

MARK SCHEME for the May/June 2014 series

0454 ENTERPRISE

0454/01

Paper 1 (Case Study), maximum raw mark 100

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 will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2014 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

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1 Wynton had really enjoyed his Enterprise lessons at school.

(a) What is meant by *Enterprise*? [2]

Candidates may identify two separate features of enterprise:

- making decisions
- taking risks
- setting up your own business

Each point worth 1 mark

Carry out tasks using enterprise skills (1)

Or provide a precise definition:

A business run by an entrepreneur who takes risks and combines factors of production (2)

Willingness to own and run a business and take risks (2) [1 × 2 or 2 × 1]

(b) State two business objectives of an enterprise. [2]

- profit
- growth/expansion
- survival
- sales revenue maximising
- satisficing
- environmental objectives
- being ethical
- offer good customer service/meet needs of target market

[2 × 1]

N.B. 'Provide goods' is too vague

(c) Explain how Wynton made sure that his bike servicing and repair enterprise:

Each answer should be marked as follows:

1 mark – identification of the need

1 mark – actions Wynton took

1 mark – how it met the need

(i) meets his own needs and wants [3]

Wynton wanted to work for himself (1) he set up as a sole trader (1) because he would be in complete control (1) [1 + 1 + 1 = 3]

Wynton had been riding a bicycle since he was 4 (1) he based his enterprise on his passion (1) and therefore he enjoyed his work (1) [1 × 3]

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(ii) meets the needs and wants of potential customers [3]

Customers wanted reasonable prices (1) Wynton chose a competitive price (1) therefore his customers were happy (1) [1 + 1 + 1 = 3]

An alternative acceptable approach is to explain the method of research used to identify customer needs:

Wynton needed to know what services the customers wanted (1) he used a questionnaire (1) and asked open ended questions (1) [1 × 3]

2 Wynton decided to organise his enterprise as a sole trader.

(a) Describe two features of a sole trader. [4]

1 mark – identification of a feature (2 max)
Plus 1 mark – explanation of that feature (2 max)

- simple to set up (1) because there is no need to obtain special legal documents (1)
- sole trader can have complete control (1) they make all the decisions (1)
- no legal requirement to publish accounts (1) therefore privacy (1)
- keep all the profits (1) as they do not have to share with partners (1)
- unlimited liability (1)
- unincorporated (1) [2 × 2 = 4]

(b) Explain two disadvantages of setting up an enterprise as a sole trader. [4]

1 mark – identification of a disadvantage (2 max)
plus 1 mark – explanation of that disadvantage (2 max)

- unlimited liability (1) this means that a sole trader is liable for all of the debts of an enterprise (1)
- possible difficulty in raising sufficient finance (1) a sole trader may find it difficult to convince a financial institution to lend money (1)
- may be difficult to compete with other, larger, firms (1) who will be able to benefit from economies of scale (1)
- owner may not be able to deal effectively with all aspects of the enterprise (1) because they lack the skills (1)
- lack of continuity (1) business does not continue with death of the owner (1) [2 × 2 = 4]

3 Wynton was determined to succeed, even though he knew that there was a high risk that his proposed enterprise idea might fail.

(a) Explain one way in which the following entrepreneurial skills might help to make an enterprise successful:

(i) determination to succeed [2]

- never giving up (1) despite obstacles in the way (1)
- knowing where you are going (1) so find appropriate ways to achieve (1)
- motivated to keep trying (1) until a solution is found (1)

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(ii) **team-building** [2]

- working together (1) gives better results (1)
- wider variety of ideas provided (1) therefore a better solution to problems identified (1)
- a nicer environment (1) because workers can share ideas (1) [2 × 2 = 4]

(b) **Some entrepreneurs are risk optimisers. State the two other approaches to dealing with risk.** [2]

Two other approaches:

- a risk reducer
- a risk avoider

(c) **Explain how two risks were dealt with in your enterprise project.** [6]

Answer will depend on the candidate's own enterprise project

In each case:

- 1 mark – identification of risk
- 1 mark – what action was undertaken
- 1 mark – resolution

Risk of lack of demand (1) for their own project (1) therefore we produced leaflets to ensure demand (1) [1 + 1 + 1 = 3]

Not meeting deadlines (1) for their own project (1) and therefore used planning skills to ensure deadline was met (1) [1 + 1 + 1 = 3]

NB Candidates can achieve a maximum of 2 marks if they identify potential rather than actual risks

4 Wynton knew from his Enterprise lessons that he should produce a business plan.

(a) **Using examples, explain the difference between short-term planning and long-term planning.** [4]

Short-term planning:

where key enterprise decisions can be taken in a time period of up to one financial year or intermediate decisions.

