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

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

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UNIVERSITY of CAMBRIDGE
International Examinations

Section A

1 Analyse <u>two</u> possible reasons why the National Bus Company (NBC) became more profitable after privatisation. [8]

	Content 2 marks	Application 2 marks	Analysis 4 marks
Level 2	2 marks Good understanding of privatisation shown	2 marks Answer well applied	3–4 marks Good use of theory or reasoned argument to explain answer
Level 1	1 mark Some understanding shown	1 mark Some application	1–2 marks Some use of theory or reasoned argument to explain answer

Answers could include:

- Definition of privatisation – selling of state-owned assets to the private sector.
- Profit motive – cut costs to increase profits, e.g. increase driver productivity and reduce number of drivers.
- Profit motive – research customers' needs and offer more bus services that can generate additional contribution.
- No political pressure to keep routes open or employment levels high – efficiency savings likely to increase profits.

2 (a) Using data in Table 3, calculate for SIBCO the following:

(i) labour turnover in 2009 [3]

22.5%. 3 marks
Correct data but incorrect result. 2 marks
Staff leaving/total staff employed x 100. 1mark

(ii) absenteeism in 2009. [3]

6.8%. 3 marks
Correct data but incorrect result. 2 marks
Days lost/Days worked × 100. 1 mark

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(b) Assess how the company might overcome the problems indicated by your results to part (a) without increasing unit costs. [12]

	Content 2 marks	Application 2 marks	Analysis 4 marks	Evaluation 4 marks
Level 2	2 marks Good understanding of results or problems/solutions	2 marks Answer well applied	3–4 marks Good use of theory or reasoned argument to explain answer	3–4 marks Good judgement shown
Level 1	1 mark Some understanding shown of results or problems/solutions	1 mark Some application	1–2 marks Some use of theory or reasoned argument to explain answer	1–2 marks Some judgement shown

Answers could include:

- Results are worse than benchmarked data.
- This raises costs of recruitment/selection/training and finding replacement drivers during absences.
- Data is evidence of lack of motivation/poor pay levels/poor management of absenteeism etc. Some research amongst drivers, e.g. exit interviews, would provide useful information.
- Possible solutions: pay – are other local employers paying more? Which payment method would be most appropriate?
- Bonuses for full attendance? Profit-sharing to increase sense of commitment/belonging?
- Other forms of motivation – non-financial such as kaizen groups or involvement in decision-making.
- Evaluation: is additional cost justified by the cost savings of reducing the problems?
- Is the 2010 data part of a long-term trend? Is the problem getting better or worse?

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3 Evaluate the possible implications of the <u>three</u> suggestions made by Indranee for increasing the profit margins from the company's existing operations. [14]

	Content 3 marks	Application 3 marks	Analysis 4 marks	Evaluation 4 marks
Level 2	2–3 marks Good understanding of results or problems/solutions	2–3 marks Answer well applied	3–4 marks Good use of theory or reasoned argument to explain answer	3–4 marks Good judgement shown
Level 1	1 mark Some understanding shown of results or problems/solutions	1 mark Some application	1–2 marks Some use of theory or reasoned argument to explain answer	1–2 marks Some judgement shown

Answers could include:

- Explanations of how each of the 3 suggestions might improve gross and/or net profit margin.
- Reducing promotion (fixed cost) – will increase net profit margin – but impact on sales and sales revenue? Promotional elasticity of demand? How much is the business spending on promotion compared with main rivals?
- Reducing maintenance and servicing costs – could be classified as fixed or variable cost. Will this reduce efficiency of the vehicles? Will it increase the risk of breakdowns and accidents? Could this be considered as being unethical? Long-term reputation could be damaged.
- Increasing prices – is this ethical if customers have no choice? Will it encourage increased competition? Danger of government investigation into monopoly pricing?
- Evaluation: shown by considering the short-term effects and comparing with long-term effects. Making an overall judgement or recommendation.

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4 (a) Refer to Table 2 and calculate the missing values w, x, y and z. Show your working. [8]

w = 16.625
x = 17.375
y = –2.625
z = 2.625
2 marks each; 1 mark for small arithmetical error or incorrect "sign".

