Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

BUSINESS **9609/32**

Paper 3 Case Study **March 2017**

MARK SCHEME

Maximum Mark: 100

Published

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.

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General Marking Guidance for 9609 Paper 3

- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.
- Errors that are carried forward (e.g. when an incorrect numerical answer to one part of a question is used as the starting point for a calculation in the next part of the question) should not be compounded – use the 'own figure rule'.
- Poor spelling, handwriting or grammar should not be penalised as long as the answer makes sense.
- The main Scoris annotations to be used are K (Knowledge), APP (Application), AN (Analysis), EVAL (Evaluation). For each of these four annotations, the number of marks awarded for that assessment objective must match the number of times that annotation is on the answer.
- Only award EVAL if the candidate has also demonstrated APP.
- Other Scoris annotations that can be used are: Tick, Cross, BOD (Benefit Of Doubt), TV (Too Vague), REP (Repetition), NAQ (Not Answered Question), OFR (Own Figure Rule), SEEN, On Page Comment.
- Blank pages on a script must be annotated as SEEN.
- A blank space, dash, question mark and a response that bears no relation to the question constitutes a 'no response'.
- In Section B, candidates answer either Question 6 or Question 7. The Section B question that the candidate does not answer must be entered as 'no response'.
- Blank pages, or pages that contain crossed out material, must be annotated using 'SEEN'.

This mark scheme includes a summary of appropriate content for answering each question. It should be emphasised, however, that this material is for illustrative purposes and is not intended to provide a definitive guide to acceptable answers. It is quite possible that among the scripts there will be some candidate answers that are not covered directly by the content of this mark scheme. In such cases, professional judgement should be exercised in assessing the merits of the answer and the senior examiners should be consulted if further guidance is required.

Application marks are not awarded for repeating material from the case study. Application is by answering in the context of the case or by using the information in the case to help answer the question.

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1</td><td>

Analyse the likely opportunities and threats to SA of the forecast economic changes given in Appendix 1.

<table>
<tr><td>Level</td><td>Knowledge
3 marks</td><td>Application
3 marks</td><td>Analysis
4 marks</td></tr>
<tr><td>2</td><td>3 marks
Good knowledge shown of opportunities and threats/impact of them</td><td>3 marks
Points well applied</td><td>3–4 marks
Good use of reasoned argument or theory to explain the likely impact of opportunities and threats</td></tr>
<tr><td>1</td><td>1–2 marks
Knowledge shown of opportunities and threats/impact of them</td><td>1–2 marks
Some attempt to apply points or one point well applied</td><td>1–2 marks
Some use of reasoned argument or theory to explain likely impact of opportunities and threats</td></tr>
<tr><td>0</td><td colspan="3">No creditable content</td></tr>
</table>

Note:
Application requires understanding of impact on SA of identified change
For application limit to L1 where candidate identifies changes in economic forecasts e.g. lower economic growth
L2 application requires more specific reference to SA e.g. cost of fuel

Answers could include:

Knowledge:
- Opportunities and threats – external factors that impact businesses positively and negatively.
- Definition of terms from Appendix 1.

Application:
- In this case predictions suggest that economic growth is slowing and inflation is rising.
- The currency of SA's home country is getting stronger against the dollar.
- Inflation is set to rise above the rate of economic growth – credit comments about falling 'real growth'.
- With low unemployment could flexible contracts mean more difficulty in recruiting staff?
- Impact of changes on willingness of SA to make investments such as purchase of new aircraft.
- Linking changes to relatively low profitability of SA.
- SA not in position of being able to raise fares, as 'budget airline' business model.
- Grants and subsidies from government to encourage overseas businesses and visitors may offset impact of economic changes.

</td><td>10</td></tr>
</table>

Question	Answer	Marks
	Analysis: • Slowing economic growth may lead to incomes for consumers and businesses increasing at a slower rate and this could slow the rate of increase in demand for flights. • Low unemployment could cause rising wage costs and impact SA's competitiveness. • Businesses such as SA may be less willing to make substantial investments with falling growth of real GDP. • Currency appreciation will lead to fares being higher if bought in Euros and probably other currencies. • Incomes still increasing at a reasonable rate, continued increase in demand for air travel. • SA's profitability is relatively low and could fall, meaning reliance on loan finance for future investments, interest rates set to rise.	

