CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the May/June 2014 series

9707 BUSINESS STUDIES

9707/31 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.

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1. Analyse the likely benefits to RSC of operating ethically towards its stakeholders. [10]

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks
Level 2	3 marks Good knowledge shown of ethical trading and its benefits	3 marks Points well applied	4–3 marks Good use of reasoned argument or theory to explain benefits of ethical trading
Level 1	2–1 marks Knowledge shown of ethical trading and one benefit OR two benefits	2–1 marks Some attempt to apply points or one point well applied	2–1 marks Some use of reasoned argument or theory to explain benefits of ethical trading

Answers could include:

- Definition of ethical trading – e.g. based on moral code of conduct
- Indications in this case: profit sharing scheme; charitable donations

Potential benefits:
- High labour motivation/productivity – this may help to reduce costs of recruitment of workers who leave and reduce unit costs through high output per worker
- Government and local community support for e.g. expansion programmes which have allowed RSC to grow.
- Supplier support during growth of RSC – maybe because RSC is reliable and always pays on time
- Potential marketing benefits too, from ethical trading.

2 (a) Using the data in Table 1, calculate for 2014 the:

(i) Gross profit margin [3]
Gross profit = $26 m [1]
GPM% = GP / Revenue × 100 [1]
20% [3] Allow [2] for correct OFR calculation of ratio if gross profit is incorrect

(ii) Net profit margin. [3]
Net profit = $12 m [1]
NPM% = NP / Revenue × 100 [1]
9.23% [3] Allow [2] for correct OFR calculation of ratio if net profit is incorrect

[3] marks if NPM is correctly calculated but based on NP derived from incorrect GP

2 (b) **Recommend a marketing plan which could increase profit margins for RSC's Food Manufacturing Division. Justify your recommendation. [14]**

	Knowledge 2 marks	**Application 2 marks**	**Analysis 5 marks**	**Evaluation 5 marks**
Level 2	2 marks Good knowledge shown of marketing plan	2 marks Good application to case	5–3 marks Good use of reasoned argument or theory to explain marketing plan and impact on profit margins	5–3 marks Good judgement shown in answer and conclusion
Level 1	1 mark Some knowledge of marketing plan	1 mark Some application to case	2–1 marks Some use of reasoned argument or theory to explain marketing plan	2–1 marks Some judgement shown in answer and/or conclusion

Answers could include:

- Marketing plan – a detailed report on a firm's marketing strategy including audit, objectives, budget and marketing mix
- No clear aim in this case – marketing director assumed market share was the aim but is being criticised for low profitability – how might a clearer objective help the plan?
- Inadequate promotion budget? Depending on retailers to promote the products – how much should RSC spend and how should they spend it?
- Products – low brand image and limited range of products – perhaps this is the key to increasing the selling proposition of RSC and a more up-market range of products that allow for higher prices/less discounting might increase profit margins
- Prices – need to increase these to raise profit margins – or reduce the cost of sales, but how would this impact on quality?

Evaluation:

- Need for an integrated mix that allows RSC to justify higher prices/margins. Most important part of the plan to achieve this?
- Evaluation of suggested measures to increase profit margins e.g. higher price might increase margins but would total sales/profit levels fall if not supported by revised and integrated marketing plan?

3 Discuss the likely impact on employee efficiency of increased use of technology in the Sugar Production Division. [16]

	Knowledge 3 marks	Application 3 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	3 marks Good knowledge shown of technology and possible impacts	3 marks Good application to case	5–3 marks Good use of reasoned argument or theory to explain how technology might impact on employee efficiency	5–3 marks Good judgement shown in answer and conclusion
Level 1	2–1 marks Some knowledge of technology and possible impacts	2–1 marks Some application to case	2–1 marks Some use of reasoned argument or theory to explain how technology might impact on employee efficiency	2–1 marks Some judgement shown in answer and/or conclusion

Answers could include:

- Technology – application of new processes, often IT based, to increase efficiency
  In this case, new technology could:

  - Speed up production process
  - Allow for automatic control
  - Allow better control over inventories – JIT?
  - Improve balance between production and demand – ERP
  - Give workers more technology based careers.

BUT:
- Cost – would this be at the expense of the other strategies the business wants to adopt?
- Training is essential, otherwise efficiency will not increase
- Job losses almost inevitable – and workers are productive and appear to be loyal. This will damage the “ethical trading” image of RSC.

Evaluation:

- Impact likely to depend on how these substantial changes are introduced – with support of workers/unions or not?
- How will workers be treated – offered retraining and redeployment or threatened with job losses?
- If motivation levels fall the increase in efficiency may not be that great.

4 (a) Using data in Table 2, calculate for Strategy A:

(i) the payback period **[2]**

1 year 8 months **[2]**

Some attempt **[1]**

(ii) the net present value over the first 4 years (NPV) **[4]**

Year	Net cash flows	Disc factor	DCF	
0	(36)	1	(36)	
1	20	.91	18.2	
2	24	.83	19.92	
3	30	.75	22.5	
4	32	.68	21.76	
		NPV	46.38	[4]

[3] for 1 error
[2] for 2 errors
[1] an attempt made to use of discount factors

(b) Using your results to 4 (a) and any other information, assess whether RSC should go ahead with the food retailing strategy. **[14]**

