Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

BUSINESS **9609/32**

Paper 3 Case Study **October/November 2016**

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.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2016 series for most Cambridge IGCSE®, Cambridge International A and AS Level components and some Cambridge O Level components.

® IGCSE is the registered trademark of Cambridge International Examinations.

© UCLES 2016

1 Analyse the benefits to MFI of Marco's effective delegation. [10]

	Knowledge 3 marks	Application 2 marks	Analysis 5 marks
Level 2	3 marks Knowledge of delegation and **two** benefits	2 marks Benefit(s) well applied to case	4–5 marks Good use of theory and/or reasoned argument to explain benefits
Level 1	1–2 marks Some knowledge of delegation and 1 benefit or 2 benefits	1 mark Benefit applied to case	1–3 marks Some use of theory and/or reasoned argument to explain benefits

Examiner notes:
- Only reward benefits to MFI.
- If impact on employees is discussed then this must then be linked to benefits to MFI to be rewarded.
- No marks for disadvantages.

Definition: Delegation – passing down of authority to perform tasks/take decisions

Answers could include:
- Delegation may motivate employees and result in an increase in productivity or work effort and potentially output. (Motivating employees in itself is not a benefit; the benefit is that effort will be increased)

Application might be evidenced by:
- Links made to fishing
- Links made to recruitment of Suzy as operations manager
- Links made to encouraging existing managers to take on more responsibilities and this would help train and prepare them for managing parts of MFI's business as it expands
- Links to authority given to directors to implement 'two important decisions'
- Marco seems to be best at marketing and forming contacts in the industry – by being able to focus on these aspects of business he has helped the success of MFI
- Marco gave up fishing himself – this is work that can easily be passed to others while he managed the business
- He appointed an operations manager to manage AFP's factories – perhaps recognising that he could not manage production himself – the manager was able to increase productivity substantially making MFI more competitive

© UCLES 2016

2 (a) Refer to lines 69–72. Calculate for the purchase of the 10 fishing boats:

(i) annual net cash flows **[3]**

Year	Net cash flows	Marks
0	($3.2m) [320 000 × 10]	1
1	$820 000 [82 000 × 10]	} 1 mark for 820 000 four times
2	$820 000	
3	$820 000	
4	$820 000	
5	$2.1m [820 000 + 40% of 3.2m (1 280 000)]	1

Examiner note: No marks for discounted cash flows

(ii) payback period **[2]**

3 years 10.83 months (or 3 years 11 months or 3.902 years or 3 years 329 days) **[2]**
Some attempt e.g. working out one stage of the calculation **[1]**

(iii) net present value at a discount rate of 10% **[3]**

Year	Net cash flows	Discounted cash flows
0	($3.2m)	(3.2m)
1	$820 000	746 200 (820 000 × 0.91)
2	$820 000	680 600
3	$820000	615 000
4	$820 000	557 600
5	$2.1m (OFR net cash flows from part 1)	1.302m [Up to 2 marks for these figs]
	Net present value	$3 901 400 – $3 200 000 = $701400

[3]

© UCLES 2016

NPV	Marks
701 400	3
(92 200)	3 if OFR from 2(a)(i) Not included resale of boats
193 000	3 if OFR from 2(a)(i) Included resale of boat in Yr 5 but not 820 000

(b) Recommend to Marco whether the new fishing boats should be purchased or leased. **[12]**

	Knowledge 2 marks	Application 2 marks	Analysis 4 marks	Evaluation 4 marks
Level 2	2 marks Two relevant points made about results to (a) or other factors	2 marks Factor(s) well applied to the case	3–4 marks Good use of theory to answer question	3–4marks Good judgement shown
Level 1	1 mark One relevant point made about results to (a) or other factor	1 mark Some application to case	1–2 marks Some use of theory to answer question	1–2 marks Some judgement shown

Examiner note: Candidates **do not** have to refer their answer from **Q2(a)** to access full marks
OFR from part (a)
Answers could include:

Knowledge:
- Length of payback
- Leasing is easier to finance as annual payments are made
- Leasing means boats are never owned by MFI – implications for statement of financial position?
- Purchasing may give greater flexibility of how the boat is used
- Maintenance costs may be covered by leasing

Application
- Slower payback with purchase and/or lower NPV. (Leasing payback is 2.5 years / NPV $850 000 compared to purchase payback of 3yrs 10mths / NPV $701 400). So if outright gain is an objective, boats should be leased
- Can MFI raise $3.2m as purchase price of the boats?
- With interest rates rising is now a good time to borrow finance for the boats?
- Value (if any) of old boats being replaced has not been considered.
- Will boatyard fulfil its promise to buy boats back after 5 years? Will it still be in business?

