complaints quickly / refunds  
- Communicate with customers regularly e.g. newsletters or mailshots  
- Reward customer loyalty e.g. loyalty cards, special offers, discounts, vouchers, BOGOF, events  

Accept any reasonable answer

(b) What is meant by ‘secondary market research’?  

e.g. Information about the market / customer needs or competition [1] that is already available / collected by other agencies [1]  
Some Understanding [1] – e.g. Simple idea such as information already collected [1] / or what market research is e.g. information about the market or finding out what people want [1]  
Do not accept examples  
Desk research [0]  

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(c) **Identify and explain two methods of promotion (other than promotional pricing) that Mabel might use.** [4]

Knowledge [2 × 1] – identification of suitable method [max 2]
Application [2 × 1] – award 1 mark for each relevant explanation in context of this business
(e.g. show how or why it might be used)
Points might include:
- Free gifts / samples [k] give customers small bottles of shampoo to try [app]
- Demonstrations [k] let people watch whilst she shows possible styles on people’s hair [app]
- Loyalty cards [k] e.g. customers get a free haircut if they visit a set number of times [app]
- Advertising (allow only once) [k] e.g. local paper / radio / television / leaflets to let potential customers know about her new business [app]
- Sponsorship / public relations [k]
- Competitions [k] customers will book appointments to have a chance of winning prizes [app]

Application marks may be awarded for appropriate use of the following: appointments, shampoo, haircuts, new business

(d) **Identify and explain two possible disadvantages to Mabel of buying her inventory from a wholesaler.** [6]

Knowledge [2 × 1] – identification of relevant disadvantage
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 (i.e. why it is an disadvantage to a business)
Relevant points might include:
- May not stock all / latest products [k] so can’t get all the hair products wanted [app] so wastes time looking elsewhere [an]
- More expensive [k] which could push up her costs [an]
- Take longer to receive stock [k] as many stages in distribution process [an] so large rival businesses might offer latest hair products first [app]
- Has to buy more than she wants / can’t just buy one [k] could be more than she can afford [an] so less money to spend promotion / her new business [app]
- No direct contact with manufacturer [k] so cannot tell them what needed [an] so cannot build customer relations with her customers [app]

**Do not** accept high storage costs as not relevant to this business
**Do not** accept ‘has to buy in bulk / large amounts’ as the role of the wholesaler is to break bulk

Application marks may be awarded for appropriate use of the following: appointments, shampoo, haircuts, new business, (trying to build) customer relations
(e) Do you think that the right location is more important than the prices she charges to the success of Mabel’s business? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s)
Positive or negative points allowed [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 made as to whether location or price is more important than the prices she charges to the success of Mabel’s business.
Note: Must consider both price and location to access evaluation marks
Relevant points might include:
• Near target market [k] e.g. women / men would help ensure sales [an]
• If customer service is key feature [app] then price might not be important [k] as consumers might pay more for a better service [an]
• High price could discourage customers [k] who would go to competitors [an]
• Low prices could suggest low quality [k]
• Right location could affect the level of competition [k]
• Location / prices could influence image [k]
• Cost of rent might be too high [k] leading to increased costs / higher prices [an] so fewer customers can afford to go there to get haircut [app]

Application marks may be awarded for appropriate use of the following: good customer service, hairdressing, salon, new business, secondary market research

4 (a) Identify two possible reasons why A2Z might want to expand. [2]

Knowledge / Application [2 × 1] – award 1 mark for each relevant reason
Points could include:
• Increase sales OR revenue OR market share or dominate market or target new markets
• Increase profit
• Spread risk / attract more investment
• Improve reputation / status / brand image
• Gain economies of scale

(b) Identify two factors that A2Z needs to consider when choosing a source of finance to buy more planes. [2]

Application [2 × 1] – award 1 mark for each relevant factor
Points could include:
• Amount needed
• Current level of debt / gearing
• Amount of retained profits / cash
• Time (how long need finance for)
• interest rates
• Whether can offer security for loans
• Ability to repay / able to afford

Do not accept purpose as this is stated in the question
(c) Identify and explain two advantages to A2Z of producing a job description. [4]

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

Relevant points might include:
- Provides a clear idea of what job involves [k] so they can select the best pilots [app]
- Saves time / money / makes selection easier [k] as won’t get applications from people who cannot fly planes [app]
- As a basis for drawing up a contract [k] so sure that all duties will be carried out on-board [app]
- Helps decide basis for pay [k]
- Help create person specification [k]
- Helps create appropriate job advert [k]
- Helps resolve disputes [k] between managers and pilots [app]

