

MARK SCHEME for the October/November 2008 question paper

9707 BUSINESS STUDIES

9707/03

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.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

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Section A

1 (a) Analyse the benefits to Tanroh of producing cash flow forecasts. [8]

| | Knowledge (2) | Application (2) | Analysis (4) |
|---------|---|--|--|
| Level 2 | 2 marks Good knowledge shown e.g. clear uses outlined | 2 marks Good application to case | 4–3 marks Good use of theory or reasoned argument to explain answer |
| Level 1 | 1 mark Some knowledge shown e.g. definition | 1 mark Some application | 2–1 marks Some analysis of answer |

Answers might include:

- Definition of cash flow forecast.
- Both options may involve cash flow problems. Explain why e.g. harvesting at certain times of year and seasonal tourist demand will lead to fluctuations in inflows and outflows during the year.
- Cash needs planning for – danger of illiquidity if not.
- Needs to include this in business plan.
- Bank will need to see this before agreeing to a loan.

2 (a) Analyse the importance to Tanroh of human resources planning if Option A is chosen. [8]

| | Knowledge (2) | Application (2) | Analysis (4) |
|---------|---|--|--|
| Level 2 | 2 marks Good knowledge shown e.g. clear uses outlined | 2 marks Good application to case | 4–3 marks Good use of theory or reasoned argument to explain answer |
| Level 1 | 1 mark Some knowledge shown e.g. definition | 1 mark Some application | 2–1 marks Some analysis of answer |

Answers might include:

- Additional staff needed, not all year round, some with special skills.
- Failure to plan may lead to inadequate staff and crops left unharvested/unwashed – damage quality of the product. Could lead to loss of important contract.
- Important to recruit and train right type of staff.
- May need to offer flexible contracts to cope with the months when not needed.
- Planning ahead with the unemployment forecasts could mean labour cost savings if higher unemployment results in lower wage rates – good case for only offering short term contracts.

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- (b) Do you agree with Abi that Tanroh will need to delegate if more staff are employed? Give reasons for your answer, explaining the advantages and disadvantages to Tanroh. [12]

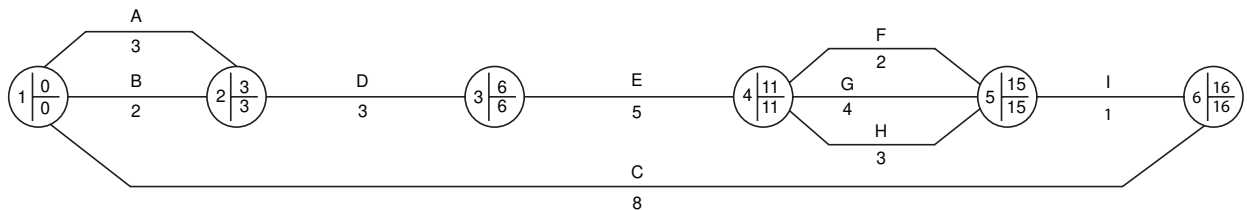
| | Knowledge (2) | Application (2) | Analysis (4) | Evaluation (4) |
|---------|---------------------------------|-------------------------------------|--|---|
| Level 2 | 2 marks Good knowledge shown | 2 marks Good application to case | 4–3 marks Good use of theory or reasoned argument to explain answer | 4–3 marks Good evaluation in either text or conclusion |
| Level 1 | 1 mark Some knowledge shown | 1 mark Some application | 2–1 marks Some analysis of answer | 2–1 marks Some judgement shown |

Answers might include: Definition of delegation.

- Business will be employing more staff. There may be different departments needed in both of the options. Can Tanroh control all of the newer business himself? Does he have the skills and time to do this?
- Should he be concentrating on key strategic areas (quality with Option A and customer service with Option B?) and delegating authority to staff?
- Delegation will allow him more time and motivate staff.
- BUT: Requires trust though and Tanroh appears not to be used to giving this. Is his style of leadership able to accept delegation? Staff must have adequate training for it to work. Final responsibility will rest with Tanroh.

Examiner's note: Max L1 for analysis and evaluation if one sided answer.

- 3 (a) Using the data in Appendix C, construct a network diagram (CPA) for the safari lodge project, showing all earliest start times and latest finish times. [10]



| | |
|----------------------------------|-----------|
| Accurate/logical network diagram | 6 marks |
| 1 error | 5 marks |
| 2 errors | 4 marks |
| 3 errors | 3 marks |
| Some idea | 2–1 marks |

(Allow OFR for incorrect network)

| | |
|---------------------------|---------|
| All ESTs and LFTs correct | 4 marks |
| 1 error | 3 marks |
| 2 errors | 2 marks |
| 3 errors or some idea | 1 mark |

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- (b) If activity B is delayed by 2 weeks, briefly advise Tanroh on what steps he could take to avoid the project taking longer than 16 weeks. [4]

K1Ap1An1E1

- CP now changes to 17 weeks so to keep to original length (16 weeks) a subsequent critical activity must be reduced in duration by 1 week.
- Which one and how?
- Use of spare resources from float times – are these resources able to do other tasks?
- Allow marks for general discussion on use of float times especially if no accurate CPA.

