CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the May/June 2013 series

9707 BUSINESS STUDIES

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

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1 Analyse <u>one</u> advantage and <u>one</u> disadvantage to GMC of changing to a more centralised organisation structure. [10]

	Knowledge **3 marks**	**Application** **2 marks**	**Analysis** **5 marks**
Level 2	3 marks Knowledge of centralisation plus one advantage and one disadvantage	2 marks Both advantage and disadvantage are applied to case	5–3 marks Good use of theory to explain advantage and disadvantage
Level 1	2–1 marks Knowledge of centralisation demonstrated (1 mark). Either one advantage or disadvantage (1 mark)	1 mark Some application to case of either advantage or disadvantage	2–1 marks Some use of theory to explain advantage or disadvantage

Answers could include:

Centralisation: Central/head office control over most key decision making

Advantages:
- Economies of scale – centralised buying of support services (or any other resources identified by candidate) could lower unit costs
- Consistency of decision making across countries gives a united image to the business
- Conflicts between divisions can be resolved centrally rather than decisions made divisionally having a negative impact on other divisions

Disadvantages:
- Takes away decision making powers from senior staff in all divisions – may demotivate
- Existing structure seems to have contributed to company's growth
- Decentralised decisions can lead to more relevant/appropriate strategies for each country/division

2 (a) Refer to Appendix 1. Calculate for PPS:

(i) Return on Capital Employed [3]

<u>Net/operating profit</u> × 100 1 mark [**or** 1 mark for calculating net profit]
7.2 / 120 × 100 2 marks [**or** correct formula and just $7.2 m calculated]
6% 3 marks

(ii) Days' sales in trade receivables ratio. [3]

<u>Trade receivables</u> × 365 1 mark
80 × 365 / 240 2 marks
112 days 3 marks

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(b) Using your results from 2(a) and other information, recommend whether GMC should bid to take over PPS. [12]

	Knowledge 2 marks	**Application 2 marks**	**Analysis 4 marks**	**Evaluation 4 marks**
Level 2	2 marks Good knowledge/ understanding shown	2 marks Points made are well applied to case	4–3 marks Good use of theory to explain results and other information in terms of takeover bid	4–3 marks Judgement shown in considering this decision e.g. more data needed, plus clear recommendation
Level 1	1 mark Some knowledge/ understanding shown	1 mark Some application to case	2–1 marks Some use of theory to explain results OR other information in terms of takeover bid	2–1 marks Some judgement shown e.g. recommendation made and supported

Answers could include:

Points for:

- Prevents global competitor from increasing size
- Rapid external growth for GMC – which has been successful in the past
- Enters new market – market development
- Previous success of external growth strategy
- Low capital employed might allow for significant improvements in future profitability with GMC management

Points against:

- Cost – is the price excessive for a highly geared business?
- Will it lead to a bidding war with global competitor?
- Potential culture clash as PPS' autocratic leadership likely to clash with decentralised/ entrepreneurial approach of GMC
- Diseconomies of scale
- Poor credit control – high days sales in trade receivables – are these potential bad debts?

Evaluation:

- Fairly low GMC gearing ratio might mean company could raise debt to pay for PPS
- Further share issue will further reduce Mendoza share of business
- $100m seems too much for low net asset value – but GMC has achieved rapid growth through successful takeovers in the past.
- Paying too much because of competitor's bid could prove to be an expensive error
- Final judgement (either way) supported by preceding analysis

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3 (a) Refer to Appendix 2. Calculate for the Daily Recorder:

(i) price elasticity of demand in December 2012. [3]

PED = % change in QD/% change in price (1 mark)
PED = –15 / 10 (2 marks)
PED = –1.5 (3 marks)

(ii) advertising elasticity of demand in May 2013. [3]

AED = % change in QD/% change in advertising spend (1 mark)
AED = 3 / 15 (2 marks [**or** 1 mark if just 15% change in advertising spend calculated])
AED = 0.2 (3 marks)

