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

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

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1 Analyse the advantages and disadvantages to HCS of legal controls. [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 knowledge of legal controls shown.	2 marks Points made are well applied to case.	3–5 marks Good use of theory to explain advantages and disadvantages.
Level 1	1 mark One relevant point made or knowledge of legal controls 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: legal constraints on business activity.

Disadvantages:
- Health and safety laws lead to staff training and equipment checking costs.
- Hygiene laws lead to additional cleaning costs.
- Food handling and storage controls – more training and some wastage likely.
- All of these could be applied to this business.

Advantages:
- Training leads to motivated staff, higher productivity and less risk of accidents and health-related incidents.
- Improves customer confidence in this business.
- Meeting of all laws and good training/health record can be used in promotion.
- All of these points can be applied.

2 (a) Using data in Appendix A, calculate for both machines:

(i) Labour productivity [4]

$$\text{Labour productivity} = \frac{\text{total output per time period}}{\text{number of staff employed}} \quad (1)$$

Uses correct data in at least one case (but error in calculation) (2)
One correct result (3)
Both results correct (4)
Machine A = 1500/3 = 500 meals per worker per week.
Machine B = 160 meals per worker per week.

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(ii) Labour cost per meal. [4]

$\frac{\text{total labour cost per week}}{\text{total output per week}}$ OR $\frac{\text{weekly wage of 1 worker}}{\text{labour productivity}}$ (1)

Uses correct data in at least one case (but error in calculation) (2)
One correct result (3)
Both results correct (4)
Machine A = \$300/1500 = \$0.2
Machine B = \$500/800 = \$0.625

(b) Using your results to (a) and other information, recommend which machine HCS should purchase. Justify your answer. [14]

	Knowledge 2 marks	Application 2 marks	Analysis 4 marks	Evaluation 6 marks
Level 2	2 marks Two or more relevant points made.	2 marks Points made are well applied to case.	3–4 marks Good use of theory to explain advantages and disadvantages of machines.	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.	1–2 marks Good use of theory to explain advantages/ disadvantages of one machine.	1–3 marks Judgement shown but on one side only.

Answers could include:

- Capital cost might be a crucial factor – especially if they go ahead with take-over which will be expensive.
- Machine A has much higher productivity and a much lower cost per meal – BUT is this more important than quality and will this be the same for both machines?
- Machine B will give lower profit margin – but if the meals are sold at high prices anyway the difference in margin will not be that great.
- Loss of jobs – can the workers losing their jobs (3 for A and 1 for B) be re-employed as cooks to help solve recruitment problem?
- Machine A will not operate at full capacity unless meals are frozen – will this reduce quality and taste?
- If A does not operate at full capacity, what will happen to the labour cost per unit?

Evaluation: overall decisions plus judgement needed for evaluation.

- Other information would have been useful, e.g. interest rates – will the shorter payback period be that significant?
- Most important factor in the decision?

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3 (a) Using data in Appendix B, calculate <u>two</u> ratios for 2011 that would be useful to potential shareholders of HCS. [6]

	Ratio (1 each)	Data (2 each for correct data identified but arithmetical error)	Result (3)
Dividend yield %	Dividend per share/ share price × 100	\$0.25/\$5.00 × 100 =	5%
Dividend cover	Profit after tax/ Total dividends	\$400 000/\$200 000 =	2
Price earnings ratio	Share price/ Earnings per share	\$5.00/\$0.50 =	10

(b) Would you advise a potential shareholder to invest in HCS? Use you results from (a) and other information to support your answer. [10]

	Knowledge 2 marks	Application 3 marks	Analysis 3 marks	Evaluation 2 marks
Level 2	2 marks Two or more relevant points made.	2–3 marks Points made are well applied to case.	2–3 marks Good use of theory to explain results or other information.	2 marks Judgement shown in considering both advantages and disadvantages.
Level 1	1 mark One relevant point made.	1 mark Some application to case.	1 mark Some use of theory to explain results or other information.	1 mark Limited judgement shown.

Answers could include:

- Dividend yield: 5% needs to be compared with other similar companies – but it seems reasonable compared with interest rate forecast BUT is the dividend yield rising or falling?
- Dividend cover: company can pay dividends easily according to this BUT is the business liquid enough? Should dividends be lowered to increase retained profits with the expansion plans proposed?
- Price earnings: quite high but, again, nothing to compare it with. Is it rising or falling?
- Ratio results not sufficient to base this decision on.
- Is business expanding too fast?
  Can Youssef manage this rate of expansion?
- If investor buys shares now, will there be a rights issue soon (to pay for take-over) which could depress the share price?
- If interest rates fall could this mean buying shares now is a wise investment?
- Evaluation: difficult to decide on basis of evidence – this would be a good conclusion!

