UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the May/June 2011 question paper

for the guidance of teachers

9707 BUSINESS STUDIES

9707/31 Paper 3 (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.

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

Cambridge is publishing the mark schemes for the May/June 2011 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

UNIVERSITY of CAMBRIDGE
International Examinations

1 Analyse the advantages and disadvantages for AC of greater use of electronic methods of communication. [10]

	Knowledge 3 marks	Application 2 marks	Analysis 5 marks
Level 2	3 marks Two or more relevant points made or one point made plus knowledge of communication shown.	2 marks Points made are well applied to case.	3–5 marks Good use of theory to explain advantages and disadvantages.
Level 1	1–2 marks One relevant point made or knowledge of communication shown.	1 mark Some application to case.	1–2 marks Good use of theory to explain one side or limited use of theory to explain one or both sides.

Answers could include:

Definition: the process of sending information from sender to receiver (plus feedback).

Advantages:
- Accuracy of orders e.g. automatic ordering systems via computer links.
- Reduced stock levels – JIT based IT systems.
- Quicker e.g. than arranging meetings.
- Less time-consuming than face to face contact.

Disadvantages:
- Capital cost – business is under pressure to cut costs.
- Staff training.
- Communication overload e.g. too many e-mails.
- Requires suppliers/customers to have compatible systems.
- Reliability issue.

© University of Cambridge International Examinations 2011

2 (a) Using data in Appendix A, calculate:

(i) The Payback Period for <u>both</u> Option 1 and Option 2

Option 1 = 1 year + (5/5.5 x 12 months) = 1 year 10.9 months (2 marks)
Option 2 = 2 years + (1/7 x12 months) = 2 years 1.7 months (2 marks)
2 marks for each correct answer OR 1 mark for each attempt.

(ii) The Net Present Value after 3 years for Option 1 (at 12% discount).

NPV @ 12% $m

Year	Option 1	DCF
0	(8)	(8)
1	3	2.67
2	5.5	4.35
3	4.5	3.2
NPV		**2.22**

Ready reckoner:

Result	Explanation	Mark
2.22	Correct	4
2.1 to 2.3 acceptable	Margin of error accepted due to candidate's own calculation of discount factors	4
10.22	All correct DCFs but capital cost not subtracted Correct process but 1 omission	3
2 correct DCFs and no subtraction of capital cost	1 error and 1 omission	2
Two arithmetical errors		2
Some use of technique	E.g. any multiplication of cash flows by discount factors	1

© University of Cambridge International Examinations 2011

(b) Comment briefly on the likely accuracy of the net cash flow data in Appendix A. [4]

Allow own figure rule

	Knowledge 1 mark	Application 1 mark	Analysis 1 mark	Evaluation 1 mark
Level 1	1 mark Shows some understanding of net cash flow forecasts.	1 mark Some application to case.	1 mark Some use of theory to explain answer.	1 mark Judgement used to assess likely accuracy of forecasts.

Answers could include:

- Net cash flow forecasts are needed for investment appraisal – the initial cost of the options may be quite accurate.
- Cash inflows likely to be gained from internal company data for previous internal expansion or from FF's accounts for external growth option.
- But future forecasts depend on market research data etc.

Evaluation:

- How reliable are the forecasts? Likely to be much less reliable as the cost of and returns from a takeover with culture clashes and potential lack of synergy are unreliable.

© University of Cambridge International Examinations 2011

(c) Discuss, using your results from (a) and other information, whether AC should expand organically (Option 1) or take over Fancy Fashions (Option 2). [14]

	Knowledge 2 marks	Application 3 marks	Analysis 4 marks	Evaluation 5 marks
Level 2	2 marks Two or more relevant points made.	3 marks Points made are well applied to case and country.	3–4 marks Good use of theory to explain advantages and disadvantages of both options.	3–5 marks Judgement shown in considering both advantages and disadvantages and making a final recommendation.
Level 1	1 mark One relevant point made.	1–2 marks Some application to case and country.	1–2 marks Good use of theory to explain one or both options on one side only.	1–2 marks Judgement shown but on one side only.