Do not accept advantages to employees. Candidates must not refer to person specification

Application marks may be awarded for appropriate use of the following: flights, on-board, planes or aircraft, airline, pilots

(d) Identify and explain two suitable ways that A2Z could use to advertise the new jobs. [6]

Knowledge [2 × 1] – award 1 mark for identification of each relevant way [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:
- Specialist magazines [k] as looking for qualified people [app] so likely to read magazines targeted at them [an]
- Internet job sites / own website [k] as most people use internet to look for jobs these days [an]
- National TV / newspaper / radio advertisements [k] as might not be many pilots locally [app] so can attract suitable people [an]
- Job centre / Recruitment agencies [k] can help produce a shortlist of possible candidates [an]
- Specialist training / flight schools [k] where people have learnt to fly [app]

Application marks may be awarded for appropriate use of the following: fly, pilots, airlines, highly qualified / highly skilled, passengers

Do not accept answers such internet, website, schools or posters on own as too vague
(e) Do you think that using financial rewards is the best way for A2Z to motivate its pilots? Justify your answer.

Knowledge [1] – award 1 mark for identification of relevant issue(s). Positive or negative points allowed or alternative methods (points can be for business or employee) [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 made as to whether financial rewards are the best way for A2Z to motivate its pilots. Candidate’s final decision can be either for or against the statement.

Note: evaluation must be from the viewpoint of the business not the employee

Relevant points might include:
- High wages help retain workers [k]
- Can the business afford to pay high wages [k]
- High skilled jobs [k] so will expect high levels of financial rewards [an] otherwise they will look for a job at rival airline [app]
- Money does not motivate everyone / already highly paid [k]
- Training might be offered [k] as high risk job [app] so safety might be more important
- profit sharing [k] as small airline [app] so might work as pilots may feel they have a direct impact on performance [an]
- Opportunities for promotion [k] could have limited value [an] as it is a small airline [app]
- Job security [k]
- Travel discounts for pilot and/or family [k] so able to obtain cheap tickets [app]

Application marks may be awarded for appropriate use of the following: small, expansion, successful, references to risk involved in flying, tickets, highly qualified / highly skilled, highly paid, irregular work hours, passengers

Do not accept pilots as application as it is stated in the question
MARK SCHEME for the May/June 2015 series

7115 BUSINESS STUDIES

7115/21 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.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2015 series for most Cambridge IGCSE®, Cambridge International A and AS Level components and some Cambridge O Level components.
1 (a) Identify and explain two characteristics David needs to be a successful entrepreneur. [8]

Knowledge (2 × 1) – award one mark for each relevant characteristic identified
Analysis (2 × 1) – award one mark for a relevant explanation of each characteristic
Application (2 × 2) – award two application marks for each relevant characteristic

Relevant characteristics might include:

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

- Hard working
- Risk taker
- Creative
- Optimistic
- Self-confident
- Innovative
- Independent
- Effective communicator
- Forward thinker
- Determined

Award a maximum of three additional marks for each explanation – 2 of which must be applied to this context – of why these characteristics are needed to be a successful entrepreneur.

Indicative response:

Hard working (k) as the business has only been established for 10 years and has non-current assets worth $100m (ap). David worked long hours 7 days a week to find customers so the business has grown (ap). He has had to work hard to manage the business effectively so that it is successful (an).

Possible application marks: cake manufacturing; food; shareholder; private limited company; started 10 years ago in country x; invested all his savings; profits have been constantly increasing every year; constantly develops a new range of cakes; works 7 days a week; has four managers for each department; e-commerce; Figures from Appendix 2; new markets abroad.

There may be other examples in context which have not been included here.
(b) David has appointed a manager to control each department as shown in Appendix 1. Identify and explain three management functions of the Operations manager. Which do you think is the most important management function? Justify your answer. [12]

Relevant points might include:

- Planning – sets aims/targets; plan for necessary resources
- Organising – delegate tasks; people and resources; ensure everyone working effectively/no duplicated tasks
- Coordinating – ensure departments working together; aims/tasks linked together; chair regular meeting between departments
- Commanding – guiding employees; leading/supervising employees; ensure employees keep to targets/tasks
- Controlling – measure/evaluate work of employees; identify poor performance/identify problems

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

| Level 3 | At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the most important management function of the Operations Manager compared to the other functions 7–8 marks for some limited judgement shown in recommendation as to the most important management function of the Operations Manager. |
| Level 2 | 4–6 marks Detailed discussion of each management function of the Operations Manager. |
| Level 1 | 1–3 marks Name management function and/or identifies key tasks Operations manager will carry out. |

Level 1
1 mark for each L1 statement (max of 3 marks), e.g. the Operations Manager needs to control the department.

