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

9707/32 Paper 3 (Case Study), maximum raw mark 100

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1 Analyse the advantages to FitsU of increasing the use of technology in marketing and operations management. [10]

	Knowledge 3 marks	Application 2 marks	Analysis 5 marks
Level 2	3 marks Two or more relevant points showing understanding.	2 marks Points made are applied to case and both departments.	3–5 marks Good use of theory to explain advantages in both departments.
Level 1	1–2 marks One or two relevant points made.	1 mark Some application to case for one department.	1–2 marks Some use of theory to explain advantage(s) in one department.

Answers could include:

Technology: the use of IT and other technical developments to increase efficiency.
For example:

- ERP: using single computer system to track the operations of the business – supplies, customers' orders, inventories etc.
- Advantages: keeps track of all goods supplied, work in progress, inventory levels – gives complete computerised overview and allows accurate monitoring of the operations of the business.
- May be particularly useful in this case if the factory is opened as there will be raw material inventories and work in progress.

Internet selling – using websites to promote products and take orders.

- Advantages: worldwide market coverage – FitsU might be selling in a mature market with limited opportunities for growth.
- Direct selling of own shoes (if factory is opened) – no mark-up given to other intermediaries and business gains useful direct communications with customers.
- May be able to close retail outlets and reduce fixed costs.

Other applications of IT and technology may be possible and should be suitably rewarded.

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2 (a) Using data in Appendix A, calculate for the factory project:

(i) The Average Rate of Return (ARR) [4]

ARR % = Annual profit/initial capital cost × 100
= 7/4 = 1.75m/15 × 100 = 11.67%

Ready reckoner:

Result	Explanation	Marks
11.67%		4
7/15 × 100 = 46.67% 36.67%	Does not calculate annual profit Does not deduct capital costs	3
2 errors		2
Formula only		1

(ii) The Discounted Payback Period ($m) [4]

Year	Option A	DCF
0	(15)	(15)
1	4.5	4.1
2	4.5	3.74
3	6.5	4.88
4	6.5	4.42

Discounted payback: 3 years and 2.28/4.42 × 12 = 6.2 months
3 years 6.2 months (Allow 3 years 6 months)

4 marks – correct answer
3 marks – one error
2 marks – 2 errors
1 mark – some idea e.g. some use of discount factors or discounted cash flow total of $17.14m

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(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.	1 mark Some application to case.	1 mark Some use of theory to explain answer.	1 mark Judgement used to assess accuracy of cash flows.

Answers could include:

- Net cash flows are forecast annual cash inflows from the project less forecast cash outflows. Year 0 is the expected capital cost.
- Inflows may be based on market research data or internal data about cost price of shoes. Outflows may be based on industry data on operating costs of show factories.
- Cash flows could be affected by competitors' actions e.g. their decision to open factories etc.

Evaluation:

- How reliable are the forecasts? Likely to be much less reliable than, for example, estimating cash flows from a new shop as the business has not operated a factory before.
- Have management influenced the data in any way to achieve a particular decision?

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(c) Discuss, using your results to (a) and other information, whether FitsU should open the shoe-making factory. [12]

	Knowledge 2 marks	Application 2 marks	Analysis 4 marks	Evaluation 4 marks
Level 2	2 marks Good knowledge/ understanding shown.	2 marks Points made are well applied to case.	3–4 marks Good use of theory to explain results and other information.	3–4 marks Judgement shown in considering this decision plus clear recommendation.
Level 1	1 mark Some knowledge/ understanding shown.	1 mark Some application to case.	1–2 marks Some use of theory to explain results OR other information.	1–2 marks Some judgement shown e.g. on accuracy of results.

Answers could include:

- Analysis of results (accept OFR analysis).
- ARR of 11.67% may not be considered high for a relatively risky project – but depends on cost of capital.
- Discounted Payback (may define or explain this for knowledge marks) is long in terms of the 4-year initial period of the lease.
- Quantitative data are not strongly in support of decision to open factory – but what other uses of capital are there? Do they offer higher returns/quicker payback?

Other factors:
- Consumer preference for branded shoes.
- May take longer to reach capacity than expected – raising unit costs above forecast.
- No experience in this sector – manager has manufacturing experience but not in shoe production.
- Gives cost/quality control of shoes to FitsU.
- Takes finance and focus away from retail shop business.

Evaluation:
- Most important factor?
- Need to give the project a longer life span before deciding on permanent production?
- Final, justified, conclusion is needed for level E2.

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3 (a) Using data in Appendix B, calculate the acid test ratio and the gearing ratio of FitsU for the year ending 31st May 2011. [6]

Formulae:

$$\text{Acid test} = \frac{\text{Liquid assets}}{\text{Current liabilities}} = 33/88$$

$$\text{Gearing ratio \%} = \frac{\text{Long term liabilities}}{\text{Capital employed}} \times 100 = 100/215 \times 100$$

	2011
Acid test	0.375 (0.38)
Gearing ratio	46.5% (47% or 0.465/0.47)

Ready reckoner:

Result for each ratio	Explanation	Mark
Correct		3
Correct data identified but incorrect result		2
Correct ratio formula		1

(b) Assume the decision to build a new factory is taken. Discuss whether the business should raise the finance required for the new factory from additional long-term loans. [8]

	Knowledge 2 marks	Application 2 marks	Analysis 2 marks	Evaluation 2 marks
Level 2	2 marks Good understanding shown.	2 marks Good application to case.	2 marks Good use of theory to explain impact of using long-term loans.	2 marks Good judgement shown in assessing sources of finance.
Level 1	1 mark Some understanding shown.	1 mark Some application to case.	1 mark Some use of theory to explain how long-term loans would impact on business.	1 mark Some judgement shown.

