
BUSINESS

9609/33

Paper 3 Case Study

May/June 2017

MARK SCHEME

Maximum Mark: 100

Published

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Question	Answer	Marks																
1	Analyse the benefits to PV of outsourcing the manufacture of components for its shoes. <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: Two or more relevant points made about outsourcing and/or benefits</td><td>2 marks: Points made are applied to PV</td><td>4–5 marks: Good use of theory to explain benefits of outsourcing</td></tr><tr><td>1</td><td>1–2 marks: One or two relevant points made about outsourcing and/or benefits</td><td>1 mark: Some application to PV</td><td>1–3 marks: Some use of theory to explain benefits of outsourcing</td></tr><tr><td>0</td><td colspan="3">No creditable content</td></tr></table> <i>Note to examiners:</i> 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.	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			10
Level	Knowledge 3 marks	Application 2 marks	Analysis 5 marks															
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Question	Answer				Marks																				
2(c)	Discuss the usefulness of sales forecasts to PV when making marketing decisions. Refer to your result from 2(b). <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 or more relevant points made</td><td>2 marks Application of two or more points to PV</td><td>3-4 marks Good use of theory to answer question</td><td>3-4 marks Good judgement shown</td></tr><tr><td>1</td><td>1 mark One relevant point made</td><td>1 mark Some application to PV</td><td>1-2 marks Some use of theory to answer question</td><td>1-2 marks Some judgement shown</td></tr><tr><td>0</td><td colspan="4">No creditable content</td></tr></table> <i>Note to examiners:</i> 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.				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				12
Level	Knowledge 2 marks	Application 2 marks	Analysis 4 marks	Evaluation 4 marks																					
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Question	Answer				Marks																				
3	Discuss how PV might change the way it organises production to achieve its objectives. <table><tr><th>Level</th><th>Knowledge 2 marks</th><th>Application 2 marks</th><th>Analysis 6 marks</th><th>Evaluation 6 marks</th></tr><tr><td>2</td><td>2 marks At least two relevant points made</td><td>2 marks Good application</td><td>4-6 marks Good use of theory to answer question</td><td>4-6 marks Good judgement shown with supporting analysis</td></tr><tr><td>1</td><td>1 mark One relevant point made</td><td>1 -2 marks Some application to PV</td><td>1-3 marks Some use of theory to answer question</td><td>1-3 marks Some judgement shown</td></tr><tr><td>0</td><td colspan="4">No creditable content</td></tr></table> <i>Note to examiners:</i> 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.				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				16
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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 % = $0.46 - 0.4 = 0.06 / 2 \times 100 = 3\%$ (or 0.03) or Sum of Net cash flow each year – average depreciation/initial cost as % = $0.1 + 0.1 + 0.1 + 0 + 0 = 0.3 / 2 \times 100 = 15\%$ (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) <i>Examiner Note:</i> Example of Full Calculation (details not required for 2 marks): NPV over 5 years + DCF in year 6 = –\$0.235 + $(0.56 \times \\$0.4m) = -\\$0.011m$ Therefore NPV reaches zero in just over 6 years Year 7 DCF for whole year: $0.51 \times \\$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
	0	No creditable content			
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.	

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5	Evaluate how PV should respond to the threat of employees leaving the business (lines 65–71). <table><tr><th>Level</th><th>Knowledge 2 marks</th><th>Application 2 marks</th><th>Analysis 6 marks</th><th>Evaluation 6 marks</th></tr><tr><td>2</td><td>2 marks Good knowledge of relevant factors</td><td>2 marks Application of two or more points to PV</td><td>4–6 marks Good use of theory to answer question</td><td>4–6 marks Good judgement shown in weighing up the factors</td></tr><tr><td>1</td><td>1 mark Some knowledge of relevant factors</td><td>1 mark Some application to PV</td><td>1–3 marks Some use of theory to answer question</td><td>1–3 marks Some judgement shown</td></tr><tr><td>0</td><td colspan="4">No creditable content</td></tr></table> <i>Note to examiners:</i> 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	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	0	No creditable content				16
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	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: <table><tr><th>Level</th><th>Knowledge 3 marks</th><th>Application 3 marks</th><th>Analysis 4 marks</th><th>Evaluation 10 marks</th></tr><tr><td>3</td><td></td><td></td><td></td><td>7–10 marks: Good judgement shown throughout with well supported conclusion/recommendation, focused on</td></tr><tr><td>2</td><td>3 marks: Good understanding shown</td><td>3 marks: Good application to PV</td><td>4–6 marks: Good use of reasoned argument or use of theory to explain points made to explain points made</td><td>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</td></tr><tr><td>1</td><td>1–2 marks: Some understanding shown</td><td>1–2 mark: Some application to PV</td><td>1–3 marks: Limited use of reasoned argument or use of theory to support points made</td><td>1–3 marks: Limited attempt to show judgement either within the answer OR a weakly supported conclusion/ recommendation with some focus on PV</td></tr><tr><td>0</td><td colspan="4">No creditable content</td></tr></table>				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 understanding 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 understanding 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	0	No creditable content				
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6	Evaluate the importance of strategic analysis for PV when considering options A and B. <i>Note to examiners:</i> 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. <i>Note to examiners:</i> 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