

Business Management

Standard Level

Mark Scheme

2006 – 2017



IB DIPLOMA PROGRAMME
PROGRAMME DU DIPLÔME DU BI
PROGRAMA DEL DIPLOMA DEL BI

M06/3/BUSMT/SP1/ENG/TZ0/XX/M+

MARKSCHEME

May 2006

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

9 pages

- 2 -

M06/3/BUSMT/SP1/ENG/TZ0/XX/M+

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1. (a) Outline the purpose of a Mission Statement?**[4 marks]**

The purpose of a mission statement is to convey to everyone involved with the firm the underlying philosophy of the firm, so that there is a clear direction and common understanding in all the actions taken by the people involved in the firm. It can also be used as a marketing, promotional and recruitment tool.

[4 marks]

The answer includes the fact that a Mission Statement serves all stakeholders, giving them a sense of direction; it highlights that a Mission Statement is more than an aim or an objective.

[2 to 3 marks]

The purpose of a Mission Statement is explained, but only in terms of general aims or objectives.

[1 mark]

A brief statement stating it is an aim and/or objective, but not really clarifying a purpose.

(b) Explain two advantages and two disadvantages for Electrical Solutions plc of owning a subsidiary such as *SunGen Ltd*.**[8 marks]****Advantages**

- higher profits as a result of higher turnover
- possibility of reshuffling staff and maximizing the potential of the workers
- diversification will give safety to the firm
- it can supply itself, therefore securing a market for Electrical Solutions plc
- likewise, *SunGen Ltd* can buy cheaper supplies from its parent firm
- financial advantages, greater capacity to take loans from banks
- independent firms (each is a company) means that there are no commitments from the parent firm to the losses of the subsidiary
- other economies of scale.

Candidates can mention other advantages and if properly explained and supported they should be credited.

Disadvantages

- need to use funds for start up capital that has an opportunity cost (cannot be used by the parent firm)
- funding the subsidiary with their cash reserves
- if the subsidiary does poorly and it is known to be related to the parent firm, the image of the parent firm can be affected negatively (pitchfork effect)
- transferring good employees to the subsidiary might mean that the parent firm surrenders efficient people
- other diseconomies of scale.

Candidates can mention other disadvantages and if properly explained and supported they should be credited.

Award [2 marks] for each relevant advantage and disadvantage adequately explained (up to a maximum of **[8 marks]**). Award only **[1 mark]** for each advantage or disadvantage merely listed.

2. (a) Catherine and Greg are suggesting that *SunGen Ltd* should have a flatter organizational structure. Describe two advantages *and* two disadvantages of a flatter organizational structure.

[6 marks]

Flat organizations have the following advantages:

- communication flows faster
- people feel empowered since they are more involved with decision making
- they are cheaper: less money is spent on middle manager positions
- efficient when firms are small and the staff is highly involved with the product/production/mission.

Disadvantages:

- staff might lack direction
- communication might fail or be distorted
- decisions do not reach all staff on time resulting in delays of production (as mentioned in the case study)
- decisions might take longer if consensus is sought
- the staff may be demotivated by the lack of promotion, opportunities
- more people in each level – greater span of control

[5 to 6 marks]

A clear, detailed and balanced description of two advantages and two disadvantages.

[3 to 4 marks]

A reasonable description which may consider less than two advantages and disadvantages. At the bottom of the band this may tend towards listing, or either advantages or disadvantages are not included.

[1 to 2 marks]

A brief and general answer.

- (b) Using appropriate motivational theories discuss the changes to workers' contracts and the incentives programme proposed by Catherine and Greg.

[10 marks]

Catherine and Greg are considering making workers' contracts more flexible adjusting their work hours to demand, and some workers will be given temporary contracts. These measures will remove the security aspect from their jobs and move workers to a different level in Maslow's hierarchy of needs. It will also bring conflict into the firm since not all workers will necessarily be treated in the same manner. They might not all be asked to work the same number of hours. Guaranteeing workers a certain number of hours would be seen by Herzberg as a hygiene factor. Therefore, if the hours are there, the workers will take them for granted, yet losing a fixed number of work hours a day will act as a demotivating factor.

The training programme will be appealing to some workers: those who according to McGregor are self motivated (Theory Y) will see training as a tool to do better in their jobs and will be motivated by it. It might also help workers move towards a self-actualization level in Maslow's hierarchy.

The flatter structure will appeal to Theory Y workers – who should want to get involved in decision making.

An appraisal system to review targets and establish incentives will be motivating to most workers, but mostly to Theory X ones. According to most theorists, workers will see this incentive scheme as a way of paying attention to individual workers, yet some workers might feel threatened by the appraisal. The one week residential course could be seen as a non-hygiene factor by Herzberg, and Hawthorne/Mayo could argue that it builds team spirit in the workers.

Some could argue that the assumption that workers need incentives to work more (bonuses), puts them into the category as Theory X workers (or perceived by management as such).

The flexible hours seem to be a cause of demotivation. The strike action threat is a proof of this. Yet there are sound financial reasons for the firm to want to reduce the working hours of the production staff. The training appraisal incentives programme will motivate as long as equity is apparent to all workers. Otherwise it will bring about conflict.

[8 to 10 marks]

The discussion of the changes to workers' contracts and the incentives programme is balanced and detailed, it refers to a number of theorists, and is applied to the case study. Candidates are capable of anticipating the various effects of the proposed changes, in the light of the different theories.

[5 to 7 marks]

The discussion may be less detailed and/or less balanced. There is some reference to theorists and is generally applied to the case study. At the lower end of the band the discussion is limited, but it is still evident that candidates are familiar with a variety of theorists.

[3 to 4 marks]

There is a description of the measures and some evidence of knowledge of motivational theory although it might be limited to Theory X/Y and/or Maslow and may not be associated to the case study.

[1 to 2 marks]

A brief and general answer.

3. (a) Prepare a SWOT analysis for SunGen Ltd explaining each entry.**[8 marks]****Strengths**

- a product that is environmentally friendly and positive company image
- a parent company that helps in a variety of ways
- a prospect of future growth and profit
- wide product range
- hold minimal levels of stock
- high market share in niche market
- experienced staff

Weaknesses

- a very poor short run financial position: cash flow problems and a shortage of working capital
- the threat of the strike action
- unreliable suppliers; long delivery times
- production delays from system
- high gearing ratio
- resentment over some appointments
- production running at near full capacity
- staff concern over proposed contracts
- staff perception that there is a lack of leadership or vision
- significant overtime required to meet demand

Opportunities

- government measures that will increase the demand for solar systems
- greater environmental awareness from the public (45 % of people questioned would consider fitting some sort of renewable energy generation system)
- a rapidly growing market (20 % per year)
- few competitors

Threats

- the downturn in the economy may impact negatively on the construction and prices of houses and therefore the demand for solar systems
- a risky and limited market (still developing; a niche market)
- geographically dispersed market
- rapid growth in the market may attract new firms

For each point raised, candidates should explain why it represents a strength, weakness, opportunity or threat.

[7 to 8 marks]

The SWOT is well balanced and complete with a variety of relevant entries in every category. The Opportunities and Threats are external, while the Strengths and Weaknesses are internal. Entries are generally explained.

[3 to 6 marks]

At the top end of the band the SWOT is essentially complete and the classification of Strengths and Weaknesses as internal and Opportunities and Threats as external is generally correct. However, the analysis may not be completely balanced and some entries might not be explained. At the bottom end of the band there may be some confusion between internal strengths and weaknesses and external opportunities and threats with a tendency to listing without explaining.

[1 to 2 marks]

A limited and/or incomplete SWOT.

- (b) Suggest an appropriate marketing mix to target solar panels at individual households, justifying the choices made for each element. /8 marks**

Product: since the panels can be fitted anywhere, size should be considered. They should not be too big, to allow transport in cars. They should be light, to allow individual customers to handle them in the stores. They should also be painted in neutral colours to match a variety of houses.

Price: because they are cheap to fit, they should also have a low initial price. Penetration strategy should be used to convince people to use them – and because they are competing with electricity. This price should be taken into account. A skimming pricing strategy could also be argued, given a very high electricity price.

Promotion: word of mouth (neighbour to neighbour). Certain magazines – specialized ones. Point of sales promotion in Do-It-Yourself stores. Internet (a web site). Could be advertised on the radio (cheap) – aiming at a workers' audience that might be the right market.

Placing: hardware stores, the Internet, a web site with delivery to homes could work. SunGen Ltd may need to consider licensing firms as agents/installers as the panels may need to be professionally installed.

Candidates will be free to come up with their own marketing mix. More elements can be introduced, as long as they are related to the case study and properly justified.

[7 to 8 marks]

A complete and creative marketing mix, with **at least** four elements, showing knowledge of the case study and each element is properly justified.

[5 to 6 marks]

All the elements of the marketing mix are considered and relevant to the case study, although some might be poorly justified.

[3 to 4 marks]

The marketing mix is incomplete, or some of the elements are not well justified.

[1 to 2 marks]

A brief and general answer.

4. SunGen Ltd has both long-term and short-term financial problems.

- (a) Analyse the short-term financial situation of SunGen Ltd and make one recommendation for improvement.**

[6 marks]

SunGen Ltd is very short of working capital. It has a current ratio of 1.1:1 when it should have a ratio above 1.5:1 for relative safety. Its acid test ratio is only 0.6:1 rather than 1:1. To improve its liquidity position *SunGen Ltd* should look into improving its operations first, so that the panels can be installed/delivered quickly with prompt payment.

To deal with the situation in the short run they can also try and delay payment to their suppliers or obtain short-term financial facilities from the bank (extension of overdraft).

[5 to 6 marks]

Accurate analysis of the short term financial position with clear identification of the problems. A relevant solution is proposed and for **[6 marks]** is justified.

[3 to 4 marks]

The short-term financial position of the firm is identified as poor, but analysis may be lacking detail. A relevant solution is identified but may not be justified.

A maximum of **[3 marks]** if no solution is identified.

[1 to 2 marks]

A limited and general response.

- (b) Evaluate the options available to SunGen Ltd to fund the proposed expansion of their production facility (line 138).**

[10 marks]

SunGen Ltd could use either external or internal sources of funds. However, their room to manoeuvre may be a little restricted by their situation. They already have a substantial loan and their gearing ratio is nearly 70 %. They are not able to issue shares as they are a wholly owned subsidiary of Electrical Solutions plc. They are still making losses and so using the profit reserve is also not an option. The options they have to raise the funds may include:

- internal investment from Electrical Solutions plc. They may be able to use profit and cash reserves to help fund further expansion of *SunGen Ltd*, but the Electrical Solutions shareholders will be looking for an adequate return
- sale and leaseback – *SunGen Ltd* may be able to sell some assets and lease them back. This may provide some short-term capital. They could also sell assets, but this is unlikely to be viable given the rate of their expansion
- mortgage – it is possible that they could mortgage some of their fixed assets, and with fixed assets of \$1.3m, this may have the potential to raise significant capital. However, the viability of this option will depend on the current ownership of the fixed assets

- 9 -

M06/3/BUSMT/SP1/ENG/TZ0/XX/M+

- joint venture – they could perhaps undertake a joint venture, for example, with the firm installing the machines. This may raise some capital
- government grant – they may be eligible for some national or local government grants because of their environmental profile
- *any other relevant method (though this must be in the context of the case study).*

[8 to 10 marks]

Detailed evaluation of a variety of relevant sources of finance including internal and external sources. The evaluation is related to the case and appropriate to the financial context of *SunGen Ltd*. Business terminology is used appropriately throughout.

[4 to 7 marks]

Some sources of finance are evaluated and they are generally related to the case and appropriate to the financial context of *SunGen Ltd*. At the lower end of the band the sources are not evaluated and may be treated in a more general manner.

[1 to 3 marks]

A limited and essentially descriptive answer that may consider some sources of finance though these may simply be listed and not appropriate to the financial context of the firm.



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MARKSCHEME

May 2006

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

13 pages

- 2 -

M06/3/BUSMT/SP2/ENG/TZ0/XX/M+

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1. (a) Identify *two* main features of a partnership.*[2 marks]*

Main features:

- two or more partners
- unlimited liability is shared
- partners can share ideas, resources and workload
- partners can specialize in different business functions *e.g.* Danae in running the tours and Rocio in marketing and running the business
- limited sources of finance
- decision making (slower than sole traders but faster than a large company)
- *any other appropriate point.*

Award *[1 mark]* for each of the main features of a partnership up to *[2 marks]*.

(b) Calculate the time taken to payback the initial investment of €4500 assuming *El Burro* operates at maximum number of treks per year.*[3 marks]*

$$\begin{array}{rcl}
 \text{Profit from adult treks} & 30 \times 40 & = \quad \text{€1200} \\
 \text{Profit from child treks} & 10 \times 60 \text{ per year} & = \quad \text{€600} \\
 \text{Profit per year} & 1200 + 600 & = \quad \text{€1800} \\
 \\
 \text{Time taken to payback €4500} & & = \quad \frac{4500}{1800} = 2.5 \text{ years}
 \end{array}$$

[3 marks]

The calculation is correct.

[1 to 2 marks]

A basic understanding of payback is shown.

(c) Examine *two* ways in which *El Burro* can ensure its survival as a business.*[7 marks]*

To ensure survival the sisters have to set ground rules and business procedures to ensure that the partnership is successful. They need to ensure that they have realistically estimated their finances and that they operate the partnership within the law, including health and safety, insurance, liability, *etc.* All costs must be taken into account when setting the selling price of the treks to ensure that losses are not incurred. Market research needs to be done as there is a risk that the venture may not be successful if they do not provide what the customer wants.

As well as looking at these issues they need to look at more strategic ways to ensure survival

- diversification
- growth/expansion
- consumer satisfaction
- pricing strategies
- marketing strategies

Credit candidates for the examination of any two ways of ensuring survival, as long as they are relevant and properly supported.

[6 to 7 marks]

A detailed examination of two ways in which *El Burro* can ensure its survival. They are relevant and appropriate to *El Burro* and make reference to the long term.

[3 to 5 marks]

An examination of two ways in which *El Burro* can ensure survival though this may lack detail or relevance at the lower end of the band. If only one method is examined award no more than **[3 marks]**.

[1 to 2 marks]

A limited and general response.

- (d) **Discuss how the sisters can minimize potential conflict between themselves and the local community.**

[8 marks]

Local people have expressed concerns about the donkeys carrying tourists but Danae has assured them that the animals are strong enough as they are bred to carry heavy loads. The sisters must ensure that the welfare of the donkeys is paramount as the local people will be looking for signs that the donkeys are not being treated well. The sisters believe that donkeys are more environmentally friendly as there is no noise or pollution to damage the area. They need to make sure that if they are saying this, then this is the case. The local people have the potential to act as a pressure group and make life difficult for the company, stirring up negative publicity and getting in the way of running the business. The conflict can be minimized if the sisters fully involve the local people, keeping them up to date and informed about the progress of the donkeys. The good work that they are doing with the children, particularly the disabled, needs to be publicized to maximize good public relations.

More and better promotion of their friendly policies.

[6 to 8 marks]

A variety of ways in which the sisters can minimize the conflict with the community is discussed in detail. The discussion is relevant to *El Burro* and the local community.

[3 to 5 marks]

The ways in which the sisters can minimize the conflict with the community is discussed, though at the lower end the discussion may not be entirely relevant to *El Burro* or detailed enough.

[1 to 2 marks]

A limited and general response.

2. (a) Define the following terms:

- (i) *fixed assets*
- (ii) *current assets*
- (iii) *current liabilities.*

[6 marks]

Fixed assets – assets and property which cannot easily be converted into cash.

Current assets – a current asset is an asset on the balance sheet which is expected to be sold or otherwise used up in the near future usually within one year.

Current liabilities – a liability with a due date of less than one year.

Award up to **[2 marks]** for each suitable definition.

(b) Construct a profit and loss account for *Teddybears Picnics Ltd* for each of the years 2004 and 2005.

[5 marks]

Profit and loss account	2004	2005
	\$	\$
Sales revenue	22 000	24 000
<i>Less</i>		
Cost of sales	8 400	8 900
Gross profit	13 600	15 100
<i>Less</i>		
Overheads	4 400	5 000
Net profit	9 200	10 100

[5 marks]

The profit and loss accounts for both years are correct and are laid out appropriately.

[3 to 4 marks]

The profit and loss accounts are generally accurate and laid out appropriately. Allow one error at the top end of the band.

[1 to 2 marks]

A basic understanding of the elements of a profit and loss account is shown.

- 6 -

M06/3/BUSMT/SP2/ENG/TZ0/XX/M+

- (c) Produce a balance sheet for *Teddybears Picnics Ltd* for each of the years 2004 and 2005.

[6 marks]

Balance sheet	2004	2005
	\$	\$
Fixed assets	10 000	10 000
Current assets		
Stock	4 800	5 200
Cash	1 200	1 000
Debtors	2 900	3 200
	8 900	9 400
<i>Less</i>		
Current liabilities		
Creditors	3 200	3 400
Working capital	5 700	6 000
Net assets	15 700	16 000
Financed by		
Retained profit	8 700	9 900
Long term liabilities	7 000	6 100
Capital employed	15 700	16 000

[6 marks]

The balance sheets for both years are correct and are laid out appropriately in a suitable layout and format.

[3 to 5 marks]

The balance sheets are generally accurate and are laid out appropriately. Allow one error at the top end of the band.

[1 to 2 marks]

A basic understanding of the elements of a balance sheet are shown.

- (d) Identify three ways in which *Teddybears Picnics Ltd* can improve their net profit.

[3 marks]

Teddybears Picnics Ltd can improve their net profit by:

- increasing sales revenue e.g. by raising the selling price of each teddy bear or selling more teddy bears
- decreasing cost of sales, e.g. by buying cheaper materials
- decreasing overheads e.g. sourcing cheaper electricity
- lowering prices to increase sales
- other appropriate points.

Award **[1 mark]** for each appropriate way of increasing net profit given up to a maximum of **[3 marks]**.

3. (a) Define, with an example, the term *external stakeholder*. [2 marks]

An external stakeholder is an individual, group or organization which has an effect on and/or is affected by a business but is not directly involved in it. Stakeholders have an interest in the operation of the business. Examples could include suppliers, competitors, local residents *etc.*

Award up to **[2 marks]** for a suitable definition and example. For an example or definition only, award **[1 mark]**.

(b) Explain the benefits to *Fairplay* of setting ethical objectives. [4 marks]

Fairplay is making a profit from the sale of clothing and it needs to protect its image. Increasingly, external stakeholders are demanding an ethical response from companies and will take this into account when buying products. The perception of a company as an ethical organization is a powerful marketing tool. Faster communication means that events are reported so quickly that businesses can no longer hope that what goes wrong overseas will go unreported. *Fairplay* may also get involved in costly legal disputes, and by having ethical objectives they may avoid this. Setting ethical objectives would help to improve the morale of the workers as well as the owners. Happy workers are productive workers. It also shows that *Fairplay* is willing to respect the culture of different countries that they work with.

Consumers, suppliers and workers prefer to deal with ethical firms.

[4 marks]

The benefits to *Fairplay* of setting ethical objectives are explained. Reference is made to different stakeholders.

[2 to 3 marks]

Some of the benefits to *Fairplay* of setting ethical objectives are explained. Reference to stakeholders is limited.

[1 mark]

A limited and general response.

(c) **Recommend four policies that *Fairplay* should include in its code of practice.**

[4 marks]

Fairplay is promoting ethical responsibility and is keen to protect its corporate image. Therefore it is developing an ethical policy and guidelines for its overseas suppliers that include the following points:

- social care
- welfare of workers
- working environment
- respect for the rights of employees
- respect for the local legislation
- honesty and integrity in marketing
- fair pay to workers in the overseas plants
- fair treatment of workers

Candidates might come up with other relevant points.

Award [1 mark] for each appropriate recommendation up to a maximum of [4 marks].

(d) **Evaluate the costs and benefits to *Fairplay* of working more closely with its suppliers to ensure it meets the standards set out in its code of practice.**

[10 marks]

The code of practice applies to *Fairplay's* suppliers and failure to comply with the standards means that *Fairplay* will discontinue working with those suppliers and go to others. This will cost *Fairplay* in the short-term as they will have to find new suppliers and negotiate new contracts. Yet this action may have long term marketing advantages. One of the benefits to *Fairplay* of working more closely with the suppliers is that they maintain a relationship with a supplier whose operations they know. As long as the supplier respects the code of practice *Fairplay* will not incur costs associated with negotiating a new contract.

Fairplay visits factories without notice to check standards. The benefit is that suppliers will ensure that they operate to the set guidelines and that they adhere to the policy. The downturn is that sending inspectors all over the world is costly and suppliers might be able to anticipate the inspection.

Good ethical standards will result in positive publicity for *Fairplay* and will help to enhance their brand image and reputation. A cost would be training the suppliers to meet standards and substituting those who do not live up to the policies. This would however also be a benefit as mistakes and low standards would be avoided in the future.

The policy probably means that *Fairplay* faces higher production costs, but these should be outweighed by the increased sales.

[9 to 10 marks]

A detailed and balanced evaluation of the costs and benefits to *Fairplay* of working more closely with their suppliers. The points made are relevant and appropriate to *Fairplay*.

[6 to 8 marks]

An attempt to evaluate the costs and benefits to *Fairplay* of working more closely with their suppliers. The costs and benefits are relevant and appropriate to *Fairplay*, but they are not all evaluated.

[3 to 5 marks]

A discussion of some of the costs and benefits to *Fairplay* of working more closely with their suppliers. The answer may be unbalanced, lack detail and appropriateness to *Fairplay* at the lower end of the band.

[1 to 2 marks]

A limited and general response.

