

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Diploma Advanced Level

MARK SCHEME for the October 2007 question paper

CAMBRIDGE INTERNATIONAL DIPLOMA IN BUSINESS
5171/5179 Business Organisation and Environment, Maximum mark 100

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.

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.

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

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Examiners should note that:

- The following are **not** model answers but should be regarded as persuasive.
- The points given in each task in the mark scheme are guidelines and ideas, and they are also the most likely responses. They do not necessarily represent full answers but may be more or less than is required.
- A candidate may offer other relevant and suitable responses.
- Although some tasks may apply to any business, all responses should be made in context where appropriate.
- The key is to test a candidate's knowledge and awareness.
- Tasks earn either 2 or 4 marks: a 2-mark response requires little more than two well written sentences which clearly indicate the knowledge required; 4-mark tasks call for more detail, understanding, knowledge and context. Extensive and essay-type answers are not required but candidates should offer informative responses.
- English is not the first language of the majority of our candidates. The quality of written language is not part of the assessment.

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1 (a) The company updates its business plan every year.

(i) Explain what is meant by a ‘business plan’ [2]

- Candidates are *not* expected to produce a detailed explanation – it is only a 2-mark task but candidates need to highlight the main elements.
- The business plan is a report/statement which indicates how the company will achieve its objectives.
- It contains e.g. the company’s marketing plan, cash-flow forecast, projected profit/loss, finance, medium to long term business forecast.

(ii) Suggest one benefit to ‘Collections’ of revising their plan annually [2]

- It is a necessary document when setting up a business but revising their plan annually keeps the directors and executives focussed on their objectives.
- It enables the company to rethink its ideas and plans, and forward planning.

Marks: 1-2 marks depending on knowledge of the business plan.

(b) The Finance Director is worried about cost-control. Explain what is meant by:

(i) direct costs [2]

- Any cost which can be *directly* attributed to a cost-centre.
- Sometimes known as variable costs.
- Costs which vary in direct proportion to output/production/sales e.g. materials, labour, packaging.

(ii) overheads [2]

- Costs not generated directly by the process of selling the storage systems.
- Costs which include salaries, lighting, heating.
- Also known as indirect or fixed costs.

Marks: 1-2 marks depending on understanding of terms and content.

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(c) Explain the following business objectives of ‘Collections’:

- (i) continuing product development [4]**
- ‘Collections’ is a success because it developed a quality product range.
 - As photography, for example, changes it impacts on the storage and handling systems.
 - It is necessary for ‘Collections’ to continue monitoring developments in respect of its own products and improve them as appropriate and demanded.
 - In order to keep its place in the market the company must innovate.
- (ii) remaining competitive [4]**
- The survival of ‘Collections’ depends upon remaining competitive.
 - It is not just a matter of price but also of quality, choice, delivery, sales methods.
 - Price is related to the quality of their product range so can be higher than competitors without loss of market but the other factors must be right to ensure competitiveness.
- (iii) one other relevant objective [other than profit] [4]**
- Candidates have a reasonable choice here so long as there is some context.
 - The choice can be made from, for example,
 - market penetration
 - satisfying customer demand
 - improving sales revenue
 - growth

Marks: 1-4 marks for each objective as follows:

1-2 for a basic/limited understanding of an objective

3-4 marks indicate good understanding, context, and relevance

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2 (a) The company has introduced quality circles. [4]

(i) Explain what a quality circle is [2]

- *Quality circle*: a group of staff which meets to consider and recommend solutions to problems with some aspect of the company's operation.
- The group comprises production and sales staff as well as managers.

(ii) Suggest one benefit of it to the employees. [2]

- *Benefit*: employees appreciate being able to participate in problem solving and using their knowledge and expertise – it makes them feel valued and helps motivation.

Marks: 1-2 marks for the definition and 1-2 for the benefit depending on content.

(b) The Board is thinking of inviting two non-executive directors to join them.

(i) Explain what is meant by a non-executive director [2]

- A non-executive director is not employed by 'Collections' and as such has no day-to-day involvement.
- The director can be invited to join the Board because of expertise or the representation of a stakeholder e.g. the company's bankers, shareholders, company pension fund.

