CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the October/November 2013 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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Section A

1 Analyse the likely impact on JCL of increased competitive rivalry. [10]

	Knowledge 3 marks	Application 2 marks	Analysis 5 marks
Level 2	3 marks Two or more relevant points showing understanding of competitive rivalry or possible impact of increasing competitive rivalry	2 marks Points made are applied to case	5–3 marks Good use of theory to explain impact of increased competitive rivalry
Level 1	2–1 marks One or two relevant points made about competitive rivalry or possible impact of increasing competitive rivalry	1 mark Some application to case	2–1 marks Some use of theory to explain impact of increased competitive rivalry

Answers could include:

- Explanation of competitive rivalry – Competitive rivalry: the level of competition or rivalry in a market – influenced by buyer power, supplier power, threat of substitutes; barriers to entry.
- Barriers to entry seem to be falling – cheaper technology with satellite tracking. This will make the market more competitive and JCL may have to reduce prices.
- Increased supplier power due to mergers between van/truck manufacturers – lower discounts could raise costs for JCL. Is there scope to lower costs in other areas?
- Increased buyer power – risk of increased vertical integration. Demand for JCL's services might fall. Perhaps this gives weight to JCL's own move into online selling?
- Impact: increased competition, reduced profit margins; lower costs of technology for JCL too; may have to lower prices to attract big online retailers.
- Differentiation will have to increase to try to limit the extent of competitive rivalry.

2 (a) Using the data in Appendix 1 and lines 14–15. Calculate:

(i) days' sales in trade receivables (debtor days) [3]

$\frac{\text{Accounts receivable}}{\text{Sales revenue}} \times 365$ 1

$\frac{37}{130} \times 365$ 2

104 days 3 OR 2 marks if incorrect units used e.g. £104m

Allow 2 marks for 28.46% (× 100 not 365)

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(ii) acid test ratio. **[3]**

Current assets – inventories 1
Current liabilities
38 2
48
0.79 or 0.8 3

(b) Assess how JCL could manage its working capital more effectively. **[10]**

	Knowledge 2 marks	**Application 2 marks**	**Analysis 2 marks**	**Evaluation 4 marks**
Level 2	2 marks Two or more relevant suggestions for improving working capital management OR one way plus knowledge of working capital	2 marks Points made are applied to case	2 marks Good use of theory to explain impact of suggestions on working capital management	4–3 marks Good evaluation of at least two points/ suggestions
Level 1	1 mark One suggestion made about improving working capital management or knowledge of working capital	1 mark Some application to case	1 mark Some use of theory to explain working capital management	2–1 marks Some evaluation of one point/ suggestion

Answers could include:

- Working capital = CA – CL; slightly negative in this case: ($4m)
- High receivables days (104 or OFR) – this is being financed by high overdraft which is expensive – high interest costs
- Low inventories – but this is not a manufacturing/retailing business – limited scope to cut these?
- Acid test is adequate – but compared to other years/similar businesses? It is only adequate due to high receivables

Suggestions:

- Reduce receivables days (shorter credit terms for customers) BUT impact on sales – this market is becoming increasingly competitive and perhaps this is an effective marketing strategy
- Increase payables (longer credit terms from suppliers) – BUT perhaps discounts would be lost e.g. from fuel suppliers
- Reduce inventories – BUT bulk discounts might be lost
- Sales of fixed assets/increasing sales – not acceptable responses

Evaluation: Can either be of suggestions made or for recommending one way above others.

- May suggest that there is not a real problem and need trend analysis of ratio results to make a better judgement.

