**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

**9707/32** 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.

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**1 Analyse the benefits to GCC of being a widely diversified conglomerate. (Lines 4-5) [10]**

| | Knowledge<br>3 marks | Application<br>3 marks | Analysis<br>4 marks |
|---|---|---|---|
| Level 2 | 3 marks<br>Good knowledge shown of diversification and benefits e.g. definition + 2 benefits or 3 benefits. | 3 marks<br>Points well applied. | 3–4 marks<br>Good use of reasoned argument or theory to explain benefits of diversification. |
| Level 1 | 1–2 marks<br>Knowledge shown of diversification and one benefit OR two benefits. | 1–2 marks<br>Some attempt to apply points or one point well applied. | 1–2 marks<br>Some use of reasoned argument or theory to explain benefits of diversification. |

Answers could include:

- Diversification – business operates/own subsidiaries in a range of industries/markets – conglomerate. This knowledge might be implied from candidate's answer.
- Benefits: [For application marks these benefits must relate to the case.]
- Spread risks e.g. Application: education division not affected by global downturn but other divisions were. This allows the business to expand/become more profitable in some markets whilst other operations are affected by economic downturn.
- Cross-financing e.g. Application: profits from other divisions used for school expansion as the finance available from schools division were inadequate. This could help to reduce finance costs.
- Possible marketing/supplying links between divisions e.g. Application: schools might have bigger discounts on books bought from the GCC publishing division might increase profitability of schools; car manufacturing might benefit from supplies of GCC steel. Other links are possible too – some indications of vertical integration.

**2 (a) Refer to Appendix 1. Calculate the following ratios as at 31st May 2012:**

**(i) Dividend yield [3]**

Dividend per share / share price × 100 = Dividend yield % 1 mark
$0.14 / $2 = 2 marks
7.0% = 3 marks

**(ii) Price earnings ratio [3]**

Share price/earnings per share = 1 mark
$2 / $0.64 = 2 marks
3.125 = 3 marks

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**(b) Assess whether the directors of GCC should substantially increase dividends to shareholders. [14]**

| | Knowledge 2 marks | Application 2 marks | Analysis 5 marks | Evaluation 5 marks |
|---|---|---|---|---|
| Level 2 | 2 marks<br>Good knowledge shown e.g. of dividends and changes to them/ ratio results/ importance/ how to increase them. | 2 marks<br>Points well applied. | 3–5 marks<br>Good use of reasoned argument or theory to explain likely impact of increasing/not increasing dividends. | 3–5 marks<br>Good judgement shown in answer and conclusion. |
| Level 1 | 1 mark<br>Some knowledge shown. | 1 mark<br>Some attempt to apply answer to case. | 1–2 marks<br>Some use of reasoned argument or theory. | 1–2 marks<br>Some judgement shown in answer and/or conclusion. |

Answers could include: [OFR important]

- Dividends much reduced – net profits fell but by lower proportion than dividend payout.
- Dividends are returns to shareholders and share price might fall if they are reduced.
- Div yield is very low and has fallen further so shareholders are receiving lower return based on current share price – despite share price falling.
- P/E falling despite share price falling.
- Shareholders seem to have a point – short termism or in for the long term gains from investment programme?
- Impact of raising dividends – reduced retained profits for future investment so future profits and returns to shareholders might be lower.
- Selling of a division of the business – would this really be necessary? – how advisable would this be? Would a high price be gained if world is recovering from a downturn? This is a low quality profit and may have little impact on share price.

Evaluation:

- Depends on next years profits – might be higher than expected if global economy improves.
- How likely are shareholders to sell their shares if dividends are not raised?
- Depends on dividend yield offered by similar investments.
- What proportion of shares do the Hussein's still own?

