

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE O Level

MARK SCHEME for the November 2005 question paper

7115 BUSINESS STUDIES

7115/02

Paper 2 (Case Study), maximum raw mark 100

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which Examiners were initially instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the *Report on the Examination*.

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1 (a) (i) **What two documents had to be drawn up when Lopez was registered as a limited company?**

Content: Memorandum of Association and Articles of Association

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|--|
| Knowledge |
| 1 mark for each document (1 x 2 documents). |

(ii) **Would you advise the owners of Lopez to convert the business into a Public Limited Company (plc)? Explain your answer.** [8]

Content: Advantages of a plc - can sell shares to the public; rapid expansion possible with specialist managers appointed; easier to raise finance; high status; easier to attract suppliers.

Disadvantages - many legal formalities; have to disclose accounts and other information to any interested parties; expensive to 'go public'; divorce between ownership and control more likely; risk of takeover.

Evaluative comments - Lopez might need to raise more capital and this could be by the sale of shares to the public. This might be better than taking out a loan as no interest needs to be paid. However, there is a danger of a loss of control or it would be easier for the company to be taken over and therefore I would advise them not to become a plc.

| | Knowledge/Application | Evaluation |
|---------|---|---|
| Level 2 | 2-4 marks 2 or more advantages/ disadvantages of a plc, applied to the case. | 3-4 marks Concluding comments showing good judgement made as to whether to change to a plc. |
| Level 1 | 1 mark 1 advantage/disadvantage of a plc. | 1-2 marks Limited judgement shown. |

(b) **Jennifer has clear objectives of business growth for Lopez. What are the advantages of having clear business objectives?** [4]

Content: Plans are made to meet these objectives; clear focus for employees of the business; facilitates budgets as part of planning.

| | Knowledge | Analysis |
|---------|--|--|
| Level 2 | 2 marks Two or more advantages given. | 2 marks Good discussion of advantage(s). |
| Level 1 | 1 mark One advantage given. | 1 mark Limited discussion of advantage(s). |

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(c) Outline the management responsibilities of Miguel as Lopez’s Marketing Manager.

Content: Marketing manager is responsible for market research, planning of new products, deciding on the marketing mix, evaluating sales data.

Linked to the case - develop new sweets, market research in new country, research the competition in other market, develop a marketing mix for the new products.

| | Knowledge | Application |
|---------|---|--|
| Level 2 | 2 marks Two or more responsibilities outlined. | 3-4 marks Good application of the responsibilities in terms of marketing manager of sweet/chocolate manufacturer. |
| Level 1 | 1 mark One responsibility outlined. | 1-2 marks Limited application of responsibilities to case. |

2 Miguel, the Marketing Manager, wants to develop a new range of sweets. These would be sold in other countries as well as in Country A.

(a) (i) Explain why Miguel should carry out market research before developing a new range of sweets. [5]

Content: To find out the potential market so that they can develop an appropriate marketing mix.

To identify if there is sufficient demand to be worth selling in the other country.

To indicate the target market so that suitable advertising can be developed that will reach these potential customers.

| | Analysis/Evaluation |
|---------|---|
| Level 2 | 3-5 marks Advantage(s) of market research explained. Clear justification as to why the research would be needed. |
| Level 1 | 1-2 marks Limited explanation of an advantage of market research and/or limited justification. |

(ii) Advise Miguel on how to carry out market research. [6]

Content: Need to design a questionnaire, set a budget to carry out the research, select the type of sample and sample size, decide where to carry out the research and when, collate the results.

Evaluation might be - the sample size needs to be as large as possible to make the results more accurate; the research needs to be carried out at a place and time so that the target market will be available to answer the questions; the cost of the research needs to be considered in relation to the accuracy of the information collected.

| | Knowledge/Application | Evaluation |
|---------|---|---|
| Level 2 | 3-4 marks Clear description of how to carry out market research. Well applied to the case study. | 2 marks Clear justification of why these considerations need to be taken into account. |
| Level 1 | 1-2 marks Knowledge of market research shown and/or limited application to the case study. | 1 mark Limited justification of the considerations. |

(b) Discuss three factors that could influence the marketing for the new range of sweets. [9]

Content: Factors affecting the marketing mix: the target market, laws, culture of the country, competition, production costs, advertising budget, disposable income.

