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**BUSINESS**

**9609/32**

Paper 3 Case Study

**October/November 2017**

MARK SCHEME

Maximum Mark: 100

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**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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Cambridge International is publishing the mark schemes for the October/November 2017 series for most Cambridge IGCSE<sup>®</sup>, Cambridge International A and AS Level components and some Cambridge O Level components.

Question	Answer			Marks																
1	<p><b>Analyse the limitations to ADP of using budgets and variance analysis when deciding the future of factory Q. Refer to Appendix 1 in your answer.</b></p> <table border="1" data-bbox="312 383 1321 853"> <thead> <tr> <th data-bbox="312 383 443 465">Level</th> <th data-bbox="443 383 735 465">K 3 marks</th> <th data-bbox="735 383 1027 465">App 2 marks</th> <th data-bbox="1027 383 1321 465">An 5 marks</th> </tr> </thead> <tbody> <tr> <td data-bbox="312 465 443 651">2</td> <td data-bbox="443 465 735 651">3 marks Understanding of budgets/variance analysis <b>and</b> limitation(s)</td> <td data-bbox="735 465 1027 651">2 marks Two points applied to ADP</td> <td data-bbox="1027 465 1321 651">4–5 marks Good analysis of the limitations of budgets/variance analysis</td> </tr> <tr> <td data-bbox="312 651 443 801">1</td> <td data-bbox="443 651 735 801">1–2 marks Understanding of budgets/variance analysis</td> <td data-bbox="735 651 1027 801">1 mark One point applied to ADP</td> <td data-bbox="1027 651 1321 801">1–3 marks Some analysis of limitations</td> </tr> <tr> <td data-bbox="312 801 443 853">0</td> <td colspan="3" data-bbox="443 801 1321 853">No creditable answer</td> </tr> </tbody> </table> <p><b>Note to examiner:</b></p> <ul data-bbox="312 925 1262 1055" style="list-style-type: none"> <li>• Do not credit reproduction of phrases/data in the case study without expansion/comment.</li> <li>• This question is about limitations of use of budgets/variance NOT the benefits</li> </ul> <p><b>Knowledge</b></p> <ul data-bbox="312 1128 1058 1368" style="list-style-type: none"> <li>• Budget</li> <li>• Variance analysis – comparison of budget with actual</li> <li>• Limitations of budgets <ul data-bbox="360 1234 715 1368" style="list-style-type: none"> <li>– Focused on short term</li> <li>– May be unrealistic</li> <li>– Bias of setter</li> <li>– May not account for external changes</li> </ul> </li> </ul> <p><b>Application</b></p> <p>From Appendix 1</p> <ul data-bbox="312 1473 1254 1644" style="list-style-type: none"> <li>• Factory Q made a loss over last 3 months according to actual data – compared to a budgeted profit. \$2m loss rather than \$8m profit</li> <li>• Adverse variance of \$10m</li> <li>• Factory is making a positive contribution to head office overheads</li> <li>• Allocated head office overheads were \$1m higher than budgeted</li> </ul> <p>From text</p> <ul data-bbox="312 1682 1278 1749" style="list-style-type: none"> <li>• Factory Q has made an adverse profit variance for the last three years</li> <li>• Factory last updated in 2005 – 12 years ago. Equipment is old.</li> </ul>			Level	K 3 marks	App 2 marks	An 5 marks	2	3 marks Understanding of budgets/variance analysis <b>and</b> limitation(s)	2 marks Two points applied to ADP	4–5 marks Good analysis of the limitations of budgets/variance analysis	1	1–2 marks Understanding of budgets/variance analysis	1 mark One point applied to ADP	1–3 marks Some analysis of limitations	0	No creditable answer			10
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Question	Answer	Marks
1	<p><b>Analysis</b></p> <ul style="list-style-type: none"> <li>• Were last 3 months typical? It would help to have data for longer period.</li> <li>• Budgets of little value if the factory managers were not involved in setting them – were these just handed down from Head Office?</li> <li>• Factory has no control over Head Office overhead allocation – and why has this increased?</li> <li>• Overheads would have to be covered by other factories if it is closed</li> <li>• Not enough data – how were head office costs allocated?</li> <li>• How long would the factory overhead costs continue to be incurred after closure?</li> <li>• Could supply be outsourced? Consideration of dangers of outsourcing</li> <li>• Could the adverse variance be the result of failure to update factory to make it more efficient. Equipment is old.</li> </ul> <p><b>ARA:</b> Any relevant consideration of factors that ADP should take into account that budgets ignore e.g. impact on reputation of ADP if factory closed and employees made redundant</p>	

