CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Level

MARK SCHEME for the October/November 2014 series

9707 BUSINESS STUDIES

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

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1 Analyse the likely impact on SC of an increase in direct taxes in country X. [10]

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks
Level 2	3 marks Good knowledge shown of direct taxes/impact of them	3 marks Points well applied	3–4 marks Good use of reasoned argument or theory to explain at least two impacts of higher direct taxes
Level 1	1–2 marks Knowledge shown of direct taxes/impact of them	1–2 marks Some attempt to apply points or one point well applied	1–2 marks Some use of reasoned argument or theory to explain impact of higher direct taxes

Answers could include:
Direct taxes: Taxes imposed on incomes and profits e.g. income tax and corporation tax reduce disposable incomes of individuals and corporations.

Application and analysis:
- Higher direct taxes will reduce disposable incomes of consumers and this may affect their ability to purchase houses. Demand for SC's residential sites could fall
- Businesses may be less willing to invest in new premises and this could reduce demand for business sites/industrial parks
- SC finances new sites partly from retained profits – these will now fall so the ability of SC to purchase new sites will be reduced. May have to depend more on loan finance
- Lower disposable incomes may lead to higher wage demands – especially within firms such as SC with high TU membership. This would raise SC costs and make it less competitive.
- Reduced disposable income could reduce demand for hotel services and make Option A less attractive.
- Impact may not be that great due to other factors.
- Might positively impact SC's decision to move abroad.
- Will not cause SC to raise price as impact is on retained profit not costs.

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2 (a) Using Appendix 1, calculate the net present value of the equipment purchase option. [3]

Year	Net cash flows	Disc factor	Discounted cash flow $m	Marks
0	($25m)			
1	$14m	.91	12.74	1 mark for some attempt to use discount factors 2 marks for arithmetic error and/or failure to subtract capital cost 3 marks for correct answer
2	$14m	.83	11.62	
3	$14m	.75	10.5	
4	$20m	.68	13.6	
		NPV	**23.46**	

(b) Investment in purchasing equipment will require SC to borrow $25m. Using the information in Appendix 2, calculate the new gearing ratio after borrowing this amount. [3]

LTLoans / capital employed × 100 = gearing % 1 mark
$69m / $113m 2 marks
61% 3 marks

$69/$88 (fails to add $25 to LTL) = 78% 2 marks

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(c) Using your results from (a) and (b) and any other relevant information, advise SC's Finance Director whether to lease the equipment or purchase it. [12]

	Knowledge 2 marks	Application 2 marks	Analysis 4 marks	Evaluation 4 marks
Level 2	2 marks Good knowledge shown of relevant issues	2 marks Good application to case	3–4 marks Good use of reasoned argument or theory to explain investment appraisal result and other relevant issues	3–4 marks Good judgement shown in answer and conclusion
Level 1	1 mark Some knowledge of relevant issues	1 mark Some application to case	1–2 marks Some use of reasoned argument or theory to either investment appraisal result or other relevant issues	1–2 marks Some judgement shown in answer and/or conclusion

Answers could include:

- Higher NPV for purchase
- Increase in gearing ratio could be significant
- Decision may depend on state of economy – are interest rates likely to increase? This could be a disadvantage for the purchase option especially as the payback is nearly 2 years.
- Could the construction industry take a downturn and might this reduce the expected cash inflows from both options?
- The decision could be between either of the two financing options – or not to renew equipment at all if the fear of a downturn is too great
- Evaluation: Accept either option or advise not obtaining new equipment – but must be well supported by reasoned argument.

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3 Evaluate ways in which SC could increase customer loyalty for SHM. [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks Good knowledge shown of CRM	2 marks Good application to case	3–5 marks Good use of reasoned argument or theory to explain how CRM methods might operate to increase loyalty or their limitations	3–5 marks Good judgement shown in answer and conclusion
Level 1	1 mark Some knowledge of CRM	1 mark Some application to case	1–2 marks Some use of reasoned argument or theory to explain how CRM methods might operate to increase loyalty or their limitations	1–2 marks Some judgement shown in answer and/or conclusion

Answers could include:

- Customer loyalty – retaining customers
- Customer Relationship Marketing – developing long term relationships with customers to increase customer loyalty. Should have the effect of reducing the need to promote heavily to attract new customers

Application and analysis:

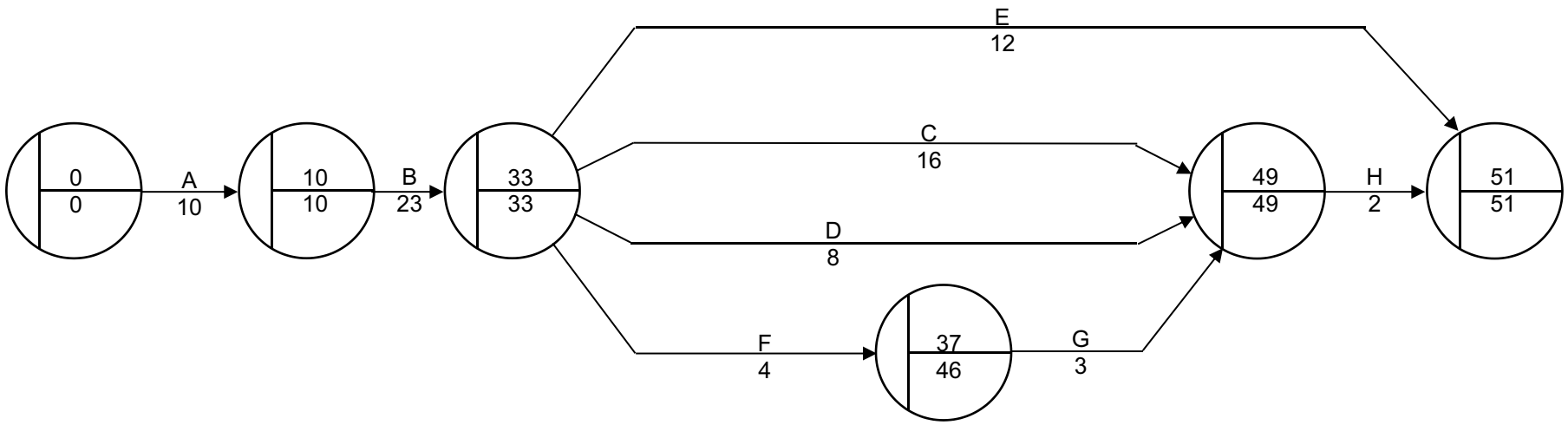
- Decrease price of renewal subscription – encourage more customers to renew.
- 'No call out' discount.
- SHM must offer reliable service – home emergencies require quick and effective all out. Are customers satisfied with emergency services offered? Some form of feedback from existing customers is essential.
- Is pricing method used appropriate? Better to focus on loyalty pricing schemes rather than just charging more for older houses.
- Is communication with existing customers good? Are they reminded of need to renew contracts? Are there regular newsletters and details about services offered? Are there discounts for no-claims etc.?
- Costs of attracting new customers could be diverted to offering more generous loyalty schemes or discounts.

Evaluation:

- How competitive is the market for home maintenance? SHM may not be market leader – other companies might offer better deals. Cost of loyalty schemes needs to weighed against the reduce cost of not having to attract so many new customers.

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4 (a) (i) Using the information in Appendix 3, draw a network (CPA) diagram for the new hotel development. [8]



Complete and accurate diagram (ESTs and LFTs not essential) = 8 marks
One error = 7 marks
Two errors = 6 marks
Three errors = 5 marks
Maximum of 4 marks if confusion between nodes and activities, e.g. letters in nodes
2-3 marks some logical pattern
1 mark – some attempt

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(ii) Identify the critical path activities. **[1]**

ABCH

(iii) State the length of the critical path. **[1]**

51 weeks

(b) Assess the usefulness of the critical path analysis technique to the success of option A. **[12]**

	Knowledge 2 marks	Application 2 marks	Analysis 4 marks	Evaluation 4 marks
Level 2	2 marks Good knowledge shown of CPA	2 marks Good application to case	3–4 marks Good use of reasoned argument or theory to explain how CPA can assist in success of a project	3–4 marks Good judgement shown in answer and conclusion
Level 1	1 mark Some knowledge of CPA shown	1 mark Some application to case	1–2 marks Some use of reasoned argument or theory to explain how CPA can assist in success of a project	1–2 marks Some judgement shown in answer and/or conclusion

Answers could include:

- CPA is a planning technique that helps to establish correct sequence of activities, planning of resources, determination of project duration.

Application and analysis:

- This is a long term important project for SC that will be aided by careful planning especially of those aspects of hotel management that SC has not undertaken before
- Will help to complete project within 1 year – just possible according to length of CP
- Identifies float activities so more time could be taken on the crucial activities of staff recruitment and training than envisaged.

Evaluation:

- Not very detailed – needs to give much more detail of all of the different activities involved to be of any real use e.g. for ordering of resources to arrive on time
- How accurate are the durations especially for the tasks that SC has not undertaken before e.g. testing hotel operating systems?
- Can help – but does not guarantee a successful completion of this project e.g. management needs to recruit experienced staff to operate the hotel as they lack this background themselves.

