

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

**9707 BUSINESS STUDIES**

**9707/32**

Paper 32 (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) Analyse *two* possible reasons for the communication problems in the factory.

	Knowledge 2	Application 2	Analysis 4
Level 2	2 marks Good knowledge shown e.g. definition plus 1 reason or 2 reasons	2 marks Good application to case	4–3 marks Good use of theory or logical reasoning to support answer
Level 1	1 mark Some understanding	1 mark Some application	2–1 marks Some use of theory or reasoning in answer

Answers could include:

- Definition: Passing of information from sender to receiver

Problems/reasons:

- Use of written notice – one way and formal
- Poor use of telephone
- Lack of meetings
- Any other relevant barrier e.g.
  - Attitude of supervisor
  - Poor organisation
  - No clear procedures
  - Lack of staffing
  - Untrained staff

Explain how these were creating barriers to effective communication.

(b) Evaluate *two* ways in which communication might be improved in the factory. [10]

	Knowledge 2	Application 2	Analysis 2	Evaluation 4
Level 2	2 marks Two relevant suggestions	2 marks Good application to case	2 marks Good use of theory or logical reasoning to support answer	4–3 marks Good judgement shown on suitability of different communication methods
Level 1	1 mark Some understanding e.g. 1 relevant suggestion	1 mark Some application	1 mark Some use of theory or reasoning in answer	2–1 marks Some judgement shown

Examiner note: Limit to Level 1 if just 1 way suggested.

Answers could include:

- Hold meetings with staff – 2-way communication will allow problems over production and group membership to be resolved. But time consuming and not suitable for all messages.
- Use IT – both internally and externally – quicker, more accurate than hand written messages, allows for quick feedback – but capital costs and training costs? Danger of information overload.
- Accept any other relevant suggestion e.g. delayering/assessment of methods.

2 Using the data in Appendix B, calculate the impact on the company's annual profit of closing the Cityville hairdressing shop.

Before	Newtown		Cityville		Urbis	
Revenue	78 000		38 400	2 marks	152 000	
TVC	25 000		12 000		28 000	
Contribution	53 000		26 400	7 marks	12 4000	
Shop FC	10 000		9 000		16 000	
Other overhead	22 000	27.5%	28 000	35%	30 000	37.5%
Profit	21 000		-10 600	4 marks	78 000	
Total Profit	88 400	6 marks				
After						
Method 1 No cityville shop FC	Total		Method 2 Still cityville shop FC			
Revenue	230 000		230 000			
TVC	53 000		53 000			
Shop FC	26 000		35 000			
Overhead	80 000		80 000			
Profit	71 000	8 marks	62 000			
Lost profit	17 400	8 marks	26 400			

Note: this table is provided to assist examiners – it is not expected that candidates' answers will be laid out in this form.

Common answers:

- Profit will rise by \$10 600 4 marks
- Current profit at one shop 4 marks
- Calculation of profit at all three shops
- But not aggregated 5 marks
- Current level of profit \$88 400 6 marks
- Profit = TR – TC 1 mark
- Total contribution = TR – TVC 1 mark
- Contribution of Cityville is \$17 400 / 26 400 7 marks
- Profit will fall \$17 400 / 26 400 8 marks
- New total profit \$71 000 / 62 000 8 marks

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3 Recommend what CBC should do with the Cityville hairdressing shop. Fully supported recommendation.

	Knowledge 2	Application 2	Analysis 4	Evaluation 6
Level 2	2 marks Two relevant points made	2 marks Good application to case	4–3 marks Good use of theory or logical reasoning to support answer	6–4 marks Good judgement shown in answer and conclusion
Level 1	1 mark Some understanding e.g. 1 relevant point	1 mark Some application	2–1 marks Some use of theory or reasoning in answer	3–1 marks Some judgement shown e.g. supported conclusion

Examiner note: L1 Application & Evaluation if no discussion of contribution/profit.

Answers could include:

Close it:

- Small contribution (or loss) – accept OFR
- Least successful of the three – could be due to poor area, bad local manager, incorrect pricing decision etc.

Leave it open:

- Positive contribution
- 'Unfair' allocation of overheads – gives misleading picture
- Area incomes may be about to rise as unemployment falls
- Could increase prices if quality is improved
- 3 loyal workers will be made redundant

Leave it open but take some action:

- Replace manager
- Investigate and act on causes of high labour turnover and low quality (and low prices)
- Evaluation is likely to be shown in identifying the most important factors, weighing them up and giving a supported conclusion on appropriate management action.

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4 (a) Calculate for Option 2 the:

(i) Average Rate of Return (ARR)

ARR = 37.5% = 4 marks  
 (62.5% 3 marks as capital cost not subtracted in calculating annual profit)  
 ARR = Annual profit/capital cost × 100 1 mark  
 Total profit = \$9m 1 mark  
 OR  
 Annual profit = \$2.25m 2 marks

(ii) Net Present Value (NPV) using the 10% discount factors in Table 1. [4]

NPV = \$5.53m = 4 marks  
 Some understanding shown 1 mark  
 Two or more DCFs calculated correctly 2 marks  
 NPV = \$11.53m = 3 marks (failed to subtract capital cost)

Discounted cashflows:	
Year	DCF
0	(6m)
1	1.82
2	2.49
3	4.50
4	2.72

(b) Which of these two options would you advise June to choose? Fully support your answer by referring to your results from 4(a) and other information. [16]