© UCLES 2016

Analysis
- Higher interest rates will mean that if MFI borrows money to purchase the boats that interest repayments will be greater and thus increase costs and reduce profitability

Evaluation:
- Overall conclusion and recommendation based on preceding analysis

3 Discuss the likely impact on MFI of the changes to the external legal and economic environment in country X. [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks Two relevant points made about impact of external factors	2 marks Impact of external factor(s) well applied to the case	4–5 marks Good use of theory to answer question	4–5 marks Good judgement shown
Level 1	1 mark Knowledge of external factors or one relevant point made about impact of external factors	1 mark Some application to case	1–3 marks Some use of theory to answer question	1–3 marks Some judgement shown

Examiner note: If only refer to economic/legal changes that are not from the case study then limit to knowledge and application marks only i.e. no award of any analysis and evaluation marks.

Answers could include:

There are a number of changes / possible changes highlighted in the case
- Higher interest rates will:
  increase the cost of borrowing so buying the new boats outright might become more expensive if finance has to be borrowed.
  reduce consumers discretionary income – spending on higher priced food products might fall
- Currency appreciation – cheaper to import machines and boats but exporting to country Y will now become easier as prices could be lowered
- Health and safety – higher costs of training and safeguarding employees in factories might raise unit labour costs
- Competition policy – MFI could be forced to sell off some fish canning/processing capacity or it might prevent further integration thus restricting potential economies of scale
- Consumer protection – no details provided but this could limit how products are promoted, labelled etc. – is FineDine really made from “dolphin friendly tuna”?

Evaluation:
- Impacts will be similar for all similar businesses – may be no loss of relative competitiveness
- More details of legal changes needed for precise impact
- Better hygiene may reduce chances of “food poisoning” crises
- Higher interest rate impact depends on how much they increase and the gearing ratio of MFI

© UCLES 2016

4 (a) Refer to Appendix 2 and the Board's market share objective on lines 55–56. Calculate:

(i) forecast value of MFI's sales in country Y in 2017 **[3]**

Forecast market share 5%
Attempt at calculating 2017 total sales = [1]
Total sales in country Y in 2017 = 80 + 8 + 8.8 + 9.68 = 106.48 **[2]**
MFI sales: 106.48 × 0.05 = \$5.324m **[3]**

Answer	Marks	Reason
\$5.2m	2	Not compound growth
\$4m	1	5% of 80

(ii) price elasticity of demand of the best-selling premium brand of canned fish. **[5]**

$$\text{PED} = \frac{\%\,\text{change in QD}}{\%\,\text{change in P}}$$ **[1]**

Or $\Delta Q/Q \div \Delta P/P$ or $\Delta Q/Q \times P/\Delta P$ or $\Delta Q/\Delta P \times P/Q$

Change in Qd = 3m tins to 2.8m tins (12/4 to 14/5) **[1]**

% change in Qd = 0.2/3 × 100 = –6.7% (accept 6.7%) **[1]**

% change in P = ¼ = 25%
[1]

PED = –6.7/25 = –0.268 or –0.27 **[5]**

Accept: 0.27 for full marks

Answer	Marks	Explanation
(–) 0.192	4	Used incorrect starting price
(–) 0.67	3	Used change in revenue NOT demand

© UCLES 2016

(b) Discuss a suitable marketing strategy that Marco could use for FineDine products in country Y. Use your results from 4(a) and other relevant information. [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks Two relevant points made about results/marketing decisions	2 marks Point(s) well applied to the case	5–4 marks Good use of theory to answer question	5–4 marks Good judgement shown
Level 1	1 mark One relevant point made about results/marketing decisions	1 mark Some application to case	3–1 marks Some use of theory to answer question	3–1 marks Some judgement shown

Examiner note: Limit to L1 Analysis & Evaluation if only use result(s) **or** other information OFR from part (a)

Definition: Marketing strategy is a strategy aiming to achieve marketing objectives through an integrated marketing mix within a defined budget

Answers could include:

- Marketing objective seems to be realistic at 5% in one year – but will supermarkets be willing to stock this new product? If distribution problems arise then objective might have to be revised down
- 2 year old report may need to be updated
- PED is inelastic for leading brand – so MFI may be able to price FineDine products highly – but will market accept high prices for a relatively unknown product? PED could be different
- AED seems to be high so high promotion budget might be justified – but this data refers to existing products and MFI might have to spend more than rivals in order to get established. Not all promotion/advertising will succeed – AED depends on the effectiveness of campaign too
- Product – has this been assessed using product portfolio analysis? Rising/higher incomes in country Y could justify this quality product decision
- Distribution – could be key to entering a new market. MFI does not currently appear to be using this channel in country X. Will it be able to establish effective relationships with supermarket buyers in country Y? Should an agent be used or even a joint venture?