Question	Answer			Marks																																				
2(a)	<p><b>Refer to Table 1 and the information about Asif's plan on lines 14–25. Calculate the forecast 2018 profit for the washing machine factory.</b></p> <table border="1" data-bbox="311 347 1319 1915"> <thead> <tr> <th></th> <th>2017</th> <th>2018</th> <th>Method</th> </tr> </thead> <tbody> <tr> <td>Units sold</td> <td>2m</td> <td>1.95m (1)</td> <td>2 m less 2.5% using PED calculation  <math>-0.5 \times 5 = -2.5\%</math>            2.5% of 2m = 0.05m  <math>2m - 0.05m = 1.95m</math></td> </tr> <tr> <td>Average selling price of washing machines to retailers</td> <td>\$200 per unit</td> <td>\$210 (1)</td> <td>Price increase of 5%  <math>\\$200 + 5\%</math>  <math>200 \times 1.05 = \\$210</math></td> </tr> <tr> <td>Unit cost of sales</td> <td>Cost of sales \$200m</td> <td>\$97 (1)</td> <td>Unit cost was <math>200m/2m = \\$100</math>   <math>\\$100</math> less 3% = \$97</td> </tr> <tr> <td>Unit contribution to overheads</td> <td></td> <td>\$113 (1)</td> <td><math>\\$210 - \\$97</math></td> </tr> <tr> <td>Contribution to ADP overhead costs</td> <td>\$200m</td> <td>\$220.35m (1)</td> <td><math>113 \times 1.95m = \\$220.35</math></td> </tr> <tr> <td>Overheads of washing machine division</td> <td>\$150m</td> <td>\$135m (1)</td> <td>\$150 less 10%  <math>150 \times 0.9 = \\$135m</math></td> </tr> <tr> <td>Allocation of head office overheads to washing machine division remain same</td> <td>\$25m</td> <td>\$25m (1)</td> <td></td> </tr> <tr> <td>2018 profit made by washing machine division</td> <td>\$25m</td> <td>\$60.35m (8)</td> <td><math>\\$220.35 - 135 - 25 = \\$60.35m</math></td> </tr> </tbody> </table> <p><b>OFR</b>            Total Revenue = <math>1.95 \times 210 = \\$409.5m</math> (3) 420m (2)</p>				2017	2018	Method	Units sold	2m	1.95m (1)	2 m less 2.5% using PED calculation $-0.5 \times 5 = -2.5\%$ 2.5% of 2m = 0.05m $2m - 0.05m = 1.95m$	Average selling price of washing machines to retailers	\$200 per unit	\$210 (1)	Price increase of 5% $\$200 + 5\%$ $200 \times 1.05 = \$210$	Unit cost of sales	Cost of sales \$200m	\$97 (1)	Unit cost was $200m/2m = \$100$  $\$100$ less 3% = \$97	Unit contribution to overheads		\$113 (1)	$\$210 - \$97$	Contribution to ADP overhead costs	\$200m	\$220.35m (1)	$113 \times 1.95m = \$220.35$	Overheads of washing machine division	\$150m	\$135m (1)	\$150 less 10% $150 \times 0.9 = \$135m$	Allocation of head office overheads to washing machine division remain same	\$25m	\$25m (1)		2018 profit made by washing machine division	\$25m	\$60.35m (8)	$\$220.35 - 135 - 25 = \$60.35m$	8
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	<p>Cost of sales = <math>1.95\text{m} \times 97 = 189.15\text{m}</math> (2) 194m (1)</p> <p>Gross profit = 220.35m</p> <p>Factory Overheads = 135 (1)</p> <p>Overheads = 25 (1)</p> <p>Total cost = 349.15m (4 cumulative cost mark)</p> <p>Profit = 60.35m (8)</p> <p>If no rewardable calculation:</p> <p>Profit = TR – TC or Total contribution – Fixed costs (1)</p> <p>Likely answers: Where method shown award the following marks:</p> <p>\$66m (7)</p> <p>\$68.5m (5)</p> <p>\$55.5m (7)</p>	

