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

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.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2013 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

1 **Analyse the likely impact on PC's profitability of the economic changes re... lines 10–17.**

	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

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

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

Accept other versions

New intangible asset value = \$120m 1 mark

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

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

3 Recommend to PC's Board of Directors which one of the two strategies should b for entering new markets in Asia and Africa.

	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

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

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	

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

	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?

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

	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'.

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?

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

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.