Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

BUSINESS **9609/33**

Paper 3 Case Study **May/June 2017**

MARK SCHEME

Maximum Mark: 100

Published

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.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1</td><td>
Analyse the benefits to PV of outsourcing the manufacture of components for its shoes.
<table>
<tr><th>Level</th><th>Knowledge
3 marks</th><th>Application
2 marks</th><th>Analysis
5 marks</th></tr>
<tr><td>2</td><td>3 marks:
Two or more relevant points made about outsourcing and/or benefits</td><td>2 marks:
Points made are applied to PV</td><td>4–5 marks:
Good use of theory to explain benefits of outsourcing</td></tr>
<tr><td>1</td><td>1–2 marks:
One or two relevant points made about outsourcing and/or benefits</td><td>1 mark:
Some application to PV</td><td>1–3 marks:
Some use of theory to explain benefits of outsourcing</td></tr>
<tr><td>0</td><td colspan="3">No creditable content</td></tr>
</table>
Note to examiners: Disadvantages should not be rewarded
Benefits should relate to PV as a company, not e.g. to employees or other stakeholders

Answers could include:

• Outsourcing is transferring functions or tasks to another organisation
• PV could increase flexibility of operation and concentrate on the manufacture of shoes, achieving higher quality.
• Lower operating costs might be achieved by drawing on specialists, enabling PV to shed higher cost elements of production and gain the economies of scale that specialists might have.
• Lower inventory levels could be held.
• Higher quality may result as specialists supply.
• Savings from less capital needed.
• Expertise from other businesses with more experience becomes available for PV to draw on.

Application

• Ref to shoes / components only, without linking to other production point – 1 app mark as in stem of question
• PV might outsource supplies of eyelets, laces, dyeing leather, packaging
• Readily accessible network of component suppliers / efficient supply chain for shoe materials and components
• Implications for shoe production, including mention of specifics, such as laces, leather
• Reference to how outsourcing might help Pedro’s high inventory problems and also 95% capacity utilisation
• Might further outsourcing help with shoe defect problems?
• Expertise from other businesses with more experience of the shoe market becomes available for PV to draw on.
</td><td>10</td></tr>
</table>

Question	Answer	Marks
2(a)(i)	**Refer to the table in Appendix 1. Calculate:** **seasonal variation in 2015 Quarter 1.** $30m – 21.375 = $+8.625m $m not required	**1**
2(a)(ii)	**average seasonal variation in Quarter 4.** $m(–1.375 – 1.125 –1.875) / 3 = $–1.458 ($–1.46m 2 decimal places or – 1.5) $m not required	**1**
2(b)	**Refer to the table <u>and</u> graph in Appendix 1. Calculate PV's forecast sales for Quarter 3 in 2017.** Predicted trend from inspection of graph: $23.8m (1 mark) (error margin 23.75 – 23.85) Add average seasonal variation: $-6.125m (1 marks) = $17.675m (3 marks) Accept 17.68 or 17.7 (3 marks) (error margin 17.625 – 17.725) $m not required OFR Up to 2 marks can be awarded for: • Logical attempt to predict trend using the ***table*** (e.g. by considering the average of the Quarter 3s) (1 mark) • Correct use of seasonal variation (1 mark)	**3**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(c)</td><td>

Discuss the usefulness of sales forecasts to PV when making marketing decisions. Refer to your result from 2(b).

<table>
<tr><th>Level</th><th>Knowledge
2 marks</th><th>Application
2 marks</th><th>Analysis
4 marks</th><th>Evaluation
4 marks</th></tr>
<tr><td>2</td><td>2 marks
Two or more relevant points made</td><td>2 marks
Application of two or more points to PV</td><td>3-4 marks
Good use of theory to answer question</td><td>3-4 marks
Good judgement shown</td></tr>
<tr><td>1</td><td>1 mark
One relevant point made</td><td>1 mark
Some application to PV</td><td>1-2 marks
Some use of theory to answer question</td><td>1-2 marks
Some judgement shown</td></tr>
<tr><td>0</td><td colspan="4">No creditable content</td></tr>
</table>

Note to examiners: No reference to result from 2(b) limits AN and EVAL to L1

Answers could include:
- Methods of forecasting sales
- Sales forecasting using Time Series Analysis takes account of seasonal variations and gives a realistic prediction.
- Forecasting enables planning, this method fits sales pattern well i.e.
- PV faces clear seasonal variation and consistent past trends so it is reasonable to assume that the future will be similar, making forecasting valuable for planning.
- Case indicates possible changes to the market – buyer's comments, change in buyers' requirements, increasingly fragmented relationships with buyers, possibility of direct selling, thus decreasing value of forecasting.
- May be advisable to introduce an element of probability to the forecasts – what if analysis.
- How forecasts contribute to market planning and production planning
- If Pedro is certain the forecast indicates future success PV may not make the changes that other evidence indicates are necessary.

