Cambridge International A Level

Cambridge Assessment International Education
Cambridge International Advanced Level

BUSINESS **9609/31**

Paper 3 Case Study **October/November 2017**

MARK SCHEME

Maximum Mark: 100

Published

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Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1</td><td>
Analyse the possible disadvantages for KKS of taking over VantoU.
<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
Two or more relevant points made about disadvantages</td><td>2 marks
Points made are applied to KKS</td><td>3–5 marks
Good use of theory to explain disadvantages of merging</td></tr>
<tr><td>1</td><td>1-2 marks
One or two relevant points made about disadvantages</td><td>1 mark
Some application to KKS</td><td>1–2 marks
Some use of theory to explain disadvantages of merging</td></tr>
<tr><td>0</td><td colspan="3">No creditable content</td></tr>
</table>
Note to examiners: do not reward possible advantages or credit reproduction of phrases in the case study without expansion/comment.
Answers could include:

Disadvantages of merging
• Possibility of government investigating greater market power (unlikely)
• Diseconomies of scale increase costs
• Duplication of IT systems depots, lorries increases average cost
• Costs of managing the change – redundancies, reorganisation, closure of depots, culture clash resolution
• Cost of new marketing campaigns
• Competitors respond aggressively (market is competitive)
• Less flexibility

Application
• reference to finance data
• depots, lorries, delivery service, parcels, market segments, one of largest providers
</td><td>10</td></tr>
</table>

Question	Answer	Marks
2(a)	**Refer to Appendix 1 and other information. Calculate the gearing ratio after the takeover of VantoU.** Gearing ratio = non-current liabilities/non-current liabilities + shareholders' equity **or** non-current liabilities/capital employed 1 mark New LT loans and equity + retained earnings = 500 (300 + 200) and 1800 (600 + 800 + 400) 2 marks 500/2300 1 mark New gearing ratio = 21.74 or 21.74% Some attempt 1 mark Other possibilities e.g. assets/equity 264 / 1000 = 26.4% or assets/non-current liabilities = 264 / 500 = 52.8%	**4**
2(b)	**Refer to lines 24–28. Calculate the difference between the current and proposed annual depreciation expense of the IT equipment to be purchased in 2018.** Formula = purchase value – residual value/years 1 mark Original depreciation 20 – 5 / 5 = 3p.a. 1 mark New depreciation 20 – 8 / 3 = 4p.a. 1 mark Change is $1m	**4**

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

Discuss the importance of the data in Appendix 1 to KKS's stakeholders.

<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 or more relevant points made</td><td>2 marks
Application of two or more points to KKS</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</td><td>1 mark
Some application to KKS</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>

Answers could include:

- Data is extracts form published accounts. Accounts reflect the market position, costs and revenues, inventory and assets – they are the financial equivalent of physical/service inputs and outputs

Legal requirements

- Accounts must be a true and fair reflection of the financial situation – auditors check this
- Accounts must enable accurate assessment and payment of taxes
- As a p.l.c. accounts are open to public scrutiny so must be accurate

Stakeholders requirements

- Directors need to know situation to take strategic decisions on e.g. take over (need accurate value of KKS), marketing (need to know if 20% rise in promotion can be funded), overseas expansion (financing decisions depend on accurate knowledge)
- Shareholders need accurate figures to decide whether to sell shares
- Employees may find accurate accounts help decide on their career plans
- Managers decisions on how to achieve objectives will be better if informed by accurate financial information

Application

- possible takeover plans
- KKS is a plc
- plans for overseas expansion
- cost effect of HRM changes

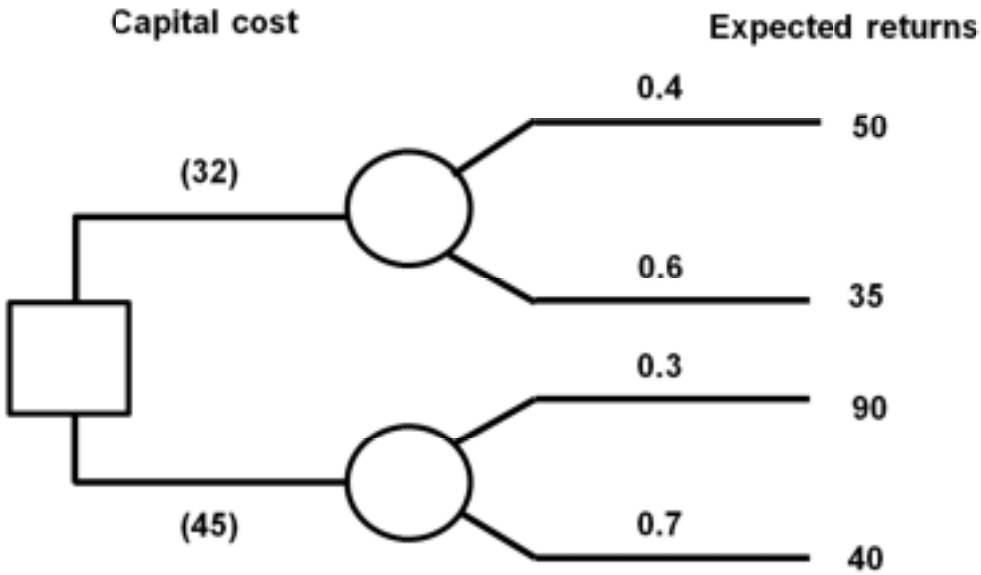
Evaluation may contain material relating to the most important/essential of these or to the importance of published accounts compared to unpublished accounts used regularly for day to day decision making

