UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the May/June 2010 question paper

for the guidance of teachers

9707 BUSINESS STUDIES

9707/33 Paper 33 (Case Study), maximum raw mark 100

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 must be read in conjunction with the question papers and the report on the examination.

- CIE will not enter into discussions or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the May/June 2010 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

UNIVERSITY of CAMBRIDGE
International Examinations

1 (a) Using data in Appendix A, calculate for *both* financial years 2009 and 2010:

(i) The return on capital employed [3]

RoCE = NP/CE × 100 = 1 mark

2009 = 20% (200 ÷ 1 000 × 100)
2010 = 15.15% (150 ÷ 990 × 100)
2 marks for 1 correct ratio, 3 marks for both

(ii) The dividend yield. [3]

Dividend yield = Div per share/share price × 100 = 1 mark

2009 = 10% (0.5 ÷ 5 × 100)
2010 = 12.3% (0.43 ÷ 3.5 × 100)
2 marks for 1 correct ratio, 3 marks for both

(b) Would you advise Manuel to reduce the level of dividends more than proposed? Justify your answer. [10]

	Knowledge	Application	Analysis	Evaluation
Level 2	2 marks Good understanding shown	2 marks Well applied to case	4–3 marks Good use of theory or reasoned argument	2 marks Supported recommendation clearly given
Level 1	1 mark Some knowledge shown	1 mark Some application to case	2–1 marks Limited use of theory or reasoning	1 mark Limited judgement shown

- Dividend yield up because of fall in share price – this is not necessarily a good sign! Will share price fall further if dividends are further reduced?
- RoCE suggests that performance of business has declined – do Directors want to reflect this in dividends or do they want to keep shareholder happy in short term hoping that performance will soon improve?
- Increasing retained profits and liquidity of the business by reducing dividends further could be a real benefit to the business BUT will it be wisely invested?
- If dividend yield remained at 10% i.e. $0.35 then SF would retain an extra $11.2m.
- Overall judgement may depend on how important it is to stop shareholders taking drastic action at the next AGM – how likely is this?

© UCLES 2010

2 Assuming Option A is chosen, evaluate the importance of effective planning and management of human resources to the success of this option. [16]

	Knowledge	Application	Analysis	Evaluation
Level 2	3–2 marks Good understanding shown	3–2 marks Well applied to case	4–3 marks Good use of theory or reasoned argument	6–4 marks Supported recommendation clearly given
Level 1	1 mark Some knowledge shown	1 mark Some application to case	2–1 marks Limited use of theory or reasoning	3–1 marks Limited judgement shown

- Candidates may define HRM.
- Award marks for any relevant references to HRM in the context of this Option.
- Making shop workers redundant and replacing them with Internet staff (will this need specialist IT staff as well as warehouse staff to send orders out?). Shop staff cannot be re-employed in these capacities if the e-commerce operations are abroad.
- Telephone sales staff – largely unskilled work? However, in many countries it is graduates with language skills that work in this role. Flexible contracts if the demand is likely to be seasonal? How many staff will be needed?
- How should staff be recruited and selected?
- These factors will have a significant effect on the success of Option A as the staff costs must be lower than in the current shops AND a good customer service must be offered.
- BUT other factors will determine success too: Promotion of the new strategy – how will customers find out about it? Pricing might be significant – will lower costs allow prices to be cut? Crucially, will customers in the targeted market segment be prepared to "give up" high street shopping and use e-commerce/telephone sales instead?

3 Do you agree with Manuel that the most important factor affecting the success of Option B will be the size of the marketing budget? Justify your answer. [15]

	Knowledge	Application	Analysis	Evaluation
Level 2	2 marks Good understanding shown	2 marks Well applied to case	5–3 marks Good use of theory or reasoned argument	6–4 marks Supported recommendation clearly given
Level 1	1 mark Some knowledge shown	1 mark Some application to case	2–1 marks Limited use of theory or reasoning	3–1 marks Limited judgement shown

Examiner note: L1 Analysis and Evaluation if no direct ref. to marketing budget.

