Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

BUSINESS **9609/33**

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 SC of lean production. [10]

Level	Knowledge 3 marks	Application 3 marks	Analysis 4 marks
2	3 marks Understanding of lean production and benefit(s)	2 marks Good application to the case	4–5 marks Good use of theory and/or reasoned argument to explain benefits
1	1–2 marks Some knowledge of lean production and/or benefit(s)	1 mark Some application to case	1–3 marks Some use of theory and/or reasoned argument to explain benefits
0	No creditable content		

Answers could include:
Definition:
Lean production – minimising use of resources in production. Includes a range of 'Japanese' techniques e.g. Kaizen, Just-in-time manufacturing etc

Benefits may include
- Eliminating waste – reducing use of clothing materials
- Increase efficiency
- Faster new product development/production (simultaneous engineering) – meets changing customers needs more quickly/effectively. Particularly important for a clothing manufacturer as fashions/trends/materials might change rapidly
- JIT – cutting down on inventories of both materials and finished goods. This could help release working capital to be used to invest in other assets e.g. one of the strategic options.
- TQM to achieve zero waste/defects. Helps to cut costs which is important for SC as profits have been falling in recent years. If profits rise because of this then SC might be able to increase dividends.
- Consistent quality important in ski clothing as it is a competitive market. Ski clothing provides a protective function to wearers.

2 (a) Refer to Table 1 and information on lines 48 – 53. Calculate the likely impact on SC's profits of a decision to outsource production of ski clothing to PSK. [6]

Depends on the impact on costs saved from stopping production compared to costs of buying-in ($35)

Total direct cost per unit $22 [1] if no other calculations OR Total cost per unit $42 [1]
Selling price per unit $84 [2]
Allocated fixed costs $300 000 [1]

Method 1: Assume that fixed costs still need to be paid.
Outsourcing unit cost = 35 + 20
= 55 [2 marks]
Unit cost increase is 55 – 42 = 13 [5]
Therefore, reduction in profit = 13 × 500 000 = $7.5m [6]

© UCLES 2016

OR
TR – TC
TR = 84 × 500 000
= $42m

TC = 10m + 22 × 500 000
= 21m

Therefore profit = 21m

With outsourcing TR = $42m
TC = 10m + 35 × 500 000
= 27.5m
New profit = $14.5m

Method 2: Assume that fixed costs eliminated

Unit cost saving = 42 – 35 = 7

Therefore, increase in profit = 7 × 500 000 = $3.5m

If candidate uses mark-up of 50% rather than a profit margin of 50% then calculation correct = 5 marks

(b) Discuss whether SC should outsource production of ski clothing. Use your results from (2a) and other relevant information to justify your answer. [12]

Level	Knowledge 2 marks	Application 2 marks	Analysis 4 marks	Evaluation 4 marks
2	2 marks At least two relevant points made about result or outsourcing issues	2 marks Application of two or more points to case	3–4 marks Good use of theory to answer question	3–4 marks Good judgement shown
1	1 mark One relevant point made about result/outsourcing	1 mark Some application to case	1–2 marks Some use of theory to answer question	1–2 marks Some judgement shown
0	No creditable content			

Examiners note: If only use 2(a) or other information limit to L1 A and E

Definition of outsourcing: contracting out of production or part of production to a third party at an agreed cost

Answers could include:
- Analysis of result to (a) [OFR]

Outsourcing issues:
- quality;
- transport costs;

© UCLES 2016

- reliability;
- will suppliers price be increased over time;
- using freed-up capacity for leisure clothing will allow fixed costs to be covered again;
- SC need additional capacity if the Weartex range is successfully launched
- Staffing issues e.g. will there be a need for redundancy

Evaluation
- Much depends on what happens to spare capacity and whether SC have other factories that could be used to make leisure clothing / Weartex products.
- At present it seems that the cost disadvantages could be too great

3 Recommend to Bo which candidate should be selected as Human Resources manager for the SC Asian factory. [14]

Level	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
2	2 marks At least two relevant points made information/selection decision	2 marks Application of two or more points to case	4–5 marks Good use of theory to answer question	4–5 marks Good judgement shown
1	1 mark One relevant point made about information/selection decision	1 mark Some application to case	1–3 marks Some use of theory to answer question	1–3 marks Some judgement shown
0	No creditable content			

