CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the October/November 2013 series

9707 BUSINESS STUDIES

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

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1 Analyse the likely impact on PC's profitability of the economic changes referred to lines 10–17. [10]

	Knowledge 3 marks	Application 2 marks	Analysis 5 marks
Level 2	3 marks Two or more relevant points showing understanding of economic changes and/or impact	2 marks Points made are applied to case	5–3 marks Good use of theory to explain impact of economic changes
Level 1	2–1 marks One or two point relevant points made about economic changes and/or impact	1 mark Some application to case	2–1 marks Some use of theory to explain impact of economic changes

Answers could include:

- Declining real incomes of consumers in major markets – likely to hit sales of PC
- May be an income elastic product
- Increasing unemployment – further reductions in incomes and spending – but if PC operates at cheaper end of market this might not be very significant
- Slow economic growth – may have led to business closures so business assets might be falling in price – opportunities to buy these assets cheaply?
- Ageing population – assuming most soft drinks are bought by younger people this again appears to be negative for PC
- Low interest rates – reduces cost of existing loans – may make expansion cheaper for PC
- Depreciation of exchange rate – more expensive fruit and sugar – another squeeze on profit margins for firms such as PC

2 (a) Refer to lines 18–30 and Appendix 1. Calculate:

(i) change in the annual depreciation of the new production equipment [4]

Straight line depreciation – annual depreciation =

$$\frac{\text{Cost} - \text{Residential Value}}{\text{Expected Useful Life}}$$ 1 mark

Old annual depreciation = $\frac{25-3}{5}$ = \$4.4m 1 mark

New annual depreciation = $\frac{25-3}{8}$ = \$2.75m 1 mark

Difference in annual depreciation = \$1.65m 1 mark

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(ii) gearing ratio after the revaluation of PC's intangible assets by the Finance Director (assume he makes no other changes). [4]

$$\text{Gearing ratio} = \frac{\text{Long term liabilities (non-current liabilities)}}{\text{Capital employed (shareholders' equity} + \text{non-current liabilities)}}$$ 1 mark

Accept other versions

New intangible asset value = $120m 1 mark

$$\text{New gearing ratio} = \frac{156}{156 + 288 + 40}$$

New intangible value added to Shareholders' Equity 3 marks

32.2% 4 marks

(b) Assess the usefulness of ratio analysis of PC's published accounts to its stakeholders. [12]

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

Answers could include:

- Published accounts – accounting data that must be legally available to shareholders/ stakeholders
- Ratio analysis – comparing one figure with another e.g. profitability ratios; liquidity ratios; gearing ratio
- Useful: Allows PC's stakeholders (banks, employees, managers etc.) to measure and compare declining/rising sales/profits/gearing/liquidity etc. Perhaps PC's slow sales and profits growth since 2008 is not bad when compared to competitors. How does the new gearing ratio compare with other similar firms?
- Less useful: Window dressing may have distorted profits/asset values – or will do if the Finance Director makes all three changes. Economic problems since 2008 may have made PC's performance/liquidity etc. worse than before – but is this an accurate reflection of management if caused by external factors?

Evaluation:

- Of more value to some stakeholders than others? E.g.?
- Most groups need full accounts **and** ratio results, previous year (at least) and other companies. Then ratio analysis would give more information.
- Only of real value if trend and inter-firm comparisons are made and, even then, window dressing – as in this case – can distort assessments based on ratios

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3 Recommend to PC's Board of Directors which one of the two strategies should be adopted for entering new markets in Asia and Africa. [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 with supported recommendation
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

Answers could include:

- Globalised strategy: Same marketing strategy in all national markets
- Maintains PC image and brands worldwide
- Marketing economies of scale
- Increase value of PC brands, logo etc.
- Quicker and cheaper option – after costs of takeover have been absorbed
- Localised strategy:
- Different products, flavours, image, name, logo, promotions etc. to suit local conditions e.g. some names, or images might not be acceptable in all countries
- May be more appealing to consumers that have localised or national tastes/preferences.
- May be more expensive – developing new products and marketing campaigns
- Candidates may make own country or other specific observations

Evaluation:

- Are soft drinks a product that needs to be 'localised'?
- PC's experience in other countries? More information would have been useful.
- Are national differences increasing or reducing with globalisation?
- Clear final recommendation needed for L2

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4 (a) Refer to the data in Appendix 2. Calculate the impact on PC's profits of accepting the special order from the Superfood supermarket group. [6]