Answers could include:

- Relatively high gearing already – this would raise it to 115/230 = 50%.
- Risky – interest costs. Interest rates could increase/profits could fall, both of which would make servicing the loans more difficult.
- Should perhaps not raise all of the finance from loans – suggest and support other sources, e.g. share capital is possible as it is a plc. But to what extent would this dilute control/ownership?

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4 Discuss how the company should respond to the data in Appendix C, using Boston Matrix analysis to support your judgements. [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:

- Definition/diagram/explanation of Boston Matrix.
- Calculation of market share:
  W 60%; S 10%; C 20%; M 50%
- Allocation of products to each category: W = Star; S = Dog; M = Cash Cow; C = Problem child.
- Options: divest the dog.
- Support the problem child – cash from cash cow?
- Maintain the star – how? Cost of this?
- Other strategic options possible e.g. replace dog with products in other market segments.

- **Marks** to be awarded for calculations of market share:
  K1P1 for one correct calculation.
  K2P2 for two or more correct calculations.
- **Marks** to be awarded for correct classification of products to Boston Matrix:
  K1P1 for one correct classification.
  K2P2 for two or more correct classifications.

Evaluation:
- Need more data before major strategic decisions can be taken? How useful is Boston Matrix in actually making strategic decisions about products?
- For example, sales of individual product ranges/styles.
- External data would be useful too e.g. social and demographic trends.
- Competitor analysis would be useful before major decisions are taken.

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5 Evaluate the most appropriate Human Resource strategies that FitsU could adopt to increase staff motivation without increasing the unit costs of sales. [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 and impact on unit costs.	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.

Examiners' note: Max L1 for Analysis/Evaluation if no specific reference to unit costs.

Answers could include:

- Details of present pay system and the problems this is causing.
- Seems to be a Taylorite approach – yet senior managers and directors know how to motivate themselves.
- 'Them and us' approach could be very damaging to long-term motivation and morale.
- Bonus system may encourage sales – but does it lead to effective customer service and relations in the long term?
- Profit-sharing scheme for all staff? Would this increase motivation without increasing unit costs?
- Share ownership scheme to promote sense of ownership and belonging?
- Non-financial motivators need to be reviewed – no attempt to adopt job enrichment etc.
- Analysis of likely impact of suggestions made on unit costs.

Evaluation:
- Suggestions must be applied to case and assessed in terms of 'not increasing unit costs'.
- Best methods are… plus justification.
- How likely is the existing management to adopt a less Taylorite approach to both financial and non-financial motivators? This could be a major obstacle.

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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 knowledge/ understanding shown.	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 knowledge/ understanding shown	1–2 marks Some application to case	1–2 marks Limited use made of theory.	1–3 marks Limited judgement shown

Examiners' note: good answers considering just two techniques can gain max. marks.

6 Evaluate the usefulness of strategic choice techniques that FitsU directors might use in making the decision to manufacture shoes. [20]

Answers could include:

- Definition of strategic choice – choosing between strategic options including not going ahead with a major decision.
- This is a major change from existing growth strategy.
- Vertical integration has cost/control benefits – should increase profit margins.
- Break-even analysis might be useful to aid this decision.
- Use of decision trees and/or force field analysis? Assess the usefulness of these techniques, in this case including their benefits and limitations.
- Can probabilities be assessed?
- Can 'restraining' and 'driving' forces be measured quantitatively?
- Ansoff's matrix – is this a form of diversification i.e. into production even though in the same industry? Risks associated with this.
- How reliable would the data be for basing a scientific decision on? Are qualitative factors more important than quantitative ones?
- Investment appraisal is an appropriate technique but how reliable are the cash flows and results of investment appraisal?

Evaluation:

- Lack of management expertise could be major problem in applying these techniques.
- Is Ansoff appropriate as this is a move towards manufacturing not a marketing growth strategy?
- Prioritisation of techniques – which is likely to be of most use in this case?
- Discussion of their relative importance in this case. Should the decision be taken scientifically or with 'instinct'?

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7 Discuss the importance of effective management of change to the future success of FitsU. [20]

Examiners' note: Level 1 max for Application/Analysis/Evaluation if not specifically applied to change management.

Answers could include:

- Definition of change management – the process of managing and leading strategic change to achieve desired objectives.
- Knowledge marks can be gained for understanding of management/management functions.
- FitsU current management have not done this effectively so far it seems – recent changes have caused resistance.
- Lack of staff involvement, lack of communication of the need for change, lack of ownership of the change process is a major weakness.
- This could lead to serious HR problems and a lack of competitiveness in the future e.g. in terms of customer service.
- Will the vertical integration of the business be handled well?
- Will future takeovers be handled better than that of FeetHut?
- Pace and scale of change is likely to accelerate e.g. Internet selling and globalisation. FitsU might not be prepared for effective management and leadership of these changes.
- Steps to be taken in effective change management include: vision for the business; 'selling' change to staff; communication of reasons for change and consequences; involvement in change process.

Evaluation:

- How important is strategic change in this context and the management of such change? Will effective change management make any difference to the future success of FitsU?
- Can management culture towards change management and the role of staff be adapted to meet future challenges?
- If unemployment is rising perhaps autocratic management of change might be 'acceptable' but will it lead to longer term problems e.g. when unemployment is falling?
- Examination of factors other than effective management of change that could affect the future success of this business.

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