Cambridge International Examinations
Cambridge International Advanced Level

BUSINESS **9609/33**

Paper 3 Case Study **May/June 2017**

MARK SCHEME

Maximum Mark: 100

Published

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This document consists of **12** printed pages.

Question	Answer	Marks
1	**Analyse the benefits to PV of outsourcing the manufacture of components for its shoes.**	**10**

Level	Knowledge 3 marks	Application 2 marks	Analysis 5 marks
2	3 marks: Two or more relevant points made about outsourcing and/or benefits	2 marks: Points made are applied to PV	4–5 marks: Good use of theory to explain benefits of outsourcing
1	1–2 marks: One or two relevant points made about outsourcing and/or benefits	1 mark: Some application to PV	1–3 marks: Some use of theory to explain benefits of outsourcing
0	No creditable content		

Note to examiners: Disadvantages should not be rewarded
Benefits should relate to PV as a company, not e.g. to employees or other stakeholders

Answers could include:

- Outsourcing is transferring functions or tasks to another organisation
- PV could increase flexibility of operation and concentrate on the manufacture of shoes, achieving higher quality.
- Lower operating costs might be achieved by drawing on specialists, enabling PV to shed higher cost elements of production and gain the economies of scale that specialists might have.
- Lower inventory levels could be held.
- Higher quality may result as specialists supply.
- Savings from less capital needed.
- Expertise from other businesses with more experience becomes available for PV to draw on.

Application

- Ref to shoes / components only, without linking to other production point – 1 app mark as in stem of question
- PV might outsource supplies of eyelets, laces, dyeing leather, packaging
- Readily accessible network of component suppliers / efficient supply chain for shoe materials and components
- Implications for shoe production, including mention of specifics, such as laces, leather
- Reference to how outsourcing might help Pedro's high inventory problems and also 95% capacity utilisation
- Might further outsourcing help with shoe defect problems?
- Expertise from other businesses with more experience of the shoe market becomes available for PV to draw on.

Question	Answer	Marks
2(a)(i)	**Refer to the table in Appendix 1. Calculate:** **seasonal variation in 2015 Quarter 1.** $30m – 21.375 = $+8.625m $m not required	1
2(a)(ii)	**average seasonal variation in Quarter 4.** $m(–1.375 – 1.125 –1.875) / 3 = $–1.458 ($–1.46m 2 decimal places or – 1.5) $m not required	1
2(b)	**Refer to the table <u>and</u> graph in Appendix 1. Calculate PV's forecast sales for Quarter 3 in 2017.** Predicted trend from inspection of graph: $23.8m (1 mark) (error margin 23.75 – 23.85) Add average seasonal variation: $-6.125m (1 marks) = $17.675m (3 marks) Accept 17.68 or 17.7 (3 marks) (error margin 17.625 – 17.725) $m not required OFR Up to 2 marks can be awarded for: • Logical attempt to predict trend using the ***table*** (e.g. by considering the average of the Quarter 3s) (1 mark) • Correct use of seasonal variation (1 mark)	3

Question	Answer	Marks
2(c)	**Discuss the usefulness of sales forecasts to PV when making marketing decisions. Refer to your result from 2(b).**	12

Level	Knowledge 2 marks	Application 2 marks	Analysis 4 marks	Evaluation 4 marks
2	2 marks Two or more relevant points made	2 marks Application of two or more points to PV	3-4 marks Good use of theory to answer question	3-4 marks Good judgement shown
1	1 mark One relevant point made	1 mark Some application to PV	1-2 marks Some use of theory to answer question	1-2 marks Some judgement shown
0	No creditable content			

Note to examiners: No reference to result from 2(b) limits AN and EVAL to L1

Answers could include:
- Methods of forecasting sales
- Sales forecasting using Time Series Analysis takes account of seasonal variations and gives a realistic prediction.
- Forecasting enables planning, this method fits sales pattern well i.e.
- PV faces clear seasonal variation and consistent past trends so it is reasonable to assume that the future will be similar, making forecasting valuable for planning.
- Case indicates possible changes to the market – buyer's comments, change in buyers' requirements, increasingly fragmented relationships with buyers, possibility of direct selling, thus decreasing value of forecasting.
- May be advisable to introduce an element of probability to the forecasts – what if analysis.
- How forecasts contribute to market planning and production planning
- If Pedro is certain the forecast indicates future success PV may not make the changes that other evidence indicates are necessary.