Level 2
One L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks), e.g. the Operations Manager needs to control the department. This will involve ordering the ingredients to ensure that the planned production of cakes can be made otherwise bakers may not be able to bake the batches of cakes ordered. (4 marks for L2 answer + 1 application mark for mentioning bakers and making cakes.)
Level 3
For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies the most important management function, e.g. planning will be the most important management function because if the Operations Manager does not plan efficiently then workers may not work effectively. They could be waiting for ingredients to arrive and not be able to work. This is more important than commanding the workers to do their work as if they do not have ingredients then commanding them to work will not be effective.

Award up to 2 additional marks for relevant application.

Possible application marks: cake manufacturing; constantly develops a new range of cakes; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops; 125 workers; may need to make some workers redundant; automated production line; efficiency increases by 10% for option A; investment of $8m; 10 production employees for option B.

There may be other examples in context which have not been included here.
2 (a) Identify and explain **two ways** in which marketing is important for DD. [8]

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

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

- to identify customer needs
- to satisfy customer needs
- to maintain customer loyalty
- to gain information about customers/conduct market research.collecting data
- to anticipate changes in customer needs
- to raise awareness of new products
- to advertise/promote the new products
- to create a brand image
- to persuade people to buy products
- to increase sales
- to attract new customers
- reference to importance of the four P’s
- to help the business become more competitive

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

Indicative response:

To identify customer needs [k] because David needs to know what types of cakes to bake [ap]. By producing the types of cakes which customers most want to buy will lead to higher sales [an]. Therefore the company is more likely to be successful and return a good dividend to David and his shareholders [ap].

Possible application marks: cake manufacturing; food; shareholders; started 10 years ago in country x; constantly develops a new range of cakes; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops.

There may be other examples in context which have not been included here.
(b) Consider the advantages of using e-commerce and the advantages of selling to supermarkets in other countries. Recommend which way DD should use to increase sales. Justify your answer.

Relevant points might include:

<table>
<thead>
<tr>
<th>Advantages of using e-commerce</th>
<th>Advantages of selling to supermarkets in other countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can sell to a wider market</td>
<td>Large/regular orders placed</td>
</tr>
<tr>
<td>Can be used for advertising</td>
<td>Administration savings on fewer but larger order/economies of scale</td>
</tr>
<tr>
<td>Customers can order any time</td>
<td>Feedback from supermarkets on which products sell well</td>
</tr>
<tr>
<td>New markets reached</td>
<td>Display in supermarket promotes the cakes</td>
</tr>
<tr>
<td>Direct customer contact</td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Knowledge/Analysis/ Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 3</td>
</tr>
<tr>
<td>At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best way to increase sales compared to the other way.</td>
</tr>
<tr>
<td>7–8 marks for some limited judgement shown in recommendation as to the best way to increase sales.</td>
</tr>
</tbody>
</table>

| Level 2                       |
| 4–6 marks                     |
| Detailed discussion of advantages of e-commerce and advantages of selling to supermarkets in other countries. |
| **N.B. do not reward disadvantages** |

| Level 1                       |
| 1–3 marks                     |
| Outline the advantages of e-commerce and advantages of selling to supermarkets in other countries. |

Level 1
1 mark for each L1 statement (max of 3 marks), e.g. David can sell to a wider market.

Level 2
One L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks), e.g. David can sell to a wider market. This will allow the company to increase production and expand the business. If the cost of cake ingredients fall as output increases then this will help David to increase profits further. (4 marks for L2 answer + 1 application mark for mentioning cake ingredients.)
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 way. Overall there will be higher costs involved in expanding the business by selling cakes online especially as the company sell food items. It will be difficult to maintain the quality of the cakes when they are posted out to customers. (L3) So although they can sell to a wider market they should take this option because of the difficulties of maintaining the quality of the cakes. (L3) It is much easier to deliver large quantities of cakes to supermarkets abroad as delivery will be in specialised containers to keep the cakes fresh (L3) and administration costs will be kept low by fewer but larger orders to process. (L3)

Award up to 2 additional marks for relevant application.

