UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the October/November 2011 question paper for the guidance of teachers

9707 BUSINESS STUDIES

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

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International Examinations

1 Analyse the opportunities and threats of a global recession for ASC. [10]

	Knowledge 3 marks	Application 2 marks	Analysis 5 marks
Level 2	2–3 marks Two or more relevant points made or one point made plus good knowledge of recession shown.	2 marks Points made are well applied to case.	3–5 marks Good use of theory to explain opportunities and threats.
Level 1	1 mark One or two relevant points made or one point made plus some knowledge of recession shown.	1 mark Some application to case.	1–2 marks Good use of theory to explain one side or limited use of theory to explain one or both sides.

Answers could include:

Definition: world real GDP falling for at least 6 months.

Threats:
- Falling demand for steel-related products and therefore the demand for steel – data from case.
- Cost of steel plant closures.
- Increasing competitive threats.

Opportunities:
- Able to buy assets, e.g. competitors' steel works, cheaply.
- Reduced competition as rivals close.
- Increased chance of government grants.
- Good excuse to close worse-performing works.
- May reduce unit wage costs due to excess supply of workers.
- Interest rates may be low – opportunities to borrow to expand, e.g. automated machinery.

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2 (a) (i) Using data in Appendix A, calculate the variances for the Newtown steel works. [6]

Budget and actual data for Newtown steel works, 2011

	Budget for year ending 31/10/11	Actual data for year ending 31/10/11	Variance	Marks
Revenue	$306m	$272m	$34m adverse	[1]
Material costs	$125m	$118m	$7m favourable	[1]
Labour costs	$113m	$106m	$7m favourable	[1]
Allocated overhead costs	$40m	$41m	$1m adverse	[1]
Profit	$28m	$7m	$21m adverse	[2]

(ii) Explain possible reasons for any <u>two</u> of these variances. [6]

	Knowledge 2 marks	Application 2 marks	Analysis 2 marks
Level 2	2 marks Two or more relevant reasons given.	2 marks Both points made are well applied to case.	2 marks Good use of theory to explain reasons.
Level 1	1 mark One relevant reason.	1 mark Some application to case.	1 mark Good use of theory to explain one reason.

Answers could include:

- Adverse profit variance is caused by the adverse revenue variance being greater than the favourable direct cost variances.
- Sales revenue variance is adverse because the demand for steel has fallen and the price per tonne may have fallen too.
- Material variance is favourable as less steel is made and sold, so fewer materials will be needed.
- Labour costs variance is favourable as flexible contracts may have allowed reduction in hours worked and/or wage costs may have fallen due to increased unemployment.

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(b) Discuss the impact of ASC's privatisation on the company's stakeholders, using data in Table 1 and other relevant information. [16]

	Knowledge 2 marks	Application 2 marks	Analysis 6 marks	Evaluation 6 marks
Level 2	2 marks Two or more relevant points made.	2 marks Points made are well applied to case.	4–6 marks Good use of theory to explain advantages and disadvantages.	4–6 marks Judgement shown in considering both advantages and disadvantages.
Level 1	1 mark One relevant point made.	1 mark Some application to case.	1–3 marks Good use of theory to explain one side or limited use of theory to explain one or both sides.	1–3 marks Judgement shown but on one side only.

Answers could include:
- Privatisation: the sale of state-owned assets such as businesses to the private sector.
- Stakeholders: groups with direct interest in/impact on the operations of the business.

Shareholders:
- Company is now profitable so shareholder value has increased.
- BUT we are not told about share price or how much shareholders paid for the company.

Workers:
- Many job losses.
- TU membership down – as a result of management pressure?
- BUT wages have risen faster than national wages in the industry.
- There could now be greater job security for many of those workers left.

Government:
- No more subsidies.
- Tax receipts from profits made.
- Higher exports could improve Balance of Payments.
- BUT higher unemployment increases cost of benefits.

Customers:
- Prices seem to have increased.
- BUT still slightly cheaper than rivals.
- We are not told about quality etc.

Overall: Switch to private sector has increased efficiency and profitability of the business and reduced drain on state finances – so more efficient allocation of resources is of benefit to whole economy.

