CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Level

MARK SCHEME for the May/June 2015 series

9707BUSINESS STUDIES

9707/32 Paper 3 (Case Study), maximum raw mark 100

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Section A

1 Analyse the benefits and limitations to MF of the level of delegation given to farm managers. **[10]**

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks
Level 2	3 marks Good knowledge of delegation and benefits and/or limitations	3 marks More than one benefit/limitation explained in context	3–4 marks Good use of theory and/or reasoned argument to explain benefits and limitations
Level 1	1–2 marks Some knowledge of delegation or benefits and/or limitations	1–2 marks Some application to case	1–2 marks Some use of theory and/or reasoned argument to explain benefits or limitations

Answers could include:

- Delegation – the passing of authority to subordinates to perform tasks/take decisions.
- Can increase motivation due to increased demands of the job – farm managers very rarely leave MF.
- Can lead to better decisions as subordinates are 'closer to the action' – timing of planting of maize.
- Reduces workload on senior managers – Robert and other family members can focus on departmental tasks.
- Leads to less control – might some managers start to use GM maize?
- Less central direction/control – over wage levels and safety for example.
- Might be less effective with managers who have not been with MF long – those externally recruited.

2 (a) Using data on lines 16–18 and Table 1, calculate:

(i) capacity utilisation in 2014 **[2]**

$\frac{\text{Current Output}}{\text{Total Capacity}} \times 100$ 1 mark OR $\frac{30000}{36000} \times 100$ 1 mark

= 83% or 83.3% 2 marks

If stated as a fraction then 5/6 2 marks $\frac{30000}{36000}$ OR $\frac{30}{36}$ 1 mark

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(ii) the difference, at an output of 30 000 tonnes of flour, between the average cost per tonne in 2014 and the forecasted average cost per tonne in 2016. [4]

What the candidate did	Answer	Mark	Justification	Notes: $ sign not required OFR applies to calculations
Correct calculation of average cost(s)	$1	4	Difference correctly calculated	Working need not be shown.
	2014 $73 2016 $74	3	Average costs correctly calculated	Evidence of working required
	2014 $73 OR 2016 $74	2	Only one average cost correctly calculated	
Depreciation not included in calculations	$6.3 or $6	3	Difference calculated but depreciation not included	
	2014 $71 2016 $64.7 or $65	2	Not included depreciation and no difference calculated	
	2014 $71 OR 2016 $64.7 or $65	1	Only one average cost but with error: not included depreciation and no difference calculated	
Other annual indirect costs not included in calculations	$2.33	3	Difference calculated but other annual indirect costs not included	
	2014 $62 2016 $64.33 or $64	2	Average costs calculated but with error: not included other annual indirect costs	
	2014 $62 OR 2016 $64.33 or $64	1	One average cost calculated but with error: not included other annual indirect costs	
Did not recognise data was in 000s	$0.001	3	Difference calculated but ignored data was in 000s	
	2014 $0.073 AND 2016 $0.074	2	Average costs calculated but ignored data was in 000s	
	2014 $0.073 OR 2016 $0.074	1	One average cost calculated but ignored data was in 000s	
Used output of 36 000	$0.9 or $0.97	2	Incorrect output used (36 000) with no adjustment of direct costs	
	2014 $60.83 AND/OR 2016 $61.7	1	Incorrect output used and direct costs not adjusted for this	

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Only total cost(s) calculated	$2 190 000 and/or $2 220 000	1	Calculation of TC	
	$30 000	1	Calculated difference in TC	
No calculation	AC = TC/Output or AC = TC/Q	1	Formula	

(b) Using your results to 2(a) and other information, recommend whether MF should build the new factory. Justify your answer. [12]

	Knowledge 2 marks	Application 2 marks	Analysis 4 marks	Evaluation 4 marks
Level 2	2 marks At least two relevant points made	2 marks Application of two or more points to case/use of results	3–4 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/use of one result	1–2 marks Some use of theory to answer question	1–2 marks Some judgement shown

Answers could include:

- Average cost per tonne is higher with new factory which reduces profitmargins/competitiveness.
- This is likely to fall (significantly) if output rises above 30 000 tonnes helped by lean production techniques being incorporated into the design of the factory.
- Advantage is likely to be greater, therefore, if output and sales rise above current output level due to impact of reduced average fixed costs.
- Can new factory be afforded? More data needed to support directors' claim.
- Will job losses be necessary? Reaction of employees is unknown.
- Would outsourcing be a better and cheaper option? Outside firms used at present are small – do they have the capacity for flour production?
- Would quality be an issue? Customers currently appreciate the good value products.

