

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

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Page 2	Mark Scheme	Syllabus	Paper
	GCE A LEVEL – October/November 2013	9707	32

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]

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

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

130

104 days

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

Allow 2 marks for 28.46% ($\times 100$ not 365)

Page 3	Mark Scheme	Syllabus	Paper
	GCE A LEVEL – October/November 2013	9707	32

(ii) acid test ratio. [3]

Current assets – inventories	1
Current liabilities	
<u>38</u>	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.

Page 4	Mark Scheme	Syllabus	Paper
	GCE A LEVEL – October/November 2013	9707	32

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.

Page 5	Mark Scheme	Syllabus	Paper
	GCE A LEVEL – October/November 2013	9707	32

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

Page 6	Mark Scheme	Syllabus	Paper
	GCE A LEVEL – October/November 2013	9707	32

- (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.

Page 7	Mark Scheme	Syllabus	Paper
	GCE A LEVEL – October/November 2013	9707	32

- 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.

Page 8	Mark Scheme	Syllabus	Paper
	GCE A LEVEL – October/November 2013	9707	32

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 is 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.

Page 9	Mark Scheme	Syllabus	Paper
	GCE A LEVEL – October/November 2013	9707	32

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