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2(b)	<p><b>Assess the usefulness of accounting ratio analysis to ADP's senior management and one other stakeholder group. Refer to Table 2 in your answer.</b></p> <table border="1" data-bbox="309 383 1321 952"> <thead> <tr> <th data-bbox="309 383 443 465">Level</th> <th data-bbox="443 383 662 465">K 2 marks</th> <th data-bbox="662 383 855 465">App 2 marks</th> <th data-bbox="855 383 1102 465">An 3 marks</th> <th data-bbox="1102 383 1321 465">Eval 3 marks</th> </tr> </thead> <tbody> <tr> <td data-bbox="309 465 443 719">2</td> <td data-bbox="443 465 662 719">2 marks Two relevant points about accounting ratio(s) or ratio and stakeholder</td> <td data-bbox="662 465 855 719">2 marks Two points applied</td> <td data-bbox="855 465 1102 719">3 marks Good use of theory or reasoned argument on uses/limitations of ratios</td> <td data-bbox="1102 465 1321 719">3 marks Good evaluation of the usefulness of accounting ratios</td> </tr> <tr> <td data-bbox="309 719 443 902">1</td> <td data-bbox="443 719 662 902">1 mark One relevant point</td> <td data-bbox="662 719 855 902">1 mark One point applied</td> <td data-bbox="855 719 1102 902">1–2 marks Some use of theory or reasoned argument</td> <td data-bbox="1102 719 1321 902">1–2 marks Some evaluation of usefulness of ratios</td> </tr> <tr> <td data-bbox="309 902 443 952">0</td> <td colspan="4" data-bbox="443 902 1321 952">No creditable answer</td> </tr> </tbody> </table> <p data-bbox="309 987 1321 1122"><b>Examiner note:</b> If only management or one other stakeholder group considered then limit to L1 AN and EVAL Candidates may be rewarded for discussing more than two stakeholder groups.</p> <p data-bbox="309 1155 464 1189"><b>Knowledge</b></p> <ul data-bbox="309 1193 1321 1496" style="list-style-type: none"> <li>• Stakeholder has interest in business activity. Include external and internal stakeholders</li> <li>• Accounting ratios analyse business profitability, liquidity, efficiency, gearing and shareholder measures</li> <li>• Understanding of the selected accounting ratios in Table 2 <ul data-bbox="360 1361 1187 1496" style="list-style-type: none"> <li>– Gearing ratio. Measure of reliance on debt v equity finance</li> <li>– ROCE. Profit generated by capital invested in business</li> <li>– Current ratio. Liquidity – ability to pay short term debt</li> <li>– Dividend yield; return to shareholders of their investment</li> </ul> </li> </ul> <p data-bbox="309 1532 469 1565"><b>Application</b></p> <p data-bbox="309 1570 1321 1630">Statement that profit margin is low/high is not application. Requires justification.</p> <ul data-bbox="309 1635 1321 1805" style="list-style-type: none"> <li>• Low gearing</li> <li>• Current ratio; low but adequate liquidity to pay debts</li> <li>• ADP wishes to raise short term profitability (implies 7.8% profit margin is considered to be poor by management/shareholders). Accounting data / ratios needed to assess whether objectives achieved</li> </ul>				Level	K 2 marks	App 2 marks	An 3 marks	Eval 3 marks	2	2 marks Two relevant points about accounting ratio(s) or ratio and stakeholder	2 marks Two points applied	3 marks Good use of theory or reasoned argument on uses/limitations of ratios	3 marks Good evaluation of the usefulness of accounting ratios	1	1 mark One relevant point	1 mark One point applied	1–2 marks Some use of theory or reasoned argument	1–2 marks Some evaluation of usefulness of ratios	0	No creditable answer				10
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2(b)	<p><b>Analysis</b></p> <ul style="list-style-type: none"> <li>• Low gearing suggests that banks could view further lending to ADP as being low risk. This supported by adequate liquidity and profitability. Banks would need to see this accounting data to make decisions about further finance.</li> <li>• Management use the accounting ratios as a measure of performance and can set targets accordingly. This helps managers to monitor progress and make decisions to improve the performance of the business. Sufficient finance may be available to update Factory Q and therefore deal with its adverse profit variance.</li> <li>• Business appears liquid with low gearing – scope to use finance to invest in latest equipment and/or lean production?</li> <li>• Shareholders will use accounting ratios to judge performance of the business and make decisions about whether to support directors at AGM.</li> <li>• Shareholders will make judgements about whether it is worth maintain their investment in ADP. I dividend yield is insufficient they may consider selling shares but this will also depend on performance of share price. Will need to consider ratios such as PE Ratio.</li> <li>• Adequate liquidity – suggest able to meet all short term obligations so suppliers should be willing to supply on credit (current ratio)</li> <li>• Low gearing – Asif could take more risks with growth/product development and not cut dividends?</li> </ul> <p><b>Evaluation</b></p> <ul style="list-style-type: none"> <li>• Need for data over time to identify trends and for inter firm comparison</li> <li>• Has there been any window dressing?</li> <li>• Management accounts e.g. for each division much more useful to allow divisions/factories to be compared</li> <li>• Trend analysis essential – gearing might have been much higher and current ratio lower last year</li> <li>• Acid test ratio important too. Current ratio insufficient to judge liquidity</li> </ul> <p>ARA: Other stakeholders e.g. end consumers may have little interest in ratios although customers</p>	

