CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the October/November 2012 series

9707 BUSINESS STUDIES

9707/32 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 advantages for BSL of encouraging employee participation. [10]

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks
Level 2	3 marks 3 benefits OR 2 benefits and knowledge of employee participation	3 marks Well applied to case	3–4 marks Good use of theory or reasoning to explain points
Level 1	1–2 marks 1/2 benefit(s) OR 1 benefit and knowledge of employee participation	1–2 marks Some application to case	1–2 marks Some use of theory or reasoning to explain points

Answers could include:

- Participation/involvement gives workers the chance to engage in two-way communication, express their opinions and be involved in making decisions that affect them.
- Benefits: Motivation – if employees are motivated by non-monetary factors – some BSL managers seem unsure of this. Does this explain the low labour turnover?
- Better informed decision making – workers know what "it is really like". Sales staff indicate new products to be stocked – useful for retailing project.
- Better feedback from customers – as warehouse staff can tell managers what customers are saying – important when BSL is considering developing more retail customer friendly environment.

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2 (a) Refer to Appendix A. Calculate for the delivery service proposal the:

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

ARR % = Average annual profit × 100 1 mark
Capital cost

= 170,000 2 marks
750,000

= 22.67% 3 marks

ALSO award:
42.66% 2 marks (no deduction of capital cost when calculating the average annual cash flow/profit)

Alternative formula:
Average annual profit × 100 1 mark
Average investment

170,000 2 marks
375,000

45.3% 3 marks (as the alternative formula for ARR has been correctly used)

85.3% 2 marks (alternative formula used but no deduction of capital cost in calculating the average annual cash flow/profit)

(ii) Net Present Value (NPV). [3]

Year	NCF	Discount factor	Discounted cash flows	Marks
0	(750,000)	1	(750,000)	
1	200,000	0.91	182,000	
2	250,000	0.83	207,500	
3	350,000	0.75	262,500	
4	400,000	0.68	272,000	
5	400,000	0.62	248,000	[Up to 2 for method if NPV is understood e.g. $1,172,000]
			422,000 = NPV	[3]

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(b) Discuss whether BSL should start a delivery service. Use your results from (a) and other information in your answer. [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks 2 benefits and/or limitations OR 1 benefit/limitation and knowledge of results/techniques used in (a)	2 marks Well applied to case	3–5 marks Good use of theory or reasoning to explain points	3–5 marks Good evaluation shown in answer and conclusion
Level 1	1 mark 1 benefit/limitation OR knowledge of results/techniques used in (a)	1 mark Some application to case	1–2 marks Some use of theory or reasoning to explain points	1–2 marks Some judgement shown

Answers could include:

- Investment appraisal results look favourable (OFR).
- ARR is a long way ahead of current interest rates (e.g. as indicated by the discount factors used) – but will these be increased with fears over inflation?
- NPV measures the profit on the project in today's money terms – this is high and positive so perhaps the deliveries project should be considered.
- But how do these results compare with other investment projects that the business could invest in?
- Payback is nearly 2 years 10 months – does the capital have to be borrowed? Is this too long to pay back interest on the loan?
- Other businesses seem to be offering deliveries and the market research data suggests that BSL is losing sales because of its current policy.

Evaluation:

- How reliable are the cash flow forecasts?
- Do they depend on how competitors will react? Do they charge for deliveries? Could they stop charging?
- Will BSL prices have to rise? What is the PED of trade customers?
- How much business is lost by not having a delivery service?

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3 Evaluate the key features of a marketing plan which BSL could use for increasing sales to the retail market. [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks Good knowledge of main features of marketing plan	2 marks Well applied to case	3–5 marks Good use of theory or reasoning to explain points	3–5 marks Good evaluation shown in answer and conclusion
Level 1	1 mark Some knowledge of marketing plan	1 mark Some application to case	1–2 marks Some use of theory or reasoning to explain points	1–2 marks Some judgement shown

Examiners' Note: L1 Analysis/Evaluation for marketing mix only answer.

