Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

BUSINESS **9609/32**

Paper 3 Case Study **May/June 2017**

MARK SCHEME

Maximum Mark: 100

Published

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1</td><td>
Analyse the likely impact of globalisation on HH.
<table>
<tr><th>Level</th><th>Knowledge
3 marks</th><th>Application
2 marks</th><th>Analysis
5 marks</th></tr>
<tr><td>2</td><td>3 marks
Good knowledge of globalisation and its impact(s)</td><td>2 marks
Points applied to HH</td><td>4–5 marks
Good use of theory and / or reasoned argument to explain impacts</td></tr>
<tr><td>1</td><td>1–2 marks
Knowledge of globalisation and / or impact(s)</td><td>1 mark
Point applied to HH</td><td>1–3 marks
Some use of theory and / or reasoned argument to explain impacts</td></tr>
</table>
Knowledge
• Globalisation is the trend towards freer international trade and movement of labour and capital
• Greater competition
• Easier recruitment from abroad
• Opportunities for expansion
• Economies of scale

Application
• More competition – referred to in para 1
• Greater opportunities for recruiting hotel / catering employees from other countries
• More opportunities for expansion abroad – this is what HH is considering

Analysis
• This will impose competitive pressures on HH and force business to be cost competitive or to create a differentiated service – might be difficult with only 4 star hotels.
• Recruitment from abroad might help to keep HH labour costs low / competitive
• Expansion abroad especially important if country Z hotel market is static / mature
</td><td>10</td></tr>
<tr><td>2(a)(i)</td><td>
Refer to the Appendix. Calculate for location Y:

break-even number of customers per month

TR = TC (1mark)
Fixed costs / contribution per unit (1 mark)
$69 000 / $70–$40 (2 marks)
2300 customers (3 marks)

OFR max 2 marks

If use 50–30 or fixed costs of $30 000 and calculate correctly then 2 marks
</td><td>3</td></tr>
</table>

Question	Answer	Marks
2(a)(ii)	**monthly profit at maximum capacity** Many formulae / approaches acceptable e.g. • (max customers × price) – (max customers × variable costs + fixed costs) (1 mark) • (max capacity – B / EVAL) × unit contribution (1 mark) • TR – TC (1 mark) • Total contribution less fixed costs (1 mark) Profit at expected demand is $66 000 (2 marks) (evidence of method not needed) (5000 × $70) – (5000 × $40 + $69 000) (2 marks) $81 000 (3 marks) OFR max 2 marks	**3**
2(a)(iii)	**margin of safety.** Expected output – break-even output (1 mark *if no calculation*) 4500 – 2300 (1 mark) 2200 (2 marks) 48.9% (2 marks) OFR based on answer from 2(a)(i) (2 marks) Max output – break-even output (0 marks)	**2**

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

Refer to your results from 2(a), the Appendix and other information. Recommend to HH's directors whether to choose location X or Y for the new hotel.

<table>
<tr><th>Level</th><th>Knowledge
2 marks</th><th>Application
2 marks</th><th>Analysis
4 marks</th><th>Evaluation
4 marks</th></tr>
<tr><td>2</td><td>2 marks
Two relevant points</td><td>2 marks
Factors well applied to HH</td><td>3–4 marks
Good use of theory and / or reasoned argument to explain location factors</td><td>3–4 marks
Good judgement shown e.g. well supported conclusion</td></tr>
<tr><td>1</td><td>1 mark
Relevant point</td><td>1 mark
Some application of factors to HH</td><td>1–2 marks
Some use of theory and / or reasoned argument to explain location factors</td><td>1–2 marks
Some judgement shown e.g. one factor very important</td></tr>
</table>

Note to examiners: Limit to L1 A & EVAL if only Appendix, results or other information considered.
OFR from 2(a) applies

Knowledge
Factors influencing location:
- Costs
- Nearness to market
- Preferences of owner
- Transport links
- Competition
- Risk
- B / EVAL

Application
- Comparison of results: OFR applies
- Location X has lower BE;
- Location Y has greater profit at max capacity
- Location Y has higher margin of safety
- Other issues:
- Y is city centre location
- Y requires higher capital outlay
- X has margin of safety of 1700
- Location Y requires higher capital outlay – are funds available internally or will this have to be added to the $60 m to be raised?
- Location Y takes longer to become operational
- Location Y has higher fixed costs

</td><td>12</td></tr>
</table>

Question	Answer	Marks
	Note: Where candidate only gives several higher / lower comparisons then limit to L1 APP. **Analysis** • Location X is less risky – lower BE point which might be best for a new hotel in an untried region. This can be linked to fixed costs. • Location Y is potentially more profitable – because of city centre location attracting business guests? • Location Y has greater margin of safety, this reduces risk as allows for greater deviation from expected demand • Time taken to become operational will have an impact on cash flow for HH **Evaluation** • Market research data essential too: likelihood of reaching beyond BE points in both locations; management attitude to risk; types of guests aimed for in both locations • Decision can go either way – but must be supported e.g. X is better as it gives earlier feedback on market demand and is less risky at a time of other strategic changes. • Y is better as it is potentially more profitable and plcs will aim for profitable growth and tourism / travel seems to be increasing making the higher BE less of a risk • How significant is difference in capital cost to HH • Location Y takes longer – how important is it to enter this geographical market quickly?	

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

Discuss the changes HH should make to its organisational structure to allow for future business growth.

<table>
<tr><th>Level</th><th>Knowledge
2 marks</th><th>Application
2 marks</th><th>Analysis
6 marks</th><th>Evaluation
6 marks</th></tr>
<tr><td>2</td><td>2 marks
Good knowledge shown of organisational structure</td><td>2 marks
Good application to HH</td><td>4–6 marks
Good use of theory and / or reasoned argument to explain ads / disads of possible new structure</td><td>4–6 marks
Good judgement shown on possible new organisational structure</td></tr>
<tr><td>1</td><td>1 mark
Some knowledge shown of organisational structure</td><td>1 mark
Some application to HH</td><td>1–3 marks
Some use of theory and / or reasoned argument to explain ads / disads of possible new structure</td><td>1–3 marks
Good judgement shown on possible new organisational structure</td></tr>
</table>

Note to examiners: If changes suggested but not specifically linked to future growth then no bar on marks.
If just discuss the problems with current structure then limit to L1 AN & EVAL

Knowledge
- Organisational structure shows the lines of authority / chain of command in an organisation – also spans of control / levels of hierarchy / formal communication channels
- Knowledge of different organisational structures

Application
- Current structure appears to be traditional hierarchy based on functional departments – rigid, poor communication and coordination between departments.
- Does not seem well suited to either operations in another country (Option 1) or another business unit – activity centres (Option 2)
- Might not even be well suited to growth of the existing business
- Impact of globalisation on organisational needs

Other options include:
- Geographical structure e.g. northern hotels and Option 1
- Business unit structure e.g. hotels and activity centres (Option 2)
- Matrix structure for new projects such as option 1 or 2

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

Question	Answer	Marks
	Analysis • Analysis of why the current structure is not suited to HH • Analysis of why the structure is not suited to growth of the business or increasing competition which might need more flexible / adaptable structure • Geographical structure allows for regional / country differences and quicker local decision making – less control from HH head office though? • Business unit structure allows specialist managers to focus on different needs of different divisions – might lead to rivalry though? • Matrix structure improves communication between departments allowing better decisions to be made. But how to bring this into line with existing structure? • Benefits of a centralised or decentralised new structure **Evaluation** • Existing structure probably will not do – might depend on whether it can be effectively de-layered • Supporting arguments for structure(s) proposed to allow good judgement / conclusion • Globalisation will mean more and quicker changes – HH need a flexible structure which will allow for these	

Question	Answer	Marks
4(a)(i)	**Refer to lines 49–57 and Table 1. Calculate:** **gearing ratio assuming all $60 m is obtained from long term loans** Gearing ratio = non-current liabilities / capital employed × 100 (1 mark) $= \frac{\$145m}{\$260m} \times 100$ (2 marks) = 55.8% (3 marks) Gearing ratio = non-current liabilities / shareholder equity × 100 (1 marks) = 145 / 115 × 100 (2 marks) = 126% (3 marks) Other likely answers: 85 / 260 = 32.69% (2 marks) 145 / 200 = 72.5% (2 marks) 85 / 200 = 42.5% (1 mark) Answers expressed as a decimal rather than a percentage should be rewarded equally.	3
4(a)(ii)	**dividend per share in 2018 assuming all $60 m is obtained by the sale of an additional 20 m shares.** Dividend per share = total dividends / total shares issued (1 mark) $= \frac{\$8m}{60m}$ (2 marks) = 13.33 cents or $0.1333 (3 marks) 13 and 0.13 (3 marks) 8 / 40 = 0.20 cents (2 marks)	3

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

Refer to your results from 4(a), Table 1 and other information. Recommend to the Board of Directors which source of finance should be used by HH to obtain $60 m. Justify your answer.

<table>
<tr><th>Level</th><th>Knowledge
2 marks</th><th>Application
2 marks</th><th>Analysis
4 marks</th><th>Evaluation
4 marks</th></tr>
<tr><td>2</td><td>2 marks
Knowledge shown of finance source(s) and factor(s)</td><td>2 marks
Points well applied to HH</td><td>3–4 marks
Good use of theory and / or reasoned argument to explain finance sources / factors</td><td>3–4 marks
Good judgement shown e.g. well supported conclusion</td></tr>
<tr><td>1</td><td>1 mark
Knowledge shown of finance source(s) or factor(s)</td><td>1 mark
Some application to HH</td><td>1–2 marks
Some use of theory and/ or reasoned argument to explain finance sources / factors</td><td>1–2 marks
Some judgement shown e.g. one factor very important in decision</td></tr>
</table>

Note to examiners: Limit to L1 A & EVAL if only Table 1, results or other information considered.
OFR for answer to 4(a)

Knowledge

Sources of finance
- Loans
- Shares
- Selling assets
- Retained profits
- Overdraft
- Debt factoring

A list of sources of finance should not be given more than 1 mark.

Factors in decision:
- Risk related to gearing
- Cost of borrowing
- Impact on ownership and control – shares potentially dilute ownership control
- Impact on taxable profit; Interest on borrowing reduces taxable profit dividends on shares does not reduce tax liability

Application
OFR
- Gearing ratio raised above 50% – was 42.5%
- Interest rates forecast to fall
- Hari prefers bank loan
- Hari owns shares
- Reduction in dividend per share from 20 to 13 cents
- Servicing debt at interest charge of 5% is $3 m
- Hari's ownership would change from 62.5% of all share to 41.6% of shares if 20 m shares issued

</td><td>12</td></tr>
</table>

Question	Answer	Marks
	Analysis • Fall in interest rates will reduce the fixed cost of borrowing reducing risk of taking loan capital • Higher gearing represents an increase in risk due to fixed cost of servicing high levels of borrowing • Shareholders may consider further share issue as undesirable as it dilutes ownership and control • Higher gearing might not be a problem if expansion is profitable – once the interest has been paid, returns to shareholders should increase • Either option will increase costs of business – so would any increase in interest payments be advisable? • If shareholder react to the proposal to sell shares by selling their shares the share price will fall and that would threaten ability to raise $60 m. Rights issue might have to be sold at a discount. • Will the lower dividend per share encourage sale of shares? **Evaluation** • Much depends on Hari's reaction / preference and that of shareholders • 50:50 split might be suggested – will the cost of the new issue of shares be worth the finance raised? • More information would have been useful e.g. how HHs competitors' share prices have changed over last year and impact of new share issue on PE ratio • Is the finance required sufficient to justify the cost of a share issue • More shares – Hari and family will lose overall control – unless they buy most of the new shares (unlikely?) • What is happening to dividend yield in similar plcs?	

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

Discuss a suitable marketing strategy for HH if it decides to open hotels in country P.

Level	Knowledge 2 marks	Application 2 marks	Analysis 6 marks	Evaluation 6 marks
2	2 marks Good knowledge shown of marketing strategy	2 marks Good application to HH	4–6 marks Good use of theory and / or reasoned argument to explain new marketing strategy	4–6 marks Good judgement shown on possible new marketing strategy
1	1 mark Some knowledge shown of marketing strategy	1 mark Some application to HH	1–3 marks Some use of theory and / or reasoned argument to explain new marketing strategy	1–3 marks Some judgement shown on possible new marketing strategy

Note to examiners: Limit to L1 AN & EVAL if only considers one element of marketing strategy e.g. just pricing or budget

Knowledge
Marketing strategy is a detailed plan of the company's marketing objective, budget and marketing mix
- The objective set will be the benchmark of success / failure as well as a major determinant of the marketing mix and the budget level
- Reference to situational analysis / market research as part of marketing

Application
- Clear objective needs to be set – this has not yet been done – the general statement in para 1 about the "need to take advantage of growth in international tourism" is not an objective.
- EVAL.G.: 15% market share in country P by 20xx?
- Marketing budget? Is this included in the $60 m? No details of how much will be needed. Same as competitors?

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

Question	Answer	Marks
	Analysis • Pricing - penetration pricing to get established is a possibility – Hari not very keen on this but might be necessary. How will this impact on image of the new hotels? • Promotion – newspaper advertising expensive might not reach target market – again market research essential. Need to focus on promotion methods most likely to reach target market • Place – online? Own website or booking agencies? Travel agencies? • Product – 4 star hotels (HH experienced in this sector) – market research needed to establish likely demand and whether tourists or business customers. Country P a definitely not a developing lower income economy but high income country with high competition in this market • Clear objectives will provide focus for taking appropriate decisions leading to better outcomes • Budget will allow HH to have more control over expenditure ensuring that strategy generates profit **Evaluation** • Strategy needs market research to underpin it – is Hari prepared to undertake this? • Most important factors: mix must be fully integrated to present a 'united' image of the business; strategy must be changed from existing country X strategy if the culture/income levels / market conditions are different in country P • Essential to differentiate HH from other hotels in this 'competitive market'	

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

Questions 6 and 7 use this marking grid:

<table>
<tr><th>Level</th><th>Knowledge
3 marks</th><th>Application
3 marks</th><th>Analysis
4 marks</th><th>Evaluation
10 marks</th></tr>
<tr><td>3</td><td></td><td></td><td></td><td>7–10 marks
Good judgement shown throughout with well supported conclusion / recommendation, focused on the business in the case</td></tr>
<tr><td>2</td><td>3 marks
Good understanding shown</td><td>3 marks
Good application to the case</td><td>3–4 marks
Good use of reasoned argument or use of theory to explain points made</td><td>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</td></tr>
<tr><td>1</td><td>1–2 marks
Some understanding shown</td><td>1–2 marks
Some application to the case</td><td>1–2 marks
Limited use of reasoned argument or use of theory to support points made</td><td>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</td></tr>
<tr><td>0</td><td colspan="4">No creditable content</td></tr>
</table>

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

Question	Answer	Marks
6	**Refer to Table 2 and other information. Evaluate the most important factors HH's directors should consider when making the strategic choice between option 1 and option 2.** *Note to examiners:* Limit to L1 EVAL if only Table 2 or other information considered. If only discuss factors in relation to location X and Y then only K and APP (i.e. max 6 marks) **Knowledge** • Strategic choice is important as decisions are costly, often effect all functional departments and are difficult to reverse Reference to strategic choice techniques • Ansoff Matrix • Force Field Analysis • Investment Appraisa Factors affecting the strategic choice • Strengths / weaknesses of the business • Cost • Return on investment • Risk **Note:** List of techniques and list of factors without explanation is 1 mark each **Application** • Limited experience of current employees of working in activity holiday resorts for option 2 • Lower NPV for option 2 • Greater cost of option 1 • Competition in hotel market in country P • Lower capital cost of option 1; link to current gearing level of 42.5% • Option 1 is market development • Option 1 – hotels and hotel management have been key to HHs success so far • Country P something of an unknown quantity • Country P is a high-income country; link to 4 star hotels of HH	**20**

Question	Answer	Marks
	Analysis • Competition in country P will increase difficulty of breaking into the market • Training costs may be greater for option 2 due to inexperience of employees • Little info in the case about country P; how much market research has HH done? • As a high-income country will HH need to modify product by offering better facilities than currently offered in country Z to appeal to the market? • Country P is a competitive market – profit margins may be low • As 35% of employees have experience abroad this could reduce the risk of option 1 • Option 2 – country Z market well known but this is a different segment. Product may need to be branded differently – how much synergy will there be between the two parts of the business? Lower cost and higher NPV, less risk – seems like a better investment BUT will HH be too dependent on state of country Z market and tourism levels? Is this real diversification? **Evaluation** • Most important factors? Supporting argument required • More information would have allowed a wider consideration of factors e.g. income levels in P and profit margins of hotel competitors in this country • Judgement might be shown in giving a final decision – but this is not required given the question • HH has some employees who have experience abroad – will HH make good use of them? • Lower NPV – but how reliable were the cash flow forecasts?	

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Question	Answer	Marks
7	**Evaluate the importance of developing a culture of change within HH when introducing new growth strategies.** *Note to examiners:* Limit to L1 EVAL if only discusses changing culture with no link made to growth. **Knowledge** • Culture means the values and beliefs of an organisation – especially senior management. Culture of change means encouraging and facilitating strategic change in an organisation. • Implementation means putting into effect strategic change • These changes will affect employees – opportunities but also potential threats. Change can be promoted through: • Clear mission statement and sense of direction • Employee involvement • Team working / project champions **Application** • Both strategic options will involve considerable change – market / country / language in Option 1; product / image / market segment in Option 2 • Culture of change does not appear to be that strong in HH – e.g. the case of the Ajax takeover was not well handled. • Current suggested secrecy over the options will hinder culture of change developing • Threats to employees include redundancy in option 2. May need to offer jobs in the activity centres to those facing redundancy. **Analysis** • Employees could actually add something to the decision and its implementation – given their experience in these two types of business – foreign hotels and activity centres. • Less resistance to change makes responding to a dynamic environment more effective • Decisions can be made more quickly resulting in first mover advantage in a competitive market • Important in a globalised market to be able to respond **Evaluation** • Without a culture of change, strategic implementation can become very difficult and less successful – putting at risk a large investment • It is vital to the success of the implementation of either of these options that employees are involved, consulted and communicated with • Employee fear of change and resistance to change will be much greater without an effective culture of change – but can Hari introduce this?	**20**