

BUSINESS STUDIES

Paper 7115/11
Short Answer/Structured Response

Key messages

This was the second November paper for the new style examination paper. Application within answers was an improved area of candidate responses, but a number of candidates still struggle to demonstrate this skill in their responses. Within **part (c)** of each question, a large proportion of candidates did not apply their answers to the business organisation referred to in the question. This is an area which must be addressed by centres when preparing candidates for this examination

Candidates must apply their knowledge to the business identified in the stem of the question if they are to do well in **parts (c), (d) and (e)** of each question. The allocation of marks for each skill tested by the questions is shown within the mark scheme for the examination paper.

The lack of effective evaluation continues to be a problem within many scripts. Candidates would benefit from greater guidance in how to produce an evaluative answer to **part (e)** questions. Candidates should be reminded that an evaluation must be a justified decision that follows from the points raised in the answer.

General comments

Candidates were generally aware of the knowledge required for the examination. There was some evidence that candidates did not fully understand some aspects of the syllabus. This was clearly shown in **Questions 1(a), 1(b) and 2(e)**. Centres would do well to spend time ensuring that candidates are fully confident in their ability to define key terms precisely and apply calculations.

Candidates should be encouraged to:

- Learn precise definitions for key terms.
- Use calculations where appropriate.
- Refer directly to the information within the stem of the question throughout their answers to ensure that points raised are appropriate for that organisation.
- Ensure that within **parts (c) and (d)** of each question a different point of application is used for each separate point.
- In **parts (d) and (e)** of each question it is important to explain the effects of points raised on the business described in the stem of the question.

Comments on specific questions

Question 1

- (a) Candidates were not secure in their knowledge of this term. Many candidates gained one mark for an understanding that this refers to trade around the world. Only the best responses gave a clear and precise definition of this process.
- (b) Generally well answered by candidates, with the most common answers being the problem of increased competition from imported goods. A number of candidates discussed the problems of trading abroad, such as trade restrictions. This was not the focus of the question and such answers could not be rewarded.
- (c) Candidates were generally very aware of the different methods that can be used to advertise job vacancies. In order to be credited with knowledge marks, the methods chosen had to be suitable for advertising this particular vacancy. The strongest answers identified a suitable method (such as those listed in the mark scheme) and then explained why the method was suitable in this situation, making good use of the case study to support their reasoning.
- (d) This question differentiated well between candidates of different abilities. The best answers identified a benefit, e.g. increasing the loyalty of workers, and then explained how this could be of benefit to the shoe manufacturer by improving productivity. Many candidates struggled to identify why full-time employees were beneficial to a company. Such candidates often simply stated that the employee would work harder with no explanation as to why they would do so. These answers gained no reward.
- (e) This question differentiated well between candidates. The most able recognised that this business wanted to increase output to meet rising demand but was renowned for the high quality associated with hand made products. Such candidates then analysed the merits of introducing new technology before making a justified decision on the best approach for C&C. Weaker candidates gained only the one knowledge mark available by producing a list of general statements about the advantages and disadvantages of technology with no application to the case study material. Evaluation points were frequently not awarded, as conclusions were not justified.

Question 2

- (a) There was some evidence that a number of candidates were not familiar with this ratio. The strongest answers provided both a definition and the relevant equation. Whilst this was not required it did help the examiner to see that the candidate fully understood the concept. A small but significant number of candidates incorrectly defined ROCE as dividends provided to shareholders.
- (b) The majority of candidates were aware of this term but were not clear that it specifies a *sustained* fall in GDP or output. Such candidates were awarded one mark for an imprecise definition.
- (c) The best answers recognised that as a large company, Dowson could benefit from economies of scale and dominate the market. Such answers often focussed upon explaining how two stated economies of scale could be applied to this business. Information from the introductory stem was used effectively to support each point. A number of candidates confused size with brand and stated that they would achieve higher sales without reference to why this would occur in a large business. These answers could not be rewarded.
- (d) This question was generally well answered. Candidates showed a good understanding of the problems that high debt causes for a business. Only the most able candidates made use of the figures in Table 1 to support their answers. A number of candidates lost marks by not applying this information to the problems specific to Dowson.

- (e) The question allowed candidates the opportunity to show their understanding of liquidity ratios and to demonstrate analysis by using calculations. The strongest candidates correctly identified the change for both the current and acid test ratios and then explained whether such changes were beneficial for the business. Those candidates who considered the positive and negative aspects of the changes in liquidity often produced fully justified evaluations. Evaluation in the majority of responses was weak, being a repeat of the points stated earlier in the answer. A small but significant number of candidates focussed their answers around the changes in revenue and sales, illustrating a lack of understanding of the concept of liquidity.