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3	<p><b>'Long term sales forecasts will be the most important component in our new marketing plan to break into the USA market' (lines 58–59). Do you agree with this statement? Justify your answer.</b></p> <table border="1" data-bbox="308 383 1323 1153"> <thead> <tr> <th data-bbox="308 383 443 465">Level</th> <th data-bbox="443 383 663 465">K 2 marks</th> <th data-bbox="663 383 884 465">App 2 marks</th> <th data-bbox="884 383 1104 465">An 6 marks</th> <th data-bbox="1104 383 1323 465">Eval 6 marks</th> </tr> </thead> <tbody> <tr> <td data-bbox="308 465 443 786">2</td> <td data-bbox="443 465 663 786">2 marks Two or more relevant points about sales forecasting /market planning</td> <td data-bbox="663 465 884 786">2 marks Two points applied</td> <td data-bbox="884 465 1104 786">4–6 marks Good use of theory or reasoned argument to analyse market planning content</td> <td data-bbox="1104 465 1323 786">4–6 marks Good evaluation of importance of components of marketing plan</td> </tr> <tr> <td data-bbox="308 786 443 1106">1</td> <td data-bbox="443 786 663 1106">1 mark One relevant point about either sales forecasting or market planning</td> <td data-bbox="663 786 884 1106">1 mark One point applied</td> <td data-bbox="884 786 1104 1106">1–3 marks Some use of theory or reasoned argument to analyse market planning content</td> <td data-bbox="1104 786 1323 1106">1–3 marks Some evaluation of contents of marketing plan</td> </tr> <tr> <td data-bbox="308 1106 443 1153">0</td> <td colspan="4" data-bbox="443 1106 1323 1153">No creditable answer</td> </tr> </tbody> </table>				Level	K 2 marks	App 2 marks	An 6 marks	Eval 6 marks	2	2 marks Two or more relevant points about sales forecasting /market planning	2 marks Two points applied	4–6 marks Good use of theory or reasoned argument to analyse market planning content	4–6 marks Good evaluation of importance of components of marketing plan	1	1 mark One relevant point about either sales forecasting or market planning	1 mark One point applied	1–3 marks Some use of theory or reasoned argument to analyse market planning content	1–3 marks Some evaluation of contents of marketing plan	0	No creditable answer				16
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<p><b>Examiner note:</b> If no knowledge of sales forecasting demonstrated limit to L1 AN and EVAL Focus is on process of marketing plan <b>not</b> the other factors that will also be important.</p> <p><b>Knowledge</b></p> <ul data-bbox="308 1395 1267 1563" style="list-style-type: none"> <li>• Sales forecasts – predictions of future sales levels/revenue</li> <li>• Marketing plan – detailed report on a business's marketing strategy – situational analysis, market research, objective, budget, mix</li> <li>• Sales forecasts help to underpin and provide the framework for the market plan</li> </ul> <p><b>Application</b></p> <ul data-bbox="308 1637 1289 1771" style="list-style-type: none"> <li>• ADP has no experience of USA market so cannot just assume the past will repeat itself.</li> <li>• US market will need bigger washing machines etc.</li> <li>• Product safety may need to be changed to meet safety regulations</li> </ul>																									



