CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the March 2016 series

9609 BUSINESS

9609/32 Paper 3 (Case Study), maximum raw mark 100

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1 Analyse the likely benefits to BS of moving all of its production to one factory (lines 29–31). [10]

Level	Knowledge 3 marks	Application 2 marks	Analysis 5 marks
2	3 marks Good knowledge of benefits	2 marks 2 or more benefits applied to the case	3–5 marks Good use of theory to explain the benefits
1	1–2 marks Some knowledge of benefits	1 mark Some application to the case	1–2 marks Some use of theory to explain the benefits
0	No creditable content		

Answers could include:

Benefits:

- Economies of scale leading to lower average unit costs and improvement in profit margin.
- Reduction in the total overheads. The rent of the expanded factory could be lower than of the two factories combined. This could enable BS to increase its profit margin or reduce selling price of shoes and clothing.
- The move would provide an opportunity to update machinery and therefore increase efficiency.
- Consistent decision making for the benefit of the whole business rather than specific divisions.
- Non-duplication of job roles. For example, only one factory manager would be needed. The reduction in staffing would result in a reduction in costs.
- May be able to reduce distribution costs as clothes and shoes could now be delivered together.
- Improved communication.

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2 (a) Refer to Appendix 2. Calculate for 2015:

(i) dividend yield [4]

Result	Explanation	Marks
6.19% accept 6.2%	Working need not be shown	4
0.13/2.10 × 100	Incorrect final answer	3
0.15/2.10 × 100 = 7.14% 0.13/2.25 × 100 = 5.8%	All working must be shown All working must be shown	3
0.13/2.10 × 100 0.15/2.25 × 100 = 6.7%	Calculation not performed All working must be shown	2
Formula only	dividend per share/share price × 100	1

(ii) price earnings ratio. [4]

Result	Explanation	Marks
4.2:1 accept 4.2	Working need not be shown	4
2.10/0.6 = 3.5 2.25/0.5 = 4.5	All working must be shown All working must be shown	3
$2.10/$0.50 2.25/0.6 = 3.75	Calculation not performed All working must be shown	2
Formula only	share price/earnings per share	1

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(b) Discuss whether the Board should increase dividends to shareholders. Use your results from (a) and other information to justify your answer. [12]

Level	Knowledge 2 marks	Application 2 marks	Analysis 4 marks	Evaluation 4 marks
2	2 marks Good knowledge shown of dividends, ratio results	2 marks Application of 2 or more points to the case	3–4 marks Good use of reasoned argument or theory to explain the impact of increasing/not increasing dividends	3–4 marks Good judgement shown in the answer and conclusion
1	1 mark Some knowledge shown of dividends, ratio results	1 mark Some attempt to apply the answer to the case	1–2 marks Some use of reasoned argument or theory	1–2 marks Some judgement shown in the answer/conclusion
0	No creditable content			

Answers could include:

- Dividends are returns to shareholders. Share price might fall if they are reduced.
- Profits in 2015 fell by 16.7% but dividends were reduced by only 13.3%.
- Impact of raising dividends: reduced retained profits for future investment so future profits and returns to shareholders might be lower. Possible impact on Sarah's ability to achieve her objectives e.g. 10% market share in country P.
- Dividend yield is very low and fallen further so shareholders are receiving lower return based on current share price despite share price falling.
- Sarah and the family members own 25% of the shares.
- Sportswear market is growing rapidly. Does BS need retained profits to take advantage of this growth?
- Economic growth is forecast to be 3% in country F in 2017. Thus, with increasing incomes and increasing sales BS should be able to generate higher profits and pay higher dividends.

Evaluation:

- Depends on next year's profits – might be higher than expected if the global economy improves.
- How likely are shareholders to sell their shares if dividends are not raised?
- Depends on dividend yield offered by similar investments.
- Depends upon the investment into the new machinery/new strategy of diversification into food supplements in country F or the new factory in Country P or Olympics.
- What proportion of shareholders actually demanded higher dividends?

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3 Evaluate a marketing strategy that BS could use to achieve a market share of 10% in country P. [16]

Level	Knowledge 3 marks	Application 3 marks	Analysis 5 marks	Evaluation 5 marks
2	3 marks Good knowledge of marketing strategy	3 marks Good application to the case	3–5 marks Good use of reasoned argument or theory to explain the changes to the marketing strategy	3-5 marks Good judgment shown in the answer and conclusion
1	1–2 marks Some knowledge of marketing strategy	1–2 marks Some application to the case	1-2 marks Some use of reasoned argument or theory to explain the changes to the marketing strategy	1–2 marks Some judgment shown in the answer and/or conclusion
0	No creditable content			

Answers could include:
Marketing strategy – how the company intends to achieve it marketing objectives. Includes market research, objectives, budget and marketing mix.

