CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the May/June 2013 series

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 main strengths of MT during its early years of trading. [10]

	Knowledge 3 marks	**Application 2 marks**	**Analysis 5 marks**
Level 2	3 marks Good knowledge of strengths	2 marks More than one strength explained in context	5–3 marks Good use of theory and/or reasoned argument to explain strengths
Level 1	2–1 marks Some knowledge of strengths	1 mark Some application to case	2–1 marks Some use of theory and/or reasoned argument to explain strength(s)

Answers could include:

- Strengths: Internal factors that contribute to success.
- Right timing – Rakesh set the business up at a time when tourism was increasing and government finance was available
- Rakesh's entrepreneurial skills – resourceful and good communicator – able to gain loan finance
- He had a passion for mountain climbing. This contributed to him being hard working – keen to reach his aims and this contributed to business
- Private limited company: status, limited liability may have encouraged other investors to put money into MT – important for any new business

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2 (a) Refer to Appendix 1. Calculate for option Y at a 10% rate of discount:

(i) discounted payback period [3]

1 mark – some correct use of discount factors (do not award same mark in part **(ii)**) OR some knowledge of payback.
2 marks – reasonable attempt e.g. 332 / 340 × 12 months but not calculated
3 marks – just less than 4 years (3 years 11.7 months)

(ii) net present value. [3]

Net cash flow	**Discount factors**	**DCF ($000)**
(2000)	1	(2000)
700	.91	637 (1 mark – some use of discount factors)
700	.83	581
600	.75	450
500	.68	340
[350 (not including residual value)] *1150 (including residual value)*	.62	[217] 1150 (1 mark) × .62 = 713
	NPV =	721 (3)

Some common answers ($000):
2 marks – 225 (No residual value included)
– 2721 (Original capital cost not subtracted)
– 1 arithmetical error
1 mark – 225 (No RV and no capital cost deducted)
– Some correct use of discount factors (if not awarded in **(i)**)

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(b) Using your results from 2(a) and other information, recommend to MT whether to lease new aircraft or purchase second-hand aircraft. [10]

	Knowledge 2 marks	**Application 2 marks**	**Analysis 2 marks**	**Evaluation 4 marks**
Level 2	2 marks At least two relevant points made	2 marks Application of two or more points to case	2 marks Good use of theory to answer question	4–3 marks Good judgement shown
Level 1	1 mark One relevant point made	1 mark Some application to case	1 mark Some use of theory to answer question	2–1 marks Some judgement shown

Answers could include:

- Discounted PB – the time taken to repay capital outlay with discounted net cash flows. Quick payback for leasing option is real advantage – especially as the capital outlay is so low.
- NPV – much higher for purchase option but much depends on residual value
- Can finance of purchase be raised? Interest rates could increase
- Residual value is uncertain
- Maintenance costs are uncertain with older aircraft

Evaluation:

- Decision depends on:
- Sources and cost of finance available for purchase
- Unreliability of residual value
- Unreliability of net cash flows and maintenance costs
- Leasing is more certain in terms of outlays
- Will tourists much prefer newer (safer?) planes?

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3 Evaluate the extent to which you agree with Rakesh that 'sales forecasting techniques are a waste of time and resources for a business such as MT'. [16]

	Knowledge 2 marks	**Application 2 marks**	**Analysis 6 marks**	**Evaluation 6 marks**
Level 2	2 marks Good understanding of SF shown OR 2 relevant points (OR some understanding + 1 point)	2 marks Application of two or more points to case	6–4 marks Good use of theory to answer question	6–4 marks Good judgement shown
Level 1	1 mark Some understanding of SF OR 1 relevant point	1 mark Some application to case	3–1 marks Some use of theory to answer question	3–1 marks Some judgement shown

Answers could include:

- Sales forecasting: Using techniques to attempt to predict future demand levels.
- Sales forecasts assist with future planning e.g. capacity decisions, employment decisions, marketing activities. Example from case
- This is a seasonal industry – but fairly well established seasonal pattern that Rakesh has experienced over last 15 years.
- Cyclical variations will impact on this income elastic market
- Random fluctuations – difficult/impossible to predict and these probably have the greatest impact on MT's business
- Sales forecasting can be costly and time consuming – good use of resources?
- Sales forecasting requires firms to consider past results and project into the future – how reliable will such forecasts be in this case.
- Other methods of sales forecasting exist – these can be more qualitative (jury of experts) and it might be worthwhile Rakesh belonging to an industry body that provides this kind of research and forecast.

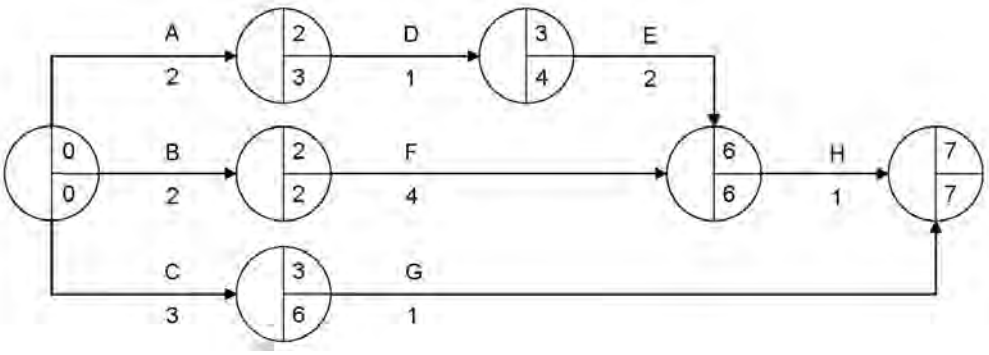
Evaluation:

- Rakesh's feel for the market has worked well so far – but he has had one problem of over capacity.
- To what extent would detailed sales forecasts (short term) and sales guidelines (long term) be of benefit to this business as it continues to expand?
- Probably essential if they opt for Strategy B – less well known market conditions

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4 (a) (i) Refer to the data in Appendix 2. Draw a network diagram for the relocation of MT's operations to the new airport. [6]

6 marks – no errors; 5 marks – 1 error; 3–4 marks – good understanding of logical sequence shown; 1–2 marks – some understanding



(ii) Calculate the earliest start times (EST) and latest finish times (LFT) of each activity. [5]

5 marks – all correct; 3–4 marks – good understanding shown; 1–2 marks – some knowledge of EST/LFT shown.

