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BUSINESS

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Paper 3 Case Study

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MARK SCHEME

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Question	Answer	Marks												
1	Analyse the likely impact of globalisation on HH. <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 Good knowledge of globalisation and its impact(s)</td><td>2 marks Points applied to HH</td><td>4–5 marks Good use of theory and / or reasoned argument to explain impacts</td></tr><tr><td>1</td><td>1–2 marks Knowledge of globalisation and / or impact(s)</td><td>1 mark Point applied to HH</td><td>1–3 marks Some use of theory and / or reasoned argument to explain impacts</td></tr></table> Knowledge Globalisation is the trend towards freer international trade and movement of labour and capital Greater competition Easier recruitment from abroad Opportunities for expansion Economies of scale Application More competition – referred to in para 1 Greater opportunities for recruiting hotel / catering employees from other countries More opportunities for expansion abroad – this is what HH is considering Analysis This will impose competitive pressures on HH and force business to be cost competitive or to create a differentiated service – might be difficult with only 4 star hotels. Recruitment from abroad might help to keep HH labour costs low / competitive Expansion abroad especially important if country Z hotel market is static / mature	Level	Knowledge 3 marks	Application 2 marks	Analysis 5 marks	2	3 marks Good knowledge of globalisation and its impact(s)	2 marks Points applied to HH	4–5 marks Good use of theory and / or reasoned argument to explain impacts	1	1–2 marks Knowledge of globalisation and / or impact(s)	1 mark Point applied to HH	1–3 marks Some use of theory and / or reasoned argument to explain impacts	10
Level	Knowledge 3 marks	Application 2 marks	Analysis 5 marks											
2	3 marks Good knowledge of globalisation and its impact(s)	2 marks Points applied to HH	4–5 marks Good use of theory and / or reasoned argument to explain impacts											
1	1–2 marks Knowledge of globalisation and / or impact(s)	1 mark Point applied to HH	1–3 marks Some use of theory and / or reasoned argument to explain impacts											
2(a)(i)	Refer to the Appendix. Calculate for location Y: break-even number of customers per month TR = TC (1mark) Fixed costs / contribution per unit (1 mark) \$69 000 / \$70–\$40 (2 marks) 2300 customers (3 marks) OFR max 2 marks If use 50–30 or fixed costs of \$30 000 and calculate correctly then 2 marks	3												

Question	Answer	Marks
2(a)(ii)	monthly profit at maximum capacity Many formulae / approaches acceptable e.g. (max customers · price) – (max customers · variable costs + fixed costs) (1 mark) (max capacity – B / EVAL) · unit contribution (1 mark) TR – TC (1 mark) Total contribution less fixed costs (1 mark) Profit at expected demand is \$66 000 (2 marks) (evidence of method not needed) (5000 · \$70) – (5000 · \$40 + \$69 000) (2 marks) \$81 000 (3 marks) OFR max 2 marks	3
2(a)(iii)	margin of safety. Expected output – break-even output (1 mark <i>if no calculation</i>) 4500 – 2300 (1 mark) 2200 (2 marks) 48.9% (2 marks) OFR based on answer from 2(a)(i) (2 marks) Max output – break-even output (0 marks)	2

