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

9707/33 Paper 3 (Case Study), maximum raw mark 100

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International Examinations

1 Analyse the advantages and disadvantages for FPC of operating sawmills at nearly full capacity. [10]

	Knowledge 3 marks	Application 2 marks	Analysis 5 marks
Level 2	3 marks Good knowledge of relevant points and capacity utilisation.	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/two relevant point(s) made or knowledge of capacity utilisation shown.	1 mark Some application to case.	1–2 marks Use of theory to explain advantages or disadvantages.

Answers could include:

Definition of full capacity (or capacity utilisation): output equal to capacity (proportion of total capacity accounted for by current output).

Advantages:
- Lowers fixed costs per unit and therefore total costs.
- Increases competitiveness as a result – this is a competitive market.
- Gives staff job security.
- Cuts down on wasted time/resources.

Disadvantages:
- Little time for maintenance/repairs – see case. This may lead to breakdown of machinery.
- Worsens health and safety record – see case.
- Puts pressure on staff/managers.
- Not able to meet increased orders e.g. from established customers.

Calculation of capacity utilisation would provide evidence of application.

2008	42/45	93.3%
2009	44.5/46	96.7%
2010	47/48	97.9%

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2 (a) Draw up a forecasted Income Statement (Profit & Loss Account) for FPC for the 12 months ending 31 May 2012 based on the actual Income Statement shown in Appendix C.
Assume that:
- **the impact on sales and profit margins is based on the information and estimates made on lines 33–35**
- **there are no other changes.** **[8]**

	Income Statement Year ending 31/5/11 ($m)	Income Statement Year ending 31/5/12 ($m)	Marks	Income statement if 15% mistakenly added to <u>total</u> revenue ($m)	
Sales revenue	50	56*	3	57.5	2 marks
Cost of sales	15	15.68	1 OFR	16.1	1 mark
Gross profit	35	40.32	1 OFR	41.4	1 mark
Overhead expenses	28	29.4	2	29.4	2 marks
Net profit (profit before tax)	7	10.92	1 OFR	12	1 mark

Notes: (1) Net profit of $10.92m should not be automatically rewarded with 8 marks. Each element of the income statement must be shown.
(2) *Sales revenue to 31/5/12 = 50 + 15% of (80% × 50) = 50 + 15% of 40 = 56

Calculations:
Revenue 80% of 50 = 40 (1 mark)
15% of 40 = 6 (2 marks)

Overheads 5% of 28 = 1.4 (1 mark)

(b) Comment briefly on the usefulness of a forecasted Income Statement to the directors of FPC. **[4]**

	Knowledge 1 mark	Application 1 mark	Analysis 1 mark	Evaluation 1 mark
Level 1	1 mark Some knowledge shown.	1 mark Applied to case.	1 mark An explanation of usefulness.	1 mark Judgement given.

Answers could include:

- Forecast of future profits/losses.
- Allows comparison with budgets and past performance to be made.
- Useful for decision-making – as in this case. 'What if' scenarios can be compared.
- Based on forecasts such as market research, cost estimates etc – so considerable scope for inaccuracy.
- CEO in this case might be trying to justify the decision so could have used optimistic data.

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(c) Discuss, using your result from (a) and other information, whether FPC should respond to pressure group threats and stop extracting wood from the Lotus forest. [14]

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

Answers could include:

NO they should continue extracting timber:

- It is clearly profitable – see **(a)**.
  - Net profit margin (NPM) will increase from 14% to 19.5%.
  - NPM will increase by 5.5 percentage points.
  - There will be a 56% increase in net profit.
- FPC is a plc and has shareholders to satisfy.
  - They will not be impressed by closing a forest so soon after purchasing it.
  - They are demanding higher dividends.
- Operations will end in a few years anyway – environmental and other pressure groups will be pleased about that.

YES they should stop now:

- Against mission statement – not living up to their stated mission.
- Pressure group activity may reduce FPC's reputation and sales and have a long-term impact on profitability.
- Only a small part of their operations and may be able to sell to another timber business anyway.

Evaluation may include:

- How powerful are the pressure groups?
- Can the forest be sold to another business?
- Will shareholders take action against directors who seem to have paid too much for a forest that they are now thinking of ceasing operations in?
- Business customers may not be driven by ethical considerations.

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3 (a) Refer to Appendix A.

(i) Identify the earliest start time (EST) and latest finish time (LFT) at node 5. [2]

EST = 5; LFT = 7

(ii) State the length of the critical path. [1]

16 weeks or accept CFIK

(iii) Calculate the total float on Activity J. [3]

LFT – Duration – EST (1 mark)
10 – 2 – 6 = 2

or LST – EST (1 mark)
8 – 6 = 2

(Award 2 marks for correct data identified but incorrect result.)

(b) To what extent will the use of critical path analysis ensure a successful completion of the new sawmill? [8]

	Knowledge 2 marks	Application 2 marks	Analysis 2 marks	Evaluation 2 marks
Level 2	2 marks Good understanding of CPA.	2 marks Good application to case e.g. use of CP/durations etc.	2 marks Good analysis shown.	2 marks Clear judgement shown.
Level 1	1 mark Shows some understanding of CPA.	1 mark Some application to case.	1 mark Some use of theory to explain answer.	1 mark Judgement used to assess usefulness of CPA.

