

MARK SCHEME for the October/November 2007 question paper

9707 BUSINESS STUDIES

9707/03

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.

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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1 Discuss the strengths and weaknesses of Chas and Ling’s original business start-up

	Knowledge	Application	Analysis	Evaluation
Level two	2 marks Two relevant points made	2 marks Well applied to case	5–3 marks Good use of theory to explain strengths and weaknesses	5–3 marks Good judgement shown in assessing both.
Level one	1 mark One relevant point made	1 mark Some application to case	2–1 marks Some use of theory to explain strengths or weaknesses	2–1 marks Some judgement shown on one side

Examiners’ note: Max of 8 marks for one sided answer – L1 max for Analysis and Evaluation

- Strengths: Hard workers. Good location – very important. Some own capital – limited loans required. Partnership agreement.
- Weaknesses: No market research – vital omission? High loans still needed. No management experience. Hurried decision on location – further costs incurred. Unlimited liability.
- Balance of argument – strengths seemed to outweigh weaknesses – or were they just lucky?

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2 (a) Analyse TWO possible problems that might result from the approach to staff used within the Asian Experience kitchen.

	Knowledge	Application	Analysis
Level two	2 marks Two problems identified	2 marks Both applied to case	2 marks Good, relevant use of theory to explain points
Level one	1 mark One problem identified	1 mark One applied to case	1 mark Some use of relevant theory to explain points

- Labour turnover might increase – Chas and Ling left when they could.
- Accidents might occur due to pressure on staff and poor conditions – legal costs.
- Poor motivation might lead to low quality – impact on reputation.
- Absenteeism – may lead to poor customer service in busy restaurant.
- Union membership may become more attractive to workers and disputes might result.

(b) Evaluate the appropriateness of Ling’s approach to managing staff within the Curry Cuisine restaurant. [14]

	Knowledge	Application	Analysis	Evaluation
Level two	2 marks Good understanding of leadership style shown	2 marks Well applied to case	5–3 marks Good use of theory to explain the consequences of leadership style	5–3 marks Good judgement shown on the impact of Ling’s style
Level one	1 mark Some understanding of leadership style	1 mark Some application to case	2–1 marks Some use of theory	2–1 marks Some judgement shown

- Examples of approach used – “soft” HRM/Theory Y management/laissez-faire approach.
- Approach needs to be put into context – what management style could work best in a busy kitchen/restaurant?
- Ling not authoritarian – more democratic.
- Encourages staff involvement and motivation – could lead to better customer service, lower staff turnover etc.
- May take more time and cost more to select and train staff.
- Profit sharing – the business needs internal funds for expansion. Is this a good idea – could it actually lead to higher profits through increased motivation?
- Some may not be able to cope with this degree of freedom.
- But is authoritarian sometimes necessary anyway – especially in a busy kitchen/restaurant?
- Business needs to be competitive and cut costs – is this approach best way to do this?

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3 (a) Draw up a forecasted Profit and Loss Account for 2008, using the data in Appendix 1 and the management consultant's estimates. (lines 68–74)

	\$000	Marks
Sales revenue	180	1 (No OFR)
Cost of goods sold	126	2 (1 for stated formula if result incorrect; OFR)
Gross profit	54	1 (OFR from incorrect sales revenue figure)
Overheads	21	1 (No OFR)
Interest	14	2 (1 for \$6000 when not added to existing \$8000)
Net profit	19	1 (OFR)

(b) Briefly assess TWO ways in which the gross profit margin could be raised for the take-away products (calculations not needed). [8]

	Knowledge	Application	Analysis	Evaluation
Level two	2 marks Two ways identified	2 marks Both applied	2 marks Both briefly explained	2 marks Both evaluated
Level one	1 mark One way identified or understanding of GPM	1 mark One applied	1 mark One explained	1 mark One evaluated

- Gross profit is profit after subtracting cost of goods sold. GPM ratio possible.
- Cut costs of supplies e.g. cheaper ingredients – but impact on quality and reputation?
- Cut labour costs – use fully automatic machinery – but can business afford this?
- Raise prices – but this could be a competitive market and PED could be high.

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4 To what extent do you agree with Ling that the business would have problems raising the capital needed for the “ready made meals” project either from internal sources or a bank loan? The use of relevant accounting ratios (based on the data in Appendix B) to support your argument will be rewarded.

