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

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

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1 Analyse TWO possible effects further vertical integration could have on CAL's future success. [10]

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks
Level 2	3 marks Good knowledge shown of vertical integration with 2 effects.	3 marks Both points well applied.	3–4 marks Good use of reasoned argument or theory to explain effects.
Level 1	1–2 marks Knowledge shown of vertical integration and/or impact of.	1–2 marks Some attempt to apply both points or one point well applied.	1–2 marks Some use of reasoned argument or theory to explain effects.

Answers could include:

- Definition of vertical integration – same industry but different stage of production.
- Effects could be positive or negative.
- Cheaper supplies of components if CAL owned a component supplier – important in a competitive market like this.
- Easier to control quality and reliability of supplies – important to CAL as these had been problems.
- Management problems of trying to control an integrated business – existing factory problems could be repeated.
- Component supplying business may lose contracts from CALs competitors – cutting sales and profits.

Application could link to issues such as: use of JIT, reference to reducing costs by 10% and components used in manufacturing air conditioning units.

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2 (a) Refer to table 1. Calculate the values of:

u) 175 (1 mark)
v) 177.5 (1 mark)
w) 175 (1 mark)
x) 170 (1 mark)

y) -35 (2 marks) +35 (1 mark)
z) -10 (2 marks) +10 (1 mark)
OFR applies to y) and z)

(b) Assess the usefulness of sales forecasts to CAL. [12]

	Knowledge 2 marks	Application 2 marks	Analysis 4 marks	Evaluation 4 marks
Level 2	2 marks Good knowledge shown of sales forecasting.	2 marks Points made are well applied.	3–4 marks Good use of reasoned argument or theory to explain benefits(s) and limitation(s).	3–4 marks Good judgement shown in answer and conclusion.
Level 1	1 mark Knowledge shown of sales forecasting/uses/ limitations.	1 mark Some attempt to apply sales forecasting to CAL.	1–2 marks Some use of reasoned argument or theory to explain uses/limitations.	1–2 marks Some judgement shown in answer and/or conclusion.

Answers could include:

- Allows a trend to be established which can be used to help plan future capacity – seems to be on an increasing trend which is encouraging for CAL but will they be able to accept the new contract because of this?
- Seasonal variation can be identified which allows more accurate labour scheduling (perhaps use of flexible and part-time contracts) – this will help to reduce costs which is one of CAL's aims.

Evaluation:

- Time series analysis depends on how relevant past data is to future conditions – cyclical changes could make forecasts inaccurate and entry of new competitors would have same effect.
- Some markets CAL operates in do not have seasonal variations – it would have been more useful to have time series data disaggregated for each market.
- So, it can be of considerable benefit to a business such as CAL but the forecast results need to be treated with caution.

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3 Discuss which option CAL should choose to overcome the inventory problems occurring within the factory producing air conditioning units. (Lines 27 – 42.) [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks Good knowledge shown of the options available.	2 marks Points well applied.	3–5 marks Good use of reasoned argument or theory to explain the benefits / limitations of the options.	3–5 marks Good judgement shown in answer and conclusion.
Level 1	1 mark Knowledge shown of the options available.	1 mark Some attempt to apply the options to CAL.	1–2 marks Some use of reasoned argument or theory for explaining benefits/limitations.	1–2 marks Some judgement shown in answer and/or conclusion.

Answers could include:

- Option 1 gives greater supply security and allows buffer stocks to be used when deliveries are late or of poor quality – BUT increased opportunity cost and interest costs of holding more capital tied up in inventories. Impact on profits?
- Option 2 brings production of major components "in-house" but will take time to build, there will be capital costs and the business cannot trade one supplier off against another to gain lower prices. Impact on profits?
- Option 3 means suppliers will be competing with each other but they may be less inclined to treat CAL as an important customer as they are no longer sole supplier with the benefits this gives. Potential loss of discounts. Impact on profits?

Evaluation:

- Much more detail needed on the costs and potential savings of these three options. Are other options available? For example, integrating with a component supplier?
- Could the problems that have arisen be short term problems of the JIT system and would it be better, with more communication and closer links with sole suppliers, for CAL to persevere with present method?

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4 (a) Refer to Table 2. Calculate the contribution if the order from the electrical retailing business is accepted. [6]

Ready reckoner:

Answer	Explanation	Mark	Answer Unit Contribution	Mark
$350,000	Total revenue less direct costs $2,000,000 – $1,650,000 Unit contribution × sales	6	$70	5
$475,000	Total revenue less direct labour and material costs (packaging and transport ignored)	5	$95	4
($150,000)	Production costs subtracted too – it could be argued that marketing costs not needed in this case as department store approached CAL	4	($30)	3
OFR	Some recognisable attempt to calculate contribution	3		
($400,000)	Net profit/loss from contract calculated not contribution	2	($80)	2
$2,000,000	Revenue only	1		

If no correct calculation 1 mark for definition of contribution/unit contribution.

