UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the May/June 2012 question paper

for the guidance of teachers

9707 BUSINESS STUDIES

9707/31 Paper 3 (Case Study), maximum raw mark 100

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International Examinations

1 Analyse TWO benefits of operating PB as three separate divisions. [10]

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks
Level 2	3 marks Good knowledge shown of benefits of decentralisation or profit centres.	3 marks Both points well applied.	3–4 marks Good use of reasoned argument or theory to explain both benefits.
Level 1	1–2 marks Some knowledge shown of benefits of decentralisation or profit centres.	1–2 marks Some attempt to apply both points or one point well applied.	1–2 marks Some use of reasoned argument or theory for both benefits or one benefit well explained.

Answers could include:

Form of decentralisation – define this or define profit centres.

Benefits:
- Allows different leadership styles in different business situations – applied to case. This can be beneficial as different situations often need different leadership styles.
- Allows sales/profit/loss data for each division/profit centre to be calculated – action can more effectively be taken to address problems – applied to data in Appendix 1.
- May motivate managers and workers as the performance of each division can be more easily monitored – applied to business which is operating in a competitive industry.
- Decisions taken by managers within division – they may have better knowledge of the products and markets the divisions operate in.

2 (a) Refer to Appendix 1. Calculate the following ratios for the ElecBikes division in 2011:

(i) Inventory turnover $= \frac{\text{Cost of goods sold}}{\text{Inventory}}$ (1 mark) [3]

(Accept Sales Turnover instead of CoGS too)

$= \frac{14 - (-1)}{4} = \frac{15}{4}$ (2 marks)

= 3.75 times (3 marks)

(Using Sales Turnover = 14/4 = 3.5 times)

(ii) Days' sales in receivables (debtor days) $= \frac{\text{Receivables}}{\text{Sales Turnover}} \times 365$ (1 mark) [3]

$= \frac{3}{14} \times 365$ (2 marks)

= 78.2 days (3 marks)

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(b) Assess whether reducing accounts receivable and inventory levels are the best ways to improve the financial efficiency of the ElecBikes division. [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks Good knowledge shown of ways to improve financial efficiency.	2 marks Both points well applied.	3–5 marks Good use of reasoned argument or theory to explain both benefits.	3–5 marks Good judgement shown in answer and conclusion.
Level 1	1 mark Knowledge shown on ways to improve financial efficiency.	1 mark Some attempt to apply both ways or one way well applied.	1–2 marks Some use of reasoned argument or theory for both benefits or one benefit well explained.	1–2 marks Some judgement shown in answer and/or conclusion.

Answers could include:

- Reducing debtors will reduce days' sales in receivables – improves working capital and financial efficiency of the business.
- Less capital tied up in receivables which can be invested elsewhere in this division e.g. further research.
- Reducing inventories – of parts or completed products (sales are slow so most inventory might be in this form) – improves the inventory turnover ratio.
- Less capital tied up in inventories – e.g. through use of JIT – will release capital for further investment in this division.
- However, perhaps these ratios are "poor" because products have not been on market for long.
- Inventories of parts might be expensive due to nature of the products/components.
- Inventories of completed products might be in anticipation of sales surge.
- **Evaluation**: How viable or wise would the use of JIT be in these circumstances?
- Specialist retailers have been offered credit to encourage stocking of these newly developed products – might be an essential part of the marketing strategy.
- **Evaluation:** Might be necessary to offer long credit periods until sales pick up.
- **Evaluation**: Increased sales will, without increased credit periods/inventories, help to improve financial efficiency ratios – PB might need to wait another year or so before taking drastic steps to reduce credit periods or inventory levels. If products no more successful then, important decisions might need to be made.

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3 Discuss whether the leadership styles used within PB's three divisions are appropriate. [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks Good knowledge of leadership styles shown.	2 marks Leadership styles well applied to case.	3–5 marks Good use of reasoned argument or theory to explain leadership styles benefits and/or limitations.	3–5 marks Good judgement shown in answer and conclusion.
Level 1	1 mark Some knowledge of leadership styles shown.	1 mark Some attempt to apply leadership style to case.	1–2 marks Some use of reasoned argument or theory to explain leadership styles.	1–2 marks Some judgement shown in answer and/or conclusion.

