CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the October/November 2013 series

9707 BUSINESS STUDIES

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

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1 Analyse the impact on LKE of any <u>two</u> of its current weaknesses. [10]

	Knowledge 3 marks	**Application 2 marks**	**Analysis 5 marks**
Level 2	3 marks Two or more relevant points showing understanding	2 marks Points made are applied to case	5–3 marks Good use of theory to explain impact of weaknesses
Level 1	2–1 marks One or two relevant points made	1 mark Some application to case	2–1 marks Some use of theory to explain weakness

Definition: Weakness – internal disadvantage faced by the business. Part of SWOT.

Answers could include:

- Serge's lack of business experience/interest – this may prevent him from expanding the business and increasing profitability.
- Traditional product range – may become a major problem with growth of middle class demand for stainless steel pans and/or if markets in other countries such as country Y are exploited.
- $1m in long term loans – high interest cost of $165 000 eats into profit and limits ability to borrow further to expand or update equipment.
- Poor relations/communication with employees. This is likely to lead to industrial disputes causing disruption to production and allowing competitors to increase market share. Poor relations could be particularly important if major changes do occur in the future.
- Lack of scale economies, therefore unit costs will be greater than competitors and reduce profit margins.
- LKE only operates in country X and is thus exposed to changes in the market.
- Any other relevant answer.

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2 (a) Refer to Appendix 1 and information on lines (18–30). Construct a forecasted income statement for LKE for the year ending 30 September 2014. [8]

	($000)	Marks
Revenue	5920	1
Cost of Goods Sold	1850 (370 000 × $5)	1
Gross profit	4070	1 (OFR and all subsequent calculations)
Overheads:		
Factory	(1760)	1
Administration and marketing	(1625)	
Depreciation	(320)	
Net profit (before tax and interest)	365	1
Interest	(180)	1
Pre-tax profits	185	
Tax	74	1
Profit after tax	111	1

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(b) Assess how LKE could increase profit in 2014. [12]

	Knowledge 2 marks	**Application 2 marks**	**Analysis 4 marks**	**Evaluation 4 marks**
Level 2	2 marks Two or more relevant points showing understanding	2 marks Points made are applied to case	4–3 marks Good use of theory to explain impact of suggestions made on net profit	4–3 marks At least two points evaluated or clear overall conclusion supported by preceding analysis
Level 1	1 mark One or two relevant points made	1 mark Some application to case	2–1 marks Some use of theory to explain impact on net profit	2–1 marks Some judgement made

Answers could include:

- Increase prices – may increase revenue at greater rate than costs BUT impact on sales through PED?
- Reduce material/labour costs – may increase gross profit margin BUT will it reduce sales if quality is reduced? Material costs have recently increased.
- Increase sales through promotion (i.e. reverse the decision to cut promotion costs) BUT will this lead to higher revenue than the increase in costs? AED?
- Cut other overheads – BUT how easy will this be?
- Reduce loans to cut interest cost – find private investor/venture capitalist BUT does Serge want to lose some control over the family business?
- Start exporting – BUT impact on 2014 profits likely to be small or even negative given the cost involved.

Any TWO points can earn maximum mark.

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3 Discuss how LKE could effectively solve the dispute with the workforce. [16]

	Knowledge 3 marks	**Application 2 marks**	**Analysis 5 marks**	**Evaluation 6 marks**
Level 2	3 marks Two or more relevant points showing understanding	2 marks Points made are applied to case	5–3 marks Good use of theory to explain impact of suggestions made on resolving dispute	6–4 marks Good judgement shown on how dispute might be resolved in this case
Level 1	2–1 marks One or two relevant points made	1 mark Some application to case	2–1 marks Some use of theory to explain impact on resolving dispute	3–1 marks Some judgement made

Answers could include:

- Definition: Industrial dispute – disagreement between employee and employer which may lead to industrial action.
- Negotiation with individual workers – divides and rules; ignores TUs, time consuming BUT may not operate in this case as more workers are joining TUs.
- Collective bargaining – LKE to recognise one or all of the TUs for bargaining purposes – may lead to agreement that all workers are keen/encouraged to accept BUT is Serge prepared to change his approach sufficiently to allow for this to happen? Risk of higher costs if TUs are powerful and effective.
- Replace workers with others – there is high localised unemployment – but impact on reputation and long term employee relations?
- Use conciliation/arbitration services – requires Serge to lose some control over the eventual outcome BUT it could be that a move to piece rate is not best for this business anyway (in terms of quality etc.).
- Reverse the proposed changes and allow talks with TUs – BUT impact on efficiency/unit costs of not going ahead with proposed changes?

Evaluation:

- How powerful are TUs? How successful is industrial action likely to be?
- Is employment law likely to be important e.g. if enough workers join TUs will LKE have to recognise them and bargain collectively?
- Cost and impact of solution to dispute on LKE.