(b) Using your results from 3(a) and other information, discuss whether GMC should close the Daily Recorder. [14]

	Knowledge 2 marks	**Application 2 marks**	**Analysis 4 marks**	**Evaluation 6 marks**
Level 2	2 marks Good understanding shown e.g. of both results or other factors identified	2 marks Good application to case	4–3 marks Good use of theory to explain arguments for/against closure	6–4 marks Good judgement shown in final conclusion and in arguments used
Level 1	1 mark Some understanding shown e.g. PED seems to be relatively elastic	1 mark Some application to case	2–1 marks Some use of theory to explain arguments for/against closure	3–1 marks Some judgement shown

Answers could include:

- PED suggests that demand is elastic in response to price changes – price increase in Dec 2012 reduce revenue.
- Price reduction could increase revenue – but impact on margins?
- AED is inelastic – increased spending on advertising may not be worthwhile but depends on cost versus increased profit. Could other forms of promotion be more successful?
- Low income elasticity of demand – newspaper will benefit little from economic growth
- Paper makes a contribution ($0.3m) – but a loss when the allocated overheads are included

Evaluation:

- Are other newspapers closing? – gives Daily Recorder more market share
- Could internet versions of the paper boost overall revenue?
- Redundancy costs could be high – negative impact on motivation in other newspapers
- Final judgement needed – either decision is acceptable if supported by appropriate analysis

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4 Evaluate whether the new quality assurance standards will be sufficient to improve the quality of Internet services in country Z. [16]

	Knowledge 3 marks	**Application 3 marks**	**Analysis 4 marks**	**Evaluation 6 marks**
Level 2	3 marks Good knowledge shown	3 marks Good application to case	4–3 marks Good use of theory to explain answer	6–4 marks Good judgement shown
Level 1	2–1 marks Some knowledge shown	2–1 marks Some application to case	2–1 marks Some use of theory to explain answer	3–1 marks Some judgment shown

Answers could include:

- Quality assurance: A system of agreeing and meeting quality standards at each stage of production to ensure consumer satisfaction
- The 3 "quality standards" might help as they seem to suggest areas for improvement and at least they seem to recognise that problems do exist
- However, they are likely to be insufficient:
  - Not specific – need quantifiable standards
  - Not agreed – no involvement of staff seems to have been used to set these standards
- Other factors affecting quality of consumer service are not being addressed:
  - Quality and training of staff – no point in having new "standards" if employees are not adequately trained or motivated
  - Internet speed and reliability – may involve substantial infrastructure expenditure
  - Outsourcing of call centres – should this be relocated to country X?

Evaluation:

- For quality to be improved there may need to be recognition by the management that the low cost-low price strategy appears not to be satisfying consumers.
- A new objective for this internet strategy in country Y may be needed which should then be supported by appropriate resources.
- These QA standards seem to be lacking in quantitative content to be really effective.

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5 Discuss an appropriate marketing plan for the launch of GMC cell phone services in your country. [16]

	Knowledge 3 marks	**Application 3 marks**	**Analysis 4 marks**	**Evaluation 6 marks**
Level 2	3 marks Good knowledge shown	3 marks Good application to case	4–3 marks Good use of theory to explain important features of marketing plan	6–4 marks Good judgement shown in suggested marketing plan
Level 1	2–1 marks Some knowledge shown	2–1 marks Some application to case	2–1 marks Some use of theory to explain answer	3–1 marks Some judgment shown

Answers could include:

- Marketing plan: Detailed report on the firm's marketing strategy including objectives, budget, mix, time frame
- This is market development – plan may need to reflect market conditions in new country
- Candidate makes comments about "own country" market e.g. growing population, ageing population, high/low income
- Objectives needed to assess outcome of plan e.g. market share in a given time period (SMART)
- Budget needed to plan promotional activity – which must be focused on the market segment being aimed at
- 4 Ps – discussion in the context of the candidate's own country – and marketing objective set
- Need for integrated mix