- Definition of marketing budget: Finance available for promotional expenditure.
- Need for advertising and other forms of promotion – new market segments must be informed of the new strategy and products. They must be "persuaded" that the quality "remains unchanged".
- It is unlikely that Option B will be successful without adequate AND well targeted promotional activities. BUT high budget does not mean it is well spent – promotion used could be ineffective.
- BUT marketing budget will not be the only factor. Non-marketing factors important too.
- Risk of misleading customers over quality – this could lead to poor publicity.
- How popular will the new clothing ranges be? They have never sold to men and children before – do they have the design and manufacturing skills needed?
- Pricing level will be an important factor.
- How long will the recession last? Could this new strategy be adjusted to deal with a period of economic growth too?

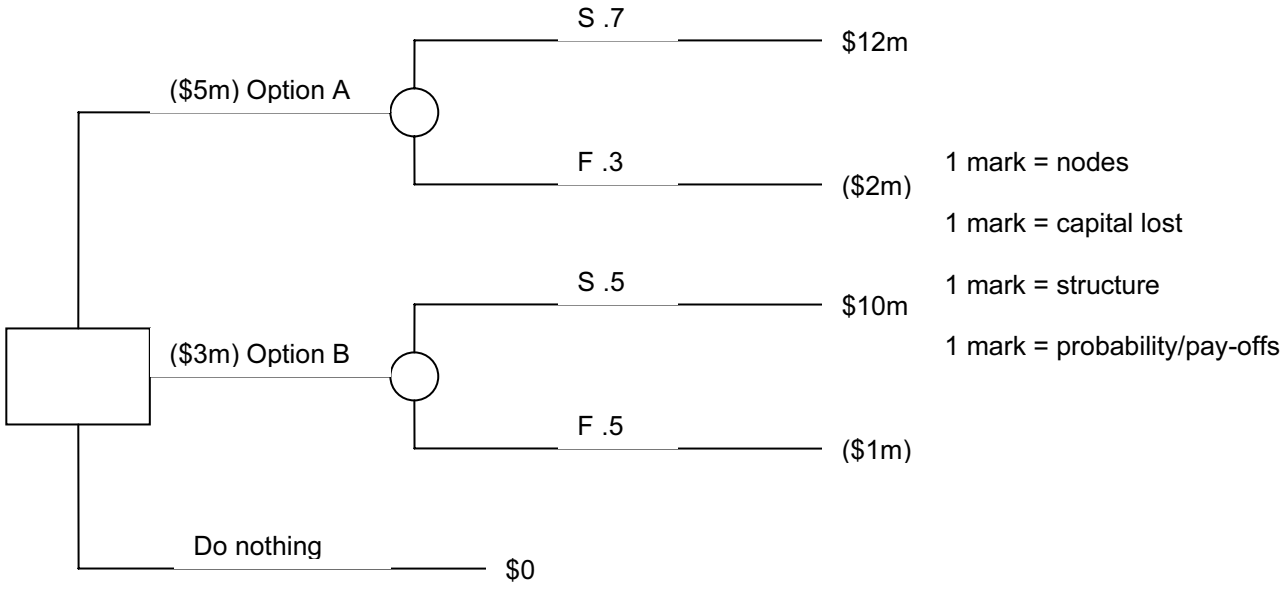
© UCLES 2010

4 Evaluate whether Manuel's lean production proposals are likely to increase operational efficiency without reducing customer service. [14]

	Knowledge	Application	Analysis	Evaluation
Level 2	2 marks Good understanding shown	2 marks Well applied to case	5-3 marks Good use of theory or reasoned argument	5–3 marks Supported recommendation clearly given
Level 1	1 mark Some knowledge shown	1 mark Some application to case	2–1 marks Limited use of theory or reasoning	2–1 marks Limited judgement shown

- Definition of lean production – or any of the components of it: Philosophy of operations that aims to reduce waste of all resources.
- Operational efficiency – reducing unit costs. Customer service – making goods available at the right time and right place (in this context).
- Lean production should reduce stock holding costs BUT will this be at the cost of reduced styles/sizes in shops, thus reducing customer service?
- Making sure new designs are available with very short lead times BUT how can the supply chain be managed to achieve this? Will more computerised systems be needed to achieve greater flexibility?
- TQM and quality assurance – should improve chance of meeting quality standards BUT training needed and new cultural approach amongst the workforce.
- Accept discussion of cheaper dyes – BUT will these reduce quality of the product and will customers be concerned about the environment?
- Overall: Fashion industry is moving towards lean production with "fast fashion" and SF will need to change – but it depends on how it is managed and the preparedness of the managers and workers to accept these changes.