4. (a) Explain how computer games businesses can ensure their employees' skills meet the needs of a rapidly changing industry. **[4 marks]**

The developers need to invest in their employees in order to retain them where possible, but they also need to recruit new game developers with innovative ideas. Training needs to be provided that is of high quality and targeted to the needs of the company. Opportunities for developing new skills and enhancing current skills should be provided to all employees.

Dismiss employees who cannot keep up with the speed of rapid technological change. Employ young workers with creative ideas.

[4 marks]

A variety of ways in which skills are developed are explained, they are appropriate to computer game developers and are relevant to the case study.

[2 to 3 marks]

Some of the ways in which employees' skills are developed are explained. They are generally appropriate to computer game developers.

[1 mark]

A general response.

- (b) **Describe the importance of innovation in a rapidly changing computer games market.**

[4 marks]

Innovation is the key to success in the computer game market. The demands of consumers are constantly changing and exciting games are needed that provide a challenge to the target market. Product life cycles are very short in the computer games market and therefore keeping ahead of competitors is the key to success. Games are very costly and time consuming to produce. The risk of failure is high and therefore innovation and creativity are paramount alongside clever marketing and thorough market research. Looking for new opportunities such as games for mobile phones is also the key to the future success of the companies. It is important to create USP to justify premier pricing and maximize revenue.

[4 marks]

The importance of innovation in the computer games market is described. The response recognizes that innovation takes place in an era of rapid technological change and that life cycles of computer games are short.

[2 to 3 marks]

The importance of innovation in the computer games market is described, though it may lack detail. The response may not recognize fully that innovation takes place in an era of rapid technological change.

[1 mark]

A limited and general response.

- (c) **Discuss the problems of financing research and development in the high risk market of computer games development.**

[7 marks]

Research and Development (R&D) involves technical research or a new production technique. R&D can be very expensive. Large game developers may have their own research department or they can adapt new products and techniques used by other companies, *e.g.* films into games. On the other hand small niche players may find it difficult to raise sufficient finances given the high risk of failure. One of the problems of financing R&D is that there is a risk that the money spent on developing the new games are not recouped if the game does not reach the market.

R&D will be difficult to finance because of the high costs involved and the relatively short product cycle over which the investment can be recouped.

External long-term sources of finance will therefore often be inappropriate and publishers may need to source development funding internally – perhaps from other products in the product portfolio.

Cash flow resulting from the release of games will come some time after the initial development when costs have been paid. Employees may become disheartened if their games are not developed after the research phase, and move to other companies, the costs of retraining would then form part of the R&D picture. If confidentiality is broken and games are leaked to competitors or to the market then the game is no longer innovative and therefore it will not be possible to gain the benefits from the finance invested.

[6 to 7 marks]

The problems of financing research and development are discussed in detail. There is application to the computer game development. The response recognizes that the computer game market is high risk and therefore difficult to finance.

[3 to 5 marks]

An attempt to discuss the problems of financing research and development is evident. The discussion is relevant to computer game development. The response should recognize that the computer game market is high risk, although at the bottom end little reference is made to finance.

[1 to 2 marks]

A limited and general response.

(d) Examine the long-term implications for the UK games industry of outsourcing development to Eastern Europe and Vietnam.**[5 marks]**

The long-term implications may include:

- the quality of production may be difficult to monitor
- the number of jobs available in the UK games industry will decrease and skills may be lost
- if expertise is lost there is a danger that the skills cannot be secured in the future
- relocation of resources to a more productive environment may offer more opportunities for marketing and product development for UK games
- development costs for games may fall resulting in a reduced risk for UK games publishers
- *any other relevant point.*

[4 to 5 marks]

The long-term implications of outsourcing are examined including advantages and disadvantages. They are relevant and appropriate to the UK computer game development industry.

[2 to 3 marks]

There is some recognition of long-term implications but the answer lacks breadth and detail.

[1 mark]

A general response.

5. (a) Explain, with appropriate examples, the difference between fixed and variable costs. [4 marks]

Fixed costs do not vary with output, e.g. rent. Variable costs vary directly with output e.g. materials.

Award **[1 mark]** for a suitable explanation **[1 mark]** for an appropriate example of fixed costs and variable costs up to a maximum of **[4 marks]**.

- (b) Calculate the
(Clearly show your working out.)
(i) break-even point [4 marks]

Fixed costs
Rent \$1700

Variable costs
Keyring components \$0.16 per keyring
Clips \$0.03 per keyring
Photo paper \$0.06 per keyring

Total variable costs = \$0.25

Contribution per keyring
Selling price – variable cost per keyring
\$3.65 – \$0.25 = \$3.40

Number of keyrings needed for break-even =

Fixed costs
Contribution per keyring
 $\frac{1700}{\$3.40} = 500$

Award **[2 marks]** for the correct break-even point and up to **[2 marks]** for calculation and appropriate method of working.

- (ii) margin of safety at 1000 keyrings [1 mark]

Margin of safety = 1000 – 500 = 500

Award **[1 mark]** for the correct margin of safety.

- (iii) profit at 1000 keyrings [2 marks]

Profit = Total revenue – Total costs
Profit = $(\$3.65 \times 1000) - 1700 + (\$0.25 \times 1000) = \$1700$

Award **[1 mark]** for the correct profit and **[1 mark]** for indication of appropriate working or method.

(iv) profit at 2500 keyrings.**[2 marks]**

Profit = Total revenue – Total costs

$$\text{Profit} = (\$3.65 \times 2500) - 1700 + (\$0.25 \times 2500) = \$6800$$

Award **[1 mark]** for the correct profit and **[1 mark]** for indication of appropriate working or method.

(c) Analyse the limitations of using break-even analysis as a planning tool.**[7 marks]**

The limitations of break-even analysis include:

- it assumes that all the output is sold; in fact sales may not equal output
- it assumes output is all sold at one price. In reality the firm may have to lower the price to sell more
- it assumes variable costs are constant per unit. In reality they may vary with discounts or changes in productivity
- the analysis is only as useful as the underlying data; if data is out of date, it has limited usefulness
- its usefulness depends on the skill and experience of Phil Newman in estimating the costs and quantities.

[6 to 7 marks]

There is a detailed and varied analysis of the limitations of break-even analysis. The analysis is appropriate and relevant to *Keysnapz*.

[3 to 5 marks]

An attempt to analyse the assumptions of break-even analysis is evident. The analysis is generally appropriate and relevant to *Keysnapz*, but may not include all the limitations.

[1 to 2 marks]

A limited and general response.



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N06/3/BUSMT/SP1/ENG/TZ0/XX/M

MARKSCHEME

November 2006

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

10 pages

– 2 –

N06/3/BUSMT/SP1/ENG/TZ0/XX/M

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1. (a) Identify two external sources of finance for SunGen Ltd. [2 marks]

Suitable sources of external finances would be:

- a bank loan
- joint venture
- share issue
- mortgage
- franchising
- strategic alliance
- *other suitable suggestions.*

Award **[1 mark]** for each suitable external source of finance up to a maximum of **[2 marks]**.

(b) Using the profitability, liquidity and efficiency ratios given in Appendix 3, discuss the changes in the financial performance of Electrical Solutions plc between 2003 and 2005. [10 marks]

Profitability has reduced between 2003 and 2005. The gross profit margin has been reduced by 6 % meaning that either sales revenue has decreased or the cost of sales has increased. Net profit margin has only decreased by 1 % meaning that overheads have not increased significantly. Return on capital employed has reduced by 3 % meaning that the operational efficiency of the business has reduced. Electrical Solutions plc is not as liquid in 2005 as it was in 2003. The current ratio has reduced from 2.3 to 1.6, showing that the company is finding it more difficult to pay its debts, but it is still within an acceptable range. The acid test ratio has also reduced to 0.7 which is too low, showing that too much is tied up in stock and the company will face difficulty in the short term in paying its debts. In terms of efficiency, stock is turning over more slowly as the stock turnover ratio has increased from 91 to 105 days. Debtor days has not changed much showing that payment is being received from debtors, however creditor days have increased showing that it is taking longer for creditors to be paid. Overall the financial situation is not as healthy in 2005 as it was in 2003.

[8 to 10 marks]

Appropriate ratios are used to discuss, in detail, the performance of Electrical Solutions plc in terms of profitability, liquidity and efficiency in 2005, compared to 2003.

[4 to 7 marks]

Some of the ratios are used to discuss the performance of Electrical Solutions plc, but the discussion may lack some depth or detail. There is comparison between 2005 and 2003. The areas and ratios considered may be limited at the lower end of the band.

[1 to 3 marks]

An attempt to look at the financial performance of Electrical Solutions plc. The comparison between 2005 and 2003, number of ratios and areas considered are very limited.

2. (a) The market for solar power equipment is a niche market (line 77).
Define the term **niche market**.

[2 marks]

A niche market is a smaller portion of a larger market. It generally refers to a group whose needs are not being addressed by mainstream providers. The market for solar power is a smaller part of the larger electricity generation market.

Another definition of a niche market would be *a narrowly defined group of potential customers*.

[2 marks]

A niche market is accurately defined.

[1 mark]

There is an attempt to define a niche market that identifies some appropriate elements of the definition, but may not be complete.

- (b) Produce a suitable marketing mix for free standing solar panels (Appendix 1). Discuss how each element of your marketing mix can support SunGen Ltd's objective to be seen as environmentally and socially responsible.

[12 marks]

Candidates may produce a range of responses to this open-ended question. Appropriate points under each of the 4 Ps could include:

Marketing mix

Price

- fair for the product
- some of the price is used to support environmentally friendly causes
- discounting could be offered, buy one get one free would be appropriate
- special offers for early sales.

Product

- the nature of the product is environmentally sound
- minimal packaging
- materials can be recycled
- it's fit for purpose and good quality.

Promotion

- the company is socially and environmentally responsible, the promotion needs to reflect this
- this could take place in green magazines, new home guides, relevant house buying literature. Home exhibitions, trade shows
- it is unlikely that they will advertise on TV and Radio.
- Internet promotion is highly likely
- home owners who have systems may invite others to their homes to see the products in action. These showhomes could be dispersed throughout the area

– 5 –

N06/3/BUSMT/SP1/ENG/TZ0/XX/M

Place

- distribution channels need to reflect the geographically dispersed market
- distributors used who are reliable and socially responsible
- fuel efficient transport
- location causes minimal impact on the environment

The marketing mix needs to focus on *SunGen Ltd's* environmental and social responsibility profile. Discussion of the elements needs to reflect this.

Candidates may also refer to other Ps – people, process and packaging and these can be credited as appropriate.

[10 to 12 marks]

An appropriate and detailed marketing mix is produced that covers all four elements. The discussion is detailed, balanced and reflects *SunGen Ltd's* objective to be seen as environmentally and socially responsible.

[7 to 9 marks]

An appropriate marketing mix is produced that covers all four elements but may not be completely balanced. The discussion generally reflects *SunGen Ltd's* objective to be seen as environmentally and socially responsible.

[4 to 6 marks]

A marketing mix is attempted that would promote the environmental and social responsibility profile of *SunGen Ltd*. The discussion may be limited particularly at the lower end and/or there may be a lack of balance.

[1 to 3 marks]

An attempt at a marketing mix which is limited in terms of Ps and appropriateness to the environmental and social responsibility profile.

3. (a) Identify two methods of recruitment available to *SunGen Ltd*.**[2 marks]**

- internal recruitment
- formal advertisement and external recruitment
- through recruitment agency
- headhunting
- graduate and job fairs
- apprenticeships
- *other suitable methods may be suggested.*

Award **[1 mark]** for each suitable method identified up to a maximum of **[2 marks]**.

- (b) Using appropriate motivational theory, evaluate how Greg and Catherine's suggestions (lines 103-123) could affect the workforce. [12 marks]**

Greg and Catherine are proposing a flatter structure with fewer levels of hierarchy. A flatter structure with less hierarchy could be motivating as staff would feel more empowered and given more control over their own working. However, it could also be demotivating if spans of control increase and communication problems and management problems were to increase.

If decisions do not reach staff, then this will be demotivating, as will a lack of vision and leadership. Their feeling of not being involved in decision-making is highly demotivating and a lack of clarity regarding the company's direction will not help either.

Being part of a flexible and responsive workforce would be motivating to staff who like to operate in this way and those who thrive on change and unpredictable situations. It would, however, demotivate staff who like to know exactly where they stand and who like a routine.

Changes to workers' contracts and temporary contracts will be unsettling, reduced hours of working will be demotivating if workers do not receive enough pay to meet their commitments.

The uncertainty of strike action will be demotivating, as staff will worry about whether they will be paid and able to meet their commitments. Incentives however will be motivating, as will training and appraisal. Performance management will have different effects on different people, but if they are rewarded for meeting targets it will be motivating, provided targets are achievable. The payment of bonuses and other incentives will have a positive effect in the short-term.

Appropriate theory will include Maslow, Herzberg, McGregor, McClelland. This theory should be applied to the proposed change in structure.

[10 to 12 marks]

Appropriate motivational theory is used in detail to evaluate how the suggestions will affect the workforce. Both negative and positive aspects are discussed. The evaluation is directly linked to the case study and business terminology is used appropriately.

[7 to 9 marks]

Some motivational theory is used to consider how the suggestions will affect the workforce. At the lower end the response will tend to be discussion or explanation rather than evaluation.

[4 to 6 marks]

The impact of the proposed changes is considered and there may be some reference to and use of motivation theory, though this may be limited at the lower end of the range.

[1 to 3 marks]

A limited and general response.

4. (a) Produce a SWOT analysis to examine the current position of *SunGen Ltd.*

[8 marks]

Strengths

- Derek is an experienced entrepreneur.
- *SunGen Ltd* is a wholly owned subsidiary of Electrical Solutions Ltd
- significant growth of company
- custom made equipment
- just-in-time (JIT) stock levels
- market leader
- training programme

Weaknesses

- staff resentment of Tony McGregor
- significant overtime
- staff work unpredictable hours
- unreliable suppliers
- long delivery times
- dissatisfied customers
- quality of components
- duplication of production information
- communication problems and management control
- threat of strike action
- financial situation is worsening
- funding issues
- reaching plant capacity

Opportunities (must be external)

- niche market
- growing market
- increased construction of houses
- modification of planning regulations
- subsidies to householders for fitting renewable energy systems
- need for businesses to become more socially and ethically responsible

Threats (must be external)

- competition
- geographically dispersed market
- fall in house prices
- state of the economy
- increased inflation
- reduction in economic growth

Each point raised should be fully examined to show why it is a strength, weakness, opportunity or threat.

[8 marks]

A detailed SWOT analysis is produced covering at least four entries in all four areas. The analysis fully examines the current position of *SunGen Ltd.* S and W are internal and O and T are external. Each point is adequately explained to show why it is a S, W, O or T.

[6 to 7 marks]

A SWOT analysis is produced covering all four areas. The analysis examines the current position of *SunGen Ltd.* S and W are generally internal and O and T are generally external, but there may be some minor confusion.

[3 to 5 marks]

A SWOT analysis is produced that may not be balanced or cover all four areas. The analysis attempts to examine the current position of *SunGen Ltd.*, but many points may be inadequately explained or not well related to *SunGen Ltd.*

[1 to 2 marks]

A limited SWOT in terms of areas and appropriateness.

- (b) Select **four** weaknesses you have identified from the SWOT analysis produced in part (a) and evaluate a possible strategy to address each of the weaknesses selected.

[12 marks]

Practical strategies to address weaknesses could include:

- **Staff resentment of Tony McGregor.** Meetings and discussions could take place to discuss issues and agree a way forward. These meetings and discussions could help to raise the relevant issues but there may be a degree of reluctance among staff to contribute fully to them. The issues could be raised through staff appraisals, but there may still be some reluctance to address the issues openly.
- **Significant overtime.** More flexible working patterns could be looked at. Future recruitment could appoint staff on different contracts. This would help keep overtime costs under control and allow the firm more flexibility in production planning, but there is significant staff disquiet about possible changes to their contracts and there may be a danger of industrial action.
- **Staff work unpredictable hours.** Working patterns and hours could be looked at and a new arrangement put in place. As with flexible working patterns, the advantages of this strategy may be more in the firm's favour and there may be some concern among the staff about the changes. These would need to be carefully negotiated and implemented to avoid the possibility of industrial action.
- **Unreliable suppliers.** Discussions could take place with suppliers to make new arrangements and overcome problems. Payment arrangements could be looked at to stop payments if problems arise. New suppliers could be sought. This may be a costly exercise for the firm and tie up resources in the short-term. However, in the long-term it may help them build relationships and allow for expansion.
- **Long delivery times.** Contracts could state penalties arising from failure to deliver on time. New suppliers could be sought. This would help ensure reliability of supplies, but punitive contracts are unlikely to prove popular with suppliers and so the firm may need to look at building closer relationships with suppliers.
- **Dissatisfied customers.** Complaints could be dealt with efficiently and problems overcome. Staff training could take place to improve service and overcome problems. These strategies would help the firm to improve customer service, but they may be costly

and take a considerable time to have an impact. They may also need to look closer at the reasons why customers are dissatisfied. If the dissatisfaction stems from the nature of the products, then they may need to look more carefully at other strategies, perhaps including closer attention to quality management.

- **Quality of components.** New suppliers could be sought to provide quality components. Contracts could penalise suppliers who send defective parts. This approach could help improve quality and may therefore reduce some of the dissatisfaction that has arisen amongst customers, but any arrangement that is just punitive may be costly to oversee. The firm also needs to build closer relationships with suppliers if they are to improve quality and keep costs down.
- **Duplication of production information.** The intended new computer system would overcome the duplication problem. The new production system will raise their fixed costs and require significant investment. It may even require considerable attention to staff training provision. However, it may help lower unit costs in the medium to long-term, particularly if it enables trouble-free expansion of production.
- **Communication problems and management control.** The introduction of a flatter structure and effective training would overcome the control and communication problems. However, the implementation of these approaches will be costly and may take some time to come into effect. The firm will need to accompany the flatter structure with appropriate communication strategies.
- **Financial situation is worsening.** Control measures need to be put in place to restrict spending. Areas where savings could be made need to be identified and measures put in place. However, the firm must ensure that any cost-saving measures do not have an impact on customer service or product quality as this may damage their reputation.
- **Reaching plant capacity.** A new production facility would overcome the capacity problem. However, this will require significant investment and may initially raise unit costs.
- *any other relevant strategy with appropriate evaluation of the strategy.*

N.B. *The points given above are possible weaknesses that candidates may identify. However, they should be credited for discussion of weaknesses that they identified in their SWOT analysis even if these were not necessarily appropriate internal weaknesses.*

Some limited discussion of each point is given above for illustration, but candidates should be expected to take a more detailed approach for the four weaknesses that they select.

Award up to **[3 marks]** for each suitable strategy discussed up to a maximum of **[12 marks]**. For **[3 marks]** discussion should include advantages and disadvantages of the strategy.

[10 to 12 marks]

Four weaknesses are selected and there is detailed and balanced discussion of appropriate strategies to address them. The strategies are related to the case and business theory and terminology is used effectively and appropriately.

– 10 –

N06/3/BUSMT/SP1/ENG/TZ0/XX/M

[7 to 9 marks]

At least three weaknesses are selected and there is a clear examination of appropriate strategies to address them though this may not be entirely balanced. The strategies are generally related to the case study and business theory and terminology is used to reasonable effect. The issues raised are generally appropriate to the case, though may tend to be more general at the bottom end of the mark range.

[4 to 6 marks]

At least two weaknesses are selected and there is some examination of appropriate strategies to address them. However, the examination of the strategies may tend to be a little general and descriptive particularly at the lower end of the band. The strategies may tend to be a little generic and not related to the case, but there is some occasional use of business theory and terminology.

[1 to 3 marks]

A limited and essentially descriptive answer.



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N06/3/BUSMT/SP2/ENG/TZ0/XX/M+

MARKSCHEME

November 2006

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

14 pages

– 2 –

N06/3/BUSMT/SP2/ENG/TZ0/XX/M+

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– 3 –

N06/3/BUSMT/SP2/ENG/TZ0/XX/M+

1. (a) Explain how the mission statement can help decision making at 3X. **[4 marks]**

The mission statement explains in broad terms what 3X is attempting to achieve and gives an indication of the organization's values. When making relatively important decisions an employee or manager should therefore ask himself/herself if the decision is consistent with the mission statement, e.g. "accuracy, integrity and trust"/"vital business and financial news and information".

[3 to 4 marks]

Good understanding of a mission statement evident and an explanation of how it could help 3X make decisions. Reference is made to 3X.

[1 to 2 marks]

Some understanding of a mission statement evident but limited or no reference to 3X, or how decision-making might be helped.

(b) Describe two potential benefits to 3X of setting ethical objectives. **[4 marks]**

Potential benefits include:

- reduced litigation costs
- improved public relations
- improved morale
- recruitment benefits
- establishing a "niche" position
- greater understanding of employee rights and responsibilities
- *any other relevant benefit.*

[3 to 4 marks]

For a good description of two potential benefits. For **[4 marks]** direct reference is made to 3X.

[1 to 2 marks]

Some understanding of two potential benefits or a good description of one benefit. Limited or no reference to 3X.

(c) Discuss the possible reasons why 3X chose to enter the Russian market via a joint venture rather than setting up there independently or acquiring a local publisher. **[6 marks]**

The joint venture would involve 3X and Kalowski operating a separate business division in Russia.

This method avoids the need for a merger or takeover, or setting up independently, all of which could be costly, administratively complex, and difficult to pull out of. The joint venture enables 3X to exploit Kalowski's local knowledge and reputation without the potential risks and costs of a takeover, or the problems of setting up independently (such as language, cultural and marketing issues). The joint venture may be a prelude to a merger/takeover. National laws may make a joint venture the only option.

