Cambridge Assessment International Education

Cambridge O Level

BUSINESS STUDIES **7115/21**

Paper 2 Case Study **October/November 2020**

MARK SCHEME

Maximum Mark: 80

Published

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 International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the October/November 2020 series for most Cambridge IGCSE™, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently, e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Question	Answer	Marks
1(a)	**Explain <u>two</u> reasons why having business objectives is important to Gemma.** Award 1 mark for each relevant reason (maximum of two): Relevant reasons might include: • A clear target/aim/purpose for owner to work towards – guides the business in the right direction - avoids loss of focus • Decision-making will be focused on the objectives – meaning better decisions are taken – the business would be more efficient • Clear objectives will help focus the employees and management on the same goal – helps motivate employees - making it more likely to be achieved • Allows measurement of success – can judge performance or progress • Comparison of performance - so business managers at each shop can compare how the shop has performed against their objective(s) - to see whether or not it has been successful Award a maximum of 3 additional marks for **each** explanation – **one of which must be applied to this context.** Indicative response: An objective is a target to work towards (1) and Gemma has set the objective of increasing sales (app). By setting this objective all the employees can try to find ways to increase sales (1), which should ensure all the employees and managers work towards a common goal making it more likely to be achieved. (1) Application could include: increase market share, increase sales by 10% each year, jewellery, rings and bracelets, she plans to open a second shop.	8

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>Consider the advantages and disadvantages of buying the Beautywise franchise. Do you think Gemma was right to buy the franchise? Justify your answer.
<table>
<tr><td>Level</td><td>Description</td><td>Marks</td></tr>
<tr><td>3</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of both the advantages and disadvantages of buying a franchise.

Well-justified conclusion.

Candidates discussing advantages and disadvantages in detail, in context and with well-justified conclusion, including why the alternative argument was rejected, should be rewarded with the top marks in the band.</td><td>9–12</td></tr>
<tr><td>2</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of at least one advantage or disadvantage.

Judgement with some justification/some evaluation of choice made.

Candidates discussing the advantages and disadvantages of buying a franchise in detail and applying it to the case should be rewarded with the top marks in the band.</td><td>5–8</td></tr>
<tr><td>1</td><td>Limited application of knowledge and understanding of relevant business concepts.

Limited ability to discuss the advantages and disadvantages with little/no explanation.

Simple judgement with limited justification/limited evaluation of choice made.

Candidates outlining advantages and disadvantages of buying a franchise in context should be rewarded with the top marks in the band.</td><td>1–4</td></tr>
<tr><td>0</td><td>No creditable response.</td><td>0</td></tr>
</table></td><td>12</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>Relevant points might include:
<table>
<tr><td></td><td>Advantages</td><td>Disadvantages</td></tr>
<tr><td>Buying a franchise</td><td>It is a known jewellery brand so the chances of business failure are reduced
The franchisor pays for advertising on national television and national newspapers lowering Gemma’s marketing budget
All jewellery supplied by franchisor so don’t need to find suppliers saving Gemma time
Training employees and Gemma will be provided by the franchisor saving costs
Banks more willing to lend as it is a lower risk of failure</td><td>High cost of $50 000 per year paid to franchisor
Payment each year of 20% of gross profit – less profit for Gemma
Less independence in decision making
Cannot sell other jewellery – restricts supplies in the shop</td></tr>
<tr><td>Conclusion</td><td colspan="2">Justification might include:
No, as Gemma cannot take her own decisions and she has done well so far with the original jewellery shop. She should choose to sell whatever jewellery she wants and keep all the gross profit for herself, even though the franchise may be more popular and overall sales may have been higher, as she may have more gross profit to keep.
Yes, as a relatively new business of 5 years buying a franchise will make it much easier to obtain finance from the bank to use for the expansion.</td></tr>
</table></td><td></td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)</td><td>Explain <u>four</u> requirements for the new manager that Gemma should include in the job specification below.