Short-term planning is when we plan for under one year (1) for example to sell X products per month (1) [1 + 1 = 2]

Long-term planning:

where key enterprise decisions can be taken to achieve overall goals in a time period from one year onwards.

Long-term planning is when we plan for one year or more (1) for example opening a new shop (1)

[1 + 1 = 2]

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(b) Explain two ways that producing a business plan might have helped your enterprise project to be successful. [6]

Each answer should be marked as follows:

1 mark – knowledge of purpose of a plan or items included in a business plan

1 mark – how the plan would assist the enterprise

1 mark – application of how it helps the enterprise

Detailing the finances of the enterprise (1) would help us to obtain a loan (1) because... (1) [1 + 1 + 1 = 3]

Completing a risk assessment (1) allowed us to identify risk (1) therefore we were prepared in advance (1) [1 + 1 + 1 = 3]

NB Answers must be in the context of the candidate's own enterprise – a maximum of 4 marks if there is no such application.

5 Effective communication with stakeholders, both internal and external, is important for any enterprise.

(a) Define the following terms, giving an example of each:

• internal stakeholder [2]

• external stakeholder [2]

Definition of internal stakeholder:

- someone who is inside an enterprise, i.e. they are a part of the business
- directly affected by the enterprise

Examples of internal stakeholders:

- employees
- managers
- shareholders [1 + 1 = 2]

Definition of external stakeholder:

- someone who is outside an enterprise but has an interest in the organisation.
- indirectly affected by the enterprise

Examples of external stakeholders:

- customers
- suppliers
- the local community

Examples on their own are awarded 1 mark each to a maximum of 2. [1 + 1 = 2]

NB for the first mark the candidate must give some reference to the idea that the person affects or is affected by the business. Working for the business is too vague.

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- (b) Discuss the effectiveness of communication carried out during your enterprise project. [6]**

Answer will depend on the candidate's own enterprise project.

Marks should be awarded as follows:

Up to 2 marks – identification of communication methods used in their enterprise

Plus 2 further marks – explanation of how the method/methods were used

2 marks – evaluation of the effectiveness, or not

6 marks are available for a full discussion of one method

- 6 (a) Wynton thought it was important to plan the finances of his enterprise.**

How important do you think it was to keep accurate financial records for your enterprise project. Discuss the reasons for your opinion. [10]

Answer will depend on the candidate's own enterprise project

Possible approaches:

- so that the correct amount of tax is paid
- so that stakeholders have a correct record of what went on during the project's existence
- shareholders will want to know this because of the dividend that they may receive
- so that there can be an effective evaluation of the performance of the project

Level 4 (9–10 marks)

Candidate is able to offer a discussion of the importance of accurate financial records to their enterprise project; a judgement is made by the candidate.

Level 3 (6–8 marks)

Candidate is able to offer a reasonable explanation of why financial records were necessary for their enterprise. The answer is logical and reasoned and there is a clear focus on the impact this would have had on the project.

Level 2 (3–5 marks)

Candidate is able to apply knowledge and understanding of accurate financial records to their own enterprise project.

Level 1 (1–2 marks)

Candidate is able to demonstrate some knowledge and understanding of financial records, but there is no application.

Level 0 (0 mark)

Candidate is unable to demonstrate any knowledge or understanding of financial records.

NB Candidate cannot gain marks beyond Level 2 unless there is an explicit link to accuracy.