	Knowledge	Application	Analysis	Evaluation
Level two	2 marks Two relevant ratios or one ratio and one other relevant point or two relevant points	2 marks Two correct ratios or points made applied to case (or 1 of each)	5–3 marks Good use of theory to explain ratio results – or some analysis of results plus some analysis of other points	5–3 marks Good judgement shown regarding sources of finance
Level one	1 mark One ratio or one relevant point	1 mark One correct ratio or one point applied	2–1 marks Limited analysis present	2–1 marks Some judgement shown

Examiners’ note: Award max of 8 marks with no relevant ratios – L1 max for An/Ev.

- Acid test = 0.65.
- Gearing = 42% (or 71% if LTL/Sh. Funds used).
- Accept current ratio instead of acid test (0.88 or 0.9).
- New gearing ratio assuming all additional capital is borrowed = 61% (award this as analysis) (157% if LTL/Sh. Funds used).
- Recognition of internal sources of finance.
- Further analysis and evaluation: Gearing not too high at present but will become so – but would this matter if the new project is profitable which could allow the loan to be repaid quickly? No credit for RoCE unless used to justify/explain how this could impact on sources of finance.
- Internal liquidity not good – unlikely to be able to raise funds internally from working capital – unless stock levels can be cut without reducing reliability of service.
- Other sources? Owners’ capital? Convert to Limited Company?

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5 Evaluate the advantages and disadvantages to Curry Cuisine of using batch production methods for the “ready made meal” project.

	Knowledge	Application	Analysis	Evaluation
Level two	3 marks Knowledge of relevant points well demonstrated	3 marks Good application to the case	5–3 marks Good use of theory to analyse the advantages and disadvantages of this method	5–3 marks Good judgement shown on the suitability of this method to this business
Level one	2–1 marks Definition or some relevant points made.	2–1 marks Limited application to case	2–1 marks Limited analysis of methods	2–1 marks Limited judgement

- Definition/explanation required of batch production – application marks awarded for putting these in context plus, may also explain how it differs from job production.
- Analysis/evaluation: Job suited to small restaurant with USP of freshly produced dishes – but labour intensive and expensive. Not suitable as the business expands output.
- Change might not be well accepted by staff. Need for training.
- Batch: able to cut costs and waiting times by preparing popular items in batches – but may reduce freshness/quality and increases stock levels. May be essential for the new project with the expected increase in sales. Job might not be practical with an increased level of output – too expensive too?
- Could the batch produced food be used in the restaurant too? Would this be a good idea to cut costs as the market is becoming more competitive? Impact on USP?

6/7 Both use same mark grid.

	Knowledge	Application	Analysis	Evaluation
Level three				10–7 marks Good judgement shown in arguments and conclusion
Level two	3 marks Good knowledge of relevant points	3 marks Well applied to case	4–3 marks Good use of analysis to explain the points made	6–4 marks Good judgement shown in arguments or conclusion
Level one	2–1 marks Some knowledge of relevant points	2–1 marks Some application to case	2–1 marks Some use of analysis	3–1 marks Some judgement shown

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- 6 Discuss the extent to which the successful expansion of a business, such as *Chas and Ling's* Cuisine, is helped or constrained by the external factors of TECHNOLOGICAL CHANGE and the LEGAL ENVIRONMENT.**
- Refer to technological and legal issues in the case. Equipment, website, labour laws, health and safety, planning laws – candidates may suggest others.
 - Hinders growth: Technology – expense and training costs – may have negative impact on labour relations and USP of this business.
 - Laws – raise costs and time taken to equip kitchen and build extension.
 - Helps growth: Technology – opens up new market opportunities and can reduce unit costs of production in a competitive market.
 - Laws – give confidence to consumers which can add to the reputation of the business; avoid health disasters and accidents in kitchen; motivates staff; avoids problems with local community (planning).
 - Max L1 for Knowledge and Application if only Laws OR Technology considered.
- 7 Assume that Chas and Ling decide to go ahead with the “ready made meal” proposal. Evaluate the arguments for and against developing a marketing plan for this project. [20]**
- Definition of marketing plan plus details of what it is likely to contain.
 - Yes: Requires market research – essential in this case? Budgets must be planned. Clear objectives set.
 - Gives sense of direction. Progress can be monitored. Could be shown to bank. May help to give staff clear sense of purpose.
 - No: Expensive – can this firm afford it. Time consuming – they need to get going quickly.
 - Conditions may change quickly – will plan be too inflexible?
 - Haven't used one before and they were originally successful (but would a marketing plan have helped them identify the likely increase in competition for the restaurant?).
 - Max L1 for Analysis if on-sided answer.