(iii) State the duration of the critical path. [1]

7 weeks

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(b) Using your answers from 4(a) and other information, assess whether MT should relocate operations this year or wait until next year. [10]

	Knowledge 2 marks	**Application 2 marks**	**Analysis 2 marks**	**Evaluation 4 marks**
Level 2	2 marks At least two relevant points made	2 marks Application of two or more points to case	2 marks Good use of theory to answer question	3–4 marks Good judgement shown
Level 1	1 mark One relevant point made	1 mark Some application to case	1 mark Some use of theory to answer question	3–1 marks Some judgement shown

Answers could include:

- CP length is same as time limit set by Ops Manager
- CPA is a planning technique – but it could help with this decision in this case.
- No margin of error
- How reliable are the estimates of durations?
- Who is managing this relocation? Are they experienced enough and do they have sufficient authority?
- Could CP activities be reduced in any way – and at what cost? E.g. recruiting fully trained airport staff
- Other data would have been useful e.g. what are other travel companies doing? How much might compensation payments amount to?
- Overall decision needed based on preceding analysis, e.g. is the risk of not being ready at the new airport, and the resulting damage to MT's reputation worth taking?

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5 Discuss how Rakesh could improve the performance of his telephone marketing employees. [16]

	Knowledge 2 marks	**Application 2 marks**	**Analysis 6 marks**	**Evaluation 6 marks**
Level 2	2 marks At least two relevant suggestions made	2 marks Application of two or more points to case	6–4 marks Good use of theory to answer question	6–4 marks Good judgement shown
Level 1	1 mark One relevant suggestion made	1 mark Some application to case	3–1 marks Some use of theory to answer question	3–1 marks Some judgement shown

Answers could include:

- Employee performance – measured in terms of productivity, absenteeism, turnover, customer complaints etc.
- Perhaps something needs to be done in this case as majority of business is new tourists – so effective telephone sales team is likely to be essential.
- Recruitment, selection and training – bring in-house? Rakesh's culture is not being related to new telephone recruits. This could be done by his own managers taking control of these important HR areas. Other forms of recruitment, selection and training that might be more effective in this case?
- Lack of team spirit with rest of organisation – compared to guides and guesthouse managers. Give opportunities for job enrichment? Profit sharing scheme – should this be applied to this group of workers? Other appropriate methods of motivation in this case? Application of appropriate motivation theories.

Evaluation:

- Lack of time and involvement from Rakesh needs to be changed; increased role and significance of telephone operators job needs to be recognised.
- Lack of team spirit and "second class" citizen status may need to change.
- Cost of these proposals? Is it worth it for such an unskilled job? These workers are probably easy to replace.
- Overall recommendation needed for top evaluation marks.

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6 Recommend to Rakesh whether he should choose strategy A or strategy B. Your answer should include an evaluation of the data in Appendix 3. [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 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 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 choice – choosing between important long term options that could have a major impact on success of the business.
- Decision trees – quantitative technique for assessing likely future payoffs (outcomes) and the probabilities of them being achieved (expected monetary values).
- B has higher EMV – but riskier and how the probabilities of success/failure were assessed as this country's market is unknown to MT.
- A has lower EMV but it is likely to be a more accurate result.
- Internal rate of return – the discounted rate of return on capital invested. B is higher – but if capital is borrowed in country Y will it be at higher or lower interest rate. How do both results compare with cost of capital. Expected future net cash flows might, again, be more reliable for A than B.
- Force field analysis – A has higher value of forces for than constraining forces – but how easily could the two major constraints be reduced? How accurate is this technique? Can be rather subjective? Is Rakesh more in favour of one strategy than the other? Could this have influenced his force field judgement?

Evaluation:

- Well supported overall decision needed to gain L3 evaluation
- Most important factor judged or prioritised
- Techniques evaluated
- Other data that would have been useful?

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7 Evaluate how Rakesh could change the culture of the PH group if MT takes over this business. [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 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 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:

- Corporate culture – the attitudes, values and beliefs of managers/staff in an organisation – "the way things are done around here".
- Differences in culture – Rakesh seems to be people focused and TE group is task focused.
- Differences in how staff are managed/contracted and how customers are dealt with – and probably with style of leadership and how decisions are taken.
- Culture not easy to change – becomes ingrained.
- Mission and/or vision statement needed e.g. in this case?
- Change senior management – replace with those sharing Rakesh's culture e.g. existing guesthouse managers?
- Reward appropriate/ethical behaviour – examples of this?
- Retrain staff – but will they be willing to adapt?
- Employ on permanent contracts – higher fixed costs?

Evaluation:

- Time needed for these changes?
- Is it worth changing the culture if the hotels are profitable?
- Cost of these changes? Will this be recouped by reduced staff turnover and improved customer service?
- Which factor is most important in changing culture in this case?

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