Question 3

- (a) This concept was well understood by candidates. A large number of candidates focused upon an increase in economic growth and a reduction in unemployment.
- (b) Generally well answered. A common error made was identifying two aspects of the marketing section of the plan, which was specifically discounted in the question.
- (c) Although most candidates were able to identify a range of different pricing methods, only the most able were able to explain why these would be suitable for this newly established sweet manufacturer. Application marks were frequently not awarded in this part of the question. A common error made by candidates was to describe promotional rather than pricing methods.
- (d) This question was well answered by many candidates. Most candidates recognised that packaging provides a number of benefits to a food manufacturer such as YOGO. Such candidates were able to use the information in the question stem to explain why packaging would be helpful to this business. Weaker responses struggled to identify more than one piece of application and therefore repeated their analysis in both the first and second answer space.
- (e) Candidates clearly understood the benefits of primary market research, often providing detailed descriptive rather than analytical answers. The better answers recognised the need to include some element of application and used information from the stem of the question to support their answers. Weaker responses were simply lists of the advantages and disadvantages of such research with no application to this particular business or explanation as to why these were advantages or disadvantages. Very few candidates were able to explain why this business would or would not benefit from this method of research and therefore evaluation marks were rarely awarded.

Question 4

- (a) The functions of management were well understood by most candidates. A significant minority gave very general functions that could apply to any job role, such as communication. Such answers could not be rewarded.
- (b) Generally very well answered. A minority of candidates were confused by the calculation required; with some calculating only total cost whilst the weakest added output to all other costs.
- (c) Candidates had a strong understanding of this topic area but frequently the methods suggested were not appropriate for the international business to business context. To gain the knowledge marks available, candidates were required to choose appropriate methods. A number of candidates suggested, for example, billboards or leaflets; clearly not suitable for a business with only six large overseas business customers, so they could not be credited with any marks.
- (d) Candidates were confident in their ability to answer this question. A large number of candidates gained the majority of the marks available by providing detailed analysis of relevant reasons in the context of this manufacturer and their competitive market situation. The weakest answers struggled to identify relevant points of application and repeated the same information in both reasons.
- (e) This was a question that differentiated well between candidates. Many candidates were clearly comfortable with the benefits and costs of higher pricing and were able to explain at least one benefit and cost of this policy. The most successful candidates selected information from the context, such as DCP being in a competitive market, and used these points to justify their decision.

BUSINESS STUDIES

<p>Paper 7115/12 Short Answer/Structured Response</p>

Key messages

- It is important to remind candidates that they must read the case study at the start of each question carefully in order to identify both the type of business and people they are writing their response about. This will ensure responses are appropriate for each given situation. Instructions contained in the stem of each question should be followed carefully when answering the questions set.
- **Parts (a) and (b)** of each question required the recall of knowledge or application of knowledge linked to a given context. These parts were generally done well. More precision is needed when using business terminology.
- **Parts (c) and (d)** require candidates to identify and explain points. To gain full marks each point must be clearly developed and linked to the relevant context.
- **Part (e)** requires candidates to include more developed explanations and a make a logical decision based on the points made. Candidates should be encouraged to develop, rather than simply list a number of points, and when possible, include a two-sided argument.

General comments

There was evidence that candidates did not understand certain parts of the syllabus; some struggled with concepts such as marketing strategy and the distinction between part-time and full-time employees.

The application and analysis marks were often not awarded. At times the answer given did not include an explanation of a point identified but simply identified another factor or made repetition of the initial point. Some candidates did not read the questions carefully and hence had the wrong focus, meaning they did not address the specific question asked. Candidates must try to use the stimulus information provided (the case studies at the start of each question) to link their answer to the business in question. Candidates should avoid using the same application and analysis point more than once in any given answer.

Part (e) of all questions continues to be the most challenging for all candidates. Only the best candidates were able to suggest and justify decisions successfully. Other candidates often provided a simple list of knowledge points. Of those who did attempt an evaluative statement, many were unable to provide reasoned statements to back up their choice.

Comments on specific questions

Question 1

- (a) Opportunity cost was well understood by most candidates who were also able to provide a precise definition.
- (b) Most candidates could identify at least one external benefit, with jobs created being a typical answer. A common error was to identify private benefits.
- (c) Many candidates could identify at least one advantage. The best responses were able to explain how access to cheap labour or a wider market might help this business. Weaker answers ignored the context of the question so their explanation focused on general points that could apply to any business.
- (d) Most candidates identified relevant stakeholder groups. Better candidates were then able to explain how the business might act in an ethical way towards each group. The best responses made good

use of the source material to support the points being made. Weaker answers were characterised by two common errors. A number of candidates incorrectly assumed that being ethical and legal are the same. Therefore instead of development they simply described how the business could comply with various laws. A number of candidates had the wrong focus as they identified the impact on stakeholders or how the stakeholder group could assist the business.

