UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the October/November 2010 question paper for the guidance of teachers

9707 BUSINESS STUDIES

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

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UNIVERSITY of CAMBRIDGE
International Examinations

1 Analyse the benefits to Radar of further investment in research and development (R & D). [10]

	Content 3 marks	Application 3 marks	Analysis 4 marks
Level 2	2–3 marks Two or more benefits of R and D identified or one benefit plus understanding shown	2–3 marks Good application to this business	3–4 marks Good analysis of point(s) made using Business Studies theory or reasoned argument
Level 1	1 mark One benefit of R and D identified or some understanding shown, e.g. weak definition	1 mark Limited application to this business	1–2 marks Some analysis of point(s) made

Examiners' note: do not reward disadvantages.

Answers could include:

- Definition of R and D – spending on scientific research and technical development of new ideas/processes.
- Benefits could be market leadership through innovative products, higher prices/profit margins through USP, continued growth of the business through product differentiation.
- Apply to this company, e.g. could help to maintain success of Aquaskin brand and develop a wider range of products, e.g. creams for other age ranges. Demand for new types of creams and skin care products often very high.
- Answer based on market research should not be rewarded, unless references made to "developing new products".

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2 Do you agree with the Chief Executive that the company should stop producing the 'Aquaskin Junior' cream? Use the quantitative data in Table 1, relevant calculations and the qualitative information available to justify your answer. [16]

	Content 3 marks	Application 3 marks	Analysis 4 marks	Evaluation 6 marks
Level 2	2–3 marks Good understanding of relevant issues	2–3 marks Good application of issues to this business	3–4 marks Good use of theory to analyse answer	4–6 marks Good judgement shown in answer – must include final recommendation
Level 1	1 mark Some understanding of relevant issues or attempted calculation	1 mark Some application of issues to this business	1–2 marks Limited use of theory to analyse answer	1–3 marks Limited judgement shown in answer

Examiners' note: Max marks if only quantitative or qualitative factors considered: C2;P2;A2;E3

Quantitative:

- Impact on profit (or contribution) needs to be calculated. If Aquaskin Junior is stopped, the business will lose $160 000 contribution (or gross profit) so, assuming the overhead costs still have to be paid, profit will fall by this amount. (4 marks C2 P2)
- Calculation of "increased profit" from stopping production = $30 000. Allow only 2 marks (as overhead costs have been assumed to cease too). (C1 P1)
- Direct costs per unit may fall with increased production and sales and this could increase contribution per unit in the future.
- Allocation of fixed/office costs could have been inappropriate.

Qualititative:

- Impact on company reputation of dropping a product so quickly after introduction.
- Impact on staff if there are job losses.
- Product may benefit from increased promotion – little seems to have been done.
- Only recently launched – may take time to get noticed and established as it is early stages of product life cycle.
- Little marketing planning seems to have been undertaken – perhaps marketing would benefit from market research focused on this segment?
- Could the capacity created by dropping Aquaskin Junior be quickly used to make the other creams – and is there a demand for further units of these?

Overall judgement needed.

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3 Evaluate the benefit to Radar of preparing a detailed marketing plan before launching a new product such as the 'Aquaskin Junior' cream. [16]

	Content 3 marks	Application 3 marks	Analysis 4 marks	Evaluation 6 marks
Level 2	2–3 marks Good understanding shown, e.g. definition plus 1 benefit. Definition only 2 marks	2–3 marks Benefits well applied to this business	3–4 marks Good use of theory to analyse benefits	4–6 marks Good judgement shown in answer and conclusion
Level 1	1 mark Some knowledge shown, e.g. 1 benefit or 1 element of marketing plan	1 mark Limited application of benefits to this business	1–2 marks Limited use of theory to analyse benefits	1–3 marks Limited judgement shown

Examiners' note: marketing mix based answer – max 2 marks for each skill

- Definition of marketing plan – a detailed report of a firm's marketing objectives, budget and marketing strategy.
- Application to this business and this product.
- Company needs clear objectives (can then assess success or failure more accurately).
- Market research in the "junior" market might have been helpful for pricing and promotion decisions.
- Could lead to a better-designed marketing mix to meet the needs of the market segment aimed at and a more appropriate marketing budget.
- BUT needs time and resources.
- Can become out of date and for brand new products such as cosmetics, with so many firms developing and launching new products, it can be difficult to gather appropriate and relevant data.
- Even a detailed marketing plan could prove to be less effective if ethical issues arise about the product – as in the case.

