

CAMBRIDGE INTERNATIONAL EXAMINATIONS

Pre-U Certificate

MARK SCHEME for the May/June 2013 series

9771 BUSINESS AND MANAGEMENT

9771/02

Paper 2 (Strategic Decisions), maximum raw mark 100

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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Section 1

1 (a) Calculate the asset turnover ratio in 2011. [3]

Asset turnover = turnover (revenue)/net assets (1)

Revenue = £869.7 m/net assets = £322.4 m (1)

= 2.70 (3)

(b) Calculate the inventory (stock) turnover ratio in 2011. [3]

Inventory (stock) turnover = cost of sales/inventories (1)

Cost of sales £384.7/Inventories = £147.6 m (1)

= 2.61 (3)

Accept: inventories/cost of sales × 365 = 140 days (3)

(c) Comment on the significance to Halfords of the results obtained in 1(a) and (b). [6]

	Knowledge AO1 2 marks	Application AO2 4 marks
Level 2	2 marks Candidate shows knowledge of both concepts.	4–3 marks Candidate clearly explains the usefulness of both values using clear case context.
Level 1	1 mark Candidate shows some knowledge of one concept.	2–1 marks Candidate uses limited case context or only one value.

Asset turnover

- A financial efficiency ratio
- Measures the productivity of assets
- Measures how much turnover is generated by the assets of the business
- For every £1 of net assets, £2.70 of turnover was generated
- AT reduced in 2011 v 2010 (usually considered unfavourable)
- AT = 2.70 (2011)
- AT = £831.6/£278.5 = 2.99 (2010)
- Increasing turnover using the same assets could improve this figure for Halfords
- The higher the value the better
- ARA

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Inventory (stock) turnover

- A financial efficiency ratio
- Measures how quickly a business uses/sells its stock
- Measures how many times (per annum) a business sells its stock
- $ITO = 2.61$ (2011)
- $ITO = \frac{£378.9}{£138.5} = 2.74$ (2010)
- ITO value increased from its 2010 level (usually considered unfavourable)
- The declining ITO stems from increased stock and an increased cost of sales
- ARA

(d) Analyse two 'internal economies of scale' that Halfords could exploit as its business expands. [13]

	Knowledge AO1 2 marks	Application AO2 5 marks	Analysis AO3 6 marks
Level 3		5 marks Candidate fully engages with the case context for two EOS.	6–5 marks Candidate fully develops analytical points for two EOS.
Level 2	2 marks Candidate shows knowledge of two EOS or defines EOS and knowledge of one specific EOS.	4–3 marks Candidate links case material to his answer. Good application of one EOS.	4–3 marks Developed analysis of arguments for at least one EOS.
Level 1	1 mark Candidate shows knowledge of one EOS or definition of EOS.	2–1 marks Candidate makes a limited attempt to apply knowledge to the case study.	2–1 marks Weak analysis of ideas, failure to develop points.

- Reduction in a firms unit (average) costs of production that result from an increase in the scale of operations.
- Average costs is TC/Q (TC is $FC + VC$)
- A diagram may be used
- Examples include:
 - Purchasing (bulk buying) or bikes etc.
 - Technical
 - Financial
 - Marketing
 - Managerial (specialisation)
 - Risk bearing
- The case refers to the new specialist team that reviews logistics
- The larger warehouse may enable increased stock levels to be stored and increased bulk purchases may reduce unit prices
- Evaluation is not required and should not be rewarded
- ARA

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Section 2

The following grid is to be used for questions 2–4.

	Knowledge AO1 3 marks	Application AO2 6 marks	Analysis AO3 8 marks
Level 3		6–5 marks Arguments are consistently based upon case context. Case data is manipulated.	8–6 marks Candidate fully develops analytical points.
Level 2	3–2 marks Candidate shows detailed knowledge.	4–3 marks Candidate makes a good attempt to apply knowledge to the specific case scenario.	5–3 marks Developed analysis of arguments.
Level 1	1 mark Candidate shows some knowledge.	2–1 marks Candidate makes very limited attempt to apply knowledge to the specific case study.	2–1 marks Weak analysis of the ideas, failure to develop points.

	Evaluation Descriptor AO4 8 marks	Marks
High	Extensive reasoned judgement in answer and conclusion.	8–6
Mid	Judgement shown in the answer and conclusion or good judgement in answer or conclusion.	5–3
Low	Weak judgement shown in answer or conclusion.	2–1

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2 Evaluate the extent to which corporate social responsibility (CSR) and profitability are compatible for Halfords. [25]

- Definition of CSR
- Motives behind CSR at Halfords
- 'good business sense' (interpretation)
- CSR review is satisfactory but profits at Halfords have risen
- CSR measures often reduce long term costs e.g. water consumption per store
- CSR can improve stakeholder perceptions increasing profits
- Some stated CSR criteria are now legal requirements
- In a downturn are consumers as concerned about CSR
- The impact of CSR on profitability will largely depend on the measures undertaken
- The relationship between business image and sales
- ARA

3 Recommend and justify a potential strategy that Halfords could pursue during a period of falling real disposable incomes. [25]

- Severity of the fall in household incomes
- Likely time span for the continued falls
- The impact of inflation (real)
- Concentration on inferior goods (income elasticity)
- Cost controls to avoid price rises (economies of scale)
- Customers are likely to be more price sensitive in a downturn and this will impact the range and price points of items
- Use of appropriate strategic models such as Ansoff or Porter should be rewarded
- Introduce or expand the low price point range of Sat Navs, bikes etc.
- Current strategy seems to be successful as profits and sales are holding up well since the start of the credit crunch/downturn (use of accounts)
- Ideas should have a logical order
- ARA

4 Discuss the likelihood that Halfords will be able to maintain or increase its current dividend. [25]

- Definition of dividends
- DPS 20p 2010, 22p 2011
- Track record. DPS has risen year on year since 2008
- EPS data is an indication of the likelihood of increasing dividends (see chart)
- Relevant ratios such as profitability will be useful
- Depends on the economic climate
- Depends on strategic priorities of Halfords
- Maintaining the current dividend may be seen as a success
- Calculation of the dividend yield $\frac{£3.00}{22p} = 7.33\%$ (attractive yield based on inflation, interest rate and peer comparison)
- Shareholder pressure
- Will depend on effective management at Halfords
- ARA