

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Diploma Advanced Level

MARK SCHEME for the October 2008 question paper

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

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All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

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1 (a) Explain and justify the following business objectives of Oolong Foods:

(i) Profit [4]

- reason for being in business
- creates an internal source of finance [suggested in the text]
- reflects success
- reflects position in the market
- the motivation/reward for risk taking

(ii) Satisfying customer demand [4]

The main point to make is that without customers there would be no business. Satisfying customers involves e.g.:

- treating them with consideration
- fair prices
- good quality
- being well stocked
- offering good choice

Marks: 1–4 marks per feature as follows:

1–2 basic/elementary understanding of objectives; no elaboration

3–4 well defined response, apposite, context

(b) Mr Chan is always worried about costs. Explain what is meant by:

(i) Indirect costs [2]

- a cost not attributable to a cost centre
- sometimes called a fixed cost
- often referred to as overheads [rent, rates etc]

(ii) Break-even point [2]

- the point at which total revenue equals total costs – the point at which ‘Oolong Foods’ moves into profit
- the formula is break-even = fixed costs ÷ contribution per unit

Marks: 1–2 as follows:

1 basic definition/explanation expressing some idea

2 firm/well expressed response

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- (c) Explain two reasons why a private limited company would be more appropriate for Oolong Foods. [2 x 4 = 8]

Candidates are *not* being asked to draw up a general list of features. The reasons need to focus on the situation and be appropriately discussed. Bearing in mind the situation with Oolong Foods, the following would appear to be relevant e.g.:

- limited liability
- company has continuity
- company has separate legal identity
- original owner may still be able to maintain control

Candidates may also offer these points which in context are acceptable:

- the company's shares cannot be sold on the open market and can only be transferred with the agreement of other shareholders
- the business would not be vulnerable to take-over bids

Marks: 1–4 marks per reason as follows:

1–2 basic/elementary explanation, no elaboration

3–4 well defined, apposite, context

- 2 (a) Oolong Foods does not have an organisation chart. Give four purposes of an organisation chart. [4 x 2 = 8]

The more obvious choices can be drawn from e.g.:

- set and achieve targets
- distribute work
- monitor performance of the company
- indicate lines of authority and responsibility
- show channel[s] of communication
- identify objectives

Marks: 1–2 marks per purpose or reason

- (b) Oolong Foods is a centralised business. Identify and discuss one advantage and one disadvantage of Mr Chan's business being centralised. [2 x 4 = 8]

Please note that only **one** advantage and **one** disadvantage are called for – if a candidate offers more then please mark the entire answer and allow the best two points.

Advantage:

- Mr Chan's policies can be applied consistently throughout the organisation
- helps to maintain the image and reputation of the company
- ensures Mr Chan's decisions are taken more quickly than via consultation
- management has to carry out set procedures
- conformity helps to build the Oolong image

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Disadvantage:

- removes initiative from managers – except for low profile issues
- reduces input from the managers
- discourages staff from achieving job satisfaction
- increases the volume of communication between managers and Mr Chan
- creates more responsibility and pressure for Mr Chan

Marks: 1–4 marks per advantage/disadvantage as follows:

- 1–2 basic/limited understanding of an advantage/disadvantage
- 3–4 clear understanding, knowledge, context

(c) Mr Chan’s leadership style is considered to be authoritarian. Explain what is meant by an authoritarian style of leadership. [4]

- may reflect a general lack of confidence in others to make appropriate decisions
- reflects a tight control over the business
- enables Mr Chan to make quick decisions
- decision-making and information are kept in Mr Chan’s control
- possible lack of consultation

Marks: 1–4 marks per advantage/disadvantage as follows:

- 1–2 basic/limited understanding of the leadership style
- 3–4 clear knowledge expressed in context

3 (a) Discuss the following expectations that the employer, Mr Chan, might reasonably have of his employees: [4]

(i) Effective and efficient work [4]

- good timekeeping
- dealing with customers
- tidiness of sales/storage areas
- minimal leakage re. stock/money
- good stock rotation

(ii) Willingness to undertake any work reasonably asked of them [4]

- question of attitude
- work ethic
- cooperative
- multi-tasking
- act as part of a team

(iii) Acceptance of Mr Chan’s code of conduct [4]

- the code reflects the way Mr Chan expects his staff to carry out duties and that affects company image and reputation
- it covers personal hygiene, dress, manners, customer service
- staff are ambassadors

Marks: 1–4 marks per expectation as follows:

- 1–2 basic/limited understanding of an expectation
- 3–4 clear understanding, knowledge, context

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- (b) Explain what a one-year fixed-term renewable contract is and suggest one benefit to Mr Chan's business of employing senior managers on fixed-term renewable contracts. [2 x 2 = 4]

Explanation

- employment contract which runs for a specific fixed term and expires at the end of that term
- an employee is treated as permanent in respect of benefits and pay
- satisfactory work means renewal i.e. a follow-on one year contract

Benefit

- Oolong Foods benefits as it is an incentive for the managers to achieve the company's targets
- if a manager does not perform well, Mr Chan doesn't have to renew the contract

Marks: 1–2 marks for the definition of the fixed-term renewable contract
plus
1–2 marks for the benefit [which clearly must be in context]

- (c) Oolong Foods makes wide use of computer technology. Suggest two ways in which computer technology is likely to be used in the business.