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3 Discuss how JCL could effectively solve the dispute with the trade unions in country X. [16]

	Knowledge 2 marks	**Application 2 marks**	**Analysis 6 marks**	**Evaluation 6 marks**
Level 2	2 marks At least two relevant suggestions made or one suggestion plus appropriate knowledge	2 marks Application of two or more points to case	6–4 marks Good use of theory to answer question	6–4 marks Good judgement shown
Level 1	1 mark One relevant suggestion made or appropriate knowledge shown of TUs	1 mark Some application to case	3–1 marks Some use of theory to answer question	3–1 marks Some judgement shown

Answers could include:

- Explanation of trade unions and/or industrial disputes and/or collective bargaining – allow only 1 mark for any/all of these.
- Pay 6% and solve the dispute that way – this increases costs but it maintains real incomes of workers and thus, perhaps, motivation levels. Could avoid damaging strikes at a time when competitive rivalry is increasing.
- Pay 6% but insist on productivity deal involving worker flexibility – increased productivity 'pays' for some of the increase BUT may lead to demarcation disputes.
- Risk union members going on strike (or other industrial action) – BUT could business survive in short term (working capital problems already)? Could services be maintained with non-union members and management?
- Negotiate single union no-strike deal – in return for flexibility that this would lead to, increased pay could be afforded. This would make negotiations easier in future too BUT could cause friction between members of different unions.
- Sack workers and replace – higher unemployment than country B might make it easy to replace workers BUT impact on reputation and reliability of service?
- Conciliation/arbitration? Binding or pendulum arbitration? JCL loses some control over the final outcome and could lead to higher costs – BUT at least it appears to be 'fair' to unions and their members.
- Coordinate objectives of management/unions/workers to result in more productive/profitable business from which all groups could benefit.

Evaluation:

- Assessment/judgement of the problems of each of the potential 'solutions'
- Overall judgement needed for L2 of how this dispute could be settled most effectively in this case.

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4 (a) Refer to the data in Appendix 2. Calculate the following missing values:

(i) x **[1]**

$0.5m

(ii) y **[1]**

–$3.625m

(iii) z **[2]**

$$\frac{7.5 + 7.875 + 8.25}{3}$$

$7.875m

(b) Refer to the data in Appendix 2 and Jo's extrapolated trend line on the graph in Appendix 3. Forecast JCL's actual sales level in:

(i) 2013 Quarter 4 **[3]**

Extrapolated figure = 35.5 1
35.5 + (ASV of –3.875) 2
$31.625m 3

IF:
ASV is added then allow 2 marks for 39.375

(ii) 2014 Quarter 1. **[3]**

Extrapolated figure = 36 1
36 + (ASV of –3.75) 2
$32.25m 3

IF:
ASV is added then allow 2 marks for 39.75

Allow **OFR** if incorrect trend value is identified from graph but correct ASV is used to arrive at actual forecast = 2 marks

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(c) Evaluate the extent to which Des should only rely on this moving average method of sales forecasting when making decisions about operating capacity and staffing levels. **[12]**

	Knowledge 2 marks	**Application 2 marks**	**Analysis 4 marks**	**Evaluation 4 marks**
Level 2	2 marks Some understanding of M.Ave method plus one relevant point OR good understanding of M.Ave method shown	2 marks Points made are applied to case	4–3 marks Good use of theory to explain advantages and/or limitations of sales forecasting for decision making	4–3 marks Good evaluation of sales forecasting based on moving averages/past results
Level 1	1 mark Some understanding of M.Ave method shown OR one relevant point	1 mark Some application to case	2–1 marks Some use of theory to explain advantages and/or limitations of sales forecasting for decision making	2–1 marks Some evaluation of usefulness of sales forecasting

Answers could include:

- Moving average method of sales forecasting – based just on past results, identifies underlying pattern (trend), seasonal and cyclical fluctuations.
- Useful – seems to be upward trend but not in last 2 quarters.
- Need to prepare operational capacity and staffing levels to meet increased demand – which JCL have failed to do in the past.
- Seems to be seasonal fluctuations, especially high in Q3 – need to have operational and staffing flexibility to adapt to these changes.

Evaluation:

- Only based on past results; new competitors will impact on future demand; only 3.5 years.
- No cyclical fluctuations yet identified – perhaps these are more important than seasonal fluctuations.
- How accurate is the extrapolated trend? Has Jo sufficiently taken into account the recent fall in sales?
- External factors could mean the trend, established from past data, is no longer accurate for forecasting purposes.
- Important to use it – but other forms of forecasting needed too – including market research – and Des' intuition might still be important. Do not fully rely on this method.