Question	Answer	Marks
3	<p><b>Analysis</b></p> <ul style="list-style-type: none"> <li>• Marketing plan will help ADP understand its current strengths, existing and potential competitors, consumer tastes and trends, the state of the market that is being entered. This will then inform decisions about the marketing mix that need to be taken in order to achieve the marketing objectives.</li> <li>• Sales forecasts will inform decisions about appropriate objectives and thus determine budget required to achieve.</li> <li>• Situational analysis will be important starting point for the business that will then enable sales forecasts to be made.</li> <li>• Other elements of marketing plan are important e.g. integrated marketing mix to ensure consistency in message communicated to potential customers and therefore attract sales.</li> </ul> <p><b>Evaluation</b></p> <ul style="list-style-type: none"> <li>• Market plan must be based on sales forecasts – how else can realistic objective be set? How else could appropriate budget be determined? How could mix decisions be made unless some idea of likely effective demand is established?</li> <li>• Sales forecasts can be very inaccurate – especially long term forecasts and especially for new markets and for fast changing markets or those with unusual customer demands e.g. larger appliances in the USA!</li> <li>• Other components of the plan also very important: SMART objective; realistic budget (how determined?) and a fully integrated marketing mix.</li> <li>• Especially important in this case as in this case, the forecasts will have to be based on market research and/or qualitative methods – moving average not appropriate.</li> </ul>	

Question	Answer	Marks
4(a)	<p><b>Refer to Table 3. Calculate for 2017:</b></p> <p><b>Examiner note:</b> Rounded answers acceptable, decimal rather than %, unit of measurement can be ignored</p> <p><b>OFR applies</b></p>	
4(a)(i)	<p><b>labour productivity</b></p> <p>Labour productivity = total output in time period/ number employed</p> <p style="text-align: right;">[1] if no rewardable calculation</p> $\frac{96000}{240}$ <p style="text-align: right;">[2]</p> <p>400 units</p> <p style="text-align: right;">[3]</p>	<b>3</b>
4(a)(ii)	<p><b>wastage rate.</b></p> <p>Wastage rate = <math>\frac{\text{number faulty/wasted}}{\text{number produced}} \times 100</math></p> <p style="text-align: right;">[1] if no rewardable calculation</p> $\frac{3000}{96000} \times 100$ <p style="text-align: right;">[2]</p> <p>3.125%</p> <p style="text-align: right;">[3]</p>	<b>3</b>