Evaluation:

- Higher capacity working at existing factory could not operate for long without serious problems.
- If demand is likely to increase permanently, new factory seems to be essential – but how accurate are cost forecasts?
- If demand falls, the cost per unit will rise and reduce MF's competitiveness.
- Other information needed, e.g. outsourcing costs.

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3 To what extent will a marketing plan ensure that the new 'Maize Crunchies' product is profitable? [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks At least two relevant points made about marketing plan	2 marks Application of two or more points to case	4–5 marks Good use of theory to answer question	4–5 marks Good judgement shown
Level 1	1 mark One relevant point made about marketing plan	1 mark Some application to case	1–3 marks Some use of theory to answer question	1–3 marks Some judgement shown

Answers could include:

- Marketing plan is a detailed report on a firm's marketing strategy including SWOT/PEST (situational analysis); marketing objectives and budget; marketing mix tactics.
- This is a product development – could be a risky strategy without a clear and detailed marketing plan based on market research results.
- The plan should ensure that a budget is kept to – aiding potential profitability.
- The plan should ensure that a coordinated marketing mix is used – increasing chances of the product being a sales success.

Evaluation:

- Sales success not necessarily the same as profitability.
- May have to adapt plan to changes made by bigger competitors – how flexible will the MF plan be?
- The plan will be a key element in the product's chances of success but many other factors will also influence the profitability of the product, e.g. labour costs; economic conditions; competitors' prices.

4 (a) (i) Assume ABC'S farms are purchased. Using Appendix 1, the assumptions on lines 54–55 and other information calculate the net profit margin of MF in 2016. [6]

Sales revenue	45.5 (2) (1 for some attempt)
Net profit	9.6 (2) (1 for some attempt)
Net profit margin	21.1% (2) OFR (1 for formula only) Accept 21%. % sign not required for full marks

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(ii) Briefly assess <u>one</u> way in which MF's net profit margin could be increased. [4]

	Knowledge 1 mark	Application 1 mark	Analysis 1 mark	Evaluation 1 mark
Level 1	1 mark One way suggested	1 mark Application of way	1 mark Use of theory to explain way	1 mark Judgement shown

Answer could include:

- Reduce quality of maize ingredients – lowering cost of sales BUT could damage quality and relationship with retailers/consumers.
- Increase prices e.g. of flour – will increase margin over cost of sales BUT could damage the reputation for 'good value'.
- Cut salaries/bonuses of farm managers – reducing overheads and increasing NPM – BUT they are loyal to MF.

(b) Discuss the problems that MF might experience if it buys the ten ABC farms. [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks At least two relevant points made	2 marks Application of two or more points to case	4–5 marks Good use of theory to answer question	4–5 marks Good judgement shown
Level 1	1 mark One relevant point made	1 mark Some application to case	1–3 marks Some use of theory to answer question	1–3 marks Some judgement shown

Answers could include:

Possible attempt to explain in terms of horizontal integration:

- Effective communication may become more difficult
- Distance – as the farms may be in other countries and travel might be difficult. Face-to-face meetings might be infrequent.
- Language – different countries in Africa use different languages – will there be a common language between ABC farm managers and MR directors?
- Poor electricity supply – internet links might not be reliable. Post/telephone could be used – but postal services might be slow/poor and telephone still has language problems.
- Lack of investment – MF may have to finance substantial capital expenditure after buying the farms – can this be afforded?
- Overpaid managers – do they share the values of MF? Might they need to be replaced?
- Potential damage to MF's reputation from bad publicity associated with ABC farms' production methods.