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- (b) **Angela had cash flow difficulties when she started her market stall, although she had calculated that it would be a profitable enterprise.**

Discuss the importance of cash flow to the success of Wynton’s bike servicing and repair enterprise. [15]

Cash flow definition

- money coming in to, and going out from, the enterprise

Reasons why cash flow is important to Wynton

- being able to afford spare parts/grease/oil
- having finance available to pay for marketing
- cash flow forecast may help identify how many bicycles to service every month
- profit and loss may be more important to Wynton because this is a new enterprise or he wants to expand in the future

Level 4 (10–15 marks)

Candidate is able to offer a discussion of the importance of cash flow to the success of Wynton’s enterprise. At this level there must be a clear link between cash flow and survival. If this link is implied, 10–12 marks; if this link is made explicit, and there is a clear conclusion, 13–15 marks.

Level 3 (6–9 marks)

Candidate is able to offer a reasonable explanation of cash flow to the success of Wynton’s enterprise. The answer is logical, reasoned and there is a clear focus on the effects of cash flow.

Level 2 (3–5 marks)

Candidate is able to apply knowledge and understanding of cash flow to the success of Wynton’s enterprise; there is some awareness of Wynton’s cash flow situation.

Level 1 (1–2 marks)

Candidate is able to demonstrate some knowledge and understanding of cash flow but there is no application.

Level 0 (0 mark)

Candidate is unable to demonstrate any knowledge or understanding of cash flow.

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- 7 (a) Wynton used the model of negotiation shown in Fig. 4 of the case study to agree how much he would pay for materials.

Using an example of a negotiation that you are familiar with, explain the importance of each stage of the model in Fig. 4 to the success of the negotiation. [10]

Model in Fig. 4:

- preparation for the negotiation involves collecting research
- discussion of what each party needs from the negotiation – both sides explain their views
- negotiating a favourable outcome – both sides are happy (win win)
- reaching agreement (both sides accept the decision)

The stages in Fig. 4 alone repeated gain no marks, candidate must show understanding of the stages for Level 1.

Level 4 (9–10 marks)

Candidate is able to offer a discussion of the importance of the different stages of the model to the success of the negotiation they have identified. All 4 stages required for maximum marks.

Level 3 (6–8 marks)

Candidate is able to offer a reasonable explanation of the importance of most stages of the model to the success of the negotiation they have identified.

Level 2 (3–5 marks)

Candidate is able to apply knowledge and understanding of at least one stage of the model to the negotiation they have identified.

Level 1 (1–2 marks)

Candidate is able to demonstrate some knowledge and understanding of at least one stage of the model in Fig. 4.

Level 0 (0 mark)

Candidate is unable to demonstrate any knowledge or understanding of the stages of negotiation.

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- (b) Wynton wanted to make sure that he marketed his bike servicing and repair enterprise effectively.

Recommend which one of the following marketing methods Wynton should use to tell people in the local area that he is open for business: local newspapers; a leaflet; word of mouth. Justify your decision. [15]

Possible approaches:

Local newspapers:

- should not be very expensive, but Wynton has very little finance so newspapers may still be too expensive.
- will they reach the target market? Not many people read a newspaper when looking for bicycle repair shops.
- a local paper. Wynton's is a local business so a local newspaper would reach its target customers.

A leaflet:

- cost to produce and distribute – expensive as Wynton would need to find somebody to hand them out.
- could potentially use coupons for gathering of customer information – Wynton adds a coupon to gather potential customer addresses

Word of mouth:

- the cheapest of the three – but if his servicing is not very good this can be a dangerous method.
- might be the most appropriate for his enterprise – he has very little finance and this is a free method.

Level 4 (10–15 marks)

Candidate is able to offer a reasonable consideration of at least two marketing methods. For 13 plus marks justification of decision needs to be explicit and logical and refer to all three methods.

Level 3 (6–9 marks)

Candidate is able to offer a reasonable explanation of the suitability of at least one marketing method; justification of decision can be implicit.

Level 2 (3–5 marks)

Candidate is able to apply knowledge and understanding of at least one marketing method to the case study.

Level 1 (1–2 marks)

Candidate is able to demonstrate some knowledge and understanding of at least one marketing method, but there is no application.

Level 0 (0 mark)

Candidate is unable to demonstrate any knowledge or understanding of different marketing methods.