

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

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MARK SCHEME for the May/June 2006 question paper

9707 BUSINESS STUDIES

9707/03

Paper 3

Maximum mark 100

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which Examiners were initially instructed to award marks. It does 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*.

The minimum marks in these components needed for various grades were previously published with these mark schemes, but are now instead included in the Report on the Examination for this session.

- CIE will not enter into discussion or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the May/June 2006 question papers for most IGCSE and GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

Section A

- 1 (a) **Assess the usefulness of market research methods, other than those referred to in the case, that Rave could use before deciding whether to launch 'Fruit Choc Delight'.**

	Knowledge	Application	Analysis	Evaluation
Level Two	2 marks Awareness shown of two possible ways or very good understanding of one way	2 marks Good application shown	3 marks Good analysis of question set using relevant theory	3 marks Good judgement shown in text or conclusion
Level One	1 mark One point made about conducting market research	1 mark Some application of methods shown	2-1 marks Limited attempt to analyse answer	2-1 marks Limited attempt to show judgement

Answers could include:

Primary research: More extensive testing with larger samples, more representative samples of consumers, taste tests and comparisons, test market in limited area. Could be expensive and time consuming. Might be essential for a completely new product.

Secondary research: Appropriate sources (if they are available) could provide quickly obtainable data on market size and trends and sales of competitors similar products. Might not be available if this product is creating a completely new market segment.

- (b) **Using Appendix B and other information, evaluate the usefulness of product portfolio analysis techniques, such as the Boston Matrix, to Rave.** [12]

	Knowledge	Application	Analysis	Evaluation
Level Two	3-2 marks Good understanding shown of product portfolio analysis	3-2 marks Good application of PPA e.g. good use of Appendix B	3 marks Good use of theory to explain answer	3 marks Good judgement shown in text or conclusions
Level One	1 mark One point made about PPA	1 mark Limited attempt to apply knowledge	2-1 marks Limited attempt to analyse answer	2-1 marks Limited attempt to show judgement

Answers could include:

Use of Boston Matrix diagram and/or terminology (accept relevant use of PLC too e.g. if they argue for a balanced product portfolio with products at different stages of PLC).

Fruit chews could be 'dog'; Mints could be 'Cash cow'; Fruit bars could be 'Star' and Candy bars could be 'Problem child'.

Could use cash from successful products to invest in replacements for failing products or to invest in new promotions for them etc.

Managers could decide to 'hold'; 'divest' or 'build' on these different products.

May be useful in helping managers take appropriate decisions. May not be useful if data is not up to date (e.g. on market share) or if it is interpreted incorrectly or if competitors respond more quickly than Rave do.

2 Would you recommend the introduction of lean production methods at Rave? Justify your answer. [14]

	Knowledge	Application	Analysis	Evaluation
Level Two	3-2 marks Good awareness of lean production	3-2 marks Good application of knowledge to case	4-3 marks Good use of theory to explain answer.	4-3 marks Good judgement shown in text or conclusion
Level One	1 mark Limited understanding Shown e.g. weak definition or one point	1 mark Limited application	2-1 marks Limited use of theory to explain answer	2-1 marks Some judgement shown

Answers could include:

Lean production – an approach to production that aims to reduce waste of materials, time and other resources e.g. JIT, simultaneous engineering, flexible manufacturing, etc.

Application to this business could be JIT, more flexible and automated equipment, smaller batch runs, more flexible employees, quicker NPD.

Could reduce stock holding costs; batch size (improving product freshness?); time lost through changing machines over for different product ranges, get new products to market more quickly.

BUT: capital cost of new equipment, are staff prepared to change methods, loss of job production, loss of 'hand finished' quality; seasonal products – how suitable for JIT?

3 Using Appendix A and appropriate accounting ratios, analyse the likely reasons for declining profitability at Rave over the period shown. [14]

	Knowledge	Application	Analysis
Level Two	4-3 marks Good awareness of relevant ratios and factors likely to influence profitability	4-3 marks Application of ratios and factors influencing profitability to case	6-4 marks Good analysis of ratio results and/or other factors using relevant theory
Level One	2-1 marks Some awareness of relevant ratios and/or factors likely to influence profitability	2-1 marks Some application of ratios and/or factors to case	3-1 marks Some use of theory to analyse results or factors affecting profits

Answers could include:

Gross profit has declined from \$24m to \$22m (1 mark for recognising this) and net profit \$10 to \$5m

Gross profit margin % = $GP/Sales \times 100$ (1 mark if no correct calculation)

Net profit margin % = $NP/Sales \times 100$ (1 mark if no correct calculation)

GP margin = 36.9% 2004; 33.8% 2005 (1 mark each)

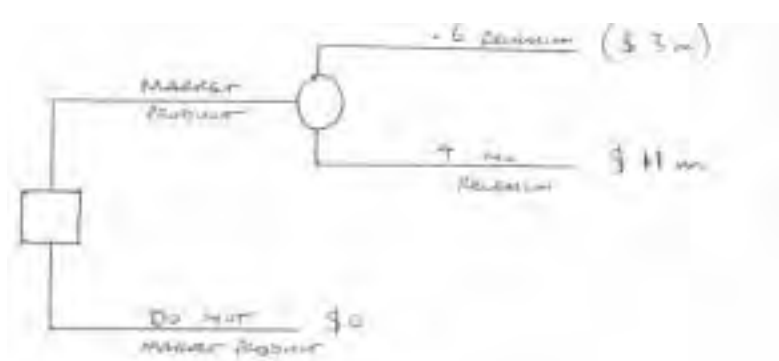
NP margin = 15.4% 2004; 7.7% 2005 (1 mark each)

Allow up to 2 marks for use of additional ratios e.g. expressing any of the expenses as a percentage of sales revenue – this could aid subsequent analysis.

