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**BUSINESS**

**9609/01**

Paper 1 Short Answer and Essay

**For Examination from 2016**

SPECIMEN MARK SCHEME

**1 hour 15 minutes**

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**MAXIMUM MARK: 40**

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This document consists of 7 printed pages and 1 blank page.

**1 (a) Distinguish between piece rate and commission payment methods. [2]**

Piece rate is a payment to a worker for each unit produced.

Commission is a payment often to a sales person for each sale made, often a proportion of the value of the sale.

**One** mark for each accurate definition given (maximum 2 marks)

**(b) Briefly explain two disadvantages of a piece rate payment method. [3]**

The disadvantages of a piece rate are said to include:

- May lead to falling quality/safety levels as workers speed to complete production.
- May lead to a worker settling for a limited pay and productivity level.
- Leads to insecurity among workers – for example, if production line breaks down, or supplies not available.
- Workers reluctant to accept change if it results in a loss of pay.
- It ignores all other possible motivating factors.
- System only possible if work can be measured and standardised.
- Lack of security of pay.
- Competitive environment could lead to jealousy/high staff turnover.
- Pressure to produce can lead to stress/illness.
- Low motivation due to pressure to produce.

**Two** disadvantages soundly explained (3 marks)

**One** disadvantage soundly explained or **two** partially explained (2 marks)

**One** disadvantage partially explained or a list of **two** (1 mark)

**2 (a) Define the term ‘cost-based pricing’. [2]**

Cost-based pricing is when firms assess their costs of production or supply and then add an amount on top of this calculated cost (there are a number of different methods of cost-based pricing).

Sound definition (2 marks)

Partial definition (1 mark)

**(b) Briefly explain when a business might use penetration pricing. [3]**

Penetration pricing is setting a relatively low price, often supported by heavy promotion to achieve a high volume of sales.

A business may use penetration pricing to:

- gain a mass market (price may then be slowly increased)
- influence customers to switch to a new brand with the marketing objective of increasing market share in the short term rather than to make profits
- take the competition by surprise – appropriate when demand is highly price elastic
- establish brand loyalty and price inelasticity resulting in prices likely to increase in the long-run.

Sound explanation of business use (3 marks)

Limited explanation of business use (2 marks)

Penetration pricing is defined or identifies business use (1 mark)

**3 Explain the difference between efficiency and effectiveness in business operations. [5]**

Answers could include:

- Efficiency is producing output at the highest ratio of output to input ('doing the thing right').
- Effectiveness is meeting business objectives by using inputs appropriately to meet customer needs ('doing the right thing').
- A business can become very efficiently ineffective – efficiency in operations is only one factor – the type and quality of goods/services produced has to meet customer needs and still make a profit.
- For any business the relationship between efficiency and effectiveness depends on the market segment it is aiming at, e.g. volume, value, exclusive designer range etc.

Examples will contribute to the quality of the explanation.

Effective explanation of the difference between efficiency and effectiveness in business operations (4–5 marks)

Limited explanation of the difference between efficiency and effectiveness in business operations (2–3 marks)

Understanding of efficiency and/or effectiveness of the difference between efficiency and effectiveness in business operations (1 mark)

**4 (a) Define the term 'stakeholder'. [2]**

'Stakeholder' can be defined as people or groups of people who can be affected by, and therefore have an interest in, a business/organisation.

Sound definition given (2 marks)

Partial definition given (1 mark)

**(b) Briefly explain one way in which conflict may arise between different stakeholder groups in a business. [3]**

Answers could include:

- stakeholders who insist on social responsibility policies may conflict with short-term shareholder interests (profit)
- consumers/tax payers/communities may suffer at the expense of uncontrolled shareholder pursuit of profit
- employees lose out with companies outsourcing or mechanising or cost cutting
- management may receive performance-related pay while other employees receive basic wage and sickness, etc.

Sound explanation of **one** conflict situation (3 marks)

Partial explanation of **one** conflict situation (2 marks)

Only a general reference to stakeholder groups (1 mark)

**5 (a) Analyse the importance of inventory management to a retail business. [8]**

Level	Description	Marks
4	Good analysis of the importance of inventory management to a retail business	7–8
3	Some analysis of the importance of inventory management to a retail business	5–6
2	Some application of inventory management to a retail business	3–4
1	Understanding of inventory management	1–2
0	No creditable content	0

Answers could include:

- Inventory management is considered a critical business activity because without efficient inventory management there may be:
  - insufficient stocks to meet demand and changes in demand
  - out of date stock
  - stock wastage
  - excessive storage costs
  - late deliveries
  - low discounts from suppliers
  - opportunity cost implications.

The factors listed above (especially the first three) are vital for retail businesses with their potential impact on customers.

