

MARK SCHEME for the May/June 2015 series

9707BUSINESS STUDIES

9707/32

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, 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.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2015 series for most Cambridge IGCSE[®], Cambridge International A and AS Level components and some Cambridge O Level components.

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Section A

1 Analyse the benefits and limitations to MF of the level of delegation given to farm managers. **[10]**

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks
Level 2	3 marks Good knowledge of delegation and benefits and/or limitations	3 marks More than one benefit/limitation explained in context	3–4 marks Good use of theory and/or reasoned argument to explain benefits and limitations
Level 1	1–2 marks Some knowledge of delegation or benefits and/or limitations	1–2 marks Some application to case	1–2 marks Some use of theory and/or reasoned argument to explain benefits or limitations

Answers could include:

- Delegation – the passing of authority to subordinates to perform tasks/take decisions.
- Can increase motivation due to increased demands of the job – farm managers very rarely leave MF.
- Can lead to better decisions as subordinates are ‘closer to the action’ – timing of planting of maize.
- Reduces workload on senior managers – Robert and other family members can focus on departmental tasks.
- Leads to less control – might some managers start to use GM maize?
- Less central direction/control – over wage levels and safety for example.
- Might be less effective with managers who have not been with MF long – those externally recruited.

2 (a) Using data on lines 16–18 and Table 1, calculate:

(i) capacity utilisation in 2014 **[2]**

$$\frac{\text{Current Output}}{\text{Total Capacity}} \times 100 \quad 1 \text{ mark} \quad \text{OR} \quad \frac{30000}{36000} \times 100 \quad 1 \text{ mark}$$

$$= 83\% \text{ or } 83.3\% \quad 2 \text{ marks}$$

$$\text{If stated as a fraction then } 5/6 \quad 2 \text{ marks} \quad \frac{30000}{36000} \quad \text{OR} \quad \frac{30}{36} \quad 1 \text{ mark}$$

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- (ii) the difference, at an output of 30 000 tonnes of flour, between the average cost per tonne in 2014 and the forecasted average cost per tonne in 2016. [4]

What the candidate did	Answer	Mark	Justification	Notes: \$ sign not required OFR applies to calculations
Correct calculation of average cost(s)	\$1	4	Difference correctly calculated	Working need not be shown.
	2014 \$73 2016 \$74	3	Average costs correctly calculated	Evidence of working required
	2014 \$73 OR 2016 \$74	2	Only one average cost correctly calculated	
Depreciation not included in calculations	\$6.3 or \$6	3	Difference calculated but depreciation not included	
	2014 \$71 2016 \$64.7 or \$65	2	Not included depreciation and no difference calculated	
	2014 \$71 OR 2016 \$64.7 or \$65	1	Only one average cost but with error: not included depreciation and no difference calculated	
Other annual indirect costs not included in calculations	\$2.33	3	Difference calculated but other annual indirect costs not included	
	2014 \$62 2016 \$64.33 or \$64	2	Average costs calculated but with error: not included other annual indirect costs	
	2014 \$62 OR 2016 \$64.33 or \$64	1	One average cost calculated but with error: not included other annual indirect costs	
Did not recognise data was in 000s	\$0.001	3	Difference calculated but ignored data was in 000s	
	2014 \$0.073 AND 2016 \$0.074	2	Average costs calculated but ignored data was in 000s	
	2014 \$0.073 OR 2016 \$0.074	1	One average cost calculated but ignored data was in 000s	
Used output of 36 000	\$0.9 or \$0.97	2	Incorrect output used (36 000) with no adjustment of direct costs	
	2014 \$60.83 AND/OR 2016 \$61.7	1	Incorrect output used and direct costs not adjusted for this	

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Only total cost(s) calculated	\$2 190 000 and/or \$2 220 000	1	Calculation of TC	
	\$30 000	1	Calculated difference in TC	
No calculation	AC = TC/Output or AC = TC/Q	1	Formula	

(b) Using your results to 2(a) and other information, recommend whether MF should build the new factory. Justify your answer. [12]

	Knowledge 2 marks	Application 2 marks	Analysis 4 marks	Evaluation 4 marks
Level 2	2 marks At least two relevant points made	2 marks Application of two or more points to case/use of results	3–4 marks Good use of theory to answer question	3–4 marks Good judgement shown
Level 1	1 mark One relevant point made	1 mark Some application to case/use of one result	1–2 marks Some use of theory to answer question	1–2 marks Some judgement shown