Question	Answer				Marks
4(b)	<b>Evaluate strategies for improving employee performance in ADP's country Z factory without increasing unit labour costs.</b>				<b>14</b>
<b>Level</b>	<b>K 2 marks</b>	<b>App 2 marks</b>	<b>An 5 marks</b>	<b>E 5 marks</b>	
<b>2</b>	2 marks Two points made about employee performance / strategy	2 marks Two points applied	4–5 marks Good use of theory or reasoned argument to explain likely impact of strategies to improve employee performance	4–5 marks Evaluation of strategies linked to labour costs	
<b>1</b>	1 mark One point made about employee performance / strategy	1 mark One point applied	1–3 Some use of theory/reasoned argument	1–3 marks Evaluation of relevant strategies	
<b>0</b>	No creditable answer				
<p><b>Examiner note:</b> Good evaluation requires consideration of strategies on unit labour costs. Evaluation might just refer to costs or likely effectiveness of suggested strategy.</p>					
<p><b>Knowledge</b></p>					
<ul style="list-style-type: none"> <li>• Employee performance measured by consideration of factors such as productivity</li> </ul>					
<p>Relevant strategies:</p>					
<ul style="list-style-type: none"> <li>• Increased pay</li> <li>• Improve working conditions</li> <li>• Democratic leadership style</li> <li>• Investment in capital equipment</li> </ul>					
<p><b>Application</b></p>					
<ul style="list-style-type: none"> <li>• Employee performance measures are worsening</li> <li>• Wages 50% of ADP average</li> <li>• Accidents at factory – lack of safety equipment</li> <li>• High unemployment</li> <li>• Workers made more than other similar workers</li> <li>• Absenteeism has increased 2500 to 2600</li> <li>• Wastage rate has increased was 1.82% in 2016</li> </ul>					

Question	Answer	Marks
4(b)	<p><b>Analysis</b></p> <ul style="list-style-type: none"> <li>• Worsening performance measures need to be benchmarked against other ADP factories and close competitors to give a more meaningful picture.</li> <li>• Increase pay to average ADP levels to provide for more of their ‘lower order needs’ and to satisfy ‘hygiene needs’ BUT this would raise unit labour costs substantially within country Z factories</li> <li>• Improve working conditions to avoid accidents, for example. This would help to meet ‘security’ needs and hygiene needs. Could also provide job security/employment contracts etc.</li> <li>• Adopt a more consensual/democratic leadership style which allows workers the opportunity to gain job enrichment – these measures might not have to be introduced with an increase in pay because pay may not be a motivator in this country if employees already receive higher pay than equivalent workers.</li> </ul> <p><b>Evaluation</b></p> <ul style="list-style-type: none"> <li>• Improving working conditions may not be effective in improving motivation in the long term unless efforts are made to address the ‘motivation’ factors and these improvements could also add to unit labour costs</li> <li>• Increasing pay would increase costs unless there was a huge improvement in productivity and pay is not the only factor in determining this.</li> <li>• How likely is ADP to adopt a ‘soft’ approach to employees when the company seems determined to take advantage of its ‘multinational corporation status’?</li> <li>• Already paid more than similar workers and this doesn’t appear to have generated high levels of performance</li> </ul>	

Question	Answer				Marks
5	<b>Evaluate whether the introduction of the lean production techniques will be enough to improve ADP's operational efficiency.</b>				<b>16</b>
<b>Level</b>	<b>K</b> 2 marks	<b>App</b> 2 marks	<b>An</b> 6 marks	<b>E</b> 6 marks	
<b>2</b>	2 marks Two points about lean production and operational efficiency	2 marks At least two techniques applied to ADP	4–6 marks Good use of theory or reasoned argument to explain how lean production techniques can improve operational efficiency	4–6 marks Good evaluation of likely effectiveness of techniques and consideration of importance of other factors	
<b>1</b>	1 marks One point about lean production or operational efficiency	1 marks Some application to ADP	1–3 marks Some use of theory or reasoned argument to explain how LP techniques can improve Ops efficiency	1–3 marks Some evaluation e.g. either of techniques or other factors that might influence Ops efficiency	
<b>0</b>	No creditable answer				
<b>Knowledge</b>					
<ul style="list-style-type: none"> <li>• Lean production – using resources more efficiently so less are used; less wastage; less time.</li> <li>• Techniques include: JIT; Kaizen; TQM; simultaneous engineering; quality circles; zero defects; ERP may be used to aid JIT</li> <li>• Operational efficiency: Productivity, inputs into outputs, costs</li> </ul>					
<b>Application</b>					
<ul style="list-style-type: none"> <li>• ADP has high inventories partly due to poor communication between Ops and Marketing.</li> <li>• ADP has little employee involvement</li> <li>• Investment in employees is not a priority</li> <li>• Wastage at Factory Q has increased etc.</li> <li>• Poor relationship with suppliers</li> </ul>					