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5 Using the data in Appendix 4 and other relevant information, recommend whether JCL should open the new single central warehouse. Justify your answer. [16]

	Knowledge 2 marks	**Application 2 marks**	**Analysis 6 marks**	**Evaluation 6 marks**
Level 2	2 marks At least two relevant points made	2 marks Application of two or more points to case	6–4 marks Good use of theory to answer question	6–4 marks Good judgement shown
Level 1	1 mark One relevant point made	1 mark Some application to case	3–1 marks Some use of theory to answer question	3–1 marks Some judgement shown

Examiners' Note: 1 sided answer = Level 1 for An/Ev

Answers could include:

- Award application marks for using data e.g. calculating differences between existing sites and proposed single site.
- Lower site cost will allow capital to be raised by selling existing 5 sites – could help JCL in its current situation BUT how reliable is the estimate of value of existing sites? Could these 5 sites be sold easily/quickly?
- Fewer staff needed (30 less) – redundancies seem to be inevitable – could this be a factor that could influence the outcome of the current collective bargaining? Depends on objectives of JCL? Is JCL concerned about social responsibility aspect of job losses?
- Existing sites are closer to delivery destinations (on average) and this will save fuel costs – BUT new site is closer to motorways so delivery could be quicker/more reliable.

Evaluation:

- Much additional data needed before final decision can be confirmed e.g. cost of deliveries from each site; does site cost include building cost for new warehouse?
- Financial decision making techniques would be beneficial e.g. investment appraisal
- Distance figures are useful but no cost data is given e.g. what impact would the distance differences make if fuel costs increased?
- Overall judgement needed for L2 evaluation – if this is well supported plus some consideration of other data then go to top of L2.

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Section B

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 strategic factors that Des should consider when making the choice between strategy A and strategy B. [20]

- *Strategy A:* Stay in same industry but widen the range of transport methods owned by the business.
- Less risky than B as it is still the transport/logistics industry.
- BUT what does JCL know about operating aircraft? Will recruiting one director be sufficient?
- Will costs be much reduced? How profitable it his airline?
- Could other courier companies be encouraged to use JCL aircraft?
- Market capitalisation is NOT the same as the potential purchase price – especially if the takeover is opposed.
- JCL may need to consider further venture capital or even public limited status – are Des and other shareholders prepared for loss of ownership?
- *Strategy B:* Develop website and become a retailer – form of product development/ diversification or may be interpreted as vertical integration.
- Balances out the trend of online retailers to offer their own delivery services.
- How much does JCL know about retail market? What to stock? Prices to charge etc?
- Strategic choice techniques needed e.g. decision trees and investment appraisal.

Final Evaluation:
Most important strategic factors? Risk? Capital cost? Sources of finance? Expected values from decision trees? Other data and techniques essential before final decision is taken.

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7 Discuss the usefulness of PEST analysis and SWOT analysis to the directors of JCL as they plan future strategies. [20]

- These are techniques of strategic analysis.
- SWOT – analysis of the present internal/external strengths/weaknesses/opportunities/ threats.
- Answers may attempt a SWOT e.g. S = Des's experience; W = finance; O = other countries; T = competitive rivalry
- Helps to identify what the business needs to change (weaknesses) and what opportunities exist.
- Can be subjective; becomes outdated e.g. cost of finance caused by higher interest rates
- PEST – analysis of the macro environment as it affects a business: economic cycle impacts on this business; environmental factors e.g. air travel; technology e.g. satellite technology
- Helps to identify major external factors that will impact on this business.
- Subjective, becomes outdated
- Application: JCL has not engaged in either activity before; costs are considerable esp. strategy A; business could probably not afford a failure of either of these strategies.

Evaluation: These are not the only techniques of strategic analysis

- Porter's 5 forces and Boston Matrix could be just as relevant in this case.
- Costs involved – JCL does not have a very liquid position
- These are significant strategies for expansion of which JCL has no experience so perhaps strategic analysis is essential
- May be increasingly important for Des to use these techniques rather than his intuition as JCL expands and market becomes more complex and competitive.

Examiners' Note: Max 10 marks for only SWOT or PEST

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