Application
- Forecast only refers to export market, not 20% domestic sales
- Multinational shoe retailer buyers, takeovers by larger shoe manufacturers
- Possible more efficient working methods may lower costs
- Possible effects of investment in new machinery
- Use of graph to indicate changes in pattern (lower growth rate in 2016)
- Forecast shows increased sales
- PV faces clear seasonal variation and consistent past

Evaluation
- More reliable than simple forecasting or just projecting a trend
- Relies on future events behaving as in past patterns so may not be reliable
- Other evidence needs to be taken into account e.g. prediction of competitors' behaviour, likely future government actions, and / or economic changes
- Forecast only refers to exports, information on domestic market needed.

</td><td>12</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3</td><td>

Discuss how PV might change the way it organises production to achieve its objectives.

<table>
<tr><th>Level</th><th>Knowledge
2 marks</th><th>Application
2 marks</th><th>Analysis
6 marks</th><th>Evaluation
6 marks</th></tr>
<tr><td>2</td><td>2 marks
At least two relevant points made</td><td>2 marks
Good application</td><td>4-6 marks
Good use of theory to answer question</td><td>4-6 marks
Good judgement shown with supporting analysis</td></tr>
<tr><td>1</td><td>1 mark
One relevant point made</td><td>1 -2 marks
Some application to PV</td><td>1-3 marks
Some use of theory to answer question</td><td>1-3 marks
Some judgement shown</td></tr>
<tr><td>0</td><td colspan="4">No creditable content</td></tr>
</table>

Note to examiners: This question is about the organisation of production. Answers that focus on improving motivation must be linked to **production objectives.**

Answers could include:

- Objectives are higher quality (currently high defect rate), less delays (currently 60% delivery time met),lower operating costs, reduce wastage to 5%, reduce inventory costs.
- Suggestions might focus on leaner production and shift from quality control to quality assurance/TQM or similar plus:
- Faster order led production following closer liaison with buyers (JIT)
- Lower inventory (leather) held, linked to orders and clear quality. requirements on suppliers.
- Cell production.
- Benchmarking.
- Increased training for employees.
- Quality circles.
- New machinery.
- Accept reference to flow as alternative

Application

- Reference to current problems or possible objectives (currently high defect rate, 60% delivery time met, wastage at 5%).
- Present methods are assembly line, single task workers, final stage quality checks, high inventory.

Evaluation

- Changes will take time money and resources of expertise to plan. Are these available? Will they achieve the required improvements?
- Will the changes be in time to prevent loss of orders?
- Does Pedro have the commitment to change what he has been his successful business?
- What steps are the increasing competition taking?
- Will the cost of the changes be covered by any improvements?
- A supported recommendation.

</td><td>16</td></tr>
</table>

Question	Answer	Marks
4(a)(i)	**Refer to Appendix 2. Calculate:** **payback period.** 4.25 years or 4 years 3 months (2 marks) Some attempt e.g. cumulative net cash flows (1 mark)	**2**
4(a)(ii)	**accounting rate of return over the 5 year life of the investment.** Net cash flows / years as % = $\frac{2.3-2}{5} \times 100 = \frac{0.3 \times 100}{5}$ = 6% (or 0.06) **or** Average annual net cash flow – annual depreciation/initial cost as % = 0.46 – 0.4 = 0.06 / 2 × 100 = 3% (or 0.03) **or** Sum of Net cash flow each year – average depreciation/initial cost as % = 0.1 + 0.1 + 0.1 + 0 + 0 = 0.3 / 2 × 100 = 15% (or 0.15) Some attempt with partially complete correct working (2 marks) Some attempt / correct formula (1 mark)	**3**
4(a)(iii)	**net present value over the 5 year life of the investment.** NPV = –$0.235m (accept –$0.24m **or** –$0.23m) (2 marks) Sum DCF over 5 years = $1.765m (accept $1.77m or $1.76m) (1 mark) Some reasonable attempt e.g.mistake in calculation (1 mark) **$m not required**	**2**
4(b)	**Refer to Appendices 2 and 3. Calculate the discounted payback period if the annual net cash flows of $0.4m continue after year 5.** Just over 6 years / 6.054 years (accept 6 years) (2 marks) Use of DCF or some reasonable attempt e.g. 6.647yrs (1 mark) *Examiner Note:* Example of Full Calculation (details not required for 2 marks): NPV over 5 years + DCF in year 6 = –$0.235 + (0.56 × $0.4m) = –$0.011m Therefore NPV reaches zero in just over 6 years Year 7 DCF for whole year: 0.51 × $0.4m = $0.204m So, Year 7 DCF per day: $0.204m / 365 = 0.00056 Therefore, answer is 6 years + (0.011 / 0.00056) = 6 years 20 days. (6yrs 0.647mths)	**2**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(c)</td><td>

Refer to your answers to 4(a), 4(b) and other relevant information. Recommend whether PV should invest in new machinery. Justify your answer.