Job specification for the shop manager
Job title: Shop manager
Location: New shop
Details of job: Manage the shop and the employees

Award 1 mark for each relevant requirement (maximum of four):

Relevant requirements might include:
• Experience - of selling jewellery
• Qualification/product knowledge - in retail management/gems
• Skills - e.g. Leadership skills – make sure new employees are well motived/communication skills – ensuring excellent customer service/ financial skills – make decision about which items of inventory to buy
• Trained – to operate the shop and supervise new employees
• Physical fitness – need to be on their feet all day in the shop
• Personal characteristics – friendly and welcoming to customers buying rings/easily approachable by customers when entering the new shop/able to speak the same language as local people in the area where the new shop is located

Award a maximum of 1 additional mark for each explanation which must be applied to this context.

For example:

Experience (1) of working in a jewellery shop so that they will know what to do. (app)

Application could include: operating the shop, making decisions about which items of inventory to buy, ensuring excellent customer service, ensuring new employees are motivated.</td><td>8</td></tr>
</table>

Question	Answer	Marks
2(b)	**Consider the advantages and disadvantages of the three towns for the new shop shown in Appendix 3. Recommend which town Gemma should choose for the location of the new shop. Justify your answer.**	**12**

Level	Description	Marks
3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of **two** or more locations. Well-justified recommendation. Candidates discussing the three locations in detail, in context and with well-justified recommendation, including why the alternative locations were rejected, should be rewarded with the top marks in the band.	9–12
2	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of at least **one** location. Judgement with some justification/some evaluation of choice made. Candidates discussing two or more locations in detail and applying it to the case should be rewarded with the top marks in the band.	5–8
1	Limited application of knowledge and understanding of relevant business concepts. Limited ability to discuss the locations with little/no explanation. Simple judgement with limited justification/limited evaluation of choice made. Candidates outlining the three locations in context should be rewarded with the top marks in the band.	1–4
0	No creditable response.	0

Question	Answer	Marks
2(b)	Relevant points might include: **Town A** • Comparison of the figures – e.g. highest rent of the three towns/shortest lease of the three towns (L1) • Total costs are $130 000 (not including the franchise payments) (L1) • Payment of 20% of gross profit to the franchisor is $80 000 per year (L1) • The **franchise fee of $50 000** is a smaller proportion of the estimated gross profit than for town B and C (L2) • Gross profit is highest and minus expenses profit = $140 000 (L2) • Highest total expenses of $260 000 (L2) **Town B** • The wages and salaries are $10 000 lower than town A (L1) • Estimated gross profit is $100 000 more than town C (L1) • Total costs are $110 000 (not including the franchise payments) (L1) • Profit = $80 000 (L2) • Total expenses = $220 000 (L2) **Town C** • Heating and lighting is the cheapest of the three towns (L1) • Total costs are $83 000 (not including the franchise payments) (L1) • Longer lease contract of **15 years** increases risk to the business if the second shop is not successful (L2) • Profit = $27 000 (L2) • Lowest total expenses of $173 000 (L2) **Recommendation** Justification might include: • If Gemma wants the highest profit then Town A is the one to choose although she will only have the **lease for 5 years** and then may need to move. But she will make nearly twice as much profit as Town B and over 5 times as much as Town C. • Town B might be the better one to choose if Gemma wants to gain a longer lease and is willing to reduce the profit made to ensure the location for twice as long as Town A. She will gain more gross profit than Town C so that will make a greater contribution to paying the annual **franchise fee of $50 000**. • If Gemma wants to secure a shop for the longest time then Town C is the best. However, the **gross profit is the lowest at $200 000** but the expenses are also a lot lower than the other two options.	