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3 (a) Using data in Appendix B, analyse the financial efficiency of the business by calculating <u>two</u> appropriate ratios. [6]

Formulae:

$$\text{Inventory turnover} = \frac{\text{Cost of sales}}{\text{Inventories}}$$

$$\text{Days' sales in receivables} = \frac{\text{A/Cs receivable}}{\text{Sales turnover}} \times 365$$

$$\text{Days' sales in creditors} = \frac{\text{Creditors (A/Cs payable)}}{\text{Cost of sales}} \times 365$$

(candidates may choose this last ratio too)

	2011
Inventory turnover	8.97 (or 41 days)
Inventory turnover (based on sales revenue not cost of sales)	12.8 (or 28.5 days)
Days' sales in trade receivables	43.8 days
Days' sales in creditors	52 days

Accept the use of other versions of formulae, e.g. inventory or accounts receivable as % of sales turnover; Days' sales held in inventories; accounts receivable turnover ratio. Check calculations based on formulae used.

Ready reckoner:

Result	Mark
2 ratios correct.	[6]
One result correct and one other correct formula but incorrect attempt to calculate.	[5]
One result correct and one other correct formula but no attempt to calculate.	[4]
Two formulae and two incorrect attempts to calculate.	[4]
One correct result.	[3]
Two formulae but no other rewardable answer.	[2]
1 correct ratio formula.	[1]

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(b) Evaluate any <u>two</u> ways in which the business might improve its financial efficiency. [8]

	Knowledge 2 marks	Application 2 marks	Analysis 2 marks	Evaluation 2 marks
Level 2	2 marks Two ways identified.	2 marks Both points applied to case.	2 marks Use of theory to explain how each way would help.	2 marks Judgement shown in assessing both ways.
Level 1	1 mark One way identified.	1 mark Application of one point to case.	1 mark Use of theory to explain how one way would help.	1 mark Judgement shown in assessing one way.

Answers could include:

- Stock levels should be of major concern. Inventory turnover has declined (award application mark for use of Appendix C). Reduce these to improve efficiency, cash flow etc. Use JIT. Holding stocks of steel can be very expensive.
- Evaluation: could be less chance of maintaining output and additional job losses or closures might be necessary.
- Debtors less of a problem but debtor days is rising (award application mark for use of Appendix C). Reduce credit period to customers.
- Evaluation: but will they go to a competitor instead? This could be a real concern during the recession in demand for steel.
- Take longer to pay creditors e.g. suppliers of coal/iron ore.
- Evaluation: but will they be so willing to supply materials? Perhaps yes, if the alternative is to lose ASC's orders. The ratio has increased already.

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4 The ASC marketing department uses a number of sales forecasting techniques including the moving average method. Evaluate the usefulness of sales forecasting to ASC. [12]

	Knowledge 2 marks	Application 2 marks	Analysis 3 marks	Evaluation 5 marks
Level 2	2 marks Good knowledge shown.	2 marks Good application to case.	3 marks Good use of theory to explain answer.	3–5 marks Good judgement shown.
Level 1	1 mark Some knowledge shown.	1 mark Some application to case.	1–2 marks Some use of theory to explain answer.	1–2 marks Some judgment shown.

Answers could include:

- Sales forecasting – using a variety of techniques to make predictions about future sales levels.
- Moving average method based on analysis of past time series sales data.
- Useful for assisting with planning, e.g. operations management resources and marketing strategies during the periods of time when demand is expected to be high/low.
- By establishing long-term trends, decisions about future capacity and investment decisions can be better informed.

HOWEVER:

- These statistical methods are less effective over longer periods of time and when unforeseen cyclical events occur, e.g. recession or technological changes.
- Delphi technique and qualitative methods might be more effective BUT no forecasting will be completely accurate.
- Judgement needed – should be used but carries a 'health warning' about its limitations so some flexibility of operations management and marketing might be advised to cope with cyclical changes that could not be foreseen.