<table>
<tr><th>Level</th><th>Knowledge
2 marks</th><th>Application
2 marks</th><th>Analysis
4 marks</th><th>Evaluation
4 marks</th></tr>
<tr><td>2</td><td>2 marks
Two or more relevant points made</td><td>2 marks
Application of two or more points to PV</td><td>3–4 marks
Good use of theory to answer question</td><td>3–4 marks
Good judgement shown with supported recommendation</td></tr>
<tr><td>1</td><td>1 mark
One relevant point made</td><td>1 mark
Some application to PV</td><td>1–2 marks
Some use of theory to answer question</td><td>1–2 marks
Some judgement shown</td></tr>
<tr><td>0</td><td colspan="4">No creditable content</td></tr>
</table>

Note to examiners: Own figure rule from 4(a) and 4(b) applies L1 AN and EVAL if only use results or only use other information.

Answers could include:

Initial investment cost	Net cash flow $m	Discount factor at 10%	Net cash flow discounted at 10% $m
Yr 0	(2)	1	(-2)
Yr 1	0.5	0.91	0.455
Yr 2	0.5	0.83	0.415
Yr 3	0.5	0.75	0.375
Yr 4	0.4	0.68	0.272
Yr 5	0.4	0.62	0.248
Yr 6	0.4	0.56	0.226
Yr 7	0.4	0.51	0.205

Use of results from (a).
Assume lifetime of investment accurate and the forecast cash flows are reliable and the choice of discount factor is reliable:

- Payback indicates go ahead as money recovered in lifetime.
- Discounted payback should not go ahead as money recovered outside lifetime.
- ARR – less than discount factor so not go ahead.
- NPV – not go ahead as NPV is minus.

</td><td>12</td></tr>
</table>

Question	Answer	Marks
	BUT • All figures are forecast and may be better than expected. • Discounted payback and NPV show that 6 years is the time when investment is repaid – only one year longer than expected lifetime. • Expected lifetime is a very conservative estimate – current machinery is 14 years old and expected life in the industry is ten years. These point to going ahead with investment. Other things to consider are: • The risks associated with the forecasting of the cash flows. • the speed with which the existing machinery will deteriorate. • the importance of new machinery in the strategy to reduce costs and increase quality. • the availability of finance – there is money for the marketing options so this may not be a problem but Pedro does have to obtain finance. **Application** • Use made of answers from **4(a)** • Reference to 10 year expected life **Evaluation** • A supported recommendation should follow consideration of pros and cons of making the investment. • Points made re adequacy / inadequacy / reliability of methods from 2 (a) Assessment of importance of other information e.g. possible future market conditions, economic factors, government actions, availability and cost of finance, other planned changes by PV.	

Question	Answer	Marks
5	**Evaluate how PV should respond to the threat of employees leaving the business (lines 65–71).**	**16**

Level	Knowledge 2 marks	Application 2 marks	Analysis 6 marks	Evaluation 6 marks
2	2 marks Good knowledge of relevant factors	2 marks Application of two or more points to PV	4–6 marks Good use of theory to answer question	4–6 marks Good judgement shown in weighing up the factors
1	1 mark Some knowledge of relevant factors	1 mark Some application to PV	1–3 marks Some use of theory to answer question	1–3 marks Some judgement shown
0	No creditable content			

Note to examiners: Answer should focus on the threat of leaving, not general points re: motivation, leadership or other HRM issues. (but these may be relevant if linked).

Answers could include:

Reasons for leaving may include:

- Only average wages paid and little chance for additional earnings cf. to other similar businesses
- Job tasks very specific, possible boredom and lack of wider training
- Poor promotion opportunities cf. to elsewhere
- Autocratic decision making and lack of participation

BUT

- Caring attitude and currently average wages
- Little uncertainty in job tasks means stability and limited responsibility

Possible changes about to happen and their impact on employees include:

- Greater delegation with quality assurance not control
- New machines and potential for change in production methods leading to greater involvement / change
- Lower costs may enable higher wages
- Possible new designer shoe production requiring more skills

Possible actions PV might take

- Research into employee attitudes to importance of factors influencing decision to leave and satisfaction at work.
- Can PV afford to increase payments to employees in higher wages or bonuses? May depend on successful marketing / production changes
- Can promotion opportunities be provided?

