UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2011 question paper

for the guidance of teachers

9707 BUSINESS STUDIES

9707/12 Paper 1 (Short Answer/Essay), maximum raw mark 40

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 must be read in conjunction with the question papers and the report on the examination.

- Cambridge will not enter into discussions or correspondence in connection with these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2011 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

UNIVERSITY of CAMBRIDGE
International Examinations

This mark scheme includes a summary of appropriate content for answering each question. It should be emphasised, however, that this material is for illustrative purposes and is not intended to provide a definitive guide to acceptable answers. It is quite possible that among the scripts there will be some candidate answers that are not covered directly by the content of this mark scheme. In such cases, professional judgement should be exercised in assessing the merits of the answer.

Examples of possible answers may also be included in this mark scheme. Again, it should be emphasised that this is for illustrative purposes and the examples chosen represent only some of the many possible responses that would merit reward.

Section A

1 **(a)** Advantages of secondary market research data might include:

- secondary is likely to be less expensive than primary research – it could be free
- it may be readily available in government publications, trade/professional journals and newspapers
- may already be available within a business
- obtainable from competitors (sales figures)
- international availability.

Award 1 mark for EACH acceptable advantage stated up to a maximum of 2 marks.

(b) Reasons why a business might choose to conduct primary market research might include:

- a new business might want to collect its own detailed intelligence rather than rely on secondary data which may be out of date
- new to the market – primary research might help to reduce business risk
- more detailed and current information on competitors, the market, and consumer requirements
- might allow market advantage to be gained – establish a competitive edge etc.

An alternative (and valid) approach might be to focus on the limitations of secondary research, e.g. its general nature, less specific.

Very limited response, possibly little more than a repeat of information in part **(a)**. [1]
Sound understanding demonstrated but explanation is limited. [2]
Sound understanding with developed explanation. [3]

2 **(a)** There are several alternative ways to access full marks:

- current ratio is measured as current assets divided by current liabilities
- a calculation of whether a business has sufficient working capital
- a measure of business liquidity (a current ratio of 1.5:1 and 2:1 is considered to be a safe liquidity position)
- correct formula.

Partial definition given. [1]
Full definition given. [2]

(b) Reasons why liquidity ratios are important to the management of a business might include:

- Liquidity ratios (current ratio and acid test ratio) measure how capable a business is of paying its short-term liabilities. They are calculated from the balance sheet.
- These ratios give an indication of the financial well-being of a business in the short-term.
- A low liquidity ratio may mean the business is overstretched; a figure too high means that the current assets are under-used.
- Indicates to a business if it is overtrading – i.e. in the longer term it may be profitable but in the short-term expanding could put pressure on working capital.

Very limited reference to liquidity ratios. [1]
Sound understanding but limited explanation. [2]
Sound understanding with developed explanation. [3]

3 Explanation could include the functions traditionally referred to as the main functions of management:
- planning – e.g. setting goals, objectives, business planning, project planning
- organising – e.g. designing structures, mobilising resources, defining tasks, roles, systems
- leading – e.g. setting direction, defining vision, values, mission, motivating
- co-coordinating/controlling – e.g. monitoring systems and processes to reach goals, financial controls, performance management.

Explanations could include reference to more modern models of management e.g. Mintzberg's management roles: interpersonal roles (figurehead, leader, liaison); informational roles (monitor, disseminator, spokesperson); decisional roles (entrepreneur, disturbance handler, resource allocator, negotiator).

A limited knowledge of management functions or explanation of only one function. [1]
Clear understanding and limited explanation of at least TWO management functions. [2–3]
Well-developed explanation of at least TWO management functions. [4–5]

4 **(a)** A job production process involves the output of a single product at a time according to individual specifications.
Answers may be based on examples e.g.:
- can be production on a small or large scale e.g. an individual birthday cake or a specific house extension or a bridge/tunnel
- can be found in both manufacturing and service industries.

Partial definition given. [1]
Full definition given. [2]

(b) Benefits to a business of using job production might include:
- the production of a single high specification product, possibly leading to high profit margin
- ability to hire and develop highly skilled and versatile craftspeople
- establish reputation for high quality and precision
- workers more likely to be motivated – more demanding and interesting work
- organisation of job production – easy to organise, monitor and solve problems
- attractive to start-up businesses.

Partial description of ONE benefit. [1]
Sound description of ONE benefit or partial description of TWO benefits. [2]
Accurate description of TWO benefits. [3]

Section B

5 (a) Explanation of the stages of a product life cycle, using an appropriate diagram:

- the diagram should show an appropriate shape and stages of a product life cycle: introduction (or launch), growth, maturity (or saturation), decline – or their equivalents
- the stages through which a product passes from its initial market introduction to its final withdrawal
- product life cycle can be quite short or very lengthy depending on the type of product and on the market strategy used to sell it.

A total of 8 marks are available:

Analysis of all stages of a product life cycle.	[5–6]
Explanation of at least 3 stages of a product life cycle.	[3–4]
Some understanding of a product life cycle.	[1–2]
PLUS 1 or 2 marks for the diagram:	[PLUS 1–2]

- 1 mark for a correct <u>shape</u>
- 1 mark for writing all the correct <u>stages</u> on the diagram.