(b) Evaluate the usefulness of the sales forecasts obtained using this method for marketing and operations management decisions taken by Sylvio and Indranee. [16]

	Content 3 marks	Application 2 marks	Analysis 4 marks	Evaluation 7 marks
Level 2	2–3 marks Good understanding of sales forecasting or methods	2 marks Answer well applied	3–4 marks Good use of theory or reasoned argument to explain answer	4–7 marks Good judgement shown in answer and/or conclusion on the accuracy and/or usefulness of this approach and the results obtained
Level 1	1 mark Some understanding shown of sales forecasting	1 mark Some application	1–2 marks Some use of theory or reasoned argument to explain answer	1–3 marks Some judgement shown

Answers could include:

- Definition of sales forecast and/or moving average method.
- Past results are a basis for sales forecasts, especially when the moving average has "smoothed" out the trend and allowed an extrapolated line, which can then give results that are adjusted by average seasonal variations.
- They will be more accurate and useful for marketing and operations management. Decisions if external events do not change greatly.
- Sales forecasts can be used to assist in marketing decisions, e.g. if sales are forecast to fall, prices can be lowered.
- They can also be used to help with operations management decisions – if sales are rising, new buses/coaches might be needed or additional servicing facilities. Depends on capacity and capacity utilisation.
- Evaluation: only accurate/useful if external events, such as economy or competitors' prices, do not change greatly. Market research can also be used to make sales forecasts – perhaps these could be more accurate.

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5 Do you think SIBCO should attempt to takeover the National Bus Company (NBC)? Justify your answer using the data in Figure 1 and Table 1 and other information provided. [16]

	Content 3 marks	Application 2 marks	Analysis 4 marks	Evaluation 7 marks
Level 2	2–3 marks Good understanding of integration and/or relevant evidence	2 marks Answer well applied	3–4 marks Good use of theory or reasoned argument to explain answer	4–7 marks Good judgement shown in the answer and the final conclusion
Level 1	1 mark Some understanding shown of integration or evidence.	1 mark Some application	1–2 marks Some use of theory or reasoned argument to explain answer	1–3 marks Some judgement shown

Answers could include:

- Horizontal integration – definition. Same industry and same stage of production.
- Will give total market share of 55% – this could make the takeover subject to an investigation by the government's "monopoly or competition commission".
- Does SIBCO want the adverse publicity that could result from this?
- More market share = more market power over prices. Will SIBCO take this opportunity to raise prices and increase profit margins? Good for shareholders but what about stakeholder resistance?
- Opportunities for economies of scale – e.g. buying buses and fuel in greater quantities.
- Other economies of scale possible too.
- Evaluation: culture clash likely given the different leadership styles. Will the two groups of managers and staff work effectively together? Lack of synergy is possible.
- Final decision will depend on the price to be paid – $30m is a lot to find! Can SIBCO afford this? If they convert to plc, will Sylvio and Indranee be prepared for the inevitable loss of control? Borrowing the capital required could raise gearing ratio too high.
- Overall recommendation required.

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Section B

Questions 6 and 7 are to be marked using this grid:

	Content 3 marks	Application 3 marks	Analysis 6 marks	Evaluation 8 marks
				6–8 marks Good judgement shown in answer and conclusion
Level 2	2–3 marks Good understanding of relevant issues	2–3 marks Answer well applied	4–6 marks Good use of theory or reasoned argument to explain answer	3–5 marks Good judgement shown in the answer or the final conclusion
Level 1	1 mark Some understanding shown of relevant issues	1 mark Some application	1–3 marks Some use of theory or reasoned argument to explain answer	1–2 marks Some judgement shown

6 Evaluate the extent to which governments should try to control the operations of businesses such as SIBCO. [20]

Answers could include:

- Government control can include legal restrictions over pollution levels, planning and location, employees' rights, consumer protection, health and safety, competition policy. In this context, candidates might also identify bus or route licences, price or fare controls, granting of government contracts etc.
- These controls are aiming to protect the interests of stakeholders and prevent some forms of exploitation.
- Evidence in the case that Sylvio and Indranee would have taken advantage of weaker controls: price setting and "predatory pricing", possible bribery, potential monopoly after takeover.
- BUT: Government controls can increase business costs and restrict enterprise if that is thought to be damaging to the public interest. Are foreign businesses subject to as much control and, if not, does this put a nation's industry at an unfair disadvantage?
- Is public transport a public service that should be controlled more than other business activities?
- Businesses might benefit, in the long term, from being forced to satisfy some stakeholder aims through government controls, e.g. safer and more motivated employees, loyalty from consumers who are more confident in not being exploited.
- Judgement should show some need for balance between controls and "laissez-faire" approach to achieve a fair but competitive business sector.

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7 To what extent will the future success of SIBCO be dependent on the management style and decision-making ability of Sylvio and Indranee? [20]

Answers could include:

- Sylvio and Indranee have been a significant force behind the success of this business: pricing decisions that have reduced competition (but are these legal?), increasing the capacity of the business, offering tourist buses at an appropriate time, considering steps to cut costs and increase profit margins. They seem to be decisive – if perhaps, rather abrasive – managers.

BUT:

- Is their leadership style contributing to HR problems?
- Will they be accused of breaking competition rules and will the business receive bad publicity because of this?
- Will external factors – such as increasing competition, legal restrictions and economic policy changes – have even more impact on the success of SIBCO than Sylvio and Indranee's management and decision-making?
- Or will their true abilities keep the business profitable, despite these external influences?

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