**UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS**

GCE Advanced Subsidiary and Advanced Level

# MARK SCHEME for the November 2005 question paper

## 9707 BUSINESS STUDIES

**9707/03**              Paper 3 (Case Study), maximum raw mark 60

These mark schemes are published as an aid to teachers and students, to indicate the requirements of the examination. They show the basis on which Examiners were initially instructed to award marks. They do not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the *Report on the Examination*.

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## Section A

Answer **all** questions in this section.

1   Discuss the advantages and disadvantages for Mercardo of adopting a decentralised management structure.                                              [12]

| | Knowledge | Application | Analysis | Evaluation |
|---|---|---|---|---|
| Level 2 | Two or more relevant points made.<br><br>[2 marks] | Points made are well applied to case.<br><br>[2 marks] | Good use of theory to explain advantages and disadvantages.<br><br>[3-4 marks] | Judgement shown in considering both advantages and disadvantages.<br><br>[3-4 marks] |
| Level 1 | One relevant point made.<br><br>[1 mark] | Some application to case.<br><br>[1 mark] | Good use of theory to explain one side or limited use of theory to explain one or both sides.<br>[1-2 marks] | Judgement shown but only on one side.<br><br>[1-2 marks] |

Content:

Advantages:
▪   Local knowledge - especially when selling in overseas markets.
▪   Quicker decision making - will become more important as firm expands.
▪   More motivating - more trust.

Disadvantages:
▪   Needs extensive staff training.
▪   Risk of less control and less consistency.

2  (a)   Use appendix A to calculate:

(i)   ARR                                                                                    [4]

ARR % = Annual profit/initial capital cost x 100
Option A = 0.833/5 x 100 = 16.66%
Option B = 13.3/60 x 100 = 22.22%

1 mark for formula (implied or explicit)
1 mark each for correct answer

(ii)   NPV @ 10%                                                                        [4]

| Year | Option A | DCF | Option B | DCF |
|---|---|---|---|---|
| 0 | (5) | (5) | (60) | (60) |
| 1 | 2.5 | 2.275 | 40 | 36.4 |
| 2 | 2.5 | 2.075 | 30 | 24.9 |
| 3 | 2.5 | 1.875 | 30 | 22.5 |
| NPV | | 1.225 | | 23.8 |

Up to 2 marks for correct approach and 1 mark for each correct answer.

(b) **How useful might these results be to Mercardo's directors?**

Allow own figure rule.

| | Knowledge | Application | Analysis | Evaluation |
|---|---|---|---|---|
| Level 1 | Shows some understanding of results.<br>[1 mark] | Some application to case.<br>[1 mark] | Some use of theory to explain answer.<br>[1 mark] | Judgement used to assess significance of results.<br>[1mark] |

Content: ARR results both positive and confirm profitability of both projects. NPV obviously higher for B than A as would be expected – ARR probably more significant due to different costs – IRR would be best of all. How reliable are the forecasts – B likely to be much less reliable as will be for a new factory in another country. Not the only factors to be considered when making this decision.

(c) **Assume Mercardo decides to build a new factory. Evaluate the advantages and disadvantages to the company of locating it in your country.** **[12]**

| | Knowledge | Application | Analysis | Evaluation |
|---|---|---|---|---|
| Level 2 | Two or more relevant points made.<br><br><br>[2 marks] | Points made are well applied to case and country.<br><br>[2 marks] | Good use of theory to explain advantages and disadvantages.<br>[3-4 marks] | Judgement shown in considering both advantages and disadvantages.<br>[3-4 marks] |
| Level 1 | One relevant point made.<br><br><br><br><br><br>[1 mark] | Some application to case/country.<br><br><br><br><br>[1 mark] | Good use of theory to explain one side or limited use of theory to explain one or both sides.<br>[1-2 marks] | Judgement shown but on one side only.<br><br><br><br><br>[1-2 marks] |

Content: Labour availability, Land availability, Infrastructure, Government support, Geography, Other similar industries/suppliers.

3 (a) **Calculate financial efficiency rations for Mercado PLC using the data in Appendix B.** **[6]**

Formulae: Stock turnover = $\dfrac{\text{Sales turnover}}{\text{Stock}}$     NB Cost of sales not provided

Debtors days = $\dfrac{\text{Debtors} \times 365}{\text{Sales turnover}}$

1 mark for each formula – can be implied.

Results:

| | 2004 | 2005 |
|---|---|---|
| Stock turnover | 1.67 | 1.39 |
| Debtor days | 29.2 | 33.6 |

1 mark for each correct result.

**(b)** **Evaluate any <u>two</u> ways in which the business might improve its financial effic...**

| | Knowledge | Application | Analysis | Evaluation |
|---|---|---|---|---|
| Level 2 | Two ways identified.<br><br>[2 marks] | Both points applied to case.<br><br>[2 marks] | Good use of theory to explain how such a move would help.<br>[2 marks] | Good judgement shown.<br><br>[2 marks] |
| Level 1 | One way identified.<br>[1 mark] | Some application to case.<br>[1 mark] | Some use of theory.<br>[1 mark] | Some judgement shown.<br>[1 mark] |

Content: Stock levels should be of major concern. Reduce these to improve efficiency, cash flow etc. Use JIT. Problems could be less chance of gaining discounts from suppliers or less able to satisfy consumer demand changes. Debtors less of a problem but debtor days is rising. Reduce credit period to customers – but will they go to a competitor instead?