- (e) Candidates generally understood what the main sources of capital are and were able to identify appropriate examples. The best answers considered points both for and against different sources based on APQ's situation and then attempted to make an appropriate decision based on their argument. Instead of development, weaker answers featured simple statements, such as 'easier' or 'less expensive' without explaining how or why this might be the case. While a number of candidates made a final recommendation, only the strongest answers offered any justification for the choice made.

Question 2

- (a) This term was not well understood by a number of candidates and many provided an imprecise definition. Some were aware that a marketing strategy was either a plan based on combining elements of the marketing mix or it was used to help achieve marketing objectives. Only the best responses were able to show clear understanding of the term.
- (b) Most candidates understood penetration pricing involved setting a low price for a product. Better candidates were able to give a precise definition. A common mistake was to confuse the term with either competitive pricing or price skimming.
- (c) Most candidates were able to correctly identify two possible advantages. Many answers ignored the context of the question so their explanation focused on general points that could relate to any business rather than specifically to this retailer.
- (d) This question produced a range of responses. Many candidates were able to correctly identify either an advantage or disadvantage, with purchasing economies of scale and the need for more storage space being typical issues. Better candidates did attempt to explain why these factors needed to be considered. Only the best responses linked the point to the scenario. There were two common errors. Some candidates identified general factors such as transport or quality that could also be issues if the business used a wholesaler. A number of candidates had the wrong focus and discussed points from the viewpoint of the manufacturer rather than the retailer. Neither approach could be credited, as this did not answer the question set.
- (e) Many candidates found this question challenging. Stronger answers understood that competition and different tastes could be important factors and then went onto explain why such issues needed to be considered. The best answers linked their answer to the scenario and attempted to make an appropriate conclusion based on the points made. Weaker responses tended to list points. It should be noted that only one mark is available for in **part (e)** for knowledge. Lists of unapplied or undeveloped points can therefore gain very little credit. A number of candidates had the wrong focus, so discussed reasons why a business might want to expand or what was the best way to expand. None of these approaches could be credited.

Question 3

- (a) Many candidates understood that job production involved the making a single product. Better responses were able to provide a precise definition. A common mistake was to outline generic features that could describe any method of production.
- (b) Most candidates knew quality control involved checking products. A common mistake was to confuse the term with quality assurance or explain why quality was important.

- (c) Most candidates could identify at least one relevant barrier. Many candidates were then able to explain how points such as no access to the internet and use of technical language might create problems for this manufacturer. Weaker answers ignored the context of the question so their explanation focused on general points that could relate to any business. Another common error was to identify outcomes including does not understand without identifying how this problem was caused.
- (d) Most candidates could identify at least one relevant way. Some candidates developed points raised to show why having a 'clearer understanding' might be helpful. A few of these candidates were also able to take information from the stem to link their answer to the scenario. There were two common errors. Instead of development, weaker candidates simply stated that it would improve efficiency rather than offer any explanation as to how this could be achieved. A number of candidates misinterpreted the question and discussed how communication could be improved and so could not be credited.
- (e) This question required candidates to make a justified evaluation based on some analysis of the cash flow forecast. Some candidates were able to offer simple statements such as net cash flow had increased in certain month. Weaker responses simply described what had happened to the data but were not able to develop the points to show how such points might affect TKF's liquidity position. Better answers also manipulated the data to support the points made. Many candidates did not attempt evaluation. A number of candidates incorrectly assumed that a cash flow forecast records profit and loss.

Question 4

- (a) Many candidates identified at least one measure, with number of employees being the most popular example. A common misconception was to assume that profit could be used to measure the size of a business.
- (b) Many candidates were able to correctly calculate the percentage required.
- (c) Most candidates could identify relevant advantages. Only the strongest candidates were able to show why having 'limited liability' or 'increased access to capital' might benefit this hotel business. A common error was to identify features of private sector businesses in general rather than those associated with private limited companies
- (d) The majority of candidates could identify two relevant location factors and were then able to show how or why they were important to a business. The best responses were able to link their answer to the scenario. There were two common errors. Instead of development, some candidates stated it was a factor without explaining how or why this was the case. Others identified factors that were not appropriate for a tertiary sector business.
- (e) To score highly on this question the candidates needed to discuss the relative merits of part-time and full-time employees. Some candidates were able to identify points, such as the flexibility of part-timers compared to the consistency of service offered by full-time employees. The best answers were linked to the scenario. Some recognised that having a combination of both could be beneficial, especially as a hotel is operational for 24 hours a day so it would be quiet at some times and extremely busy at others. A number of answers were based on incorrect assumptions about pay, motivation and tiredness; for example, full-time employees must be more skilled while part time workers are only temporary and can be easily dismissed. Others ignored the context and based their answers on a factory setting.