– 4 –

N06/3/BUSMT/SP2/ENG/TZ0/XX/M+

[5 to 6 marks]

A full and balanced discussion which reveals detailed understanding of the potential benefits of a joint venture (relative to a takeover/going independent). Direct reference is made to 3X.

[3 to 4 marks]

A limited discussion which reveals some understanding of the potential benefits of a joint venture (relative to a takeover/going independent) and some reference is made to 3X. The answer may tend to be descriptive at the bottom end of the range and may lack balance.

[1 to 2 marks]

A limited response with little or no reference to 3X.

- (d) Analyse the role of primary and secondary sources of data in helping 3X develop its presence in the digital news and information market.**

[6 marks]

Primary Data	Secondary Data
First hand information from 3X's customers and non-customers e.g. interviews and informal discussion. Web based research (e.g. surveys) could also be used to gather primary data.	Second hand information from sources (including) company records, industry reports and government statistics.

3X would need to monitor sales of its paper and digital products to identify trends. It would also need to monitor technological developments since growing familiarity, mobility and trust of digital hardware (for example personal digital assistants/mobile telephones) would undermine resistance to digital news and information. They may also need to consider industry and other reports to try to assess the strategic choices being made by their competitors. Government statistics may be helpful in the analysis of external economic opportunities and threats and other government information may help identify external political issues.

Secondary data is likely to be helpful and is cheaper to source but it may be out of date and backward-looking which may mean it is of less value in a fast-moving market like the digital news and information market. Primary data will be more expensive and time-consuming to collect but may provide valuable qualitative data on social trends as well as consumer attitudes and perceptions.

[5 to 6 marks]

A full, detailed and balanced analysis of both primary and secondary sources with application to 3X. Business terminology is used appropriately where relevant.

[3 to 4 marks]

Some analysis of primary and/or secondary sources with some reference to 3X, though this may tend to be more general and descriptive at the lower end of the band.

[1 to 2 marks]

Identification of primary and/or secondary sources with limited application and little or no reference to 3X.

2. (a) Explain the significance and role of “cash cows” for the future of *Essemo*.

[4 marks]

A cash cow has a high share of stagnant (or possibly declining) market. The funds from cash cows are often used (“milking”) to invest in newer products (or markets – in this case China and India) with greater growth prospects. It is unlikely that the future success of the business will be based on cash cows, but they can help secure the future by funding rising stars (Ben and Berry) or market development, or to transform a problem child (Dotty) to a rising star.

[3 to 4 marks]

A full explanation of the significance of cash cows with application of the concept to *Essemo*’s product range.

[1 to 2 marks]

Some understanding of cash cows is evident but significance for *Essemo* is not explained.

(b) Identify two potential benefits and two potential costs to the Indian economy if *Essemo* enters the Indian market.

[4 marks]

Potential benefits may include:

- jobs gained
- technology transfer
- skills transfer
- greater domestic choice
- *any other relevant benefit*.

Potential costs may include:

- impact on domestic producers
- impact on domestic culture
- repatriation of profits
- impact on the environment
- jobs lost
- *any other relevant cost*.

[1 mark] awarded for each relevant potential benefit and each relevant potential cost up to a maximum of [4 marks].

– 6 –

N06/3/BUSMT/SP2/ENG/TZ0/XX/M+

- (c) With reference to the Ansoff Matrix and the product life cycle, discuss *Essemo*'s chosen growth strategy.

[6 marks]

		Products	
		Existing	New
Markets		Existing	Market Penetration
		New	Diversification
		Market Development	

There is a suggestion that sales have reached maturity and that new product developments have been exhausted. Diversification is notoriously risky since *Essemo* would have little knowledge of the products or markets. Penetration would be difficult since rivals are strong and competition is intensive. Market development seems to offer a suitable growth strategy since sales have greater potential for growth and this is the market *Essemo* understands. Demand for ice cream in India and China appears to be in the early stages of the product life cycle, whereas in Europe/America it seems to have matured or be in decline.

[5 to 6 marks]

A detailed and balanced discussion with reference to *Essemo* and appropriate application of the relevant parts of the Ansoff Matrix.

[3 to 4 marks]

Some discussion of the growth strategy though it may lack detail and/or balance and may tend towards explanation with limited reference to *Essemo*.

[1 to 2 marks]

For a limited and essentially descriptive response.

- (d) Evaluate the choice of different pricing strategies for *Essemo*'s product range.

[6 marks]

Essemo has chosen different pricing strategies for the different products. The Dotty, for example, has a low price suggesting a penetration pricing strategy and elastic demand whereas the Ben & Berry has a high premium price suggesting more inelastic demand.

Possible reasons for these different pricing strategies include:

- direct cost differences between products (of ingredient, production, marketing)
- level of competition in the different market segments
- customer expectations
- customer's ability to pay (a factor affecting price elasticity value)
- consistency with the brand image and the brand perception among the target market

[5 to 6 marks]

A detailed evaluation of the reasons for different pricing strategies with reference to *Essemo's* product range.

[3 to 4 marks]

Some analysis of the reasons for different pricing strategies though the evaluation maybe limited and tend towards explanation. There may be limited reference to *Essemo's* product range.

[1 to 2 marks]

For a limited and essentially descriptive response.

3. (a) Describe Tom Jones' leadership style.**[2 marks]**

Tom's leadership style is autocratic. He appears to make decisions with little or no consultation and has "complete control over the board of governors". Candidates do not have to use the term "autocratic" to be awarded **[2 marks]**, but need to show a clear understanding that this is the leadership approach.

[2 marks]

Tom's leadership style is accurately described with reference to *Overseas School*.

[1 mark]

A vague description of Tom's leadership style.

(b) Using Herzberg's theory of motivation examine the likely effects on teacher motivation of Tom Jones' proposals.**[6 marks]**

Factors leading to dissatisfaction at work:

- security
- status
- relationship with subordinates
- personal life
- relationship with peers
- salary
- work conditions
- relationship with supervisors
- supervision
- company policy and administration.

Factors leading to satisfaction:

- growth
- advancement
- responsibility
- work itself
- recognition
- achievement.

The major sources of dissatisfaction (according to Herzberg) would be the company policy and administration and the degree of supervision which would also impact on relationships. There seems to be little evidence of any focus on “satisfiers” and many hygiene factors are being neglected. Tom’s changes are therefore likely to result in extreme dissatisfaction.

[5 to 6 marks]

A detailed examination of sources of dissatisfaction at *Overseas School* as suggested by Herzberg’s theory of motivation, with appropriate application.

[3 to 4 marks]

Some examination of sources of dissatisfaction at *Overseas School* though there maybe limited reference to Herzberg’s theory of motivation.

[1 to 2 marks]

For a limited and general response.

- (c) **Identify the interests of two stakeholder groups at *Overseas School* and explain how potential conflict between them could be resolved.**

[6 marks]

A stakeholder is an individual or group with a direct interest in an organization’s performance.

The main stakeholders (and their interests) include:

- teachers – pay/security/representation
- managers – meeting targets (academic and budget), control, authority
- parents – safe and successful learning environment, acceptable fees, representation
- students – quality education, representation
- employers – source of labour/education for employees children
- the local community – e.g. shops/bus service/builders.

Conflict seems to have arisen because decision-making at the school lacks balance. Tom Jones has placed his perception of the organization’s needs above those of the other stakeholders, and this has generated conflict. A successful resolution of the conflict would emerge if each stakeholder’s interest were thoroughly considered before decisions were made. It may be appropriate to remove Tom Jones and arrange for a more balanced representation of stakeholders so that conflict can be resolved rather than fester. Other conflicts may be explained, for example between teachers and parents.

[5 to 6 marks]

Two stakeholder groups at *Overseas School* are correctly identified and the nature of their interests is explained in detail. A realistic suggestion for conflict resolution is explained.

[3 to 4 marks]

Up to two stakeholder groups are identified and the nature of their interests is explained. The answer may lack breadth/detail. A suggestion for conflict resolution has been explained but may be unrealistic or lacking detail.

[1 to 2 marks]

A limited and general response.

(d) Evaluate the proposal to reward the director of administration on a performance related pay basis.

[6 marks]

Performance related pay may be appropriate when:

- performance can be measured objectively
- performance can be assigned to an individual (rather than a team)
- the individual has considerable control over the results.

In the areas of catering, transport and cleaning the above are likely to be applicable to a considerable degree, although external influences (e.g. traffic congestion which could result in delays) could occasionally affect performance. The director of administration would have a financial incentive to meet targets and to cut costs and this is likely to have a negative impact on morale. However, it may be very difficult to quantify the performance of the director himself and to differentiate his performance from that of the staff he oversees. It may also be debateable the extent to which he personally can influence results. Other advantages and disadvantages of performance related pay could be considered.

[5 to 6 marks]

A detailed and balanced evaluation of the performance-related pay proposal with reference to *Overseas School*, and the situation of the administration director. Business terminology is used appropriately where relevant.

[3 to 4 marks]

Some consideration of the performance-related pay proposal with some reference to *Overseas School*, and the situation of the administration director though this may be limited at the lower end of the range.

[1 to 2 marks]

For a limited and essentially descriptive response.

4. (a) Explain the need for working capital.

[3 marks]

Working capital is the day-to-day finance for running a business. It is used to pay for raw materials and running costs, and also funds the credit offered to customers when making a sale. If a firm has too little working capital available it may struggle to pay immediate debts (such as pay for raw material supplies). If an organization has poor liquidity it may find it difficult to buy items on credit terms (and this, in itself, worsens the situation).

If an organization continues to operate without sufficient working capital it may go out of business. Indeed poor liquidity is the cause of the majority of business failures.

Equally “too much” working capital may be viewed as wasteful since the money could be more productively employed as a fixed asset, or perhaps invested in other ways to earn a return.

[3 marks]

A clear understanding of the concept of working capital is shown with a detailed explanation of the need to maintain adequate working capital.

– 10 –

N06/3/BUSMT/SP2/ENG/TZ0/XX/M+

[2 marks]

An explanation of the need for working capital is given, although this may lack some depth, and may simply define/explain working capital rather than explain the need for it.

[1 mark]

A generalized response showing limited understanding of working capital.

(b) (i) Identify three reasons for drawing up a cash flow forecast. [3 marks]

The following reasons may be identified:

- a forecast is required by the bank, or other potential lenders
- the forecast enables the business to identify periods of problem cash flow and to address these before they arise
- cash flow forecasts enhance the planning process, clarifying aims and objectives and forming part of a general planning process
- the cash flow forecast may form part of the budgeting process in that the forecast can be compared to actual performance

Award **[1 mark]** for each relevant reason identified up to a maximum of **[3 marks]**.

(ii) Prepare a cash flow forecast for the proposed new clothing venture covering the first six months of operations (January to June), using the financial data provided by the financial director. [8 marks]

	January	February	March	April	May	June
	\$	\$	\$	\$	\$	\$
Cash flow sales			40 000	42 000	44 100	46 305
Cash outflows			40 000	42 000	44 100	46 305
Start up costs	150 000					
Overheads	15 000	15 000	15 000	15 000	15 000	15 000
Interest	3 000	3 000	3 000	3 000	3 000	3 000
Stock purchases	18 000	18 900	19 845	20 837	21 879	22 973
	186 000	36 900	37 845	38 837	39 879	40 973
Net cash flow	(186 000)	(36 900)	2 155	3 163	4 221	5 332
Opening bank balance	300 000	114 000	77 100	79 255	82 418	86 639
Closing bank balance	114 000	77 100	79 255	82 418	86 639	91 971

[7 to 8 marks]

A well laid out and accurate cash flow forecast. Award **[7 marks]** for a maximum of one error and/or a slight limitation in layout.

[5 to 6 marks]

A well laid out cash flow forecast with a few minor errors.

[3 to 4 marks]

A poorly laid-out cash flow forecast with a number of errors.

[1 to 2 marks]

Many errors and/or a poor layout.

- N.B.** (i) An error that “carries forward” should only be penalized once.
(ii) It is acceptable for candidates to round answers up or down to the nearest \$.

(c) Evaluate the proposal that *Aries* forms a strategic alliance with *Scharp*. [6 marks]

A strategic alliance would involve the organizations remaining separate but *Scharp* would take responsibility for production of the new women's wear garments. The two organizations would also share marketing data and explore opportunities to complement each others brands.

Potential advantages of a strategic alliance include:

- improved liquidity at *Aries* (e.g. there is an opportunity for *Aries* to reduce need for factory space)
- concentrate on core competence
- reduced costs if *Scharp*'s production is more efficient
- possible synergies (and subsequent increases in revenue)
- *Scharp*'s reputation for quality

Potential disadvantages of a strategic alliance include:

- dependence on *Scharp* and reliance on their production facility
- dilution of brands
- culture clash between the two companies

Given that *Aries* has poor liquidity and *Scharp* has an excellent reputation for quality it seems a prudent way to enter the market initially. Naturally the success of the strategic alliance will be reviewed at a later stage. A strategic alliance may be less of an issue in terms of organizational and cultural differences than a merger, and in the short run should prove beneficial. Further information may be required and it is possible that the strategic alliance is found to be unworkable after negotiations.

[5 to 6 marks]

A detailed and balanced evaluation of the strategic alliance with for **[6 marks]** a considered and supported judgment. Appropriate reference is made to *Aries* and *Scharp*.

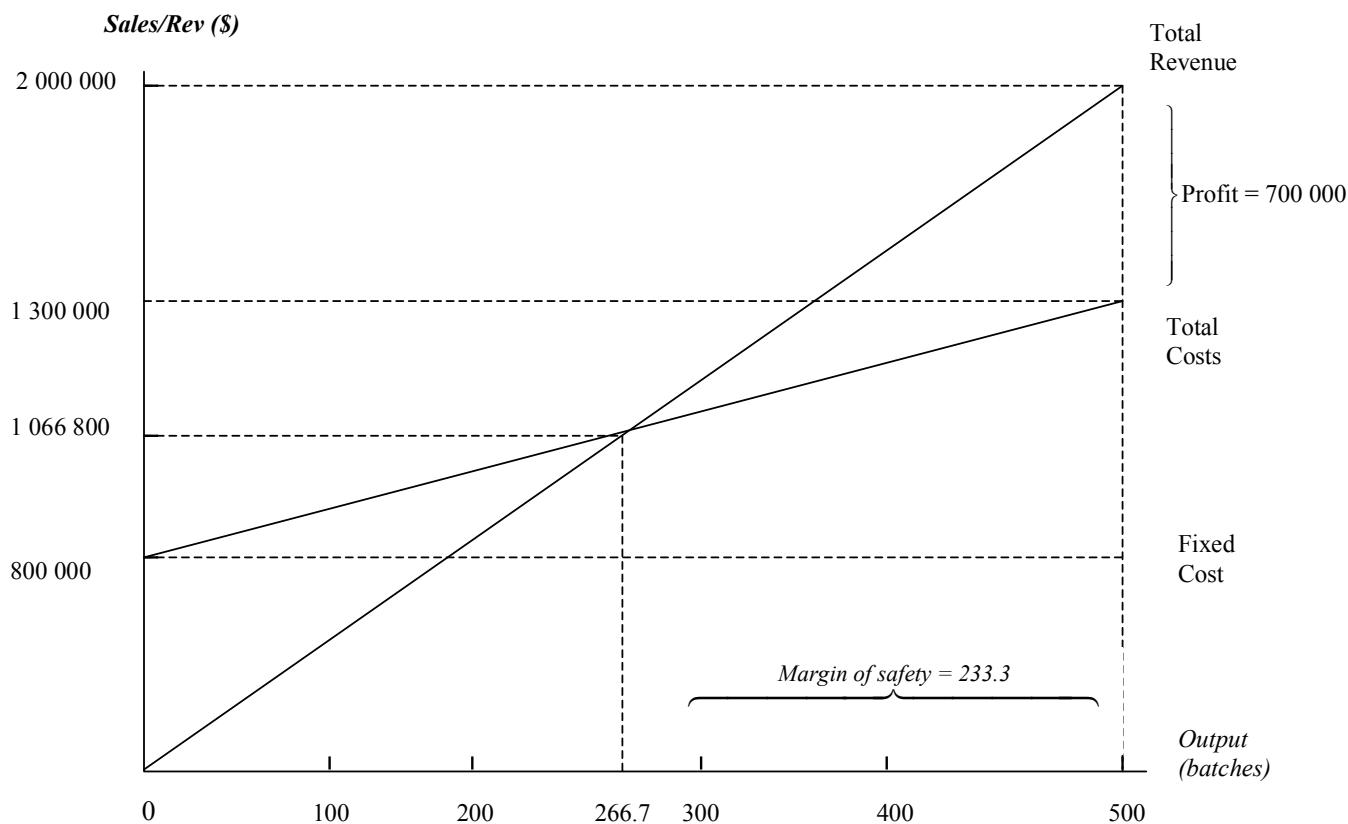
[3 to 4 marks]

Some consideration of the strategic alliance, though at the lower end of the range the answer may lack detail and/or balance. At the lower end of the range the answer may be general and lack reference to *Aries* and *Scharp*.

[1 to 2 marks]

A limited and essentially descriptive response.

5. (a) Use the data in Table 1 to prepare a break-even chart for Seifert Sawmill. [6 marks]



$$\text{Break-even quantity} = \frac{\text{Fixed cost}}{\text{Contribution}} = \frac{800\,000}{3000} = 266.7 \text{ batches}$$

[5 to 6 marks]

A detailed and accurate break-even chart showing:

- total revenue
- total cost
- break-even quantity
- axes labelled (revenue/output)

[3 to 4 marks]

A generally correct break-even chart. There may be minor errors and/or the lines may be plotted incorrectly.

[1 to 2 marks]

An attempt to construct a break-even chart, but there are a number of errors.

- (b) Identify on your chart the margin of safety and profit if 500 batches are sold.**

[2 marks]

Award **[1 mark]** for correct identification of the profit and **[1 mark]** for correct identification of the margin of safety on the graph.

N.B. If an error “carries forward” from Q1 the candidate should receive credit for a correctly identified answer for their chart.

$$\begin{array}{lcl} \text{Profit @ 500 units} & = & 2\,000\,000 - (800\,000 + 500\,000) = \$700\,000 \\ \text{Margin of safety} & = & 500 - 267 = 233 \text{ units} \end{array}$$

See part (a) for identification on the graph.

- (c) Assuming 500 batches are sold, construct a forecast profit and loss account using the data provided in Table 2.**

[6 marks]

Sales revenue	2 000 000
Cost of sales	
direct labour	150 000
direct machinery	50 000
direct electricity	50 000
direct vehicle running cost	50 000
direct materials	200 000
Gross profit	1 500 000
Expenses	
directors fee	200 000
rent	250 000
licence	100 000
depreciation	70 000
interest	150 000
others	30 000
Net profit	700 000

[5 to 6 marks]

The layout of the profit and loss account and calculations are correct.

[3 to 4 marks]

The layout is generally correct, there may be a few errors in calculation.

[1 to 2 marks]

There is an attempt to construct a profit and loss account but the layout is poor and there are significant errors.

- (d) Use a PEST/STEP framework to evaluate *two* external factors which might influence *Seifert Sawmill's* decision to set up a sawmill in Latin America.

[6 marks]

Political	Economics
<ul style="list-style-type: none"> • pro-business PBP party re-elected • environmental groups gaining popularity and influence 	<ul style="list-style-type: none"> • recovering construction industry may boost demand • pegged currency may contain inflation and improve business confidence
Social	Technological
<ul style="list-style-type: none"> • inequality of income • rising union power may increase wages and social activism 	<ul style="list-style-type: none"> • emergence of plastics/synthetic materials for use in construction

Discussion should elaborate on the points raised in the above table. Better answers will recognise that (for example) a currency peg can collapse and that the time horizon *Seifert Sawmills* are looking at needs to be factored in. The final decision will be influenced by the relative importance of each factor.

[5 to 6 marks]

A PEST/STEP framework is used and there is a detailed and balanced evaluation of two external factors. Appropriate reference is made to *Seifert Sawmill* and their situation.

[3 to 4 marks]

A PEST/STEP framework is used and there is evaluation of at least one external factor, though this may lack detail or depth at the lower end of the range. If only one external factor is evaluated, a maximum of **[3 marks]** should be awarded.

[1 to 2 marks]

A limited and essentially descriptive response.