Answer	Explanation	Mark	Implied assumptions (need not be stated)
Increase profits (contribution) by $400 000	Selling price of $0.50 Direct costs per unit = $0.40: 0.1 material cost 0.15 labour cost 0.125 can design/product test 0.025 transport	6	Fixed factory costs are not direct costs PC has to pay for transport costs
Increase profits (contribution) by $500 000	Same as above but no transport costs included	5	Supermarket pays for transport
	An arithmetical error in one part of the calculation	5	
Loss of $600 000 (loss of $520 000)	As above but factory fixed costs are allocated at same rate as before (or at new rate of $0.23 per unit)	4	Assumes, incorrectly, that fixed costs are direct costs
	Some attempt to use accurate data to calculate change in profit (contribution)	3	
No overall figure given	Award 1 mark each for correct calculation of can design/product testing cost and transport cost per unit	2–1	

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(b) Using your result from 4(a) and other information, advise PC on whether to accept this special order. [12]

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

Answers could include:

- Yes: Makes a positive contribution (OFR) – adds to total profits at a time when PC Board is being criticised for slow sales/profits growth
- Increases capacity utilisation from 90% to 98%
- Opens new market opportunity – if the trial is successful it could lead to further orders
- No: Despite positive contribution (OFR) it leads to very high capacity utilisation which reduces flexibility for PC if its own sales increase.
- May take sales away from PC branded products
- May give bad publicity if it becomes known that PC 'make soft drinks for other firms'.
- Other major customers may demand lower prices

Evaluation:

- Overall supported conclusion needed for L2.
- Most important factor in this decision?
- Is very high capacity utilisation a good idea in this case?

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5 Evaluate the factors that the Human Resources manager should consider before completing the workforce plan for PC's operations in country X. [16]

	Knowledge 2 marks	Application 2 marks	Analysis 6 marks	Evaluation 6 marks
Level 2	2 marks Good knowledge of workforce planning/factors	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 in weighing up the factors
Level 1	1 mark Some knowledge of workforce planning/factors	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:

- Definition of workforce planning: Planning to have the right people/right skills in the right jobs in sufficient numbers to meet company objectives
- Factors:
- New HR objective – reducing costs by 15% – by reducing staff numbers or introducing more flexible working/contracts?
- Economic factors – slow down in major markets – need fewer staff?
- Market factors – market may be becoming more competitive – more information needed e.g. market research data
- Skills needed – multi-skilling might reduce costs but workers need to be encouraged to accept this – they seem reluctant at present
- Automation might require fewer workers – redundancies or 'natural wastage'

Evaluation:

- Most important factor in PC's workforce plan?
- Need to weigh up the impact of each of the options suggested by HR manager on the company's needs for workers – total numbers and skill levels.
- Workforce plan needs to be closely aligned to corporate/departmental objectives to ensure adequate numbers/skills of employees are available – but not 'over-staffed'.

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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 PC has the objective of increasing long term profits. Evaluate the strategic factors that the directors should consider when making the choice between option A and option B. [20]

Answers could include:
- Option A – market penetration – reference to Ansoff
- Less risky – decision tree analysis might show high expected monetary value due to this
- Needs market research – adds to costs
- General pros and cons of market segmentation
- Easy for other firms to copy
- Quick growth/profit improvement possible – but will it be enough to give long term sales and profits growth?
- Option B – diversification – reference to Ansoff
- Risky – but future rewards might be higher due to high profit margins – decision tree EMV might be high despite lower chance of success
- Lack of experience and market knowledge – but the joint venture might overcome this

Evaluation:
- Clear final decision needed supported by preceding analysis
- Most important factors?
- Which one is most likely to increase long term profitability – and why?
- What other data is essential before a final decision could be taken?

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7 Several strategic changes are likely to occur within PC. Evaluate how senior managers could implement these changes most effectively. [20]

Answers could include:

- Managing and leading change – giving a vision for the future and selling this effectively to workers
- Communicating the reasons for change
- Involving staff in change
- Project teams
- Project champions
- PC has some major strategic changes planned: HR labour cost cuts and the impact these could have on employees; increased automation; new markets, new products – also there may be others given slow rate of sales and profits growth

Evaluation:

- Existing Pop Cool structure is centralised – this might not be the most suitable structure for leading and managing change.
- Would decentralisation be more effective in order to implement and manage change?
- Are PC's senior directors prepared to change structure and encourage participation?
- Need to encourage staff/workers to participate and then these changes are more likely to be implemented successfully.

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