CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the October/November 2012 series

9707 BUSINESS STUDIES

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

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1 Analyse Leo's role in the success of LFF in its first year. [10]

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks
Level 2	3 marks Good knowledge shown of the reasons for success	3 marks Points made well applied to business	3–4 marks Good use of reasoned argument or theory to explain how points identified were important to success
Level 1	1–2 marks Some knowledge shown of the reasons for success	1–2 marks Some application of points to business	1–2 marks Some use of reasoned argument or theory to explain how points identified were important to success

Answers could include:

- Leo had business experience – he would know about, for example, the importance of cash flow forecasting. This would help the new business survive the first year.
- Leo had finance from sale of former business – this would make him less reliant on outside sources of finance and help to reduce interest costs – allowing him to finance three flower shops.
- Leo undertook some market research and had identified a market gap in the flower market – this would allow his shops to become established with little competition.
- Any other relevant point e.g. he appeared to be hardworking and well focused.

2 (a) Refer to Table 1. Calculate for the glasshouse heated by solar panels:

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

Break-even point of production = $\frac{\text{Fixed costs}}{\text{Contribution per unit}}$ 1 mark

$= \frac{\$129{,}000}{\$3}$ 2 marks

= 43,000 bunches 3 marks

(ii) annual net profit at maximum capacity. [3]

Profit = total contribution – fixed costs (accept SR–TC) 1 mark
$300,000 – $129,000 2 marks
$171,000 3 marks

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(b) Recommend whether LFF should invest in this project. Justify your recommendation using your results to (a), the break-even graph in Appendix A and other information.

[16]

	Knowledge 3 marks	Application 3 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	3 marks Good knowledge shown of the results/other factors	3 marks Points made well applied	3–5 marks Good use of reasoned argument or theory to explain the case for/against	3–5 marks Good judgement shown in answer and conclusion
Level 1	1–2 marks Knowledge shown of the results/other factors	1–2 marks Some attempt to apply points	1–2 marks Some use of reasoned argument or theory to explain the case for/against	1–2 marks Some judgement shown in answer and/or conclusion

Answers could include:

- Comparison of the B-E data:
- Old has lower BE point (32000 vs 43000) (less risky).
- New has higher maximum profit (old is just $120000 @ 80000 units).
- Margin of safety at max capacity (old) is 48000; new is 57000.
- NPV – seems very positive but was 5% discount appropriate?
- Is the technology tried and tested? Is LFF prepared to take a risk with this?
- The data for the solar heated glasshouse is manufacturers data – how reliable is this?
- How long will production be disrupted for? Will customers return?
- What is expected to happen to fossil fuel prices?
- How powerful/influential is the environmental pressure group?

Evaluation:

- Need other forecasts from less biased sources.
- Much depends on fuel prices and the power of the environmental group.
- What annual level of demand/output is likely?
- Are consumers really interested in “greener flowers”? If not, it may not be worthwhile BUT accept any final, supported, conclusion.

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3 Discuss how LFF might solve the human resource problems in its shops in order to increase long term profitability. [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks Good knowledge of employee performance/HR issues	2 marks Points made well applied	3–5 marks Good use of reasoned argument or theory how points made will improve performance and increase profits	3–5 marks Good judgement shown in answer and conclusion
Level 1	1 mark Some knowledge of employee performance/HR issues	1 mark Some attempt to apply points	1–2 marks Some use of reasoned argument or theory to explain how points made will improve performance and increase profits	1–2 marks Some judgement shown in answer and/or conclusion

Answers could include:

- Explanation of the problem: high absenteeism, high staff turnover and increasing customer complaints will all tend to reduce long term profitability – caused by demotivated staff?
- Change the budgeting system – don't reward managers for saving on staffing/training costs unless employee performance is improved too.
- Offer full time/permanent contracts to all or more employees.
- Need to change the focus from "saving costs" to developing and motivating staff.
- Some scope for referring to motivational theorists.
- Profit sharing?
- Job enrichment?
- Change leadership style – not much evidence about this but the HR manager's quote is revealing.
- Any relevant suggestion acceptable – but needs to be directed towards the problems in this business.
- Explain how improved motivation, reduced turnover and absenteeism will be likely to improve long term profitability.

Evaluation:

- Depends on what factors most motivate staff.
- What are similar firms offering employees?
- Would any change be effective if the culture of the management towards workers did not change as well?
- Offering higher wages etc. may well improve the performance indicators but will such measures reduce long term profitability?

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4 (a) Refer to Appendix B. State the earliest start time at:

(i) node 3 = 11 days **[1]**

(ii) node 8 = 47 days **[1]**

(b) Refer to Appendix B. State the latest finish time at:

(i) node 4 = 23 days **[1]**

(ii) node 5 = 44 days **[1]**

(iii) node 6 = 33 days **[1]**

(c) State the minimum duration of the project.