(ii) Suggest one benefit to 'Collections' of appointing non-executive directors [2]

- Not being directly involved in the company, it can be argued that the non-executive director is more likely to be independent and offer unbiased advice.
- It is also thought that the director can act as a brake on dominant executive directors or at least encourage the Board to rethink its position.

Marks: 1-2 according to knowledge of directors and content.

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(c) The company structure is now flat and considered more efficient. Describe how the following features or factors improve the efficiency of 'Collections':

(i) co-ordination of resources [4]

- usual to delegate decision-making but in a hierarchy it can become difficult and create a diseconomy.
- the structure of 'Collections' attempts to reduce the time spent just on the process of communicating and coordinating.
- the flat structure of the company is based on having a few layers of hierarchy plus the team-working – all of which ensures good communication and better control of resources.

(ii) span of control [4]

- the span reflects the number of subordinates under the direction of one manager/supervisor.
- In 'Collections', the flat structure means a wide span of control and better communications.
- As each manager/supervisor has a large number of staff, it is essential to delegate effectively which entails involving staff in the business.

(iii) chain of command [4]

- This is the vertical line of authority within a business along which communications are passed.
- The flat structure has removed layers of hierarchy and thus made the chain of command more effective and positive.

Marks: 1-4 marks for each feature or factor as follows:

1-2 for the basic/weak knowledge and understanding of a feature

3-4 marks indicate good understanding, context, relevance.

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3 (a) The company relies extensively on computer technology. Suggest two ways, except on-line sales, how computers are likely to be used in ‘Collections’. [4]

- Two ways are called for. ‘Online sales’ is *excluded* since that is rather too obvious.
- The answers are general and can apply to any business reliant on computers.
- Examples can include transactions, financial records, payroll, personnel records, stock control, and communications.
- Each way needs some explanation – probably one/two sentences are sufficient.

Marks: 1 mark for each way identified but not expanded upon
2 marks for each suggestion described.

(b) People are employed by the company under different contracts. Describe what is meant by:

(i) permanent part-time staff [2]

- To be permanent, an employee must be employed on the basis of continuity and to form part of the regular core of ‘Collections’ staff.
- Not all permanent employees are full-time as some will be part-time i.e. will work for less than the usual working week.
- Part-time occurs because the job doesn’t demand a full-time member or the holder prefers it.

(ii) casual staff. [2]

- Not to be confused with part-time employees.
- Casual staff are taken on usually during peak periods of demand or when many staff are away through illness and holiday.
- They don’t enjoy any of the benefits of the permanent staff.

Marks: 1-2 depending upon content and knowledge of employment.

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(c) Discuss the following expectations that the employees might reasonably have of 'Collections':

- Note that the expectations are those that the *employees* have. If a candidate interprets the task from an employer's point of view, as sometimes happens, you cannot award any marks.
- (i) **financial and non-financial incentives** [4]
- An incentive is a reward or an inducement to encourage staff loyalty and/or better performance – it can be either an individual or a group scheme.
 - Examples of incentives may include e.g. bonuses, commission, pension scheme, productivity agreement, medical insurance, subsidised membership of a sports club, profit sharing.
 - Employees of 'Collections' would expect incentives in addition to pay as a recognition for effort.
- (ii) **suitable training and retraining opportunities** [4]
- Employees must be computer literate but will require in-house training and retraining in respect of their areas of work e.g. call-centre, accounts.
 - Some new employees may need re-training to bring them up to standard.
 - The training will develop the commitment and skills of the employees.
 - Employees will need training when new systems and/or equipment are installed.
- (iii) **channels of communication and negotiation** [4]
- Perhaps the recognition of a trade union/employees' association/some other staff representation/quality circles.
 - Some form of channel for feedback/complaints/negotiation/consultation is required for individuals/groups/whole work-force.
 - Encourages employees to be part of the team if they have access to management.

Marks: 1-4 marks for each expectation as follows:

1-2 for weak/partial understanding of an expectation.

3-4 marks for good interpretation and application, and context.