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4 Discuss the most important differences between the marketing of HCS catering services to consumers in their own homes and the marketing of DDD products to supermarkets.

[16]

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks	Evaluation 6 marks
Level 2	2–3 marks Good knowledge shown.	2–3 marks Good application to case or different markets.	3–4 marks Good use of theory to explain answer.	4–6 marks Good judgement shown.
Level 1	1 mark Some knowledge shown.	1 mark Some application to case or different markets.	1–2 marks Some use of theory to explain answer.	1–3 marks Some judgment shown.

Answers could include:

- Consumer market – selling goods/services to final consumers.
- Industrial market – selling to another business which (in this case) sells to final consumer.

Main differences:

- Meals in homes likely to be high added value service – **price** less important than quality of food and customer service. This does not seem to be the case with the supermarkets – use case evidence.
- Meals in homes: **promotion** needs to be focused and directed at 'highish' income consumers – suggestions? No direct promotion needed to sell to supermarkets – selling much more important than promotion. Might use trade fairs to promote to supermarket buyers? Might consumer promotion be needed to encourage sales through supermarkets?
- Meals at home: **product** – adapted to meet consumers' specific requirements. Meals to supermarkets likely to be much more standardised and decided by supermarket 'buyer'.
- Meals at home: **place** (i.e. the sale of the product) may take place over the Internet. Supermarket buyers will expect direct B2B contact with company sales staff.
- Accept any other marketing differences too, e.g. need for market research.
- Evaluation: most important differences and why – must be applied to the case.

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5 Evaluate the most appropriate methods that HCS might use to solve its human resource problems. [16]

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks	Evaluation 6 marks
Level 2	2–3 marks Good knowledge shown.	2–3 marks Good application to case.	3–4 marks Good use of theory to explain answer.	4–6 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.	1–3 marks Some judgment shown.

Answers could include:

- Recruitment or retention problem – which is the biggest cause of the firm's problems?
- Is work-force planning undertaken – or does the problem just 'occur'?
- Need to establish why staff are leaving – exit interviews.
- Need to find out why potential new staff might be reluctant to join.
- Recruitment: where are jobs advertised? How is selection undertaken? Need for changes?
- Pay: discussion of the merits of the different systems suggested – in context. How much do other catering firms pay and which method do they use?
- Training: should they do so much of this? It makes it more likely that workers will be poached.
- Other motivators: job enrichment? Cooks not involved in meeting customers and discussing needs. Opportunities for participation? Need more permanent contracts to satisfy security needs?
- Evaluation: judgement of methods could be based on the most likely cause of the problems. Most effective ways? Need to prioritise and support conclusions made.

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

6 Would you advise Youssef and his fellow directors to make the strategic decision to take over DDD? Justify your answer. [20]

Answers could include:

YES: under pressure to expand – divorce between ownership and control?

- Needs to maintain growth to keep share price high?
- Diversification – **but** it is to do with food so Youssef has some knowledge of the product.
- Spreads risks of the business – economic downturn would reduce demand for home catering by less than the reduction in demand for ready-made meals?
- DDD may be sold at relatively low price – profits are falling.
- The business has invested in new technology – so this could be a 'sleeping giant' with potential for profits growth if well managed.

NO: how will capital be raised – further loss of control if further shares are sold?

- Too risky – Youssef lacks direct experience in this market.
- Supermarkets could take advantage of his lack of experience – profit margins could be squeezed.
- Danger of overtrading? DDD is bigger than HCS. Sufficient working capital?

Evaluation: further information essential, e.g. take-over price, further details of HCS and DDD accounts. Shareholder ratios for DDD?

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7 Assume the take-over takes place. Discuss how Youssef could successfully manage the substantial changes that would result from the implementation of this strategic decision.

[20]

Answers could include:

Changes:

- Job losses – how should Youssef handle these as he will not know the workers concerned? Should they be retrained for the other division of the business?
- Different culture – industrial not consumer market. How will Youssef overcome possible culture clash? Put in his 'own' managers?
- Size – communication problems? Depends on location of DDD factory compared with HCS.
- Motivation of larger workforce? Youssef's record does not appear to be good here – what could he do to maintain/increase motivation?
- Integrating the two businesses – or keep them as separate divisions?
- Need for management expertise – internal or external recruitment?
- He needs to communicate and explain changes at each stage of the process.
- Needs to give clear aims.
- Needs to lead by example.

Evaluation: which are likely to be the most important changes?

- Which are the best ways for Youssef to manage/lead these changes?
- Is his style of leadership appropriate?

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