61 days **[1]**

(d) Discuss the usefulness of the critical path analysis in managing the project to construct a glasshouse heated by solar panels. [12]

	Knowledge 2 marks	Application 2 marks	Analysis 4 marks	Evaluation 4 marks
Level 2	2 marks Good knowledge of CPA	2 marks Good application to case	3–4 marks Good analysis of benefits and/or limitations	3–4 marks Good judgement made about CPA usefulness
Level 1	1 mark Some knowledge of CPA	1 mark Some application	1–2 marks Some analysis	1–2 marks Some judgement made

Answers could include:

- CPA helps to plan projects, times needed for activities and the timing of resource requirements.
- Length of CP suggests that the 3 month deadline could be met – but how many working days in each month?
- This is seems to be quite a complex project – how much relevant prior experience has Leo had of this scale of project?
- Is Bill's building firm experienced at this type of construction work with solar panel heating?
- How realistic are the durations given that both Leo and Bill may not have constructed solar panel heated glasshouses before?
- Reference made to CP network – chances of some of the critical activities being delayed? Are they all in correct sequence?
- Could float times be used to release resources to the critical activities so that any delays can be "caught up"?

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Evaluation:
- Should be completed on time but there are several uncertainties.
- Successful completion on time depends upon management of the project as well as an effective CP network. Leo does seem to be an effective manager – but what about Bill?
- Lack of experience in using CPA might be an issue in this case.

5 Discuss the most important features of a marketing plan LFF could develop to sell flowers successfully through the Internet (e-commerce). [16]

	Knowledge 3 marks	Application 3 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	3 marks Good knowledge shown of marketing plan factors	3 marks Issues recognised well applied	3–5 marks Good use of reasoned argument or theory to explain the issues involved in successful marketing plan	3–5 marks Good judgement shown in answer and conclusion
Level 1	1–2 marks Some knowledge shown of marketing plan factors	1–2 marks Some attempt to apply issues to CAL	1–2 marks Some use of reasoned argument or theory to explain the issues involved	1–2 marks Some judgement shown in answer and/or conclusion

Answers could include:
- Definition of marketing plan: detailed report on a firm's marketing strategy giving details of marketing objectives, budget and mix.
- What is LFF's objective – market share or total level of sales over the internet?
- Selling over the internet is very different to selling through shops.
- More competition – existing shops seem to have little. Need to set competitive prices OR offer a USP such as a top quality level of service, choice and delivery reliability.
- Will there be a "price" for delivery?
- Need to get website noticed – how can promotion be used to encourage customers to visit the website.
- Ease of use of the website will be crucial.
- Products – will a wider range need to be stocked or at least made available? Will different regions/countries have different customer tastes?

Evaluation:
- Market research essential before the marketing plan can be realistically devised.
- Getting noticed will be an essential factor – at least to start with – so the promotion budget must be adequate.
- Pricing will be important – penetration or skimming (with USP) for this new e-commerce strategy?
- How many potential customers have access to computers?
- Prioritisation – is any one factor more important than the others – if so, why?

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Questions 6 and 7 use this 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 issues	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 Evaluate the extent to which the analysis of the data in Appendix C will be sufficient to enable LFF's management to develop future strategies. [20]

Answers could include:

- Rate of GDP growth declining – could this affect the (rate of) growth of flower sales?
- Is this then a good time to consider widening the product range?
- Depreciation of currency – better to expand flower production in home country? Is the depreciation against the currencies of the flower growing countries?
- Interest rates rising – better to go for leasing contracts for new glasshouses than borrowing – but will leasing charges rise? Could this affect the strategic financial decisions taken by LFF?
- Increasing competition – could this force LFF to offer lower prices or better services/range of products?
- Trend in e-commerce sale of flowers seems clear – reinforces the move into internet selling but should some shops be closed too?

Evaluation:

- Forecasted data – may be unreliable. Source of data?
- Other factors will affect corporate strategy too. Growth of demand for flowers; available finance; LFF's objectives; competitors' actions.
- Other external data might be important too e.g. population changes; tax changes (disposable incomes); world flower prices.

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7 Discuss the arguments for and against Leo's decision to invest time and resources in long term corporate planning. [20]

Answers could include:

- Corporate plan: detailed report on the company's corporate objectives and main strategies to be used to reach them.
- Gives focus, direction, structure for functional objectives, means of monitoring progress.
- LFF is expanding and risks of not planning are becoming greater.
- Appendix C seems to suggest an uncertain future environment and a flexible plan for the future seems to be essential.
- No formal planning done until now – has success been down to luck or Leo's skills – suppose he leaves or dies?

Evaluation:

- Been successful so far without formal planning.
- Time consuming – do directors seem inclined to take it seriously with many other tasks to perform?
- Uncertain external environment – a rigid corporate plan could be damaging if there is not means of adapting strategies to future changes in this environment.
- Leo could become "wedded" to the plan and become too blinkered to factors that might require a change of plan.
- Functional directors are worried about short term issues – but does this mean that long term planning should not be done?

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