Question	Answer	Marks
5	<p><b>Analysis</b></p> <ul style="list-style-type: none"> <li>• JIT would cut inventories by focussing the business on material etc. arriving at the time they are required</li> <li>• Reduce number of suppliers and/or develop a better long term relationship that offers support to suppliers so that needs of ADP more effectively met. This may involve including suppliers at early stage in development of new products</li> <li>• Employee involvement could help this business improve labour performance/motivation and provide ‘shop floor’ ideas for improving efficiency – evidence from case that both are required.</li> </ul> <p><b>Evaluation</b></p> <ul style="list-style-type: none"> <li>• Lean production works most effectively with efficient and flexible machines and employees e.g. to switch from one product to another. There is evidence that these features do not exist in ADP (e.g. Factory X) so lean production techniques cannot be easily employed within ADP unless there is also investment in equipment and training – investment in equipment possible with low gearing but investment in employees seems not to be an ADP priority</li> <li>• JIT requires better communication to forecast demand and plan output levels AND needs well motivated suppliers SO lean production will not be effective until these are sorted.</li> <li>• Kaizen will need a complete change in leadership style and approach to employees and until these occur ADP will not introduce Kaizen effectively so lean production is insufficient.</li> </ul>	

Question	Answer					Marks
6 and 7	<b>Level</b>	<b>K</b>	<b>App</b>	<b>An</b>	<b>E</b>	
	<b>3</b>				7–10 marks Excellent judgement shown e.g. in both conclusion and arguments used	
	<b>2</b>	3 marks Good understanding shown	3 marks Good application to ADP	3–4 marks Good use of theory and/or reasoned argument	4–6 marks Good evaluation – e.g. strong conclusion but arguments used contain little judgement	
	<b>1</b>	1–2 marks Some understanding shown	1–2 marks Some application to ADP	1–2 marks Some use of theory and/or reasoned argument	1–3 marks Some judgement shown e.g. attempted conclusion	
	<b>0</b>	No creditable answer				

Question	Answer	Marks
6	<p><b>Evaluate whether Prahalad and Hamel’s concept of core competencies and Porter’s Five Forces model are likely to be effective frameworks for ADP’s future business strategies. Refer to Appendix 2 in your answer.</b></p> <p><b>Note to examiner:</b></p> <ul style="list-style-type: none"> <li>• Do not credit reproduction of phrases/data in the case study without expansion/comment.</li> <li>• Limit to L1 AN and EVAL if only consider P&amp;H or Porter</li> <li>• Evaluation should focus on the usefulness of the model(s) to ADP strategy decisions. However, L1 evaluation may be awarded for general discussion of how information in App 1 will help ADP make a decision</li> </ul> <p><b>Knowledge</b></p> <ul style="list-style-type: none"> <li>• Core competence: The main strengths or strategic advantages of a business.</li> <li>• Core competencies are the collective knowledge and technical abilities that allow a business to be competitive in the marketplace.</li> <li>• Porter’s five forces analysis is a framework that attempts to analyse the level of competition within an industry when planning strategic developments</li> <li>• Porter’s five forces analysis includes: buyer power, supplier power, threat of substitutes, ease of entry and competitive rivalry.</li> </ul> <p><b>Application</b></p> <ul style="list-style-type: none"> <li>• Development of points made in Appendix 2</li> <li>• ADP: Maker of very reliable electric motors which are used in own appliances and by other manufacturers;</li> <li>• ‘mini-battery’ technology has been patented.</li> <li>• Rivals seem to having problems developing low water/energy use washing machines. However, barriers to entry might be lower in this washing machine product segment.</li> <li>• ADP has experience of operating multi-nationally and selling in many markets.</li> <li>• Appendix 2 suggests that there is less competitive rivalry in the Option B strategy and that this is ADPs unique core competency</li> </ul> <p><b>Analysis</b></p> <ul style="list-style-type: none"> <li>• Patents make it difficult for rivals to copy mini-battery technology therefore provides ADP a distinctive core competency and increases competitiveness in the market</li> <li>• Understanding core competencies will enable ADP to focus on strategies that ADP will have a competitive advantage in and therefore are likely to be more successful</li> <li>• BUT are these sufficient to allow the proposed product development? Do these competencies offer sufficient benefit to customers of the proposed products? Scope for discussion based on weaknesses in core areas e.g. lack of mobile phone experience and ADP tends to operate in lower prices segments of markets.</li> <li>• By using Porter ADP can assess the threat of substitutes etc. to decide whether Option A or B is better. This will reduce the risk of entering the wrong market</li> </ul>	20