BUSINESS STUDIES

Paper 7115/21
Case Study

Key messages

The revised syllabus is now in its second year of examination and centres should be feeling more confident about entering candidates. A number of changes were made to the content of the course and also to the weighting of the assessment objectives. Centres should ensure they give their full attention to the details of every aspect of the syllabus so that candidates are fully prepared for questions on all of the topics that are covered.

On the examination paper, there are four questions, each of which is separated into two distinct parts. The first part of the question requires shorter, more straightforward answers reflecting good **knowledge** of business terms and concepts, whilst the second part of the question requires more developed answers containing **analysis** and **evaluation**. It remains the case that candidates are expected to **apply** their business knowledge and understanding **throughout** this paper to an unseen case study or business scenario.

- To do well in this paper, candidates must make clear reference to the case study (i.e. *apply* their business knowledge) which is issued at the start of the examination. Specific marks are allocated throughout the mark scheme in both parts (a) and (b) for application. In this particular case study, candidates were expected to refer to a paint manufacturing business called P & P. This would include mention of, for example, tins of paint, the factory where different colours and types of paint are made and professional painters who might buy the paint.
- Analytical skills are also tested through examination of the case study. Candidates should try to give a full explanation of the positive and negative consequences of a business decision. This requires developed reasoning rather than simple description. A simple list of points generally only gains a level 1 mark whereas an explanation of a point could move the answer up to level 2.
- Several questions on this style of paper ask candidates to make justified recommendations. It is important to offer a decision based on balanced argument without full repetition of the previous analysis. The recommendation should compare and make reference as to why the other alternative options were rejected as well as justifying the option which was chosen.

General comments

Candidates were generally well prepared for this examination. The strong performance of many candidates reflected this detailed focus and is to be commended. However, the weaker performance of some others indicated that there may be a need to reflect and focus on the newer topics on the syllabus. The context of P & P Paint operating a successful manufacturing business in country X for fifteen years provided an accessible scenario for most candidates. Time did not appear to be a problem; only a small minority of candidates did not complete their answers in the time allowed.

The structure of the paper allowed candidates to demonstrate their knowledge of business concepts in **part (a)** of each question. They were then expected to offer analysis and reasoning when answering **part (b)** of each question. This style of questioning has become standard practice on this particular paper and it is good to see that many candidates are developing a strong examination technique and clearly understand what is expected of them.

The layout of the examination paper provides side headings to prompt candidates in their responses. This works well. As long as candidates take careful note of how many marks are awarded for each question, they should be quite clear about the extent of developed detail that is required for each answer.

Many candidates demonstrated a good breadth and depth of knowledge and understanding. In a handful of cases, candidates were not prepared for the full range of topics examined. Care must be taken to ensure candidates are familiar with the content of the whole syllabus. Candidates could earn basic marks by defining business terms and using them confidently. Those who answered in the context of P & P Paints boosted their marks much further.

The standard of written English was, in most cases, very good. The majority of candidates made themselves understood and are to be congratulated on the high quality of spelling, punctuation and grammar offered in their responses. There is no penalty for the wrong spelling of words or using incorrect punctuation.

The points below might be helpful in enabling candidates to achieve higher marks by using their knowledge in a more effective way.

- Channels of distribution are in the syllabus (Section 3.3.3.) and candidates should prepare for a question on this topic.

For example, P & P has developed a new type of paint. Consider the following three factors that will affect the channel of distribution the company will use. Which factor will be the most important when deciding the best channel of distribution? Justify your answer.

The initial instruction is to consider three factors that will affect the distribution channel – where customers are located, how often the product is purchased and where competitors sell their products. Candidates would earn application marks for being able to successfully identify these in the context of P & P Paints. It is worthwhile for candidates to pause and think carefully about the information which is presented in the insert material. This gives some clear hints for ideas to use in making an appropriate response.

There are three levels of response to this answer where candidates are expected to explain and justify the significance of each of the three influencing factors. It is important to recognise that the insert indicates that this is a manufacturing business with one large factory. It sells paint to large shops throughout country X. The new paint is intended to be sold to professional painters and home improvers. Answers which simply offer generic statements about selling to the public are missing the point that P & P Paint is not a retail business. Good answers show an understanding of the links between secondary and tertiary stages of production. This includes making reference to a strong distribution network delivering paint from the factory to shops across the country.

In the case of *where customers are located*, the distribution channel might be influenced by identifying the towns and cities where most houses need painting. Then there would need to be a decision made about the most cost effective method of delivering the paint to the shops in those towns, where professional painters would buy their supplies of paint. Such reasoning earns level 2 credit. Using the information in the insert, a strong answer would also contain analysis of the usefulness of selling agents if the new paint is going to be sold overseas.