Evaluation of how they could affect it - the target market would influence where the sweets were advertised and how they were promoted.

Culture - would affect the type of products which could be developed and the style of advertising that was used. Also the type of outlets used and the channel of distribution would be affected by the culture and characteristics of the country.

Competition - would affect the advertising used, pricing policy and where they sold their products in order to compete and be successful.

N.B. Level 1 can be awarded if the candidate only discusses the 4 P's.

| | Application | Analysis |
|---------|--|--|
| Level 2 | 2 marks Well applied to the case. | 3-6 marks Good discussion of 2 or more factors. |
| Level 1 | 1 mark Limited application to the case. | 1-2 marks Limited discussion of 2 or more factors or good discussion of 1 factor. |

3 (a) If the business made a gross profit of \$640,000 in 2005, what is the value of sales revenue in 2005? Show your calculations. [4]

Content: Gross profit 80%. Gross profit \$640,000.
 $640,000 \times 100/80 = \$800,000$.

| | Analysis |
|---------|---|
| Level 2 | 4 marks Correct answer. |
| Level 1 | 1-3 marks Some working out correct but errors (correct figures for sales and gross profit identified and correct formula used. 1 mark each). |

(b) (i) Refer to Table 2 and Table 3. Explain what Jennifer meant when she said cash flow is still a problem for the business.

Content: Cash flowing out of the bank account and not flowing back in quickly enough. This leads to a lack of cash for the business.

Evaluative comments might include - runs out of cash and cannot pay creditors therefore they cannot produce any more products if creditors will not supply them with raw materials.

They may need an overdraft and then they will be charged interest. This will increase costs which could lead to lower profits.

| | Analysis/Evaluation |
|---------|---|
| Level 2 | 3-6 marks Clear explanation of what is meant by cash flow problems possibly including examples. Evaluation of why cash flow can cause problems for the business. |
| Level 1 | 1-2 marks Idea shown of cash flow as a problem |

(ii) Advise Jennifer on how she could improve the company's cash flow. [10]

Content: Delay payments to creditors and try to speed up debtor payments. Increase sales revenue to increase the inflows of cash. Lease rather than purchase when buying new capital to spread the payments.

| | Knowledge/Application | Analysis/Evaluation |
|---------|---|---|
| Level 2 | 3-4 marks Knowledge of the need to increase cash inflow and/or reduce cash outflow. Or could discuss the timing of the cash flows. Well applied to case. | 4-6 marks Good discussion of 2 different suggestions. Good judgement shown as to the best ways to improve cash flow. |
| Level 1 | 1-2 marks Outlined how to increase cash inflow or cash outflow. Limited application to the case. | 1-3 marks Limited discussion of 2 suggestions or good discussion of 1 suggestion. Limited judgement shown. |

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4 (a) If Lopez expands, they will need to recruit an additional member of staff for the sales department. Draw up a job description for this post.

Content: Job description should contain job title, department, responsible to, responsible for, main purpose of job, main duties, occasional duties.

Applied to the case - might include duties such as deal with customer queries, take orders, fill in order forms.

| | Knowledge/Application |
|---------|---|
| Level 2 | 4-6 marks Knowledge of 3 plus items found on a job description, well applied to a job in the sales department. |
| Level 1 | 1-3 marks Knowledge of 1-3 items found on a job description but limited in its application to a job in the sales department. |

(b) Should this new member of staff receive any training? Explain your answer. [4]

Content:

Evaluation might include: new members of staff will need induction training so that they know where everything is and what they should do.

No training would be needed if the new staff recruited were already skilled in the job. They would know what they should do and this will save the business money. Yes because training makes employees more productive and they will be able to do their job more efficiently. The business will benefit from this as although the training will cost the business money the employees will work better and increase profits.

| | Evaluation |
|---------|---|
| Level 2 | 3-4 marks Yes/No with clear justification of the answer. |
| Level 1 | 1-2 marks Yes/No with limited justification of the answer. |

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- (c) A new Sales Manager has just been recruited. Discuss how Jennifer and M could motivate this new manager. (You should include both financial and non-financial methods in your answer).