Answers could include:

- ORGANIC: analysis of results. Less risky as growth is more gradual and easier to manage. Same staff and production methods? Less costly – business is under pressure to reduce costs. Allows AC to offer complete range of clothing to retail stores. Quicker payback and the benefits of this could be analysed.
- TAKEOVER: analysis of results. More expensive. Is Abu paying too much to a friend? Damage to AC's CSR – long-term damage to image? Will it be possible to change the culture of this business to meet AC's standards? Higher NPV – but is the difference significant? What future interest rates (and thus discount rates) are forecast?
- Evaluation: the decision may depend on:
- The potential for sales growth in both markets – much more information like this would have been useful.
- Whether the leather factory will be operated under the original name – less chance of damage to reputation?

© University of Cambridge International Examinations 2011

3 (a) Refer to Appendix B. Calculate <u>all</u> the variances between the budgeted and actual data. Indicate whether each one is adverse or favourable. [6]

	Variance (award 1 mark for each correct variance including Favourable/Adverse – ½ marks for each correct result with no A/F or incorrect A/F. Round up half marks).
Sales revenue	1 F
Cost of material	2 A
Direct labour costs	0.5 A
Management expenses	0.5 A
Marketing expenses	1 A
Other expenses	0 (No marks)
Profit	3 A

(b) Evaluate any <u>two</u> ways in which the business might reduce its costs. [8]

	Knowledge 2 marks	Application 2 marks	Analysis 2 marks	Evaluation 2 marks
Level 2	2 marks Two ways identified.	2 marks Both points applied to case.	2 marks Use of theory to explain how each way would help.	2 marks Judgement shown in assessing both ways.
Level 1	1 mark One way identified.	1 mark Application of one point to case.	1 mark Use of theory to explain how one way would help.	1 mark Judgement shown in assessing one way.

Answers could include:

- Reducing material costs by cutting down on wastage or reducing unit cost of cloth – more detail would have been useful here about the actual cause of the unfavourable variance.
- Labour costs – is this due to lower productivity or higher wage rates than budgeted for? Cut wage rates – conflict with CSR? Cheaper materials – this might be possible if they go for fast fashion as consumers may be less concerned about quality.
- Expenses – are trade exhibitions really necessary if AC has large customers already? Might need to attract more customers for fear of losing some of the existing ones. Management salaries: are they paying themselves 'too much'? Could they be accused of being unethical? Reduce these salaries? Will good managers leave?

© University of Cambridge International Examinations 2011

4 Evaluate the impact that the trends in the macro-economic data could have on AC's future profitability. [16]

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks	Evaluation 6 marks
Level 2	3 marks Good knowledge shown.	3 marks Good application to case.	3–4 marks Good use of theory to explain answer.	4–6 marks Good judgement shown.
Level 1	1–2 marks Some knowledge shown.	1–2 marks Some application to case.	1–2 marks Some use of theory to explain answer.	1–3 marks Some judgment shown.

Answers could include:

- GDP growth – slowing but little impact directly on AC's sales as most output is exported – may affect unemployment levels though and with continued economic growth, workers may be harder to recruit.
- Inflation rate falling – may help to reduce upward pressure on AC's costs e.g. through lower wage settlements. Depends on inflation rate in other countries.
- Higher interest rates – could be a problem for AC if they need to borrow money for either of the two growth options – may depend on what percentage of finance is obtained internally.
- Tax rates – reduce retained profit so could be very significant – will this be enough to convince AC to start building factories in other countries? What are the rates of profits tax in other countries, though?
- Income tax – may lead to higher wage/salary demands.
- Exchange rate – appreciation will make imports of cloth cheaper (but what percentage of total costs are accounted for by cloth?) but make AC's prices of its exports less competitive. Again, do they need to locate abroad.

Final evaluation:
- How reliable are the forecasts?
- What is the evidence of other countries' economies, especially those countries that AC exports to?
- How dependent is the business on loan capital?