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Evaluation:

- Depends on where farms are located and the quality of maize produced.
- Could bad publicity caused by ABC's production methods damage shareholder value in MF?
- Is MF management able to manage a much bigger business and will synergy result? Potential for culture clashes?
- How much would a reliable electricity/internet link cost?

5 Discuss whether MF should 'always consider the interests of stakeholders as more important than profit' (line 11). [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks At least two relevant points made	2 marks Application of two or more points to case	4–5 marks Good use of theory to answer question	4–5 marks Good judgement shown
Level 1	1 mark One relevant point made	1 mark Some application to case	1–3 marks Some use of theory to answer question	1–3 marks Some judgement shown

Answers could include:

- Stakeholders – those with a direct interest in the performance/activities of a business.
- Examples in this case include farm managers, customers, retailers, environmental groups.
- The statement suggests the business is focused on corporate social responsibility.
- This can be expensive, e.g. cutting out GM crops; keeping prices relatively low ('good value'); paying bonuses to farm managers.
- In the short term these and other CSR policies can result in lower profits.
- Taking the 'stakeholder first' view can increase profits in long term: consumer loyalty, low labour turnover, for example.
- Are competitive pressures rising for MF – e.g. in breakfast cereals? Will this mean that they will have to focus less on stakeholders and more on lower costs/higher profits?
- How will they deal with 'overpaid' managers in ABC's farms?

Evaluation:

- Need more evidence of MF's CSR policies and those of competitors.
- Will consumers become more concerned about CSR issues if incomes rise (e.g. country X rise in GDP)?
- No specific evidence that MF will have to change current policies.

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Section B

Questions 6 & 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 text and conclusions
Level 2	3 marks Good understanding shown	3 marks Good application to case	3–4 marks Good use of theory to explain points made	4–6 marks Some judgement shown in text and/or conclusions
Level 1	1–2 marks Some understanding shown	1–2 marks Some application to case	1–2 marks Limited use made of theory	1–3 marks Limited judgement shown

6 Evaluate the importance of the data in Appendix 2 and Appendix 3 to MF's directors when making the strategic choice whether to enter the market in country X. [20]

Answers could include:

- This is a strategic choice as market development is an important/difficult to reverse decision.
- Data in Appendix 2 is both positive and negative for this decision. High GDP growth rate suggests expanding economy and higher living standards – consumers may be more able to afford maize products.
- High inflation though – costs of transport and retailing costs might be high.
- Exchange rate depreciation of X's currency will make it more expensive to import into country X.
- Import tariffs are a barrier to trade – makes imports less competitive than domestic maize products BUT this is 2014 data and government of X is reducing these barriers to free trade.
- High proportion of young people – supply of labour might be high and wage rates might be low.
- Frequent changes of government. How stable is the government/country? Could a change of government reverse these policy changes and make inward investment less attractive?

Evaluation:

- Data in Appendix 2 is very important BUT more past data and forecasts would be useful to establish trends.
- Appendix 3 is significant too – e.g. decision tree results and payback. Other strategic choice techniques could be used.
- How much market research has MF undertaken? The data provided is not specific to maize/maize products.
- Might consider which of the two appendices is more important to the decision, e.g. the data in Appendix 2 is more important because it is actual/factual data whereas the data in Appendix 3 is based on forecasts.

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7 Discuss how the strategy of entering the market in country X could be effectively implemented by MF's directors. [20]

Answers could include:

- Implementation of strategic decisions means leading and managing change effectively to ensure strategic objectives are met.

Each point made could be supported by evaluative comment:

- Planning will be essential – MF seems to operate only in one country at present so market development will be a first for this company.
- Country X seems unstable – very important to plan for contingencies.
- There need to be clear objectives for this strategy to allow effective review of its implementation.
- It needs a leader with clear vision – will this be Robert or will the Marketing Director be responsible for this? Is she going to be too tied up with 'Maize Crunchies'?
- Would a joint venture be a better way to implement this strategy? Existing operator in country X could provide useful market knowledge and in-country insights, e.g. into government stability.

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