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**3 Discuss whether the 'computer based communication system and the greater use of video conferences' (lines 38–39) will solve the communication problems within GCC. [14]**

| | Knowledge<br>2 marks | Application<br>2 marks | Analysis<br>5 marks | Evaluation<br>5 marks |
|---|---|---|---|---|
| Level 2 | 2 marks<br>Good knowledge shown of communication problems/barriers/how to overcome them/IT media. | 2 marks<br>Good application to case. | 3–5 marks<br>Good use of reasoned argument or theory to explain how method(s) suggested might reduce barriers or problems with media. | 3–5 marks<br>Good judgement shown in answer and conclusion. |
| Level 1 | 1 mark<br>Some knowledge of communication shown. | 1 mark<br>Some application to case . | 1–2 marks<br>Some use of reasoned argument or theory to explain how method(s) suggested might reduce barriers or problems with media. | 1–2 marks<br>Some judgement shown in answer and/or conclusion. |

Answers could include:

- Barriers to communication – prevent effective communication (sending, receiving and understanding of messages plus feedback).
- Barriers in this case result from:
  - Business size.
  - Number of divisions/countries the company operates in
  - Use of many media.
  - Different perceptions – "us and them"?
  - Structure too tall in some divisions?
  - Meetings not often held – may result in non contact one way communication methods.
- IT solution – will allow quicker/more accurate sending /receiving of messages and quick feedback.
- Video conferences – replace meetings or other existing methods – some attempt to provide visual communication.

Evaluation:

- IT plus video conferencing will help to some degree but communication problems may run deeper than this.
- Leadership style and organisational structure more important?
- How to overcome perception issue?
- Cost of IT and training and IT updates?
- Communication overload a real potential problem.
- Will video conferencing be a good substitute for face-to-face meetings?

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**4 (a) Refer to Appendix 3. Calculate the annual contribution for 2012 earned by Assured High School. [6]**

Ready Reckoner :

| Result | Explanation | Mark |
|---|---|---|
| $84 000 | This is the contribution made by the school – Revenue less direct costs. Assumes fixed school costs are not direct. | 6 |
| ($116 000) | Assumes fixed school costs are direct costs. | 6 |
| Correct revenue/direct cost total but incorrect result<br><br>$75 000 | Arithmetic error<br><br>Uses 2011 revenue | 5 (4 if 2 arithmetic errors)<br><br>5 |
| ($436 000) | Assumes all fixed costs are direct costs of the school (must show working as given in case). | 3 |
| ($236 000) | Only deducts overheads not maintenance costs. | 2 |
| $1.044m | Revenue only calculated<br>(+ cont formula = 2 marks) | 1 |
| SR-DC formula | Formula only. | 1 |

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**(b) Recommend whether Assured School should be closed or not. Justify your recommendation using your result to 4(a) and other relevant information. [14]**

| | Knowledge<br>2 marks | Application<br>2 marks | Analysis<br>5 marks | Evaluation<br>5 marks |
|---|---|---|---|---|
| Level 2 | 2 marks<br>Good knowledge shown of result to 4(a) and other information. | 2 marks<br>Points well applied. | 3–5 marks<br>Good use of reasoned argument or theory to explain arguments for and against closure. | 3–5 marks<br>Good judgement shown in answer and conclusion. |
| Level 1 | 1 mark<br>Some knowledge of result to 4(a) or other information shown. | 1 mark<br>Some attempt to apply answer to case. | 1–2 marks<br>Some use of reasoned argument or theory to explain arguments for/against closure. | 1–2 marks<br>Some judgement shown in answer and/or conclusion. |

Answers could include: [L1 An/Ev if no quantitative data used]

- Positive contribution adds to total profits of the education division – candidate may explain the assumption behind the 'fixed costs are/are not direct costs' assumption in 4(a) [OFR important].
- Negative contribution (e.g. if school maintenance costs are direct costs) lowers the total profits of the education division.
- Sue's figure is incorrect assuming that allocated overheads would still have to be paid by the rest of the education division.
- Is it possible to reduce maintenance costs/move to easier to maintain building?
- Total revenue has increased – because student numbers have risen BUT this may be because fees were reduced from $3 000 to $2 900.
- Only open for 6 years – need to look at previous years figures to see if financial performance is increasing?
- Impact on students? Bad PR.
- Impact on teachers? They may not want to move to the new school.

Evaluation:

- Prioritisation of the most important factor.
- Need to give school more time.
- Rising student numbers seems to be a key factor.
- Opportunities to cut direct costs e.g. cheaper books from GCCs publishing division?
- Overall conclusion needed for L2 evaluation.