Possible application marks: cake manufacturing; perishable products; food; constantly develops a new range of cakes; Figures from Appendix 2; new markets abroad; small food shops; automated production line; efficiency increases by 10% for option A; investment of $8m; 10 production employees for option B.

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

3 (a) The company Balance Sheet helps David assess the performance of the business.

(i) Calculate the current ratio and acid test ratio for 2014. [4]

(ii) Compare your two ratio results with those of 2013 (see Appendix 2) [4]

Knowledge [2 × 1] – award one mark for each correct ratio
Analysis [2 × 1] – award one mark for each correct calculation

(i) Current ratio 1000/600 = 1.66/ 1.67 (1K + 1Ap)
Accept 1300/600 = 2.16/ 2.17 if working shown

Acid test ratio 700/600 = 1.16/ 1.17 (1K + 1Ap)
Accept 1000/600 = 1.6/ 1.67 if working shown

2 marks for each correct answer; 1 mark if correct method/formula but incorrect answer

(ii) Application + Analysis [2 × 2] – award one application mark for the comparison between the figures and one analysis mark for each explanation of the calculation result from (i)

Indicative response:

The current ratio is lower [ap] because the current liabilities have increased [an].

The acid test ratio is higher (ap) because the amount of inventories has fallen so less working capital is being tied up in inventories [an].

NB do not reward ‘better’ or ‘worse’ for the comparison of the figures but an explanation of why the figure is better or worse can be credited.
(b) David wants to increase efficiency in his factory. Consider Option A and Option B and
then recommend which one he should choose. Justify your answer. [12]

Relevant points might include:

<table>
<thead>
<tr>
<th></th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Option A</td>
<td>• Cheaper</td>
<td>• Increase in efficiency only by 10%</td>
</tr>
<tr>
<td>(training existing</td>
<td>• No redundancies</td>
<td>• Large wage costs</td>
</tr>
<tr>
<td>production employees)</td>
<td>• Increased output meets increased sales</td>
<td>• Loss of output from experienced workers when</td>
</tr>
<tr>
<td></td>
<td>• Workers feel valued/increased job satisfaction</td>
<td>carrying out training</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Large number of workers to retrain</td>
</tr>
<tr>
<td>Option B</td>
<td>• Labour efficiency will increase</td>
<td>• High capital cost</td>
</tr>
<tr>
<td>(automated production</td>
<td>• Low wage costs</td>
<td>• Off-the-job training required</td>
</tr>
<tr>
<td>line)</td>
<td>• New markets</td>
<td>• Cost of redundancy payments</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Worker morale/motivation issues</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Knowledge/Analysis/Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 3</td>
</tr>
<tr>
<td>At least $2 \times \text{Level } 2$ + $9\text{–}10$ marks for well justified recommendation as to the best option to choose to increase efficiency compared to the other option. $7\text{–}8$ marks for some limited judgement shown in recommendation as to the best option to choose to increase efficiency.</td>
</tr>
</tbody>
</table>

| Level 2                       |
| 4\text{–}6 marks              |
| Detailed discussion of advantage/disadvantage of Option A and/or B. **NB do not reward mirror image arguments** |

| Level 1                       |
| 1\text{–}3 marks              |
| Outline of advantage/disadvantage of Option A and/or B. **NB do not reward mirror image arguments** |

Level 1
1 mark for each L1 statement (max of 3 marks), e.g. only needs to train existing workers and so it is cheaper.

Level 2
one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks), e.g. only needs to train existing workers and so it is cheaper. Also by using on-the-job training methods then training costs will not be high. However, output only increases by 10% and so not much additional output of cakes will be gained. (4 marks for L2 answer + 1 application mark for mentioning output of cakes.)
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.

Possible application marks: cake manufacturing; food; off-the-job training; on-the-job training; perishable products; constantly develops a new range of cakes; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops; 100 production workers/10 remaining production workers; 90 redundancies; may need to make some workers redundant; automated production line; efficiency increases by 10% for option A; investment of $8m.

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

4 (a) Identify and explain four factors DD should consider when packaging cakes if they are exported. [8]

Analysis $[4 \times 1]$ – award one mark for each factor (maximum of 4)
Application $[4 \times 1]$ – award one mark for an explanation in context of each factor (maximum of 4)

Award one mark for each relevant factor (maximum of four), such as:

- protect the product
- easy to transport the product
- contains correct information about the product for that country
- promotes the brand image for the product
- is culturally sensitive
- appropriate language
- recyclable packaging
- cost of packaging

Award a maximum of one additional mark for each explanation of the factor in context.