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4 (a) Calculate for the country R location:

(i) Average rate of return (ARR) [3]

Answer	Explanation	Mark
31.4%	Correct	3
51.4%	No capital cost subtracted	2
82.8%	50% not subtracted from cash inflows	2
Average annual profit = $1.1m	50% subtracted and some use made of formula	2
$\frac{\$1.1m}{\$3.5m}$ = calculation error made	Correct use of formula and 50% subtracted	2
103%	No 50% and no capital cost subtracted	1
50% subtracted from cash flows	Some attempt made	1
ARR = $\frac{\text{average annual profit}}{\text{capital cost}} \times 100$	Correct formula	1
BOTH formula and 50% subtraction made	Not enough use made of formula	1

(ii) Payback period [3]

Payback 2 years 8 months (2.67 years) (3 marks)
Payback 1 year 5 months (1.4 years or 1 year 4.8 months) (2 marks as cash flows not reduced by 50%)
Some attempt made to show appropriate method (1 mark)

(iii) Net Present Value (NPV) at 10% discount rate [4]

Year	Net cash flow	Discount factor	Discounted cash flow	Marks
0	(3.5)	1	(3.5)	
1	1.25	0.91	1.1375	
2	1.25	0.83	1.0375	
3	1.5	0.75	1.125	
4	2	0.68	1.360	
5	3	0.62	1.860	
		Net Present Value =	$3.02m	4

Answer	Explanation	Mark
$9.54m	No 50% subtraction of cash flows	3
$6.52	No subtraction of capital cost	3
Various	Some appropriate use of discount factors and subtraction of capital cost or 50% deduction made to cash flows. Two stages of calculation undertaken	2
$13.04	Both errors made	1
Some appropriate use of discount factors	Some knowledge of technique	1

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(b) Using your results from part (a), data in Table 2 and other information, recommend the country in which Radar should locate its new factory. [14]

	Content 2 marks	Application 3 marks	Analysis 4 marks	Evaluation 5 marks
Level 2	2 marks Two or more relevant factors identified	2–3 marks Good application to this business	3–4 marks Good use of theory to explain answer	3–5 marks Good judgement shown in answer – must include clear recommendation or justified reason why not possible to give one
Level 1	1 mark One relevant factor identified	1 mark Limited application to this business	1–2 marks Limited use of theory to explain answer	1–2 marks Limited judgement shown

Examiners' note: Level 1 analysis and evaluation if only one source of data/information used.

- Country R – lower capital cost and quicker payback (apply own figure rule throughout) – important for this business with falling net profits (but no actual data on this given). Lower ARR but still high, as suits quite a high risk venture into a foreign country. (Accept alternative analysis if different results are taken from part **(a)**.)
- Country S – higher ARR with potential for further profits from economies of scale in future. Higher capital cost could be a problem – Government grants available (no information on this).
- Qualitative: which location represents more of a culture shock? Managers prepared to move to either location? BUT country R might be more attractive if tourists find it appealing. Language and distance problems? Huge industry in country S could give cheap components. Country R will ensure no trade restrictions, unlike country S location.
- More information would have been helpful, e.g. actual estimated unit costs in each location.
- Final choice made by candidate does not matter – judgement must be based on preceding analysis and in context of this business.

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5 Discuss the advantages and disadvantages to Radar of forcing factory staff to accept temporary and flexible working contracts. [14]

	Content 2 marks	Application 3 marks	Analysis 4 marks	Evaluation 5 marks
Level 2	2 marks Two factors or good knowledge of flexible contracts	2–3 marks Good application to this business	3–4 marks Good use of theory to explain answer	3–5 marks Good judgement shown in answer and conclusion
Level 1	1 mark Some factor or some knowledge of flexible contracts	1 mark Limited application to this business	1–2 marks Limited use of theory to explain answer	1–2 marks Limited judgement shown

Examiners' note: Level 1 analysis and evaluation if one-sided answer.