Definition: HR manager responsible for workforce planning, recruitment, selection and management of human resources including employee welfare

Answers could include:
- Candidate A is internal – less time/resources needed to train him/her "in the ways" of SC. Will be aware of the strengths and weaknesses of current HR management e.g. the dispute over new production approaches BUT no new ideas/experience from outside of SC which might limit the scope of the growth/diversification of the business.
- Candidate A – younger so will want to make a successful career in SC BUT has much less experience and is he/she too young to take on these responsibilities (or is age no real barrier here?)
- Candidate A seems to be a conciliator who believes in participative style – will this be more effective in implementing all of the production changes than Candidates B's more Taylor inclined approach? Soft v hard management style
- Candidate A seems to have quite limited career ambitions – so could stay at SC for many years – is this an advantage or a drawback
- Other relevant points could be made.

© UCLES 2016

Evaluation:
- Final result might depend on interview/testing of candidates
- Most important factor is….?
- More information about Bo's and other directors' approach to HR strategy would be useful e.g. hard or soft?

4 (a) Refer to Table 2. Calculate for 2016:

(i) return on capital employed [2]
$3.5/$58 (m) [1]
6.03%

If 2/58 = 3.4% [1 mark]

(ii) price earnings ratio [3]
PE = share price/earnings per share [1]
EPS = $2/15 (m) = 13.3 cents [1]
$3.3/0.133 = 24.8 [3]

PER = 14.14 = 2 marks (candidate used incorrect profit figure)
Some relevant attempt [1 mark]

(iii) dividend yield [3]
Div per share/share price [1]
DPS = $1.5/15 = 10 cents [1]
$0.1/3.3 = 3.03% [3]

(b) Assess the usefulness of your results from (4a) and the data in Table 2 to SC's shareholders. [14]

Level	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
2	2 marks At least two relevant points made about usefulness of accounts/ratio analysis	2 marks Application of two or more points to case	4–5 marks Good use of theory to answer question	4–5 marks Good judgement shown
1	1 mark One relevant point made about accounts/ratio analysis	1 mark 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: If only use result from 4(a) or data in Table 2 then limit L1 A and E
Answers could include:

- Ratios can allow an assessment of performance/profitability/liquidity/financial efficiency etc.

© UCLES 2016

- Single accounting numbers are of limited use. Historical data and comparative data would be useful
- Ratio results tell stakeholders – shareholders specifically interested in these – that prospects of the company might be quite good (high PE) but existing profitability and returns to shareholders are quite low – reflecting SC's recent declines in sales and profits which have only recently been reversed.
- Other data provided allows calculation of gearing ratio – of particular interest to shareholders – this may be important as SC is currently considering strategic growth options which may require significant finance.
- Other information not provided could have been useful to shareholders, such as liquidity and profitability – especially as profits have fallen until recently

Evaluation:
- Much less useful when there are no data to compare with – other years/companies
- Window dressing appears to have taken place – are SC trying to mislead shareholders
- All published accounts and ratios have problems e.g. data might be several months out of date

5 Recommend a suitable marketing plan for the new range of clothing made from Weartex if it was to be launched in your own country. Justify your recommendation. [16]

Level	Knowledge 3 marks	Application 3 marks	Analysis 5 marks	Evaluation 5 marks
2	3 marks Knowledge of marketing plan and at least two relevant points made about marketing plan	3 marks Good application to case and own country	4–5 marks Good use of theory to answer question	4–5 marks Good judgement shown
1	1–2 marks Knowledge of marketing plan and/or relevant point(s) made about marketing plan	1–2 marks Some application to case and /or own country	1–3 marks Some use of theory to answer question	1–3 marks Some judgement shown
0	No creditable content			

Answers could include:
- Marketing plan: a detailed report on a business marketing strategy including details of objective, budget and marketing mix
- Objective: Needs to be realistic – existing marketing objective has not been met
- Perhaps a realistic objective can only be established after market research has been undertaken
- Budget: Might need to be substantial to establish the new range of products especially if a new brand name is used – will this be affordable to a company that has until recently suffered from falling profits?
- Product – new branding might be essential if an up-market image is sought – existing clothing seems to be low-mid prices and this would suggest a new brand would be needed to effectively differentiate
- Price – might need to be much higher than existing leisure clothing prices to fit in with higher status brand. Again, market research essential?