Indicative response:

Contains the correct information about the cakes for that country it is being exported to [ap] because without the correct information the company could be charged with misleading information. [an]

Possible application marks: transporting over long distances; constantly develops a new range of cakes; food; labelling; ingredients; contamination; sell-by date; easily damaged/fragile; perishable; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops.

There may be other examples in context which have not been included here.
(b) External factors can affect the profitability of a company. For each of the following changes consider how it might affect DD’s profit. Which change is likely to have the greatest effect on DD’s profit? Justify your answer. [12]

Relevant points might include:

| Increasing GDP in country x | • higher incomes – increased demand  
|                            | • higher sales of luxury products – increased demand  
|                            | • may eat other products to cakes – so demand falls |
| Reduced supply of the raw materials used to make cakes | • less ingredients available – increased costs  
|                                                          | • higher prices – decreased demand  
|                                                          | • Prices same but lower profits  
| Television programme highlighting the effects on health of eating too many cakes | • Negative publicity – lower demand  
|                                                                                   | • Not many see the programme – little effect on sales  
|                                                                                   | • Consumers loyal and ignore the advice  

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

<table>
<thead>
<tr>
<th>Knowledge/Analysis/ Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 3</td>
</tr>
<tr>
<td>At least 2 × Level 2 +</td>
</tr>
<tr>
<td>9–10 marks for well justified conclusion as which change has the greatest effect on profit compared to the other changes.</td>
</tr>
<tr>
<td><strong>NB must be explicit reference to the effect on profit.</strong></td>
</tr>
<tr>
<td>7–8 marks for some limited judgement shown in conclusion as to which change has the greatest effect on profit.</td>
</tr>
<tr>
<td>Level 2</td>
</tr>
<tr>
<td>4–6 marks</td>
</tr>
<tr>
<td>Detailed discussion of the changes and how they affect profits.</td>
</tr>
<tr>
<td>Level 1</td>
</tr>
<tr>
<td>1–3 marks</td>
</tr>
<tr>
<td>Outline of the changes and how they affect profits.</td>
</tr>
</tbody>
</table>

Level 1
1 mark for each L1 statement (max of 3 marks), e.g. Increasing GDP means more people have jobs and incomes are higher.

Level 2
One L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks), e.g. increasing GDP means more people have jobs and incomes are higher. Higher incomes means more luxury products are bought and therefore people may buy more cakes to treat their family leading to increased demand for DD’s cakes. (4 marks for L2 answer + 1 application mark for mentioning more cakes being bought.)
Level 3
For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which change has the greatest effect on profits e.g. higher GDP will probably have the greatest effect on profits as it will lead to higher demand for the cakes. (L3) The television programme may have little effect as it depends on how many people watched it and how many people believed what they were being told. (L3) The rising cost of ingredients could be passed on to the customer and therefore there will be little effect on profits. (L3) It depends on how bad the harvest is and how big an increase there is in the costs of the ingredients. So overall increasing GDP is likely to have the greatest effect on profits. (L3)

Award up to 2 additional marks for relevant application.

Possible application marks: constantly develops a new range of cakes; ingredients; food; increased production workers; $8m investment; perishable products; luxury products; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops.

There may be other examples in context which have not been included here.
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1 (a) Samah and Selina wrote a business plan before FF started trading 5 years ago. Identify and explain two ways their business plan might have helped to make the business successful. [8]

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

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

- It helps to secure a bank loan or overdraft
- The entrepreneur thinks ahead and plans out carefully the next few years
- Reduces risks of failure as the owners have thought through problems the business might have
- To clarify the aims and objectives / targets to aim for
- Aids financial planning

Award a maximum of three additional marks for each explanation – 2 of which must be applied to this context - of the way a business plan might help make the business successful.

Indicative response:

A business plan reduces risk for the business (k) as Samah and Selina will have thought through problems such as where to source their ingredients for the ice cream and what it will cost them (ap). This will allow them to prepare for any problems and stop these causing difficulties for the business (an). This might include preparing for cash flow problems at times of the year when demand is low (ap).