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)(i)</td><td>

Refer to Appendix 2. Calculate the net present value (NPV) for the purchase of the two new aircraft.

<table>
<tr><th>Year</th><th>Net cash flows $m</th><th>Discount factor</th><th>Discounted cash flow $m</th><th>Marks</th></tr>
<tr><td>0</td><td>(80)</td><td></td><td></td><td rowspan="8">1 mark for some attempt to use discount factors

2 marks for arithmetic error and failure to subtract capital cost

3 marks for 1 error

4 marks for correct answer</td></tr>
<tr><td>1</td><td>8</td><td>.89</td><td>7.12</td></tr>
<tr><td>2</td><td>12</td><td>.80</td><td>9.6</td></tr>
<tr><td>3</td><td>15</td><td>.71</td><td>10.65</td></tr>
<tr><td>4</td><td>20</td><td>.64</td><td>12.80</td></tr>
<tr><td>5</td><td>30</td><td>.57</td><td>17.1</td></tr>
<tr><td>6</td><td>54</td><td>.49</td><td>26.46</td></tr>
<tr><td></td><td></td><td>NPV</td><td>83.73 – 80 = 3.73</td></tr>
</table>

<table>
<tr><th>Answer</th><th>Mark</th><th>Rationale</th></tr>
<tr><td>$3.73m</td><td>4</td><td>Correct answer</td></tr>
<tr><td>$83.73m</td><td>3</td><td>Capital cost not subtracted</td></tr>
<tr><td>–$8.03m</td><td>3</td><td>Ignores residual value</td></tr>
<tr><td>$71.97m</td><td>2</td><td>Ignores residual value and capital cost not subtracted</td></tr>
</table>

</td><td>4</td></tr>
<tr><td>2(a)(ii)</td><td>

Refer to Appendix 3. Calculate the new gearing ratio for SA if $80m is borrowed to purchase two new aircraft.

Formula: non-current liabilities / capital employed × 100 = gearing % (1 mark)

$\frac{\$348m + 80m \text{ (1 mark)}}{\$1128 + 80m \text{ (1 mark)}} = 428m/1208m$ (2 marks)

35.43% (4 marks)

$428/$1128 (fails to add $80 in capital employed) = 37.94% (3 marks)

Alternative formula: non-current liabilities / shareholders' equity × 100 (1 mark)

$\frac{\$348m + 80m \text{ (1 mark)}}{\$780m \text{ (1 mark)}} = 428m/780m$ (2 marks)

54.87% (4 marks)

$\frac{\$348m}{\$1128m} = 30.85\%$ (2 marks)

</td><td>4</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>

Refer to your results from part (a) and other information in the case. Recommend whether SA should purchase or lease the two aircraft.

<table>
<tr><td>Level</td><td>Knowledge
2 marks</td><td>Application
2 marks</td><td>Analysis
5 marks</td><td>Evaluation
5 marks</td></tr>
<tr><td>2</td><td>2 marks
Good knowledge shown of relevant issues</td><td>2 marks
Good application to case</td><td>3–5 marks
Good use of reasoned argument or theory to explain investment appraisal result and other relevant issues</td><td>3–5 marks
Good judgement shown in answer and conclusion</td></tr>
<tr><td>1</td><td>1 mark
Some knowledge of relevant issues</td><td>1 mark
Some application to case</td><td>1–2 marks
Some use of reasoned argument or theory to either investment appraisal result or other relevant issues</td><td>1–2 marks
Some judgement shown in answer and/or conclusion</td></tr>
<tr><td>0</td><td colspan="4">No creditable content</td></tr>
</table>

Examiner note: Limit to L1 A and E if only refers to results from (a) or other information in the case

Knowledge:
- Investment appraisal is a way of assessing future returns from a capital purchase.
- NPV takes into account the future value of money.
- Leasing the aircraft involves a yearly cost/expense and aircraft will not be business assets.
- Balance sheet – Assets would increase with purchase option.