- 4 Recommend to Tanroh a possible marketing strategy for the safari lodge project. Fully justify your recommendation. [16]

| | Knowledge (3) | Application (3) | Analysis (4) | Evaluation (6) |
|---------|-----------------------------------|-------------------------------------|--|---|
| Level 2 | 3 marks Good knowledge shown | 3 marks Good application to case | 4–3 marks Good use of theory or reasoned argument to explain answer | 6–4 marks Good evaluation in either text or conclusion |
| Level 1 | 2–1 marks Some knowledge shown | 2–1 marks Some application | 2–1 marks Some analysis of answer | 3–1 marks Some judgement shown |

Answers might include:

- Definition of marketing strategy.
- Such a strategy needs research to support it, clear objectives, adequate budget and coordinated mix.
- The mix used and the size of budget set will depend greatly on the objectives Tanroh's sets for this division of the business.
- Niche market – high prices, quality furniture, own promotion etc.
- Mass market – lower prices, cheaper furniture, promotion through tourist offices.
- Any reasonable answer is acceptable but needs to be supported/justified to gain any evaluation marks and must be strategic in nature to earn level 2 marks for evaluation.

- 5 (a) Calculate for the safari lodge option, using the data in Appendix A:

(i) The ARR

ARR = 28.3% (3 marks)

Marks available for attempted calculation. These are total marks and cannot be aggregated e.g. 1 mark for formula cannot be given IF 113.3% is calculated.

- ARR formula = $\frac{\text{Total profit / no. of years}}{\text{Capital cost}} \times 100$ (1 mark)
- \$64000 = added up all cash inflows (1 mark)
- \$34000 = \$64000 – \$30000 = subtracted capital cost (1 mark)
- \$8500 = \$34000/4 = calculating correct annual profit (2 marks)
- 53.3% = \$64000/4 = \$16000/\$30000 × 100 (2 marks)
- 113.3% = \$34000/\$30000 × 100 (2 marks)

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(ii) The NPV at a 10% discount rate.

NPV = \$18320 (3 marks)

Marks available for attempted calculation:

| Year | Cash flows \$ | Discount factor | DCF |
|------|---------------|-----------------|-----------------|
| 1 | 5000 | 91 | 4550 |
| 2 | 15000 | 83 | 12450 |
| 3 | 20000 | 75 | 15000 |
| 4 | 24000 | 68 | 16320 |
| | | | 48320 (2 marks) |

Some attempt to use discount factors (1 mark)

(b) Using your results from 5(a) and other information, recommend to Tanroh which of the two options he should choose. Justify your recommendation. [16]

| | Knowledge (3) | Application (3) | Analysis (4) | Evaluation (6) |
|---------|---------------------------------|-------------------------------------|--|---|
| Level 2 | 3 marks Good knowledge shown | 3 marks Good application to case | 4–3 marks Good use of theory or reasoned argument to explain answer | 6–4 marks Good evaluation in either text or conclusion |
| Level 1 | 1 mark Some knowledge shown | 1 mark Some application | 2–1 marks Some analysis of answer | 3–1 marks Some judgement shown |

Answers might include:

- Either answer is acceptable.
- Analyse the investment appraisal results. Are the differences significant in this case?
- Consider the risk – especially with diversification. Award marks for accurate consideration of Ansoff's matrix.
- Loss of some business control with Option A.
- Option B needs more finance – chances of this being provided by bank?
- Will retailers contract be renewed after 4 years?
- Is economic data more or less favourable for one option rather than another?
- Evaluation/recommendation must be well supported for L2 evaluation.

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Section B

6/7 use the same mark grid:

| | Knowledge (4) | Application (4) | Analysis (4) | Evaluation (8) |
|---------|-----------------------------------|---|--|--|
| Level 3 | | | | 8–5 marks Very good evaluation of text and conclusion focused on question set |
| Level 2 | 4–3 marks Good knowledge shown | 4–3 marks Good application to case (or to own country in Q6) | 4–3 marks Good use of theory or reasoned argument to explain answer | 4–3 marks Good evaluation in either text or conclusion |
| Level 1 | 2–1 marks Some knowledge shown | 2–1 marks Some application | 2–1 marks Some analysis of answer | 2–1 marks Some judgement shown |

6 Discuss whether the government should support and protect important industries in your country. [20]

Answers might include:

- Support will probably take the form of grants/subsidies; protection takes the form of import controls.
- Clues given in passage and these could be applied to any important industry. Candidates should draw on own country experience. Employment, incomes, rural depopulation, B of P, incentives to improve efficiency, cost of the subsidies, import tariffs and quotas etc.
- BUT: these and other arguments can be weighed up e.g. opportunity cost of subsidies; encourages inefficiency, danger of retaliation (protectionism).
- Infant industry? Protect from unfair foreign competition?
- Arguments may be assessed by considering those industries that should be supported in candidate's own country and those that should not be.
- Clear evaluation/judgement needed for top level E.

Examiners' note: Max L1 for analysis and evaluation if only one sided answer.

7 To what extent will the future success of Tanroh's business depend on him setting clear objectives? [20]

Answers might include:

- Objectives offer direction, focus, motivation, assists with control and review – how important will these be for either of the 2 options?
- As these are new markets/services for Tanroh then clear, specific and measurable objectives could be very important.
- Helps with MBO.
- BUT: How much experience has he in setting objectives. If not clear, specific and measurable will they be counter productive?
- Many other factors will determine future success. Economic data. If he does not take either option, then food prices will be crucial.
- Both options depend on economic situation and Tanroh's management skills – setting objectives is only one factor determining future success.

Examiners' note: Max L1 for analysis and evaluation if no consideration of other factors determining success.