Candidates do <u>not</u> need to label axes. Ideally the diagram will show sales on the vertical axis and time on the horizontal (but this is <u>not</u> required for the award of the 2 marks for the diagram).

(b) How a business might use a product life cycle to plan the marketing of a product:

- The discussion might examine how each stage or particular stages of a product life cycle might be used to plan marketing campaigns for particular products/services.
- How the features and characteristics of each stage may act as signals for marketing action. A marketing stimulus might be required to:
  - introduce a new product into a market
  - ensure steady growth
  - freshen up a product in a highly competitive mature market
  - manage the rate of decline (extension strategies).
- Some candidates may link the 4Ps or 4Cs to the stages of a product life cycle (4Cs = customer solution, cost to customer, communication with customer, convenience to customer).
- A product life cycle might be used to identify the strengths and weaknesses of a product portfolio and indicate marketing initiatives.
- Some candidates may well see the limitations of a product life cycle approach: a fall in sales does not necessarily indicate a product is in decline; some products hold a unique product life cycle shape; product life cycle only a rough guide. These may be examples of evaluative comment.

Evaluative comment on the usefulness/limitations of the product life cycle for a business.	[11–12]
Analysis of a good range of marketing uses of the product life cycle.	[8–10]
Shows understanding of how product life cycle might assist marketing of products.	[3–7]
Limited understanding of the application of the product life cycle.	[1–2]

6 Ways in which airline management might motivate cabin crew, with reference to relevant motivation theories, might include:

- The discussion may suggest a range of financial and non-financial motivational methods and approaches and may make reference to a number of motivational theories.
- The context is an airline cabin crew – opportunity to reward staff/satisfy needs (perhaps a combination of financial/non-financial and tangible/intangible rewards) – e.g.:
  – pay higher than competitor airlines (industry pay is generally not high)
  – incentives to sell products on the plane e.g. food/drink/'duty free' (tax-free products)
  – quality of hotels at stop-overs for rest days
  – increase rest days
  – attractive fringe benefits such as free or discounted flights
  – develop a satisfying teamwork approach with emphasis on customer care culture.
- Question requires proposals for specific motivational approaches linked to and supported by specific motivation theories/theorists, e.g. Taylor and money, Maslow and needs, Herzberg and hygiene/motivators, Mayo and teamwork.

Evaluative comment on possibility and likely impact of specific measures linked to motivation theory in context. [17–20]
Analysis of motivational methods and theories related to the context of cabin crew. [14–16]
Good understanding of motivational methods and theories. [11–13]
Some understanding shown of motivational methods and theories. [5–10]
Limited understanding of motivation/motivation theory. [1–4]

7 **(a)** Usefulness to a new business of cash flow forecasts might include:

- cash flow forecasts are a prediction of the timing and amount of cash moving in and out of a business over a given period of time
- used to predict cash imbalances (amount and duration)
- a crucial aid to business planning – cash flow forecasts convert business strategies into cash requirements along with an assessment of the ability to fund future expenditure
- a new business may have a weak liquidity position with small cash reserves – may need to pay suppliers promptly so need to plan cash flow carefully; may have a significant overdraft
- if a new business plans for fast growth there is a danger that the business may overstretch itself and run out of cash
- forecasts will aid potential backers to assess financial needs and requirements of a new business and its ability to service debts.

NB the question is about cash flow forecast, not cash flow statements.

Analysis of role and use of cash flow forecasts for a new business. [7–8]
Good explanation of role and use of cash flow forecasts for a new business. [5–6]
Limited explanation of potential use of cash flow forecasts for a new business. [3–4]
Little understanding of cash flow forecasts. [1–2]

(b) Candidates should identify the stakeholder groups, the importance of performance indicators (from published accounts) that are relevant to each of the stakeholders, and in the context of a business that is going to expand.

- Published accounts give quantitative results and those from the balance sheet are only a snapshot in time.
- The following are examples of relevant stakeholders and performance indicators that may be important in this context:
  – venture capitalists considering financing any expansion will examine existing long-term liabilities, sales growth in recent times and net profit margins
  – banks will review accounts carefully in assessing risk involved in any future lending
  – competitors will take an interest in the potential capability of a business to expand, as evidenced by the financial performance as reported
  – managers will be interested in issues such as profitability, cost control, ability to service future debt etc
  – shareholders may use the accounts to calculate ratios to indicate performance levels and capability to support expansion (risk).
- Candidates may legitimately apply the same performance indicators to more than one stakeholder.
- Candidates might unpack the accounts and give examples linked to specific stakeholders. Reference may well be made to the limitations of the accounts: they are historical documents, do not reflect qualitative aspects of a business, may be subject to 'window dressing' and may not reflect the true performance of individual parts of a business.

Some evaluative comment on the importance of published accounts to 3 specific stakeholders in context of a company planning to expand. [11–12]
Analysis of the importance of published accounts to 3 specific stakeholder groups with some reference to a company planning to expand. [8–10]
Shows understanding of the importance of published accounts for stakeholder groups. [3–7]
Limited understanding of published accounts and/or stakeholders. [1–2]