Evaluation

- More up to date market research essential! Including primary and qualitative research to help establish buyers' preferences in this new market. Different consumer tastes could be a major factor preventing success.
- Need for integrated and consistent strategy – must not sell FineDine too cheaply – may rebound on image in country X
- In-country contacts essential – perhaps Marco needs to use an agent or joint venture to help enter this new market

© UCLES 2016

5 Recommend to Marco which one of the two applicants should be selected to be the new Operations manager. Justify your answer with reference to Appendix 1 and other relevant information. [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks Two relevant factors made about selection	2 marks Good application of point(s) to the case	4–5 marks Good use of theory to answer question	4–5 marks Good judgement shown
Level 1	1 mark One relevant point made about selection or knowledge of operations manager	1 mark Some application to case	1–3 marks Some use of theory to answer question	1–3 marks Some judgement shown

Answers could include:

- Candidate A is internal – may be no need for induction training and will be well aware of the strengths/weaknesses of production systems within MFI
- Candidate B is external – able to bring in new ideas which could help reduce unit labour costs for MFI
- Lower salary might be paid to A – reduces costs but how important is this to a large business such as MFI?
- B is younger – may be more dynamic and prepared to try new methods but has no direct experience of introducing lean production
- B seems more autocratic – MFI workers may not be used to this style and it might conflict with the style adopted by Marco, which seems to encourage workers to develop and take responsibility
- A has had more jobs – good experience but does it mean that he cannot “stick with it”?

Evaluation

- Shown in balance of arguments and suggesting limitations to analytical points made – as above
- Final recommendation needs to be clear and based on preceding analysis

© UCLES 2016

Section B

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks	Evaluation 10 marks
Level 3				7–10 marks Good judgement shown throughout with well supported conclusion/ recommendation, focused on the business in the case
Level 2	3 marks Good understanding shown.	3 marks Good application to 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
Level 1	1–2 marks Some understanding shown	1–2 marks Some application to 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

6 Discuss how MFI's directors should manage the food poisoning crisis. [20]

Examiner note:
It is acceptable for the candidate to suggest that MFI could act dishonestly or suppress information or attempt to discredit or bribe the family.

- Crisis management – dealing with an unforeseen major negative event – helped by preceding contingency planning (CP)
- Not clear if CP has been undertaken – but Marco's immediate reaction might suggest that it has. This should help to diminish the negative impact of the crisis – especially if MFI products can be proven to be the problem
- Do nothing – hope for the crisis to blow over – but this might be perceived as being complacent and MFL viewed as being a business that does not care about its customers
- Deny all link between MFI products and food poisoning case – but this might backfire if scientific evidence proves otherwise and then MFL will appear to be irresponsible
- Undertake immediate scientific research – may discover there is no link in which case MFI could be cleared OR if it does, it shows that MFI takes responsibilities seriously.
- If link is proven – withdraw all relevant products from shelves; offer shops compensation; offer consumers compensation (especially the husband!)
- In the longer term: re-brand products; retrain workers; impose stricter quality assurance; advertise widely to re-establish image and reputation; CSR such as supporting charities etc.

© UCLES 2016

Evaluation
- The ways in which Marco and directors manage the crisis will reflect on MFI for many years
- Is it crucial to be open and honest and to release all information as it becomes available – as any hint of secrecy will be seen as admission of guilt
- If any doubts persist about MFI's production methods or integrity then long term survival might be in doubt
- Detailed and updated contingency planning essential in future – if it does not already exist
- MFI should not initially overreact to the accusation. May be important to establish the facts.

7 Evaluate the importance of strategic management to the future success of MFI. [20]

Examiner note:
If only consider one element of strategic management (i.e. strategic analysis or strategic choice or strategic implementation) then limit to L1 in all skills

Answers could include:
- Strategic management is the continuous planning, monitoring, analysis and assessment of strategies needed for an organisation to meet its goals and objectives. The strategic management process involves analysing cross-functional business decisions before implementing them.
- Decision making seems to depend heavily on Marco's input – they have been successful up to now perhaps due to his intuition, knowledge of the product/industry and his contacts within the industry.
- Signs that strategic management is not fully adopted include lack of detailed/up to date market research and lack of strategic analysis before decisions are taken.
- Is FineDine appropriate for country Y for example?
- Should takeovers have been decided on while the government was considering tighter competition laws?
- Is the food poisoning crisis (if MFI is implicated) the result of lack of long term HR and production planning?
- Market development, product development and market penetration should all be strategic decisions taken after strategic analysis and strategic choice techniques have been used – not much evidence of these!
- Role of contingency planning e.g. might make reference to food poisoning

Evaluation:
- External environmental changes as well as strategy of market development suggest that effective strategic management will become increasingly important to the success of MFI
- Now a plc – shareholders will not tolerate undue risk or significant failure – strategic management should reduce risk and increase chances of success for MFI
- Is Marco able to adapt his CEO role to allow a more detailed assessment of strategic options before decisions are taken?
- However much SM is done there is no guarantee of success as external changes may make planning outdated

© UCLES 2016