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

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3</td><td>
Evaluate the usefulness of a marketing plan for successful expansion through Option B.
<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
Two or more relevant points</td><td>2 marks
Application of two or more points to PV</td><td>4–6 marks
Good use of theory to answer question</td><td>4–6 marks
Good judgement shown</td></tr>
<tr><td>1</td><td>1 mark
One relevant point made</td><td>1 mark
Some application to PV</td><td>1–3 marks
Some use of theory to answer question</td><td>1–3 marks
Some judgement shown</td></tr>
<tr><td>0</td><td colspan="4">No creditable content</td></tr>
</table>
Answers could include:

Marketing plan sets out audit, objectives, tactics, monitoring and fits into overall business plan
Advantages are integrated marketing approach, increased efficiency, increased employee commitment as purpose identified
Audit of current position includes competitive market, falling profits and sales, good brand name
Objectives to renew sales revenue growth
The above analysis enables KKS to consider ways of achieving objectives in context of their market situation
Application by reference to Option B
Plan can be monitored and adjusted with feedback from sales figures and customers
Preparing the plan involves cost of managers time and possible conflict if organisation objectives are unclear and/or not reflected in other functional area plans

Evaluation might consider that without the plan marketing activities might be random and not based on or reflect the new strengths of the service and sales not increase for this reason.
</td><td>16</td></tr>
</table>

Question	Answer	Marks
4(a)(i)	**Refer to Appendix 2.** **Draw a decision tree using this information**  Drawing nodes and decision points 2 marks Correct figures entered 2 marks Some attempt at nodes/decision points 1 mark Some attempt at figures 1 mark	**4**
4(a)(ii)	**Calculate the expected monetary values for Options A and B** **Option A** Expected value at decision node = 50 × .4 + 35 × .6 = \$41m Take off capital cost (–32) = \$9m 1 mark Use of probabilities or some attempt 1 mark **Option B** Expected value at decision node = 90 × .3 + 40 × .7 = \$55m 1 marks Take off capital cost (–45) = \$10m 1 mark Use of probabilities or some attempt 1 mark	**2**

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

Recommend whether KKS should choose Option A or B. Justify your answer using your results from 4(a) and other information.

<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 or more relevant points made</td><td>2 marks
Application of two or more points to KKS</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</td><td>1 mark
Some application to KKS</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>

Note to examiners: max L1 for A and E if only 3a results or other information used, recommendation essential for Level 2 A and E.

Answers could include:

- Use of calculations:
  greatest EMV (Option A B2C = 9, Option B C2C = 10), – highest value chosen as greatest return/net profit. Is a difference of 1 significant?
- Decision tree figures based on forecasts of sales and costs – how accurate are these? What might they be based on?
- Three year time scale – what happens after that?
- Option A offers highest profit but also greatest risk as competitive market and price sensitive consumers.
- Option A market expanding rapidly but low margins mean a misforecast could be very costly
- Option B (lowest forecast) also expanding and offers advantage of entering near start of rapid growth and gaining brand loyalty but has higher costs and is relatively more unknown
- Use of Ansoff's matrix – Option A and B could be market development
- Does KKS have the money for the additional operating costs for Option A and B?

Evaluation by justified recommendation based on consideration of the above or other relevant points.

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

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

Discuss whether KKS should introduce the new HR Director's proposed changes. (lines 63–67).