Question	Answer	Marks
3(a)	**Explain why liquidity and profitability are important to a business.** Award 1 mark for each relevant reason or explanation of the reason for liquidity and profitability: Relevant reasons might include: Liquidity: • Allows a business to see if it is able to pay back the short-term debts of the business • Measured by current ratio/acid test ratio • If it cannot pay the debts, then it will not be able to buy more inventory or raw materials • If the business becomes illiquid it may be forced to sell business assets to pay debts and will cease trading Profitability: • It measures how well profit is being made from sales or capital invested in the business • Could be used to reinvest into the business/use retained profits for expansion • Measured by gross profit margin/profit margin/ROCE • It can be a measure of efficiency • Can compare business performance over time/compare against other businesses • It helps investors or bank to decide whether to invest in the business or lend it money • Retain shareholders/pay dividends/return on investment for the owners Award a maximum of 3 additional marks for **each** explanation. This is a generic question, therefore there are **no application marks available.** For example: Profitability is a measure of performance (1) and can be used to show the bank so that it may give the business a loan for expansion. (1) It shows how efficiently the business is converting investment into profit (1) as shown by the percentage of profit to revenue or profit to investment in the business. (1)	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>Consider the advantages and disadvantages of the following <u>three</u> sales promotion methods Gemma could use for the new shop. Recommend which method Gemma should choose to maximise revenue. Justify your answer.
• Buy one, get 50% off second purchase
• 10% off everything in the shop for one week after opening
• Pay a celebrity to open the shop

<table>
<tr><td>Level</td><td>Description</td><td>Marks</td></tr>
<tr><td>3</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of the two or more methods of sales promotion.

Well-justified recommendation.

Candidates discussing all three methods in detail, in context and with well-justified recommendation including why the alternative methods were rejected should be rewarded with the top marks in the band.</td><td>9–12</td></tr>
<tr><td>2</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of at least one method.

Judgement with some justification/some evaluation of choice made.

Candidates discussing two or more methods in detail and applying it to the case should be rewarded with the top marks in the band.</td><td>5–8</td></tr>
<tr><td>1</td><td>Limited application of knowledge and understanding of relevant business concepts.

Limited ability to discuss the methods with little/no explanation.

Simple judgement with limited justification/limited evaluation of choice made.

Candidates outlining all three methods in context should be rewarded with the top marks in the band.</td><td>1–4</td></tr>
<tr><td>0</td><td>No creditable response.</td><td>0</td></tr>
</table></td><td>12</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>Relevant points might include:
<table>
<tr><td>Buy one get 50% off second purchase</td><td>Encourages customers to buy more jewellery - more sales to gain the second item at 50% reduction
But this will reduce the gross profit on the second item of jewellery – lower profit overall
Customers may perceive this as lower quality jewellery</td></tr>
<tr><td>10% off everything in the shop for one week after opening</td><td>Encourages sales on all items of jewellery as reduction on all items
Less effect on gross profit than the 50% off (which will effectively be 25% reduction on each item)
However, slightly less gross profit on each item but this will also mean less gross profit paid to the franchisor</td></tr>
<tr><td>Pay a celebrity to open the shop</td><td>Many people may visit the shop to meet the celebrity – increasing sales while people are in the shop
Gains full gross profit on each item as opposed to the two alternative options
If customers like the jewellery then may visit the shop again later and sales may continue to increase
Increased cost of paying the celebrity to visit the shop which can be very expensive
Improved the image of the shop – as the shop may be associated with the celebrity and the luxury nature of GJs jewellery</td></tr>
</table></td><td></td></tr>
</table>

<table>
<tr><th>Question</th><th colspan="2">Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>Recommendation</td><td>Justification might include:
Revenue is likely to increase in all three options. However, buy one get 50% off second purchase of jewellery will attract customers to the make more than one purchase leading to the highest increase in revenue. The second option may only gain a small increase in revenue because a 10% reduction in price is a small discount and may not encourage much more than a 10% increase in sales. Although the celebrity may attract customers to the shop it is a one day promotion and will only increase sales and revenue for one day.
A price reduction of 10% may be the most effective in maximising revenue by encouraging increased sales of all items of jewellery. The loss in revenue from the price reduction of 10% could then be more than compensated for assuming a higher than 10% increase in the number of jewellery sales.
Paying a celebrity may increase revenue the most because many people will be made aware of the shop and be attracted to its opening. Many of these people may then make purchases of jewellery when at the new shop which would not otherwise have been made, therefore increasing revenue by the highest amount.</td><td></td></tr>
</table>

