

**MARK SCHEME for the October/November 2009 question paper
for the guidance of teachers**

9707 BUSINESS STUDIES

9707/31

Paper 31 (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.

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1 (a) Briefly explain two benefits to Ibrahim of the business being a limited company.

| | Knowledge 2 marks | Application 2 marks | Analysis 2 marks |
|---------|--------------------------------|---------------------------------|--|
| Level 2 | 2 marks Two benefits stated | 2 marks Both applied to case | 2 marks Both explained using theory/reasoning |
| Level 1 | 1 mark One benefit stated | 1 mark One applied to case | 1 mark One explained using theory/reasoning |

Answers could include:

- Content: 2 advantages e.g. limited liability, able to sell shares for further capital, continuity, separate legal identity.
- Application and Analysis: Explained and developed in the context of Ibrahim e.g. this expansion plan was a risky venture so limited liability was very important; he may not have had enough capital himself; he may wish the business to have the status of a limited company when dealing with supermarket buyers.
- He may need additional capital in the future so ability to sell additional shares may be a benefit.

(b) Using Table 1 and other information in the case, recommend which candidate Ibrahim should appoint as Operations Manager. Justify your recommendation. [12]

| | Knowledge 2 marks | Application 2 marks | Analysis 4 marks | Evaluation 4 marks |
|---------|--|---------------------------------------|---|--------------------------------------|
| Level 2 | 2 marks Good use of data/ understanding of issues | 2 marks Well applied to case | 4–3 marks Good use of theory/reasoning to explain answer | 4–3 marks Good judgement shown |
| Level 1 | 1 mark Some use of data/ limited understanding of issues | 1 mark Some application to case | 2–1 marks Some use of theory/reasoning to explain answer | 2–1 marks Some judgement shown |

L1 A/E if answer only considers ONE candidate.

Answers could include:

- Content: Any of the data referred to/used showing knowledge.
- E.g. internal or external – how important is internal knowledge of the business in this case? Would the problems be solved more effectively by someone with fresh ideas i.e. external candidate?
- How important is formal education for this job – or is experience more important?
- Is age important – or should the company avoid any claims that it has discriminated on this basis?
- Evaluation: Which is the most important factor when making this decision – and why?
- Candidate's final judgement based on analysis applied to this business.

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2 Evaluate whether adopting Total Quality Management would be likely to solve the problems of Saucy Choices.

| | Knowledge 3 marks | Application 3 marks | Analysis 5 marks | Evaluation 5 marks |
|---------|---------------------------------------|---------------------------------------|---|-----------------------------------|
| Level 2 | 3 marks Good understanding shown | 3 marks Well applied to case | 5–3 marks Good use of theory/reasoning to explain answer | 5–3 marks Good judgement shown |
| Level 1 | 2–1 marks Some understanding shown | 2–1 marks Some application to case | 2–1 marks Some use of theory/reasoning to explain answer | 2–1 marks Some judgement shown |

Answers could include:

- Content: TQM definition – establishing a culture of quality within the organisation and this usually includes each worker having responsibility for quality.
- Focus on the quality problems referred to in the case and the causes of them – low pay, quality control system, inspections not internal customers, pay reduced if poor quality, no participation in solving problems.
- TQM based on quality circles, getting things right first time, internal customers.
- Use of theory/reasoning to explain the benefits of TQM – or its limitations.
- Evaluation: Judgement made concerning the best way to improve quality. Are staff motivated enough to adopt TQM? Will the introduction of TQM increase motivation?
- Will new Ops Manager be keen on this? Has Ibrahim enough confidence in staff?
- Would reduce costs from not having quality inspector – but staff training needed for TQM to be effective.

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3 (a) Draw up a revised Profit and Loss Account for The Sauce Company making the changes forecast by Ibrahim on lines 83–86. Assume no other changes.

| | | Marks |
|-----------|-----|-------|
| SR | 480 | 1 |
| COGS | 110 | 1 |
| GP | 370 | |
| Overheads | 160 | 1 |
| Interest | 15 | 1 |
| NP | 195 | |
| Tax | 39 | 1 OFR |
| Dividends | 50 | |
| RP | 106 | 1 OFR |

(b) Evaluate the usefulness to Ibrahim of using break-even analysis to decide whether to go ahead with the 'Export Project'. [8]

| | Knowledge 2 marks | Application 2 marks | Analysis 2 marks | Evaluation 2 marks |
|---------|---|------------------------------------|---|---------------------------------|
| Level 2 | 2 marks Good understanding of BE/uses/ limitations shown | 2 marks Well applied to case | 2 marks Good use of theory/reasoning to explain answer | 2 marks Good judgement shown |
| Level 1 | 1 mark Limited understanding of BE/uses/ limitations shown | 1 mark Some application to case | 1 mark Some use of theory/reasoning to explain answer | 1 mark Some judgement shown |

Answers could include:

- Content: Definition plus 1 use or 2 uses. Establishes the level of output needed for revenue to equal total costs. Helps in deciding between options, with pricing decisions and some investment decisions e.g. location and capital equipment that will reduce variable costs.
- In this case: needs to break-even quickly to pay back loan/other sources of finance etc.
- Explanation of at least one benefit or limitation needed for analysis marks.
- Evaluation: Based on forecasted data, will COGS rise at same rate as sales?
- BE only accurate at one point in time – many factors could change to alter the break-even point e.g. the economic conditions in the country being exported to.

