



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Advanced Level

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**BUSINESS STUDIES**

**9707/03**

Paper 3 Case Study

**For Examination from 2011**

SPECIMEN MARK SCHEME

**3 hours**

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**MAXIMUM MARK: 100**

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This document consists of **9** printed pages and **1** blank page.



**1 Analyse the advantages and disadvantages for Mercardo of adopting a decentralised management structure. [10]**

	<b>Knowledge 3 marks</b>	<b>Application 2 marks</b>	<b>Analysis 5 marks</b>
Level 2	2 marks Two or more relevant points made or one point made plus knowledge of decentralisation shown	2 marks Points made are well applied to case	5–3 marks Good use of theory to explain advantages and disadvantages
Level 1	1 mark One relevant point made or knowledge of decentralisation shown	1 mark Some application to case	2–1 marks Good use of theory to explain one side or limited use of theory to explain one or both sides.

Answers could include:

Definition: The process of passing decision making authority to departments/divisions/regions.

Advantages:

- Local knowledge – especially when selling or producing in overseas markets
- Quicker decision making – will become more important as Mercardo continues to expand
- More motivating – more trust shown in middle managers
- Improves regional communication as shorter chain of command

Disadvantages:

- Needs extensive staff training – does this firm have the resources for this at the present time?
- Risk of less control and less consistency in decision making – is management prepared for this change of culture?
- Greater chance of local decisions breaking ethical code of the company

**2 (a) Using data in Appendix A, calculate for both strategic options A and B:**

**(i) Average Rate of Return (ARR)**

**[1]**

ARR % = Annual profit / initial capital cost × 100

Option A =  $0.833 / 5 \times 100 = 16.66\%$

Option B =  $1.33 / 6 \times 100 = 22.16\%$

Ready Reckoner:

Result	Explanation	Marks
16.66% AND 22.2% (accept rounding up/down)	Both correct	4
16.66% OR 22.2% (accept rounding up/down)	1 correct which implies correct formula/process	3
33.33% AND 44.44 %	Incorrect capital cost used in formula	2
50% AND 66.7%	No division by number of years	2
33.33%; 44.44%; 50%; 66.7% Just ONE of these results	Error made as above but only one result given	1
0.833 AND/OR 13.3	Process correct but incorrect formula used	1
Formula only		1

(ii) **Net Present Value (NPV) using 10% discount factors in Table 1.**

**[4]**

Year	Option A	DCF	Option B	DCF
0	(5)	(5)	(6)	(6)
1	2.5	2.275	4	3.64
2	2.5	2.075	3	2.49
3	2.5	1.875	3	2.25
NPV		1.225		2.38

Ready Reckoner:

Result	Explanation	Mark
1.225 AND 2.38	Both correct	4
A: 1.205 to 1.245 B: 2.37 to 2.40	Margin of error accepted due to candidates own calculation of discount factors	4
Any ONE of the results above	Correct process and 1 correct result	3
One correct result and 1 arithmetical error		3
One repeated error on both results	e.g. not deducting capital cost	3
Two arithmetical errors		2
Some use of technique	e.g. Any multiplication of cash flows by discount factors	1

(b) Briefly assess the value of these results to Mercardo's directors.

[4]

Allow own figure rule.

	<b>Knowledge 1 mark</b>	<b>Application 1 mark</b>	<b>Analysis 1 mark</b>	<b>Evaluation 1 marks</b>
Level 1	1 mark Shows some understanding of results	1 mark Some application to case	1 mark Some use of theory to explain answer	1 mark Judgement used to assess significance of results

Answers could include:

- ARR results both positive and confirm profitability of both projects
- NPV higher for B than A – ARR probably more significant due to different costs – IRR would be best of all.
- These results could be one factor in the strategic choice to be made.

Evaluation:

- How reliable are the forecasts? – B likely to be much less reliable as the cost of and returns from R and D are unreliable
- Not the only factors to be considered when making this decision e.g. the risk of B might be very important and if country A is very different to the other countries Mercardo operates in this could add to the risk of this option too. Cash flows are only forecasts.

