

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

General Certificate of Education O Level

MARK SCHEME for the June 2005 question paper

7115 BUSINESS STUDIES

7115/02

Paper 2 (Case Study), maximum raw mark 100

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JUNE 2005

GCE O Level

MARK SCHEME

MAXIMUM MARK: 100

SYLLABUS/COMPONENT: 7115

BUSINESS STUDIES

Paper 2 (Case Study)

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- 1 (a) The owners of EKZ do not have limited liability. Explain what you understand by this.

Content: This is where the owners of the business can be held responsible for the debts of the business and lose their personal possessions.

Knowledge and Application
Understanding of limited liability shown and applied in the context of owners of the partnership. 1-3 marks

- (b) What are the advantages to the owners of EKZ of operating the business as a partnership? [7]

Content: Share profits amongst a small number of partners, additional capital from partners, more control over business decisions, privacy in accounts, fewer rules.

For example: The partners will have more privacy over the financial information of the business than if they were a private limited company where their accounts could be viewed by anyone.

	Application and Analysis	
Level 2	Two or more advantages explained in context.	4-7 marks
Level 1	One advantage explained or three advantages listed.	1-3 marks

- (c) Refer to Fig. 2. Identify two possible communication barriers with EKZ. [2]

Content: examples might include - too many people to pass on the message, receiver does not listen, unclear message, technical breakdown, wide span of control, chain of command is long.

Knowledge
1 mark for each example 1 x 2 examples

- (d) Discuss how EKZ could improve its internal communication. [8]

Content: Examples might include - sender ensures message contains appropriate language, sender ensures right person receives the message, feedback should be given, the appropriate channel should be selected, the shortest possible channel should be used, make sure the right channel is used, importance of the message should be emphasised, direct communication should be used where possible.

For example: By insisting on feedback this allows the sender to check that the right person received the message. However, the type of feedback will not always tell the sender that the message has been understood. So this is a good way to improve internal communication if there is a way of checking that the information has also been understood as well as just saying that it had been received.

	Knowledge	Analysis and Evaluation
Level 2	Two or more ways given. 2 marks	Good discussion of two or more ways to improve internal communication. Good judgement shown as to why this would lead to an improvement in communication. 4-6 marks
Level 1	One way is given.	Limited discussion of how to improve internal communication. Some judgement shown as to why it would lead to an improvement in communication.

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2 (a) Why do you think small food retailers buy from EKZ rather than import products themselves?

Content: They do not want to buy in large quantities; expensive to import small amounts; can get advice from wholesaler; do not have to search out supplier from overseas.

For example: Small food retailers would not have the time or experienced staff to know where to buy food from in other countries. They would not know where the best prices were and therefore may pay more to overseas suppliers. Also, buying small amounts of food would be more expensive to transport from abroad than large amounts and so buying from EKZ may still be cheaper than buying the food themselves.

	Application	Knowledge and Analysis
Level 2	Well applied to the case. 3 marks	Good discussion of advantages of buying from wholesaler and/or the disadvantages of importing. 4-5 marks
Level 1	Weakly applied to the case. 1-2 marks	Limited discussion of buying from a wholesaler and/or disadvantages of importing. 1-3 marks

(b) EKZ plan to open a new wholesale outlet. Discuss the factors that might affect this location decision. [12]

Content: Factors affecting location decisions such as nearness to - ports, small retail shops; transport and communication; availability of power; government influence (regulations or grants).

For example: The wholesaler needs to be near small food shops or transporting goods could be more expensive. Small shop owners may not travel far to buy their goods so if the wholesaler is not nearby then they would not make many sales. This factor is therefore very important when making a location decision.

	Knowledge	Application	Analysis and Evaluation
Level 2	Two or more location factors given. 2 marks	Well applied to the case. 2 marks	Good discussion of the location factors. Good judgement made as to the importance of the factors when influencing location. 5-8 marks
Level 1	One location factor given. 1 mark	Weakly applied to the case. 1 mark	Limited discussion. Limited judgement shown. 1-4 marks

3 (a) Identify two groups (stakeholders) that might find EKZ profit and loss account useful. [2]

Content: Examples might include - Government, partners, employees, bank, creditors, potential new partners.

Knowledge
One mark for each suitable example 1-2 examples

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(b) Explain why these two groups would find this information useful.

For example: Potential new partners will want to see if the business is profitable. They will need to see the likely return on their investment to help them decide whether or not to invest in the partnership.

	Analysis and Evaluation
Level 2	Good discussion of the two groups and why they would find it useful. 4-6 marks
Level 1	Limited discussion of two groups or good discussion of one group and why they would find it useful. 1-3 marks

(c) Using the information in the case study and Fig.3. Discuss the financial position of EKZ Partners, using at least two ratios. [12]

Content:	2004	2003
Gross profit ratio gone down	33%	50%
Net profit ratio decreased	4%	17%
ROCE fallen	5%	20%

Absolute changes = Sales same; cost of sales increased (33%); gross profit gone down; expenses gone down; net profit fallen.