Question	Answer	Marks
6	<p><b>Evaluation</b></p> <ul style="list-style-type: none"><li>• Drawbacks to both models: e.g. Porter – really used for whole industry analysis rather than specific market segments; Core competence – not always easy to identify a core competence and it can change with time and if for example certain people leave an organisation.</li><li>• Other strategic analysis tools and frameworks for future business strategies e.g. PESTLE and SWOT</li><li>• Supplier power might be a real problem with both projects BUT ADP might be able to develop its own washing machine pump therefore the model is useful in guiding ADP's decision making</li><li>• Option B as an example of a future strategy demonstrates a more distinctive/unique core competence as ADP's competitors have less advanced batteries therefore the model is useful in guiding ADP to most appropriate strategy</li></ul>	

Question	Answer	Marks
7	<p><b>Discuss how ADP should strategically manage and plan for crises in ways that minimise their long term impact on the business.</b></p> <p><b>Knowledge:</b></p> <ul style="list-style-type: none"> <li>• Crisis management – the process by which an organisation deals with a major event that threatens to harm the organisation, its stakeholders, or the general public.</li> <li>• Definition of contingency planning</li> <li>• Identification of appropriate responses to crises <ul style="list-style-type: none"> <li>• Act quickly</li> <li>• Investigate causes of crisis</li> <li>• Recall products</li> <li>• Stop production of faulty products</li> <li>• Public relations activities</li> </ul> </li> </ul> <p><b>Application</b></p> <ul style="list-style-type: none"> <li>• Reference to accidents at Factory Q as example of potential crisis</li> <li>• What evidence is there of prior planning or even a sense of urgency over the current safety issue e.g. delay in discussion at Board meeting</li> <li>• Issue of compensation for customers</li> <li>• Issue of whether ADP response is ethical – insisting that customers sign letters</li> <li>• Asif's assertion that admitting responsibility would be expensive mistake</li> <li>• Stop selling the hairdryers</li> </ul> <p><b>Analysis</b></p> <ul style="list-style-type: none"> <li>• Is this a crisis? Not yet – but it has the potential to become one. Risk to consumers: personal injury. Risk to business: ADP could come under intense media scrutiny if the news 'gets out' which could result in loss of goodwill, brand image, customer relations and sales.</li> <li>• Keep quiet and pay compensation: might only be a problem with a small batch of hairdryers so to recall them all would be unnecessarily damaging. Find out quickly how many units are likely to be affected – then decide on further action. This might prevent loss of quality brand image if all units of the hairdryer are recalled unnecessarily.</li> <li>• Admit responsibility and recall all units, offering full compensation. This cuts the long term risk of 'covering up' the problem (legal action and lost sales/reputation) but there will be short term consequences as quality image will be hit, in short term. Employees might be more motivated working for an organisation that is seen to be operating responsibly.</li> <li>• Importance of strategically managing and planning for similar contingencies will help to reduce the potential negative impact of them e.g. preparing employees and resources and training of PR employees for media communications.</li> </ul>	20

Question	Answer	Marks
7	<b>Evaluation</b> <ul style="list-style-type: none"><li>• ADP senior management not very stakeholder responsible e.g. workers in country Z and suppliers not happy so this is likely to influence the decision made.</li><li>• Contingency planning and crisis management have costs associated with them – need to be compared with potential cost of not strategically managing/planning for negative events</li><li>• Contrasting short term versus long term impact</li><li>• Would help to know cost of recall</li></ul>	