(c) Discuss whether Mercardo should keep open the factory that pollutes the local environment. [12]

	<b>Knowledge 2 marks</b>	<b>Application 2 marks</b>	<b>Analysis 4 marks</b>	<b>Evaluation 4 marks</b>
Level 2	2 marks Two or more relevant points made.	2 marks Points made are well applied to case and country	4–3 marks Good use of theory to explain advantages and disadvantages	4–3 marks Judgement shown in considering both advantages and disadvantages
Level 1	1 mark One relevant point made	1 mark Some application to case and country	2–1 marks Good use of theory to explain one side or limited use of theory to explain one or both sides	2–1 marks Judgement shown but on one side only

Answers could include:

- YES: Profitable, no excess capacity at other factories, sales will be lost – opens up opportunities for competitors, jobs lost, social consequences of this, exports lost to national economy.
- NO: Not socially responsible, may be health hazards to staff and local community, pressure group may take direct action, may be illegal – heavy fines?, bad publicity for Mercardo – could hit reputation and sales. Good staff may be unwilling to work for socially irresponsible company.

Evaluation: The decision MAY DEPEND ON:

- The size and influence of the pressure group, when the new factory will be built and can take over production, whether legal limits are being exceeded, impact of bad PR on sales/profits.
- In the short run it could be profitable to keep factory open but in the long run it could reduce profits if negative effects begin to have greater importance

**3 (a) Use data in Appendix B and appropriate ratios, analyse the financial efficiency of the business. [6]**

Formulae: Inventory turnover =  $\frac{\text{Cost of sales}}{\text{Inventories}}$

Days sales in receivables =  $\frac{\text{A/Cs receivable}}{\text{Sales turnover}} \times 365$

	2008	2009
Inventory turnover	1.67	1.39
Days sales in receivables	29.2	33.6

Accept the use of other versions of formulae e.g. Inventory or Accounts receivable as % of Sales Turnover; Days sales held in inventories; Accounts receivable turnover ratio. Check calculations based on formulae used and award marks as in ready reckoner.

Ready Reckoner:

Result	Explanation	Mark
All 4 correct		6
One year only – but both results correct for that year	Two formulae known and applied for one year	4
One formula only – but calculated correctly for both years	One formula known and applied twice	3
Stock turnover = 3.33 and 2.77	Sales turnover used to calculate inventory turnover	2 (days sales marked separately)
2 correct ratios but no calculations		2
1 ratio but only one correct calculation		2
1 correct ratio formula		1

(b) Evaluate any two ways in which the business might improve its financial efficiency. [8]

	<b>Knowledge 2 marks</b>	<b>Application 2 marks</b>	<b>Analysis 2 marks</b>	<b>Evaluation 2 marks</b>
Level 2	2 marks Two ways identified	2 marks Both points applied to case	2 marks Use of theory to explain how each way would help	2 marks Judgement shown in assessing both ways
Level 1	1 mark One way identified	1 mark Application of one point to case	1 mark Use of theory to explain how one way would help	1 mark Judgement shown in assessing one way

Answers could include:

- Stock levels should be of major concern. Reduce these to improve efficiency, cash flow etc. Use JIT. Evaluation: Could be less chance of gaining discounts from suppliers or less able to satisfy consumers if demand changes
- Debtors less of a problem but debtor days is rising. Reduce credit period to customers. Evaluation: But will they go to a competitor instead?
- Take longer to pay creditors Evaluation: But will they be so willing to supply materials?

4 Evaluate the most important features of a marketing strategy that would be appropriate for the new phone, assuming this was developed. [16]

	<b>Knowledge 3 marks</b>	<b>Application 3 marks</b>	<b>Analysis 4 marks</b>	<b>Evaluation 6 marks</b>
Level 2	2 marks Good knowledge shown	2 marks Good application to case	4–3 marks Good use of theory to explain answer	4–3 marks Good judgement shown
Level 1	1 mark Some knowledge shown	1 mark Some application to case	2–1 marks Some use of theory to explain answer	2–1 marks Some judgment shown

Answers could include:

- Segmentation will allow product to reach more consumers and should result in higher sales and profits.
- Price will be important if it is a competitive and price elastic market
- Promotion of features will be important – is budget available for this?
- Actions of competitors will be important – if they launch an even more advanced product, for example.
- Has this product got a real USP? Can it be copied?
- Integrated mix important to give consistent message to consumers.