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4 (a) Every company is affected by external factors that influence its business activity. Explain how 'Collections' might be influenced by changes in:

(i) **consumer preferences** [4]

- Consumer preference is largely dictated by disposable income
- It is also dictated by advertising, self-image, price, quality, sales and delivery terms
- Exercise of choice
- 'Collections' must ensure that it has the right image, marketing mix, to encourage consumers to choose their products. Weakness in these areas would mean the preference being exercised in favour of competitors.

(ii) **disposable income** [4]

- It is the income left after the payment of taxation and health insurance.
- In realistic terms it is the net income after all expenses, including domestic and travel costs.
- It is the amount of money available to an individual which is not attached and can therefore be spent on luxury items e.g. a photographic storage system.
- An economy in recession, or high taxation and rising costs generally, would reduce the disposable income and possibly 'Collections' would trade at a loss.

(iii) **one other relevant factor** [4]

- Candidates have a reasonable choice here but they need to offer some context.
- Choices can be made from e.g.:
 - competition
 - business/fiscal legislation
 - exchange rates
 - interest rates
 - level of employment

Marks: 1-4 for each factor as follows:

1-2 for limited/weak interpretation of an external or PEST factor

3-4 for the demonstration of knowledge of factors, application and context.

(b) **The company is considering relocating its Swedish call centre. Suggest and describe two benefits to 'Collections' of a move to India.** [8]

- It is perhaps fairly widely recognised that many western companies have moved, or are thinking of moving, their call centres to India. Dell is a case in point.
- Candidates are required to identify two benefits.
- The main clue given in the scenario is *cost*. The candidate ought to pursue this issue referring to lower personnel, occupancy, training, and general operational costs.
- The other obvious point is the availability of suitably trained and skilled labour.
- Other points are, for example:
- Likelihood of preferential business taxes.
- Likelihood of investment allowances and grants.

Marks: 1-4 marks for each benefit as follows:

1-2 for a basic/poor selection and explanation of a benefit

3-4 marks for good explanation, understanding, context, and relevance.

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5 (a) Explain the following two marketing objectives of ‘Collections’:

(i) achieve and maintain a targeted market share [4]

- Market share can be measured by units sold or by value [turnover]
- Calculating/targeting market share indicates to ‘Collections’ where it stands in relation to the market as a whole.
- Targeting represents a deliberate ‘attack’ on the market in an effort to achieve a certain degree of penetration.

(ii) establish the image of the products and the company [4]

- Employing methods to boost the awareness of their ‘brand’
- Use of the marketing mix, especially promotion, to encourage customers’ attention and sales.
- Image should be seen as e.g. meaning quality, value for money, reliability.

Marks: 1-4 marks per objective as follows:

1-2 for a limited/weak understanding of an objective

3-4 marks represent good interpretation, understanding and context.

(b) Pricing concerns the Finance Director and determines the level of demand. Explain the meaning of:

(i) break-even point [2]

- The point at which total revenue equals total costs – the point at which ‘Collections’ would move into profit.
- The formula is: $\text{break-even} = \text{fixed costs} \div \text{contribution per unit}$

(ii) margin of safety [2]

- It represents the amount i.e. margin, by which demand can fall before it reaches the break-even point and threatens to incur loss.
- The formula is: $\text{demand} - \text{break-even} = \text{margin of safety}$

Marks: 1-2 depending on the quality of the response but

2 marks if the formula is given.

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(c) (i) Explain the importance to ‘Collections’ of a customer service policy. [4]

- Essentially it recognises the customer as ‘Collections’ main resource.
- Customer service deals with a client’s experience of dealing with ‘Collections’ and will include:
 - How the employees behave towards customers e.g. manners, speech
 - How well the employees are trained
- The policy should have as its aim the development of customer loyalty and further business.

Marks: 1-4 marks as follows:

- 1-2 marks for a weak understanding of customer service
- 3-4 marks for a clear explanation and interpretation.

(ii) List four likely features of the company’s customer service policy. [4]

- The key here is the word *list*. Candidates only have to select four appropriate features and list them – no explanation is necessary.
- The selection can be made from e.g.
- Offering refunds
- Offering replacements
- Handling complaints
- Customer friendly enquiry and sales facility
- Courtesy
- Advice

Marks: 1 mark for each appropriate feature offered.