Answers could include:

- Evidence seems to suggest:
  - Bureaucratic – Kalei
  - Autocratic – Abbas
  - Deomocratic – Gary
  - Laissez-faire – Vip.
- Explanation of the key features of all or some of these leadership styles – at least two needed for Level 2 marks.
- Discussion/analysis of appropriateness when applied to these 3 divisions.
- Would a more democratic style in Bikes For All help to make it more productive, efficient and competitive? Will Theory X approach lead to workers acting in the way that is expected of them? Is this the best way to keep 'average costs low'?
- Would a less democratic style be more appropriate in SpecBikes? Are workers well qualified to take a more participative role? Would this increase their own enthusiasm and motivation? How much time is taken in 'democratic decision making'?
- Is laissez-faire appropriate for a research division? Now that production and sales have started would a more directive approach now be more effective? Is the style of leadership leading to good designs but contributing to high costs and no profits?

Evaluation:

- Judgement about appropriateness of styles in different divisions. There is no ONE overall effective and appropriate style. It depends on the nature of the situation, problem, type of workers, nature of work. Apply judgement to this business using the information provided.

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4 (a) Refer to Appendix 2. Calculate the average rates of return (ARR) over 5 years for BOTH locations. [6]

Ready reckoner:

	Results	Explanation	Mark
Both correct	X = 40%; Y = 43% X = 150-50/5 = 20 20/50 x100 = 40% Y = 220–70/5 = 30 30/70 × 100 = 43%	Correct answers – allow maximum marks even if no working shown	6
One correct and one error	40% *or* 44% and working incorrect on other one	Must show how incorrect answer arrived at	5
Capital cost not subtracted	60% and 63%	One error made twice	4
No division by number of years	200% and 210%	One error made twice	4
Some attempt to use data and apply formula			2–3
Correct formula	$\text{ARR} = \frac{\text{Annual average profit}}{\text{Capital cost}} \times 100$ ACCEPT 'Average cost of capital'	If no other rewardable content	1

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(b) Recommend the location where the Bikes for All division should open its new factory. Justify your answer using your results from 4(a), further analysis of data in Appendix 2 and any other relevant information. [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks Good knowledge of locational factors.	2 marks Locational factors well applied to case.	3–5 marks Good use of reasoned argument or theory to explain locational factors.	3–5 marks Good judgement shown in supported recommendation.
Level 1	1 mark Some knowledge of locational factors.	1 mark Some attempt to apply locational factor(s).	1–2 marks Some use of reasoned argument or theory to explain locational factors.	1–2 marks Some judgement shown in answer and/or recommendation.

Answers could include:

- Any relevant use of Appendix 2 table or other information.
- Calculation of payback periods (award K/P marks).
- Location X = 20 months; Location Y = 2 years.
- Break-even level of production (award K/P marks).
- X = 250000 units; Y = 120000 units.
- Analysis of numerical results in 4(a) and any other relevant calculations (OFR).
- How important is infrastructure? Exports to 50 countries so transport is very significant. Location Y much less well placed in this respect.
- Higher unemployment in Y – but how trained and experienced are they in production?
- Lack of HE provision in Y – how important is this? Can PB take its own engineers etc. to this new location?
- Lower labour costs in Y – very important in this industry BUT why is productivity forecasted to be lower?
- Corruption – risk of being tangled up in unethical practices? Kalei likes to follow rules – surely acting unethically to gain, for example, planning permission would be against this approach?
- Social responsibility not being considered if 4 sites closed in Location X country and jobs sent to Location Y country.

Evaluation:

- Weighing up of factors, prioritisation.
- Quantitative data and results point to Location Y but qualitative data points to Location X.
- Data is forecasted – how reliable is it, especially for Location Y which is more of an unknown quantity?
- Location X. Which is more important in this case? Overall recommendation needed and should be based on preceding analysis.