Question	Answer	Marks
4(a)	**Explain the effect of the following changes on GJ.** • **Depreciation in the exchange rate of country Z** • **Increase in income tax in country Z** Award 1 mark for each relevant effect (maximum of two): Relevant effects might include: Depreciation in the exchange rate of country Z: • This means the value of the currency falls - higher cost of imported goods/higher cost of supplies of imported jewellery – possibly decreased profit • GJ may need to increase prices which may discourage sales • If GJ export jewellery using their app – export prices are lower after depreciation so easier to sell abroad – more overseas customers Increase in income tax in country Z: • This decreases consumer disposable income and decreases demand for luxuries which may decrease revenue for GJ • Employees may ask for a wage increase due to lower disposable income Award a maximum of 3 additional marks for **each** explanation – **one of which must be applied to this context.** For example: Depreciation in the exchange rate will result in import prices rising. (1) This will increase the cost of jewellery to GJ (app) which will lead to either higher prices and lower sales (1) or lower gross profit being made if she keeps prices the same. (1) Application could include: Gemma has developed a website, customers can download an app to order jewellery. Note: Gemma sells expensive items of jewellery, rings and bracelets may be considered to be luxury goods.	8

Question	Answer	Marks
4(b)	**Consider how the following <u>three</u> changes might affect GJ. Which change is likely to have the most effect on GJ's profit? Justify your answer.** • **All jewellery packaging must state in which country the product has been made** • **Country Z has entered a boom phase of the business cycle** • **A higher percentage of people in country Z use mobile (cell) phones**	**12**

Level	Description	Marks
3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of **two** or more changes. Well-justified conclusion. Candidates discussing all three changes in detail, in context and with well-justified conclusion, including why the alternative changes were rejected, should be rewarded with the top marks in the band.	9–12
2	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of at least **one** change. Judgement with some justification/some evaluation of choice made. Candidates discussing two or more changes in detail and applying it to the case should be rewarded with the top marks in the band.	5–8
1	Limited application of knowledge and understanding of relevant business concepts. Limited ability to discuss the changes with little/no explanation. Simple judgement with limited justification/limited evaluation of choice made. Candidates outlining all three changes in context should be rewarded with the top marks in the band.	1–4
0	No creditable response.	0

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>Relevant reasons might include:
<table>
<tr><td>All jewellery packaging must state in which country the product has been made</td><td>May improve reputation as GJ jewellery supplied by the Beautywise franchise is ethically sourced when it is imported
Customers may not bother about which countries jewellery has come from and only be concerned with style and price</td></tr>
<tr><td>Country Z has entered a boom phase of the business cycle</td><td>Increased consumer incomes may lead to higher sales of jewellery as it is a luxury good
GJ may take the opportunity to raise prices
May buy jewellery from GJ as it is higher quality jewellery and now consumers can afford to buy from GJ therefore increasing sales
However, there may be other products consumers want to purchase first – jewellery may be bought at certain times such as weddings or birthdays and this may not be affected by higher incomes</td></tr>
<tr><td>A higher percentage of people in country Z use mobile (cell) phones</td><td>More people will find it easier to check GJ website to see what jewellery it has for sale – easier to compare with competitors – may increase or decrease sales depending on how GJ compares with competitors
GJ may start to advertise using social media
May be able to expand sales to other countries
Overseas sales may result in added delivery costs
May have little effect on GJ if consumers still prefer to go into the shop to see and try on jewellery before buying</td></tr>
</table></td><td></td></tr>
</table>

Question	Answer		Marks
4(b)	Conclusion	Justification might include: • The changes to packaging may have the most effect if consumers are concerned about ethical issues and even if they have a higher income from the boom, they will not purchase jewellery from shops that do not sell **ethically sourced inventory** so GJ should have increased profit. • Economic boom is likely to have the biggest effect on profit as consumers will have higher incomes and be more likely to spend some of this on expensive jewellery rather than cheaper jewellery and therefore GJ will have higher revenue and higher profit even **after payments to the franchisor**. If only some consumers are concerned about ethical issues this change will have less effect on sales and profit. • More mobile (cell) phones will allow GJ to increase the target customers for sales from beyond where the shop is located as they have their **own mobile phone app**. The potential increase in the number of customers and therefore sales may be greater than the increase in disposable income of local residents near to the shops. Therefore, this may provide the greater increase in revenue and possibly profit as costs of selling on the internet are also lower.	