© UCLES 2016

- Promotion: needs to be effective and well targeted – new higher income market segments being targeted? How will the new brand image be projected? Use of social media to cut down on costs of mass advertising?
- Place: Selling through supermarkets might not be wise – low market image. Specialist leisure/sports clothing chops? But will they expect a higher profit margin than supermarkets? Online selling? But does SC have an established online presence?
- Reference to own country's market and selling conditions

Evaluation:
- Differentiation will be the key.
- Answer may be evaluated in terms of candidate's own country and/or context of SC.
- New brand probably the most essential factor.
- All elements of the mix will need to be coordinated towards achieving a realistic marketing objective.

© UCLES 2016

Section B

Answer one question from this section

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 in text and conclusions focused on the business in the case
2	3 marks Good understanding shown.	3 marks Good application to case	3–4 marks Good use of theory and reasoned argument to explain points made	4–6 marks Some judgement shown in text and/or conclusion OR Effective, well supported conclusion focused on the business in the case.
1	1–2 marks Some understanding shown	1–2 marks Some application to case	1–2 marks Limited use made of theory and reasoned argument.	1–3 marks Limited judgement shown within the answer OR A weakly supported conclusion with some focus on the business in the case
0	No creditable content			

© UCLES 2016

6 Evaluate whether the information in Appendix 3 is sufficient to allow SC's directors to choose between the two strategic growth options. [20]

Answers could include:

Country X	Country Y
Total population is rising by 4% per year *So demand for SC products might increase*	Average incomes rising by 8% per year leading to more foreign holidays *Increasing demand for leisure clothing especially if income elastic*
35% of the population is under 24 years old *They might be more computer literate than older generation and more likely to buy online*	Building and construction industry is booming due to low interest rates *Increasing demand for work clothing*
A government owned company has a monopoly in internet service provision *So internet access might be expensive*	Unemployment is falling *Helping to increase incomes and demand*
Import quotas on imported electronic goods have been abolished *Making computers/tablets etc. cheaper allowing more e-/m-commerce*	Import tariffs have recently been increased by government *Making SC imports more expensive in country Y and relatively less competitive*
Business property taxes on high street shops have recently increased *Making high street selling relatively more expensive than online selling*	Exchange rate is appreciating against most other currencies *Perhaps cancelling out the impact of import duties?*

Evaluation:

- Only limited data provided e.g. inflation? Number/size of competitors in Y?
- Important for use in PEST analysis – but how up to date is it?
- Insufficient for taking such an important decision – detailed market research needed too esp for selling in Y
- Different consumer tastes in Y?

© UCLES 2016

7 Discuss the importance of strategic analysis to SC's directors before considering strategic options for growth. [20]

Definition: Strategic analysis analyses the business and the environment in which it operates before devising/choosing between strategies.

Answers could include:

- SWOT: needed in this case as there are both internal and external factors that could influence future strategies e.g. Weartex and recent profit declines
- PEST: important in this case as the external environment is/might be very different between the two countries X and Y
- Boston matrix: important as SC has a range of products and some might be performing better/worse than others; important to weed out the dogs and identify cash cows that might provide finance for the strategic option that is finally chosen
- Porters 5 forces: there are issues that can be analysed e.g. supplier power might be low as SC has high market share and so does main rival; SC's brand strength might act as a barrier to entry etc.

Evaluation:

- These are important, long term and potentially expensive strategic options so NOT to engage in strategic analysis would be foolish
- Critique of methods used e.g. subjectivity in SWOT
- The most important or useful form of strategic analysis in this case is….?
- Has Bo been successful before in taking "hunch" decisions?

© UCLES 2016