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M07/3/BUSMT/SP1/ENG/TZ0/XX/M+

MARKSCHEME

May 2007

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

13 pages

– 2 –

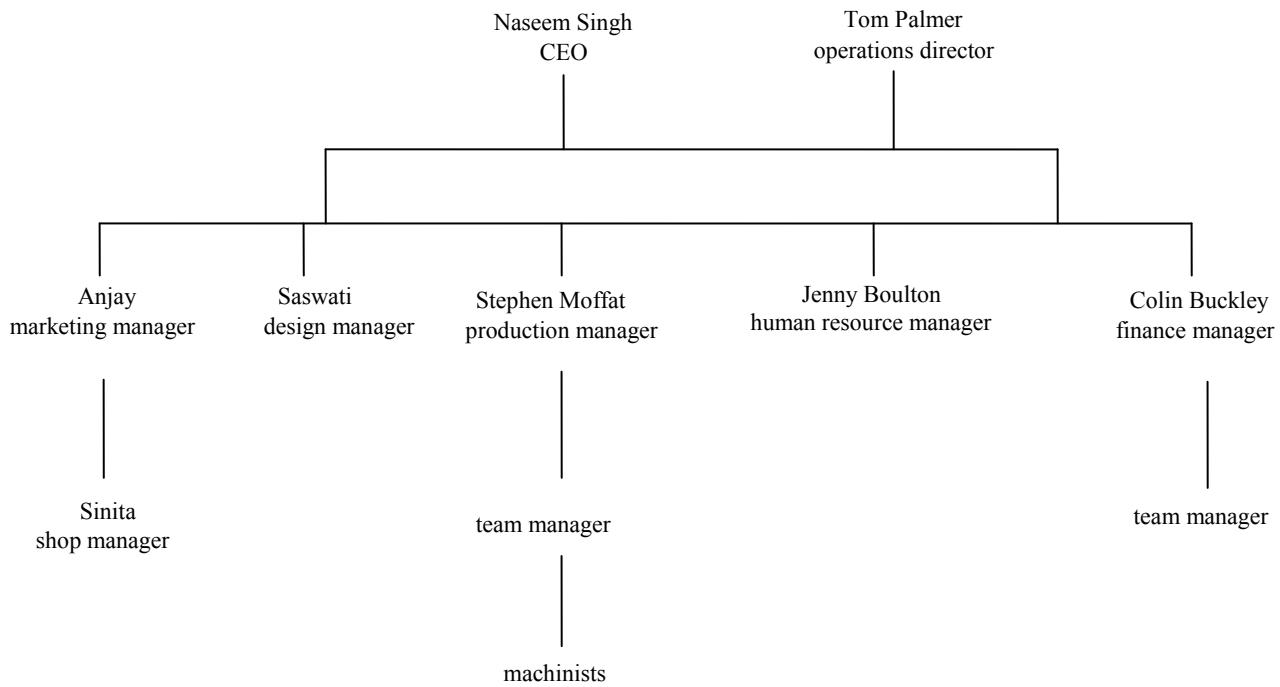
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1. (a) Draw an organizational chart for *Gladrags Ltd*, clearly identifying each person's functional responsibility.

[6 marks]



There are a number of possibilities that should be accepted as a correct organizational chart for *Gladrags Ltd*. Some candidates might see Tom as dependant on Naseem, which would give the organization yet another layer and influence the chain and the answer to 1(b). Some candidates might include potential positions in departments for which there is little information in the case study. It is also quite acceptable for Sinita to be positioned level with Anjay and the others.

A good answer should include the functional positions and the names of the people involved who hold them, whenever available. The chart should include the lines of command, and different levels of managerial control.

– 4 –

M07/3/BUSMT/SP1/ENG/TZ0/XX/M+

[5 to 6 marks]

A representative organizational chart for *Gladrags Ltd* is drawn. Each person's functional responsibility is clearly identified. Functional positions are given a distinctive name (production manager, finance manager, etc.). If one key person is missing then **[5 marks]** should be given.

[3 to 4 marks]

An organizational chart for *Gladrags Ltd* is drawn, which lacks accuracy and/or is incomplete in terms of names of individuals and functional positions included.

[1 to 2 marks]

For an answer that shows only a basic understanding of an organizational chart. The answer lacks accuracy, functional positions might not be shown and layers might be incomplete and/or important departments missing.

(b) With reference to the organizational chart define the terms**(i) chain of command****[2 marks]**

The chain of command is the length of the hierarchy in an organization, or the links that exist from top to bottom; the chain of command for *Gladrags Ltd* is four or five – depending on answer given above. The application is consistent with the chart drawn above. (If candidate has not answered 1 (a) do not penalize. Credit the answer as long as it fits the case study.)

Award **[1 mark]** for correct definition and **[1 mark]** for the application to the case study.

(ii) span of control.**[2 marks]**

The number of people referring directly to one manager is called the manager's span of control. Naseem's span of control (or Tom's) is five. Accept other examples. The application is consistent with the chart drawn above. (If candidate has not answered 1 (a) do not penalize. Credit the answer as long as it fits the case study.)

Award **[1 mark]** for correct definition and **[1 mark]** for the application to the case study.

– 5 –

M07/3/BUSMT/SP1/ENG/TZ0/XX/M+

- (c) **Anjay wants to change the organization to a flatter structure. Discuss the reason for the change using relevant motivation theory to argue the case.** **[10 marks]**

Flatter structures have the advantage of allowing workers to participate more fully in the everyday running of the firm, becoming more active and committed to the decisions taken. The firm could cut the layer team managers, empowering machinists (same in administration). Anjay might feel that they are wasting funds on a layer that could be economized, and that these savings will exceed, in the long run, the costs of giving redundancy payments in the short-run. On the other hand, he might think that the taller structure is more organized and communications might flow better.

There are dangers in flattening the structure too. When workers' motivation is a priority, it is easy to argue that flatter structures that promote worker involvement are better than tall hierarchical ones. If production or efficiency in terms of output is a priority, then flatter structures might not be ideal. The case study shows that Anjay is concerned with the workers' well being, and that is why he is looking at shortening the structure.

According to different theorists workers will enjoy more responsibility, although this might depend on the type of worker employed. Theory X workers will look at the extra responsibility as a burden, while Theory Y workers will take it as a challenge (Taylor/McGregor).

– 6 –

M07/3/BUSMT/SP1/ENG/TZ0/XX/M+

Maslow could be used by candidates to illustrate the movement up the hierarchy of needs, showing how workers who are respected and included in decision-making satisfy their esteem needs.

Herzberg suggests that accepting responsibility and the nature of the job itself will act as motivators for the worker. How workers feel at their jobs also has to do with what Herzberg calls hygiene factors.

Mayo also suggests that people work best in groups and respond positively when management considers the needs of the workers.

There are different theorists who could be referred to and they should be credited as long as the explanation is consistent with the case study.

[8 to 10 marks]

The reasons for the change are discussed and relevant theory is used to support the arguments. The answer shows the capacity to think critically and apply theory efficiently to the case study.

[5 to 7 marks]

Reasons may be put forward but the discussion may tend to be descriptive. Motivation theory is used to support answer though the application may be superficial.

[3 to 4 marks]

A basic understanding of the benefits of a flatter structure is shown. Theory is perhaps limited to a descriptive approach of Maslow and/or Theory X and Y (McGregor).

[1 to 2 marks]

A brief and generalized response.

2. (a) Analyse the differences between marketing clothes under the family brand *Gladrags* and marketing the individual brand “*Sassy*”.

/8 marks]

Family branding is cheaper when it comes to product design, packaging, and promotion. All the products are sold under the same name, same logo, with one similar packaging and one design. All the products are promoted at the same time. No need to seek copyrights for each brand or logo. The firm will enjoy marketing economies of scale. People will recognize the family brand and it is easier to introduce new products into the market – the halo effect of the well known brand will protect the newly launched products.

Individual branding allows for increased product differentiation. By differentiating products a larger market with different degrees of elasticity of demand can be targeted; hence very different prices can be charged, and the products with different brands can be positioned in different ways in the minds of consumers. Possibility of cross subsidization exists, with the more successful brands paying for the introductory stage of the new ones.

With *Gladrags* the firm runs the risk of positioning the new product in an unwanted market. Market research shows that *Gladrags* is identified by consumers as a no frills type of clothing which is purchased by older consumers in low socio economic groups. The brand is associated with “value for money, everyday, consistent, traditional”.

“*Sassy*” needs to have a position of its own, with a completely different name and marketing strategy to *Gladrags*, since it is clearly aimed at a different market (young and high income consumers). In fact any association with the *Gladrags* brand might be detrimental rather than favourable.

[7 to 8 marks]

The differences between marketing clothes under the family brand *Gladrags Ltd* and under the individual brand “*Sassy*” are analysed. The answer shows knowledge of both concepts and it is relevant to the case study.

[5 to 6 marks]

The differences between marketing clothes under the *Gladrags* and “*Sassy*” brands are described. Some reference is made to the case study. The answer may tend to be about marketing the brands *Gladrags Ltd* and “*Sassy*” generally rather than specifically related to individual and family brands.

[3 to 4 marks]

Shows some knowledge of branding issues, but there are elements of confusion pertaining to the benefits of each. Little or no reference is made to the case study.

[1 to 2 marks]

A limited and generalized response.

(b) Using the Ansoff Matrix, propose a future marketing strategy for *Gladrags Ltd.*

[8 marks]

The answer to this question will necessarily be rather open, since there are different possibilities. From the case study it can be inferred that the firm knows where it is at present and has an idea of where it wants to go in the future. There is a need to do something with the *Gladrags* brand and there is also a need to introduce “Sassy”. Market research has already been carried out.

		Ansoff Matrix	
		Products	
		Existing	New
Markets	Existing	Market Penetration	Product Development
	New	Market Development	Diversification

- **Market penetration** – achieving growth in existing markets with existing products. To penetrate the market better *Gladrags Ltd* could use a variety of promotion techniques to convince customers to purchase more of the traditional clothes range. Each candidate will come up with different promotional ideas.
- **Product development** – this is when a company markets new or modified products in an existing market or markets. The “Sassy” brand has to be developed further, and marketed in the local market. The *Gladrags* brand can also be altered and developed to be more modern and suitable to the market.
- **Market development** – this involves marketing of existing products in a new market. The existing *Gladrags* brand can be sold in different European countries. If successful, the new “Sassy” brand could also be taken to continental Europe.
- **Diversification** – new products are developed for new markets. This is the most risky of any growth strategy as the firm lacks core competence and market knowledge. It does not seem likely that *Gladrags Ltd* will really diversify. It first must be concerned with its current products. Although candidates might argue that the introduction of other products like accessories, handbags, shoes, or in fact any product that might appeal to the Indian market might be profitable.

“Sassy” brand is not really an example of diversification since it is without a doubt an innovative product within the original field of production of *Gladrags* (the clothing industry).

– 9 –

M07/3/BUSMT/SP1/ENG/TZ0/XX/M+

[7 to 8 marks]

A future marketing strategy for *Gladrags Ltd* is proposed, using the Ansoff matrix accurately. The answer shows knowledge of the Ansoff matrix, and a relevant application of theory to the case study. The answer must either show the Ansoff matrix model, or include the four entries that make up the matrix. The answer shows creativity and critical thinking capacity.

[5 to 6 marks]

A future marketing strategy for *Gladrags Ltd* is proposed, showing knowledge of the Ansoff matrix. The answer might not relate the theory to the case study accurately, or the answer might be incomplete and not consider all the elements of the matrix.

[3 to 4 marks]

There is an attempt at proposing a future marketing strategy. The answer may show confusion in terms of the different Ansoff entries, although there is knowledge of the two axes (product and market). There might be knowledge of theory but limited or no application to the case study.

[1 to 2 marks]

A limited and generalized response.

3. With the help of four ratios, discuss how the financial situation of *Gladrags Ltd* has changed between 2004 and 2006.

[12 marks]

Different ratios can be used to answer this question.

	2004	2006
Current ratio	1.75:1	1.64:1
Acid test ratio	1.05:1	0.725:1
ROCE	21.74 %	12.61 %
Net profit margin	11.58 %	7.5 %
Gross profit margin	24.71 %	21.69 %
Gearing	33.69 %	37.53 %

Although sales have increased, and debtors are down, the ratios are not very promising. In fact they all show that the financial situation is deteriorating.

The gross profit margin has gone down by three points, and so has the absolute figure. This shows that the cost of making the clothes *Gladrags Ltd* sells is going up, and there is difficulty in transferring the higher costs to higher prices without loss of sales. (Reference to price elasticity of demand is welcome.)

Expenses have increased approximately 10 %. The net profit margin has decreased by 4 percentage points. Finally borrowing has increased causing a higher interest payment. Gearing is up by four points, although the gearing ratio is low, and in principle would allow for further borrowing.

The return on capital employed has gone down enormously – it is 9 percentage points below what it was in 2004. Owners have to be concerned about this decrease and look at ways of bringing the return on capital up again, or stop the falling trend.

Both the current ratio and the acid test ratios are falling, with the acid test ratio falling more than the current ratio. Both these ratios are slightly lower than advisable.

The 2006 acid test shows insufficient cash to meet current liabilities.

The ratios are showing a rather weak financial position, with increasing costs, lower liquidity and indeed lower profitability.

The use of efficiency ratios should be credited, but these can be considered to be of more relevance to financial management and efficiency than the “financial situation of *Gladrags Ltd*” and so are less likely to lead to appropriate discussion.

[10 to 12 marks]

There is detailed analysis of four ratios and the candidate shows that the profitability has dropped considerably, and that the liquidity position has worsened. The answer shows elements of critical thinking.

[7 to 9 marks]

There is detailed consideration of at least two ratios or some analysis of three or four ratios, though this may be lacking in some detail or depth. The answer shows knowledge of theory and capacity to calculate the ratios, but lacks the depth to use the financial ratios in a meaningful manner.

[4 to 6 marks]

Less than four ratios are considered and the answer may tend to be descriptive in nature with consideration of the values, but lacking any analysis of them.

[1 to 3 marks]

A limited and essentially descriptive answer.

4. After the board meeting (line 149) the following decisions were taken:

- **to target the European market**
- **to produce the *Gladrags* brand in Vietnam and produce the “Sassy” brand in Britain.**

Justify both decisions to the shareholders. Use the PEST analysis provided in the case study to support your answer.

[12 marks]

Targeting the European market

Following the previous analysis and as a response to the market research commissioned by Anjay, *Gladrags* has to look for new markets. It will be able to face the bigger output by outsourcing the production to Vietnam; it is a circle: more needs to be sold, so that more can be produced, and the greater production in a less developed country will allow the selling of clothes to a mass market. Therefore the larger market allows for the mass production and the mass production will allow the outsourcing of production in Vietnam.

Different conditions seem to be ready for this to happen.

Political: the increased trade between China and Europe means openness of markets and hence there might be an easy entry of *Gladrags* from Vietnam into Europe.

Reduction in regulations will have the same effect.

Economic: Growth of economies in Europe while the British economy declines.

Pattern of spending: higher income will lead to more being spent on clothing.

***Gladrags* production in Vietnam and “Sassy” production in Great Britain**

Gladrags is a family brand that sells well and has a reasonable reputation. It is therefore positive for the firm to keep it. The problem lies with the costs of production and outsourcing will help the problem. Production costs are cheaper abroad. An aging population will keep the sales of this brand going.

Lower costs of production, given the fact that Vietnam has a very low GNP and per capita income. These lower costs of production can translate into lower prices for better competition, or prices can remain the same and lower variable costs can allow for greater profit margins.

Outsourcing to Vietnam will solve the problem of not finding machinists in England. For the same reason mentioned above, there is a greater chance of finding willing unskilled workers in less developed countries than in the UK.

Labour intensive production, which cannot be found in Great Britain.

– 13 –

M07/3/BUSMT/SP1/ENG/TZ0/XX/M+

“Sassy” brand requires greater skills and a more sophisticated type of production. This can be found in Great Britain.

Capital intensive textile production in Great Britain, with new computer design programmes, facilitate the production of quality clothing. Capital is more accessible in Great Britain than in less developed countries.

The production decisions taken by the board will allow for the sale of the original premises and therefore raise enough capital to invest in the British production of “Sassy” in Great Britain. Only a small plant is necessary for “Sassy”, whilst *Gladrags Ltd*’s brand needs to be produced in large quantities so it can reach a mass market.

So as the firm targets different markets, investments are better hedged, production will increase and profit margins will rise.

[9 to 12 marks]

Both decisions are justified to the shareholders. The answer provides a full analysis of the decisions, making close reference to *Gladrags Ltd*’s problems and bringing relevant PEST issues into the answer. Critical thinking is evident in the answer.

[6 to 8 marks]

Both decisions are justified to shareholders, although the justification may be lacking detail and/or balance. Only a few PEST factors may be taken into account. There may be a lack of critical thinking. If only one decision is analysed and justified in depth then a maximum of **[6 marks]** should be awarded.

[3 to 5 marks]

There is an attempt at describing the decisions but justification may be lacking. The answer may be limited to a list, some of which is simply taken from the PEST analysis.

[1 to 2 marks]

A limited and generalized response.



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M07/3/BUSMT/SP2/ENG/TZ0/XX/M+

MARKSCHEME

May 2007

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

23 pages

– 2 –

M07/3/BUSMT/SP2/ENG/TZ0/XX/M+

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– 3 –

M07/3/BUSMT/SP2/ENG/TZ0/XX/M+

1. (a) Calculate

- (i) the present variable cost of producing and distributing a batch of 50 sunglasses, including chains and cases.**

[3 marks]

Variable costs include:

	\$
Manufacture	6.0
Chain	1.0
Case	0.6 (\$60 ÷ 100 units)
Distribution	0.4 (\$20 ÷ 50 units)
	<u>8.0</u>

$$\text{A batch of 50 sunglasses} = \$8 \times 50 = \$400$$

Or

	\$
Manufacture	6.0
Chain	1.0
	<u>7.0</u>

per pair

$$\$7 \times 50 = \$350 \text{ per batch}$$

Plus distribution	20
Cases	30
	<u>400</u>

[3 marks]

The calculations are completely accurate and there is a clear explanation of the working/method.

[2 marks]

There is a maximum of one error in the calculations or the calculations are completely accurate, but the method is unclear.

[1 mark]

There is some understanding of the method, but the calculations may lack accuracy.

– 4 –

M07/3/BUSMT/SP2/ENG/TZ0/XX/M+

- (ii) the contribution made on the sale of each pair of sunglasses.

[2 marks]

$$\text{Price} = \$600 \div 50 = \$12$$

$$\begin{aligned}\text{Contribution to fixed costs} &= \text{price} - \text{variable cost} \\ &= \$12 - \$8 \\ &= \$\underline{\underline{4}}\end{aligned}$$

Or

$$\begin{aligned}&= \$600 - \$400 \\ &= \$200 \text{ per batch} \div 50 \\ &= \$\underline{\underline{4}}\end{aligned}$$

[2 marks]

The answer is correct and the method is clear.

[1 mark]

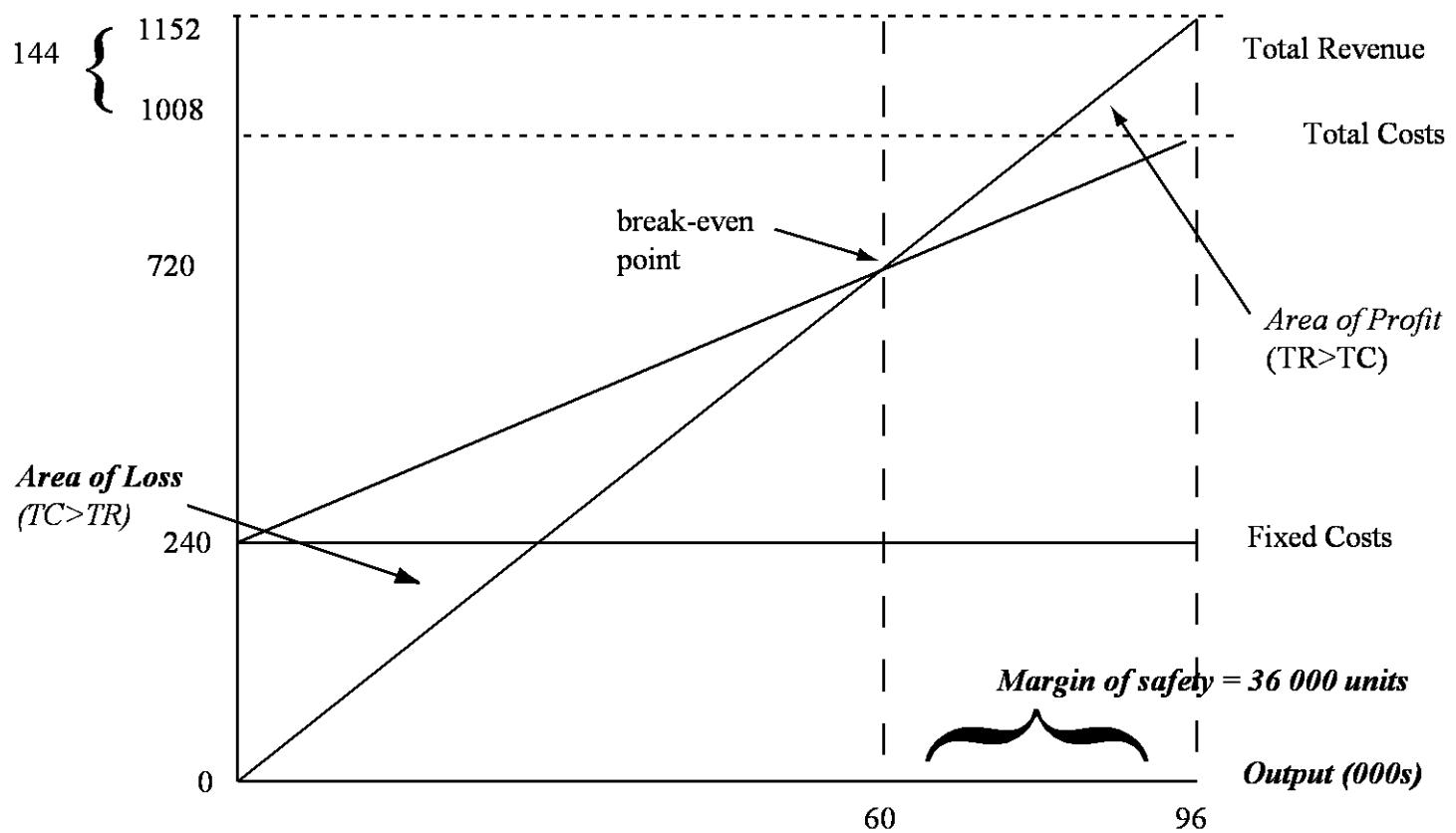
The answer is correct, but the working is not clear, or the method is correct, but the answer is incorrect.

Note: If the candidate makes an error in calculating variable costs in 1(a)(i) above (for which the candidate lost marks) but here uses the same variable cost figure *and* the correct formula (contribution = price – variable cost), do not deduct **[1 mark]** for the incorrect answer but the correct method (unless the candidate has, in addition, made an arithmetic error in 1(a)(ii)).