In the case of *how often the paint is purchased*, the distribution channel might be influenced by the presence of wholesalers in some areas who could break bulk for P & P, especially if painters want to buy small quantities of a variety of colours. This might also mean wholesalers offering advice to painters and home improvers about the paint products, particularly the new waterproof paint. This might raise awareness of the new paint and boost sales. On the other hand, frequent customers placing large orders might warrant a direct delivery from factory to painter.

In the case of *where competitors sell their products*, the distribution channel might be influenced by the need to offer direct competition to other paint companies by selling the new paint in the same retail outlets. On the other hand, if P & P could find some new and different wholesalers or retailers of paint this might open up wider selling opportunities.

In the final part of the answer, candidates are expected to evaluate the three factors influencing the channels of distribution and to judge which is the most important. This tests a candidate's ability to

synthesise and requires a clear justification as to why one factor might have more influence than the others. P & P would need to consider which influencing factor would have the best chance of successful distribution to secure a strong product launch with high levels of initial sales. For example, if there were many new houses being built in one particular town of country X, it may be important to consider where customers are located above all else. This would mean P & P could sell large quantities to wholesalers and retailers in that town so that painters could buy P & P products to use in their work. The opportunity to sell paint in other countries in the near future would also make the influence of where customers are located the most important consideration. This kind of reasoned justification earns level 3 marks for candidates.

- In **part (a)** of each question there is a line for making a point and then a space below to explain or develop the reasoning. Candidates should think carefully about the context of the business in the case study before making their point and should ensure they do not repeat themselves in the explanation section.

For example, **P & P has decided to use batch production to produce the new paint. Identify and explain two factors which may have influenced this decision.**

Marks will be given for demonstrating application of two relevant points which P & P would consider in choosing batch production in their paint factory. If the explanation repeats the point in a few more words then no extra marks will be awarded. One important consideration might be that P & P make different types of paint. A weak explanation might follow with a comment that they will be able to make different paints using batch production. Instead, the explanation that follows should make clear that P & P must realise they need to have flexibility regarding production of colours and types of paint. They would be able to make one batch of a particular colour of paint followed by a batch of a different colour using the same machines. This would make best use of their productive capacity.

Another consideration would be the size of the orders and level of demand. Batch production would allow P & P to make larger batches of the most popular colours of paint and so be able to maximise their sales. Demand will not be high for all types of paint so sometimes smaller batches will be made to avoid producing excess stock. Batch production allows P & P to switch between making types of paint as well as colours of paint quite quickly depending on the level of orders from their customers.

Comments on specific questions

Question 1

- (a) The majority of candidates made a good start by correctly identifying four methods of motivating production workers. Answers often made mention of increasing wages, improving working conditions and changing the leadership style. It was important to relate to the context of P & P by explaining how the motivation method would make a positive difference to worker performance. For example, suggesting that a more democratic style of leadership is used at P & P would make the production workers feel more involved and they would be more likely to take pride in their work. Reference could also have been made to the possibility of changing the method of pay to piece rate so that workers would be more likely to produce paint at a faster rate so that they would earn higher wages.
- (b) It was evident that some candidates encountered difficulties with this question which required them to consider the factors affecting the channel of distribution. The best level 2 responses were the ones offering a developed analysis of each factor. Some good answers explained the importance of choosing the most cost effective method of delivery to those paint shops a long distance from the factory. Other strong answers reasoned that the use of a wholesaler would be ideal for those customers who might buy paint less frequently. Weaker candidates overlooked the fact that P & P are a manufacturing business not a retailer, yet the insert quite clearly indicates that the customers are large shops in country X. Those candidates who gained level 3 credit were able to make a clear judgement about the most important factor affecting the channel of distribution, focusing on the significance of this element of the marketing mix. Some candidates mistakenly considered this to be a question about location and consequently missed out on vital marks.

Question 2

- (a) This question tested candidates' ability to identify and explain two reasons why P & P might respond to the pressure group and change what the company is doing. Strong answers offered developed explanations about wanting to keep a good reputation for being environmentally friendly. Often there was detailed information about the positive impact of reducing harmful waste and cleaning up the local river. The highest credit for this response was given to candidates who successfully focused on why rather than how P & P would respond to the pressure group. There would be a clear competitive advantage for P & P if they could lead the way in reducing environmental damage whilst other paint manufacturers might not show such consideration.
- (b) In this question, candidates were asked to consider the external costs and external benefits of the production of paint by P & P. A clear, justified recommendation as to whether or not the Government should take any action was required in the conclusion. Good responses discussed the impact on third parties of the operation of paint production at the factory. However, there were weaker responses where candidates confused private costs and external costs. They merely copied the information from Appendix 3, stating that \$5000 was the cost of cleaning the waste. This earned no credit. Some recommendations for the Government not to take action mentioned weighing up the balance of social costs and social benefits and identified many social benefits from the creation of extra jobs and consequently extra tax revenue. This could finance improvements to health care, education and the local infrastructure.