Answers could include:

- Average cost per tonne is higher with new factory which reduces profit margins/competitiveness.
- This is likely to fall (significantly) if output rises above 30 000 tonnes helped by lean production techniques being incorporated into the design of the factory.
- Advantage is likely to be greater, therefore, if output and sales rise above current output level due to impact of reduced average fixed costs.
- Can new factory be afforded? More data needed to support directors' claim.
- Will job losses be necessary? Reaction of employees is unknown.
- Would outsourcing be a better and cheaper option? Outside firms used at present are small – do they have the capacity for flour production?
- Would quality be an issue? Customers currently appreciate the good value products.

Evaluation:

- Higher capacity working at existing factory could not operate for long without serious problems.
- If demand is likely to increase permanently, new factory seems to be essential – but how accurate are cost forecasts?
- If demand falls, the cost per unit will rise and reduce MF's competitiveness.
- Other information needed, e.g. outsourcing costs.

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3 To what extent will a marketing plan ensure that the new 'Maize Crunchies' product is profitable? [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks At least two relevant points made about marketing plan	2 marks Application of two or more points to case	4–5 marks Good use of theory to answer question	4–5 marks Good judgement shown
Level 1	1 mark One relevant point made about marketing plan	1 mark Some application to case	1–3 marks Some use of theory to answer question	1–3 marks Some judgement shown

Answers could include:

- Marketing plan is a detailed report on a firm's marketing strategy including SWOT/PEST (situational analysis); marketing objectives and budget; marketing mix tactics.
- This is a product development – could be a risky strategy without a clear and detailed marketing plan based on market research results.
- The plan should ensure that a budget is kept to – aiding potential profitability.
- The plan should ensure that a coordinated marketing mix is used – increasing chances of the product being a sales success.

Evaluation:

- Sales success not necessarily the same as profitability.
- May have to adapt plan to changes made by bigger competitors – how flexible will the MF plan be?
- The plan will be a key element in the product's chances of success but many other factors will also influence the profitability of the product, e.g. labour costs; economic conditions; competitors' prices.

4 (a) (i) Assume ABC'S farms are purchased. Using Appendix 1, the assumptions on lines 54–55 and other information calculate the net profit margin of MF in 2016. [6]

Sales revenue	45.5 (2) (1 for some attempt)
Net profit	9.6 (2) (1 for some attempt)
Net profit margin	21.1% (2) OFR (1 for formula only) Accept 21%. % sign not required for full marks

(ii) Briefly assess one way in which MF's net profit margin could be increased. [4]

	Knowledge 1 mark	Application 1 mark	Analysis 1 mark	Evaluation 1 mark
Level 1	1 mark One way suggested	1 mark Application of way	1 mark Use of theory to explain way	1 mark Judgement shown

Answer could include:

- Reduce quality of maize ingredients – lowering cost of sales BUT could damage quality and relationship with retailers/consumers.
- Increase prices e.g. of flour – will increase margin over cost of sales BUT could damage the reputation for 'good value'.
- Cut salaries/bonuses of farm managers – reducing overheads and increasing NPM – BUT they are loyal to MF.

(b) Discuss the problems that MF might experience if it buys the ten ABC farms. [14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks At least two relevant points made	2 marks Application of two or more points to case	4–5 marks Good use of theory to answer question	4–5 marks Good judgement shown
Level 1	1 mark One relevant point made	1 mark Some application to case	1–3 marks Some use of theory to answer question	1–3 marks Some judgement shown

Answers could include:

Possible attempt to explain in terms of horizontal integration:

- Effective communication may become more difficult
- Distance – as the farms may be in other countries and travel might be difficult. Face-to-face meetings might be infrequent.
- Language – different countries in Africa use different languages – will there be a common language between ABC farm managers and MR directors?
- Poor electricity supply – internet links might not be reliable. Post/telephone could be used – but postal services might be slow/poor and telephone still has language problems.
- Lack of investment – MF may have to finance substantial capital expenditure after buying the farms – can this be afforded?
- Overpaid managers – do they share the values of MF? Might they need to be replaced?
- Potential damage to MF's reputation from bad publicity associated with ABC farms' production methods.