**(b) Discuss the factors which could influence the successful operation of Just-in-Time (JIT) inventory management. [12]**

Level	Description	Marks
4	Effective evaluation of the relative importance of the factors influencing the operation of JIT	9–12
3	Limited evaluation of factors that will likely determine the effectiveness of JIT	7–8
2	Analysis and some application of JIT to a business context	3–6
1	Understanding of JIT	1–2
0	No creditable content	0

Answers may include:

- Definition of JIT.
- Factors needed for JIT to work effectively are generally considered to be:
  - relationships with suppliers need to be good – flexible
  - production staff need to be multi-skilled and flexible
  - similar flexibility required in equipment and machinery
  - demand forecasts and production schedules need to be accurate
  - up-to-date IT equipment will help
  - sound employer-employee relations required
  - a distinctive organisation culture required.
- JIT might not always be the answer.

**6 'Effective business leaders need to be more emotionally intelligent than intellectually brilliant.' Discuss this statement. [20]**

Level	Description	Marks
5	Effective evaluation of the statement vis-à-vis intellectual ability and emotional intelligence	17–20
4	Good analysis and/or limited evaluation of the importance to leadership of emotional intelligence and intellectual ability	13–16
3	Analysis of the importance to leadership of emotional intelligence and intellectual ability	11–12
2	Limited analysis with application of emotional intelligence and/or intellectual ability to leadership	5–10
1	Understanding of leadership and/or emotional intelligence	1–4
0	No creditable content	0

Answers may include:

- Business leadership is said to be about giving clear direction and vision for an organisation – often requiring charismatic attributes and strategic vision.
- 'Intellectual ability' is important for the ability to:
  - see 'the big picture'
  - differentiate between tactical and strategic issues
  - analyse, evaluate, make decisions
  - understand and apply theory and concept
  - convince others – negotiate – compromise etc.
- 'Emotional Intelligence' (EI) is a recent concept which is seen by many as important, if not more important than intellectual intelligence for effective leadership – the concept of multiple intelligences.
- Definition of EI – the ability to understand own emotions and that of their colleagues, manage them to support improved performance.
- The concept of Emotional Intelligence Quotient (EIQ) and Goleman's EI competences.
- The potential liability of a leader without a competent EIQ.
- The relative importance of IQ and EIQ – reviewed – different assertions and conclusions in the literature.

- 7 (a) Analyse why it is important for a business to be able to identify and calculate its costs. [8]

Level	Description	Marks
4	Good analysis of the importance of cost identification and calculation	7–8
3	Some analysis of the importance of cost identification and calculation	5–6
2	Some application of cost identification and calculation in a business context	3–4
1	Understanding of cost identification and calculation	1–2
0	No creditable content	0

Answers could include:

- Cost information is vital in a wide range of business decision-making.
- Business costs are a key factor in calculating profit or loss.
- Business contexts could include for example making location decisions or pricing decisions.
- Acting as a start point for future budgets.
- Decisions about resource use – if cost of labour is low, then focus on labour intensive methods.
- Cost information facilitates different options being analysed for decision-making – e.g. different location decision options. So cost calculation and data vital for so many business decisions.
- Note: Credit discussion of social costs.

- (b) Discuss how break-even analysis could be useful for a business decision on introducing a new product. [12]

Level	Description	Marks
4	Effective evaluation of the usefulness of break-even analysis in the context of new product introduction	9–12
3	Limited evaluation of the usefulness of break-even analysis in the context of new product introduction	7–8
2	Analysis and some application of break-even analysis in the context of new product introduction	3–6
1	Understanding of break-even analysis	1–2
0	No creditable content	0

Answers could include:

- Discussion of how break-even analysis will categorise production costs and compare them with potential sales revenue to determine a break-even point where the costs of resources to create a new product are covered.
- Managers may also want to know the point at which the sales volume reaches a pre-set profit level.
- To help increase the odds of success for a new product a business needs to ask a number of questions such as:
  - what is the potential size of the market?
  - how shall the product be priced?
  - where is the break-even point?
- The above questions can provide vital management information for example – if the break-even point is over say 12 months then how does the business capitalise that product and is it worth going ahead with this new product?
- Break-even charts are relatively easy to construct and interpret.
- However, there are limitations as to the use of break-even analysis, as:
  - it is a simplistic, static model
  - the effectiveness depends on the quality and accuracy of the data used
  - it assumes linearity
  - it takes no account of possible changes in costs over time
  - it does not allow for changes in market conditions in the time period, etc.
- So some general limitations plus some specific to new product decisions – non-economic factors may influence such a decision – e.g. subjective personal owner preference decisions – political interference, social/cultural influences, etc.