Question 3

- (a) This was a challenging question for many candidates and showed some weak knowledge of methods of production. Some candidates simply stated that batch production was quicker, cheaper and less boring for workers. More developed explanation is needed to earn credit. Positive marking was applied to students who drew comparisons of the benefits of batch production with job or flow production. It was far more likely that candidates accessed higher marks if they related to the context of paint production and the appropriateness of batch production for producing different types and colours of paint.
- (b) The answer to this question tested candidates' numeracy skills. There was a clear instruction to use the cost data in Appendix 2. The strongest answers showed the comparative cost per tin of paint for Option A and Option B. By presenting relevant calculations candidates could then make a justified judgement about which option to use with comparison of numerical evidence to back up their decision. This style of answer would be rewarded with level 3 marks. It was possible to score level 2 marks by calculating the interest paid for both options and to then work out the total cost of each in the first year. The weakest responses merely copied the data and earned no credit.

Question 4

- (a) Many candidates found it difficult to demonstrate knowledge and understanding of added value. It was important to focus on the reasons why added value is important to P & P. Stronger answers explained about the need to cover costs of manufacturing the paint. The expenses of wages, raw materials and factory running costs would need to be paid to ensure survival but added value would also allow profit to be made. Other answers mentioned that adding value to the paint would make it possible for P & P to increase their prices too. Generic answers offering simple statements about added value did not show sufficient application to the context of P & P.
- (b) This question was quite well answered and was concerned with making changes to the organisational structure of P & P. Simple statements showing basic knowledge of take overs, formation of a public limited company and joint ventures scored level 1 credit but many answers gained level 2 marks by offering more detailed explanation of the benefits and drawbacks of each potential organisational change. For example, with regard to the takeover of a retail business in another country, there would be an advantage gained by forward vertical integration of gaining an already established channel of distribution but a possible drawback of internal communication difficulties and a difference of opinion between the management of the two parts of the business. The opportunity of forming a joint venture was often recommended as the best option. Some answers gained level 3 credit by not only justifying the reduced risk of entering a new market in this way, but also linking their choice of forming a joint venture to the financial benefit of a faster route to increasing profit for the lowest cost of expansion.

BUSINESS STUDIES

Paper 7115/22
Case Study

Key messages

The revised syllabus is now in its second year of examination and centres should be feeling more confident about entering candidates. A number of changes were made to the content of the course and also to the weighting of the assessment objectives. Centres should ensure they give their full attention to the details of every aspect of the syllabus so that candidates are fully prepared for questions on all of the topics that are covered.

On the examination paper, there are four questions, each of which is separated into two distinct parts. The first part of the question requires shorter, more straightforward answers reflecting good **knowledge** of business terms and concepts, whilst the second part of the question requires more developed answers containing **analysis** and **evaluation**. It remains the case that candidates are expected to **apply** their business knowledge and understanding **throughout** this paper to an unseen case study or business scenario.

- To do well in this paper, candidates must make clear reference to the case study (i.e. *apply* their business knowledge) which is issued at the start of the examination. Specific marks are allocated throughout the mark scheme in both parts (a) and (b) for application. In this particular case study, candidates were expected to refer to a business providing cleaning and gardening services called GJ Partnership. This would include mention of, for example, cleaning houses for customers, gardening services for customers, employing 50 part-time workers, wanting to expand by offering a new service caring for the elderly.
- Analytical skills are also tested through examination of the case study. Candidates should try to give a full explanation of the positive and negative consequences of a business decision. This requires developed reasoning rather than simple description. A simple list of points generally only gains a level 1 mark whereas an explanation of a point could move the answer up to level 2.
- Several questions on this style of paper ask candidates to make justified recommendations. It is important to offer a decision based on balanced argument without full repetition of the previous analysis. The recommendation should compare and make reference as to why the other alternative options were rejected as well as justifying the option which was chosen.

General comments

Candidates were generally well prepared for this examination. The strong performance of many candidates reflected this detailed focus and is to be commended. However, the weaker performance of some others indicated that there may be a need to reflect and focus on the newer topics on the syllabus. The context of GJ Partnership operating a successful cleaning and gardening service business for five years in country X provided an accessible scenario for most candidates. Time did not appear to be a problem; only a small minority of candidates did not complete their answers in the time allowed.

