Cambridge International A Level

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Cambridge International Advanced Level

BUSINESS **9609/32**

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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Question	Answer	Marks
1	**Analyse the likely positive and negative impact on DA of having a decentralised organisational structure.**	**10**

Level	Knowledge 3 marks	Application 2 marks	Analysis 5 marks
2	3 marks Knowledge of decentralised structure and impacts	2 marks More than one point explained in context	4–5 marks Good use of theory and/or reasoned argument to explain impact
1	1–2 marks Knowledge of decentralised organisational structure and/or impact	1 mark Some application to case	1–3 marks Some use of theory and/or reasoned argument to explain impact
0	No creditable content		

Examiner reminder:
Application marks are not awarded for simply 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. This applies to all questions.

Examiner Note:
Although decentralisation is not synonymous with democratic leadership, candidates may be rewarded for answers suggesting that decentralisation is more likely to involve a democratic approach where there is discussion and involvement of workers.
If only positive **or** negative impacts then L1 AN max. (Max mark overall is 8)

Knowledge:
- Definition of decentralised organisational structure
- Span of control likely to be wide
- Likely to be flatter structures as bureaucracies have been thinned
- May help development of junior managers
- Managers may take decisions that are not in the best interests of the whole organisation

Application:
- How decentralised organisational structure would help DA respond to local conditions if DA adopts strategy 1 and enters a foreign market
- Linking benefits/drawbacks to the four product areas
- Delegation and empowerment – production manager has authority to deal with production issues
- Linking benefits/drawbacks to negotiating with trade unions at the factory

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Question	Answer	Marks
1	**Analysis:** *Drawbacks of decentralisation* • A more centralised structure with a fixed set of rules and procedures in all areas of the firm might lead to rapid decision making being possible as there would be less discussion • Less consistent policies throughout the organisation. This could lead to conflicts and create confusion in the minds of consumers about the DA brand • Senior managers at headquarters will be experienced decision-makers. They might make better decisions regarding DA *Benefits of decentralisation* • A more motivated workforce contributing to greater productivity within the firm • Decision making in response to changes in local conditions may be quicker – if DA enters foreign markets this could be significant For reference to motivation needs to link to impact on firm for reward of analysis	

Question	Answer	Marks
2(a)(i)	**Refer to Appendix 1. Calculate as at 20 April 2018** **Dividend yield** Dividend yield = $\frac{\text{dividend per share} \times 100}{\text{current share price}}$ (1 mark) Dividend per share = \$1.1m/10m = \$0.11 (1 mark) = $\frac{0.11 \times 100}{5}$ = 2.2% (3 marks) Allow 0.022 (3 marks) DY = 2 (3 marks if evidence of calculation) 0.22 (2 marks) OFR applies if clear evidence correct equation being used 1.43% (2 marks) Wrong year used	**3**
2(a)(ii)	**Price earnings ratio** PE Ratio = $\frac{\text{current share price}}{\text{Earnings per share}}$ (1 mark) Earnings per share = $\frac{\text{Profit after tax}}{\text{Total number of shares}}$ (1 mark) EPS = 6m/10m = 0.6 PER = 5/0.6 = 8.3 PER = 8 (5 marks if evidence of calculation) OFR applies PER = 10 (4 marks) (4 marks) Wrong year used	**5**

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

Using your results to 2(a) and any other relevant information, recommend whether potential investors should buy shares in DA. Justify your recommendation.

<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
At least two relevant points made about ratios and/or other relevant issues to shareholders</td><td>2 marks
Application of two or more points to case</td><td>3–4 marks
Good use of reasoned argument or theory to explain shareholder view of DA’s financial performance</td><td>3–4 marks
Good judgement shown</td></tr>
<tr><td>1</td><td>1 mark
One relevant point made about ratios or relevant issues to shareholders.
Definition of shareholder.</td><td>1 mark
Some application to case</td><td>1–2 marks
Some use of reasoned argument or theory to explain shareholder view of financial performance</td><td>1–2 marks
Some judgement shown</td></tr>
<tr><td>0</td><td colspan="4">No creditable content</td></tr>
</table>

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

Knowledge:
- Shareholders may be primarily interested in the return from their investment:
  – Rising share price provides a capital gain
  – Rising dividends provide an income
- Dividend yield shows the rate of return based on the current market share price
- PE Ratio gives an indication of market confidence in the business