Answers could include:

- Marketing plan is a detailed report on a company's marketing strategy.
- BSL needs to refocus its strategy if it is to be successful in the retail market.
- Would completely new locations for retail customers be important? – BUT the cost of these might be prohibitive. If no new shops, how can the warehouses be made more appealing to retail customers?
- Raise prices to retail customers (PED seems to be inelastic) BUT how could a rise in warehouse prices to trade customers be avoided too? Is price discrimination possible?
- Promote more – AED seems to be elastic – BUT there must be careful choice of media and message to inform and persuade this market segment. Is the budget sufficient to achieve the level of communication with potential customers that will be required?
- Products – will retail customers need a wider range of products, perhaps sold in smaller packets/quantities?

Evaluation:

- Plan needs to be focused on the objectives of BSL, main features of the new mix must be coordinated and within budget.
- Is the marketing budget likely to be sufficient?
- Clear marketing objectives will be important for assessing the outcome of the plan.

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

(i) Return on Capital Employed (ROCE) for ADC [3]

ROCE % = Net profit × 100 1 mark
Capital employed

1200 2 marks
32000

3.75% 3 marks

(ii) gearing ratio for BSL. [3]

Gearing % = Non-current liabilities (long term liabilities) × 100 1 mark
Capital employed

15000 2 marks
53000

28.3% 3 marks

ALSO award:
Alternative formula:
Non-current liabilities × 100 1 mark
Shareholders equity

15000 × 100 2 marks
38000

39.47% 3 marks

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(b) Assess the usefulness of ratio analysis of BSL's published accounts to any <u>two</u> of the company's stakeholder groups. Refer to Appendix B in your answer. [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks Some knowledge of ratios benefits/ limitations to 2 stakeholder groups	2 marks Well applied to case	3–5 marks Good use of theory or reasoning to explain points	3–5 marks Good evaluation shown in answer and conclusion
Level 1	1 mark Some knowledge of ratio benefits/ limitations to 1 stakeholder group	1 mark Some application to case	1–2 marks Some use of theory or reasoning to explain points	1–2 marks Some judgement shown

Examiners' Note: L1 for all Assessment Objectives if only 1 stakeholder group considered.

Answers could include:

- Shareholders would use them and relevant ratios e.g. dividend yield, to judge whether BSL shares were a good investment – or likely to become one in the future.
- Managers would use management accounts not the published accounts – but would use ratio analysis, e.g. ROCE, to identify potential problem areas or successful areas.
- Competitors, suppliers (who might consider the acid test ratio to be adequate), labour force, trade union etc. would all gain some useful information from analysing the accounts including ratio analysis – only two groups needed to break through into L2. For example:
- Banks would be pleased to see low gearing for BSL (but might be concerned about ADC's very high gearing if the takeover was to be financed by a loan).

Evaluation:

- How accurate are the accounts? There is scope for manipulation and window dressing to make the performance/liquidity of the business look more favourable.
- ADC seem to have done this – sale and lease back and deprecation change.
- Accounts and ratio usefulness much improved by comparing with other similar businesses and trend analysis over time.
- Accounts provide other useful data apart from allowing ratio analysis.
- Qualitative data also needed e.g. the objectives and skills of the management especially for assessing the likely outcome of a takeover such as that of ADC.

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5 Discuss the possible advantages and disadvantages to BSL of the proposed Information Technology (IT) system. [16]

	Knowledge 3 marks	Application 3 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	3 marks Good knowledge of IT and benefits/limitations	3 marks Well applied to case	3–5 marks Good use of theory or reasoning to explain points	3–5 marks Good evaluation shown in answer and conclusion
Level 1	1–2 marks Some knowledge IT and benefits/limitations	1–2 marks Some application to case	1–2 marks Some use of theory or reasoning to explain points	1–2 marks Some judgement shown

Examiners' Note: L1 for all skills if one-sided answer.

