CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the October/November 2012 series

9707 BUSINESS STUDIES

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

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

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1 Analyse the possible disadvantages for SSI of the company's human resource strategy within its existing factories. [10]

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks
Level 2	3 marks Good knowledge shown of disadvantages and/or hard HR	3 marks Well applied to case	4-3 marks Good use of theory/ reasoned argument to explain disadvantages
Level 1	2–1 marks Some knowledge of disadvantages and/or hard HR	2–1 marks Some application to case	2–1 marks Some use of theory/ reasoned argument to explain disadvantages

Answers could include:

- SSI seem to be using a "hard" HR strategy with the emphasis on cost minimisation.
- Using this HR strategy does not meet the conditions suggested by motivational theorists such as Mayo and Herzberg. Low motivation likely.
- Quality may be low because of this HR Strategy – shoes only last 6 months!
- Labour turnover may be high – adding to recruitment costs.
- At present it may not be too much of a problem for this business but there will be a need to adapt this strategy for the new factory and new range of shoes – especially if moving to high income country.

2 (a) Refer to Appendix A. Calculate the:

(i) break-even level of output of Location B [3]

Break-even level of production = $\frac{\text{Annual Fixed costs}}{\text{Contribution per unit}}$ (1)

$= \frac{\$3m}{\$2.80}$ (2)

= 1.07m pairs (3)

(ii) payback period for Location A. [3]

3 years and incorrect months (1)

3 years plus some attempt to use: $\frac{\text{additional cash flow required}}{\text{annual cash flow in } 4^{th} \text{ year}}$ (2)

3 years 5 months (3)

Also accept: 3.409 years (3)

3 years 4.91 months (3)

3 years 149 days (3)

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(b) Recommend which location SSI should choose for the new factory. Justify your recommendation using your results from (a) and other information. [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks Good knowledge of relevant factors shown	2 marks Well applied to case	5–3 marks Good use of theory/ reasoned argument to explain points made	5–3 marks Good evaluation in answer and conclusion
Level 1	1 mark Some knowledge of relevant factors shown	1 mark Some application to case	2–1 marks Some use of theory/ reasoned arguments to explain points made	2–1 marks Evaluation shown in answer and/or conclusion

Answers could include:
- B-E supports Location A but payback is shorter with Location B (perhaps because of the grants available).
- If the business is not short of capital (profits suggests that this is the case) then quicker payback might not be that important.
- Much of this data is forecast so its reliability needs to be questioned.

Other factors:
- B has higher union membership as % of workforce – wages likely to be higher and more chance of industrial action? On the other hand the unions will attempt to make sure that SSI behaves responsibly which is aim of new CEO.
- B is in free trade area – able to avoid protectionist measures if Marco shoes are sold to this market? May be more competition though.
- Wages likely to be very much lower in A – but are skills of the workforce more important with Marco shoes than the low unit labour cost of production?
- Any other relevant factors acceptable e.g. large number of other shoe makers could mean there is much competition for labour but it might also mean that available labour supply might already have the skills required.

Evaluation:
- Which is more important, long-term profits or quick payback?
- Danger of breaking new social code if A is chosen and workers are exploited.
- Qualitative factors might be more important e.g. B is in a free trade area (with other high income countries?) this could be a potential area of market development for Marco shoes.

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3 Discuss the importance to the success of Marco shoes of an integrated and coordinated marketing mix. [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks Good knowledge of marketing mix shown	2 marks Well applied to case	5–3 marks Good use of theory/ reasoned argument to explain points made	5–3 marks Good evaluation in answer and conclusion
Level 1	1 mark Some knowledge of marketing mix shown	1 mark Some application to case	2–1 marks Some use of theory/ reasoned arguments to explain points made	2–1 marks Evaluation shown in answer and/or conclusion

Examiner's Note
Restrict analysis and evaluation to L1 if answer shows no sense of integrated marketing mix – at least 2 elements must be linked for L2.

Answers could include:

- Integrated/coordinated mix – all parts of the mix give the same "message" to consumers about the product.
- Price – presumably this will be higher than at present – but how high? Will consumers pay much higher prices if the Marco range is associated with SSI and the existing retailers?
- Product – no evidence that this will be of higher quality – although hand made shoes can be the best available. Does SSI have the management and design experience to be able to make a high quality Marco shoe?
- Place – unique way of selling shoes – but will consumers be interested in waiting a week? Existing retailers may well be too closely associated with lower priced shoes that only last "about 6 months". This does not sound the right channel to sell the Marco range.
- Promotion – surely the range will not "sell itself" and a new brand identity will need to be created, partly by extensive promotion through appropriate high income related media channels.