Question	Answer				Marks															
2(b)	Refer to your results from 2(a), the Appendix and other information. Recommend to HH’s directors whether to choose location X or Y for the new hotel. <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 relevant points</td><td>2 marks Factors well applied to HH</td><td>3–4 marks Good use of theory and / or reasoned argument to explain location factors</td><td>3–4 marks Good judgement shown e.g. well supported conclusion</td></tr><tr><td>1</td><td>1 mark Relevant point</td><td>1 mark Some application of factors to HH</td><td>1–2 marks Some use of theory and / or reasoned argument to explain location factors</td><td>1–2 marks Some judgement shown e.g. one factor very important</td></tr></table> <i>Note to examiners:</i> Limit to L1 A & EVAL if only Appendix, results or other information considered. OFR from 2(a) applies Knowledge Factors influencing location: Costs Nearness to market Preferences of owner Transport links Competition Risk B / EVAL Application Comparison of results: OFR applies Location X has lower BE; Location Y has greater profit at max capacity Location Y has higher margin of safety Other issues: Y is city centre location Y requires higher capital outlay X has margin of safety of 1700 Location Y requires higher capital outlay – are funds available internally or will this have to be added to the \$60 m to be raised? Location Y takes longer to become operational Location Y has higher fixed costs				Level	Knowledge 2 marks	Application 2 marks	Analysis 4 marks	Evaluation 4 marks	2	2 marks Two relevant points	2 marks Factors well applied to HH	3–4 marks Good use of theory and / or reasoned argument to explain location factors	3–4 marks Good judgement shown e.g. well supported conclusion	1	1 mark Relevant point	1 mark Some application of factors to HH	1–2 marks Some use of theory and / or reasoned argument to explain location factors	1–2 marks Some judgement shown e.g. one factor very important	12
Level	Knowledge 2 marks	Application 2 marks	Analysis 4 marks	Evaluation 4 marks																
2	2 marks Two relevant points	2 marks Factors well applied to HH	3–4 marks Good use of theory and / or reasoned argument to explain location factors	3–4 marks Good judgement shown e.g. well supported conclusion																
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Question	Answer	Marks
	Note: Where candidate only gives several higher / lower comparisons then limit to L1 APP. Analysis Location X is less risky – lower BE point which might be best for a new hotel in an untried region. This can be linked to fixed costs. Location Y is potentially more profitable – because of city centre location attracting business guests? Location Y has greater margin of safety, this reduces risk as allows for greater deviation from expected demand Time taken to become operational will have an impact on cash flow for HH Evaluation Market research data essential too: likelihood of reaching beyond BE points in both locations; management attitude to risk; types of guests aimed for in both locations Decision can go either way – but must be supported e.g. X is better as it gives earlier feedback on market demand and is less risky at a time of other strategic changes. Y is better as it is potentially more profitable and plcs will aim for profitable growth and tourism / travel seems to be increasing making the higher BE less of a risk How significant is difference in capital cost to HH Location Y takes longer – how important is it to enter this geographical market quickly?	

Question	Answer				Marks
3	Discuss the changes HH should make to its organisational structure to allow for future business growth.				16
	Level	Knowledge 2 marks	Application 2 marks	Analysis 6 marks	Evaluation 6 marks
	2	2 marks Good knowledge shown of organisational structure	2 marks Good application to HH	4–6 marks Good use of theory and / or reasoned argument to explain ads / disads of possible new structure	4–6 marks Good judgement shown on possible new organisational structure
	1	1 mark Some knowledge shown of organisational structure	1 mark Some application to HH	1–3 marks Some use of theory and / or reasoned argument to explain ads / disads of possible new structure	1–3 marks Good judgement shown on possible new organisational structure
<i>Note to examiners:</i> If changes suggested but not specifically linked to future growth then no bar on marks. If just discuss the problems with current structure then limit to L1 AN & EVAL Knowledge Organisational structure shows the lines of authority / chain of command in an organisation – also spans of control / levels of hierarchy / formal communication channels Knowledge of different organisational structures Application Current structure appears to be traditional hierarchy based on functional departments – rigid, poor communication and coordination between departments. Does not seem well suited to either operations in another country (Option 1) or another business unit – activity centres (Option 2) Might not even be well suited to growth of the existing business Impact of globalisation on organisational needs Other options include: Geographical structure e.g. northern hotels and Option 1 Business unit structure e.g. hotels and activity centres (Option 2) Matrix structure for new projects such as option 1 or 2					