- BS sells to speciality sports retailers using point of sale promotion.
- Country P needs a new marketing strategy to increase sales and achieve target.
  - Currently has 5% of 5.8bn = $290m
  - Aiming for 10% of $5.986bn = $598m
  - Thus needs to more than double sales
- Cost based pricing used. Is it suitable? Is there an alternative that could be used?
- Customers are not able to use the company website to order. Will the business miss out on customer orders?
- BS use expensive adverts in specialist magazines. Is this suitable? Cost implications? Alternative methods?
- Increase in competitive rivalry will influence the strategy.

Evaluation:

- Changing the strategy will require more investment. Will shareholders agree to more investment?
- Will it use the same strategy for clothing and footwear?
- Should they invest and take advantage of the upcoming global sporting events and current popularity of sports?

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4 (a) Refer to Appendix 1. Calculate for the purchase option:

(i) payback period [2]

2 years – 2 marks
Cumulative cash flows shown only – 1 mark
Discounted payback – 1 mark
Definition of payback 1 mark

Year	Annual net cash flows	Cumulative cash flows
0	(1000)	(1000)
1	500	(500)
2	500	0

(ii) net present value at a discount rate of 10%. [4]

$563 000 – 4 marks
$563 i.e. does not express in thousands – 3 marks
$1 563 000 i.e. does not subtract capital cost – 3 marks
$1563 i.e. does not express in thousands and not subtract capital cost – 2 marks
Arithmetic error and failure to subtract capital cost – 2 marks
Some attempt to use discount factors – 1 mark

Year	Net cash flow	Discount factors	DCF ($000)
0	(1000)	1	(1000)
1	500	0.91	455
2	500	0.83	415
3	400	0.75	300
4	350	0.68	238
5	250	0.62	155
		NPV =	563

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(b) Recommend to BS whether to lease or purchase the machinery. Use your results from (a) and other information to justify your choice. [12]

Level	Knowledge 2 marks	Application 2 marks	Analysis 4 marks	Evaluation 4 marks
2	2 marks At least 2 relevant points made	2 marks Application of 2 or more points to the case	3–4 marks Good use of reasoned theory to answer the question	3–4 marks Good judgement shown
1	1 mark One relevant point made	1 mark Some application to the case	1–2 marks Some use of theory to answer the question	1–2 marks Some judgement shown
0	No creditable content			

Answers could include:

- Payback period is the length of time it takes for the net cash inflows to pay back the original capital cost of the investment. Quick payback for leasing option is a real advantage.
- Leasing option payback period is 1 year 8 months and NPV is $394 500.
- Can the finance be raised to purchase?
- Maintenance cost are uncertain with older machines.
- Calculation of discounted payback and/or ARR as alternative methods of investment appraisal.
- ARR for leasing 60% and for purchase option 20%.

Evaluation:

- The decision will depend on sources and the cost of the finance to purchase.
- Unreliability of residual value.
- Unreliability of net cash flows and maintenance costs.
- Leasing costs are more certain.
- Will workers/customers prefer products to be made on newer machines? Will this lead to improved health and safety?
- Is the discount rate of 10% appropriate? For 2017 it is forecast that interest rates will be 3% and inflation 4%.
- Rate of technological change in the industry could lead to obsolescence of new machinery.

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5 Recommend to Sarah which one of the two existing factory managers she should appoint to manage the newly expanded factory in country F. Justify your answer. [16]

Level	Knowledge 3 marks	Application 3 marks	Analysis 5 marks	Evaluation 5 marks
2	3 marks Good knowledge of relevant factors e.g. leadership styles	3 marks Good application to the case	3–5 marks Good use of reasoned argument or theory to answer the question	3–5 marks Good judgment shown in the answer and conclusion
1	1–2 marks Some knowledge relevant factors e.g. leadership styles	1–2 marks Some application to the case	1–2 marks Some use of reasoned argument or theory to answer the question	1–2 marks Some judgment shown in the answer and/or conclusion
0	No creditable content			

Answers could include:

- Definition of leadership styles
  - Evidence from the case suggests that Jake is Autocratic and Neeraj is Democratic.
- Explanation of the key features of both or one of the leadership styles (both needed for Level 2 marks)
- Would a more democratic style benefit BS? Are workers qualified/knowledgeable enough to take a more participative role? How much time is taken up in democratic decision making?
- Has the autocratic style of leadership led to poor health and safety standards? What might the impact of poor health and safety be?
- Does the autocratic style lead to higher labour turnover and therefore higher recruitment and absence costs?
- To manage the transition of factories, would an autocratic approach be better than a democratic approach?
- Neeraj is currently responsible for $406m of output. Jake responsible for $1044m. Does this make a difference?
- Neeraj may be responsible for fewer workers than Jake.
- Is Neeraj able to assert his authority? For example, he has failed to get workers to change their working practices.
- Neeraj has a sporting background. Does this make a difference?
- What other experience do they have?
- How long have they been in their current post?

Evaluation:

- Judgement about the appropriateness of styles.
- Apply judgement to this business using the information provided.

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Questions 6 and 7 use this marking grid:

Level	Knowledge 3 marks	Application 3 marks	Analysis 4 marks	Evaluation 10 marks
3				7–10 marks Good judgement shown throughout with well supported conclusion/recommendation, focused on the business in the case
2	3 marks Good understanding shown	3 marks Good application to the case	3–4 marks Good reasoned argument or use of theory to explain points made	4–6 marks Some judgement shown in the main body of the answer and an attempt to support conclusion/recommendation, focused on the business in the case OR effective and well supported conclusion/recommendation, focused on the business in the case
1	1–2 marks Some understanding shown	1–2 marks Some application to the case	1–2 marks Limited use of reasoned argument or use of theory to support points made	1–3 marks Limited attempt either to show judgement within the answer OR a weakly supported conclusion/recommendation with some focus on the business in the case
0	No creditable content			

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6 Evaluate the usefulness to BS of the methods of strategic choice in Appendix 3. [20]

Answers could include:

The focus of the question is on methods of strategic choice, of which three are mentioned in the case i.e. decision trees, Force Field Analysis, Ansoff's Matrix

Strategic choice – choosing between important long term options that could have a major impact on success of the business

Defines/explains strategic choice methods e.g. decision trees, Force Field Analysis, Ansoff's Matrix.

Analyse advantages and disadvantages of strategic choice methods in context.

Ansoff's Matrix – it is suggested that:
- simple analytical tool
- identifies risk
- indicates possible marketing opportunities
- too simplistic
- can be difficult to categorise options
- it is not quantitative
- allocation of risk is arbitrary

Force Field Analysis – it is suggested that:
- simple to understand and use
- it is quantitative
- considers a range of factors
- categorisation is difficult
- too simplistic and subjective
- quantitative measures suggests a definitive answer

Decision trees – it is suggested that:
- it is quantitative
- encourages assessment of risk
- probabilities are difficult to assess
- involves forecasts which may be unreliable

Examples of **Application** might include: Strategy A has a higher expected net value; Force Field Analysis suggests Strategy A is better than B as it has a more favourable ratio.

Evaluation:
- Techniques and data evaluated.
- Which method of strategic choice is most useful and why?
- Other data would have been useful e.g. market research, investment appraisal.
- Are all costs included?

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7 Assume strategy B is chosen. Discuss how BS might implement the strategic changes required. [20]

Answers might include:
This question is focussed on strategic implementation. This could include change management, business planning and contingency planning.

Knowledge could include:

Change management – planning, implementation, controlling and reviewing the movement of an organisation from its current state to a new one.

- New objectives/vision.
- Need for staff involvement, communication and retraining.
- New resources, equipment and finance.
- Overcoming resistance to change.
- Clash of cultures.

Analysis might include:
- How will the factory be managed, e.g. should managers be brought in from outside?
- Effects of possible clash of cultures.
- Importance of communication of change with workers.
- Analyses the benefits of business planning.
- Effects on the business of different methods for financing the strategy.
- The effects of employing a change manager.
- The benefits of project champions.
- Benefits of specific models of change.
- Convincing different stakeholders about the benefits of the change.

Application might include:
- Is there sufficient finance from retained earnings? Effect on dividends.
- Unemployment rate at 8% might suggest easy to recruit workers if needed.
- Difference in interest rates if finance is borrowed.

Evaluation might include:
- Which issue is the most important?
- Is Sarah the right person to lead/manage the change?
- The success will depend on factors such as differences in the cultures.
- More information is needed about the factory and market in country P.

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