Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

BUSINESS **9609/31**

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

MARK SCHEME

Maximum Mark: 100

Published

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1</td><td>

Analyse the benefits for TTC of using flexible working contracts.

<table>
<tr><th>Level</th><th>Knowledge
3 marks</th><th>Application
2marks</th><th>Analysis
5 marks</th></tr>
<tr><td>2</td><td>3 marks
Knowledge of flexible contracts and benefits</td><td>2marks
Good application to TTC</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 flexible contracts and/or benefits</td><td>1 mark
One point applied to TTC</td><td>1–3 marks
Some use of theory and/or reasoned argument to explain impacts</td></tr>
</table>

Examiner note:
- Benefit must be related to TTC not just employees
- Do not reward disadvantages

Knowledge:
- Definitions: Flexible working: allowing employer to call in workers when needed, part-time not full-time, temporary not permanent contracts; range of work tasks to be performed (any or all of these points)

Application:
- Seasonal nature of TTC's business
- Flexible working in the SRH hotels taken over could mean that workers have to be prepared to act as serving staff at mealtimes and cleaners in the morning
- Need to control costs due to competitive market and e commerce
- Temporary contracts for representatives abroad e.g. not employing these workers during non-holiday seasons
- Linking flexible contracts to impact on reputation for providing good value family holidays

Analysis:
- Zero-hours contracts in travel agencies will allow TTC to call in more workers at busy times but reduce fixed costs of these shops – which will help to keep them competitive at a time when e-commerce is on the increase
- Flexible working and temporary contracts for representatives abroad will also reduce costs and therefore increase profits
- Flexible working in the SRH hotels taken over could mean that workers have to be prepared to act as serving staff at mealtimes and cleaners in the morning – reducing costs for a business such as TTC in a very competitive market

</td><td>10</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)(i)</td><td>Refer to the data in Table 1. Calculate:

difference in labour turnover between the original objective and actual performance

Labour turnover = $\frac{\text{number of workers leaving}}{\text{number of workers employed}}$
1 [if no relevant calculation]

Original = 42 ÷ 230 × 100 = 18.3%
Actual = 95 ÷ 230 = 41.3% 1 for each calculation

Difference = 23% points 3</td><td>3</td></tr>
<tr><td>2(a)(ii)</td><td>difference between the margin of safety originally aimed for and that actually achieved.

Margin of safety = output (or sales) – break-even level
1 [if no relevant calculation]

<table>
<tr><th>Time</th><th>Calculation</th><th></th><th>Mark</th></tr>
<tr><td>Annual</td><td>Original output

Actual output</td><td>80% of 78 000 = 62 400 and/or
68% of 78 000 = 53 040</td><td>1</td></tr>
<tr><td></td><td>Safety margin original</td><td>28 600</td><td>2</td></tr>
<tr><td></td><td>Safety margin actual</td><td>14 040</td><td>2</td></tr>
<tr><td></td><td>Difference</td><td>14 560</td><td>5</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>Original output per month

Actual output per month</td><td>80% of 78 000 ÷ 12 = 5200 and/or
68% of 78 000 ÷ 12 = 4420</td><td>1</td></tr>
<tr><td></td><td>Safety margin original</td><td>2383.3</td><td>2</td></tr>
<tr><td></td><td>Safety margin actual</td><td>1170</td><td>2</td></tr>
<tr><td></td><td>Difference</td><td>1213.3</td><td>5</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>Original output per week

Actual output per week</td><td>80% of 78 000 ÷ 52 = 1200
and/or
68% of 78 000 ÷ 52 = 1020</td><td>1</td></tr>
<tr><td></td><td>Safety margin original</td><td>550</td><td>2</td></tr>
<tr><td></td><td>Safety margin actual</td><td>270</td><td>2</td></tr>
<tr><td></td><td>Difference</td><td>280</td><td>5</td></tr>
</table>
</td><td>5</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>

Assess the most likely reasons why the takeover of SRH has so far failed to achieve TTC's objectives.

<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
Good knowledge shown of likely reasons</td><td>2 marks
Factors well applied to TTC</td><td>3–4 marks
Good use of theory and/or reasoned argument to explain disappointing performance</td><td>3–4 marks
Good judgement shown e.g. well supported conclusion</td></tr>
<tr><td>1</td><td>1 mark
Some knowledge shown of likely reasons or definition of takeover</td><td>1 mark
Some application of factors to TTC</td><td>1–2 marks
Some use of theory and/or reasoned argument to explain disappointing performance</td><td>1–2 marks
Some judgement shown e.g. one factor very important</td></tr>
</table>

Knowledge:

- Definition of takeover: buying out of one company by another
- Possible reasons for failure
  - Poor understanding of the new business
  - Poor management of integration
  - Paid too much for takeover
  - Poor planning
  - Problem areas not identified in due diligence
  - Lack of clear leadership
  - Poor communication
  - Cultural differences

Application:

- Fewer managers for each hotel (delayering) might help explain the poor customer rating
- Poor customer rating might also have been caused by demotivated workers due to imposition of flexible working contracts
- Rapid changes to organisational structure
- Lack of TTC experience in managing hotels – managing travel agencies is completely different e.g. no problems with food inventory control
- No consultation with employees

</td><td>12</td></tr>
</table>

Question	Answer	Marks
	Analysis: • Lack of synergy and culture clash between the two organisations – the difference in approach might have been very substantial and this resulted in managers/workers leaving and offering poorer customer service • Delayering might have reduced career prospects and increased workloads – could have demotivated managers leading to increased labour turnover. **Evaluation:** • Objectives might have been too ambitious – were they set in consultation with managers of SRH? • Only one year's figures – the culture clash might be a short term issue and the hotel management might become accustomed to the new values, etc. over time • Other factors might have affected some of the data – downturn in demand for holidays cutting occupancy rates; higher local taxes might have increased fixed costs, reducing the BE point, etc. • Comparisons with other similar hotel chains would have been useful – benchmarking • Most important factors? Accept any reasoned and supported conclusion	

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3</td><td>

Discuss a suitable marketing plan for the cruise holidays in Option 1.

Level	Knowledge 2 marks	Application 2 marks	Analysis 6 marks	Evaluation 6 marks
2	2 marks Good knowledge shown of marketing plan	2 marks Good application to niche market holidays	4–6 marks Good use of theory and/or reasoned argument to explain key features of marketing plan	4–6 marks Good judgement shown
1	1 mark Some knowledge shown of marketing plan	1 mark Some application to niche market holidays	1–3 marks Some use of theory and/or reasoned argument to explain key features of marketing plan	1–3 marks Some judgement shown

Knowledge:
- Marketing plan: detailed report on a marketing strategy containing research findings, objectives, marketing mix and budget
- Objective – needs to be realistic and measurable e.g. specific market share %?

Application:
- This is a niche market – small specific, well defined part of a larger market
- Need market research – this is a completely different market (segment) – prices of similar cruises, how retired people book holidays, forms of promotion used by potential competitors, etc.
- Budget – needs to be adequate to meet objectives; based on estimates of what cruise competitors spend?

Analysis:
- Mix – Price – skimming for this product in this market segment?
- Product – quality/luxury important – but different brand image (name) probably essential to differentiate from existing TTC holidays
- Place – use existing travel agents to sell cruises or focus on internet?
- Promotion – directed towards relevant market segment e.g. quality magazines with high ‘retired’ readership?

Evaluation:
- Basing mix on market research essential as TTC have no experience of this market segment
- Budget must be adequate to help differentiate cruises from TTC package holidays – and must allow for new brand creation
- New mix needs to be fully integrated and reflect the objectives set for it

</td><td>**16**</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(a)(i)</td><td>Refer to the Appendix. Calculate:

gearing ratio

<table>
<tr><th>Calculation</th><th>Mark</th></tr>
<tr><td>(Non-current liabilities ÷ Capital employed) × 100</td><td>1</td></tr>
<tr><td>$75m ÷ $135m × 100</td><td>1</td></tr>
<tr><td>55.6%</td><td>3</td></tr>
<tr><td>(Non-current liabilities ÷ shareholders equity) × 100</td><td>1</td></tr>
<tr><td>$75m ÷ $60m × 100</td><td>1</td></tr>
<tr><td>125%</td><td>3</td></tr>
</table></td><td>3</td></tr>
<tr><td>4(a)(ii)</td><td>dividend yield

$\frac{\text{dividend per share}}{\text{market share price}} \times 100$ 1

Dividend per share = 12 ÷ 12 = 1 1

$\frac{1}{10} \times 100 = 10$ 3</td><td>3</td></tr>
</table>

Question	Answer	Marks
4(b)	**Discuss the likely impact on TTC's shareholders if the two changes referred to in Table 3 are made during the next financial year.**	**12**

Level	Knowledge 2 marks	Application 2 marks	Analysis 4 marks	Evaluation 4 marks
2	2 marks Good knowledge shown of impact on shareholders	2 marks Factors well applied to TTC	3–4 marks Good use of theory and/or reasoned argument to explain impact on shareholders of both changes	3–4 marks Good judgement shown e.g. well supported conclusion
1	1 mark Some knowledge shown of impact on shareholders	1 mark Some application of factors to TTC	1–2 marks Some use of theory and/or reasoned argument to explain impact of both changes or good analysis of one	1–2 marks Some judgement shown

Examiner note:
L1 AN and EVAL if only impact on TTC with no link made to shareholders

Knowledge:
- Gearing – measures financial risk being taken and this falls substantially with this decision

Application:
- Proposed that dividend be reduced by $6m (50%)
- $15m received for travel agencies could reduce long term loans from $75m to as little as $60m

Analysis:
- Both moves could help with financing of the proposed new expansion option – by making company appear less risky and more liquid in terms of cash held and acid test
- Shareholders – retained profit will increase and this might be available for future dividends (if in cash) or for assisting in financing the expansion options – which should lead to business growth and future profits
- Reduced gearing ratio will cut interest costs and potentially increase net profit