Content: Financial - commission, profit sharing, bonus, performance related pay.
 Non-financial - children's education fees paid, discounts on firms products, health care paid for, company vehicle, free accommodation, share options, pension paid, free trips/holidays abroad.
 Motivation theories might be included in the answer e.g McGregor, Maslow, Taylor.

Evaluation – If the Sales Manager is well paid and so recognition for a job well done might prove to be more of a motivator according to Maslow. However, the manager is responsible for sales and so if they were paid a commission related to the amount of sales then this should motivate them to make more effort to sell more. This would probably be the best method to use because of this.

| | Knowledge/Application | Analysis/Evaluation |
|---------|---|---|
| Level 2 | 2-3 marks Knowledge of both financial and non-financial methods of motivating employees. Applied to a Sales Manager. | 4-7 marks Good discussion of the different types of motivators and how they encourage employees to work harder. Good judgement shown of which would be the most suitable for a Sales Manager. |
| Level 1 | 1 mark Knowledge of either financial or non-financial methods. | 1-3 marks Limited discussion of different types of motivators and how they encourage employees to work harder. Limited judgement shown as to which would be best. |

- 5 (a) (i) Why do you think Lopez currently uses batch production?

[4]

Evaluation: Products are made in batches of a certain quantity, usually as orders come in. Each stage of production of a certain quantity is completed before moving on to the next stage therefore batch is more suitable than flow production which would involve making a large quantity of the same product. There are insufficient sales to justify flow production at the present time.

| | Evaluation |
|---------|---|
| Level 2 | 3-4 marks Clear justification of why batch should be used or why flow is not suitable. |
| Level 1 | 1-2 marks Limited justification of why batch should be used or why flow is not suitable. |

- (ii) **Would you advise the company to change to flow production? Explain your answer.**

Content: Discussion of what is meant by flow and batch production.

Evaluation of flow production in the context of Lopez.

- Flow production would give standard quality chocolates in large quantities.
- Would there be sufficient demand to warrant this large quantity?
- Batch would allow more variety of types of sweets to be produced.
- Production costs per unit are probably higher for batch production than flow.

| | Knowledge/Application | Evaluation |
|---------|---|---|
| Level 2 | 2-4 marks Good knowledge of flow and/or batch production, well applied to the case study. | 3-4 marks Good judgement shown as to whether or not to change to flow production. |
| Level 1 | 1-2 marks Limited knowledge of flow and/or batch production, weakly applied to the case study. | 1-2 marks Limited judgement shown as to whether or not to change to flow production. |

- (b) **Why do you think that quality control is important to a company such as Lopez?** [8]

Content/Evaluation: *To reduce wastage and defects as this will cost the business money.*

To check that products meet minimum standards to comply with the law so that the business does not face prosecution.

To ensure products are not faulty because if faulty products are sold it will give a bad impression to customers and the business will get a bad reputation. This will probably result in lost sales.

| | Knowledge | Analysis/Evaluation |
|---------|--|---|
| Level 2 | 2 marks Good knowledge of what is meant by quality control. | 4-6 marks Good discussion of the advantages of quality control. Good judgement shown of the importance of quality control to this business. |
| Level 1 | 1 mark Limited knowledge of what is meant by quality control. | 1-3 marks Limited discussion of the advantages of quality control. Limited judgement shown of the importance of quality control to the business. |

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| Question | Knowledge | Application | Analysis | Evaluation | Total |
|----------------|-----------|-------------|-----------|------------|------------|
| 1a | 2 | | | | 2 |
| 1b | 2 | 2 | | 4 | 8 |
| 1c | 2 | | 2 | | 4 |
| 1d | 2 | 4 | | | 6 |
| 2a | | | 2 | 3 | 5 |
| 2b | 2 | 2 | | 2 | 6 |
| 2c | | 3 | 6 | | 9 |
| 3a | | | 4 | | 4 |
| 3b | | | 4 | 2 | 6 |
| 3c | 2 | 2 | 4 | 2 | 10 |
| 4a | 2 | 4 | | | 6 |
| 4b | | | | 4 | 4 |
| 4c | 2 | 1 | 4 | 3 | 10 |
| 5a (i) | | | | 4 | 4 |
| 5a (ii) | 2 | 2 | | 4 | 8 |
| 5b | 2 | | 4 | 2 | 8 |
| Total = | 20 | 20 | 30 | 30 | 100 |