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5 ASC has taken measures to reduce the impact of the global fall in steel demand (lines 38–43). Evaluate the likely effects of these measures on human resource management and operations management at ASC. [16]

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks	Evaluation 6 marks
Level 2	2–3 marks Good knowledge shown e.g. Impacts of the changes on human resources (HR)/operations management.	2–3 marks Good application to case.	3–4 marks Good use of theory to explain answer e.g. motivation or stock control theories/ techniques.	4–6 marks Good judgement shown e.g. balancing the positive against the negative impacts.
Level 1	1 mark Some knowledge shown.	1 mark Some application to case.	1–2 marks Some use of theory to explain answer.	1–3 marks Some judgment shown.

Answers could include:

- HR: impact on motivation and recruitment of good staff as a consequence of job losses (less job security); threats over job losses and need to accept flexible contracts (not many hygiene or motivational factors here); need to retrain some staff to programme and operate IT-based equipment.
- DEPENDS ON: how these changes are managed and communicated to staff – reduced membership of Trade Union (Table 1) could be significant here; what other similar businesses are doing; levels of unemployment – will staff find it easy to find alternative employment if Steel works A or Steel works B closed?
- operations management: higher stock levels will have an impact on stock management systems (refer to results for **3(a)**), space available for bulky, heavy product such as steel, cost of stock holding; need to manage stocks carefully e.g. avoid corrosion; impact on motivation could influence productivity and output levels; adoption of advanced IT/CAM methods will need to be managed effectively.
- DEPENDS ON: how long stocks need to be held for; productivity might increase if fear of job losses acts as a motivator; IT should increase productivity and efficiency but will need staff training and the change will need to be managed effectively. Closure of steel works may have little impact on capacity if productivity continues to increase (Table 1).

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Questions 6 and 7

	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	2–3 marks Good understanding shown.	2–3 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 mark Some understanding shown.	1 mark Some application to case.	1–2 marks Limited use made of theory.	1–3 marks Limited judgement shown.

6 Evaluate the usefulness of long-term planning and corporate objectives to ASC, which operates in a constantly changing business environment. [20]

Answers could include:

- Corporate plan: detailed report on a company's future long-term aims/objectives and the strategies it will follow to achieve them.
- Give examples of ASC's objectives.
- Important to give focus to management decision-making.
- Helps in the formulation of divisional/departmental objectives.
- Used in management by objectives.
- Essential part of strategic management – setting objectives helps to determine strategy.
- Important in this case as the 'old' corporate plan (if it existed) was based on state ownership and state-focused objectives/strategies.

HOWEVER:

- Can be inflexible, e.g. will ASC respond to global recession by adapting its objectives?
- May be based on sales forecasts that could prove to be inaccurate.
- How long should it plan ahead for?
- Can be outdated because of external events, e.g. recession in this case.

OVERALL:

- Needs to be flexible and adaptable to meet new situations.
- Long-term planning essential for industries such as steel, in which additional capacity takes years to build.
- In this case the directors DO seem to have adapted their plans to meet the new situation so they did not allow it to become a strait jacket – this is probably the best use of corporate planning.
- Once the environment returns to 'normal' the steps taken by the directors during the recession should help ASC focus successfully once more on the original aims/strategies.

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7 Using Table 2 and other information, recommend to the Board of Directors of ASC which of the two steel works should be closed. Justify your strategic choice. [20]

Answers could include:

- This is a major strategic decision as it involves expensive resources, impacts on many departments and has long-term repercussions for the business.

Factors include (from the viewpoint of Steel works A):

- Making smaller 'loss' than B – BUT how has this changed over time? Additional data would be useful.
- Older equipment and possibly higher maintenance costs – BUT difference is not that great – how reliable/productive is it?
- Fewer workers will be made redundant, reducing the social impact – AND it is in an area of lower unemployment so impact will be less.
- More polluting so company will be able to report (in its social audit?) that it has lowered emissions by a greater amount – BUT what is the emissions rate per tonne of steel?
- Smaller distance to major customer – BUT is transport a major cost factor for steel?
- Bigger upfront payment from government – BUT less in total (B receives $8.4m) BUT could government be encouraged to repeat it in later years?

Overall:

- Final decision can support either steel works but a clear conclusion/recommendation must be given.
- Other information would have been useful, e.g. total output of each plant, cost per tonne of steel produced and labour productivity.

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