For example: The business seems to be doing worse as the ratios are worsening. Net profit fell from 17% to 4%. This seems to be because the cost of sales has increased with the same value of sales so it would suggest raw material prices have increased. However, expenses have gone down but not enough to improve new profit.

	Knowledge and Application	Analysis and Evaluation
Level 2	Two or more different ratios correctly calculated. 3-4 marks	Good discussion of what the ratios show. Good judgement shown as to the performance of the business in terms of the ratios. 5-8 marks
Level 1	Limited attempt to calculate the ratios but some errors. The absolute figures are used to indicate the changes (e.g. cost of sales increased). 1-2 marks	Limited discussion of what the ratios show or general discussion of the figures themselves (e.g. cost of sales increased). Limited judgement shown in terms of the absolute figures. 1-4 marks

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- 4 (a) Assume you are the Marketing Manager of EKZ. What changes would you make to the marketing mix to increase sales? Justify your answer.

Content:

Product - possibly increasing the range of products sold/deliver to small food shops so that they will buy more frozen food.

Price - promotional pricing so that the small shops will buy more and it will help them to be more competitive with the supermarkets too.

Promotion - currently sending out leaflets. Advertise in grocery specialist magazines so that the target audience will see it. Promotional stands in the wholesalers to promote certain product and give advice.

Place - this would seem to be alright. They are already part of a channel of distribution. However, they could sell directly to some different customers.

	Knowledge	Application	Analysis and Evaluation
Level 2	Knowledge of all three to four elements of the marketing mix shown. 2 marks	Well applied to the marketing mix from the case. 3-4 marks	Clear and detailed discussion of the changes to be made to the marketing mix. Why the changes are necessary and how they would increase sales. 4-6 marks
Level 1	Knowledge of one to two elements of the marketing mix shown. 1 mark	Weakly applied to the marketing mix from the case. 1-2 marks	Limited discussion of the changes to be made and limited discussion of why these changes would be effective. 1-3 marks

- (b) Why might prices in the small food shops be higher than in supermarkets? [4]

Content: Overheads relative to turnover will be higher therefore, to cover these costs, the shop will need to charge higher prices. Costs of buying stock are higher as they cannot get bulk buying discounts, which a large supermarket can benefit from.

	Knowledge	Analysis
Level 2	Two reasons stated 2 marks	Two reasons explained 2 marks
Level 1	One reason stated 1 mark	One reason explained 1 mark

- (c) Outline two ways small food shops could compete with large supermarkets. [4]

Content: By giving customer service, advice, credit, delivery.

	Application	Analysis
Level 2	Two ways applied to the case. 2 marks	Clear discussion of the two ways they will make the small shops more competitive. 2 marks
Level 1	One way applied to the case. 1 mark	One way discussed. 1 mark

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- 5 (a) The exchange rate has changed between 2003 and 2004. Explain what might this have had on EKZ.

2004	2003
\$1:3Euros	\$1:2 Euros

For example: The currency appreciated which means import prices are cheaper and export prices will be more expensive abroad. EKZ will be able to buy their food from abroad at a cheaper price. They could then sell this food for a cheaper price to their customers making them more competitive or they could keep prices the same and increase their profit.

	Analysis and Evaluation
Level 2	Identified effect(s) of exchange rate change. Considered possible effects on the business. 4-6 marks
Level 1	Limited appreciation of the effect(s) of the exchange rate change. Limited consideration of the possible effects on the business. 1-3 marks

- (b) The government often controls business activity. Give two examples of how the government controls business activity. [2]

Content: Examples might include - Employment laws, Consumer protection laws, Location regulations (planning controls).

Knowledge
1 mark for each suitable example (1x 2 examples)

- (c) Discuss how EKZ might be affected by government controls on business activity. [12]

Content: possible reasons for government controls on business:

Protection of employees - working conditions, H and S, minimum wage.

Location decisions - influence where businesses choose to locate, planning controls.

To protect consumers - goods should be safe to use, goods should be accurately described in advertising.

For example: Government controls the sale of food to ensure consumers are protected from the sale of contaminated food which could cause illness. This means EKZ must check their food to ensure that it is kept at the correct temperature. This is so food does not go bad. EKZ will need to employ people to check the temperatures of the fridges and freezers and keep the equipment in good working order, which may be expensive.

	Application	Analysis and Evaluation
Level 2	Well applied to the case. 3-4 marks	Good discussion of government controls and what they are intended to do. Good judgement shown of the effects of government controls on EKZ. 5-8 marks
Level 1	Weak application to the case. 1-2 marks	Limited discussion of government controls and what they are intended to do. Limited judgement shown of the effects of government controls on EKZ. 1-4 marks