© University of Cambridge International Examinations 2011

5 Assess the importance of AC's corporate social responsibility (CSR) policy to the company's future success. [14]

	Knowledge 2 marks	Application 2 marks	Analysis 4 marks	Evaluation 6 marks
Level 2	2 marks Good knowledge shown.	2 marks Good application to case.	3–4 marks Good use of theory to explain answer.	4–6 marks Good judgement shown.
Level 1	1 mark Some knowledge shown.	1 mark Some application to case.	1–2 marks Some use of theory to explain answer.	1–3 marks Some judgment shown.

Answers could include:

- Definition: the policy of the business towards meeting stakeholder objectives other than shareholders' objectives.
- A good and well-publicised CSR policy (as in this case) can be a useful marketing tool and lead to increased sales.
- BUT: are the shops AC deals with interested in this? Are the consumers of the shops interested in the sources of the clothes they buy? How concerned are consumers during global downturns about ethical issues? Is the demand for ethically sourced clothes rising or falling? Is low cost or ethical sourcing more important to retail customers?
- Labour relations should improve with good CSR policy e.g. employment contracts. Make it easier to recruit and retain good staff – especially if unemployment is falling. BUT does the policy add too much to costs and reduce labour flexibility? Is the balance between ethical standards and short-run costs inappropriate in this case at this time?
- Final evaluation: other factors will affect future success too – e.g. fast fashion and price level of AC's clothes.

© University of Cambridge International Examinations 2011

Questions 6 and 7

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks	Evaluation 10 marks
Level 3				7–10 marks Good judgement shown in text and conclusions.
Level 2	3 marks Good understanding shown e.g. 2 factors identified plus at least 1 explained.	3 marks Good application to case.	3–4 marks Good use of theory to explain points made.	4–6 marks Some judgement shown in text and/or conclusions.
Level 1	1–2 marks Some understanding shown e.g. 1 factor identified/ developed.	1–2 marks Some application to case.	1–2 marks Limited use made of theory.	1–3 marks Limited judgement shown.

6 Evaluate the usefulness of methods of strategic analysis to the directors of AC before making major decisions about the future growth of the company. [20]

Answers could include:

- Definition of strategic analysis.
- SWOT – explanation of the benefits of using this – the threats and opportunities need to be carefully identified and analysed when a significant change in strategic direction is being considered.
- PEST – explanation of the benefits of using this – economic and technological influences important in this case but social too, with changing fashion trends and consumer expectations.
- Making strategies blend in with mission/value statements – does the company have these?
- Boston Matrix – the two options are slightly different in terms of this.
- Porter's 5 Forces analysis – the benefits of using this.
- Core competences.
- Accept Ansoff discussion.
- Two methods sufficient for max marks.

Evaluation:

- Prioritisation of methods – discussion of their relative importance in this case.
- Is the family, and Abu in particular, skilled and experienced enough to be able to take effective strategic decisions without time-consuming and possibly expensive analysis?

© University of Cambridge International Examinations 2011

7 Discuss the importance of contingency planning to AC. [20]

Answers could include:

- Definition: planning for unforeseen events – business continuity planning.
- Benefits: reassures customers and staff that their interests are being considered.
- Cuts down potential damage from disasters both in terms of costs (e.g. compensation) and bad PR and loss of customer loyalty.
- Reduces risks of disaster occurring as recognising major risks sometimes allows them to be reduced.
- Particularly important to firms like AC where there is a potential risk to consumers and they project themselves as a 'caring' organisation.
- Limitations: disasters still occur – refer to case.
- Too expensive especially for small businesses or those in a very cost competitive industry – refer to case.
- CP may be of little benefit if other measures are not in place, e.g. effective quality assurance over supplies – refer to case.

Final evaluation:

- Cost of CP needs to be balanced against the potential costs of not doing it.
- How much time is spent on preparing and testing contingency plans?
- In this case it seems to have been effective but it might be more important to focus on quality issues themselves, rather than trying to respond to a problem once it has arisen.

© University of Cambridge International Examinations 2011