(b) Construct a fully labeled break-even chart for 2006 to show the following:

Output	FC	All figures in \$			
		(\$8) VC	TC	(\$12) TR	+/-
0	240 000	0	240 000	0	(240 000)
20 000	240 000	160 000	400 000	240 000	(160 000)
40 000	240 000	320 000	560 000	480 000	(80 000)
60 000	240 000	480 000	720 000	720 000	0
80 000	240 000	640 000	880 000	960 000	80 000
100 000	240 000	800 000	1 040 000	1 200 000	160 000

Sales/Revenue (\$000)



- (i) the annual unit sales of sunglasses that *Eye-Spy* require to break-even.

Fixed costs \$240 000 ÷ contribution \$4
= 60 000 pairs of sunglasses

– 6 –

M07/3/BUSMT/SP2/ENG/TZ0/XX/M+

(ii) the annual margin of safety.

$$\begin{aligned}
 \text{Margin of safety} &= \text{actual output} - \text{break-even output} \\
 &= 96\,000 - 60\,000 \\
 &= \underline{\underline{36\,000}} \text{ pairs of sunglasses}
 \end{aligned}$$

(iii) the profit for 2006 at full capacity.**[8 marks]**

$$\begin{aligned}
 \text{Profit} &= \text{TR} - \text{TC} \\
 \text{TR} &= \$1\,152\,000 (96\,000 \times \$12) \\
 \text{VC} &= 96\,000 \times \$8 = \$768\,000 \\
 \text{FC} &= \$240\,000 \\
 \text{TC} &= \$1\,008\,000
 \end{aligned}$$

Profit = \$144 000(or margin of safety \times contribution $36\,000 \times \$4$)**[6 to 8 marks]**

The break-even chart is accurately presented with the break-even output, margin of safety and level of profit identified. The lower end of the band is awarded where there are some minor omissions in presentation or calculation.

[3 to 5 marks]

There is a valid attempt at presenting a break-even chart, but there are some inaccuracies and/or omissions in presentation or calculations, which may mean that one or more of the answers are incorrect.

[1 to 2 marks]

The break-even chart is highly inaccurate or missing as in the case where a candidate uses only formula calculations. The principles are understood only in a very general sense.

A candidate producing only a break-even chart without showing the calculations may still earn full marks, provided the correct figures for the break-even amount (number of glasses), the margin of safety (number of glasses), and the profit (the dollar amount) are explicitly and accurately shown on the chart. Without the calculations presented, the examiner has virtually no basis to give students the benefit of the doubt with respect to the figures or errors in their calculation. If the candidate has correct calculations and answers for break-even amount, margin of safety, and profit but not break-even chart, award [1 mark].

- (c) Using financial and non-financial information from the text, evaluate the proposal to expand production of *Eye-Spy* sunglasses.

[7 marks]

The increase in output would add \$40 000 to fixed costs = \$280 000

Variable costs would increase to \$9 and price to \$13 ($\$650 \div 50$)

Contribution would remain at \$4 as a result.

- Break-even would become: $\$280\,000 \div \$4 = \underline{\$70\,000}$ sunglasses

Potential sales could increase 2000 units per month = $24\,000 \div 12$

- The margin of safety would increase to 50 000 units.
- Profit would also increase to $50\,000 \text{ units} \div \$4 = \$\underline{200\,000}$

Other potential factors:

- the increase in capacity of 2000 units is 25 % – the same as the annual increase in sales over the last year – this may not be enough new capacity
- the employees may be more motivated by higher wage rates
- the cost of borrowing funds needs to be considered
- sunglasses are fashion items and predictions about further growth may be inaccurate
- assumption is made that all glasses are sold although price is higher

The expansion seems sensible on financial grounds but *Eye-Spy* would need to conduct further research and a financial appraisal of costs to ensure it is viable in the long run. A larger expansion may be needed. The effect of the price increase needs to be assessed – how price elastic are customers?

[6 to 7 marks]

The evaluation includes both financial and non-financial information and recommendations are made about expansion. The effects on profit, break-even and margin of safety are calculated.

[3 to 5 marks]

There is consideration of some financial and non-financial information, although this may be unbalanced. Recommendations may be limited or missing. The effects on profit, break-even and margin of safety are recognized, but may not be calculated.

[1 to 2 marks]

A generalized and limited response.

2. (a) Explain what is meant when *Crucible* is described as a subsidiary of *Tesco*. [2 marks]

A subsidiary is a business owned by another business – the holding company, which will own more than 50 % of its shares and therefore have control. The subsidiary is likely to operate under its own trading name. The financial figures from the subsidiary will be included in the parent company's accounts as Group accounts.

[2 marks]

An accurate explanation with the use of some appropriate development.

[1 mark]

A brief and general explanation, but one that nonetheless conveys the idea that *Tesco owns Crucible*, not merely that *Crucible* is a branch, division, etc. of *Tesco*.

(b) (i) From the text identify two examples of primary research and two examples of secondary research.

[4 marks]

Primary: This is the collection of first-hand data by the use of questionnaires and surveys.

Secondary: This is the interrogation of existing data sources such as statistics collected and published by private market research companies and government agencies.

Note: Loyalty cards can be defined as both primary and secondary research, depending on how the data from them are used. In the context of the case, the use of “loyalty cards” is a form of primary research by Tesco to produce the consumer profiles, which when sold are a form of secondary research.

Award **[1 mark]** for each example identified up to a maximum of **[2 marks]** for primary examples and **[2 marks]** for secondary examples.

- (ii) Analyse the advantages *and* disadvantages of primary and secondary research to *Crucible*.

[6 marks]

Primary research: Primary research is expensive and time-consuming. However, it will provide specialist consumer data, which is up-to-date and tailored to the requirements of *Crucible*. It may provide qualitative, as well as quantitative, information. Observation may be required to gather the information on some of the categories identified e.g. customer shopping behaviour. Focus groups will allow the detailed examination of the psychology of customers e.g. motivations, opinions and attitudes.

Crucible will need to be aware of potential bias or inadequate sampling techniques; garbage in – garbage out.

This data will be essential if they wish to sell their information on to other organizations.

Secondary research: General information on market trends for most market sectors, demographic and consumer profiles and economic factors. This may be freely accessible to the public and free, but may need to be bought from other market research agencies. It may cover whole markets from large samples.

It has the disadvantage that it may not be current nor in the form required by *Crucible*.

[5 to 6 marks]

The analysis covers advantages and disadvantages of both primary and secondary research and is related to *Crucible*.

[3 to 4 marks]

The analysis may cover advantages and disadvantages of both primary and secondary research, but is limited in scope, or may not address both advantages and disadvantages and/or may be unbalanced in reference to primary and secondary research. The answer may not relate to *Crucible*.

[1 to 2 marks]

There is a generalized and limited response with unbalanced coverage.

- (c) Discuss, with practical examples, how the Crucible customer database can help companies, such as *BMW*, *Coca-Cola*, *Sky* and *Orange*, make successful business decisions.

[8 marks]

Firms buy information on customers, so that they can segment their market, target their chosen customers and position their product so that it matches customer wants and needs. It will allow the businesses to market their products and services in a cost-effective manner.

Accurate database information will allow firms to advertise in appropriate media and save money. It will facilitate direct marketing and will be instrumental in the development of the marketing mix such as price, distribution and promotion. It will also provide vital information on image and how this can be enhanced.

Firms can also use this information as part of the process of new product development and can be a vital element in the location of retail outlets. It may provide businesses with information on complementary products or services.

In specific terms, *BMW* may use database information to develop new models, which fit into their product image and provide information on suitable promotion techniques. *Coca-Cola* may use this information to develop new flavours. *Sky* may use the data to place advertisements and select programming. *Orange* may adapt tariffs and develop new features for their phones.

The data provided will only be of use if it is current, accurate and presented in a form that can be easily used. If the cost is too great it may not add to profits. However, knowledge of this type will possibly prevent very expensive marketing errors.

[6 to 8 marks]

The discussion examines, with practical examples, how the *Crucible* customer database can help companies, such as *BMW*, *Coca-Cola*, *Sky* and *Orange*, make successful business decisions. The answer is balanced and reaches some conclusions.

[3 to 5 marks]

The discussion examines how the *Crucible* customer database can help companies, such as *BMW*, *Coca-Cola*, *Sky* and *Orange*, make successful business decisions. The answer may be brief and limited in scope at the lower end of the band.

[1 to 2 marks]

A brief, generalized and probably unbalanced answer, which may be a description or a list.

3. (a) Explain what is meant by the term “*profit margin*”. *[2 marks]*

This is profit expressed as a percentage of sales revenue. It can be calculated as a total sum or per unit. Profit margin may be identified as gross profit or net profit margin.

[2 marks]

An accurate explanation with the use of appropriate terms and/or examples.

[1 mark]

A brief and general explanation. However, to earn ***[1 mark]*** the candidate must in some fashion get at the idea that profit margin means profit in relation to turnover.

(b) Examine *two reasons why increasing size makes Dell harder to manage.* *[4 marks]*

As an organization grows some of the following problems may occur:

- the resources increases as does the administration required to record and control these leading to more bureaucracy and costs
- if expansion is quick and significant as in the case of *Dell*, control systems may be inadequate
- changes in product ranges, may mean *Dell* lose control of stock, which may become obsolete as a result
- employees become more remote from management and the objectives of the business becoming more difficult to disseminate
- increases in size may lead to larger spans of control and longer channels of command
- physical distances may increase making communication slower, more expensive and possibly inefficient
- expansion overseas may lead to cultural and language difficulties. Sourcing of parts from overseas, requires greater administration and recording systems.

[3 to 4 marks]

The examination details two reasons why increasing size makes an organization harder to manage. For ***[4 marks]***, the examination relates to *Dell* and information provided in the passage.

[1 to 2 marks]

The answer is either brief or extremely general. For ***[2 marks]***, there must be two reasons identified.

(c) Analyse the advantages *and* disadvantages of *Dell* targeting overseas markets for future sales growth.

[6 marks]

Overseas markets may carry certain problems either absent in the domestic market, or present to a lesser extent. These include:

- language and cultural differences
- the presence of import controls
- economic and/or political instability
- additional documentation
- transportation and insurance costs
- exchange rate fluctuations
- different legal and tax systems
- corruption
- packaging modifications.

Why do firms enter overseas markets then?

- selling overseas offers the potential for higher profits through new market development *i.e.* finding new customers for existing products. Selling to larger markets may also offer the benefits of economies of scale. In particular R & D costs can be spread over a greater volume of sales
- overseas markets allow for diversification and the spreading of risks. If the domestic market is saturated or in recession, overseas markets may be in a different stage of the business life cycle. The markets for computers and components in developed countries are saturated
- there may be fewer laws, which constrain operation. The Asian economies tend to have fewer laws on issues such as planning requirements for new factories
- there may be less competition
- resources may be cheaper *e.g.* labour, raw materials and rent. *Dell* can source components more cheaply in Asia and standards of production are high
- overseas governments may offer incentives to firms locating in their country to encourage employment *etc.*

[5 to 6 marks]

The analysis is detailed and covers some advantages and disadvantages of *Dell* targeting overseas markets for future sales growth. The answer is balanced and the reasons given relate to *Dell's* business and market.

[3 to 4 marks]

The analysis may cover advantages and disadvantages of *Dell* targeting overseas markets for future sales growth, but is limited in scope, or may not address both advantages and disadvantages and/or may be unbalanced. The answer may not relate to *Dell* and/or may be descriptive for **[3 marks]**.

[1 to 2 marks]

There is a generalized and limited response with unbalanced coverage.

(d) Evaluate the use of Internet sales used by Dell to distribute its PCs.**[8 marks]**

Internet sales are where *Dell* cuts out the middlemen and markets and sells direct to the customer. By selling and marketing directly to the customer through the Internet, *Dell* is able to significantly cut its overheads and as a result can undercut competition, offer excellent service and still keep its profit margins higher.

The potential benefits of *Dell* using the Internet are:

- lower trading costs as they do not require expensive retail premises and the staff required
- 24 hour trading. A retailer like *Dell* can be available all the time for customers to access
- global coverage using a relatively cheap website
- a complementary image – *Dell* is selling new technology using computer access
- ability to track customer access and quickly record details and the opportunity for *Dell* to sell information on
- the rapid growth of the Internet and the advantages provided by broadband access. New markets in Asia are opening up quickly
- control over marketing methods and distribution.

The potential drawbacks of using the Internet are:

- the numbers using the Internet to buy are still relatively low if compared to traditional distribution channels
- the legacy of suspicion about security and privacy
- the inability to sell a product through good salesmanship to close a deal
- the ease with which customers can check on the prices and specifications of *Dell's* competitors' products
- customers are unable to touch the product.

On balance, *Dell's* use of direct selling and marketing allows them to control their marketing and distribution channels and to cut costs to a low level allowing them to be highly competitive whilst providing a quality product. The rapid growth of the Internet and the size of untapped market, means that *Dell's* approach is commercially efficient and profitable.

[6 to 8 marks]

The evaluation is balanced with detailed analysis of Internet selling and marketing methods. The discussion is focused on *Dell* and/or technology markets and shows an appreciation of the growth of the Internet sales market. Appropriate and supported conclusions are reached.

[3 to 5 marks]

The analysis is sensible and appropriate to *Dell*, with some relevant examples at the upper end of the band. At the lower end the answer may be more descriptive and conclusions may not be reached.

[1 to 2 marks]

A brief, generalised and probably unbalanced answer, which may be a description or a list.

– 15 –

M07/3/BUSMT/SP2/ENG/TZ0/XX/M+

4. (a) (i) Identify four stakeholders of the companies referred to in the passage.

[4 marks]

Stakeholders identified are:

- customers/retailers
- managers/executives
- suppliers e.g. farmers
- employees
- investors e.g. financial institutions
- general public/society
- governments.

Award **[1 mark]** for each stakeholder identified.

- (ii) Explain how the introduction of ethical policies can cause conflicts between *two* stakeholder groups identified in (a)(i).

[4 marks]

A stakeholder is anyone who has an interest in, or is affected by the behaviour, of a firm.

Internal Stakeholders: employees, managers, directors.

External Stakeholders: shareholders, customers, suppliers, general public, government.

In the **short run** there may be conflict between these groups as they have different interests:

For example shareholders want maximum profit to increase their dividends, which may not be the case if managers decide to implement ethical approaches, which cost more. A firm donates money to local charities to improve its image and to show it is socially responsible. This is a COST and so reduces profit. This is good for the local community (general public), but lowers dividends – there is a **conflict of interest**.

Other conflicts

- employees may wish for better terms and conditions and to be treated with respect and provided with better than a basic package. This again may reduce profits in the short term
- suppliers may wish for fair prices and to be paid on time. If competitors are exploiting cheap labour then their prices may be lower, which ultimately will reduce profits and even put the firm out of business
- customers may look for low priced products. Ethically produced goods may be more expensive.

[3 to 4 marks]

The explanation identifies at least two reasons why the interests of two stakeholder groups can conflict when a company introduces an ethical trading policy. For **[4 marks]**, the answer is supported with at least one relevant example.

[1 to 2 marks]

The answer is either brief or extremely general or only one conflict is examined. For **[2 marks]**, there must be more than one stakeholder identified.

(b) Analyse the advantages *and* disadvantages to a company of implementing socially responsible and ethical objectives.

[6 marks]

Advantages

- attracts customers and employees who agree with the policy. This may have a positive influence on motivation and staff turnover
- has a positive long-term effect on the local and world environment
- improves corporate image, which may provide competitive advantage and marketing/promotion opportunities
- may pre-empt legislation, and may save costs in the long run
- improved image may influence local and national governments in granting of planning permission or the provision of trading licences
- the ability to charge a price premium.

Disadvantages

- the policy may be perceived as merely a cynical or cosmetic attempt to avoid its longer-term responsibilities
- the implementation may be costly, which places the firm at a competitive disadvantage
- the approach may not carry the support of investors and shareholders who may sell their investments, lowering market values
- the business may come under increased scrutiny which may highlight failings leading to bad publicity.

[5 to 6 marks]

The analysis is reasonably balanced with assessment of the advantages and disadvantages of setting and implementing socially responsible and ethical objectives. The analysis shows evidence of critical, reflective thinking and employs relevant examples.

[3 to 4 marks]

The analysis is appropriate, but may lack detail and/or balance, especially at the lower end of the band.

[1 to 2 marks]

A brief, generalized and probably unbalanced answer, which may be a description or merely a list.

(c) Discuss how ethical approaches can be integrated into a company's marketing strategy to provide competitive advantage.

[6 marks]

Marketing strategy is the way a business aims to implement its corporate objectives expressed in marketing aims. There may be several important principles such as:

- acting in a manner, which does not cause unnecessary damage to the environment. Sourcing materials from ethical suppliers, who use renewable resources. Avoiding the use of unnecessary packaging
- treating customers with respect and providing a safe product or reliable service. Listening to their needs and not making claims that cannot be substantiated or are known to be false or using techniques of promotion which create fear or take advantage of the vulnerable
- not doing business with oppressive regimes or unethical suppliers or customers
- not letting patent protection prevent products being used in cases of national emergency, such as drug treatments for viruses.

General principles are put into action through the use of the marketing mix. Ethical approaches can influence pricing policy, distribution channels, promotion techniques and product specification and packaging.

Although ethical approaches can be integrated throughout the marketing strategy, the firm will have to be aware of the cost and the financial and marketing implications.

Ultimately being ethical is of little use if it adversely affects profit levels or makes a firm uncompetitive.

[5 to 6 marks]

The discussion is developed and well balanced and employs a range of ideas about the implementation of ethical values. The marketing strategy is well described and illustrated using appropriate terminology and referring to the marketing mix.

[3 to 4 marks]

The discussion tends to be descriptive, rather than analytical, and methods to implement ethical values are limited, and increasingly inappropriate at the lower end of the band.

[1 to 2 marks]

A brief, generalized and probably unbalanced answer, which may be a description or a list. If the candidate addresses solely promotion, but does so in some detail, award a maximum of ***[2 marks]***.

5. (a) Identify and explain the *three* leadership styles referred to in quotations ①, ② and ③.

[6 marks]

Quotation:

- ① *Laissez-faire* – grants responsibility and authority to the group and lets staff act as they wish. Horizontal communication between peers. Group may drift as no direction is given by the leader. Often known as leadership by exception. Its success depends entirely upon the competence of the employees.*
- ② *Autocratic* – leaders are authoritative; orders are imposed with no opportunity for employees to be involved in decision-making, which stifles initiative. Communication is one way. Success relies on the ability of the leader.
- ③ *Paternalistic* – “father like”. This type of leader will ask for opinions of employees, but will then try to persuade them to accept his point of view. Acts in the best interest of his staff, but as he sees it. Explains decisions. “Soft autocratic.”

Award [1 mark] for each correct identification of a style and an additional [1 mark] for an accurate explanation of the style characteristics, up to a maximum of [6 marks]. Candidates may be awarded [1 mark] per explanation, even if they have not properly identified the style by a generally accepted appellation, provided that candidates accurately explain the style and do more than merely restate the quotation in their own words.

N.B. For quotation ① be prepared to award [1 mark] for a type of democratic leadership if the explanation links sufficiently with the quotation.

(b) (i) With reference to quotation ④ explain the importance of objectives in managing an organization.

[3 marks]

It is only with objectives that a firm can know where it is going, and measure its progress towards it. Objectives are medium-to long-targets that can give a sense of direction to a manager, department or whole organization. If a team is given a sense of common purpose, it becomes easier to coordinate actions and to create a team spirit.

Business objectives are established so that the success or failure of the organisation can be judged and form the basis for decisions on strategy:

- they clarify for everyone what the business is working to achieve
- they aid decision-making and the choice of alternative strategies
- they enable checks on progress
- they provide the means by which performance can be measured
- they provide a focus for individual roles in an organization
- they can be broken down to provide targets for each part of the organization
- they can be used to analyse the performance of the business and its employees.

[3 marks]

An accurate explanation with some examples showing the importance of objectives in managing an organization with the use of appropriate terms and/or examples.

[2 marks]

An explanation illustrating some aspects of objectives in the management process.

[1 mark]

A brief and general explanation.

(ii) With reference to quotation ⑤ distinguish between objectives, strategies and tactics.

[3 marks]

- **Objectives** – are medium-to long-targets that can give a sense of direction to a manager, department or whole organization. They are the foundations for strategic and tactical decisions.
- **Strategy** – is really a long-term objective. Some decisions may have significant consequences. Companies deciding, for instance, to change location or products may invest large sums in their decisions. Poor decisions may result in the closure of the business itself. These types of decisions are called “strategic” or high level decisions. Businesses need to get these decisions right.
- **Tactics** – are short-term or “low level” decisions. It is how a firm will achieve its strategic aims on a day-to-day basis and less important decisions, such as what brand of paper to use. They have less important consequences than strategic decisions. It is important, however, to remember that too many poor tactical decisions could affect the longer-term strategy.

In the quotation, it states that a leader has the vision to make key strategic choices, but is also able to focus on the issues of getting things done on a daily basis.

[3 marks]

An accurate distinction is made between objectives, strategies and tactics.

[2 marks]

Some understanding of two terms.

[1 mark]

A clear understanding of at least one term or a limited understanding of two terms.

(c) Evaluate the effect of different leadership styles within organizations.**[8 marks]**

Leadership is crucial to the operational success of a business. It has implications across all the functional areas of the business. It is important that those who manage organizations have leadership ability, whether this is natural or learned. They need to motivate their teams towards a shared vision. The leader may have sound and well thought out objectives, but if those who are to be led will not follow, then the objectives will not be achieved.