Possible application marks: partnership; produces ice cream; high quality ingredients; expensive ingredients; ice cream sold for a high price; borrow finance easily from the bank; sales increased for four years; demand high for 6 months; cost / revenue data from appendix 3; new products / flavours; redundant workers; have taken out a bank loan; high income consumers.

There may be other examples in context which have not been included here.
(b) Consider the advantages to FF of employing full-time workers and the advantages to FF of employing part-time workers. Do you think a combination of these two types of workers would be best? Justify your answer.

Relevant points might include:

<table>
<thead>
<tr>
<th>Advantages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Full-time workers</strong></td>
</tr>
<tr>
<td>Likely to be better trained</td>
</tr>
<tr>
<td>More committed to the business</td>
</tr>
<tr>
<td>More likely to be trained / skilled than part-time workers</td>
</tr>
<tr>
<td>Feel secure in job – more motivated (although several made redundant)</td>
</tr>
<tr>
<td><strong>Part-time workers</strong></td>
</tr>
<tr>
<td>More flexible hours</td>
</tr>
<tr>
<td>Easier to extend hours at busy times</td>
</tr>
<tr>
<td>Accept lower pay as fits in with family commitments</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Knowledge / Analysis / Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Level 3</strong></td>
</tr>
<tr>
<td>At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best type of worker to employ compared to the other type of worker.</td>
</tr>
<tr>
<td>7–8 marks for some limited judgement shown in recommendation as to the best type of worker to employ.</td>
</tr>
<tr>
<td><strong>Level 2</strong></td>
</tr>
<tr>
<td>4–6 marks</td>
</tr>
<tr>
<td>Detailed discussion of advantages of part-time and / or full-time workers.</td>
</tr>
<tr>
<td><strong>Level 1</strong></td>
</tr>
<tr>
<td>1–3 marks</td>
</tr>
<tr>
<td>Outline of advantages of part-time and / or full-time workers.</td>
</tr>
</tbody>
</table>

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. part-time workers are more flexible in the hours they are willing to work.

Level 2 – one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. part-time workers are more flexible in the hours they are willing to work. This will allow Samah and Selina to reduce the hours of these workers when demand for ice cream is low for 6 months of the year, thus reducing wage costs (4 marks for L2 answer + 1 application mark for mentioning ice cream and demand being low for 6 months of the year).

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 combination to choose.

Award up to 2 additional marks for relevant application.
Possible application marks: produces ice cream; ice cream sold for a high price; borrow finance easily from the bank; multinational food company; sales increased for four years; demand high for 6 months; workers made redundant each year; 100 full-time production workers; cost / revenue data from appendix 3; new products.

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

2 (a) **Identify and explain two benefits to FF of targeting a specific market segment for its products.**

Knowledge $[2 \times 1]$ – award one mark for each relevant benefit
Analysis $[2 \times 1]$ – award one mark for a relevant explanation for each benefit
Application $[2 \times 2]$ – award two application marks for each benefit

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

- makes advertising / promotion more effective
- a more focused marketing mix
- product meets customer needs of specific niche
- price suitable for target market
- suitable channel of distribution chosen
- meets specific customer needs
- more effective use of marketing budget
- more likely to have higher sales to that target market
- lower competition in a specific market

N.B. the discussion should focus on marketing as opposed to production

Award a maximum of three additional marks for each explanation – **2 of which must be applied to this context** - of the benefit of targeting a specific market segment for its products.

Indicative response:

The marketing mix is likely to be more effective (k) because FF has identified the particular high income customers (ap) who are likely to buy their ice cream. The advertising can be in a form which reaches these target customers and so make the promotion more effective [an]. The cost of promotion is likely to be more cost effective in turning advertising expenditure into sales of ice cream (ap).

Possible application marks: produces ice cream; high quality ingredients; expensive ingredients; ice cream sold for a high price; sales increased for four years; increasing economic growth leading to economic development; high income customers; essential / luxury products;

There may be other examples in context which have not been included here.
(b) Samah and Selina will want to promote the new flavour of ice cream. Consider the advantages and disadvantages of the following three methods of promotion. Recommend which is the best method for Samah and Selina to use. Justify your answer.

