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Cambridge International Advanced Level

MARK SCHEME for the May/June 2015 series

9707 BUSINESS STUDIES

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

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1 Analyse the possible benefits to LF of effective internal communication. [10]

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks
Level 2	3 marks Good knowledge shown of internal communication e.g. definition and two or more benefits identified	3 marks Issues well applied to LF	3–4 marks Good use of reasoned argument or theory to consider benefits of internal communication
Level 1	1–2 marks Knowledge shown of internal communication e.g. definition and benefit identified	1–2 marks Some attempt to apply concept to LF	1–2 marks Some use of reasoned argument or theory to consider benefits of internal communication

Definition of internal communication:

Relevant case material:

- Communication with unions – may help prevent disputes.
- Weekly newsletter.
- Use of intranet.
- Communication with supervisors about targets – helps ensure that targets are realistic and work place issues can be flagged.

Lines of analysis:

- Impact of effective communication on employee morale and therefore productivity, absenteeism and labour turnover.
- The number and quality of ideas generated by staff.
- Speed of response to market changes.
- Reduces risk of errors.
- Effective coordination between departments.
- Importance of two-way communication.

2 (a) Refer to Appendix A. Calculate the total float for activity F. [4]

Total Float = LST – EST (1 mark)
LST = 14 (1 mark)
EST = 12 (1 mark)
Float = 14 – 12 = 2 weeks (4 marks)
12 – 12 = 0 3 marks if working shown, 0 marks if no working
No units required

or

Total Float = LFT – (EST + Duration) (1 mark)
LFT = 16 (1 mark)
EST + Duration = 12 + 2 = 14 (1 mark)
Float = 16 – (2 + 12) = 2 weeks (4 marks)

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(b) Evaluate the usefulness to LF of critical path analysis when managing the change in the production line. [12]

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

Definition of CPA:

Answers could include:

- CPA helps to plan projects, times needed for activities and the timing of resource requirements.
- Length of CP suggests that the 20-week deadline could be met.

Identification of the critical path/critical activities:

- Does the operations director have relevant experience of organising this type of change?
- How realistic are the durations?
- Reference made to CP network – chances of some of the critical activities being delayed? Are they all in correct sequence?

Evaluation:

- How accurate are the estimated durations?
- Have all activities been included?
- Is this the only planning technique used?
- Are operations managers experienced in using this technique?

3 (a) Refer to Appendix B. Calculate the total contribution of the proposed 3D contract. [4]

Contribution = Revenue less Variable costs (1)
Revenue = 200000 × 0.5 = $100000 (1)
Variable costs = 200000 ×0.35 = $70000 (1)
Contribution = $30000 (4)

$15000 3 marks if working shown, 0 marks if no working
No units required

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(b) Recommend whether LF should accept the proposed 3D contract. Justify your answer using your results from (a) and any other relevant information. [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks Good knowledge shown of contribution and/or relevant factors	2 marks Points well applied	3–5 marks Good use of reasoned argument or theory to explain factors influencing the decision	3–5 marks Good judgement shown in answer and conclusion
Level 1	1 mark Knowledge shown of contribution and/or relevant factors	1 mark Some attempt to apply	1–2 marks Some use of reasoned argument or theory to explain the factors influencing the decision	1–2 marks Some judgement shown in answer and/or conclusion

If only results from (a) or other information used – max. Level 1 for Analysis and Evaluation.

Application and Analysis:

- A contribution of $30000 makes the order worth considering.
- This contribution will add to the profits of the business.
- The firm is already operating near full capacity. Will this order cause delays to orders for other customers? It appears that there is sufficient capacity as the firm is operating at 90% capacity. Thus, other things being equal, there is spare capacity of 2.5 m litres per month and this order is only for 33000 litres per month.
- However, the trial period is during the months when the firm may be changing its production line. Is this a problem? The case suggests that they need to work at full capacity for 12 weeks to build up stocks. Thus, if also going ahead with change to production this could result in difficulty in meeting all customer orders.
- Will other retailers find out that 3D only pay $0.5? If they do, they may seek to renegotiate terms with LF resulting in a loss of revenue and profit.
- How important is it to win the order to LF? Currently the cinema only stocks a competitor brand. If the trial is successful this could lead to much larger orders and further increase LF's market share.

Evaluation:

- Which is the most important consideration?
- Final judgement should be weighed carefully and be based on preceding analysis.

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4 (a) Using the data in Appendix C, calculate:

(i) promotional elasticity of demand for Lemonfizz [3]

AED = % change quantity demanded / % change advertising expenditure (1)
% change advertising exp = 10% (1)
AED = 5/10 = 0.5 (3)

If equation inverted 0 marks, but using OFR if correct calculation 2 marks
Sign not essential for marks

(ii) price elasticity of demand for Lemonfizz. [3]

PED = % change quantity demanded / % change price (1)
% change price = –3.33% (1)
PED = 5/-3.33 = –1.5 (3)

(b) Discuss whether LF should reduce price or increase promotional expenditure in order to increase sales of Lemonfizz. Refer to your results from (a) and any other relevant information. [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks Good knowledge shown	2 marks Points made are well applied	3–5 marks Good use of reasoned argument or theory to explain uses/limitations	3–5 marks Good judgement shown in answer and conclusion
Level 1	1 mark Knowledge shown of relevant issues	1 mark Some attempt to apply	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

If only results from (a) or other information used – max. Level 1 for Analysis and Evaluation.