Evaluation:

- Depends on where farms are located and the quality of maize produced.
- Could bad publicity caused by ABC's production methods damage shareholder value in MF?
- Is MF management able to manage a much bigger business and will synergy result? Potential for culture clashes?
- How much would a reliable electricity/internet link cost?

5 Discuss whether MF should 'always consider the interests of stakeholders as more important than profit' (line 11).

[14]

	Knowledge 2 marks	Application 2 marks	Analysis 5 marks	Evaluation 5 marks
Level 2	2 marks At least two relevant points made	2 marks Application of two or more points to case	4–5 marks Good use of theory to answer question	4–5 marks Good judgement shown
Level 1	1 mark One relevant point made	1 mark Some application to case	1–3 marks Some use of theory to answer question	1–3 marks Some judgement shown

Answers could include:

- Stakeholders – those with a direct interest in the performance/activities of a business.
- Examples in this case include farm managers, customers, retailers, environmental groups.
- The statement suggests the business is focused on corporate social responsibility.
- This can be expensive, e.g. cutting out GM crops; keeping prices relatively low ('good value'); paying bonuses to farm managers.
- In the short term these and other CSR policies can result in lower profits.
- Taking the 'stakeholder first' view can increase profits in long term: consumer loyalty, low labour turnover, for example.
- Are competitive pressures rising for MF – e.g. in breakfast cereals? Will this mean that they will have to focus less on stakeholders and more on lower costs/higher profits?
- How will they deal with 'overpaid' managers in ABC's farms?

Evaluation:

- Need more evidence of MF's CSR policies and those of competitors.
- Will consumers become more concerned about CSR issues if incomes rise (e.g. country X rise in GDP)?
- No specific evidence that MF will have to change current policies.

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Section B

Questions 6 & 7 use this mark grid:

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks	Evaluation 10 marks
Level 3				7–10 marks Good judgement shown in text and conclusions
Level 2	3 marks Good understanding shown	3 marks Good application to case	3–4 marks Good use of theory to explain points made	4–6 marks Some judgement shown in text and/or conclusions
Level 1	1–2 marks Some understanding shown	1–2 marks Some application to case	1–2 marks Limited use made of theory	1–3 marks Limited judgement shown

6 Evaluate the importance of the data in Appendix 2 and Appendix 3 to MF's directors when making the strategic choice whether to enter the market in country X. [20]

Answers could include:

- This is a strategic choice as market development is an important/difficult to reverse decision.
- Data in Appendix 2 is both positive and negative for this decision. High GDP growth rate suggests expanding economy and higher living standards – consumers may be more able to afford maize products.
- High inflation though – costs of transport and retailing costs might be high.
- Exchange rate depreciation of X's currency will make it more expensive to import into country X.
- Import tariffs are a barrier to trade – makes imports less competitive than domestic maize products BUT this is 2014 data and government of X is reducing these barriers to free trade.
- High proportion of young people – supply of labour might be high and wage rates might be low.
- Frequent changes of government. How stable is the government/country? Could a change of government reverse these policy changes and make inward investment less attractive?

Evaluation:

- Data in Appendix 2 is very important BUT more past data and forecasts would be useful to establish trends.
- Appendix 3 is significant too – e.g. decision tree results and payback. Other strategic choice techniques could be used.
- How much market research has MF undertaken? The data provided is not specific to maize/maize products.
- Might consider which of the two appendices is more important to the decision, e.g. the data in Appendix 2 is more important because it is actual/factual data whereas the data in Appendix 3 is based on forecasts.

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- 7 Discuss how the strategy of entering the market in country X could be effectively implemented by MF’s directors. [20]**

Answers could include:

- Implementation of strategic decisions means leading and managing change effectively to ensure strategic objectives are met.

Each point made could be supported by evaluative comment:

- Planning will be essential – MF seems to operate only in one country at present so market development will be a first for this company.
- Country X seems unstable – very important to plan for contingencies.
- There need to be clear objectives for this strategy to allow effective review of its implementation.
- It needs a leader with clear vision – will this be Robert or will the Marketing Director be responsible for this? Is she going to be too tied up with ‘Maize Crunchies’?
- Would a joint venture be a better way to implement this strategy? Existing operator in country X could provide useful market knowledge and in-country insights, e.g. into government stability.