The structure of the paper allowed candidates to demonstrate their knowledge of business concepts in **part (a)** of each question. They were then expected to offer analysis and reasoning when answering **part (b)** of each question. This style of questioning has become standard practice on this particular paper and it is good to see that many candidates are developing a strong examination technique and clearly understand what is expected of them.

The layout of the examination paper provides side headings to prompt candidates in their responses. This works well. As long as candidates take careful note of how many marks are awarded for each question, they should be quite clear about the extent of developed detail that is required for each answer.

Many candidates demonstrated a good breadth and depth of knowledge and understanding. In a handful of cases, candidates were not prepared for the full range of topics examined. Care must be taken to ensure candidates are familiar with the content of the whole syllabus. Candidates could earn basic marks by defining business terms and using them confidently. Those who answered in the context of GJ Partnership boosted their marks much further.

The standard of written English was, in most cases, very good. The majority of candidates made themselves understood and are to be congratulated on the high quality of spelling, punctuation and grammar offered in their responses. There is no penalty for the wrong spelling of words or using incorrect punctuation.

The points below might be helpful in enabling candidates to achieve higher marks by using their knowledge in a more effective way.

- Knowledge and understanding of financial information is within the syllabus (Section 5) and candidates should prepare for a question on this topic area.

For example, **Consider why the following financial information is important to a bank manager when deciding whether to give Ghaziz and Jasmin a loan to launch the new service. Which do you think is the most important information to the bank manager? Justify your answer.**

There are three levels of response to this answer where candidates are expected to explain and justify the significance of each of the three items of financial information. It is important to recognise that the insert indicates that this is a service business that is expanding into the care for elderly people. It has been in business for only 5 years but has been very successful for each of those years. The new service is aimed at younger people who want their elderly parents cared for while they are at work.

Answers that simply offer generic statements about providing a product are missing the point that the GJ Partnership is not a manufacturing business. Good answers show an understanding of the nature of this service business. Level 1 answers would be simple statements, for example the bank manager would want to see if the business was making a good profit. Level 2 answers would develop the answers such as clearly explaining what is meant by the break-even level of output, its relevance in terms of a safety margin and its impact on the ability to repay the loan as in the question. The bank manager would also want to ensure that the loan was repaid and there would be a clear link in the explanation to the bank manager's need to judge that there was sufficient profit for the loan to be repaid.

Good answers included an explanation of what is meant by liquidity, and how the higher it was the more comfortable the manager would be in issuing the loan as it indicated that it would be repaid. Level 3 can then be awarded for a recommendation that justifies which item of information is the most important to the decision and why the others are less important. A good recommendation might include arguments such as, even if the business is profitable, if it has a liquidity problem then the bank manager is unlikely to give the loan as there would be concern that the loan would not be repaid.

- In **part (a)** of each question there is a line for making a point and then a space below to explain or develop the reasoning. Candidates should think carefully about the context of the business in the case study before making their point and should ensure they do not repeat themselves in the explanation section.

For example, **Ghaziz and Jasmin plan to expand their business. Identify and explain one economy of scale and one diseconomy of scale for the business as it expands.**

Marks will be given for demonstrating the application of two relevant points to both an economy and a diseconomy of scale. Candidates should give a recognised example of an economy of scale, such as financial, marketing, purchasing, technical or managerial and then identify a diseconomy of scale.

These are the problems associated with managing a large business, such as controlling a big workforce, communication difficulties and low morale because employees can feel less valued. If the explanation restates the point in a few more words then no extra marks will be awarded. One important consideration might be that GJ buys cleaning and gardening materials and these may be purchased in bulk therefore gaining trade discounts and lowering unit costs. A weak explanation might follow with a

comment that they will be able to buy a lot of equipment. Instead, the explanation that follows should make clear that the equipment is to be used in the provision of cleaning and gardening services.

Another consideration would be the lack of communication as an example of a diseconomy of scale. There may be problems for Ghaziz and Jasmin in passing on information to their employees and therefore they may not go to the correct houses to clean and as a result the business would incur higher costs from the wasted time of employees leading to higher unit costs.

Comments on specific questions

Question 1

- (a) Candidates were familiar with the advantages and disadvantages of partnerships, giving answers such as: more capital can be raised, more ideas, decision making shared, unlimited liability and potential conflict between partners. Answers should contain an explanation of why the point made was an advantage or a disadvantage to this business. There were few examples of good application of the case material in answers, which resulted in a limited number of answers gaining full marks.
- (b) Candidates who performed well understood that increasing employment was likely to lead to higher incomes and possibly higher sales for this business. It was also recognised that higher sales may be likely result as more people were buying larger houses. Less well understood was that increased taxation was likely to lead to higher prices being charged for these services and consequently, demand may fall. Few suggested that as competitors' prices would also rise, therefore there might not be a big fall in demand. Some candidates got confused and thought that increasing employment meant GJ has increased the number of its employees. Better responses identified that there was the possible increase of costs through increased wage rates in order to retain their current employees as well as the difficulty in obtaining new ones due to wider competition for labour. Better candidates ended with a justified recommendation of which change had the greatest effect on profit and also justified why the other changes had less effect on profit for this business. Answers were not often applied to the case material resulting in few examples of full marks. A few candidates did get totally confused with this question and responded in terms of how it affected economic growth and inflation in the country as a whole with no mention of GJ Partnership.