Answers could include:

- Definition/explanation of CPA.
- Should help because:
  - Puts tasks in order; helps with identifying simultaneous activities.
  - Float times can be used to allocate resources more efficiently.
  - Delays can lead to managers using network to identify which activities need to be speeded up; 16 weeks is length of CP so it should be possible to get yard ready within time limit set.

Limitations:

- Only a planning tool – needs good management to see the project through to successful completion. Does FPC have good enough middle managers to see project through on time?
- Outside events could result in unforeseen delays e.g. planning permission problems.
- How reliable are the duration estimates?

Evaluation:

- Has this tool been used by FPC managers before and, if so, with what success?

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4 Refer to Appendix B and lines 36–41. Evaluate the most important changes that you consider should be made to improve the organisational structure of FPC's Operations Department. [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks Good knowledge shown.	2 marks Good application to case.	3–5 marks Good use of theory to explain answer.	3–5 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.	1–2 marks Some judgment shown.

Answers could include:

- Criticisms of existing structure: too tall with narrow spans of control; no separate divisions for different countries or products.
- New structure may be drawn – allow up to 6 marks (2,2,2) for revised version with significant differences that appear logical, e.g. separate divisions for products or countries or wider spans of control (matrix structure possible too).
- Analysis of the claimed benefits of student's own version, e.g. better vertical communication, more delegation, clearer lines of authority.
- Will other departmental organisations need to be changed? Can just one department have a different structure?

Evaluation may include:

- Will delayering be handled sensitively?
- Most important features of the new structure are…with justification.
- Will delegation and wider spans of control need a new management/corporate culture of trust and will this occur?
- How long will the changes take? Will they be imposed from the 'top'?

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5 Assess the potential impact of increasing globalisation on the marketing strategy for FPC furniture. [16]

	Knowledge 2 marks	Application 3 marks	Analysis 5 marks	Evaluation 6 marks
Level 2	2 marks Good knowledge demonstrated.	3 marks Good application of points to case.	3–5 marks Good use of theory to answer question.	4–6 marks Good judgement shown.
Level 1	1 mark Some knowledge of globalisation or marketing strategy.	1–2 marks One or two points applied to case.	1–2 marks Some use of theory to answer question.	1–3 marks Some judgement shown.

Answers could include:

- Definition or explanation of globalisation and/or marketing strategy.
- Existing marketing strategy: traditional Asian designs; low prices (discount stores); sold through other retailers – no company-owned shops; no or little marketing budget.
- Current position: increased competition from cheaper imports due to free trade.
- How should marketing strategy be revised?
- Market research – are imports only in the lower price segments of the market?
- New market segment?
- Selling abroad – pan-global marketing or global localisation? For example, will new furniture styles and promotions be needed in European and American markets?
- Selling directly over the Internet? How feasible is this with furniture?

Evaluation:

- More information needed e.g. market research.
- May depend on which strategic option FPC adopts.
- Is the process of globalisation and free trade likely to continue for the markets FPC operates in?

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Questions 6 and 7

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks	Evaluation 10 marks
Level 3				6–10 marks Good judgement shown in text and conclusions.
Level 2	3 marks Good understanding shown.	3 marks Good application to case.	3–4 marks Good use of theory to explain points made.	3–5 marks Some judgement shown in text and/or conclusions.
Level 1	1–2 marks Some understanding shown.	1–2 marks Some application to case.	1–2 marks Limited use made of theory.	1–2 marks Limited judgement shown.

6 Evaluate the importance of both SWOT and PEST analysis to FPC's directors as they analyse the two strategic options. [20]

Answers could include:

- Definition/explanation of PEST and SWOT as techniques of strategic analysis.
- Benefits of SWOT – considers both internal (SW) and external factors (OT) in analysing the situation in which the business is currently. This is important before major strategic decisions are taken.
- Helps to identify areas for action to reduce weaknesses and the strengths that will allow opportunities to be taken advantage of e.g., in this case, strength in primary products, profits being made to finance expansion, new CEO with plans to reorganise the organisation.
- PEST focuses on external factors:
  - Legal changes e.g. protection of natural parks.
  - Environmental pressure groups – will it be easier to avoid pressure if FPC expands into secondary sector?
  - Social issues such as relocation of villagers.

Evaluation:

- PEST and SWOT need frequent updating.
- Major decisions such as this require other forms of analysis too, e.g. investment appraisal and Porter's 5 Forces.
- Can be subjective.
- Market research essential.
- Financial analysis of accounts needed for Option 1.

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7 FPC's directors aim to increase profits. Recommend to FPC's directors which one of the two strategic options they should choose for the company, assessing the potential risks and rewards of both options. [20]

Reward appropriate use of Ansoff.

Expansion into furniture making	
Rewards:	Risks:
• Moves away from primary products with low value added and pressure group activity. • Rising global incomes will allow expansion into an income elastic market. • Less risky than diversification?	• Potential problems with further takeovers/mergers e.g. paying too much (as with case example) and culture clashes. • Lack of previous success in furniture making – will expansion overcome this?
Diversification into other primary products	
Rewards:	Risks:
• FPC understands primary product markets. • Existing land can be used – may be cheaper than other option.	• Social/environmental objections. • Lack of detailed knowledge about extraction methods etc. • More risky?

Evaluation:

- Overall judgement required e.g. recommendation given but may be conditional on other information being provided, such as investment appraisal, PEST analysis for both options etc.
- Quantitative analysis is essential to achieve the profit objective.

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