Two ways are called for but if the candidate offers more than select the two you consider most appropriate. Each way needs some clarification or explanation.

Examples can include:

- cash and credit transactions
- financial records
- payroll
- personnel records
- ordering of stock
- stock control
- communications

Marks: 1–2 marks as follows:
1 for each way identified but not expanded upon
2 for each suggestion described

- 4 (a) Every business is affected by PEST or external factors that influence its activity. Explain how Oolong Foods might be affected by:

(i) Competition [4]

- the food business is in a very competitive market – that affects costs, prices and target market[s]
- competition may encourage Mr Chan to introduce new products and/or services
- Mr Chan may have to review his pricing policy
- the downside is that Oolong Foods could be forced out of the market or suffer a reduction in profitability

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(ii) Disposable income [4]

- this is the amount a salary/wage earner has left after all deductions and expenses i.e. it is money that is free of all commitment to be spent as an individual wishes
- taxation can affect the amount of disposable income
- if economic conditions improve or remain good then more people may be able to earn more and enjoy higher disposable income
- Mr Chan clearly wants people to have sufficient disposable income to spend in his shops, perhaps on the more expensive luxury and/or impulse lines

(iii) Government policies towards business [4]

- this is a matter of government attitude towards business
- company taxation
- measures to influence trade cycle
- tax incentives to train, computerise etc
- control of inflation
- employment laws

Marks: 1–4 marks per expectation as follows:

1–2 basic/limited understanding of a PEST factor

3–4 clear understanding, knowledge, context

(b) Mr Chan is the chairman of a trade association. Explain what a trade association is and how Mr Chan benefits from membership. [4]

- a trade association is an organisation which represents an industry or a trade [Mr Chan is likely to be in a grocery trades association]
- the association will lobby Government, express opinions, formulate policies, undertake research, provide information, regulate its trade
- Mr Chan [like the other members] benefits because he receives information and advice, has access to Ministers and officials, and enjoys support from the association

Marks: 1–4 marks as follows:

1–2 basic/limited understanding of a trade association

3–4 clear understanding, response is contextual

c) Identify two factors which influence the location of Oolong Food's supermarkets. 4]

Candidates are *not* required to rehearse their general knowledge of location but to suggest likely factors influencing Mr Chan's choices of location. The text has some clues e.g.:

- access to markets i.e customers
- availability of staff
- occupancy costs
- planning permission
- availability and suitability of sites

Marks: 1–2 marks per factor

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5 (a) Explain the following marketing objectives of Oolong Foods:

(i) Operate a successful marketing mix. [4]

The candidate does not need to give a *detailed* breakdown of the 4Ps although some reference is clearly required; clues are in the text. All the appropriate factors come together to make shopping at Oolong pleasant which is reflected in the company's turnover:

- Price: perhaps above average but good value for money
- Product: high quality
- Promotion: assume good in-store promotion and advertising
- Place: well run and laid out supermarkets

(ii) Achieve and maintain a targeted market share [4]

- market share can be measured by turnover
- calculating and achieving market share indicates to Mr Chan where he stands in relation to the market as a whole
- targeting represents a deliberate 'attack' on a market in an effort to achieve a degree of penetration.

Marks: 1–4 marks as follows:

- 1–2 basic grasp of the idea of a marketing objective
- 3–4 well constructed statement, knowledge, context

(b) Mr Chan believes that his customers are his main resource. Explain what he means. [4]

- put quite simply, without clients there would be no business
- clients mean employment, business, earnings, profit, success
- clients should be treated with due respect and importance
- they are stakeholders

Marks: 1–4 marks as follows:

- 1–2 basic understanding of the role of customers
- 3–4 well written, knowledge, awareness, context

(c) (i) Explain the importance to Oolong Foods of a customer service policy. [4]

- essentially it recognised the customer as the main resource
- customer service deals with a customer's experience of shopping at Oolong Foods and will include employee behaviour, how well employees are trained, guarantees, handling of complaints
- the policy should have as its aim the development of customer loyalty and further business

Marks: 1–4 marks as follows:

- 1–2 elementary knowledge of customer service
- 3–4 knowledge and awareness, context

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

Candidates are required to *list* the features. Some may give explanations but they will not affect the allocation of one mark per feature listed e.g.:

- replacements for faulty/odd stock
- refunds on faulty/old stock
- handling complaints
- courtesy and advice
- free delivery for the elderly and disabled customers [see text]

Marks: 1 mark per feature