Application:
OFR from (a) applies i.e. candidate using own figure should be rewarded
- Dividend yield has risen from 1.43% to 2.2%.
- Dividend yield has increased due to lower share price
- Dividend yield is substantially below the industry average – better returns elsewhere
- Business has low gearing – less risk for investors
- PE Ratio has fallen from 10 to 8.3.
- Profits have decreased

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

Question	Answer	Marks
2(b)	• DA has ambitious expansion plans. If successful, this could lead to an increase in the share price. • Dividend cover is 5.45 • Linking shareholder decision to Lino's statement that DA needs to retain profit for investment • Will share price continue to fall? **Analysis:** • The decreasing PE Ratio suggests declining market confidence in DA's ability to generate long term profits and thus makes it a less attractive investment for shareholders • DA can easily cover the dividends payable suggesting that there is limited risk in making the investment. • Business growth may produce less benefit to shareholders due to low gearing **Evaluation:** • Short term v long term judgement of shareholders • Willingness of shareholders to wait for better returns? • More data need to identify longer term trends in ratios.	

Question	Answer	Marks
3	**Discuss the extent to which the adoption of lean production techniques will solve DA's current operational problems.**	**16**

Level	Knowledge 2 marks	Application 2 marks	Analysis 6 marks	Evaluation 6 marks
2	2 marks Knowledge of lean production and at least one point made about impact on operational problems	2 marks Good application to the case	4–6 marks Good use of theory to answer question	4–6 marks Good judgement shown
1	1 marks Knowledge of lean production	1 marks Some application to case	1–3 marks Some use of theory to answer question	1–3 marks Some judgement shown
0	No creditable content			

Examiner note:
Must demonstrate some knowledge of lean production to gain any marks

Question	Answer	Marks
3	**Knowledge:** • Lean production approach – using fewer resources to make production more efficient • Large range of examples could be given e.g. JIT; waste control methods; TQM (reduces waste of poor quality products); simultaneous engineering; kaizen, etc. • Lean production will require DA to work closely with suppliers • Knowledge of operational issues **Application:** • 1.2% point increase in the proportion of defective products • 50% increase in labour turnover • Linking issues to the new batch production system • Linking material supply problems and lean production • Linking lean production to effect on quality of camping equipment produced • Using reference to investment cost of $2m • Linking introduction of lean production to negotiations with unions. **Analysis:** • Problems have emerged since production became more capital intensive. Did this result in work becoming more deskilled? Lean production through its emphasis on multi-skilled employees might help motivate employees and therefore address issues such as labour turnover • TQM would give workers responsibility for quality and this could result in quicker identification of problems and thus improve quality • Quality circles increases worker involvement and use their expertise. This could increase motivation and therefore improve operational efficiency • Implementing lean production takes time as training required. This could create operational issues in the short term and disrupt production **Evaluation:** • Reaction of employees to these changes – are they able or prepared to cope with production methods that require much more involvement from them? • Labour turnover is a key problem. Lean production increases pressure on employees to perform – will this result in greater labour turnover? • Better answers will contain an overall judgement suggesting that lean production methods will help but that other factors will affect production/quality problems too, such as employee training.	

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Question	Answer	Marks
4(a)(i)	**Refer to data in Appendix 2. Calculate:** **promotional elasticity of demand for the DA range of walking boots if spending on promotion is increased from $200 000 to $300 000** AdED = $\frac{\%\Delta Qd}{\%\Delta Ad}$ (1 mark if no relevant calculation) %ΔQd = 25% (1 mark) %ΔAd = 50% (1 mark) AdED = 0.5 (3 marks) 25% and 50% can only be rewarded if it is clear what the numbers refer to.	**3**
4(a)(ii)	**Price elasticity of demand for the DA Explorer boot if price is reduced from $200 to $180.** PED = $\frac{\%\Delta Qd}{\%\Delta P}$ (1 mark if no relevant calculation) %ΔQd = 13% (1 mark) %ΔP = –10% (1 mark) PED = –1.3 or 1.3 (3 marks) 13% and (–)10% can only be rewarded if it is clear what the numbers refer to.	**3**

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

Use your results to 4(a) and any other relevant information. Discuss the importance of marketing planning to the success of DA's entry into the market for walking boots.