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4 (a) Calculate the company's gearing ratio and one liquidity ratio from the Appendix B.

GR formula ($LTL/CEmp \times 100$) = 1 mark; accept other appropriate formulae
 Attempt to use correct ratio but arithmetical error = 2 marks;
 53% = 3 marks

CR formula (CA/CL) = 1 mark;
 Attempt to use correct ratio but arithmetical error = 2 marks;
 0.9 = 3 marks

OR

AT formula (LA/CL) = 1 mark;
 Attempt to use correct ratio but arithmetical error = 2 marks;
 0.4 = 3 marks

(b) Using your results from (a) and other information how would you advise Ibrahim to raise the \$0.25m required for the new market development? [10]

| | Knowledge 2 marks | Application 2 marks | Analysis 3 marks | Evaluation 3 marks |
|---------|-------------------------------------|------------------------------------|---|-----------------------------------|
| Level 2 | 2 marks Good understanding shown | 2 marks Well applied to case | 3–2 marks Good use of theory/reasoning to explain answer | 3–2 marks Good judgement shown |
| Level 1 | 1 mark Some understanding shown | 1 mark Some application to case | 1 mark Some use of theory/reasoning to explain answer | 1 mark Some judgement shown |

Answers could include:

- Understanding of ratio results (OFR) and linking these to raising capital decisions.
- High gearing ratio – may calculate the new ratio assuming all capital raised from loans (64% far too high for most banks).
- Working capital sources very limited given existing liquidity results. However, is the trend up or down? More evidence needed.
- May need share capital – danger of loss of control?
- Evaluation and final recommendation: Judgement based on results or other analysis of data. Suggested sources of finance should be realistic in context e.g. public flotation of shares not realistic.

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5 Recommend an appropriate marketing strategy that Ibrahim might use to a successful launch of Hi Spice sauce in your country. Justify your recommendation.

| | Knowledge 3 marks | Application 3 marks | Analysis 5 marks | Evaluation 5 marks |
|---------|--|--|---|-----------------------------------|
| Level 2 | 3 marks Good understanding of marketing shown | 3 marks Well applied to case and/or candidate's own country | 5–3 marks Good use of theory/reasoning to explain answer | 5–3 marks Good judgement shown |
| Level 1 | 2–1 marks Some understanding shown | 2–1 marks Some application to case and/or candidate's own country | 2–1 marks Some use of theory/reasoning to explain answer | 2–1 marks Some judgement shown |

Examiners' Note: L1 Analyse and Evaluation if ONLY marketing mix based answer unless integrated into an overall strategy.

- Content: Definition and/or knowledge of main features of marketing strategy: Definition: Plan containing marketing objective, budget and coordinated mix plus time frame.
- Applied to this product in candidates own country – allow for references to cultural/taste differences etc.
- Objective – should be clear and quantifiable and relevant to country conditions.
- Budget – must be appropriate and affordable to this business.
- Mix – needs to be coordinated and linked to marketing objective.
- Explanation using theory/reasoning of the advantages or limitations of the suggestions made.
- Evaluation: Judgement of points made based on analysis. Most important factor? Need for an integrated mix focused on the company's sales objectives. Chances of this strategy succeeding?

6 and 7 use the following marking 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 understanding shown | 3 marks Well applied to case | 4–3 marks Good use of theory/reasoning to explain answer | 6–4 marks Good judgement shown in answer or conclusion |
| Level 1 | 2–1 marks Some understanding shown | 2–1 marks Some application to case | 2–1 marks Some use of theory/reasoning to explain answer | 3–1 marks Some judgement shown |

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6 Discuss the relative importance of the factors that you think were significant in making The Sauce Company a successful business.

Answers could include:

- Content: Ibrahim's skills and determination.
- Apparent lack of close competitors and the USP of the recipe – allowed higher prices and demand relatively inelastic.
- His ability to establish customer loyalty and the introduction of other flavours – product differentiation/development allowed for higher prices and entering new segments of the market.
- Flow production to keep down costs and maintain consistent quality etc. – important when selling to supermarkets.
- Why were these important in this case? These case references needed for application marks.
- Analysis of how any one point contributed to success will gain analysis marks.
- Evaluation: Which were the most significant factors and why? Was there any one factor that was more significant than others? Was it Ibrahim's entrepreneurial skill that was the dominant factor?

7 To what extent should Ibrahim consider the objectives of stakeholders other than shareholders? Justify your answer. [20]

- Content: Definition/examples of stakeholders and/or their objectives – groups with a direct interest in the businesses performance.
- Application: Workers – some unrest.
- Customers – quality issues and high prices for Saucy Choices.
- Local residents – opposition to expansion.
- Explanation of the (long term) benefits of meeting stakeholder objectives – or the costs and limitations of trying to do so.
- However, high profits will also be needed if Ibrahim has ambitious expansion plans. Could meeting stakeholder responsibilities reduce short term profits?
- Evaluation: Short term – taking decisions to meet stakeholder objectives may reduce profits and competitiveness but long term, satisfying stakeholders aims may lead to better social responsibility image, improved staff motivation and higher sales and this could lead to satisfying shareholders with higher profits.
- Not impossible for competitors to launch similar products so important to keep stakeholders happy and avoid bad publicity.