Autocratic leaders avoid discussion and issue instructions. This may be effective if the team is inexperienced or it is up against a deadline. The team may be used to this style if it is traditional in an organisation. However, the team is usually ineffective in the absence of the leader.

Democratic leaders will encourage discussion and participation in decision-making. The leader must be prepared to delegate authority and to empower the team. This may increase motivation and lead to higher performance. Complex problems may be solved by this approach. However, it may lead to slower decision-making and compromises on tough decisions.

Paternalistic leaders take decisions in the interest of their teams as they see it. This may be effective in family run businesses and where the leaders are experienced and genuinely value their team. However, employees may become frustrated by this style if their viewpoints are consistently ignored and it does not help develop career skills.

Laissez-faire leaders are really abdicating leadership altogether and are unlikely to be successful unless their team are highly motivated and talented individuals.

There is no correct style of leadership that will encourage a team to follow its leader. Leaders lead in different ways according to their natural traits and the situation in which they find themselves. Often a flexible leader who can adapt his or her style to the situation will be most effective, although consistency does play a role in trust and security.

The style of leadership depends on, among other things:

- the organisation and its culture
- the subordinates – personalities, experience and training
- the manager or leader's personality and background
- the nature of the task to be performed
- the conditions of the task – time elements and importance.

Leadership is crucial, but in some circumstances an organisation may succeed despite poor leadership, provided middle managers are effective and individual employees are self-driven.

[6 to 8 marks]

The evaluation is balanced with analysis of several leadership styles and their likely effect on organisations and their success. The discussion uses some appropriate terminology and covers areas such as motivation and team performance.

[3 to 5 marks]

The analysis is sensible and appropriate, with some relevant examples of the effect of some leadership styles at the upper end of the band. At the lower end the answer may be more descriptive and conclusions may not be reached and specific leadership styles may not be identified.

[1 to 2 marks]

A brief generalized and probably unbalanced answer, which may be a description or a list.



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MARKSCHEME

May 2007

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

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– 2 –

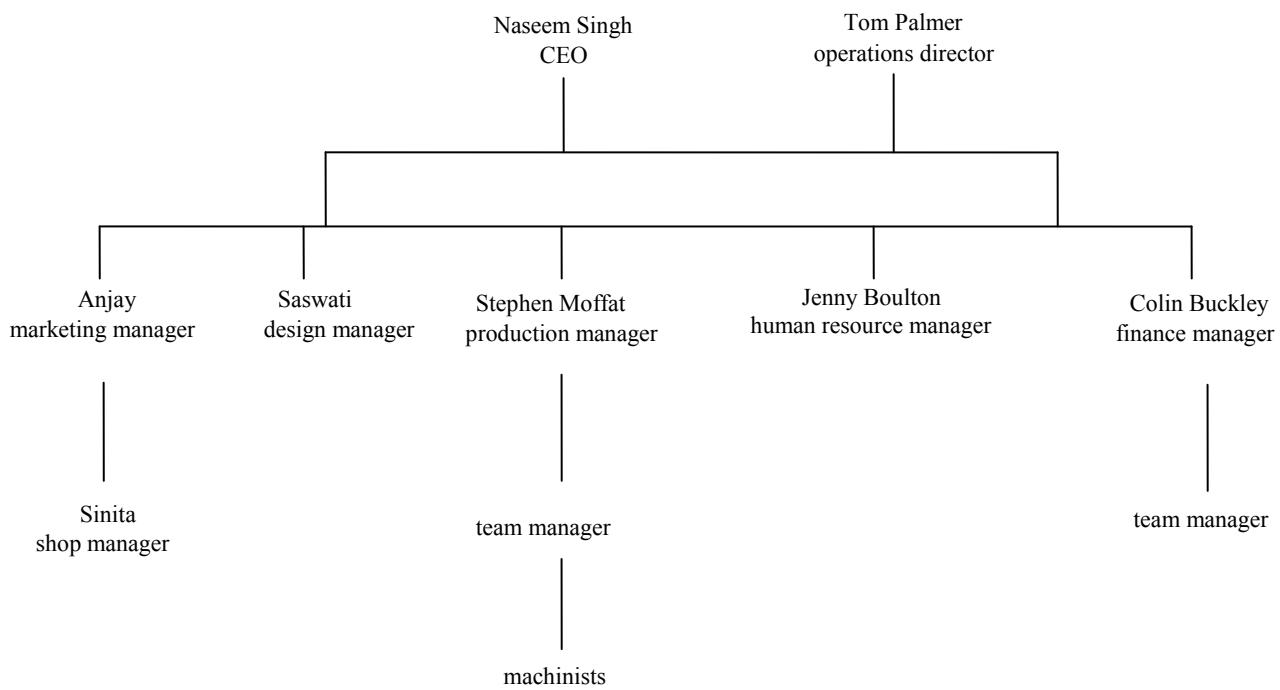
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1. (a) Draw an organizational chart for *Gladrags Ltd*, clearly identifying each person's functional responsibility.

[6 marks]



There are a number of possibilities that should be accepted as a correct organizational chart for *Gladrags Ltd*. Some candidates might see Tom as dependant on Naseem, which would give the organization yet another layer and influence the chain and the answer to 1(b). Some candidates might include potential positions in departments for which there is little information in the case study. It is also quite acceptable for Sinita to be positioned level with Anjay and the others.

A good answer should include the functional positions and the names of the people involved who hold them, whenever available. The chart should include the lines of command, and different levels of managerial control.

– 4 –

M07/3/BUSMT/SP1/ENG/TZ0/XX/M+

[5 to 6 marks]

A representative organizational chart for *Gladrags Ltd* is drawn. Each person's functional responsibility is clearly identified. Functional positions are given a distinctive name (production manager, finance manager, etc.). If one key person is missing then **[5 marks]** should be given.

[3 to 4 marks]

An organizational chart for *Gladrags Ltd* is drawn, which lacks accuracy and/or is incomplete in terms of names of individuals and functional positions included.

[1 to 2 marks]

For an answer that shows only a basic understanding of an organizational chart. The answer lacks accuracy, functional positions might not be shown and layers might be incomplete and/or important departments missing.

(b) With reference to the organizational chart define the terms**(i) chain of command****[2 marks]**

The chain of command is the length of the hierarchy in an organization, or the links that exist from top to bottom; the chain of command for *Gladrags Ltd* is four or five – depending on answer given above. The application is consistent with the chart drawn above. (If candidate has not answered 1 (a) do not penalize. Credit the answer as long as it fits the case study.)

Award **[1 mark]** for correct definition and **[1 mark]** for the application to the case study.

(ii) span of control.**[2 marks]**

The number of people referring directly to one manager is called the manager's span of control. Naseem's span of control (or Tom's) is five. Accept other examples. The application is consistent with the chart drawn above. (If candidate has not answered 1 (a) do not penalize. Credit the answer as long as it fits the case study.)

Award **[1 mark]** for correct definition and **[1 mark]** for the application to the case study.

– 5 –

M07/3/BUSMT/SP1/ENG/TZ0/XX/M+

- (c) **Anjay wants to change the organization to a flatter structure. Discuss the reason for the change using relevant motivation theory to argue the case.** **[10 marks]**

Flatter structures have the advantage of allowing workers to participate more fully in the everyday running of the firm, becoming more active and committed to the decisions taken. The firm could cut the layer team managers, empowering machinists (same in administration). Anjay might feel that they are wasting funds on a layer that could be economized, and that these savings will exceed, in the long run, the costs of giving redundancy payments in the short-run. On the other hand, he might think that the taller structure is more organized and communications might flow better.

There are dangers in flattening the structure too. When workers' motivation is a priority, it is easy to argue that flatter structures that promote worker involvement are better than tall hierarchical ones. If production or efficiency in terms of output is a priority, then flatter structures might not be ideal. The case study shows that Anjay is concerned with the workers' well being, and that is why he is looking at shortening the structure.

According to different theorists workers will enjoy more responsibility, although this might depend on the type of worker employed. Theory X workers will look at the extra responsibility as a burden, while Theory Y workers will take it as a challenge (Taylor/McGregor).

– 6 –

M07/3/BUSMT/SP1/ENG/TZ0/XX/M+

Maslow could be used by candidates to illustrate the movement up the hierarchy of needs, showing how workers who are respected and included in decision-making satisfy their esteem needs.

Herzberg suggests that accepting responsibility and the nature of the job itself will act as motivators for the worker. How workers feel at their jobs also has to do with what Herzberg calls hygiene factors.

Mayo also suggests that people work best in groups and respond positively when management considers the needs of the workers.

There are different theorists who could be referred to and they should be credited as long as the explanation is consistent with the case study.

[8 to 10 marks]

The reasons for the change are discussed and relevant theory is used to support the arguments. The answer shows the capacity to think critically and apply theory efficiently to the case study.

[5 to 7 marks]

Reasons may be put forward but the discussion may tend to be descriptive. Motivation theory is used to support answer though the application may be superficial.

[3 to 4 marks]

A basic understanding of the benefits of a flatter structure is shown. Theory is perhaps limited to a descriptive approach of Maslow and/or Theory X and Y (McGregor).

[1 to 2 marks]

A brief and generalized response.

2. (a) Analyse the differences between marketing clothes under the family brand *Gladrags* and marketing the individual brand “*Sassy*”.

/8 marks]

Family branding is cheaper when it comes to product design, packaging, and promotion. All the products are sold under the same name, same logo, with one similar packaging and one design. All the products are promoted at the same time. No need to seek copyrights for each brand or logo. The firm will enjoy marketing economies of scale. People will recognize the family brand and it is easier to introduce new products into the market – the halo effect of the well known brand will protect the newly launched products.

Individual branding allows for increased product differentiation. By differentiating products a larger market with different degrees of elasticity of demand can be targeted; hence very different prices can be charged, and the products with different brands can be positioned in different ways in the minds of consumers. Possibility of cross subsidization exists, with the more successful brands paying for the introductory stage of the new ones.

With *Gladrags* the firm runs the risk of positioning the new product in an unwanted market. Market research shows that *Gladrags* is identified by consumers as a no frills type of clothing which is purchased by older consumers in low socio economic groups. The brand is associated with “value for money, everyday, consistent, traditional”.

“*Sassy*” needs to have a position of its own, with a completely different name and marketing strategy to *Gladrags*, since it is clearly aimed at a different market (young and high income consumers). In fact any association with the *Gladrags* brand might be detrimental rather than favourable.

[7 to 8 marks]

The differences between marketing clothes under the family brand *Gladrags Ltd* and under the individual brand “*Sassy*” are analysed. The answer shows knowledge of both concepts and it is relevant to the case study.

[5 to 6 marks]

The differences between marketing clothes under the *Gladrags* and “*Sassy*” brands are described. Some reference is made to the case study. The answer may tend to be about marketing the brands *Gladrags Ltd* and “*Sassy*” generally rather than specifically related to individual and family brands.

[3 to 4 marks]

Shows some knowledge of branding issues, but there are elements of confusion pertaining to the benefits of each. Little or no reference is made to the case study.

[1 to 2 marks]

A limited and generalized response.

(b) Using the Ansoff Matrix, propose a future marketing strategy for *Gladrags Ltd.*

[8 marks]

The answer to this question will necessarily be rather open, since there are different possibilities. From the case study it can be inferred that the firm knows where it is at present and has an idea of where it wants to go in the future. There is a need to do something with the *Gladrags* brand and there is also a need to introduce “Sassy”. Market research has already been carried out.

		Ansoff Matrix	
		Products	
		Existing	New
Markets	Existing	Market Penetration	Product Development
	New	Market Development	Diversification

- **Market penetration** – achieving growth in existing markets with existing products. To penetrate the market better *Gladrags Ltd* could use a variety of promotion techniques to convince customers to purchase more of the traditional clothes range. Each candidate will come up with different promotional ideas.
- **Product development** – this is when a company markets new or modified products in an existing market or markets. The “Sassy” brand has to be developed further, and marketed in the local market. The *Gladrags* brand can also be altered and developed to be more modern and suitable to the market.
- **Market development** – this involves marketing of existing products in a new market. The existing *Gladrags* brand can be sold in different European countries. If successful, the new “Sassy” brand could also be taken to continental Europe.
- **Diversification** – new products are developed for new markets. This is the most risky of any growth strategy as the firm lacks core competence and market knowledge. It does not seem likely that *Gladrags Ltd* will really diversify. It first must be concerned with its current products. Although candidates might argue that the introduction of other products like accessories, handbags, shoes, or in fact any product that might appeal to the Indian market might be profitable.

“Sassy” brand is not really an example of diversification since it is without a doubt an innovative product within the original field of production of *Gladrags* (the clothing industry).

– 9 –

M07/3/BUSMT/SP1/ENG/TZ0/XX/M+

[7 to 8 marks]

A future marketing strategy for *Gladrags Ltd* is proposed, using the Ansoff matrix accurately. The answer shows knowledge of the Ansoff matrix, and a relevant application of theory to the case study. The answer must either show the Ansoff matrix model, or include the four entries that make up the matrix. The answer shows creativity and critical thinking capacity.

[5 to 6 marks]

A future marketing strategy for *Gladrags Ltd* is proposed, showing knowledge of the Ansoff matrix. The answer might not relate the theory to the case study accurately, or the answer might be incomplete and not consider all the elements of the matrix.

[3 to 4 marks]

There is an attempt at proposing a future marketing strategy. The answer may show confusion in terms of the different Ansoff entries, although there is knowledge of the two axes (product and market). There might be knowledge of theory but limited or no application to the case study.

[1 to 2 marks]

A limited and generalized response.

3. With the help of four ratios, discuss how the financial situation of *Gladrags Ltd* has changed between 2004 and 2006.

[12 marks]

Different ratios can be used to answer this question.

	2004	2006
Current ratio	1.75:1	1.64:1
Acid test ratio	1.05:1	0.725:1
ROCE	21.74 %	12.61 %
Net profit margin	11.58 %	7.5 %
Gross profit margin	24.71 %	21.69 %
Gearing	33.69 %	37.53 %

Although sales have increased, and debtors are down, the ratios are not very promising. In fact they all show that the financial situation is deteriorating.

The gross profit margin has gone down by three points, and so has the absolute figure. This shows that the cost of making the clothes *Gladrags Ltd* sells is going up, and there is difficulty in transferring the higher costs to higher prices without loss of sales. (Reference to price elasticity of demand is welcome.)

Expenses have increased approximately 10 %. The net profit margin has decreased by 4 percentage points. Finally borrowing has increased causing a higher interest payment. Gearing is up by four points, although the gearing ratio is low, and in principle would allow for further borrowing.

The return on capital employed has gone down enormously – it is 9 percentage points below what it was in 2004. Owners have to be concerned about this decrease and look at ways of bringing the return on capital up again, or stop the falling trend.

Both the current ratio and the acid test ratios are falling, with the acid test ratio falling more than the current ratio. Both these ratios are slightly lower than advisable.

The 2006 acid test shows insufficient cash to meet current liabilities.

The ratios are showing a rather weak financial position, with increasing costs, lower liquidity and indeed lower profitability.

The use of efficiency ratios should be credited, but these can be considered to be of more relevance to financial management and efficiency than the “financial situation of *Gladrags Ltd*” and so are less likely to lead to appropriate discussion.

[10 to 12 marks]

There is detailed analysis of four ratios and the candidate shows that the profitability has dropped considerably, and that the liquidity position has worsened. The answer shows elements of critical thinking.

[7 to 9 marks]

There is detailed consideration of at least two ratios or some analysis of three or four ratios, though this may be lacking in some detail or depth. The answer shows knowledge of theory and capacity to calculate the ratios, but lacks the depth to use the financial ratios in a meaningful manner.

[4 to 6 marks]

Less than four ratios are considered and the answer may tend to be descriptive in nature with consideration of the values, but lacking any analysis of them.

[1 to 3 marks]

A limited and essentially descriptive answer.

4. After the board meeting (line 149) the following decisions were taken:

- **to target the European market**
- **to produce the *Gladrags* brand in Vietnam and produce the “Sassy” brand in Britain.**

Justify both decisions to the shareholders. Use the PEST analysis provided in the case study to support your answer.

[12 marks]

Targeting the European market

Following the previous analysis and as a response to the market research commissioned by Anjay, *Gladrags* has to look for new markets. It will be able to face the bigger output by outsourcing the production to Vietnam; it is a circle: more needs to be sold, so that more can be produced, and the greater production in a less developed country will allow the selling of clothes to a mass market. Therefore the larger market allows for the mass production and the mass production will allow the outsourcing of production in Vietnam.

Different conditions seem to be ready for this to happen.

Political: the increased trade between China and Europe means openness of markets and hence there might be an easy entry of *Gladrags* from Vietnam into Europe.

Reduction in regulations will have the same effect.

Economic: Growth of economies in Europe while the British economy declines.

Pattern of spending: higher income will lead to more being spent on clothing.

***Gladrags* production in Vietnam and “Sassy” production in Great Britain**

Gladrags is a family brand that sells well and has a reasonable reputation. It is therefore positive for the firm to keep it. The problem lies with the costs of production and outsourcing will help the problem. Production costs are cheaper abroad. An aging population will keep the sales of this brand going.

Lower costs of production, given the fact that Vietnam has a very low GNP and per capita income. These lower costs of production can translate into lower prices for better competition, or prices can remain the same and lower variable costs can allow for greater profit margins.

Outsourcing to Vietnam will solve the problem of not finding machinists in England. For the same reason mentioned above, there is a greater chance of finding willing unskilled workers in less developed countries than in the UK.

Labour intensive production, which cannot be found in Great Britain.

– 13 –

M07/3/BUSMT/SP1/ENG/TZ0/XX/M+

“Sassy” brand requires greater skills and a more sophisticated type of production. This can be found in Great Britain.

Capital intensive textile production in Great Britain, with new computer design programmes, facilitate the production of quality clothing. Capital is more accessible in Great Britain than in less developed countries.

The production decisions taken by the board will allow for the sale of the original premises and therefore raise enough capital to invest in the British production of “Sassy” in Great Britain. Only a small plant is necessary for “Sassy”, whilst *Gladrags Ltd*’s brand needs to be produced in large quantities so it can reach a mass market.

So as the firm targets different markets, investments are better hedged, production will increase and profit margins will rise.

[9 to 12 marks]

Both decisions are justified to the shareholders. The answer provides a full analysis of the decisions, making close reference to *Gladrags Ltd*’s problems and bringing relevant PEST issues into the answer. Critical thinking is evident in the answer.

[6 to 8 marks]

Both decisions are justified to shareholders, although the justification may be lacking detail and/or balance. Only a few PEST factors may be taken into account. There may be a lack of critical thinking. If only one decision is analysed and justified in depth then a maximum of **[6 marks]** should be awarded.

[3 to 5 marks]

There is an attempt at describing the decisions but justification may be lacking. The answer may be limited to a list, some of which is simply taken from the PEST analysis.

[1 to 2 marks]

A limited and generalized response.



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MARKSCHEME

May 2007

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

23 pages

– 2 –

M07/3/BUSMT/SP2/ENG/TZ0/XX/M+

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– 3 –

M07/3/BUSMT/SP2/ENG/TZ0/XX/M+

1. (a) Calculate

- (i) the present variable cost of producing and distributing a batch of 50 sunglasses, including chains and cases.**

[3 marks]

Variable costs include:

	\$
Manufacture	6.0
Chain	1.0
Case	0.6 (\$60 ÷ 100 units)
Distribution	0.4 (\$20 ÷ 50 units)
	<u>8.0</u>

$$\text{A batch of 50 sunglasses} = \$8 \times 50 = \$400$$

Or

	\$
Manufacture	6.0
Chain	1.0
	<u>7.0</u>

per pair

$$\$7 \times 50 = \$350 \text{ per batch}$$

Plus distribution	20
Cases	30
	<u>400</u>

[3 marks]

The calculations are completely accurate and there is a clear explanation of the working/method.

[2 marks]

There is a maximum of one error in the calculations or the calculations are completely accurate, but the method is unclear.

[1 mark]

There is some understanding of the method, but the calculations may lack accuracy.

– 4 –

M07/3/BUSMT/SP2/ENG/TZ0/XX/M+

- (ii) the contribution made on the sale of each pair of sunglasses.

[2 marks]

$$\text{Price} = \$600 \div 50 = \$12$$

$$\begin{aligned}\text{Contribution to fixed costs} &= \text{price} - \text{variable cost} \\ &= \$12 - \$8 \\ &= \$\underline{\underline{4}}\end{aligned}$$

Or

$$\begin{aligned}&= \$600 - \$400 \\ &= \$200 \text{ per batch} \div 50 \\ &= \$\underline{\underline{4}}\end{aligned}$$

[2 marks]

The answer is correct and the method is clear.