<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
At least two relevant points made about marketing planning and or results</td><td>2 marks
Application of two or more points to case</td><td>3–4 marks
Good use of theory to answer question</td><td>3–4 marks
Good judgement shown</td></tr>
<tr><td>1</td><td>1 mark
One relevant point made about results or marketing planning</td><td>1 mark
Some application to case</td><td>1–2 marks
Some use of theory to answer question</td><td>1–2 marks
Some judgement shown</td></tr>
<tr><td>0</td><td colspan="4">No creditable content</td></tr>
</table>

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

Knowledge:
- Marketing plan: The plan of how the marketing objectives are going to be achieved
- Clear objectives gives business direction and focus
- Market research will help DA understand the market and make appropriate marketing decisions
- Estimating PED/AED aids making decisions about pricing/promotion

Application:
OFR from (a) applies i.e. candidate using own figure should be rewarded
- Demand for DA Explorer is price elastic – responsive to changes in price
- Demand is advertising inelastic – not responsive to changes in advertising expenditure
- Comparing revenues with and without the change in price /advertising expenditure

Analysis:
- Knowledge of PED will help shape marketing mix. It is a competitive market – PED is estimated to be 1.3. Is market penetration pricing therefore most appropriate? Pricing at $180 rather than $200 will boost revenue but how will profit be affected?
- Promotion will be important as DA has not sold walking boots before, therefore it is essential to raise awareness of DA's entrance into the market. However, promotional elasticity of demand is only 0.5; does this suggest that spending $100 000 more is ineffective?

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

Question	Answer	Marks
4(b)	**Evaluation:** • Completely new marketing plan needed – most important factor could be identified and explained. • Essential to have fully integrated and supportive marketing mix aimed at this market • Competitive rivalry will be an important factor • Original objective needs to be realistic (market share?) and used as a form of assessment of this strategy.	

Question	Answer	Marks
5	**Assume DA decides to go ahead with strategy 1.** **Discuss the extent to which the data in Appendix 5 and other external factors could influence DA's success in country B.**	**16**

Level	Knowledge 2 marks	Application 2 marks	Analysis 6 marks	Evaluation 6 marks
2	2 marks Knowledge of external factors and at least one point about impact on success	2 marks Good application of points to case	4–6 marks Good use of theory to answer question	4–6 marks Good judgement shown in text and conclusion
1	1 mark Knowledge of external factors or their impact on success	1 mark Some application to case	1–3 marks Some use of theory to answer question	1–3 marks Some judgement shown in text or conclusion
0	No creditable content			

Examiner note:
If candidate assumes that DA entering market of country B to set up, not just sell in, then marks can be awarded for discussion on staff availability due to unemployment etc.

Knowledge:
- External factors are outside the control of the business and include economic, social and political factors.
- Definition of terms in Appendix 1
- Definition of other external factors

Application:
- Reduction in rate of growth of GDP and link to spending
- Rising inflation in country B and link to consumer spending
- Exchange rate depreciation and consequence for DA entering country B

Question	Answer	Marks
5	• Impact of increase in indirect taxes on DA prices and consumer spending • Impact of reduction in direct taxes on consumer spending • Reduction in unemployment rate and impact on consumer spending **Analysis:** • Rising real GDP should mean that incomes are rising and thus lead to increased demand for DA's products. Income elasticity of demand in country B will have a significant impact on extent to which demand increases • Unemployment is expected to fall as the economy grows. This may also boost sales as household incomes rise leading to sales growth. • High rates of inflation can create economic instability and result in it being difficult to predict future sales and revenues. The government may have to tackle higher inflation through increasing interest rates; this could impact sales of camping equipment particularly if it is expensive. • The depreciation of country A exchange rate may be beneficial to DA as they produce their equipment in country A; it will therefore become cheaper when imported into country B. This therefore allows DA to either enjoy a higher profit margin or to cut price to country B customers. • High inflation will increase the price of domestically produced goods – this could also help to make DA's products more competitive. • Indirect taxes are set to increase. This will add to the price of DA's products. • Direct taxes are set to fall. This will increase disposable income and benefit sales. **Evaluation:** • Which is the most significant factor determining success? • Can DA manage the external factors to minimise their negative impacts? • Importance of internal factors as well in determining success	