Answers could include:

- Define temporary and flexible contracts – employing staff on short-term/flexible hours contracts often with little job security. Usually able to call staff in at short notice to meet high demand periods.
- May be suitable for this business and save on "fixed" staff costs if demand does vary substantially through the year.
- May improve performance of staff if they are motivated by prospect of working flexibly, e.g. suit people who do not want full-time post in one company.
- May be easier to recruit staff, e.g. students to do seasonal work.
- BUT: might not be successful due to staff resistance to change.
- Poor communication and lack of team spirit with flexible contracts.
- No job security – demotivating as no "security needs" being satisfied?
- Recruitment and training costs of increased numbers of part-time and temporary staff.
- How important is it to reduce costs, compared with maintaining consistently high product standards, which are more likely to be reached with motivated full time staff?
- Overall judgement needed in context of this business.

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6 Discuss the extent to which the data in Appendix A and other external factors could influence the future success of Radar. [20]

	Content 4 marks	Application 4 marks	Analysis 4 marks	Evaluation 8 marks
Level 3				6–8 marks Good judgement shown throughout answer and conclusion
Level 2	3–4 marks Good understanding of at least 2 factors shown **or** identifies factors **and** good understanding of 1	3–4 marks Good application to this business	3–4 marks Good use of theory to explain answer	3–5 marks Judgement shown in answer and conclusion
Level 1	1–2 marks Identifies factors or good understanding of 1 factor	1–2 marks Limited application to this business	1–2 marks Limited use of theory to explain answer	1–2 marks Limited judgement shown

Answers could include:

- External factors – influences beyond the firm's control, including economic data.
- Other factors important too though, e.g. legal issues if advertising is found to have been misleading, risk of competitors launching even "better" creams.
- Economic data in country P is positive and negative for Radar. Growth rate suggests rising incomes but almost cancelled out by increasing population.
- Significant increase in number of young people – good for Aquaskin Junior?
- Inflation higher than other countries – this might explain the forecasted increase in interest rates – these could reduce discretionary income and hence the demand for cosmetics – if these are income elastic.
- Other countries – slightly higher growth rate but lower population increase for young people.
- No data on exchange rate – for a company trading internationally, this would have been very useful.
- BUT: other factors will affect success apart from external ones – skill of management in dealing with PR issues, success of future R and D projects, motivation of workforce and leadership of management team.
- So external influences will be very important but only one aspect of factors that will determine success of this business.

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7 Evaluate the extent to which Radar is fulfilling its responsibilities to stakeholders. [20]

	Content 4 marks	Application 4 marks	Analysis 4 marks	Evaluation 8 marks
Level 3				6–8 marks Good judgement shown throughout answer and conclusion
Level 2	3–4 marks Understanding of responsibilities to stakeholders	3–4 marks Good application to this business	3–4 marks Good use of theory to explain answer	3–5 marks Judgement shown in answer and conclusion
Level 1	1–2 marks Knowledge of stakeholders shown	1–2 marks Limited application to this business	1–2 marks Limited use of theory to explain answer	1–2 marks Limited judgement shown

Answers could include:

- Responsibility to stakeholders – definition: meeting the needs/objectives of stakeholders other than shareholders.
- Customers – developing new products – BUT how reliable are the claims and are they being misled?
- Is company guilty of misleading children in particular?
- Will opportunities for sub-contracting be used in other countries and how will this affect product quality?
- Government – increasing output, exports and jobs – BUT planning to locate abroad too.
- Workers – providing jobs through business expansion BUT the company seems determined to cut costs at the expense of job security.
- Workers in other countries – offering jobs in low-wage economy BUT with job insecurity and putting jobs at risk in country P.
- Other information would have been useful to have allowed a fuller consideration, e.g. company record on pollution and recycling, impact on local community, e.g. support for local charity projects.
- Some final judgement in context, e.g. may be attempting to satisfy shareholders in short term but may be risking long-term profitability by not fulfilling responsibilities to consumers/ employees.

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