Evaluation
- Shareholders – might be concerned by sale of existing assets – was the right price obtained for them? Are the proceeds going to be invested successfully?
- Short term impact on shareholders is negative as dividends reduced

Question	Answer	Marks
5	**Evaluate the extent to which ethics should influence the activities of TTC.**	**16**

Level	Knowledge 2 marks	Application 2 marks	Analysis 6 marks	Evaluation 6 marks
2	2 marks Knowledge shown of ethics and costs or benefits	2 marks Good application to TTC	4–6 marks Good use of theory and/or reasoned argument to explain impact of acting/not acting ethically	4–6 marks Good judgement shown on extent to which TTC should act ethically
1	1 mark Knowledge shown of ethics	1 mark Some application to TTC	1–3 marks Some use of theory and/or reasoned argument to explain impact of acting/not acting ethically	1–3 marks Some judgement shown on extent to which TTC should act ethically

Knowledge:
- Definition: Ethics/ethical behaviour – basing (business) decision on a moral code of conduct. 'Doing the right thing'
- Benefits/costs of ethical behaviour

Application:
- Examples of indications of unethical behaviour: Zero hours contracts – not illegal but very insecure for employees
- Decision to delay payment to suppliers to improve cash flow
- Competitive industry – will ethical behaviour risk future of TTC?
- Saving costs by not repatriating tourists quickly in event of danger.

Analysis:
- Suppliers might refuse to supply or offer less good service if they are going to be paid after long delays – but TTC is a big business so is TTC just using its muscle to exploit suppliers?
- Benefits of improved cash flow to TTC
- Potential negative impacts – low worker motivation and problems in recruiting workers – unless unemployment is high, and is this just a way of exploiting their position?

Evaluation:
- Flexibility, reduced costs, squeezing suppliers – these might be 'normal tactics' in this industry and these, and other potentially unethical practices, might be only way that TTC can carry out its 'low cost strategy' to give a competitive advantage.
- Putting tourists in unnecessary danger by not having an effective contingency plan could lead to publicity disaster if TTC travellers are injured.
- Balance of pros and cons to come to an overall conclusion

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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. Recommend which one of the two strategic options for the future growth of TTC the directors should choose. Justify your recommendation.** **Knowledge:** • Strategic choice is important as decisions are costly, often effect all functional departments and are difficult to reverse • Definition of decision tree **Application:** • Option 1 – market development; uses existing strengths of TCC; lower EMV but may be less risky too. • Option 2 – riskier (product development?) as TTC has no experience in airline organisation/management but other holiday companies have made this move. • Experience with SRH suggest that TTC might not be good at managing organisations "out of their comfort zone" • Gearing currently high – will affect choice if borrowing required • Higher EMV for Option 2 **Analysis:** • Controlling costs of air travel through Option 2 will give a competitive advantage to TTC when selling package holidays. Could result in increase in demand. • Lack of spare capacity of existing airline companies may result in increasing prices in the future as travel businesses compete for seats • Cost of differentiating cruise holiday brand from TTC's existing package holidays **Evaluation:** • Other data would be useful (but must be explained/justified) e.g. investment appraisal, performance of other travel companies airline divisions, market growth of cruise market segment etc. • Full SWOT/PEST essential • Most important factors? Investment cost? Time to get option up and running and established? • Conclusion based on preceding analysis • Income elastic but less price elastic – could be the right time to enter this market niche – especially as package holiday market is so competitive. • New brand important – these target customers might be deterred by buying a 'TTC holiday' • Higher EMV – but possibly higher investment too and selling second hand aircraft if unsuccessful might be a problem.	**20**

Question	Answer	Marks
7	**Discuss the importance of strategic management to the future success of TTC.** **Knowledge:** • Strategic management – analysing, choosing strategies and implementing them in order to meet a business's objectives. • Strategic management includes use of techniques such as SWOT/PEST, Force Filed Analysis, investment appraisal, contingency planning, corporate planning **Application:** • Strategic Analysis: Evidence that the takeover of SRH was not planned or analysed – based on hunch. Has not worked out well so far – would SWOT/PEST have helped? • Strategic choice: Important to make a careful decision re: the two options • Strategic implementation – SRH takeover not well handled – the change process seemed to lead to workforce problems and customer service problems. • Contingency planning needed e.g. tourists in danger **Analysis:** • Options being considered are expensive strategies, difficult to reverse and involve all departments/functions of the business; other choice data needed e.g. full decision tree, force field analysis, investment appraisal results in order to ensure best choice is made • How corporate plan by setting clear objectives may give sense of direction and motivate managers thus resulting in better outcomes in terms of profit • How lack of contingency planning might affect reputation and long term sales of business **Evaluation:** • Strategic management in all of its forms will be essential for future success of TTC as it operates in a very competitive market • Judgement should be shown in the answer too – e.g. about the significance of each stage of strategic management • Even effective strategic management does not guarantee success e.g. political disturbances and economic recessions could both have a major impact on TTC's profitability and survival • Managing the change involved in either of these two options will be essential for their success.	**20**

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