Question	Answer	Marks
	Analysis Analysis of why the current structure is not suited to HH Analysis of why the structure is not suited to growth of the business or increasing competition which might need more flexible / adaptable structure Geographical structure allows for regional / country differences and quicker local decision making – less control from HH head office though? Business unit structure allows specialist managers to focus on different needs of different divisions – might lead to rivalry though? Matrix structure improves communication between departments allowing better decisions to be made. But how to bring this into line with existing structure? Benefits of a centralised or decentralised new structure Evaluation Existing structure probably will not do – might depend on whether it can be effectively de-layered Supporting arguments for structure(s) proposed to allow good judgement / conclusion Globalisation will mean more and quicker changes – HH need a flexible structure which will allow for these	

Question	Answer	Marks
4(a)(i)	Refer to lines 49–57 and Table 1. Calculate: gearing ratio assuming all \$60 m is obtained from long term loans Gearing ratio = non-current liabilities / capital employed · 100 (1 mark) $= \frac{\$145\text{m}}{\$260\text{m}} \cdot 100$ (2 marks) = 55.8% (3 marks) Gearing ratio = non-current liabilities / shareholder equity · 100 (1 marks) $= 145 / 115 \cdot 100$ (2 marks) = 126% (3 marks) Other likely answers: $85 / 260 = 32.69\%$ (2 marks) $145 / 200 = 72.5\%$ (2 marks) $85 / 200 = 42.5\%$ (1 mark) Answers expressed as a decimal rather than a percentage should be rewarded equally.	3
4(a)(ii)	dividend per share in 2018 assuming all \$60 m is obtained by the sale of an additional 20 m shares. Dividend per share = total dividends / total shares issued (1 mark) $= \frac{\$8\text{m}}{60\text{m}}$ (2 marks) = 13.33 cents or \$0.1333 (3 marks) 13 and 0.13 (3 marks) 8 / 40 = 0.20 cents (2 marks)	3

Question	Answer					Marks
4(b)	Refer to your results from 4(a), Table 1 and other information. Recommend to the Board of Directors which source of finance should be used by HH to obtain \$60 m. Justify your answer.					12
	Level	Knowledge 2 marks	Application 2 marks	Analysis 4 marks	Evaluation 4 marks	
	2	2 marks Knowledge shown of finance source(s) and factor(s)	2 marks Points well applied to HH	3–4 marks Good use of theory and / or reasoned argument to explain finance sources / factors	3–4 marks Good judgement shown e.g. well supported conclusion	
	1	1 mark Knowledge shown of finance source(s) or factor(s)	1 mark Some application to HH	1–2 marks Some use of theory and/ or reasoned argument to explain finance sources / factors	1–2 marks Some judgement shown e.g. one factor very important in decision	
	<i>Note to examiners:</i> Limit to L1 A & EVAL if only Table 1, results or other information considered. OFR for answer to 4(a) Knowledge <table><tr><td> Sources of finance Loans Shares Selling assets Retained profits Overdraft Debt factoring A list of sources of finance should not be given more than 1 mark. </td><td> Factors in decision: Risk related to gearing Cost of borrowing Impact on ownership and control – shares potentially dilute ownership control Impact on taxable profit; Interest on borrowing reduces taxable profit dividends on shares does not reduce tax liability </td></tr></table> Application OFR Gearing ratio raised above 50% – was 42.5% Interest rates forecast to fall Hari prefers bank loan Hari owns shares Reduction in dividend per share from 20 to 13 cents Servicing debt at interest charge of 5% is \$3 m Hari's ownership would change from 62.5% of all share to 41.6% of shares if 20 m shares issued					
Sources of finance Loans Shares Selling assets Retained profits Overdraft Debt factoring A list of sources of finance should not be given more than 1 mark.	Factors in decision: Risk related to gearing Cost of borrowing Impact on ownership and control – shares potentially dilute ownership control Impact on taxable profit; Interest on borrowing reduces taxable profit dividends on shares does not reduce tax liability					