**5 Evaluate the most appropriate ways, both financial and non-financial, of motivating staff in a Mercardo factory. [16]**

	<b>Knowledge 3 marks</b>	<b>Application 3 marks</b>	<b>Analysis 4 marks</b>	<b>Evaluation 6 marks</b>
Level 2	2 marks Good knowledge shown	2 marks Good application to case	4–3 marks Good use of theory to explain answer	4–3 marks Good judgement shown
Level 1	1 mark Some knowledge shown	1 mark Some application to case	2–1 marks Some use of theory to explain answer	2–1 marks Some judgment shown

Answers could include:

- Details of present pay system and the problems this is causing
- New pay system – give details and analyse why “better” than existing system which seems to be leading to poor quality work.
- Change traditional flow production methods – cell production etc.
- TQM and Job enrichment – could prove to be motivating and more productive for the business. Quality circles etc.
- BUT: Are management prepared to change their style of leadership and give more responsibility?
- How will other staff react to new pay system for production workers? Are workers trained and willing to accept new responsibilities?
- Good evaluation will give clearly supported recommendations based on assessment of the current problems and different options.

**6 and 7**

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

**6 Evaluate the factors that Mercado directors should consider before making the strategic choice between the two alternative growth strategies. [20]**

Answers could include:

- Definition of strategic choice – choosing between strategic options.
- Both of these are major decisions but market development has been tried before so existing experience would be relevant
- Use of Ansoff's matrix – Option B is product development (or is it really diversification?) and Option A is market development
- Analysis of risk involved
- R and D spending – more risk attached to this than market development?
- Investment appraisal results – need additional analysis such as break-even and discounted rate of return?
- Decision tree technique – the probabilities and estimated cash flows might be quite accurate for Option A but there will be many uncertainties with Option B. So how useful will this be?
- Force field – how might this be used to increase the driving forces for change once a decision has been made? Could it assist in making one of the Options more successful?
- Use of Appendix C data.

Evaluation:

- Prioritisation of factors – discussion of their relative importance in this case. Should the decision be taken scientifically or with “instinct”? How reliable would the data be for basing a scientific decision on? Are qualitative factors more important than quantitative ones? Only one year of economic forecasts given – no trend data.

**7 Discuss the significance of strategic analysis to the future success of Mercado. [20]**

Answers could include:

- Definition of strategic analysis – the process of conducting research into the business environment within which an organisation operates and into the organisation itself to help form future strategies.
- Explanation and analysis of SWOT and PEST and how these can benefit businesses in their strategic decision making – apply to Mercado or another business.
- Will the mission statement have to be changed if Option B is chosen and how influential might this be within the organisation?
- Assess the significance of the Boston Matrix, Porters 5 forces and/or core competences as means of analysing current position and as frameworks for future strategy.

Evaluation:

- How important is strategic analysis in context? Would strategies be likely to be more successful if such analysis has been undertaken? In a fast changing market or business environment strategic analysis will need frequent updating – can become misleading if this does not occur. Does not guarantee success of future strategies – but should increase chances of success. Apply to the current choices facing Mercado or other large business(es).



	<b>K</b>	<b>Ap</b>	<b>An</b>	<b>Ev</b>	
<b>1</b>	3	2	5		10
<b>2 (a) (i) and (ii)</b>	2	2	4		8
<b>2 (b)</b>	1	1	1	1	4
<b>2 (c)</b>	2	2	4	4	12
<b>3 (a)</b>	2	2	2		6
<b>3 (b)</b>	2	2	2	2	8
<b>4</b>	3	3	4	6	16
<b>5</b>	3	3	4	6	16
<b>6/7</b>	3	3	4	10	20
	21	20	30	29	100