Question 2

- (a) **Parts (i) and (ii):** Many candidates were familiar with the formula of how to calculate the break-even output but did not always divide fixed cost by 2 or multiply the price and variable cost by 3 hours. Answers to the profit calculation were often more accurate and the majority of candidates clearly understood how to calculate profit. Weaker candidates failed to select the appropriate pieces of information to use in the calculations.
- (b) The strongest responses explain the importance of financial information to the bank manager when making a decision on whether to grant the business a loan. The importance of profitability in enabling the business to repay the loan was recognised by the majority of candidates. Weaker responses stated that if the business accounts showed a profit at whatever level, the bank manager would automatically offer a loan. Few developed their responses by suggesting the bank manager would want to see the previous year's accounts performance as well as performance to date. Many knew that break-even identified the level of output at which costs were covered and how a low or high margin of safety was important to the bank manager and that liquidity refers to the ability of the business to repay short-term debt. However, many candidates did not understand what liquidity is in relation to having a safety net of cash for payment of debts or a loan. Better candidates could explain the importance of all three and make a recommendation as to which is the most important and why it is more important than the other two pieces of financial information. Once again, few candidates made use of the case material to answer in context.

Question 3

- (a) Many candidates could correctly identify an economy of scale and explain briefly why it resulted in lower unit costs for this business. The most popular examples were purchasing, managerial, financial and marketing. A diseconomy of scale was not always correctly explained. Better answers considered the breakdown in communication or control leading to less efficiency in the business. Application to the case was often limited to referring to the nature of the business being cleaning and gardening services. Weaker candidates answered this in general terms of advantages and disadvantages of getting bigger (more market share, higher wage bills, etc.) and not specifically in terms of economies and diseconomies of scale.
- (b) The majority of candidates showed a good understanding of the advantages and disadvantages of internal and external recruitment. Weaker candidates only listed advantages and disadvantages, such as saving time and money when recruiting internally. Popular points for internal recruitment were 'jealousy' among colleagues; training may be required for the appointee increasing costs; as well as the person is already well known; and the appointment can be motivating to other staff to work hard and gain future promotion. Popular points for external recruitment were that they brought 'new ideas' and had already acquired skills, but then balanced this by stating that their knowledge of the business may be lacking. There was little evidence of application of the answer to the case. A limited number of candidates realised that the business would need different skills for the new service to be introduced, which could come from external candidates who already have experience of this service, or by providing training for internal candidates. However, very few realised that existing part-time employees were unlikely to possess the necessary experience for management. Not many candidates could score high level 3 answers due to a lot of repetition in their recommendations. There were a minority of candidates who thought the two methods of recruitment meant that internal recruitment was from within a country while external recruitment was from outside the country.

Question 4

- (a) The majority of candidates demonstrated knowledge of reasons for carrying out market research. Popular answers were; to find out customer wants, how they were prepared to pay and if there was a demand for the new service. Explanation of the reasons was often present in the answer but a lack of application was why less than full marks were often awarded. Good candidates were able to show how the information gathered would benefit the partnership in providing a service for looking after elderly people and meeting their needs, helping to make the new service a success. Weaker responses often presented generalised points like market research would make the business successful or profitable without identifying specific pieces of information to be used to achieve that. When application was awarded for this question it tended to focus on the elderly people for which the service was being introduced.
- (b) Some candidates simply stated that prices should be set lower to attract customers without any consideration for suitable pricing strategies that could be used. Better candidates identified pricing strategies suitable for this new service in the introduction phase of the product life cycle such as penetration or competitive pricing. A few candidates confused promotion in the marketing mix with promotion to a higher position within the company. In addition some candidates repeated themselves by suggesting discounting prices was a promotion and a pricing strategy. Different methods of promotion were often identified, such as local newspapers, billboards and leaflets. Some selected television and radio, although given the size of the business, television would not have a viable choice because of the cost. The best candidates could apply these methods well to this new service for caring for elderly parents. However, many candidates gave generic answers about creating awareness or some form of promotion such as samples and 'BOGOF'. Even these candidates did recognise the importance of making potential customers aware of the new service. There were a large number of answers that included some justification in the recommendation of whether price or promotion was the most important during the introduction phase but a number of candidates just said both were important without any further justification.