Question	Answer	Marks
	Analysis Fall in interest rates will reduce the fixed cost of borrowing reducing risk of taking loan capital Higher gearing represents an increase in risk due to fixed cost of servicing high levels of borrowing Shareholders may consider further share issue as undesirable as it dilutes ownership and control Higher gearing might not be a problem if expansion is profitable – once the interest has been paid, returns to shareholders should increase Either option will increase costs of business – so would any increase in interest payments be advisable? If shareholder react to the proposal to sell shares by selling their shares the share price will fall and that would threaten ability to raise \$60 m. Rights issue might have to be sold at a discount. Will the lower dividend per share encourage sale of shares? Evaluation Much depends on Hari's reaction / preference and that of shareholders 50:50 split might be suggested – will the cost of the new issue of shares be worth the finance raised? More information would have been useful e.g. how HHs competitors' share prices have changed over last year and impact of new share issue on PE ratio Is the finance required sufficient to justify the cost of a share issue More shares – Hari and family will lose overall control – unless they buy most of the new shares (unlikely?) What is happening to dividend yield in similar plcs?	

Question	Answer				Marks	
5	Discuss a suitable marketing strategy for HH if it decides to open hotels in country P.				16	
	Level	Knowledge 2 marks	Application 2 marks	Analysis 6 marks		Evaluation 6 marks
	2	2 marks Good knowledge shown of marketing strategy	2 marks Good application to HH	4–6 marks Good use of theory and / or reasoned argument to explain new marketing strategy		4–6 marks Good judgement shown on possible new marketing strategy
	1	1 mark Some knowledge shown of marketing strategy	1 mark Some application to HH	1–3 marks Some use of theory and / or reasoned argument to explain new marketing strategy		1–3 marks Some judgement shown on possible new marketing strategy
	<i>Note to examiners:</i> Limit to L1 AN & EVAL if only considers one element of marketing strategy e.g. just pricing or budget Knowledge Marketing strategy is a detailed plan of the company’s marketing objective, budget and marketing mix The objective set will be the benchmark of success / failure as well as a major determinant of the marketing mix and the budget level Reference to situational analysis / market research as part of marketing Application Clear objective needs to be set – this has not yet been done – the general statement in para 1 about the “need to take advantage of growth in international tourism” is not an objective. EVAL.G.: 15% market share in country P by 20xx? Marketing budget? Is this included in the \$60 m? No details of how much will be needed. Same as competitors?					

Question	Answer	Marks
	Analysis Pricing - penetration pricing to get established is a possibility – Hari not very keen on this but might be necessary. How will this impact on image of the new hotels? Promotion – newspaper advertising expensive might not reach target market – again market research essential. Need to focus on promotion methods most likely to reach target market Place – online? Own website or booking agencies? Travel agencies? Product – 4 star hotels (HH experienced in this sector) – market research needed to establish likely demand and whether tourists or business customers. Country P a definitely not a developing lower income economy but high income country with high competition in this market Clear objectives will provide focus for taking appropriate decisions leading to better outcomes Budget will allow HH to have more control over expenditure ensuring that strategy generates profit Evaluation Strategy needs market research to underpin it – is Hari prepared to undertake this? Most important factors: mix must be fully integrated to present a ‘united’ image of the business; strategy must be changed from existing country X strategy if the culture/income levels / market conditions are different in country P Essential to differentiate HH from other hotels in this ‘competitive market’	

Question	Answer				Marks
	Questions 6 and 7 use this marking grid:				
	Level	Knowledge 3 marks	Application 3 marks	Analysis 4 marks	Evaluation 10 marks
	3				7–10 marks Good judgement shown throughout with well supported conclusion / recommendation, focused on the business in the case
	2	3 marks Good understanding shown	3 marks Good application to the case	3–4 marks Good use of reasoned argument or use of theory to explain points made	4–6 marks Some judgement shown in the main body of the answer and an attempt to support conclusion / recommendation, focused on the business in the case OR effective and well supported conclusion / recommendation, focused on the business in the case
	1	1–2 marks Some understanding shown	1–2 marks Some application to the case	1–2 marks Limited use of reasoned argument or use of theory to support points made	1–3 marks Limited attempt to show judgement either within the answer OR a weakly supported conclusion / recommendation with some focus on the business in the case
	0	No creditable content			