	Knowledge 3	Application 3	Analysis 4	Evaluation 6
Level 2	3–2 marks Two relevant points made e.g. about investment appraisal results or qualitative factors	3–2 marks Good application to case	4–3 marks Good use of theory or logical reasoning to support answer	6–4 marks Good judgement shown in answer and conclusion
Level 1	1 mark Some understanding e.g. 1 relevant point	1 mark Some application	2–1 marks Some use of theory or reasoning in answer	3–1 marks Some judgement shown e.g. supported conclusion

Option 1: Market development  
 Option 2: Diversification

Answers could include:

- Both have high ARR and NPV based on initial investments – diversification strategy appears more profitable but at what risk? How accurate are these cash flow forecasts? There does not seem to have been much market research into these options.
- Market development: known product – maybe less risk?
- Products universally purchased – but of different types in different countries, perhaps?
- Essential to do in-country research before committing to this project.
- Could probably be underway before the diversification project.
- Diversification: looks attractive but details very sketchy – will clothes be bought in or manufactured in-house?
- Market segment aimed at? Just women? Will it be the same age/class segment as hairdressers?
- Looks too risky and June is not well prepared for this option.
- Allow either option to be supported but must be with a reasoned argument in defence of it.
- Payback Option 2 is 2 years 2 months.
- Appreciation of exchange rate.
- Foreign competition in beauty market.

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5 Assume Option 1, the market development option, is chosen. Discuss the features of a marketing plan for a successful launch in your country of the ethical products.

	Knowledge	Application	Analysis	Evaluation
Level 2	3–2 marks Two relevant points made e.g. definition plus 1 factor or 2 factors showing understanding	3–2 marks Good application to case and/or own country	4–3 marks Good use of theory or logical reasoning to support answer	6–4 marks Good judgement shown in answer and conclusion
Level 1	1 mark Some understanding e.g. 1 relevant factor or a weak definition	1 mark Some application to either case or country	2–1 marks Some use of theory or reasoning in answer	3–1 marks Some judgement shown e.g. supported conclusion

Examiner note: If marketing plan is defined as just relating to marketing mix and suggested mix demonstrates no concept of integration then limit Application & Evaluation to L1.

Answers could include:

- Definition of marketing plan: detailed report on a company's marketing strategy including aim, budget and integrated mix.
  - Aim: market share or high image and high profit margin? Important as this will determine whether market skimming or penetration is used.
  - Budget: likely to have to be substantial in a brand new market.
  - Mix: needs to be linked to own country information.
  - Need for integrated mix to ensure a consistent image is projected to consumers.
- Evaluation: most important factors within student's own country?

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6 Discuss whether the future success of the company will depend more on management skills or on external factors outside of the company's control.

	Knowledge 4	Application 4	Analysis 4	Evaluation 8
Level 3				8–5 marks Very good evaluation in answer and conclusion
Level 2	4–3 marks Two relevant points made e.g. definition plus 1 factor or 2 factors showing understanding	4–3 marks Good application to case	4–3 marks Good use of theory or logical reasoning to support answer	4–3 marks Good judgement shown in answer and/or conclusion
Level 1	2–1 marks Some understanding e.g. 1 relevant factor or a weak definition	2–1 marks Some application to case	2–1 marks Some use of theory or reasoning in answer	2–1 marks Some judgement shown e.g. supported conclusion

- Success – continued growth, social responsibility, some profits.
- June: been very successful so far – but is she taking on more than she can manage?
- Three separate divisions – but is there a lack of central control/coordination?
- Always looking for new strategies – likely to be able to cope with change well.
- But will new shareholder insist on higher profits and take power away from June?
- She takes good decisions – but is she a good leader?
- External threats: competition – building up, may be difficult to establish and keep a USP, may be larger than June's company but she does have 3 divisions of the business.
- Economy – may take downturn – could hit demand for income elastic services/products but unemployment still falling in some areas, how income elastic is demand for June's products/services?
- New shareholder – may wrest control from her if more shares are issued – we do not know who else owns shares in company – but she may be able to retain control and may not need to sell more shares.
- Technology – not a major factor in these industries?
- Social/ethical issues – company seems to satisfy these anyway.
- Overall judgement?

7 To what extent should it be a priority for this business to meet the needs of stakeholders other than shareholders?

	Knowledge 4	Application 4	Analysis 4	Evaluation 8
Level 3				8–5 marks Very good evaluation in answer and conclusion
Level 2	4–3 marks Two relevant points made e.g. definition plus 1 factor or 2 factors showing understanding	4–3 marks Good application to case	4–3 marks Good use of theory or logical reasoning to support answer	4–3 marks Good judgement shown in answer and/or conclusion
Level 1	2–1 marks Some understanding e.g. 1 relevant factor or a weak definition	2–1 marks Some application to case	2–1 marks Some use of theory or reasoning in answer	2–1 marks Some judgement shown e.g. supported conclusion

- Definition of stakeholders plus examples.
- Benefits of meeting stakeholder interests.
- Customers get products and services they need at reasonable prices – loyalty.
- Staff get paid salaries and there is some desire to maintain job security – loyalty.
- Suppliers – pay good prices – good quality products in return.
- Government not likely to take legal action.
- Pressure groups not likely to take action.
- So, in the long term it should earn higher profits because these are considered a priority.
- But: higher short term costs.
- Higher prices may be needed – how loyal will consumers be if economy takes downturn?
- Are profits high enough to finance further expansion?
- Will shareholders be willing to put in more capital if returns are quite low?
- Will new shareholder demand a new profit making objectives?
- Overall judgement needed to earn above L1 evaluation marks.