Evaluation:

- Integrated mix is essential in this case as SSI have a certain reputation – and so might the retailers. At present it does not appear that the mix is integrated/coordinated and this could spell disaster for Marco. SSI may have to sell the shoes at lower prices than they intended and this will lead to potential losses due to the high costs of the new factory and design team etc.

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4 (a) Refer to Appendix B. Calculate for 2012 the:

(i) price/earnings ratio **[3]**

P/E ratio = $\frac{\text{Share price}}{\text{Earnings per share}}$ (1)

= $\frac{\$5.0}{\$0.425}$ (2)

= 11.76 (3)

Also accept:

11.8 (3)

Only accept 12 if evidence of correct working e.g. 5/0.425

(ii) dividend yield. **[3]**

Dividend yield % = $\frac{\text{Dividend per share}}{\text{Share price}} \times 100$ (1)

= $\frac{\$0.20}{\$5.0}$ (2)

= 4% (3)

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(b) Recommend to the directors of SSI whether to reduce the 2012 dividend payment to shareholders, as proposed by the CEO. Justify your recommendation using your results from (a) and other information. [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks Good knowledge of profit utilisation shown	2 marks Well applied to case	5–3 marks Good use of theory/ reasoned argument to explain points made	5–3 marks Good evaluation in answer and/or conclusion
Level 1	1 mark Some knowledge of profit utilisation shown	1 mark Some application to case	2–1 marks Some use of theory/ reasoned arguments to explain points made	2–1 marks Evaluation shown in answer and/or conclusion

Answers could include:

- Dividends are annual returns to shareholders
- Reducing dividends has the effect of reducing the dividend yield ratio – shareholders may now receive a higher percentage return on their investment from other shares or leaving money in bank.
- Shares could be sold – in fact, the Stock Market may have heard rumours of this which may be why SSI share price has fallen.
- Reduced share price is not an immediate problem for SSI unless they plan to issue new shares or unless they believe that there is a danger of takeover bids.
- Lower share prices has reduced PE ratio despite the earnings per share having fallen.
- Lower PE may indicate that the "market" believes that SSI has a reduced chance of being profitable in future – or may reflect the problems the business has had in increasing sales.
- Increasing retained profits by cutting dividends (by $20m compared to last year) will allow the business to raise the finance for the Marco project – without increasing long term loans.
- If this project is successful then the business may become more profitable and this will increase shareholder returns in future.

Evaluation:

- Two ratios with no similar company data to compare them with make it very difficult to draw conclusions.
- Has the Stock Market fallen in general?
- The balance is a fine one – will shareholders show faith in the new CEO (does he have a good reputation) and stick with the company for the longer term? If they are short term speculative shareholders then probably not.
- Overall conclusion and supported decision needed for L2 evaluation.

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5 Evaluate strategies that SSI could adopt (other than introducing the Marco range of shoes) to achieve increases in sales and profits. Use Ansoff's Matrix in your answer. [16]

	Knowledge 3 marks	Application 3 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	3 marks Good knowledge of relevant factors shown	3 marks Well applied to case	5–3 marks Good use of theory/ reasoned argument to explain points made	5–3 marks Good evaluation in answer and/or conclusion
Level 1	2-1 marks Some knowledge of relevant factors shown	2-1 marks Some application to case	2–1 marks Some use of theory/ reasoned arguments to explain points made	2–1 marks Evaluation shown in answer and/or conclusion

Examiner's note
L1 A & E only for a non-strategic answer e.g. focusing on pricing or other tactical decisions.

Answers could include:
- Knowledge of or drawing of Ansoff's matrix – a form of analysis of the main strategies for future growth and risk attached to them.
- Product development is being tried – Marco. Are there other possible new products?
- Market penetration – the market is "fiercely competitive" so how might further penetration be achieved? Even lower prices? What about PED and rivals reaction? Market growth has slowed recently.
- Takeover of rival – cost of this, may be out-bid, may be against competition policy.
- Market development – some overseas sales already. Can SSI build on these? Do they have enough knowledge of foreign markets and cultures and consumer tastes? Might there be scope for a joint venture with a foreign firm that has local knowledge already?
- Diversification – e.g. into clothing as Jacques has experience of this. Could complement SSI shoes. But they do not have manufacturing capacity. This market is also very competitive. It "spreads risks" but it is also the most risky of the options as it involves both new products and new markets.