Evaluation might include:

- Judgement about relevance/appropriateness for candidate's own country
- Most important factor(s) in the plan – related to own country
- GMC overall corporate objective needs to be known before the marketing objective for this product development can be established

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6 Evaluate the usefulness of strategic choice techniques that GMC's directors could use in making the decision whether to enter the cell phone market. [20]

	Knowledge 3 marks	**Application 3 marks**	**Analysis 4 marks**	**Evaluation 10 marks**
Level 3				10–7 marks Good judgement shown in text and conclusions.
Level 2	3 marks Good knowledge/ understanding shown	3 marks Good application to case	4–3 marks Good use of theory to explain points made	6–4 marks Some judgement shown in text and/or conclusions
Level 1	2–1 marks Some knowledge/ understanding shown	2–1 marks Some application to case	2–1 marks Limited use made of theory	3–1 marks Limited judgement shown

Answers could include:

- Definition of strategic choice – choosing between strategic options including not going ahead with a major decision
- This is a major change from existing growth strategy
- Vertical integration has cost/control benefits – should increase profit margins
- Break-even analysis might be useful to aid this decision
- Use of decisions trees and/or forces field analysis? Assess the usefulness of these techniques in this case including their benefits and limitations e.g.
- Can probabilities be assessed?
- Can "restraining" and "driving" forces be measured quantitatively?
- Ansoff's matrix – is this a form of diversification i.e. into cell phones in new markets even though in the same related industry? Risks associated with this.
- How reliable would the data be for basing a scientific decision on? Are qualitative factors more important than quantitative ones?
- Investment appraisal is an appropriate technique but how reliable are the cash flows and results of Inv App?

Evaluation:

- Lack of management expertise in mobile phones could be major problem in applying these techniques
- Prioritisation of techniques – which is likely to be of most use in this case?
- Discussion of their relative importance in this case. Should the decision be taken scientifically or with "instinct"?
- Is intuition more significant for the Mendoza brothers? Their entrepreneurial skills seem to have been successful so far.

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7 Assess the importance to GMC of doing detailed strategic analysis before taking important decisions on future growth strategy. [20]

	Knowledge 3 marks	**Application 3 marks**	**Analysis 4 marks**	**Evaluation 10 marks**
Level 3				10–7 marks Good judgement shown in text and conclusions.
Level 2	3 marks Good knowledge/ understanding shown	3 marks Good application to case	4–3 marks Good use of theory to explain points made	6–4 marks Some judgement shown in text and/or conclusions
Level 1	2–1 marks Some knowledge/ understanding shown	2–1 marks Some application to case	2–1 marks Limited use made of theory	3–1 marks Limited judgement shown

Answers could include:

- Strategic analysis: analysing the current position of the business, its products and the external environment.
- Techniques include: SWOT, PEST,'' Boston Box, Porter's competitive rivalry analysis or any other technique that provides situational analysis
- Mendoza brothers seem to have good intuition and have been successful in the past – they seem to know the industries they operate in and the key strengths/weaknesses of their business.
- So – is "scientific" strategic analysis really necessary?
- It would help to establish SWOTs of the business and the main external factors operating on it – important when taking long term strategic decisions
- Boston Box would allow consideration of market growth/market share – but how useful would this be for a decision such as this that involves diversification?
- Porter's competitive rivalry analysis could be very important when entering a completely new market/product area e.g. risk of new entry and power of suppliers (handsets) (although there are overlaps with current divisions of the business e.g. internet services).

Evaluation:

- Decision is likely to be that some formal strategic analysis is undertaken – time consuming but helps to reduce risks and give greater chance of success – especially if entering completely new markets with new products – diversification – as in this case
- As GMC expands so Mendoza brothers may lose control – more "managerial" approach likely to be used rather than "entrepreneurial"
- Which is likely to be the most useful form of analysis in this case – and why?

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