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5 Using data in Table 1 and any other relevant information, recommend to SC's Recruitment and Selection Committee which one of the two candidates for HR Director should be appointed. Justify your recommendation. [16]

	Knowledge 3 marks	**Application 3 marks**	**Analysis 5 marks**	**Evaluation 5 marks**
Level 2	3 marks Good knowledge shown of recruitment/selection issues	3 marks Good application to case	3–5 marks Good use of reasoned argument or theory to explain the advantages or disadvantages of the two candidates	3–5 marks Good judgement shown in answer and conclusion
Level 1	1–2 marks Some knowledge of recruitment/selection issues	1–2 marks Some application to case	1–2 marks Some use of reasoned argument or theory to explain the advantages or disadvantages of the two candidates (or good analysis of just one candidate)	1–2 marks Some judgement shown in answer and/or conclusion

Note: Limit to Level 1 Analysis and Evaluation if only considers one candidate

Answers could include:

- Selection is choosing between alternative candidates for a post. Can be helped by having a job description/person specification (neither of which are provided in the case – scope for some evaluation here)

Application and analysis:

- Which HR strategy is most appropriate for SC in future – hard or soft? Is this a key factor in the recruitment process?

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Questions	Candidate C's answers	Candidate D's answers
Education qualifications	University degree in Human Resource Management ***Which is more suitable?***	Two University degrees: Business Management and Accounting and Finance
Previous experience	15 years with current employer – major retailer. First post – HR supervisor Current post – senior HR manager ***Is this supermarket experience valid for SC?***	Varied experience in several posts. 3 years with current employer – small construction business. Current post – HR director ***Is small firm experience appropriate?***
What is your main strategic focus in Human Resources?	To develop workers and offer them challenging roles so they can all contribute fully to the success of the business. Suggests soft HRM ***Is this suitable if economic conditions get tougher?***	To manage workers cost effectively so that the financial targets of the business can be achieved. Suggests hard HRM ***Is this going to be too big a change from previous director?***
Current salary?	$35 000 per year ***Is the difference significant?***	$29 000
Overseas experience?	None	Yes – several years ago I worked in Country Y with a multinational mining company. ***Might help with Option A***

Evaluation: Not enough data? Interview very important too? Final selection needed – either is possible but arguments must be two sides and final judgement well supported.

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Q6 and Q7 both use this marking grid:

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks	Evaluation 10 marks
Level 3				6–10 marks Good judgement shown in text and conclusions
Level 2	3 marks Good understanding shown	3 marks Good application to case	3–4 marks Good use of theory to explain points made	3–5 marks Some judgement shown in text and/or conclusions
Level 1	1–2 marks Some understanding shown	1–2 marks Some application to case	1–2 marks Limited use made of theory	1–2 marks Limited judgement shown

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6 Discuss appropriate strategic choice techniques that SC's directors could use to help them decide between option A and option B. [20]

Note: Limit to Level 1 if consideration of options rather than techniques.

Answers could include:

- Strategic choice – using appropriate techniques to help make decisions between alternative long term plans of action
- Decision trees; force field analysis; Ansoff's matrix to asses risk involved. Also investment appraisal; break-even etc.

Application and analysis:

- Option B is market development – quite risky due to new market/country but also the uncertainties of dealing with joint venture partner. How reliable is the partner? How different is the new country in terms of development costs, planning rules etc. New partner may help to reduce the risk in these areas
- Option A is diversification – but within the existing country. Potentially very risky as SC has no experience of managing a service business. Returns could be high but risk is high too
- Decision trees could be very useful to assess risk involved and to compare this with expected payoffs – but how reliable would these estimates be? Could other hotel businesses be investigated to assess returns from option A/ could the joint venture partner help with assessing risk and payoffs for option B?
- Force field analysis – important for option B in particular as this will involve substantial changes to management style/roles. Will they be able to accept these changes? What are likely to be the main driving and restraining forces?

Evaluation:

- Important to use scientific methods of strategic choice as these are both likely to be costly and expensive strategies. No one technique better than the others – or is decision tree approach most suitable here? Lack of experience in either market could make estimating cash flows etc. very difficult. May need to use advice from external consultants?

7 Assess the importance of contingency planning to SC's future success. [20]

Answers could include:

- Contingency planning: Planning to meet potential disasters/events that could damage the business

Application and analysis:

- SC seemed poorly prepared on this occasion – perhaps the potential for disasters resulting from the SureBuild takeover had not been sufficiently identified and analysed
- Bad weather and other natural disasters and the impact these could have on building developments could be assessed and weighed up – training, PR and other resources could be allocated to dealing with these eventualities
- SC could investigate other sites developed by SureBuild – e.g. ex-factory locations, to establish potential risks and take remedial action. This might be less costly than the damaging consequences of disaster that befall the company because no contingency planning has been undertaken

Evaluation:

- Costly, many disasters could befall building sites – is it possible to identify and plan for them all? SC could have refused to accept responsibility in this case – so CP would not have been necessary. Cost of CP needs to be balanced against potential damaging consequences of not doing it.

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