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

Question	Answer	Marks
6	**Discuss whether strategic choice techniques can eliminate risk from the strategic decisions that the directors of DA have to make.** **Examiner note:** • If only discuss role of strategic analysis (SA) or strategic implementation (SI) in reducing risk this is only L1 K and APP • However, if strategic choice (SC) is discussed then reference to need for SA and SI to reduce risk can be rewarded fully. • This is not a question about which strategy to choose. A candidate who just goes through SC techniques and uses them to justify a choice should be limited to K3 APP3 AN2 EVAL 0 **Knowledge:** • Strategic choice is an element of the strategic decision making process. • It is concerned with the identification of different strategic options and deciding between them. • Force Field Analysis • Technique for identifying and analysing the positive factors that support a decision (driving forces) and negative factors that constrain it (restraining factors) • This can be useful for a business to consider how to overcome the restraining forces. • Decision tree • Sets out options connected with a decision and the outcomes and economic returns that may result • Ansoff Matrix • Strategic planning tool that provides a framework to help devise future growth strategies (market penetration, market development, product development, diversification) • Investment Appraisal • Evaluation of the attractiveness of an investment proposal, using methods such as payback, average rate of return and net present value **Application:** • Classification of takeover of Outdoor Life in Ansoff Matrix • Expected monetary values are – Strategy 1 $1.8m, Strategy 2 $7.2m – Strategy 2 would be chosen on basis of decision tree. • Payback favours strategy 1, ARR favours strategy 2 **Analysis:** • Quicker payback may be beneficial to satisfy shareholders – relates to risk of decisions causing shareholder dissatisfaction • Strategic choice techniques attempt to apply a more scientific approach to decision making. This can improve the quality of decisions and ensure that more factors are considered hence reducing risk • Identifying restraining factors can enable to DA to reduce risk by developing strategies to overcome the restraining factors • Strategy 1 is market development	**20**

Question	Answer	Marks
6	• Analysis of risks of market development • Analysis of implication of unsaturated market for Strategy 1 • Analysis of exchange rate risks for Strategy 1 • Analysis of lack of experience of retailing for Strategy 2 • Analysis of benefit of distribution channel for Strategy 2 **Evaluation:** • Reference to role that SA and SI will also contribute to reducing risk • How useful is Ansoff's Matrix in assessing risk, it is a very blunt instrument. • A key issue is the cost of investment and the ability of DA to absorb potential losses from any strategic decision. • Dependence of techniques on estimation and role of subjectivity, both of which mean that risk still remains • ARR and payback this doesn't take into the difference in capital cost. Can DA afford the $20m capital cost of strategy 2? • Strategic implementation will have a significant bearing on the success of any decision. Strategic choice techniques are helpful in identifying risk but cannot eliminate risk. • For all of these techniques issue of estimation is important. Inflation is predicted to be high in country B – this could make estimates of revenue difficult to forecast with any accuracy.	

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Question	Answer	Marks
7	**Evaluate the extent to which contingency planning might help DA achieve its long term aims and objectives.** **Knowledge:** • Definition of contingency planning: preparing an organisation's resources for unlikely events. • This may also be referred to as crisis management and business continuity planning. • Having a back-up plan or plan B. • Part of business planning process • Reassures customers and staff that their interests are being considered • Reduces potential impact on customers in the event of a major disaster • Disasters may still occur • Can be expensive and time consuming especially for small businesses • There is the planning process and also the need to train staff for each possible eventuality. **Application:** • Problems with suppliers. This could be an area where contingency planning could be helpful in ensuring that disruption to production is minimised • If DA opt for strategy 1 it could be affected by the significant exchange rate movements predicted for country B. It is important to have considered how to respond to this change in the economic environment. **Analysis:** • With fore-planning the public relations response is much more likely to be quick and appropriate so that senior managers can manage the media attention and communicate effectively what the company intends to do, by when and how from disasters both in terms of costs and bad PR and loss of customer loyalty. • Recognising major risks, such as fire, may actually reduce the risk of the disaster happening **Evaluation:** • Avoiding disasters is better than planning what to do if they happen. • Plans need to be updated frequently as the business develops • Cost of CP needs to be balanced against the potential costs of not doing it. Which potential disasters should be planned for? • How much time is spent on preparing and testing contingency plans?	**20**

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