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks Good knowledge shown of investment appraisal results or other information	2 marks Good application to case	5–3 marks Good use of reasoned argument or theory to explain how results **and** other information might influence this decision	5–3 marks Good judgement shown in answer and conclusion
Level 1	1 mark Some knowledge of results or other information	1 mark Some application to case	2–1 marks Some use of reasoned argument or theory to explain how results or other information might influence this decision	2–1 marks Some judgement shown in answer and/or conclusion

Answers could include:

- Investment appraisal results look promising – quick payback reduces risks of the venture and the interest cost on borrowed capital – especially if economic slowdown continues
- NPV shows the present value of future cash flows at 10% discount – this seems as if it will be a profitable project
- This strategy will further vertically integrate RSC and there are benefits of this – it will supply its own retail shops, for example, and it will have more control over the marketing of its own food products – it may reverse the decline in profitability
- BUT: RSC only seems to make a limited range of products – will this be sufficient to stock the shops?
- RSC has no experience of retailing – how reliable are the cash flow estimates – Carlo might have unwittingly biased these; no management know-how about retailing organisation
- Customers may still not value RSC name/branded good highly – perhaps more focus needs to be given to changing the products' image rather than opening retail shops
- Further growth might lead to diseconomies.

Evaluation:

- Supported recommendation needs to be given and evidence needs to be weighed up and compared.
- Qualitative factors might be considered to be more important if cash flow data is thought to be too unreliable.
- Judgement shown on relative importance of factors to be considered.

5 Recommend a revised organisational structure for the Research and Development department. Justify your recommendation. [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks Good knowledge shown of organisational structures	2 marks Good application to case	5–3 marks Good use of reasoned argument or theory to explain how revised structure might be an improvement	5–3 marks Good judgement shown in answer and conclusion
Level 1	1 mark Some knowledge of organisational structures	1 mark Some application to case	2–1 marks Some use of reasoned argument or theory to explain how revised structure might be an improvement or to explain existing problems	2–1 marks Some judgement shown in answer and/or conclusion

Answers could include:

- Organisational structure – the framework, often hierarchical, within which an organisation organises its lines of authority and communication.

Current problems:
- Rigid hierarchical structure – is this suitable for a research department where teamwork and laissez-faire might be better options?
- Long chain of command in one section – too many middle managers?
- One team very large – wide span of control for senior researcher 1.

Alternatives:
- Delayering – benefits include: shorter chain and quicker decision making
- Switch researchers from one team to another to equalise spans of control
- Use matrix model to create teams – perhaps with input from other departments/divisions which might improve the chances of successful new products.

Evaluation:

- May depend on the style of leadership used in the department
- How will the reorganisation be handled?
- Impact on middle managers – can they be re-deployed?
- Justification given for proposed revised structure in terms of the R and D departments current rather poor record of new products.

Section B

Answer ONE question from this section. Questions 6 and 7 use this mark grid:

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks	Evaluation 10 marks
Level 3				10–7 marks Good judgement shown in answer and conclusion
Level 2	3 marks Good knowledge of issues shown	3 marks Issues well applied to case	4–3 marks Good use of reasoned argument or theory to explain answer	6–4 marks Good judgement shown in answer or conclusion
Level 1	2–1 marks Some knowledge of issues shown	2–1 marks Some attempt to apply issue	2–1 marks Some use of reasoned argument or theory to explain answer	3–1 marks Some judgement shown in answer and/or conclusion

6. Assess the usefulness to RSC directors of the data in Table 3 and the other information provided when making the strategic decision whether to take over CSP. [20]

Answers could include:

Yes, it is enough:

- Cost of taking over CSP (Carlo's valuation) is less than the total asset value once factory is repaired
- New technology already exists – this was RSC's plan anyway
- Gives more market power in sugar processing
- ARR quite high compared to global interest rates
- Good chance of factory being up to high capacity in 6 months
- Details of gearing suggest this is high – and will have the impact of raising RSC gearing
- Poorly motivate staff will not fit in with RSC
- Is the culture of the business too different from RSC?
- So, yes, there is enough information to reach a decision (but a decision does not have to be made for full marks).

No, it is insufficient:

- How much will RSC have to pay? Carlo's valuation might not be enough
- Combined market share – will this break government's competition policy?
- How does the profitability of CSP processing factory – when operating at capacity – compare with RSC's?
- Payback and NPV of this investment would have been useful e.g. to compare with the retail shop strategy
- What would the takeover raise RSC's gearing to?
- Will finance have to be borrowed?
- A complete decision tree of this decision would have allow a fuller assessment of risks and potential expected values.

Evaluation:

- Balance of these points
- Most important factors in this case
- Justification for the overall decision.

7 **Evaluate how Carlo could change the corporate culture of CSP if RSC takes over the company. [20]**

Answers could include:

- Corporate culture – the values, believes and attitudes of managers/employees – the "way things are done around here"
- Obviously there are different cultures:
- RSC: ethical trading – give examples
- CSP: lack of training – do not value employees highly
- Low motivation of employees – supports point above
- Possibly corrupt managers
- Low quality – customers are not a priority
- Emphasis on efficiency by using latest technology – hard HRM? – but labour productivity still low

Changing culture:
- New code of conduct for CSP managers / workers
- Full training of employs and training of all workers / managers about the new code
- RSC managers must set good example
- Replace existing CSP managers and/or workers – but will this conflict with ethical code of RSC?

Evaluation:

- Is it necessary to change culture – cold CSP be run as a separate division under its own name?
- Essential to change approach of management as this will impact on workers' behaviour and motivation too
- May have to change/replace/redeploy senior management within CSP.