

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

BUSINESS STUDIES

9707/03

Paper 3 Case Study

May/June 2005

3 hours

Additional Materials: Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen on both sides of the paper.
You may use a soft pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Section A

Answer **all** questions.

Section B

Answer **one** question.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [] at the end of each question or part question.

The businesses described in this question paper are entirely fictitious.

Candidates are advised to spend 40 minutes on Section B.

This document consists of **5** printed pages and **3** blank pages.



WOTTON COLLEGE

The current situation

Wotton College is a private school with 300 students. It charges a fee of \$2000 per year for each student. It is owned by Paula Njie who is also the Head of the school. Paula aims to make a profit every year but the last twelve months have been very difficult for the school. Costs have risen, mainly because of over-spending by subject departments. Income from fees has increased but not by enough to cover these costs. As a result, the school's equipment has not been updated recently and some of the buildings are poorly maintained. Wotton College cannot teach more than 320 students in the present buildings. 5

Paula increased student fees in January 2005. She is worried that another increase in 2006 could actually reduce revenue. The Private School Association has estimated the following elasticities of student demand for private schools in Paula's country: 10

Price (student fee) elasticity of demand:	-1.2
Promotion spending elasticity of demand:	2.3
Income elasticity of demand:	2.0

Staffing issues

The turnover of teaching staff at the school is high. This has contributed to the declining examination success rate of students. Teachers who left the school last year complained about Paula's style of management and the lack of a bonus system for good results. One teacher commented that, "Although we are all professionals we are treated worse than the students. At least Paula discusses new ideas with the Student Council before making changes. With us, the first we hear of new policies is when we read about them on the staff noticeboard. She does not even use the school e-mail system". A Head of Department who resigned said, "We never knew how much we had to spend on textbooks. We were always being criticised for results even when we did well. We did our best with old buildings and unsafe equipment." 15

Options for the future

Paula is considering three possible options to make Wotton College profitable. 25

Option 1 – Raise fees and cut costs

She could raise fees by 10% from January 2006 and reduce teachers' salaries by 5%. Material costs could be cut by 10% by purchasing cheaper materials and books. Paula has drawn up a forecast Profit and Loss Account (Appendix A). She plans to calculate the impact her proposed changes have on net profit in 2006, assuming no changes in promotion spending or other costs. 30

Option 2 – Take over another school

Paula has been told that Midvale, another school in the town, is for sale. The owners have decided to retire. By taking on a partner as an investor, Paula could buy the school which has large grounds and some new buildings. Expansion in this way should lead to some economies of scale. Paula might be able to force suppliers to cut their costs. It might be possible to close the existing Wotton College buildings and just use the Midvale site. The takeover would reduce competition for Wotton College and Paula could charge even higher fees. Taking over another 35

school will not be easy though. Apart from the cost of buying it, there could be problems with making the two groups of teachers work as one team. Human resource planning would be essential. There could be too many teachers in some subjects and not enough in others. Some teachers might lose their jobs. Paula thought she would need to create a new post of Deputy Head of the school whose main responsibility would be to train new teachers and introduce a job evaluation system. 40

Option 3 – New building

Paula has asked an architect to design a new building for Wotton College. This would give the school new science and computer rooms. The building could be paid for by selling a sports field for a new factory building. Local residents might object to this. The capacity of the school would increase to 400 students. Paula believes that profits would increase with more students. The construction would have to be finished in 6 months' time for the start of the new school year. Parents and students might move to another school if the project was not finished on time. The architect has told Paula that the new building could be ready within 5 months if building started now. He has shown Paula a list of the activities for the project and the durations of each of them (Appendix B). Paula wants to draw a network diagram from this information. She has read that in recent weeks there has been a national strike by skilled building workers who are in short supply. 45 50

Summary 55

Paula knows that action must be taken. If she does nothing then the poor condition of the buildings will result in more students and staff leaving. The time seems to be right for taking action because interest rates are low and consumer incomes are rising. However, the growing demand for places at private education is encouraging more foreign-owned schools to set up in Paula's country. Paula knows of plans to open a new college in a large town near Wotton. She needs to act quickly to make Wotton College ready to face the challenges ahead. 60

Appendix A

Wotton College: Forecast Profit and Loss Account for the year ending 31/12/05

	\$000	65
Revenue from student fees	600	
Less:		
Teachers' salary costs	400	
Material costs	120	
Promotion spending	5	70
Other costs	85	
Net Profit/(Loss)	(10)	

Appendix B

List of activities for new Wotton College building. (There are 20 working days in each month)

Activity	Preceding activities	Duration in days
A	–	15
B	A	30
C	A	10
D	B, C	30
E	B, C	15
F	D, E	12
G	D, E	8
H	G	6

75

80

Section A

Answer **all** questions in this section.

- 1 Evaluate how communications between management and staff might be made more effective within Wotton College. [14]
- 2 (a) Assuming Paula makes the changes outlined in Option 1, calculate for 2006:
- (i) the revenue from student fees, assuming the price elasticity of demand estimate is correct. [4]
 - (ii) teachers' salary costs [1]
 - (iii) material costs [1]
 - (iv) net profit. [2]
- Show all workings.
- (b) Analyse the benefits to Wotton College of introducing budgets managed by Heads of Department. [10]
- 3 Discuss the possible advantages and disadvantages to Wotton College of taking over Midvale School. [16]
- 4 (a) Refer to Appendix B. Draw a network diagram of this building project, showing all earliest start times and latest finish times. [8]
- (b) Identify the critical path and state the minimum project duration. [2]
- (c) Analyse the usefulness of this technique for managing the building project. [6]
- 5 Assume that the new building is constructed. Evaluate a marketing plan that Paula could introduce to attract new students to Wotton College. [16]

Section B

Answer **either** Question 6 **or** Question 7 in this section.

- 6 Assume Paula decides to buy Midvale School. Evaluate how Paula might deal with the Human Resource Management problems that are likely to occur. [20]
- 7 To what extent should a business such as Wotton College take the interests of stakeholders into account when making decisions? [20]

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