Evaluation:
- As indicated above plus some justification for one strategy over others or perhaps the "best" one.
- Internal audit needed before major strategic changes such as these are put into effect.
- Final choice may depend upon finance available. Are shareholders prepared to accept more risk if market development or diversification are decided on?
- Market penetration may be least risky – but is it potentially the least profitable too?

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6 Refer to the strategic analysis undertaken by the Marketing Director (lines 8–20). Evaluate the importance of this strategic analysis to the successful introduction of the Marco range of shoes. [20]

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks	Evaluation 10 marks
Level 3				10–7 marks Good judgement shown in text and conclusions
Level 2	3 marks Good understanding shown of techniques/ strategic analysis	3 marks Good application to case	4–3 marks Good use of theory to explain points made	6–4 marks Some judgement shown in text and/or conclusions
Level 1	2–1 marks Some understanding shown of techniques/ strategic analysis	2–1 marks Some application to case	2–1 marks Limited use made of theory	3–1 marks Limited judgement shown

Answers could include:

- Strategic analysis – researching the environment in which the business operates and the business itself to help form future strategies.
- The strategic analysis seems to have been quite comprehensive.
- Sales forecasting would allow the size of the market segment to be forecasted and its likely rate of growth BUT how accurate is this forecast likely to be? More details about how the forecasts were arrived at would be useful.
- Boston Matrix of existing products helps to identify the cash cows, dogs etc. of existing products and this probably helped to confirm that basing growth on existing range of products may be unwise.
- Porter's Five Forces e.g. competitive rivalry – supplier power, barriers to entry, threat of substitutes and buyer power. Can help determine the degree of competitive rivalry in a market and thus the chances of success. But this is static analysis and forces can change quickly and how did SSI obtain the evidence needed as they are not currently operating in that segment?
- SWOT – situational analysis. Can help to identify how a business could obtain the best "fit" between its strengths and the opportunities that exist. But subjectivity is often a problem with SWOT especially if there is no attempt to quantify any of the data under the four headings.

Evaluation:

- Strategic analysis is a key part of strategic selection and SSI were right to use these methods.
- The more methods used the greater the chance, perhaps, of the final strategic choice being successful.
- There are weaknesses to all approaches – see above.
- Any analysis tends to be static and with the economic and social environment changing rapidly in most countries, how reliable can this analysis be? But perhaps the shoe market is less changeable than other markets so the strategic analysis could indeed contribute substantially to the chances of success of Marco.
- Many other factors will affect success and the quality of the product, for example, could be crucial as no matter how much analysis has been undertaken, unless SSI can meet the new market segment consumers' view of quality products then other factors will be insignificant.

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7 Discuss the factors that will determine whether the CEO is successful in changing the corporate culture of SSI. [20]

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks	Evaluation 10 marks
Level 3				10–7 marks Good judgement shown in text and conclusions
Level 2	3 marks Good understanding shown	3 marks Good application to case	4–3 marks Good use of theory to explain points made	6–4 marks Some judgement shown in text and/or conclusions
Level 1	2–1 marks Some understanding shown	2–1 marks Some application to case	2–1 marks Limited use made of theory	3–1 marks Limited judgement shown

Answers could include:

- Corporate culture: the attitudes, value and beliefs of people working in a business.
- Current culture seems to be based on Theory X approach to workers, lack of social and environmental responsibility and unethical behaviour such as over-claiming expenses and bribery.
- Corporate culture can be changed BUT it may be slow and several factors within SSI might have to change first.
- Ethical code – but this needs to be spelt out to all staff and training might need to be given e.g. ethical behaviour in certain situations.
- Mission statement should highlight the social objectives of the business – perhaps workers and managers could help devise this (sense of ownership).
- Social and environmental audits to monitor progress – should these be externally verified?
- Jacques must lead by example – this seems to have started already.
- Delegation to distant operations and offices is inevitable but this must come with some control and a clear sense of authority and responsibility.
- Change of personnel – especially senior staff. It seems that many of them may be too set in their ways so many senior staff may have to be replaced with people who are more in tune with Jacques' own personal culture.
- Reward system not based on sales alone – bonuses might also need to be given for environmental improvements and reductions in accidents etc.

Evaluation:

- Candidates may discuss the most important factors.
- Vital need for openness and communication so that Jacques finally gets his message across.
- Promotion/appointment of staff and managers with the appropriate outlook and personal values is perhaps the most important point – but accept any other reasoned conclusion.

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