[1 mark]

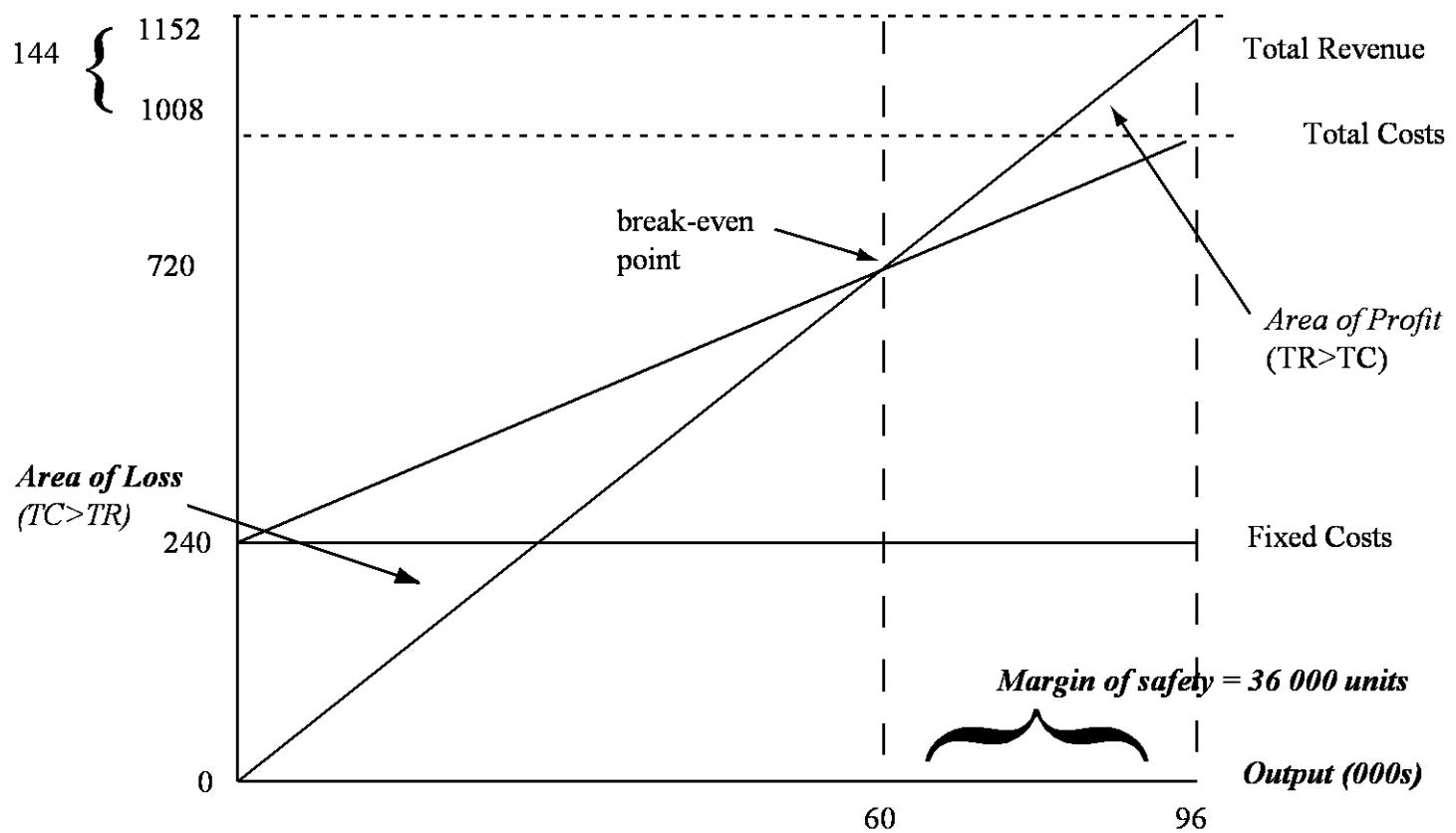
The answer is correct, but the working is not clear, or the method is correct, but the answer is incorrect.

Note: If the candidate makes an error in calculating variable costs in 1(a)(i) above (for which the candidate lost marks) but here uses the same variable cost figure *and* the correct formula (contribution = price – variable cost), do not deduct **[1 mark]** for the incorrect answer but the correct method (unless the candidate has, in addition, made an arithmetic error in 1(a)(ii)).

(b) Construct a fully labeled break-even chart for 2006 to show the following:

Output	FC	All figures in \$			
		(\$8) VC	TC	(\$12) TR	+/-
0	240 000	0	240 000	0	(240 000)
20 000	240 000	160 000	400 000	240 000	(160 000)
40 000	240 000	320 000	560 000	480 000	(80 000)
60 000	240 000	480 000	720 000	720 000	0
80 000	240 000	640 000	880 000	960 000	80 000
100 000	240 000	800 000	1 040 000	1 200 000	160 000

Sales/Revenue (\$000)



- (i) the annual unit sales of sunglasses that *Eye-Spy* require to break-even.

Fixed costs \$240 000 ÷ contribution \$4
= 60 000 pairs of sunglasses

– 6 –

M07/3/BUSMT/SP2/ENG/TZ0/XX/M+

(ii) the annual margin of safety.

$$\begin{aligned}
 \text{Margin of safety} &= \text{actual output} - \text{break-even output} \\
 &= 96\,000 - 60\,000 \\
 &= \underline{\underline{36\,000}} \text{ pairs of sunglasses}
 \end{aligned}$$

(iii) the profit for 2006 at full capacity.**[8 marks]**

$$\begin{aligned}
 \text{Profit} &= \text{TR} - \text{TC} \\
 \text{TR} &= \$1\,152\,000 (96\,000 \times \$12) \\
 \text{VC} &= 96\,000 \times \$8 = \$768\,000 \\
 \text{FC} &= \$240\,000 \\
 \text{TC} &= \$1\,008\,000
 \end{aligned}$$

Profit = \$144 000(or margin of safety \times contribution $36\,000 \times \$4$)**[6 to 8 marks]**

The break-even chart is accurately presented with the break-even output, margin of safety and level of profit identified. The lower end of the band is awarded where there are some minor omissions in presentation or calculation.

[3 to 5 marks]

There is a valid attempt at presenting a break-even chart, but there are some inaccuracies and/or omissions in presentation or calculations, which may mean that one or more of the answers are incorrect.

[1 to 2 marks]

The break-even chart is highly inaccurate or missing as in the case where a candidate uses only formula calculations. The principles are understood only in a very general sense.

A candidate producing only a break-even chart without showing the calculations may still earn full marks, provided the correct figures for the break-even amount (number of glasses), the margin of safety (number of glasses), and the profit (the dollar amount) are explicitly and accurately shown on the chart. Without the calculations presented, the examiner has virtually no basis to give students the benefit of the doubt with respect to the figures or errors in their calculation. If the candidate has correct calculations and answers for break-even amount, margin of safety, and profit but not break-even chart, award [1 mark].

- (c) Using financial and non-financial information from the text, evaluate the proposal to expand production of *Eye-Spy* sunglasses.

[7 marks]

The increase in output would add \$40 000 to fixed costs = \$280 000

Variable costs would increase to \$9 and price to \$13 ($\$650 \div 50$)

Contribution would remain at \$4 as a result.

- Break-even would become: $\$280\,000 \div \$4 = \underline{\$70\,000}$ sunglasses

Potential sales could increase 2000 units per month = $24\,000 \div 12$

- The margin of safety would increase to 50 000 units.
- Profit would also increase to $50\,000 \text{ units} \div \$4 = \$\underline{200\,000}$

Other potential factors:

- the increase in capacity of 2000 units is 25 % – the same as the annual increase in sales over the last year – this may not be enough new capacity
- the employees may be more motivated by higher wage rates
- the cost of borrowing funds needs to be considered
- sunglasses are fashion items and predictions about further growth may be inaccurate
- assumption is made that all glasses are sold although price is higher

The expansion seems sensible on financial grounds but *Eye-Spy* would need to conduct further research and a financial appraisal of costs to ensure it is viable in the long run. A larger expansion may be needed. The effect of the price increase needs to be assessed – how price elastic are customers?

[6 to 7 marks]

The evaluation includes both financial and non-financial information and recommendations are made about expansion. The effects on profit, break-even and margin of safety are calculated.

[3 to 5 marks]

There is consideration of some financial and non-financial information, although this may be unbalanced. Recommendations may be limited or missing. The effects on profit, break-even and margin of safety are recognized, but may not be calculated.

[1 to 2 marks]

A generalized and limited response.

– 8 –

M07/3/BUSMT/SP2/ENG/TZ0/XX/M+

2. (a) Explain what is meant when *Crucible* is described as a subsidiary of *Tesco*. [2 marks]

A subsidiary is a business owned by another business – the holding company, which will own more than 50 % of its shares and therefore have control. The subsidiary is likely to operate under its own trading name. The financial figures from the subsidiary will be included in the parent company's accounts as Group accounts.

[2 marks]

An accurate explanation with the use of some appropriate development.

[1 mark]

A brief and general explanation, but one that nonetheless conveys the idea that *Tesco owns Crucible*, not merely that *Crucible* is a branch, division, etc. of *Tesco*.

(b) (i) From the text identify two examples of primary research and two examples of secondary research.

[4 marks]

Primary: This is the collection of first-hand data by the use of questionnaires and surveys.

Secondary: This is the interrogation of existing data sources such as statistics collected and published by private market research companies and government agencies.

Note: Loyalty cards can be defined as both primary and secondary research, depending on how the data from them are used. In the context of the case, the use of “loyalty cards” is a form of primary research by Tesco to produce the consumer profiles, which when sold are a form of secondary research.

Award **[1 mark]** for each example identified up to a maximum of **[2 marks]** for primary examples and **[2 marks]** for secondary examples.

- (ii) Analyse the advantages *and* disadvantages of primary and secondary research to *Crucible*.

[6 marks]

Primary research: Primary research is expensive and time-consuming. However, it will provide specialist consumer data, which is up-to-date and tailored to the requirements of *Crucible*. It may provide qualitative, as well as quantitative, information. Observation may be required to gather the information on some of the categories identified e.g. customer shopping behaviour. Focus groups will allow the detailed examination of the psychology of customers e.g. motivations, opinions and attitudes.

Crucible will need to be aware of potential bias or inadequate sampling techniques; garbage in – garbage out.

This data will be essential if they wish to sell their information on to other organizations.

Secondary research: General information on market trends for most market sectors, demographic and consumer profiles and economic factors. This may be freely accessible to the public and free, but may need to be bought from other market research agencies. It may cover whole markets from large samples.

It has the disadvantage that it may not be current nor in the form required by *Crucible*.

[5 to 6 marks]

The analysis covers advantages and disadvantages of both primary and secondary research and is related to *Crucible*.

[3 to 4 marks]

The analysis may cover advantages and disadvantages of both primary and secondary research, but is limited in scope, or may not address both advantages and disadvantages and/or may be unbalanced in reference to primary and secondary research. The answer may not relate to *Crucible*.

[1 to 2 marks]

There is a generalized and limited response with unbalanced coverage.

- (c) Discuss, with practical examples, how the Crucible customer database can help companies, such as *BMW*, *Coca-Cola*, *Sky* and *Orange*, make successful business decisions.

[8 marks]

Firms buy information on customers, so that they can segment their market, target their chosen customers and position their product so that it matches customer wants and needs. It will allow the businesses to market their products and services in a cost-effective manner.

Accurate database information will allow firms to advertise in appropriate media and save money. It will facilitate direct marketing and will be instrumental in the development of the marketing mix such as price, distribution and promotion. It will also provide vital information on image and how this can be enhanced.

Firms can also use this information as part of the process of new product development and can be a vital element in the location of retail outlets. It may provide businesses with information on complementary products or services.

In specific terms, *BMW* may use database information to develop new models, which fit into their product image and provide information on suitable promotion techniques. *Coca-Cola* may use this information to develop new flavours. *Sky* may use the data to place advertisements and select programming. *Orange* may adapt tariffs and develop new features for their phones.

The data provided will only be of use if it is current, accurate and presented in a form that can be easily used. If the cost is too great it may not add to profits. However, knowledge of this type will possibly prevent very expensive marketing errors.

[6 to 8 marks]

The discussion examines, with practical examples, how the *Crucible* customer database can help companies, such as *BMW*, *Coca-Cola*, *Sky* and *Orange*, make successful business decisions. The answer is balanced and reaches some conclusions.

[3 to 5 marks]

The discussion examines how the *Crucible* customer database can help companies, such as *BMW*, *Coca-Cola*, *Sky* and *Orange*, make successful business decisions. The answer may be brief and limited in scope at the lower end of the band.

[1 to 2 marks]

A brief, generalized and probably unbalanced answer, which may be a description or a list.

3. (a) Explain what is meant by the term “*profit margin*”. *[2 marks]*

This is profit expressed as a percentage of sales revenue. It can be calculated as a total sum or per unit. Profit margin may be identified as gross profit or net profit margin.

[2 marks]

An accurate explanation with the use of appropriate terms and/or examples.

[1 mark]

A brief and general explanation. However, to earn ***[1 mark]*** the candidate must in some fashion get at the idea that profit margin means profit in relation to turnover.

(b) Examine *two reasons why increasing size makes Dell harder to manage.* *[4 marks]*

As an organization grows some of the following problems may occur:

- the resources increases as does the administration required to record and control these leading to more bureaucracy and costs
- if expansion is quick and significant as in the case of *Dell*, control systems may be inadequate
- changes in product ranges, may mean *Dell* lose control of stock, which may become obsolete as a result
- employees become more remote from management and the objectives of the business becoming more difficult to disseminate
- increases in size may lead to larger spans of control and longer channels of command
- physical distances may increase making communication slower, more expensive and possibly inefficient
- expansion overseas may lead to cultural and language difficulties. Sourcing of parts from overseas, requires greater administration and recording systems.

[3 to 4 marks]

The examination details two reasons why increasing size makes an organization harder to manage. For ***[4 marks]***, the examination relates to *Dell* and information provided in the passage.

[1 to 2 marks]

The answer is either brief or extremely general. For ***[2 marks]***, there must be two reasons identified.

(c) Analyse the advantages *and* disadvantages of *Dell* targeting overseas markets for future sales growth.

[6 marks]

Overseas markets may carry certain problems either absent in the domestic market, or present to a lesser extent. These include:

- language and cultural differences
- the presence of import controls
- economic and/or political instability
- additional documentation
- transportation and insurance costs
- exchange rate fluctuations
- different legal and tax systems
- corruption
- packaging modifications.

Why do firms enter overseas markets then?

- selling overseas offers the potential for higher profits through new market development *i.e.* finding new customers for existing products. Selling to larger markets may also offer the benefits of economies of scale. In particular R & D costs can be spread over a greater volume of sales
- overseas markets allow for diversification and the spreading of risks. If the domestic market is saturated or in recession, overseas markets may be in a different stage of the business life cycle. The markets for computers and components in developed countries are saturated
- there may be fewer laws, which constrain operation. The Asian economies tend to have fewer laws on issues such as planning requirements for new factories
- there may be less competition
- resources may be cheaper *e.g.* labour, raw materials and rent. *Dell* can source components more cheaply in Asia and standards of production are high
- overseas governments may offer incentives to firms locating in their country to encourage employment *etc.*

[5 to 6 marks]

The analysis is detailed and covers some advantages and disadvantages of *Dell* targeting overseas markets for future sales growth. The answer is balanced and the reasons given relate to *Dell's* business and market.

[3 to 4 marks]

The analysis may cover advantages and disadvantages of *Dell* targeting overseas markets for future sales growth, but is limited in scope, or may not address both advantages and disadvantages and/or may be unbalanced. The answer may not relate to *Dell* and/or may be descriptive for **[3 marks]**.

[1 to 2 marks]

There is a generalized and limited response with unbalanced coverage.

(d) Evaluate the use of Internet sales used by Dell to distribute its PCs.**[8 marks]**

Internet sales are where *Dell* cuts out the middlemen and markets and sells direct to the customer. By selling and marketing directly to the customer through the Internet, *Dell* is able to significantly cut its overheads and as a result can undercut competition, offer excellent service and still keep its profit margins higher.

The potential benefits of *Dell* using the Internet are:

- lower trading costs as they do not require expensive retail premises and the staff required
- 24 hour trading. A retailer like *Dell* can be available all the time for customers to access
- global coverage using a relatively cheap website
- a complementary image – *Dell* is selling new technology using computer access
- ability to track customer access and quickly record details and the opportunity for *Dell* to sell information on
- the rapid growth of the Internet and the advantages provided by broadband access. New markets in Asia are opening up quickly
- control over marketing methods and distribution.

The potential drawbacks of using the Internet are:

- the numbers using the Internet to buy are still relatively low if compared to traditional distribution channels
- the legacy of suspicion about security and privacy
- the inability to sell a product through good salesmanship to close a deal
- the ease with which customers can check on the prices and specifications of *Dell's* competitors' products
- customers are unable to touch the product.

On balance, *Dell's* use of direct selling and marketing allows them to control their marketing and distribution channels and to cut costs to a low level allowing them to be highly competitive whilst providing a quality product. The rapid growth of the Internet and the size of untapped market, means that *Dell's* approach is commercially efficient and profitable.

[6 to 8 marks]

The evaluation is balanced with detailed analysis of Internet selling and marketing methods. The discussion is focused on *Dell* and/or technology markets and shows an appreciation of the growth of the Internet sales market. Appropriate and supported conclusions are reached.

[3 to 5 marks]

The analysis is sensible and appropriate to *Dell*, with some relevant examples at the upper end of the band. At the lower end the answer may be more descriptive and conclusions may not be reached.

[1 to 2 marks]

A brief, generalised and probably unbalanced answer, which may be a description or a list.

– 15 –

M07/3/BUSMT/SP2/ENG/TZ0/XX/M+

4. (a) (i) Identify four stakeholders of the companies referred to in the passage.

[4 marks]

Stakeholders identified are:

- customers/retailers
- managers/executives
- suppliers e.g. farmers
- employees
- investors e.g. financial institutions
- general public/society
- governments.

Award **[1 mark]** for each stakeholder identified.

- (ii) Explain how the introduction of ethical policies can cause conflicts between *two* stakeholder groups identified in (a)(i).

[4 marks]

A stakeholder is anyone who has an interest in, or is affected by the behaviour, of a firm.

Internal Stakeholders: employees, managers, directors.

External Stakeholders: shareholders, customers, suppliers, general public, government.

In the **short run** there may be conflict between these groups as they have different interests:

For example shareholders want maximum profit to increase their dividends, which may not be the case if managers decide to implement ethical approaches, which cost more. A firm donates money to local charities to improve its image and to show it is socially responsible. This is a COST and so reduces profit. This is good for the local community (general public), but lowers dividends – there is a **conflict of interest**.

Other conflicts

- employees may wish for better terms and conditions and to be treated with respect and provided with better than a basic package. This again may reduce profits in the short term
- suppliers may wish for fair prices and to be paid on time. If competitors are exploiting cheap labour then their prices may be lower, which ultimately will reduce profits and even put the firm out of business
- customers may look for low priced products. Ethically produced goods may be more expensive.

[3 to 4 marks]

The explanation identifies at least two reasons why the interests of two stakeholder groups can conflict when a company introduces an ethical trading policy. For **[4 marks]**, the answer is supported with at least one relevant example.

[1 to 2 marks]

The answer is either brief or extremely general or only one conflict is examined. For **[2 marks]**, there must be more than one stakeholder identified.

(b) Analyse the advantages *and* disadvantages to a company of implementing socially responsible and ethical objectives.

[6 marks]

Advantages

- attracts customers and employees who agree with the policy. This may have a positive influence on motivation and staff turnover
- has a positive long-term effect on the local and world environment
- improves corporate image, which may provide competitive advantage and marketing/promotion opportunities
- may pre-empt legislation, and may save costs in the long run
- improved image may influence local and national governments in granting of planning permission or the provision of trading licences
- the ability to charge a price premium.

Disadvantages

- the policy may be perceived as merely a cynical or cosmetic attempt to avoid its longer-term responsibilities
- the implementation may be costly, which places the firm at a competitive disadvantage
- the approach may not carry the support of investors and shareholders who may sell their investments, lowering market values
- the business may come under increased scrutiny which may highlight failings leading to bad publicity.

[5 to 6 marks]

The analysis is reasonably balanced with assessment of the advantages and disadvantages of setting and implementing socially responsible and ethical objectives. The analysis shows evidence of critical, reflective thinking and employs relevant examples.

[3 to 4 marks]

The analysis is appropriate, but may lack detail and/or balance, especially at the lower end of the band.

[1 to 2 marks]

A brief, generalized and probably unbalanced answer, which may be a description or merely a list.

(c) Discuss how ethical approaches can be integrated into a company's marketing strategy to provide competitive advantage.

[6 marks]

Marketing strategy is the way a business aims to implement its corporate objectives expressed in marketing aims. There may be several important principles such as:

- acting in a manner, which does not cause unnecessary damage to the environment. Sourcing materials from ethical suppliers, who use renewable resources. Avoiding the use of unnecessary packaging
- treating customers with respect and providing a safe product or reliable service. Listening to their needs and not making claims that cannot be substantiated or are known to be false or using techniques of promotion which create fear or take advantage of the vulnerable
- not doing business with oppressive regimes or unethical suppliers or customers
- not letting patent protection prevent products being used in cases of national emergency, such as drug treatments for viruses.

General principles are put into action through the use of the marketing mix. Ethical approaches can influence pricing policy, distribution channels, promotion techniques and product specification and packaging.

Although ethical approaches can be integrated throughout the marketing strategy, the firm will have to be aware of the cost and the financial and marketing implications.

Ultimately being ethical is of little use if it adversely affects profit levels or makes a firm uncompetitive.

[5 to 6 marks]

The discussion is developed and well balanced and employs a range of ideas about the implementation of ethical values. The marketing strategy is well described and illustrated using appropriate terminology and referring to the marketing mix.

[3 to 4 marks]

The discussion tends to be descriptive, rather than analytical, and methods to implement ethical values are limited, and increasingly inappropriate at the lower end of the band.

[1 to 2 marks]

A brief, generalized and probably unbalanced answer, which may be a description or a list. If the candidate addresses solely promotion, but does so in some detail, award a maximum of ***[2 marks]***.

5. (a) Identify and explain the *three* leadership styles referred to in quotations ①, ② and ③.

[6 marks]

Quotation:

- ① *Laissez-faire* – grants responsibility and authority to the group and lets staff act as they wish. Horizontal communication between peers. Group may drift as no direction is given by the leader. Often known as leadership by exception. Its success depends entirely upon the competence of the employees.*
- ② *Autocratic* – leaders are authoritative; orders are imposed with no opportunity for employees to be involved in decision-making, which stifles initiative. Communication is one way. Success relies on the ability of the leader.
- ③ *Paternalistic* – “father like”. This type of leader will ask for opinions of employees, but will then try to persuade them to accept his point of view. Acts in the best interest of his staff, but as he sees it. Explains decisions. “Soft autocratic.”