Application
- Forecast only refers to export market, not 20% domestic sales
- Multinational shoe retailer buyers, takeovers by larger shoe manufacturers
- Possible more efficient working methods may lower costs
- Possible effects of investment in new machinery
- Use of graph to indicate changes in pattern (lower growth rate in 2016)
- Forecast shows increased sales
- PV faces clear seasonal variation and consistent past

Evaluation
- More reliable than simple forecasting or just projecting a trend
- Relies on future events behaving as in past patterns so may not be reliable
- Other evidence needs to be taken into account e.g. prediction of competitors' behaviour, likely future government actions, and / or economic changes
- Forecast only refers to exports, information on domestic market needed.

Question	Answer	Marks
3	**Discuss how PV might change the way it organises production to achieve its objectives.**	16

Level	Knowledge 2 marks	Application 2 marks	Analysis 6 marks	Evaluation 6 marks
2	2 marks At least two relevant points made	2 marks Good application	4-6 marks Good use of theory to answer question	4-6 marks Good judgement shown with supporting analysis
1	1 mark One relevant point made	1 -2 marks Some application to PV	1-3 marks Some use of theory to answer question	1-3 marks Some judgement shown
0	No creditable content			

Note to examiners: This question is about the organisation of production. Answers that focus on improving motivation must be linked to **production objectives.**

Answers could include:
- Objectives are higher quality (currently high defect rate), less delays (currently 60% delivery time met),lower operating costs, reduce wastage to 5%, reduce inventory costs.
- Suggestions might focus on leaner production and shift from quality control to quality assurance/TQM or similar plus:
- Faster order led production following closer liaison with buyers (JIT)
- Lower inventory (leather) held, linked to orders and clear quality. requirements on suppliers.
- Cell production.
- Benchmarking.
- Increased training for employees.
- Quality circles.
- New machinery.
- Accept reference to flow as alternative

Application
- Reference to current problems or possible objectives (currently high defect rate, 60% delivery time met, wastage at 5%).
- Present methods are assembly line, single task workers, final stage quality checks, high inventory.

Evaluation
- Changes will take time money and resources of expertise to plan. Are these available? Will they achieve the required improvements?
- Will the changes be in time to prevent loss of orders?
- Does Pedro have the commitment to change what he has been his successful business?
- What steps are the increasing competition taking?
- Will the cost of the changes be covered by any improvements?
- A supported recommendation.

Question	Answer	Marks
4(a)(i)	**Refer to Appendix 2. Calculate:** **payback period.** 4.25 years or 4 years 3 months (2 marks) Some attempt e.g. cumulative net cash flows (1 mark)	2
4(a)(ii)	**accounting rate of return over the 5 year life of the investment.** Net cash flows / years as % = $\frac{2.3-2}{5} \times 100 = \frac{0.3 \times 100}{5}$ = 6% (or 0.06) **or** Average annual net cash flow – annual depreciation/initial cost as % = 0.46 – 0.4 = 0.06 / 2 × 100 = 3% (or 0.03) **or** Sum of Net cash flow each year – average depreciation/initial cost as % = 0.1 + 0.1 + 0.1 + 0 + 0 = 0.3 / 2 × 100 = 15% (or 0.15) Some attempt with partially complete correct working (2 marks) Some attempt / correct formula (1 mark)	3
4(a)(iii)	**net present value over the 5 year life of the investment.** NPV = –\$0.235m (accept –\$0.24m **or** –\$0.23m) (2 marks) Sum DCF over 5 years = \$1.765m (accept \$1.77m or \$1.76m) (1 mark) Some reasonable attempt e.g.mistake in calculation (1 mark) **\$m not required**	2
4(b)	**Refer to Appendices 2 and 3. Calculate the discounted payback period if the annual net cash flows of \$0.4m continue after year 5.** Just over 6 years / 6.054 years (accept 6 years) (2 marks) Use of DCF or some reasonable attempt e.g. 6.647yrs (1 mark) *Examiner Note:* Example of Full Calculation (details not required for 2 marks): NPV over 5 years + DCF in year 6 = –\$0.235 + (0.56 × \$0.4m) = –\$0.011m Therefore NPV reaches zero in just over 6 years Year 7 DCF for whole year: 0.51 × \$0.4m = \$0.204m So, Year 7 DCF per day: \$0.204m / 365 = 0.00056 Therefore, answer is 6 years + (0.011 / 0.00056) = 6 years 20 days. (6yrs 0.647mths)	2