Question	Answer	Marks
6	Refer to Table 2 and other information. Evaluate the most important factors HH's directors should consider when making the strategic choice between option 1 and option 2. <i>Note to examiners:</i> Limit to L1 EVAL if only Table 2 or other information considered. If only discuss factors in relation to location X and Y then only K and APP (i.e. max 6 marks) Knowledge Strategic choice is important as decisions are costly, often effect all functional departments and are difficult to reverse Reference to strategic choice techniques Ansoff Matrix Force Field Analysis Investment Appraisa Factors affecting the strategic choice Strengths / weaknesses of the business Cost Return on investment Risk Note: List of techniques and list of factors without explanation is 1 mark each Application Limited experience of current employees of working in activity holiday resorts for option 2 Lower NPV for option 2 Greater cost of option 1 Competition in hotel market in country P Lower capital cost of option 1; link to current gearing level of 42.5% Option 1 is market development Option 1 – hotels and hotel management have been key to HHs success so far Country P something of an unknown quantity Country P is a high-income country; link to 4 star hotels of HH	20

Question	Answer	Marks
	Analysis Competition in country P will increase difficulty of breaking into the market Training costs may be greater for option 2 due to inexperience of employees Little info in the case about country P; how much market research has HH done? As a high-income country will HH need to modify product by offering better facilities than currently offered in country Z to appeal to the market? Country P is a competitive market – profit margins may be low As 35% of employees have experience abroad this could reduce the risk of option 1 Option 2 – country Z market well known but this is a different segment. Product may need to be branded differently – how much synergy will there be between the two parts of the business? Lower cost and higher NPV, less risk – seems like a better investment BUT will HH be too dependent on state of country Z market and tourism levels? Is this real diversification? Evaluation Most important factors? Supporting argument required More information would have allowed a wider consideration of factors e.g. income levels in P and profit margins of hotel competitors in this country Judgement might be shown in giving a final decision – but this is not required given the question HH has some employees who have experience abroad – will HH make good use of them? Lower NPV – but how reliable were the cash flow forecasts?	

Question	Answer	Marks
7	Evaluate the importance of developing a culture of change within HH when introducing new growth strategies. <i>Note to examiners:</i> Limit to L1 EVAL if only discusses changing culture with no link made to growth. Knowledge Culture means the values and beliefs of an organisation – especially senior management. Culture of change means encouraging and facilitating strategic change in an organisation. Implementation means putting into effect strategic change These changes will affect employees – opportunities but also potential threats. Change can be promoted through: Clear mission statement and sense of direction Employee involvement Team working / project champions Application Both strategic options will involve considerable change – market / country / language in Option 1; product / image / market segment in Option 2 Culture of change does not appear to be that strong in HH – e.g. the case of the Ajax takeover was not well handled. Current suggested secrecy over the options will hinder culture of change developing Threats to employees include redundancy in option 2. May need to offer jobs in the activity centres to those facing redundancy. Analysis Employees could actually add something to the decision and its implementation – given their experience in these two types of business – foreign hotels and activity centres. Less resistance to change makes responding to a dynamic environment more effective Decisions can be made more quickly resulting in first mover advantage in a competitive market Important in a globalised market to be able to respond Evaluation Without a culture of change, strategic implementation can become very difficult and less successful – putting at risk a large investment It is vital to the success of the implementation of either of these options that employees are involved, consulted and communicated with Employee fear of change and resistance to change will be much greater without an effective culture of change – but can Hari introduce this?	20