Factors in the labour market may include:

- Ease and cost of finding replacement employees
- Skill levels in labour market

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td></td><td>

Application
- Payment is average basic wage, opportunities in other local firms, current low labour turnover, supportive senior manager
- 117 employees

Evaluation
Discussion of factors should enable evaluative comments re: e.g.
- Most important factor or ranking of importance of factors
- Weighing up the impact of factors on the business if employees leave or not
- Relating factors and any decision to overall / functional area objectives and plans
- Supported recommendation of actions PV might take
- A degree of labour turnover can be good thing

</td><td></td></tr>
<tr><td></td><td>

Questions 6 and 7 use this marking grid:

<table>
<tr><th>Level</th><th>Knowledge
3 marks</th><th>Application
3 marks</th><th>Analysis
4 marks</th><th>Evaluation
10 marks</th></tr>
<tr><td>3</td><td></td><td></td><td></td><td>7–10 marks:
Good judgement shown throughout with well supported conclusion/recommendation, focused on</td></tr>
<tr><td>2</td><td>3 marks:
Good understand-ing shown</td><td>3 marks:
Good application to PV</td><td>4–6 marks:
Good use of reasoned argument or use of theory to explain points made to explain points made</td><td>4–6 marks:
Some judgement shown in the main body of the answer and an attempt to support conclusion/recommendation, focused on with some focus on PV</td></tr>
<tr><td>1</td><td>1–2 marks:
Some understand-ing shown</td><td>1–2 mark:
Some application to PV</td><td>1–3 marks:
Limited use of reasoned argument or use of theory to support points made</td><td>1–3 marks:
Limited attempt to show judgement either within the answer OR a weakly supported conclusion/ recommendation with some focus on PV</td></tr>
<tr><td>0</td><td colspan="4">No creditable content</td></tr>
</table>

</td><td></td></tr>
</table>

Question	Answer	Marks
6	**Evaluate the importance of strategic analysis for PV when considering options A and B.** *Note to examiners:* A recommendation for Option A or B will NOT fully answer the question. Answers could include: • Explanation of strategic analysis and its techniques – SWOT, PEST, Boston Matrix, Porters 5 Forces, core competencies. • Place of strategic techniques in strategic management • Critical comments on the techniques • Recognition that Option A and B are marketing options and that marketing planning concepts may be used • Application of these techniques to Option A or B Example: Option A – designer shoes • SWOT – strengths and opportunities but note weaknesses • PEST – increasing interest in designer shoes, increasing middle class incomes, advanced machinery and new materials • Boston Matrix – only “cash cows” in current product range • Porters 5 Forces – faces threat on new competition, high bargaining power of customers and suppliers but little threat of substitutes means high degree of rivalry in current markets • Core competencies – variety of shoes made in response to demand Possible conclusion • All techniques indicate a change of emphasis could be highly beneficial and Option A strongly worth considering Option B – alter target markets and distribution methods • SWOT – strengths, especially existing sales networks but note weaknesses • PEST – export market shows little sign of change except exchange rate and possible increasing interest in expensive exclusive shoes, domestic market increasing, • Boston Matrix – only ‘cash cows’ in current product range • Porters 5 Forces – faces threat of new competition, high bargaining power of customers and suppliers but little threat of substitutes means high degree of rivalry in current markets • Core competencies - variety of shoes made in response to demand Possible conclusion • All techniques indicate a change of emphasis could be highly beneficial and Option B strongly worth considering, if additional distribution networks set up. Application • Information from case used in strategic analysis techniques	**20**

Question	Answer	Marks
	Evaluation Clear conclusion as to the importance of strategic analysis and/or techniques including: • Importance of understanding where the business is now in order to generate ideas and / or support for options A and B • Comments that strategic analysis on its own is not enough to fully support a decision • Weighing up importance of other stages in strategic management especially objectives and choice techniques in relation to strategic analysis • Ranking the usefulness of the techniques in relation to Option A or B • An assessment of the relative importance of marketing planning in relation to strategic analysis An assessment of the importance of timing and a timescale in carrying out analysis.	
7	**Discuss the importance of strategic management to the future success of PV.** *Note to examiners:* Strategic management covers two main topics – business planning and the process of setting objectives, analysis, choice implementation and review to achieve these. Either approach is to be credited. Answers could include: • Definition / explanation of strategic planning and management, possibly including: • Business plans and their contents • Components of strategic management – vision statements / objectives, analysis, choices, implementation and evaluation • Problems / issues faced by PV, possibly including decisions centred on: • Possible production and sourcing changes • Future marketing options • HRM policy • Possible investment plans • Pedro as main decision maker • Relating strategic planning and management to the position of PV in the market overall and with regard to these topics **Application:** • Current problems faced by PV • Future possibilities being considered in the case • The economic and market conditions faced by PV **Evaluation:** • Assessing the importance of the processes for PV in the situation it is facing • Highlighting the possible order of priorities and how the processes could assist in setting and achieving objectives • The extent to which Pedro needs to address these processes.	**20**