(b) Recommend whether CAL should accept this order. Justify your answer using your result from 4 (a) and other relevant information. [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks Good knowledge shown of issues involved.	2 marks Issues recognised well applied.	3–5 marks Good use of reasoned argument or theory to explain the issues involved.	3–5 marks Good judgement shown in answer and conclusion by considering both sides.
Level 1	1 mark Knowledge shown of the issues involved.	1 mark Some attempt to apply issues to CAL.	1–2 marks Some use of reasoned argument or theory to explain the issues involved.	1–2 marks Some judgement shown in answer and/or conclusion.

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Answers could include:

- Recognition of the significance of result from (a) – especially if concept of contribution is well understood.
- OFR from (a).
- As contract will add to CAL's profits it should be accepted.

Evaluation:

- Will retailer take sales from CAL's own shops in long term if retailer expands into CAL's markets or CAL expands into Country B? Is spare capacity certainly going to be available? Sales forecasts suggest an upward sales trend.
- Is there a penalty clause of later delivery? Will overtime payments be needed?
- Will consumers learn of the "own branding" contract that CAL have agreed to and begin to believe that competing brands might also have been made by CAL? As the price of the contract is low, will consumers learn of this and start to expect similar low prices from CAL?
- Any costs in branding the AC units with the department stores brand logo?
- Overall supported judgement required.

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5 Evaluate the extent to which changing the leadership style at CAL will solve the problem of poor employee performance. [16]

	Knowledge 3 marks	Application 3 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	3 marks Good knowledge shown of issues involved and leadership styles.	3 marks Issues recognised well applied.	3–5 marks Good use of reasoned argument or theory to explain the issues involved.	3–5 marks Good judgement shown in answer and conclusion.
Level 1	1–2 marks Knowledge shown of the issues involved / leadership styles.	1–2 marks Some attempt to apply issues to CAL.	1–2 marks Some use of reasoned argument or theory to explain the issues involved.	1–2 marks Some judgement shown in answer and/or conclusion.

Answers could include:

- Recognition/definition of leadership style that seems to be used – autocratic.
- Changing this to paternalistic or democratic could help reduce some of the problems by making workers feel more important, involved, more likely to achieve some measure of enrichment. (Use of motivation theory to be credited if appropriate.)
- Explain how leadership style could start to tackle the specific problems faced by CAL e.g. improved two-way communication might encourage more workers to stay on if they feel that their views are being considered.

Evaluation:

- Leadership style might help but may not solve these problems alone.
- Depends on rate and method of payment – this point could be developed.
- How production is organised – is there scope for teamwork?
- Low unemployment gives workers other job opportunities – how do pay and work conditions compare at CAL?
- If delayering occurred than this could reduce direct supervision and improve the speed and quality of communication between workers and senior staff.

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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.	1–3 marks Some judgement shown in answer and/or conclusion.

6 Evaluate the usefulness to CAL's directors of doing PEST analysis before choosing between strategy A and strategy B. [20]

Answers could include:

- Explanation of PEST – analysis of external constraints and other factors that could influence future strategic decisions.
- Can help a business plan for the future.
- Political – legal changes e.g. from case.
- Economic – rising incomes in emerging markets.
- Social – growing environmental concerns.
- Technological – developments by competitors.
- Should CAL just assume that legal changes will increase business demand for ACs?
- Will rising incomes continue? Could a recession hit demand for ACs?
- Social – how influential are pressure groups? Other social factors might be more important e.g. ageing population and how this might influence demand for AC.
- Technological – this could be a major factor in this industry.

Evaluation:

- PEST should be continuous to be effective.
- It is not a decision making technique – it analyses the external environment.
- It would be more effective if CAL undertook a PEST for each of the countries that they operate in – the findings are likely to be different.
- It is an essential part of strategic analysis but needs to be combined with SWOT and other techniques.

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7 Discuss the strategic decision-making techniques that CAL's directors could use when making the choice between strategy A and strategy B. [20]

Answers could include:

- Strategic choice – Ansoff, force field analysis and decision trees but other techniques might also be appropriate e.g. investment appraisal.
- Ansoff – CRM is market penetration – could be achieved in the short term and it is a non risky strategy.
- Product development – riskier and likely only to yield benefits in the longer term.
- Ansoff identifies risks but does not provide a decision making solution.
- Force field analysis – how relevant in this case? There may be a need to reduce staff resistance to changing the way they operate and deal with customers with the CRM option.
- Decision trees – explanation of how they could help make the decision in this case – but there are many uncertainties especially with calculating the probabilities and pay-offs from the product development strategy.
- Investment appraisal – provides a numerical "result" and these can be compared but how reliable would the cash flow forecasts be?

Evaluation:

- Ed might choose a non-scientific "hunch" approach – would this be more or less likely to succeed than using techniques of strategic analysis?
- No one method is adequate – many factors and decision making approaches need to be weighed up.
- Final judgement could come down to cost and time span – how important is it to opt for a strategy which will be likely to give quicker results?

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