Question	Answer	Marks
4(c)	**Refer to your answers to 4(a), 4(b) and other relevant information. Recommend whether PV should invest in new machinery. Justify your answer.**	12

Level	Knowledge 2 marks	Application 2 marks	Analysis 4 marks	Evaluation 4 marks
2	2 marks Two or more relevant points made	2 marks Application of two or more points to PV	3–4 marks Good use of theory to answer question	3–4 marks Good judgement shown with supported recommendation
1	1 mark One relevant point made	1 mark Some application to PV	1–2 marks Some use of theory to answer question	1–2 marks Some judgement shown
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Note to examiners: Own figure rule from 4(a) and 4(b) applies L1 AN and EVAL if only use results or only use other information.

Answers could include:

Initial investment cost	Net cash flow $m	Discount factor at 10%	Net cash flow discounted at 10% $m
Yr 0	(2)	1	(-2)
Yr 1	0.5	0.91	0.455
Yr 2	0.5	0.83	0.415
Yr 3	0.5	0.75	0.375
Yr 4	0.4	0.68	0.272
Yr 5	0.4	0.62	0.248
Yr 6	0.4	0.56	0.226
Yr 7	0.4	0.51	0.205

Use of results from (a).
Assume lifetime of investment accurate and the forecast cash flows are reliable and the choice of discount factor is reliable:

- Payback indicates go ahead as money recovered in lifetime.
- Discounted payback should not go ahead as money recovered outside lifetime.
- ARR – less than discount factor so not go ahead.
- NPV – not go ahead as NPV is minus.

Question	Answer	Marks
	BUT • All figures are forecast and may be better than expected. • Discounted payback and NPV show that 6 years is the time when investment is repaid – only one year longer than expected lifetime. • Expected lifetime is a very conservative estimate – current machinery is 14 years old and expected life in the industry is ten years. These point to going ahead with investment. Other things to consider are: • The risks associated with the forecasting of the cash flows. • the speed with which the existing machinery will deteriorate. • the importance of new machinery in the strategy to reduce costs and increase quality. • the availability of finance – there is money for the marketing options so this may not be a problem but Pedro does have to obtain finance. **Application** • Use made of answers from **4(a)** • Reference to 10 year expected life **Evaluation** • A supported recommendation should follow consideration of pros and cons of making the investment. • Points made re adequacy / inadequacy / reliability of methods from 2 (a) Assessment of importance of other information e.g. possible future market conditions, economic factors, government actions, availability and cost of finance, other planned changes by PV.	

Question	Answer	Marks
5	**Evaluate how PV should respond to the threat of employees leaving the business (lines 65–71).**	16

Level	Knowledge 2 marks	Application 2 marks	Analysis 6 marks	Evaluation 6 marks
2	2 marks Good knowledge of relevant factors	2 marks Application of two or more points to PV	4–6 marks Good use of theory to answer question	4–6 marks Good judgement shown in weighing up the factors
1	1 mark Some knowledge of relevant factors	1 mark Some application to PV	1–3 marks Some use of theory to answer question	1–3 marks Some judgement shown
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Note to examiners: Answer should focus on the threat of leaving, not general points re: motivation, leadership or other HRM issues. (but these may be relevant if linked).

Answers could include:

Reasons for leaving may include:

- Only average wages paid and little chance for additional earnings cf. to other similar businesses
- Job tasks very specific, possible boredom and lack of wider training
- Poor promotion opportunities cf. to elsewhere
- Autocratic decision making and lack of participation

BUT
- Caring attitude and currently average wages
- Little uncertainty in job tasks means stability and limited responsibility

Possible changes about to happen and their impact on employees include:
- Greater delegation with quality assurance not control
- New machines and potential for change in production methods leading to greater involvement / change
- Lower costs may enable higher wages
- Possible new designer shoe production requiring more skills

Possible actions PV might take
- Research into employee attitudes to importance of factors influencing decision to leave and satisfaction at work.
- Can PV afford to increase payments to employees in higher wages or bonuses? May depend on successful marketing / production changes
- Can promotion opportunities be provided?