### Relevant points might include:

<table>
<thead>
<tr>
<th>Method</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising on social networks</td>
<td>Can reach a specific target market</td>
<td>May not reach the target market being aimed at</td>
</tr>
<tr>
<td></td>
<td>Cheap method of advertising</td>
<td>Sponsored links can be expensive</td>
</tr>
<tr>
<td>Handing out leaflets with a discount offer on them</td>
<td>Cheap to produce Encourages purchases with discount</td>
<td>Loss of revenue with the discount Leaflets can be discarded</td>
</tr>
<tr>
<td>Giving out free samples in shopping malls</td>
<td>Encourages customers to try the product</td>
<td>Cost of employing additional staff and cost of the product to give out free</td>
</tr>
<tr>
<td></td>
<td>Realise how nice it tastes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Increases awareness of the new product</td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Knowledge / Analysis / Evaluation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Level 3</strong></td>
<td>At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best method of promotion compared to the other methods.</td>
</tr>
<tr>
<td></td>
<td>7–8 marks for some limited judgement shown in recommendation as to the best method of promotion.</td>
</tr>
<tr>
<td><strong>Level 2</strong></td>
<td>4–6 marks Detailed discussion of advantages and / or disadvantages of the ways to promote the new product.</td>
</tr>
<tr>
<td><strong>Level 1</strong></td>
<td>1–3 marks Outline of the advantages and / or disadvantages of the ways to promote the new product.</td>
</tr>
</tbody>
</table>
Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. can reach a specific target market on social networking sites.

Level 2 – one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. can reach a specific target market on social networking sites. This is a quick and cheap way of reaching a large number of potential customers. However, as the ice cream is expensive and aimed at high income groups they may not be the sort of people who use Facebook and therefore this method will not reach the intended target market. (4 marks for L2 answer + 1 application mark for mentioning high income customers buying ice cream).

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: produces ice cream; high quality ingredients; expensive ingredients; ice cream sold for a high price; multinational food company; taste new flavours; sales increased for four years; demand high for 6 months; new product financed by bank loan.

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

3 (a) Samah and Selina are considering buying ingredients from another supplier called ABC (see Appendix 2). Identify and explain one advantage and one disadvantage to FF of changing to ABC. [8]

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

Award one mark for each relevant advantage / disadvantage (maximum of one each), such as:

<table>
<thead>
<tr>
<th>Advantage</th>
<th>Lower costs / free delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Reduce prices and possibly increase sales</td>
</tr>
<tr>
<td></td>
<td>Increase profits</td>
</tr>
<tr>
<td></td>
<td>Comply with government standards</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Disadvantage</th>
<th>Reduce quality</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Reduce reputation for high quality product leading to lower sales</td>
</tr>
<tr>
<td></td>
<td>Only deliver once a week</td>
</tr>
<tr>
<td></td>
<td>Already have a good relationship with current supplier</td>
</tr>
</tbody>
</table>
Award a maximum of three additional marks for each explanation – 2 of which must be applied to this context – of the advantage / disadvantage to the business of changing supplier.

Indicative response:

To lower costs of ingredients (k) which will allow Samah and Selina to reduce the price of the ice cream (ap) and possibly lead to an increase in sales [an]. However, as the ice cream is high quality the customers may not want to buy it if it is cheaper (ap).

Possible application marks: business 5 years old; produces ice cream; high quality ingredients; expensive ingredients; ice cream sold for a high price; multinational food company; supplier located near to factory; sales increased for four years; demand high for 6 months; free delivery; ABC only deliver once a week; any reference to details in Appendix 2; taste of product.

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

(b) Samah and Selina want to start selling a new flavour of ice cream. Consider the two options outlined in Appendix 3. Recommend which one they should choose. Justify your answer. [12]

Relevant points might include:

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Option A</td>
<td>Break even at a lower output of 2 000</td>
</tr>
<tr>
<td>Strawberry–flavour</td>
<td>Profit is higher</td>
</tr>
<tr>
<td>Option B</td>
<td>Higher sales predicted</td>
</tr>
<tr>
<td>Coconut–flavour</td>
<td>Lower production costs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Total Cost</th>
<th>Contribution</th>
<th>B / E</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Option A Strawberry</td>
<td>30 000 (L1)</td>
<td>14 000 (L1)</td>
<td>2(L1)</td>
<td>2 000 (L2)</td>
</tr>
<tr>
<td>GPM = 66.7% (L2)</td>
<td>NPM = 53.3% (L2)</td>
<td></td>
<td>GP 20 000 (L1)</td>
<td></td>
</tr>
<tr>
<td>Option B Coconut</td>
<td>26 250 (L1)</td>
<td>11 500 (L1)</td>
<td>1.25(L1)</td>
<td>3 200(L2)</td>
</tr>
<tr>
<td>GPM = 71.4% (L2)</td>
<td>NPM = 56.1% (L2)</td>
<td></td>
<td>GP 18 750 (L1)</td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Level 3</th>
<th>At least $2 \times \text{Level 2}$ + 9-10 marks for well justified recommendation as to the best option to choose compared to the other option. 7–8 marks for some limited judgement shown in recommendation as to the best option to choose.</th>
</tr>
</thead>
</table>
| Level 2               | 4–6 marks  
Break-even output and / or profit and / or profit margins correctly calculated.                                                                                                                  |
| Level 1               | 1–3 marks  
Outline of advantages and / or disadvantages of both options.                                                                                                                                               |