Application:
- NPV 3.73m, so positive after six years, leasing over six years would cost $4.6m × 2 × 6 = 55.2m.
- Cost of purchase less residual value is £56m.
- Discounted payback 5yrs 10 months.
- Payback is 4yrs 10 months.
- Increase in gearing ratio could be significant, but still low geared.
- How much will painting SA's colours cost for the leasing option?
- Reference to other financial data, such as profit margin (6.6%).

Analysis:
- If the competition in the airline industry increases – this would affect expected revenues.
- Purchase of aircraft will require financing and potentially increase pressure on cashflow.
- Purchase will increase value of assets of SA and increase capital employed thus increasing size of the business.
- Leasing will have less impact on the short-term cash-flow position of SA compared to outright purchase.

</td><td>14</td></tr>
</table>

Question	Answer	Marks
	Evaluation: • Accept either option or advise not obtaining new equipment – but must be well supported by reasoned argument. • Decision may depend on value after six years/speed of depreciation. How accurate is the figure given? • Decision may depend on state of economy – are interest rates likely to increase as a result of rising inflation? This could be a disadvantage for the purchase option especially as the payback is nearly 5 years.	

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3</td><td>

To what extent could a detailed marketing plan lead to a successful launch of SA's proposed new international routes?

<table>
<tr><td>Level</td><td>Knowledge
2 marks</td><td>Application
2 marks</td><td>Analysis
6 marks</td><td>Evaluation
6 marks</td></tr>
<tr><td>2</td><td>2 marks
Good knowledge shown of strategic marketing planning</td><td>2 marks
Good application to case</td><td>4–6 marks
Good use of reasoned argument or theory to explain how effective marketing planning may lead to successful launch or its limitations</td><td>4–6 marks
Good judgement shown in answer and conclusion</td></tr>
<tr><td>1</td><td>1 mark
Some knowledge of strategic marketing planning/marketing mix</td><td>1 mark
Some application to case</td><td>1–3 marks
Some use of reasoned argument or theory to explain how effective marketing planning may lead to successful launch or its limitations</td><td>1–3 marks
Some judgement shown in answer and/or conclusion</td></tr>
<tr><td>0</td><td colspan="4">No creditable content</td></tr>
</table>

Answers could include:

Knowledge:

- Marketing plan – integrated strategy, in this case for launch into a new market, including marketing research, mix, budget, objectives, strategy, tactics.
- Launch marketing planning – activities to ensure that the maximum number of potential customers are aware of and buy a new product or service.

Application:

- Ansoff's matrix – market development.
- Marketing strategy needs to target customers in home country and destination countries.
- Low gearing in relation to need to finance launch.

Analysis:

- Different tactics may be needed in countries where SA is not a familiar brand
- SA need to research overseas markets carefully – will the budget allow for this? Is there any opportunity for a joint venture?
- Is pricing method used appropriate? Especially given the currency appreciation.
- Is communication with existing customers good? How effective is the website? What other web-based methods can be used? Credit suggestions such as use of social media.
- Costs of initial launch strategy will be high. Will further borrowing be needed?

</td><td>16</td></tr>
</table>

Question	Answer	Marks
	Evaluation: • How competitive is the market for air travel in destination countries? Will SA be competing with national state-owned airlines that do not need to make profits? • Apart from the marketing plan, what other factors will be important? For example state of economy and incomes in destination countries. • As a domestic airline, do SA have the skills and knowledge to enter the new market?	

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(a)</td><td>

Refer to the information on lines 32–34 and 42–46. Assume the average capacity utilisation will be the same on the proposed international routes as on domestic flights. Calculate SA's forecast average total revenue for one international flight.

<table>
<tr><th>Answer</th><th>Explanation</th></tr>
<tr><td></td><td>Capacity utilisation on current flights given in text:

Economy – 99%
Business – 67%
Apply these to international flights</td></tr>
<tr><td>Number of seats sold in business / economy class per flight</td><td>Economy 126 × 99% = 124.74 seats [1]
Business 16 × 67% = 10 .72 seats [1]

Acceptable to round up or down
125 economy + 11 business [1 + 1]
124 economy + 10 business [1 + 1]</td></tr>
<tr><td>$22 999</td><td>Now use business and economy prices

124.74 × $150 = $18 711 [2]
10.72 × $400 = $4 288 [2]

Total $22 999 [6]</td></tr>
<tr><td>$23 150 (usual rounding rules)</td><td>125 × $150 = $18 750 [2]
11 × $400 = $4400 [2]
Total $23 150 [6]</td></tr>
<tr><td>$22 600 (rounded seats sold down)</td><td>124 × $150 = $18 600 [2]
10 × $400 = $4000 [2]

Total $22 600 [6]</td></tr>
<tr><td>$25 300</td><td>Full capacity revenue [1]</td></tr>
<tr><td></td><td>If no other valid working
Capacity utilisation formula
Current capacity (or seats sold)/maximum capacity (or seats available) × 100 [1]</td></tr>
</table>

1 error – 5 marks
2 errors – 4 marks
3 errors – 3 marks
Some attempt – 1–2 marks

</td><td>6</td></tr>
</table>

Question	Answer	Marks
4(b)	**Refer to your answer from part (a) and other information from the case. Discuss whether SA should offer more seats for business travellers on the proposed new routes.**	**12**

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

Examiner note: L1 A and E if only refer to answer from (a) **or** other information

Knowledge:
- Selling a mix of products or in this case service levels is a way of appealing to different groups of customers with different needs. (not strictly speaking price discrimination as different service but give credit).
- This is a key decision for SA as it changes aspects of marketing mix
- Understanding of price elasticity of demand.

Application:
- Possibility of 'disappointing' leisure travellers, due to less seats available.
- Case suggests that business travellers demand is more price inelastic than leisure travellers, they are more concerned about comfort and flexibility.
- Comparison of calculation in **(a)** with same fares but using original mix of seats, i.e. 138 economy and 12 business (allow full capacity calculation).
- Full capacity: Old configuration $25 500; New configuration $25 300.
- Existing capacity: Old configuration $23 709; New configuration 22 999.

Analysis:
- Consider how SA's product may differ from others, or not, what is USP?
- Impact of price elasticity on demand and revenues and profits.
- In order to attract increased number of business travellers SA may need to spend more on advertising than if predominantly just trying to attract leisure users.
- Impact on cost of staffing as business travellers will have higher expectations of service than leisure travellers.

Question	Answer	Marks
	Evaluation: • Market research suggests levels of demand and elasticity, but how accurate is this? • Can the mix of seats be changed according to the route? • To what extent may business traveller demand be affected by economic changes? • Overall judgement in advising SA, supported by the most important factors in the case.	

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>5</td><td>

Evaluate the use of flexible employment contracts for SA's future success.

<table>
<tr><th>Level</th><th>Knowledge
2 marks</th><th>Application
2 marks</th><th>Analysis
5 marks</th><th>Evaluation
5 marks</th></tr>
<tr><td>2</td><td>2 marks
Good knowledge shown of flexible workforce</td><td>2 marks
Good application to case</td><td>4–5 marks
Good use of reasoned argument or theory to explain the advantages or disadvantages of a flexible workforce</td><td>4–5 marks
Good judgement shown in answer and conclusion</td></tr>
<tr><td>1</td><td>1 marks
Some knowledge shown of flexible workforce</td><td>1 marks
Some application to case</td><td>1–3 marks
Some use of reasoned argument or theory to explain the advantages or disadvantages of a flexible workforce</td><td>1–3 marks
Some judgement shown in answer and/or conclusion</td></tr>
<tr><td>0</td><td colspan="4">No creditable content</td></tr>
</table>

Answers could include:

Knowledge:

- A flexible workforce includes a mix of employees working under different contract. Typically a few key people on full time permanent basis and then others part-time, zero hours, temporary, short term. This leads to workforce planning that meets the needs of the business.
- Importantly some flexible working arrangements offer flexibility to accept or refuse work to the employees as well, such as zero hours contracts.

Application:

- In this case, the airline will need staff to cover more or less 24 hours a day flights to some destinations are seasonal, so changing needs for workers.
- There have been some complaints, but others will be happy to work unsocial hours, part time, and so on, to fit around other commitments.
- But some insecurity for both the staff and also the airline, as they can't run flights without full crew.
- The HR Director has suggested putting more staff on full time contracts and paying bonuses, so there could be an issue here.
- Are there any other benefits of working for SA? Free travel?