**4 (a)** **Analyse how value analysis could assist in the development of the new cell phone.   [6]**

| | Knowledge | Application | Analysis |
|---|---|---|---|
| Level 2 | Good understanding of value analysis shown.<br>[2 marks] | Good application to case.<br><br><br>[2 marks] | Good use of theory.<br><br><br>[2 marks] |
| Level 1 | Some understanding shown.<br>[1 mark] | Some application to case.<br>[1 mark] | Some use of theory.<br>[1 mark] |

Content:

Definition: An analysis of the main features of a product (looks, function and cost of manufacture) to see if the same performance and style could be achieved at lower cost. Seems to be essential here as the telephone may become very expensive if all of these features are added. Some groups of consumers will be very cost conscious in some countries. Appearance of phones is very important to certain consumer groups. Compromise will be necessary between these features.

**4 (b)** **Evaluate the marketing factors that could influence the sales success of the new phone.** **[12]**

| | Knowledge | Application | Analysis | Evaluation |
|---|---|---|---|---|
| Level 2 | Good knowledge shown.<br><br>[2 marks] | Good application to case.<br><br>[2 marks] | Good use of theory to explain answer.<br>[3-4 marks] | Good judgement shown.<br><br>[3-4 marks] |
| Level 1 | Some knowledge shown.<br><br>[1 mark] | Some application to case.<br><br>[1 mark] | Some use of theory to explain answer.<br>[1-2 marks] | Some judgment shown.<br><br>[1-2 marks] |

Content: Segmentation will allow product to reach more consumers and should... higher sales and profits. Price will be important if it is a competitive and price... market. Promotion of features will be important – is budget available for this? Action... competitors will be important. Has this product got a real USP? Can it be copied?

**5** **Discuss the external constraints that might limit the future success of this business.** **[12]**

| | Knowledge | Application | Analysis | Evaluation |
|---|---|---|---|---|
| Level 2 | At least two external constraints identified. [2 marks] | Application of two or more points to case. [2 marks] | Good use of theory to answer question. [3-4 marks] | Good judgement shown. [3-4 marks] |
| Level 1 | One external constraint identified. [1 mark] | Some application to case. [1 mark] | Some use of theory to answer question. [1-2 marks] | Some judgement shown. **[1-2 marks]** |

Content: Economic factors – incomes, interest rates, exchange rates, taxes etc. Environmental factors – e.g. concerns over location of new factory. Legal – changes in law regarding health and safety, product requirements etc. Any other relevant answer. Points made then need to be applied with an explanation of how they might affect the future success of this business. Judgement could be shown in identifying the most important external factors or in explaining why any one factor might not have a great influence.

**6** **Discuss whether Mercardo should continue to manufacture products from the factory that pollutes the local environment.** **[20]**

Content:

YES: Profitable, no excess capacity at other factories, sales will be lost – opens up opportunities for competitors, jobs lost, social consequences of this, exports lost to national economy.

NO: Not socially responsible, may be health hazards to staff and local community, pressure group may take direct action, may be illegal – heavy fines?, bad publicity for Mercardo – could hit reputation and sales.

MAY DEPEND ON: The size and influence of the pressure group, whether new factory is built and can take over production, whether legal limits are being exceeded, impact of bad PR on sales/profits.

**7** **Advise the management of Mercado on the most appropriate ways to motivate production line workers.**

Content: New pay system – give details and analyse why 'better' than existing system which seems to be leading to poor quality work. Change traditional flow production methods – cell production etc. TQM and Job enrichment – could prove to be motivating and more productive for the business. Quality circles etc. BUT are management prepared to change their style of leadership and give more responsibility? How will other staff react to new pay system for production workers? Are workers trained and willing to accept new responsibilities?

**For questions 6 and 7**

| | Knowledge | Application | Analysis | Evaluation |
| --- | --- | --- | --- | --- |
| Level 3 | | | Good use of theory to explain points made.<br>[5-6 marks] | Good judgement shown in text and conclusions.<br>[5 -8 marks] |
| Level 2 | Good understanding shown.<br><br>[3 mark] | Good application to case.<br><br>[3 mark] | Some use of theory to explain points made.<br><br>[3-4 marks] | Some judgement shown in text and/or conclusions.<br>[3-4 marks] |
| Level 1 | Some understanding shown.<br>[1-2 marks] | Some application to case.<br>[1-2 marks] | Limited use made of theory.<br>[1-2 marks] | Limited judgement shown.<br>[1-2 marks] |

| | K | Ap | An | Ev | Total |
|---|---|----|----|----|-------|
| 1 | 2 | 2 | 4 | 4 | 12 |
| 2 (i),(ii) | 2 | 2 | 4 | | 8 |
| 2 (b) | 1 | 1 | 1 | 1 | 4 |
| 2 (c) | 2 | 2 | 4 | 4 | 12 |
| 3 (a) | 2 | 2 | 2 | | 6 |
| 3 (b) | 2 | 2 | 2 | 2 | 8 |
| 4 (a) | 2 | 2 | 2 | | 6 |
| 4 (b) | 2 | 2 | 4 | 4 | 12 |
| 5 | 2 | 2 | 4 | 4 | 12 |
| 6/7 | 3 | 3 | 6 | 8 | 20 |
| | 20 | 20 | 33 | 27 | 100 |