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**5 Recommend a marketing strategy for the GCC education subsidiary. Justify your recommendation. [16]**

| | Knowledge 3 marks | Application 3 marks | Analysis 5 marks | Evaluation 5 marks |
|---|---|---|---|---|
| Level 2 | 3 marks<br>Good knowledge of marketing issues/strategy. | 3 marks<br>Marketing strategy well applied to case. | 3–5 marks<br>Good use of reasoned argument or theory to explain marketing strategy. | 3–5 marks<br>Good judgement shown in answer and conclusion. |
| Level 1 | 1–2 marks<br>Some knowledge of marketing issues/strategy. | 1–2 marks<br>Some attempt to apply marketing issues/strategy. | 1–2 marks<br>Some use of reasoned argument or theory to explain marketing strategy. | 1–2 marks<br>Some judgement shown in answer and/or conclusion. |

Answers could include:

- Marketing strategy – plan to include marketing mix, marketing objectives, budget. Plan based on analysis such as SWOT. No coordinated strategy exists at present.
- Suggestions might be:
  - Marketing objective – to expand GCC education division profitably – or any similar statement.
  - Product – Cambridge courses in all schools, link with transport, food and publishing divisions to offer: cheaper books to students, better food and school transport. USP for GCC schools?
  - Price – High or low price strategy? Do all schools have to adopt the same price strategy? Depends on which segment of the market is being aimed for.
  - Place – This is being considered by Sue already but is there scope to offer some courses online? i.e. offer e-commerce with school courses!
  - Promotion – central budget needed to promote GCC schools as a unit – will lead to economies of scale for advertising.
- Coordination needed between the 4 Ps.
- Any reasonable marketing suggestion accepted within a 'school' context.

Evaluation:

- Shown through the importance of coordinated mix.
- Most important parts of the strategy.
- Importance of linking with other divisions.

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## Section B

**Answer ONE question from this section**

**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<br>Good judgement shown in answer and conclusion. |
| Level 2 | 3 marks<br>Good knowledge of issues shown. | 3 marks<br>Issues well applied to case. | 3–4 marks<br>Good use of reasoned argument or theory to explain answer. | 4–6 marks<br>Good judgement shown in answer or conclusion. |
| Level 1 | 1–2 marks<br>Some knowledge of issues shown. | 1–2 marks<br>Some attempt to apply issue. | 1–2 marks<br>Some use of reasoned argument or theory to explain answer. | 1–3 marks<br>Some judgement shown in answer and/or conclusion. |

**6 Sue Sharma must make the strategic choice between country A or country B for the location of the new school. Evaluate the extent to which the economic data in Appendix 2 is the most important information she should use when making this decision. [20]**

Answers could include:
- Strategic choice should be based on wide range of data and appropriate techniques.
- Economic data is important as it could affect revenue for the school – GDP growth, disposable income growth and population growth.
- It could also affect the costs of the school – inflation and teachers pay increases.
- So, it is important.
- Need to consider other factors – e.g. government grants; competition, supply of labour (or will teachers move from the Assured High School?).
- Decision making techniques too – investment appraisal (e.g. how long to pay back the $25m capital cost).
- Decision trees – past data should be available to aid probabilities and payoff calculations.
- Five forces model – in which country is the competitive rivalry greatest?

Evaluation: [Of information not of location]
- Economic data useful but does not provide all the answers.
- Only forecasts for one year.
- More detailed analysis of the two alternatives needed before this important decision can be taken.
- Most important information is …

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**7 Discuss the importance of corporate objectives and corporate planning to GCC's future success. [20]**

Answers could include:

- Objectives – long term aims of the business, expressed in SMART terms (should also be reflected in mission/vision statements).
- Corporate planning – the process of planning strategies to achieve long term aims.
- Aim: Increase shareholder value.
- Main strategy: Investment for long term growth.

Advantages:

- Provides focus and direction.
- Allows for MBO.
- Leads to greater coordination between different divisions.
- Should increase chances of appropriate strategies being selected.
- Can be used to refer back to in order to assess performance.
- Apply these points to GCC.

Evaluation:

- Inflexible plans – not able to quickly respond to global downturn or competitive and technological pressures.
- Time consuming.
- Better for each division to form own objectives? How important is it for GCC to dictate these.
- Other factors influencing success: global economy, increasing competition, forging closer links between divisions etc.
- On balance, any organisation of GCC's size must have plans and aims BUT there appears to be insufficient flexibility in the current GCC planning process.

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