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Option A has higher variable costs than Option B.

Level 2 – one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Option A has higher variable costs, a higher price and FF can break-even more quickly at 2 000 units of ice cream (4 marks for L2 answer + 1 application mark for mentioning units of ice cream).

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.**

Possible application marks: high quality ingredients; expensive ingredients; demand high for 6 months; strawberry flavour; coconut flavour; may need bank loan. 
There may be other examples in context which have not been included here.

4 (a) The Government of country X has recently increased interest rates. Identify and explain two ways an increase in interest rates might affect FF. 

[8]

Knowledge $[2 \times 1]$ – award one mark for each relevant way
Analysis $[2 \times 1]$ – award one mark for a relevant explanation for each way
Application $[2 \times 2]$ – award two application marks for each way

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

- Increased cost of new bank loan
- Increased cost of overdraft
- Higher mortgage costs for customers reduce spending
- Lower sales as consumers reduce spending
- Lower profits as costs higher
- Higher interest rates attract more savings from customer or company

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

Increased cost of a new bank loan [k] will raise costs as interest rates paid on the loan will be higher than before (an). This may reduce profit for FF if it cannot increase the price of its ice cream [ap]. However, because the ice cream is high quality may be able to increase its prices without losing many sales (ap).

Possible application marks: produces ice cream; high quality ingredients; expensive ingredients; ice cream sold for a high price; borrow finance easily from the bank; sales increased for four years; new product financed by bank loan; cost / revenue data from Appendix 3.

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

(b) A multinational food company is producing and selling its products in country X (see Appendix 1). Consider the advantages and disadvantages to FF of this multinational operating in country X. Do you think it is beneficial to FF? Justify your answer [12]

Relevant points might include:

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Improved infrastructure / roads</td>
<td>• Increased wages – due to increased demand</td>
</tr>
<tr>
<td>• Jobs created – increase incomes – increased sales</td>
<td>• Influence government and economy</td>
</tr>
<tr>
<td>• Low competition as targeting different market segment</td>
<td>• May only be unskilled workers so not much effect on spending</td>
</tr>
<tr>
<td></td>
<td>• Increased competition – local businesses may not be able to compete</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Knowledge / Analysis / Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 3</td>
</tr>
<tr>
<td>At least 2 × Level 2 +</td>
</tr>
<tr>
<td>9–10 marks for well justified recommendation as to whether the multinational will be beneficial to FF.</td>
</tr>
<tr>
<td>7–8 marks for some limited judgement shown in recommendation as to whether the multinational will be beneficial to FF.</td>
</tr>
<tr>
<td>Level 2</td>
</tr>
<tr>
<td>4–6 marks</td>
</tr>
<tr>
<td>Detailed discussion of advantages and / or disadvantages of the multinational company to FF.</td>
</tr>
<tr>
<td>Level 1</td>
</tr>
<tr>
<td>1–3 marks</td>
</tr>
<tr>
<td>Outline of advantages and / or disadvantages of the multinational company to FF.</td>
</tr>
</tbody>
</table>
Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. new jobs will be created in country X and so people will have higher incomes to spend.

Level 2 – one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. new jobs will be created and this should increase GDP in country X. The increase in GDP will increase incomes for people who live in country X and they may have more disposable income to buy luxury products like expensive ice cream leading to increased sales for FF. (4 marks for L2 answer + 1 application mark for mentioning luxury products such as expensive ice cream).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion which justifies whether the multinational company will be beneficial to FF.

**Award up to 2 additional marks for relevant application.**

Possible application marks: partnership; business 5 years old; produces ice cream; high quality ingredients; expensive ingredients; ice cream sold for a high price; production workers; increasing economic growth leading to economic development; government has built new roads; cost / revenue data from Appendix 3; increased wages; job security.

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