Award [1 mark] for each correct identification of a style and an additional [1 mark] for an accurate explanation of the style characteristics, up to a maximum of [6 marks]. Candidates may be awarded [1 mark] per explanation, even if they have not properly identified the style by a generally accepted appellation, provided that candidates accurately explain the style and do more than merely restate the quotation in their own words.

N.B. For quotation ① be prepared to award [1 mark] for a type of democratic leadership if the explanation links sufficiently with the quotation.

– 20 –

M07/3/BUSMT/SP2/ENG/TZ0/XX/M+

(b) (i) With reference to quotation ④ explain the importance of objectives in managing an organization.

[3 marks]

It is only with objectives that a firm can know where it is going, and measure its progress towards it. Objectives are medium-to long-targets that can give a sense of direction to a manager, department or whole organization. If a team is given a sense of common purpose, it becomes easier to coordinate actions and to create a team spirit.

Business objectives are established so that the success or failure of the organisation can be judged and form the basis for decisions on strategy:

- they clarify for everyone what the business is working to achieve
- they aid decision-making and the choice of alternative strategies
- they enable checks on progress
- they provide the means by which performance can be measured
- they provide a focus for individual roles in an organization
- they can be broken down to provide targets for each part of the organization
- they can be used to analyse the performance of the business and its employees.

[3 marks]

An accurate explanation with some examples showing the importance of objectives in managing an organization with the use of appropriate terms and/or examples.

[2 marks]

An explanation illustrating some aspects of objectives in the management process.

[1 mark]

A brief and general explanation.

(ii) With reference to quotation ⑤ distinguish between objectives, strategies and tactics.

[3 marks]

- **Objectives** – are medium-to long-targets that can give a sense of direction to a manager, department or whole organization. They are the foundations for strategic and tactical decisions.
- **Strategy** – is really a long-term objective. Some decisions may have significant consequences. Companies deciding, for instance, to change location or products may invest large sums in their decisions. Poor decisions may result in the closure of the business itself. These types of decisions are called “strategic” or high level decisions. Businesses need to get these decisions right.
- **Tactics** – are short-term or “low level” decisions. It is how a firm will achieve its strategic aims on a day-to-day basis and less important decisions, such as what brand of paper to use. They have less important consequences than strategic decisions. It is important, however, to remember that too many poor tactical decisions could affect the longer-term strategy.

In the quotation, it states that a leader has the vision to make key strategic choices, but is also able to focus on the issues of getting things done on a daily basis.

[3 marks]

An accurate distinction is made between objectives, strategies and tactics.

[2 marks]

Some understanding of two terms.

[1 mark]

A clear understanding of at least one term or a limited understanding of two terms.

(c) Evaluate the effect of different leadership styles within organizations.**[8 marks]**

Leadership is crucial to the operational success of a business. It has implications across all the functional areas of the business. It is important that those who manage organizations have leadership ability, whether this is natural or learned. They need to motivate their teams towards a shared vision. The leader may have sound and well thought out objectives, but if those who are to be led will not follow, then the objectives will not be achieved.

Autocratic leaders avoid discussion and issue instructions. This may be effective if the team is inexperienced or it is up against a deadline. The team may be used to this style if it is traditional in an organisation. However, the team is usually ineffective in the absence of the leader.

Democratic leaders will encourage discussion and participation in decision-making. The leader must be prepared to delegate authority and to empower the team. This may increase motivation and lead to higher performance. Complex problems may be solved by this approach. However, it may lead to slower decision-making and compromises on tough decisions.

Paternalistic leaders take decisions in the interest of their teams as they see it. This may be effective in family run businesses and where the leaders are experienced and genuinely value their team. However, employees may become frustrated by this style if their viewpoints are consistently ignored and it does not help develop career skills.

Laissez-faire leaders are really abdicating leadership altogether and are unlikely to be successful unless their team are highly motivated and talented individuals.

There is no correct style of leadership that will encourage a team to follow its leader. Leaders lead in different ways according to their natural traits and the situation in which they find themselves. Often a flexible leader who can adapt his or her style to the situation will be most effective, although consistency does play a role in trust and security.

The style of leadership depends on, among other things:

- the organisation and its culture
- the subordinates – personalities, experience and training
- the manager or leader's personality and background
- the nature of the task to be performed
- the conditions of the task – time elements and importance.

Leadership is crucial, but in some circumstances an organisation may succeed despite poor leadership, provided middle managers are effective and individual employees are self-driven.

- 23 -

M07/3/BUSMT/SP2/ENG/TZ0/XX/M+

[6 to 8 marks]

The evaluation is balanced with analysis of several leadership styles and their likely effect on organisations and their success. The discussion uses some appropriate terminology and covers areas such as motivation and team performance.

[3 to 5 marks]

The analysis is sensible and appropriate, with some relevant examples of the effect of some leadership styles at the upper end of the band. At the lower end the answer may be more descriptive and conclusions may not be reached and specific leadership styles may not be identified.

[1 to 2 marks]

A brief generalized and probably unbalanced answer, which may be a description or a list.

M08/3/BUSMT/SP1/ENG/TZ0/XX/M



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MARKSCHEME

May 2008

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

13 pages

– 2 –

M08/3/BUSMT/SP1/ENG/TZ0/XX/M

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1. (a) Describe *two* advantages and *two* disadvantages to *Organix* of “converting from a partnership to a limited company” (line 155).

[8 marks]

Advantages include:

- limited liability
- capacity to raise capital through sale of shares
- legal entity (incorporation) ensures continuity
- tight control for Max and Terry if they keep the majority of the shares.

Disadvantages include:

- complex set up procedures
- it takes time and money to set up a company
- possible restriction on amount of capital raised
- loss of privacy – information about the firm becomes publicly available.
- if one shareholder wants to sell shares it might be difficult to find a buyer.

Other relevant advantages and disadvantages should be given credit.

Award **[1 mark]** for each correct advantage or disadvantage (with a maximum of two advantages and two disadvantages). Award an extra **[1 mark]** for a description/development of that advantage or disadvantage.

(b) Evaluate *one* possible source of finance available to *Organix* to fund the construction of the holiday cottages and *one* source of finance for their day-to-day operations.

[8 marks]

Potential sources of finance can be classified as internal or external and borrowed for a short, medium or long term. Finance required to fund the holiday cottages is likely to be of a long-term nature in that the useful life of the cottages will be many years and the funds they generate for repayment occur over an extended period of time. However, for the cottages, *Organix* will require furniture and appliances, the useful life of which will be medium term (approximately 3 to 5 years). *Organix* may also require an increase in the availability of working capital as well, to fund additional overheads and expenses, such as payment for engineers and craftsmen.

Internal:

- retained profit
- management of working capital e.g. reduction of stocks or sale of other assets, such as hectares of land.

External:

- capital investment by Terry and Max
- capital investment by a new partner or, if the organization becomes a limited company, sale of shares
- debentures
- mortgages
- loans or overdraft.

Long-term finance: *Five years plus.* Used to purchase long-term assets (holiday cabins).

- capital infusion – in the form of capital contribution of partners or sale of shares (if the organization becomes a limited company)
- mortgages – loans using property as security or collateral
- government assistance – grants and subsidies
- venture capital – money lent to small, high risk ventures in return for a minority shareholding and a share of the profits
- *any other relevant point.*

Short-term finance: *Less than one year.* Used for day-to-day expenditure.

- overdraft
- trade credit – payment for items delayed for one-to-three months
- debt factoring – the firm sells its debtors to specialist companies for less than their face value, but for instant liquidity
- *any other relevant point.*

Medium-term finance: *Three to five years.* Used to purchase assets such as furniture and equipment).

- bank loan repaid in instalments
- hire purchase – used to buy assets and equipment *e.g.* machinery
- leasing – equipment is rented with the option to buy later. Ownership remains with leaser, who is responsible for maintenance
- *any other relevant point.*

– 5 –

M08/3/BUSMT/SP1/ENG/TZ0/XX/M

[7 to 8 marks]

Candidate identifies one appropriate source of long-term finance probably available to *Organix* to fund the holiday cottages and one appropriate source of finance probably available to fund day-to-day operations. Not only should these sources of finance be appropriate, the candidate thoroughly evaluates the advantages and disadvantages of these sources.

[5 to 6 marks]

Candidate identifies one appropriate source of long-term finance probably available to *Organix* to fund the holiday cottages and one appropriate source of finance probably available to fund day-to-day operations. Although these sources of finance are appropriate, the candidate's evaluation of them might not be complete or balanced.

[3 to 4 marks]

At the upper end, candidate identifies one appropriate source of long-term finance probably available to *Organix* to fund the holiday cottages and one appropriate source of finance probably available to fund day-to-day operations. However, the candidate's evaluation of the sources is limited and tends toward description or the evaluation lacks balance.

At the lower end, the candidate has correctly identified either an appropriate source of long-term finance probably available to *Organix* to fund the holiday cottages **or** one appropriate source of finance probably available to fund day-to-day operations, but with the other source of finance the candidate's answer response is not fully appropriate (a long-term source of finance not realistically available to *Organix*, like a bond issue, or some mismatch between borrowing need and finance source, like a three-to-five year loan for a seasonal borrowing need).

[1 to 2 marks]

The candidate's response indicates some understanding of the concept of "source of finance", but otherwise is a general and limited response indicating little understanding of various types of finance or their differing purposes.

2. (a) Define the term *high staff turnover*.**[2 marks]**

Staff turnover refers to the number of staff who leave an organisation in a given period of time, usually a year. It is calculated by the formula:

$$\frac{\text{Number of staff leaving per year}}{\text{Average number of staff}} \times 100$$

For *Organix*, as for any business, a high staff turnover rate is a worrying sign: it shows that an above-average number of staff regularly leave.

[2 marks]

A clear definition which shows a good understanding of the concept of ‘high staff turnover’. The definition may be supported by a formula or a description of its elements using a proportion or percentage, and indication of the analytical usefulness of the concept.

[1 mark]

A general statement indicating that many staff are leaving *Organix*. Reference to the formula is not necessary.

(b) Explain two consequences of a high staff turnover at *Organix*.**[6 marks]**

Most of the consequences are likely to be negative:

- poor morale among remaining staff and possible increased workloads
- costs of recruiting and training new staff
- bad public relations possibly affecting the image of *Organix*
- increased risks of legal action against *Organix*.

There may, however, be some positive aspects:

- new blood and ideas may be introduced
- better staff than those presently at *Organix* may be recruited
- restructuring the existing workforce may be possible.

[5 to 6 marks]

Candidate thoroughly explains two consequences of high staff turnover relevant to the circumstances at *Organix*.

[3 to 4 marks]

Candidate explains two consequences of high staff turnover. Although the consequences are relevant to *Organix*, the candidate’s explanation is incomplete. At the lower end, the candidate has correctly identified two consequences of high staff turnover but only explained one of them.

[1 to 2 marks]

Award **[1 mark]** for each correctly identified consequence of high staff turnover, up to **[2 marks]**. Consequences may be listed rather than explained and consequences may lack relevance.

- (c) Analyse possible non-monetary approaches available to Alison Moldano, Human Resource Manager, to reduce the high staff turnover in the restaurant.

[8 marks]

The high staff turnover could be the result of Terry's autocratic style and the poor terms and conditions of employment. While changes to style of leadership in the organization might make an impact on staff turnover, it seems unlikely that Terry, at least, will change his assumptions about their workers or his autocratic leadership style. Given the strained financial condition of the firm at present and Max's skepticism that financial rewards are the answer, it seems that Alison Moldano needs to consider non-monetary approaches to reduce staff turnover.

Non-monetary approaches include:

- job design, job flexibility, and job satisfaction
- job rotation
- job enlargement
- job enrichment
- group working
- empowerment
- training, multi-skilling and staff development
- recognition
- appraisal.

The balance of rewards will need to be judged against the likely costs and benefits and whether Max sees the staff turnover as a problem. If staff members are relatively unskilled, then the cost of replacement may be far lower than the additional reward package.

[7 to 8 marks]

A range of possible non-monetary approaches are presented and analysed. They are both appropriate and applied. Examples from the case study are used to support the response.

[5 to 6 marks]

Some possible non-monetary approaches are presented and analysed. They are appropriate, but not clearly applied, or the range may be limited.

[3 to 4 marks]

Some non-monetary approaches are identified. They may be generic, theoretical or hardly appropriate for *Organix*.

[1 to 2 marks]

The answer shows a limited understanding of the concept of "non-monetary approaches" or some confusion.

3. (a) (i) Define the term *branding*.**[2 marks]**

Branding is an essential part of marketing. A brand is an identifying symbol, words, or mark that distinguishes a product or company from its competitors. The brand will have its own related customer perception as customers associate the brand with certain qualities. Usually brands are registered (trademarked) with a regulatory authority and so cannot be used freely by other parties.

[2 marks]

A clear definition of the term that shows a good understanding of its meaning, for example by referring to brand characteristics or brand identity.

[1 mark]

A definition that shows some understanding of the term but may lack in detail or depth.

(ii) Explain *one advantage* and *one disadvantage* for *Organix* of marketing all its products under a single brand.**[4 marks]**

Advantages include:

- Customers can develop brand loyalty
- Promotion may be easier, with economies of scale.

Disadvantages include:

- A bad experience with any product from the brand may deter consumers from buying any other product from that brand
- Diversification may be more difficult.

Other relevant advantages and disadvantages should be given credit.

[4 marks]

Identification and explanation of both one advantage and one disadvantage of marketing the products under a single brand. There must be a clear reference to *Organix* for both.

[3 marks]

Identification of one advantage and one disadvantage with a good explanation of one of them; some reference to *Organix*.

[1 to 2 marks]

[1 mark] for identification of an advantage and **[1 mark]** for identification of a disadvantage, but no explanation is provided. If a candidate identifies an advantage *or* a disadvantage and explains it thoroughly, award **[2 marks]**.

- (b) Analyse primary *and* secondary sources of market research that *Organix* can use to gather additional information on people's attitudes toward organic produce.

[8 marks]

The market for organic products is relatively new, so economic and market information is needed to determine people's attitudes toward organic produce. Market research may be primary or secondary.

Primary

Questionnaires, observation, surveys, focus groups – first hand and gathered for a specific purpose.

Secondary

Government data *e.g.* census, company data, the media, Internet, trade organizations, past records, *e.g.* sales data, accounts – second hand data gathered for another purpose.

Primary data is more costly and time consuming to gather.

Organix is a relatively small organization so is unlikely to be able to consider extensive research. It is improbable that there is significant research available except that gathered by the government and commercial trade organizations. This may be a useful start. Links with trade associations and organic farmer cooperatives may provide some information. Primary data will be more difficult to gather given that *Organix* is a small, family-owned and operated organization. It may be possible to use local market research organizations or try to survey potential customers, but finding suitable lists of names and addresses may not be easy.

Having gathered data on both the market and target customers, *Organix* will be able to use this information as the basis for setting the marketing mix. This will include advisability of marketing all of the different arms of the business under one brand, the locations of new farms shops, the level of pricing of products, the focus for promotion and suitable advertising media, and the specifications of the products themselves.

N.B. Sampling is not part of the Standard Level curriculum but some credit may be given for its appropriate use.

– 10 –

M08/3/BUSMT/SP1/ENG/TZ0/XX/M

[7 to 8 marks]

There is a detailed analysis of the types of market research that *Organix* can use to gather data to determine people's attitudes toward organic produce. Candidate identifies primary and secondary methods and their appropriateness to the situation. The answer is precisely applied to the case study.

[5 to 6 marks]

There is some analysis of the types of market research that *Organix* can use to determine people's attitudes toward organic produce. The candidate identifies primary and secondary methods of market research methods. The answer includes relevant references to the case study. At the lower end of the band the response tends more to description.

[3 to 4 marks]

Some market research methods are considered, but the response tends to description or listing or just theory. There is limited or inappropriate reference to the case study.

[1 to 2 marks]

A brief and superficial answer, which tends to description or listing.

4. (a) Prepare a SWOT analysis for *Organix*.**[6 marks]****Strengths**

- *Organix* meets organic quality standards and can use the term “organic” officially
- organic label permits selling products at a premium
- breadth of product range
- core business activity suitable for asset-based marketing approach
- high margins on products sold directly to retail customers
- piloted farm shop is successful.

Weaknesses

- seasonal products
- unpredictability of selling prices
- two principals have significantly different attitudes toward risk
- restaurant operation deteriorating
- insufficient managerial accounts to analyse by cost centres
- high staff turnover
- weak financial condition
- the partnership is a liability.

Opportunities

- growing interest in fresh, organic produce
- increase in local and global demand for fresh, organic produce
- planning permission has already been granted so they could expand
- changes in lifestyle and consumer behaviour: more health-conscious customers ready to pay premium price.

Threats

- large supermarket chains are lobbying the government to make acquisition of “organic” label easier
- increased demand for organic foods could attract major farm operations to the market, increasing competition
- banks reluctant to lend
- volatile market prices and conditions.

This list is not exhaustive. Other appropriate and relevant reasons should also be credited.

[5 to 6 marks]

A relevant SWOT analysis covering all four areas. At least one point per section is raised, adequately explained and related to the case study. (Strengths and weaknesses are internal and opportunities and threats relate to the external environment only).

[3 to 4 marks]

The SWOT analysis is appropriate to *Organix*, but less detailed and balanced towards the lower end of the band, and there may be some misclassification.

[1 to 2 marks]

A limited and general response.

(b) Using your SWOT analysis, discuss the options available to Max and Terry as they consider the farm's future.

/8 marks

Max proposes diversification of products and going into a range of operations (restaurants, farm shops, vacation destination). Risk-averse, Terry wants to focus on core activities.

The arguments in favour of expansion/diversification are:

- spreading the risk over more income streams
- diversification will increase consumer awareness
- the retail shop(s) will allow them to target different markets
- lines of operation are complementary, allowing for vertical integration and synergies
- retail shop(s) allow selling products other than their own, increasing the potential size of the firm.

The arguments against expansion/diversification are:

- risk of spreading too thin
- lack of expertise (for example, in the restaurant business)
- loss of focus
- loss of identity.

N.B. Candidates should be credited where they have assessed points raised in the SWOT in the part (a) even if these were misclassified or inappropriate to that part.

/7 to 8 marks

The discussion is detailed, relevant, and complete. Drawing on issues raised in the SWOT analysis, the candidate addresses both reasons for and against the major options available to Terry and Max.

/5 to 6 marks

The assessment is generally relevant though at the lower end of the band it may be less balanced (heavy emphasis on a limited range of options for future or emphasis on only the positives or negatives). There may be limited reference to the SWOT.

/3 to 4 marks

The assessment has some relevance, but the candidate does not refer to the issues raised in the SWOT analysis. The answer tends toward the description of a limited range of options and conveys limited understanding of choices available to Terry and Max.

/1 to 2 marks

A limited and general response.

N08/3/BUSMT/SP2/ENG/TZ0/XX/M



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MARKSCHEME

November 2008

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

16 pages

– 2 –

N08/3/BUSMT/SP2/ENG/TZ0/XX/M

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1. (a) Define the term *mission statement*.**[2 marks]**

A mission statement is a clear and succinct representation of the enterprise's purpose for existence. It should incorporate socially meaningful and measurable criteria addressing concepts such as the moral/ethical position of the enterprise, public image, the target market, products/services, the geographic domain and expectations of growth and profitability.

The intent of the mission statement should be the first consideration for any employee who is evaluating a strategic decision. The statement can range from a very simple to a very complex set of ideas.

Award **[2 marks]** for a clear definition. Award **[1 mark]** if some understanding is evident.

(b) Explain *two* human resource benefits for *Temasek Holdings* of ethical and socially responsible conduct.**[4 marks]**

Potential benefits include:

- **Recruitment:** employees may feel more inclined to work for a socially responsible organization
- **Retention:** employees may feel more inclined to stay with a socially responsible organization
- **Motivation:** employees may feel more motivated working for a socially responsible organization
- **Decision making:** employees may feel decision making is easier/clearer if they know what the organization stands for
- **Goodwill:** employees may feel more inclined to participate in fund raising events or may speak highly of their employer, providing good Public Relations.

The above factors will lower costs and/or increase productivity or increase sales of their products.

Award **[1 mark]** for each identified benefit up to a maximum of **[2 marks]** and **[1 mark]** for explaining how it could benefit *Temasek Holdings* up to a maximum of **[2 marks]**. Maximum mark is **[4 marks]**.

- (c) With reference to *Temasek Holdings*, explain how objectives, strategies and tactics interrelate.

[6 marks]

Objectives are what the organization is trying to achieve; “create and maximize shareholder value”.

Strategies are broadly the ways and means of achieving those objectives: “manage a global portfolio of shares”.

Tactics are the smaller details – day-to-day ways and means of achieving objectives: “buy and sell shares on a daily basis”.

Clearly the strategies and tactics are ways of achieving the business objectives.

[5 to 6 marks]

Concepts clearly understood. Correct application to *Temasek Holdings* and explanation of how objectives, strategies and tactics interrelate.

[3 to 4 marks]

Good understanding of concepts evident, but application to *Temasek Holdings* and explanation of how objectives, strategies and tactics interrelate may lack some accuracy or detail.

[1 to 2 marks]

Some understanding of concepts evident. Application to *Temasek Holdings* and explanation of how objectives, strategies and tactics interrelate is attempted but is vague or confused.

- (d) Discuss how *Temasek Holdings* could maximize shareholder value through the management of its portfolio. