Cambridge International A Level

**Cambridge Assessment International Education**
Cambridge International Advanced Level

**BUSINESS** **9609/31**

Paper 3 Case Study **May/June 2018**

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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## Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1</td><td>
Analyse the advantages and disadvantages of PGP's privatisation for any <u>one</u> stakeholder group.
<table>
<tr><th>Level</th><th>AO1<br>3 marks</th><th>AO2<br>2 marks</th><th>AO3<br>5 marks</th></tr>
<tr><td>2</td><td>3 marks<br>Knowledge shown of privatisation and advantage(s)/ disadvantage(s)</td><td>2 marks<br>Two points applied to the case</td><td>4–5 marks<br>Good use of theory or reasoned argument to explain how advantage(s) and disadvantage(s) resulted from privatisation</td></tr>
<tr><td>1</td><td>1–2 marks<br>Some knowledge of privatisation and/or stakeholders and/ or advantage(s) or disadvantage(s) shown</td><td>1 mark<br>One point applied to the case</td><td>1–3 marks<br>Some use of theory or reasoned argument e.g. how advantage(s) or disadvantage(s) resulted from privatisation</td></tr>
<tr><td>0</td><td colspan="3">0 marks<br>No relevant content</td></tr>
</table>
Examiner note:<br>
If no understanding of privatisation evident then limit to L1K if understanding of stakeholders shown.<br>
If only advantages or disadvantages then limit to L1AN.<br><br>
Knowledge:<br>
• Sale of state owned assets/business to private sector owners.<br>
• Customers – lower prices with private sector competition<br>
• Danger of private monopoly.<br>
• Workers – wages might be reduced to save costs; jobs might be lost but managers might be more highly rewarded.<br>
• Customers – prices are less competitive (103 not 98) but more innovative products.<br>
• Workers' wages have increased but by much less than managers<br>
• Fewer jobs available – less job security?<br>
• Other stakeholders are possible.<br><br>
Application:<br>
Use of changes from case that are relevant to stakeholder under consideration<br>
• Reduction in size of total employees by 17 000<br>
• Increase in average pay of employees by $4000 (does this take into account inflation?)<br>
• Increase in average pay of managers by 73%<br>
• Increase in operating profit by 349%<br>
• Reduction in number of suppliers<br>
• Faster payment time to suppliers
</td><td>10</td></tr>
</table>

| Question | Answer | Marks |
|---|---|---|
| 1 | • More products developed<br>• Relative increase in fuel price compared to industry average (fuel prices may have fallen over the whole period)<br><br>**Analysis:**<br>• Customers: Private ownership might mean that PGP has taken over other companies to gain market power (PGP has grown externally) and this allows higher prices to be charged but more invested in innovative products to gain higher private sector profits in future.<br>• Workers: cost cutting/profit motive in this industry has encouraged PGP to reduce workforce despite doubling revenue. Reduces job security.<br>Wages have risen – but do not know if this is in 'real' terms and certainly much less, proportionately, than managers' salaries – who are now able to set their own remuneration.<br>• Danger of private monopoly and thus higher prices.<br>• Other stakeholders are possible | |

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)</td><td>Refer to Table 2. Calculate the difference between the annual cost of outsourcing the transport of fuel in country X with the existing annual cost of transport.
<table>
<tr><td>Element</td><td>Answer</td><td>Mark</td><td>Notes</td></tr>
<tr><td>Cost saving</td><td>89 – 78 = $11m</td><td>8</td><td>Correct</td></tr>
<tr><td>Cost saving</td><td>85 – 78 = $7m</td><td>8</td><td>Alternative correct</td></tr>
<tr><td>Cost saving</td><td>89 – 82 = $7m</td><td>8</td><td>Allocated overheads included for both outsourcing and existing</td></tr>
<tr><td>Cost saving</td><td>$6m or $2m</td><td>7</td><td>Ignores depreciation. Relevant calculation must be shown.</td></tr>
<tr><td>Outsourcing cost</td><td>$78m</td><td>2</td><td></td></tr>
<tr><td>Outsourcing cost</td><td>78 + 4 = $82m</td><td>2</td><td></td></tr>
<tr><td>Outsourcing cost</td><td>600m × 0.13</td><td>1</td><td></td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>Existing cost</td><td>29 + 60 = $89m</td><td>5</td><td>All relevant costs included.</td></tr>
<tr><td>Existing cost</td><td>25 + 60 = $85m</td><td>5</td><td>Allocated overheads not relevant to cost saving.</td></tr>
<tr><td>Existing cost</td><td>$84m or $80m</td><td>4</td><td>Ignores depreciation</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>Total annual fixed cost</td><td>20 + 4 + 5 = $29m</td><td>2</td><td></td></tr>
<tr><td>Total annual fixed costs</td><td>20 + 5 = $25m</td><td>2</td><td></td></tr>
<tr><td>Total annual fixed costs</td><td>$24m</td><td>1</td><td>Ignores depreciation</td></tr>
<tr><td>Existing variable cost</td><td>$60m</td><td>2</td><td></td></tr>
<tr><td>Existing variable cost</td><td>600m × 0.1</td><td>1</td><td></td></tr>
</table></td><td>8</td></tr>
</table>

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

**Using your result to 2(a) and other relevant information, recommend to PGP's directors whether the transport of fuel should be outsourced in country X. Justify your recommendation.**

<table>
<tr><th>Level</th><th>A01<br>2 marks</th><th>A02<br>2 marks</th><th>A03<br>4 marks</th><th>A04<br>4 marks</th></tr>
<tr><td>2</td><td>2 marks<br>Good knowledge of costs/other factors shown</td><td>2 marks<br>Good application to case</td><td>3–4 marks<br>Good use of theory or reasoned argument to explain points made</td><td>3–4 marks<br>Good evaluation and judgement shown in answer and conclusion</td></tr>
<tr><td>1</td><td>1 mark<br>Some knowledge of costs/other factors shown</td><td>1 mark<br>Some application to case</td><td>1–2 marks<br>Some use of theory or reasoned argument to explain points made</td><td>1–2 marks<br>Some evaluation and judgement shown in answer or conclusion</td></tr>
<tr><td>0</td><td colspan="4">0 marks<br>No relevant content</td></tr>
</table>

**Examiner note:** L1 AN & EVAL if only consider answer to 2(a) or other information

**Knowledge:**
- Understanding variable/fixed cost savings; allocated overheads; depreciation; one-off gains from disposal of assets; risk of unreliable transport with outsourced business.

**Application:**
- Use of result to a) and other data/information.
- PED for fuel is price elastic
- Raise $5m from sale of trucks and $8m from sale of distribution centre

**Analysis:**
- Cost savings fits in well with the trend in the industry; private sector business more worried about profits than potential job losses; if country X outsourcing of transport increases profit than this strategy can be used in other countries that PGP operates in.
- Reduces admin costs – may fit in with plan to delayer
- Disposal of assets raises finance for other projects e.g. option A/B
- 'Outsourcer' might increase cost once depot/trucks are sold
- Less control over assets/deliveries, etc.
- Will allocated overheads really be saved? Disposal of site/trucks just a one-off benefit.

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

| Question | Answer | Marks |
|---|---|---|
| 2(b) | **Evaluation:**<br>• Cost difference is not that great – is it better to pay a little more for control over own transport assets?<br>• How reliable are the asset valuations?<br>• How reliable is the transport company? It's a potentially dangerous product – is it better to control the transport of it? | |

| Question | Answer | Marks |
|---|---|---|
| 3 | **Discuss the likely advantages and disadvantages to PGP of the proposed delayering of its organisational structure.** | **16** |

| Level | A01<br>2 marks | A02<br>2 marks | A03<br>6 marks | A04<br>6 marks |
|---|---|---|---|---|
| **2** | 2 marks<br>Good knowledge of delayering/ organisational structures shown | 2 marks<br>Good application to the case | 4–6 marks<br>Good use of theory or reasoned argument to explain advantages **and** disadvantages of delayering on PGP | 4–6 marks<br>Good evaluation and judgement shown about impact of delayering |
| **1** | 1 mark<br>Some knowledge of delayering or organisational structures | 1 mark<br>Some application to case | 1–3 marks<br>Some use of theory or reasoned argument to explain ad(s) **or** disad(s) of delayering on PGP | 1–3 marks<br>Some evaluation and judgement shown about impact of delayering |
| **0** | 0 marks<br>No relevant content | | | |

Answers could include:

**Knowledge:**
- Removing levels of hierarchy; cuts management numbers, increases span of control; reduces chain of command.

**Application:**
- Structure not really changed since privatisation; profit motive requires cost cutting and more flexible structure; more outsourcing will allow further delayering.
- Workers being paid a lot more now – should be prepared to take more responsibility.

**Analysis:**
- Opportunities for delegation and increased accountability
- Improved communication as a result of shorter chain and scope for job enrichment.

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| Question | Answer | Marks |
|---|---|---|
| 3 | • Motivational effects of these changes – compared with the uncertainty and loss of security that they might cause.<br>• PGP – greater need for flexibility in changing times e.g. oil price down and increased use of renewables. PGP needs to cut costs to improve ratio results/performance.<br><br>**Evaluation:**<br>• Will removing two levels be enough?<br>• How will the changes be managed and communicated?<br>• Will different numbers of levels be appropriate in different departments?<br>• Need to reconsider whole organisation structure?<br>• How will proposed expansion into A/B options impact on organisation structure?<br>• Is delayering a sufficiently significant change to the structure? | |

| Question | Answer | Marks |
|---|---|---|
| 4(a)(i) | **Refer to Table 3.**<br><br>**Calculate for PGP:**<br><br>**price earnings ratio**<br><br>Share price/earnings per share (1 mark)<br><br>$20/$1.5 (2 marks)<br><br>= 13.3 (3 marks)<br>OFR | **3** |
| 4(a)(ii) | **dividend yield.**<br><br>Dividend per share/share price × 100 (1 mark)<br><br>60cents/$20 (2 marks)<br><br>= 3% (3 marks)<br>OFR | **3** |

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

**Discuss <u>two</u> ways in which PGP could improve its accounting ratio results in future.**

<table>
<tr><th>Level</th><th>A01<br>2 marks</th><th>A02<br>2 marks</th><th>A03<br>4 marks</th><th>A04<br>4 marks</th></tr>
<tr><td>2</td><td>2 marks<br>Two relevant points</td><td>2 marks<br>Ways well applied to PGP</td><td>3–4 marks<br>Good use of theory or reasoned argument to explain impact ways to improve ratio results</td><td>3–4 marks<br>Good judgement and evaluation of ways</td></tr>
<tr><td>1</td><td>1 mark<br>Knowledge of accounting ratios or way to improve</td><td>1 mark<br>Some application of way(s) to PGP</td><td>1–2 marks<br>Some use of theory or reasoned argument to explain impact of way(s)</td><td>1–2 marks<br>Some evaluation and judgement of at least one way</td></tr>
<tr><td>0</td><td colspan="4">0 marks<br>No relevant content</td></tr>
</table>

L1 AN & EVAL if only one way suggested

**Knowledge:**
- RoCE – increase profit without increase CE
- Dividend yield – increase dividends paid
- Increase price
- Cut capital employed e.g. sell assets and repay some debt

**Application:**
- Cutting management overheads through delayering might increase profit
- Higher prices (relatively) already being charged
- Transport outsourcing should raise cash from sale of assets.

**Analysis and Evaluation:**
- Raise prices – might increase profit margins, if prices rise more than costs, and RoCE – BUT demand is price elastic for products which are not easy to brand. Might work for specialist oils?
- Sale of assets/cut loans – will also cut gearing – BUT impact on operations of assets sales? Might refer back to closing transport depot. Non-current liabilities needed for PGP expansion programme and is the gearing ratio that high anyway?
- Increase dividends to improve dividend yield and share price (raising the PE ratio). **BUT** will this reduce retained earnings and will this restrict the future expansion plans and the dividends and share price in the future?

ARA

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

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>5</td><td>
Evaluate the usefulness of the moving average method to forecast sales of oil and gas products to PGP.
<table>
<tr><th>Level</th><th>A01<br>2 marks</th><th>A02<br>2 marks</th><th>A03<br>6 marks</th><th>A04<br>6 marks</th></tr>
<tr><td>2</td><td>2 marks<br>Good knowledge of sales forecasting/ moving average shown</td><td>2 marks<br>Good application to case</td><td>4–6 marks<br>Good theory or use of reasoned argument to explain benefits/limitations of moving average method</td><td>4–6 marks<br>Good evaluation and judgement on the usefulness of the MA method in this case</td></tr>
<tr><td>1</td><td>1 mark<br>Some knowledge of sales forecasting/ moving average shown</td><td>1 mark<br>Some application to case</td><td>1–3 marks<br>Some use of theory or reasoned argument to explain benefits/ limitations of moving average method</td><td>1–3 marks<br>Some evaluation and judgement on the usefulness of the MA method in this case.</td></tr>
<tr><td>0</td><td colspan="4">0 marks<br>No relevant content</td></tr>
</table>
Knowledge<br>
• Moving average based on past sales data<br>
• Calculates an 8 period (usually) moving total and divides by 8; calculates seasonal and average seasonal variation; extrapolates trend and allows short term forecasts to be made; cyclical variations can be identified over periods longer than 1 year.<br><br>
Application:<br>
• Some oil and gas products subject to seasonal variations in demand, e.g. heating oil.<br>
• Some products subject to cyclical demand driven by world economic booms/slump, e.g. fuel for cars/trucks and generating electricity.<br><br>
Analysis:<br>
• Sales forecasts help in planning e.g. production/refinery capacity; workforce planning; inventory levels etc.<br>
• Accurate sales forecasting can help cut costs e.g. of unexpected<br><br>
Evaluation:<br>
• Basing all forecasts on past data may mean that structural changes in demand are not taken account of e.g. rapidly changing trend towards renewable energy.<br>
• Weather patterns in future may not be the same as those in the past – so relying on moving average method may be unwise.
</td><td>16</td></tr>
</table>

| Question | Answer | Marks |
|---|---|---|
| 5 | • Should be used – but with caution and with use of other methods too e.g. market research to assess demand for new products such as lubricants for jet engines.<br>• Use as much past data as possible but most recent is most relevant.<br>• Adjust for trends that did not appear in past data. | |

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| Question | Answer | Marks |
|---|---|---|

**Questions 6 and 7 use this marking grid:**

| Level | A01<br>2 marks | A02<br>2 marks | A03<br>6 marks | A04<br>6 marks |
|---|---|---|---|---|
| **3** | | | | 7–10 marks<br>Good judgement shown throughout with well supported conclusion/ recommendation, focused on the business in the case |
| **2** | 3 marks<br>Good understanding shown | 3 marks<br>Good application to the case | 3–4 marks<br>Good use of reasoned argument or use of theory to explain points made | 4–6 marks<br>Some judgement shown in the main body of the answer **and** an attempt to support conclusion/ recommendation, focused on the business in the case<br>OR<br>effective and well supported conclusion/ recommendation, focused on the business in the case |
| **1** | 1–2 marks<br>Some understanding shown | 1–2 marks<br>Some application to the case | 1–2 marks<br>Limited use of reasoned argument or use of theory to support points made | 1–3 marks<br>Limited attempt to show judgement either within the answer<br>OR<br>a weakly supported conclusion/ recommendation with some focus on the business in the case |
| **0** | No creditable content | | | |

| Question | Answer | Marks |
|---|---|---|
| 6 | **Evaluate the usefulness of any <u>two</u> techniques of strategic analysis to PGP's Board of Directors.**<br><br>Answers could include:<br><br>**Knowledge:**<br>• SWOT/PEST/Boston Matrix/Porter/core competencies/may refer to mission/vision statements.<br><br>**Application:** (for example)<br>• **S** – rapid growth; profitable; increasing productivity; vertically integrated business<br>**W** – too dependent on fossil fuels; performance compared to industry average; tall/rigid hierarchical structure<br>**O** – renewable energy; new oil field; further outsourcing<br>**T** – competition; trend towards renewables; climate change<br>• **P** – change of government – re-nationalisation?<br>**E** – global downturn hitting demand<br>**S** – population growth increasing demand<br>**T** – new technology in renewables<br>• Other techniques could be applied.<br><br>**Analysis:**<br>• Helps a business establish 'where it is now and where it wants to be'<br>• Analyses internal conditions of the business and external environment<br>• Helps to establish the strategies that might be adopted in future to meet corporate aims.<br><br>**Evaluation:**<br>• Needs keeping up to date – has it been in this case?<br>• What strategic analysis was undertaken before Option A and B were selected as alternative strategies?<br>• Some techniques can be subjective e.g. Operations Director might be opposed to renewable energy or climate change might be contested.<br>• Some strategic analysis essential as new projects in this industry are very expensive and very long term – difficult to reverse once decided on. | **20** |

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| Question | Answer | Marks |
|---|---|---|
| 7 | **Discuss whether the techniques referred to in Appendix 1 are sufficient to allow the directors to make the strategic choice between Option A and Option B.**<br><br>**Knowledge:**<br>• Decision trees – consider payoffs and probabilities<br>• Investment appraisal – using forecast cash flows<br>• Ansoff – classifies strategies<br><br>**Application:** (other examples possible)<br>• Oil companies often subject to pressure group activity<br>• Capital cost – R&D more costly but also many renewable energy projects do not reach a profitable conclusion.<br><br>**Analysis:**<br>• Some focus on risk – an important consideration for long term projects such as these especially for Option B as renewable energy is 'new' for PGP.<br>• Decision trees help to quantify the decision and encourage consideration of all outcomes – important for a profit seeking PLC<br>• Ansoff identifies the nature of the expansion – and considers the risk element too so a risk averse business might opt for market penetration<br>• Discounted payback is important as it considers the time value of money (long term projects) and PGP has a higher gearing than industry average so paying back loan capital as early as possible could be important.<br><br>**Evaluation:**<br>• Uncertainty over the techniques used, e.g. how were the probabilities and expected outcomes estimated in the decision tree?<br>• Risk is not being quantified only identified; is 'renewable energy' really diversification?<br>• Not enough detail; more information about PGP's finances would be useful, e.g. can the investment be financed internally?<br>• Overall judgement based on preceding analysis and a consideration of the other techniques and information that need to be considered before this type of major strategic decision is made. | **20** |

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