5 (a) Draw a decision tree based on the data provided in Appendix B [4]



© UCLES 2010

(b) Calculate the expected values of both Option A and Option B. [4]

Can be done without the decision tree.

Option A: 0.70 × $12m = $8.4 – 0.30 × $2m = $7.8m – $5m = $2.8m (2)
Option B: 0.5 × $10m = $5m – 0.5 × $1m = $4.5m – $3m = $1.5m (2)

(c) Which option would you recommend Sam to choose? Use information in the case and your results to (b) to support your recommendation. [10]

	Knowledge	Application	Analysis	Evaluation
Level 2	2 marks Good understanding shown	2 marks Well applied to case	4–3 marks Good use of theory or reasoned argument	2 marks Supported recommendation clearly given
Level 1	1 mark Some knowledge shown	1 mark Some application to case	2–1 marks Limited use of theory or reasoning	1 mark Limited judgement shown

Examiner note: L1 for Analysis and Evaluation if no direct ref. to results or Appendix B

- Option A appears to be more profitable BUT:
- Can business finance the higher cost?
- Is the risk of making a higher loss acceptable to management?
- How reliable are these forecasts? What experience are they based on? Have they been "biased" by management preferences?
- Other factors: Is the company wise to move away from its long established market sector and damage its reputation with the original customers?
- How competitive is the Internet selling option? Is this likely to become very much more competitive – possibly reducing returns in the future?
- How long is recession forecast to last?
- Overall: A clear supported recommendation needed for L2 evaluation.

Both question 6 and 7 should be marked using this grid:

	Knowledge	Application	Analysis	Evaluation
Level 3				10–7 marks Very good judgement shown in answer and conclusion
Level 2	3–2 marks Good understanding shown	3–2 marks Well applied to case	4–3 marks Good use of theory or reasoned argument	6–4 marks Good judgement shown in answer or conclusion
Level 1	1 mark Some knowledge shown	1 mark Some application to case	2–1 marks Limited use of theory or reasoning	3–1 marks Limited judgement shown

© UCLES 2010

6 Evaluate the extent to which a business such as Sam's Fashions should operate ethically. [20]

- Ethical business behaviour: Decision making based on a moral code of conduct.
- Examples: Not taking bribes; observing all laws; being open and honest in dealings with customers and workers; protecting the environment.
- Application: Is Manuel right to seek to employ cheap labour in foreign countries? Is he right to try to convince customers that quality is the same when materials are cheaper? Is he right to want to cut costs at risk of the environment?
- Short term: Being ethical can be expensive and can reduce short term profits.
- Long term: Being ethical avoids legal action, gives confidence to customers and staff and can lead to increased sales and more loyal and productive workforce.
- Overall: What should be more important to SF – and why?

7 Manuel is proposing significant organisational changes. Discuss how managers such as Manuel can minimise workforce resistance during a period of change. [20]

- Organisational change can lead to resistance. Potential loss of jobs; loss of status and salary; new roles and responsibilities.
- Application to the case – middle management redundancies likely, some workers will not gain the jobs they apply for, spans of control will widen.
- Manuel and other managers need to lead and manage change.
- Explain reasons for change. Encourage workforce involvement in change. Keep good two-way communication at all times. Be aware of human needs at work and try to meet them even though change can be destabilising.
- Overall: Is Manuel the sort of leader who can do this effectively? Will he just push through the changes anyway? Sometimes change is so rapid and important that keeping staff resistance low is very difficult. Is this such an example?

© UCLES 2010