Analysis:

- The wage bill should be lower as SA are only paying workers when they need them.
- Flexible arrangements suit some workers and not others – motivation issues?
- The demand for air travel is growing and unemployment is low – will skilled staff still want to work for SA or might they leave and join a competitor for more secure positions? SA is trying to grow, so will need to retain and recruit.

</td><td>14</td></tr>
</table>

Question	Answer	Marks
	Evaluation: • Judgement may depend on rate of growth of SA, but also nature of staff in all the different jobs with the company. • The economic situation in countries where staff are recruited is important in terms of wage and employment levels. • Generally jobs working for airlines, budget or otherwise, are popular, so probably unlikely to face a staff shortage. • Arguments must be two sided and final judgement well supported.	

Question	Answer	Marks

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 use of 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 to show judgement either within the answer OR a weakly supported conclusion/ recommendation with some focus on the business in the case
0	No creditable content			

Question	Answer	Marks
6	**Discuss the importance of contingency planning if SA is to continue to be successful.** Answers could include: **Knowledge:** • Contingency planning – preparations made by business for future unexpected events that may adversely affect the running and reputation of the business. Contingency plans include procedures to follow when such an event occurs, such as dealing with the media and 'disaster recovery' plans. • Corporate planning is the overview of company aims, objectives and strategies, in all areas for the next few years. Contingency planning is part of corporate planning. **Application:** • In this case, contingency planning (CP) may be used by SA to cope with disruptions such as a complete failure of the website, fuel shortage, service disruptions, such as delays, caused by factors such as weather or major incidents, such as plane technical problems, crashes or terrorism. • Reference to contingency planning issues if Option B is chosen, e.g. building delays. • The airline industry is vulnerable to many external factors (use of local examples allowable here). **Analysis:** • CP is important because of reassurance to staff (and customers?) that plans are in place and if, for instance, customers feel that problems such as major delays are dealt with efficiently and sympathetically, this will enhance reputation. • CP can be costly, and requires high levels of skills and knowledge, both in the process and in terms of preparations, such as having back-up systems and even equipment. **Evaluation:** • But by the nature of CP, it is used to prepare for the unexpected, cannot prepare for all eventualities (again local examples) • Importance of CP may depend on how likely these events are to occur, quite likely in this industry. A major incident would be disastrous and may cause loss of life. • However, other parts of the corporate plan are also very important for the future of the airline. • Maybe possible to prepare more detailed CP for more likely problems, such as passengers stranded by aircraft breakdown. • Cost of CP needs to be balanced against potential damaging consequences of not doing it. • Arguments must be two sided and final judgement well supported.	**20**

Question	Answer	Marks
7	**Evaluate the techniques that SA could use to make the strategic choice between the two options for growth.** Answers could include: **Knowledge:** • Strategic choice – using appropriate techniques to help make decisions between alternative long term plans of action. • Decision trees; force field analysis; Ansoff's matrix to assess risk involved. Also investment appraisal; break-even. **Application:** • Option A is market development. Lack of experience in market. • Option B is diversification. • SA successful airline with core competence. • Cost comparison and comments, e.g. the joint venture sum of $35m is initial cost only. **Analysis:** • Option A – quite risky due to new market/country and lack of experience in international flying. However, SA is successful airline/core competency issues. • Option B – but starting within the existing country, and linked with existing service. Potentially risky, though, as SA has no experience of managing hotels. How reliable is joint venture partner? • Both options rely on continued growth of travel industry, so some links between them meaning factors in strategic choice may be similar. • Decision trees could be very useful to assess risk involved and to compare this with expected payoffs – but how reliable would these estimates be? Could other hotel businesses be investigated to assess returns from Option B? Could joint venture partner help. • Force field analysis – important as option A involves operating to and from different countries and Option B entering a new market. Will SA and its staff be able to adapt to these changes? What are likely to be the main driving and restraining forces? **Evaluation:** • Important to use scientific methods of strategic choice as these are both likely to be costly and expensive strategies and only potentially profitable in the long run. No one technique better than the others. Lack of experience in either market could make estimating cash flows very difficult. May need to use advice from external consultants? • Comparison of costs has been given and SA's profit margin is low, finance and the ability to borrow or raise more funds from shareholders must also be an important factor here.	**20**