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4 (a) Refer to Appendix 2. Calculate:

(i) capacity utilisation [3]

Capacity utilisation (%) = $\frac{\text{current annual output}}{\text{annual capacity}} \times 100$ 1 mark

360 000/440 000 × 100 2 marks
81.8% or 82% 3 marks

(ii) labour productivity. [3]

$\frac{\text{Annual output}}{\text{Number of (full time) employees}}$ 1 mark

360 000/220 2 marks

1636 units per worker 3 marks

(b) Using data in Appendix 2 and other information, assess the likely impact on LKE's operational efficiency of increased use of technology. [12]

	Knowledge 2 marks	**Application 2 marks**	**Analysis 4 marks**	**Evaluation 4 marks**
Level 2	2 marks Two or more relevant points showing understanding	2 marks Points made are applied to case	4–3 marks Good use of theory to explain impact of suggestions made on operational efficiency	4–3 marks At least two points evaluated or clear overall conclusion supported by preceding analysis
Level 1	1 mark One relevant point e.g. definition	1 mark Some application to case	2–1 marks Some use of theory to explain impact on operational efficiency	2–1 marks Some judgement made

Answers could include:

- Attempt to define operational efficiency e.g. in terms of productivity, lower unit costs or capacity utilisation
- New capacity increases from 440 000 to 550 000
- New break-even (factory fixed costs) = \$1.92m/\$12 (but may make assumption about new selling price too) = 160 000
- Capacity utilisation falls to: 360 000/550 000 = 65.56% BUT this depends on sales – Serge is planning that these will increase.
- Productivity should increase too if output rises above the old maximum capacity – if 220 FTE workers kept. If worker numbers fall (as seems likely with reduction in direct labour costs) then productivity will increase even at 360 000 units.
- Any other relevant calculations
- These marks could be awarded for non-calculation response – but this is likely to limit effective analysis.

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Evaluation:

- Depends on economies of material purchases. Depends on whether sales DO increase. No mention of capital cost or retraining cost.
- Will quality increase? This is an LKE differentiating feature.
- Is the difference in break-even that significant?

5 Recommend to LKE an appropriate strategy for marketing its products in country Y. Justify your recommendation. [16]

	Knowledge 3 marks	**Application 2 marks**	**Analysis 5 marks**	**Evaluation 6 marks**
Level 2	3 marks Two or more relevant points showing understanding	2 marks Points made are applied to case	5–3 marks Good use of theory to explain marketing suggestions made	6–4 marks Good judgement shown on how LKE might enter and exploit this new market
Level 1	2–1 marks One or two relevant points made	1 mark Some application to case	2–1 marks Some use of theory to explain marketing suggestions made	3–1 marks Some judgement made

Answers could include:

- Definition of marketing strategy: Overall plan of action for marketing in country Y e.g. market analysis, objectives, budget, appropriate mix.
- Global marketing or 'global localisation'? Need for detailed analysis of market in country Y
- Global marketing: cheaper, consistent image and marketing strategy in all countries.
- Global localisation: more expensive but marketing strategy geared towards market/consumer requirements in each country.
- Country Y may be too different to country X for globalised marketing to be effective in this case.
- Clear overall objective needed and appropriate budget.
- Product: needs to expand stainless steel product range?
- Price: not much detail about competitors but stainless steel costs may be higher so higher pricing than in country Y.
- Promotion: to be done by LKE or agents/distributors/retailers?
- Place: how to enter this market? Through agent? Joint venture with local retailers or wholesalers? Benefit of local market knowledge could be crucial in this case.

Evaluation:

- Doing the same thing as in country X seems to be doomed to failure.
- Which aspect of marketing is likely to be most important in this case?
- How to enter the market is perhaps very important.
- Overall conclusion needed.

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Questions 6 and 7 use this marking grid:

	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

6 Evaluate the importance to LKE of strategic analysis before deciding on market development in country Y. [20]

Answers could include:

- Strategic analysis – analysing the current situation of the business – internal/external SWOT/PEST; Boston matrix, Porter's 5 forces etc.
- Benefits of these techniques: reduce potential risk of new strategies; identify major strengths/weaknesses of business at present and identifies future opportunities – country Y is not the only option.
- Applied to LKE – there are clear weaknesses and strengths – these need to be assessed before this decision can be seen as the best one to take
- Opportunities – country Y is not the only future strategy for growth so others need to be identified and analysed too.
- Threats – perhaps protecting against imported competition is more important?
- Limitations of strategic analysis and/or individual techniques e.g. out of date quickly and it can be based on personal judgements about strengths/weaknesses etc.
- Is Serge likely to use strategic analysis? Does he have the skills and experience required?
- Some subjective assessments are needed.
- Perhaps Porter indicates to LKE to focus on its differentiated strategy – entering country Y might not achieve this.

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7 Evaluate how Serge could effectively manage the changes that would result from a takeover by CPS. [20]

Answers could include:

- Details of changes given e.g. management changes; relocation; possible change in business culture
- Impact on employees (at all levels of the organisation), motivation, output, unit costs, productivity that could result from these changes
- Managing change:
- Vision
- Communication
- Ownership of change
- Involvement of people most affected – project champions, project teams etc.
- In this case: How to decide which senior manager to make redundant?
- Recruiting and selecting new staff needed e.g. R and D. A more entrepreneurial culture might be needed in the business.

Evaluation:

- Is Serge capable of making and leading these changes? Does he need to bring in consultants? Is his style (e.g. HR opinions) likely to lead to him managing/leading these changes effectively or not?
- Could CPS step in to make the changes instead? Serge could easily be replaced now.

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