UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

BUSINESS STUDIES **9707/32**

Paper 3 **May/June 2012**

CASE STUDY

3 hours

Additional Materials: Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
You may use a soft pencil for any diagrams, graph or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Section A
Answer **all** questions.
Section B
Answer **one** question.
The businesses described in this question paper are entirely fictitious.
You are advised to spend 40 minutes on Section B.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **6** printed pages and **2** blank pages.

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Global Conglomerate Company (GCC)

Global Conglomerate Company (GCC) is one of Asia's fastest growing conglomerates. 30 years ago the Hussein brothers started selling used motor cars and they quickly acquired an existing city centre car retailer. This was followed by many other mergers and takeovers. GCC is now a widely diversified conglomerate with subsidiary businesses in the steel, car, transport, publishing, construction, education and food processing industries. GCC is a large public limited company and the Hussein brothers now own less than 50% of the total shares. However, two of the brothers are still on the Board of Directors.

Shareholders unhappy with returns

Last month's Annual General Meeting was not an easy one for the directors. The Board's strategy is 'investing for long term growth' to achieve the aim of 'long term shareholder value'. This was criticised by a large group of shareholders. Two comments from shareholders at the meeting were typical:

- 'Investing for the future by using this year's profits leaves less capital to pay out in dividends in the short term.'
- 'With the dividend yield and price earnings ratio falling, why should I keep my shares in GCC?'

Shareholders used an extract from the company accounts to support their views (see Appendix 1). The directors asked for more time for their strategy to achieve results and improve returns to shareholders. The Chairman Leo Hussein said: 'Profits are unlikely to be higher next year. We did not know that the global economic downturn would occur just as we were starting our 'investing for long term growth' strategy. I am sure that in 3 or 4 years' time the dividend and share price will go up'.

After a long debate the directors agreed to look at reducing retained profits to increase dividends in 2013 or selling off a division of the company to raise cash for a 'special' dividend payout.

Communication issues

The global spread of GCC means that it now operates from 63 locations with 162 000 employees. This has led to the use of many different forms of communication. There are barriers to effective communication, such as the use of many languages and differences in attitudes of workers and managers. Meetings of senior managers are difficult to arrange due to distances between business subsidiaries. Important communications from business subsidiaries are often not received quickly enough by directors at Head Office.

The removal of one layer of management in the motor car division did improve communication, but other divisions have not delayered their organisational structure. The Human Resources Director believes that information and communication technology is the answer to these problems. He wants all workers and managers to be issued with portable, Internet-linked computers. These would allow receipt of messages and sending of quick replies. He told the Board that 'a new computer based communication system and the greater use of video conferences' will solve GCC's communication problems.

Education division – coordinated marketing strategy needed?

The recession of 2009 and 2010 badly affected many of GCC's subsidiaries but the education subsidiary continued being successful. This subsidiary is responsible for 46 fee-paying schools in 4 countries. These schools were acquired by GCC through takeovers of education companies. Although this is a profitable subsidiary for GCC, a recent management consultant's report to the Board stated that there is 'great potential for increased profitability if the schools were marketed more effectively'. The report concluded as follows:

- Schools have different names. There is no indication that they belong to the GCC group.
- Some GCC schools charge high fees and some charge low fees. There is no common marketing objective for schools in the education subsidiary.
- The most successful schools offer Cambridge qualifications but some Principals (Head Teachers) in less popular schools have not heard of these.
- There is no coordinated promotion. Some schools advertise in local papers but others have no advertising budget.
- There are no contracts or links between GCC schools and the company's transport, food processing or publishing subsidiaries. Yet schools need all of these types of products and services.
- A new coordinated marketing strategy may be needed for the education division.

School developments

The Managing Director of the education subsidiary, Sue Sharma, is planning to open a new school in a country that does not have any GCC schools. She has to decide between opening the school in either country A or country B. She has collected the data in Appendix 2 to help make this decision. The investment would be financed from retained profits of the whole GCC business because the surplus earned by the education subsidiary is not sufficient to finance the $25m required.

Sue is also working on accounting data received from Assured High School (see Appendix 3). This school has been operating for six years but has never made a profit. Sue was keen to close the school but she realised this would lead to redundancies. She told the Board of Directors: 'If we close Assured High School we would increase the profits of the education subsidiary by $436 000'.

Planning for the future

The directors of GCC spend a lot of time discussing the company's long term objectives and plans. The success of GCC has been helped by the focus and structure these objectives and plans give the business managers. However, recent events have raised doubts about the usefulness and flexibility of GCC's corporate plans. The company was taken by surprise by the global economic downturn and did not respond quickly enough by changing its plans and strategies. GCC's subsidiaries have not yet responded to unforeseen increases in competition in the car and steel industries.

The increasing consumer choice offered by e-commerce and Internet use has changed the nature of demand for published books. Publishing is another subsidiary of GCC that seems restricted by an inflexible long-term plan.

The current Chief Executive Officer of GCC, Ted Ali, is well aware of these problems. He recognises that, although corporate planning is very important for effective strategic management, many other factors will also determine GCC's future success.

Appendix 1: Extract from GCC's accounts

	Year ending 31st May 2011	Year ending 31st May 2012
Net profit after tax	$356m	$320m
Total dividends paid	$100m	$70m
Total issued shares	500m	500m
Earnings per share	$0.712	$0.64
Dividend per share	$0.20	$0.14
Share price at 31st May	$2.40	$2.00
Dividend yield at 31st May	8.3%	See Question 2(a)
Price earnings ratio at 31st May	3.37	See Question 2(a)

Appendix 2: Forecast economic data for country A and country B, 2013 (%)

	Country A	Country B
Annual GDP growth rate	3	6
Annual rate of inflation	4	8
Increase in real disposable incomes of high income consumers	6	8
Unemployment rate	9	5
Annual wage increase for teachers	4	7
Increase in population aged 5–18	3	1

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Appendix 3: Data to be used when deciding whether to close Assured High School

Students numbers 2011	345
Student numbers 2012	360
Total fee revenue 2011	$1.035m
Average student fee 2012	$2900
Total direct labour costs, e.g. teachers' salaries, 2012	$0.85m
Other direct costs 2012	$0.11m
Annual fixed building maintenance costs 2012	$0.20m
Allocated share of education subsidiary overheads 2012	$0.32m

105

110

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[Turn over

Section A

Answer **all** questions in this section.

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

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

(i) dividend yield [3]

(ii) price earnings ratio. [3]

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

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]

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

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

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

Section B

Answer **one** question from this section.

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]

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

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