<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 of relevant factors</td><td>2 marks
Application of two or more points to KKS</td><td>4–6 marks
Good use of theory to answer question</td><td>4–6marks
Good judgement shown in weighing up the factors</td></tr>
<tr><td>1</td><td>1 mark
Some knowledge of relevant factors</td><td>1 mark
Some application to KKS</td><td>1–3 marks
Some use of theory to answer question</td><td>1–3 marks
Some judgement shown</td></tr>
<tr><td>0</td><td colspan="4">No creditable content</td></tr>
</table>

Answers could include:

- Existing organisation structure offers a degree of autonomy in decision making for employees, with supportive career progression and skills development plus possibility of performance bonuses.
- Disadvantage is freedom can lead to inefficiency and employees not working hard to meet objectives as lack of supervision
- Suggestions are to move to more task orientated culture reflected in MBO, increased formality and job focus with more responsibility on supervisors

Factors could include:

- Will more precise targets be as motivating as the current levels of autonomy?
- Will the increased clarity in objectives and job roles assist employees in efficiency
- Will involvement in setting targets be as motivating as current arrangements
- Will employees become more alienated and less involved and committed or v.v.
- Cost of changing to a new system – training, short term increase in labour turnover
- The meetings to discuss objectives are time consuming
- Targets may be set to be easy to achieve or if imposed may be resented
- Will the proposals lead to more or less flexibility in a changing marketplace?
- Will all objectives be able to be integrated?
- Will redundancies lead to less commitment? Or more? Are they inevitable?

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

Question	Answer	Marks
5	**Discussion of factors should enable evaluative comments. These might be demonstrated through:** • A supported recommendation • Consideration of the need for a change – does the firm actually know that the current arrangements have led to inefficiencies? How responsible are these for the fall in sales/profits? It looks as though something should be done. • Most important factor or ranking of importance of factors in the decision • Weighing up the impact on the business if proposal implemented • Consideration of how much research has been done on possible impact of proposed changes	

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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 KKS
2	3 marks Good understanding shown	3 marks Good application to KKS	3–4 marks Good use of reasoned argument or use of theory to explain points made 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 KKS OR 0. effective and well supported conclusion/recommendation focused on KKS
1	1–2 marks Some understanding shown	1–2 marks Some application to KKS	1–3 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 KKS
0	No creditable content			

Question	Answer	Marks
6	**Discuss the extent to which the information in Appendix 3 is sufficient strategic analysis to allow KKS to consider entering the market in country Y.** Note to examiners: the question is about the role of the information, not whether to enter the new market. Answers that contain application of one or more techniques using case material can be credited with K and P. A and E will require some comment in relation to the question **Answers could include:** • Identification of strategic analysis techniques: SWOT, PEST, Boston Matrix, Porters, core competencies • Description of how APP 3 relates to the techniques (application) **Consideration of other information that may be useful in the decision including:** • forecast costs • market research data • on revenue, prices, target customers • exchange rates • labour market in country Y • internal; changes required **Consideration of the role of strategic analysis in strategic planning:** • vision, objectives, analysis, choice, implementation, review • Reference to the data in Appendix 3 and its use in analysis • Role of analysis is to highlight factors that might make for success or failure and enable a correct decision to be taken regarding the two options for expansion • Role of implementation is to select appropriate methods for expansion that give the maximum chance of success **Evaluation may be demonstrated by:** • judgements regarding the extent to which the data in App. 3 can be used in strategic analysis • considering the relative importance of other information • assessing the value of strategic analysis as opposed to other parts of strategic management in making a decision • Candidates who appreciate that strategic management might suggest that the decision made is actually not the best way forward. • Another possibility is to suggest as a contrast a possible scenario if no strategic management is carried out	**20**

Question	Answer	Marks
7	**Evaluate how KKS could successfully achieve the strategic implementation of its decision to expand internationally.** Note to examiners: the decision is made- the question is not about how to implement a business plan in terms of production and marketing plans but the ways in which the organisation must prepare and manage its organisation for the change that such expansion will need. **Answers could include:** • description of the kind of changes such expansion requires in terms of the points in the final paragraph • components of strategic implementation: business plans, the importance of culture and managing a change in existing culture, preparing contingency plans • Identification by senior staff of what is required to change • Setting out a plan to do this then communicating the plan to staff in order to effect the changes listed in case **Application of change management techniques to above:** • create positive climate • identify key committed leaders for change (project champions) starting at the top • give vision and clear objectives with reasons • involve all concerned/affected by the changes • provide training and appropriate rewards • acknowledge and overcome resistance to change • apply Kotters eight weeps strategy or freeze/unfreeze or other models for change management • provide enough resources for the change **Evaluation might be demonstrated by:** • consideration of the need to change the existing HRM and marketing arrangements - are they fit for the purpose of change? • are directors suitably prepared and focused on/for changes (they have lots of proposals to consider) • recommendation or ranking of proposals/techniques for change management	**20**

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