Although AED is less than 1 (+0.5) this does not mean that advertising is a waste of money. An increase in sales of 5% if maintained over the course of a year would be 13.5 million litres extra – potentially $8.1 m.
[90% of 300 m = 270 m litres. 5% of this = 13.5 m × $0.60 = $8.1 m]
However, production costs of $4.745 m ($0.35 × 13.5 m) must be taken into account.

PED may be elastic (5 / – 3.33 = – 1.5) and there would be an increase in revenue [270 m × $0.60 = $162 m but 283.5 m × $0.58 = $164.43]. However, that does not necessarily mean an increase in profits. Again, production costs must be accounted for.
[270 m × $0.35 = $94.5 m but 283.5 m × $0.35 = $99.25 m so profit will actually fall.]

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Other considerations:

- How does a change in price or advertising fit in with other elements of the marketing mix?
- The actions of competitors may be important. If they are increasing advertising can LF afford not to respond? What sort of advertising would be most effective? LF has made good use of new forms of communication in the past. Is it necessary to increase advertising spending?
- How were the PED and AED estimates arrived at?
- Are they reliable? Much depends on the reaction of competitors to either decision – and these reactions could change the elasticity estimates.

Evaluation:

- Does LF want to enter into a price war with competitors – this could be damaging? Is competing on price the most effective approach for the market leader? Could social media be used more extensively – to the young consumers of LF – and would this achieve an increase in sales without a substantial increase in promotion spending?

5 Discuss the extent to which LF should consider corporate social responsibility in its decision making. [16]

	Knowledge 3 marks	Application 3 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	3 marks Good knowledge shown of CSR consideration	3 marks Points well applied	3–5 marks Good use of reasoned argument or theory to explain the importance of CSR considerations	3–5 marks Good judgement shown in answer and conclusion
Level 1	1–2 marks Knowledge shown of CSR considerations	1–2 marks Some attempt to apply	1–2 marks Some use of reasoned argument or theory to explain the importance of CSR considerations	1–2 marks Some judgement shown in answer and/or conclusion

Definition of corporate social responsibility:

Application:

- Pressure group activity.
- Growing problems related to poor health.
- Lemonfizz is a high sugar drink.
- Advertising aimed at young target audience.
- Need to reduce water footprint and carbon footprint.

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Analysis:

- Shareholder vs stakeholder perspective.
- How might CSR behaviour benefit LF through building its brand and therefore sales?
- Potential benefit of CSR behaviour in terms of workforce commitment.
- How does LF compare with its multinational competitors?

Evaluation:

- To what extent does LF have a responsibility to society as opposed to shareholders?
- How powerful is the pressure group activity? Can it be safely ignored?
- Is the government likely to legislate if businesses do not change their behaviour?
- Is CSR just a 'cover' for un-CSR business activities?

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 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

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6 Evaluate whether the data in Appendix D is sufficient to enable LF to develop an effective strategic plan for the business. [20]

Answers could include:

- Rate of GDP growth is declining in Country Y. Link to incomes and sales of carbonated drinks.
- Market growth of carbonated drinks is lower than Country Z. Is the market more saturated?
- No significant market share of competitors in Country Z. Does this mean it will be easier to break into the market?
- Therefore is this a good time to consider expansion abroad?
- Depreciation of currency in Country Y. Should LF move quickly to expand to take advantage of higher exchange rate currently? Will depreciation affect the cost of production in Country Y?
- Change in interest rates. Could this affect the strategic financial decisions taken by LF?
- Increasing competition in Y. This is already forcing LF to consider reducing prices.

Evaluation:

- Forecasted data – may be unreliable. Source of data?
- Other factors will affect corporate strategy too: available finance; LF's objectives; timing of Tony's decision to stand down as CEO; competitors' actions.
- Other external data might be important too, e.g. population changes; tax changes (disposable incomes).

7 Evaluate the importance of the effective management of change for the future success of LF. [20]

Answers could include:

Definition of change management – the process of managing and leading strategic change to achieve desired objectives.

- LF's management appears to have a good record of growing the business and communicates effectively with employees. This could be vital in managing change in the future.
- The business has a good relationship with unions. This could also help management of change in the future.
- Tony Brown has a central role in the business. It will be important that in due course a successor is found who can continue to develop the business. Have any arrangements been made to prepare for transition?
- Steps to be taken in effective change management include: vision for the business; 'selling' change to staff; communication of reasons for change and consequences; involvement in change process.

Evaluation:

- How important is strategic change in this context and the management of such change? Will effective change management make any difference to the future success of LF?
- Can management culture towards change management and the role of staff be adapted to meet future challenges?
- Examination of factors other than effective management of change that could affect the future success of this business.

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