Answers could include:

- Advantages: Improved efficiency/productivity.
- HR – improved employee record keeping allows more effective appraisals.
- Ops Man – JIT should now be possible to help improve BSL's very low inventory turnover.
- Accounts – more accurate and speedy invoicing and information more easily available for creating profit centres e.g. of each warehouse.
- Accept any other developed IT benefits in context of this business.
- Reduce overhead costs e.g. through teleworking.
- Disadvantages: Cost – can this be afforded at a time when the takeover is also being considered?
- Redundancies – impact on motivation levels as job security will fall.
- Training and uncertainty – will staff be willing to be trained and will they all be able to cope? Is attitude of CEO a general one amongst managers?
- Compatibility – if a new IT system is purchased will it be compatible with the ADC system?
- Teleworking – not all employees offered this will be motivated by it.

Evaluation:

- Success of the IT system may depend on how this major change is dealt with by management – especially with the staff reluctant to change. Is this being discussed at the Works Council?
- Forces Field analysis could be reduced to reduce the restraining forces and this might play a big part in successful introduction of it.
- Ultimately, the business will have to move with the times.

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Questions 6 and 7 use the same mark grid:

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks	Evaluation 10 marks
Level 3				7–10 marks Good judgement shown in answer and conclusion
Level 2	3 marks Good knowledge of issues shown	3 marks Issues well applied to case	3–4 marks Good use of reasoned argument or theory to explain answer	4–6 marks Good judgement shown in answer or conclusion
Level 1	1–2 marks Some knowledge of issues shown	1–2 marks Some attempt to apply issue	1–2 marks Some use of reasoned argument or theory to explain answer	1–3 marks Some judgement shown in answer and/or conclusion

6 Recommend whether BSL should make the strategic choice of taking over ADC. Justify your recommendation using data in Appendix B and other relevant information. [20]

Answers could include:

- Takeover means buying all shares in ADC costing, at current valuation, $8m.
- Benefits:
- Increases market share through horizontal integration – more power over suppliers.
- Quicker than organic growth.
- 4% market share for £8m – this seems good value compared to market capitalisation of BSL and its current market share.
- Current valuation seems to be cheap – BUT will share prices start to rise with a takeover bid?
- High inventory turnover – perhaps the operations of the business are well run.
- Drawbacks:
- ADC has high gearing – which BSL will take on if it does not sell more shares to raise capital (or sell off some ADC assets).
- ADC has low acid test – has BSL sufficient liquidity to finance the working capital of the larger business after takeover?
- Different management styles – culture clash is possible. How will ADC staff respond to different leadership style? Will synergy actually occur because of this?

Evaluation:

- Depends on final purchase prices and how BSL finances this. Additional loans might be possible. Additional sale of new shares could endanger majority shareholders' control.
- How will interest rates move with higher inflation?
- Will spending on building materials fall?
- Overall conclusion needed supported by preceding analysis – accept either yes or no.

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7 Discuss the importance of contingency planning as part of a strategy BSL could adopt to achieve further success. [20]

Examiners' Note: Limit application to 1 mark if only references to fire are made.

Answers could include:

- Definition: Planning for unforeseen events.
- CP needs: risks to be identified and quantified, resources to be allocated to planning for the riskiest contingencies, training and practice, updating of plan.
- Benefits:
- BSL would have had a sprinkler system fitted before the fire and reduced the damage; they would have been fully insured – this fire is going to cost BSL much in terms of uninsured losses and lost trade; back-up systems in place to contact customers and keep records safe.
- Other potential risks too e.g. IT failure if IT project is undertaken; increased competition e.g. from online retailers; failure of some building products sold by BSL.
- All of these potential risks, if they are dealt with by effective CP, would increase the chance of future success – or at least reduce the chance of failure in an important aspect of the business.

Evaluation:

- CP cannot plan for all eventualities; opportunity cost involved at a time when BSL are considering expensive strategies such as IT and takeover of ADC.
- Of little use if not kept up to date.
- CP can be time consuming and getting the resources to cope with contingencies can be expensive.
- Other strategies will influence success too – perhaps a fire happens once in 10 years but management decisions on strategies such as the takeover and market penetration of the retail market could be much more important contributory factors to success.

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