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5 Discuss how the business could make the demand for the bicycles produced by Bikes for All less sensitive to price increases. [16]

	Knowledge 3 marks	Application 3 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	3 marks Good knowledge of marketing issues.	3 marks Marketing issues well applied to case.	3–5 marks Good use of reasoned argument or theory to explain marketing changes.	3–5 marks Good judgement shown in answer and conclusion.
Level 1	1–2 marks Some knowledge of marketing issues e.g. PED.	1–2 marks Some attempt to apply marketing issue.	1–2 marks Some use of reasoned argument or theory to explain marketing changes.	1–2 marks Some judgement shown in answer and/or conclusion.

Answers could include:

- Explanation/definition of marketing mix or marketing strategy.
- Product – improve quality – BUT what about cost of goods sold rising more than prices?
- Price – this is the question – how to increase price effectively! Use market segmentation to make a range or products aimed at different groups and charge different prices?
- Place – own shops? Sell directly to retailers to cut out wholesalers mark up – advantages and disadvantages of these proposals? Promotion – sponsor a cycle team or charity event to gain free publicity? How high is AED for mass market bikes? Might need to identify clear brand in order to spend promotion budget effectively.

Evaluation:

- Mix changes need to be integrated, linked to Kalei's objectives and supported by appropriate budget.
- Need to base marketing strategy changes on detailed market research evidence first?
- Conclusion should clearly indicate how the proposed changes will make PED smaller (demand less responsive to price increases).

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Questions 6 and 7 use this mark grid:

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks	Evaluation 10 marks
Level 3				7–10 marks Good judgement shown in answer and conclusion.
Level 2	3 marks Good knowledge of issues shown.	3 marks Issues well applied to case.	3–4 marks Good use of reasoned argument or theory to explain answer.	4–6 marks Good judgement shown in answer or conclusion.
Level 1	1–2 marks Some knowledge of issues shown.	1–2 marks Some attempt to apply issue.	1–2 marks Some use of reasoned argument or theory to explain answer.	12 marks Some judgement shown in answer and/or conclusion.

6 Evaluate the usefulness to Kalei of doing a SWOT analysis of Patel Bicycles. [20]

Answers could include:

- SWOT – definition – a form of strategic analysis that identifies and analyses the internal strengths and weaknesses and external opportunities and threats.
- Strengths: Kalei as entrepreneurial leader; 3 divisions – spreading of some risk; two are profitable; R and D in ElecBikes.
- Weaknesses: Declining profitability; 3 factories for Bikes For All; loss at ElecBikes; different leadership styles (could be a strength?); no diversification out of bicycles; raising finance might be a problem with falling profits.
- Opportunities: Develop ElecBikes further; the two diversification strategies; expansion of sales into other countries; new bicycle products.
- Threats: Competition in mass market; demand for higher price bikes might be income elastic and adverse macro-economic conditions would hit demand; government law changes; cost of motoring and other forms of transport.
- This analysis helps managers assess the most likely/suitable future strategies and the constraints on them.
- Competitive advantage could be developed by developing a good 'fit'\between future strategies and current strengths e.g. is Rely's proposal better than the ASB one?
- Is it necessary to overcome some of the weaknesses before adopting other future strategies e.g. should ElecBikes be made profitable first?

Evaluation:

- SWOT can be subjective – which managers are undertaking it and are they unbiased in their assessment?
- Other analysis will be needed too – SWOT is just a starting point e.g. PEST and investment appraisal.
- BUT it is a good starting point especially for Kalei who clearly wants to "go places" and needs to clarify and gain greater understanding of the strategic options available and how they would suit PB.

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7 Discuss the strategic decision-making techniques that Kalei could use when making the choice between Strategy A and Strategy B. [20]

Answers could include:

- Strategic choice – very important as it could determine the future direction and profitability of the business.
- Factors: Cost, risk, potential profit, impact on future of the business.
- Techniques:
  - Decision trees – layout the risks/payoffs and expected monetary values – BUT how accurate will these be for brand new projects?
  - Ansoff's Matrix – considers risk of different strategies – BUT not a quantitative technique.
  - Force field analysis – useful for implementing change in a less challenging and more acceptable way – BUT will it help in deciding between these two strategies?
  - Investment appraisal – quantitative BUT heavily reliant on estimated cash flows.

Evaluation (final judgement – as some evaluative points given above):

- Perhaps the most important factor AND the most important 'technique' is Kalei's own judgement and her sense of what is best for her business. This has worked well so far.

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