Factors in the labour market may include:
- Ease and cost of finding replacement employees
- Skill levels in labour market

Question	Answer	Marks
	Application • Payment is average basic wage, opportunities in other local firms, current low labour turnover, supportive senior manager • 117 employees **Evaluation** Discussion of factors should enable evaluative comments re: e.g. • Most important factor or ranking of importance of factors • Weighing up the impact of factors on the business if employees leave or not • Relating factors and any decision to overall / functional area objectives and plans • Supported recommendation of actions PV might take • A degree of labour turnover can be good thing	

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
2	3 marks: Good understand-ing shown	3 marks: Good application to PV	4–6 marks: Good use of reasoned argument or use of theory to explain points made 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 with some focus on PV
1	1–2 marks: Some understand-ing shown	1–2 mark: Some application to PV	1–3 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 PV
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Question	Answer	Marks
6	**Evaluate the importance of strategic analysis for PV when considering options A and B.** *Note to examiners:* A recommendation for Option A or B will NOT fully answer the question. Answers could include: • Explanation of strategic analysis and its techniques – SWOT, PEST, Boston Matrix, Porters 5 Forces, core competencies. • Place of strategic techniques in strategic management • Critical comments on the techniques • Recognition that Option A and B are marketing options and that marketing planning concepts may be used • Application of these techniques to Option A or B Example: Option A – designer shoes • SWOT – strengths and opportunities but note weaknesses • PEST – increasing interest in designer shoes, increasing middle class incomes, advanced machinery and new materials • Boston Matrix – only “cash cows” in current product range • Porters 5 Forces – faces threat on new competition, high bargaining power of customers and suppliers but little threat of substitutes means high degree of rivalry in current markets • Core competencies – variety of shoes made in response to demand Possible conclusion • All techniques indicate a change of emphasis could be highly beneficial and Option A strongly worth considering Option B – alter target markets and distribution methods • SWOT – strengths, especially existing sales networks but note weaknesses • PEST – export market shows little sign of change except exchange rate and possible increasing interest in expensive exclusive shoes, domestic market increasing, • Boston Matrix – only ‘cash cows’ in current product range • Porters 5 Forces – faces threat of new competition, high bargaining power of customers and suppliers but little threat of substitutes means high degree of rivalry in current markets • Core competencies - variety of shoes made in response to demand Possible conclusion • All techniques indicate a change of emphasis could be highly beneficial and Option B strongly worth considering, if additional distribution networks set up. Application • Information from case used in strategic analysis techniques	**20**

Question	Answer	Marks
	Evaluation Clear conclusion as to the importance of strategic analysis and/or techniques including: • Importance of understanding where the business is now in order to generate ideas and / or support for options A and B • Comments that strategic analysis on its own is not enough to fully support a decision • Weighing up importance of other stages in strategic management especially objectives and choice techniques in relation to strategic analysis • Ranking the usefulness of the techniques in relation to Option A or B • An assessment of the relative importance of marketing planning in relation to strategic analysis An assessment of the importance of timing and a timescale in carrying out analysis.	
7	**Discuss the importance of strategic management to the future success of PV.** *Note to examiners:* Strategic management covers two main topics – business planning and the process of setting objectives, analysis, choice implementation and review to achieve these. Either approach is to be credited. Answers could include: • Definition / explanation of strategic planning and management, possibly including: • Business plans and their contents • Components of strategic management – vision statements / objectives, analysis, choices, implementation and evaluation • Problems / issues faced by PV, possibly including decisions centred on: • Possible production and sourcing changes • Future marketing options • HRM policy • Possible investment plans • Pedro as main decision maker • Relating strategic planning and management to the position of PV in the market overall and with regard to these topics **Application:** • Current problems faced by PV • Future possibilities being considered in the case • The economic and market conditions faced by PV **Evaluation:** • Assessing the importance of the processes for PV in the situation it is facing • Highlighting the possible order of priorities and how the processes could assist in setting and achieving objectives • The extent to which Pedro needs to address these processes.	**20**