Analysis: Costs of sales has risen perhaps due to higher material costs – this has reduced GP margin. Failure to raise sales revenue important too. Have sales risen but prices fallen, thus keeping revenue constant? Expenses have increased despite no increase in sales. Promotion has trebled – but failed to raise sales revenue? Poor selection of promotional methods – or take time to have an impact on sales revenue.

Management expenses have increased – how is this justified at time of static sales revenue?

- 4 (a) Refer to Appendix C. Draw a decision tree to represent the decision of whether or not to market the 'Fruit Choc Delight' product. [4]



- 4 marks = correct tree and data shown
- 3 marks = one error
- 2 marks = two errors
- 1 mark = some awareness shown

- (b) Calculate the expected monetary value of the decision to market the 'Fruit Choc Delight' product. [4]

- EMV = Loss from recession = $(\$3m) \times 0.6$ + profit from no recession = $\$11m \times 0.4$ = \$2.6m
- 3 marks = 1 error
- 2 marks = some awareness of need to multiply probability by net cash flow
- 1 mark = some knowledge shown

(c) Briefly assess the usefulness of the decision tree technique to Rave's directors.

	Knowledge	Application	Analysis	Evaluation
Level One	1 mark Point made about usefulness	1 mark Applied to case	2-1 mark Uses theory to explain answer	2-1 mark Judgement shown about usefulness

Answers could include:

Allows a financial value to be placed on options, forces managers to consider all options, in this case there is a clear distinction between recession and non recession conditions which is made clearer by the DT, considers EMV which is the average result if the decision were taken on a number of occasions. BUT: how accurate is the data and has it been biased in any way? For new projects it may not be that useful due to problems of estimating data; only an average – this decision will only be taken once.

5 Discuss how the directors might encourage staff involvement and cooperation in helping to solve the problems faced by Rave. [16]

	Knowledge	Application	Analysis	Evaluation
Level Two	3-2 marks Good awareness shown of methods that might be used by management	3-2 marks Well applied to case	4-3 marks Good use of theory to analyse the suggestions made	6-4 marks Good judgement shown in text and conclusions
Level One	1 mark One relevant point made	1 mark Attempts to apply to case	2-1 marks Some use of theory to answer question	3-1 marks Some judgement shown in text and/or conclusions

Answers could include:

Many of these changes are very substantial and, to be successful, will require a cooperative and flexible workforce.

Fear of redundancy will remove security and this issue might need to be dealt with first.

Staff will need to be retrained to accept lean production philosophy.

JIT will require high quality standards – scope for quality circles and TQM to involve staff in achieving these.

Style of leadership/management will be important – perhaps the approach of the Marketing Director and Ops Director will not be appropriate. Need for openness not secrecy?

Pay might be relevant if it is tied in with a flexibility/training requirement.

Section B:

Use this grid for both questions 6 and 7.

	Knowledge	Application	Analysis	Evaluation
Level Three				8-5 marks Good judgement shown in text and conclusions
Level Two	4-3 marks Good awareness shown of the relevant subject content	4-3 marks Issues raised well applied to case	4-3 marks Good use of theory to explain answer	4-3 marks Good judgement shown in either text or conclusions
Level One	2-1 marks Some awareness shown of relevant subject content	2-1 marks Some application of issues to case	2-1 marks Some use of theory to explain answer	2-1 marks Limited attempt to show judgement

6 Discuss how a consumer product business such as Rave could try to ensure survival when faced with increased competition. [20]

Answers could include:

Competition can drive down sales and profits and threaten survival of existing businesses.

Candidates can answer this in a variety of ways but rewards should be given for a 'strategic' view rather than one based on just 'tactical' decisions e.g. 'lower prices'.

Develop distinctive products/image (USP). This might involve R and D and this is expensive and not always successful.

Adapt marketing mix to respond to competition – this would be best based on detailed market research. Adapted mix needs to be integrated and coordinated with other departments.

Increase productivity with latest technology – but can this be afforded?

Merger/takeover of other businesses (any type of integration could be argued for). But this could be expensive and might not achieve the benefits expected from it (lack of synergy).

Accept other valid strategies.

7 To what extent would you advise businesses such as Rave to consider the interests of all stakeholder groups when taking major decisions? [20]

Answers could include:

Explanation of the term 'stakeholder interests'. Examples taken from the text or other examples. Potential conflict exists.

Three issues are raised in the case – promotion of sweets to children (consumers and society at large); low cost labour and labour saving equipment (involving domestic redundancies) and need to increase profits for shareholders.

YES, they should take decisions based on wide consideration of stakeholder interests.

Gives a USP which can be an important promotional tool; reduces adverse activity; reduces pressure groups; prevents legal action possibly being taken against the firm; helps to build long term relationship with customers; suppliers; workers. Staff more motivated to work for such a business.

NO, they should not:

Businesses operate to make profits for owners and they should have no other responsibilities. Considering all stakeholders can raise costs, slow down decision making and can make the firm uneconomic; stopping advertising to children could hit sales and profits – all workers jobs could be at risk then; such actions might not be illegal so what is wrong? Lower costs could lead to lower prices and consumers are more influenced by these than 'ethical' business practices.

Judgement could go either way but there must be a detailed consideration of both sides together with an attempted conclusion for L3 evaluation.

	K	Ap	An	E	Total
1 (a)	2	2	3	3	10
(b)	3	3	3	3	12
2	3	3	4	4	14
3	4	4	6		14
4 (a)	1	1	2		4
(b)	1	1	2		4
(c)	1	1	2	2	6
5	3	3	4	6	16
6/7	4	4	4	8	20
Total	22	22	30	26	100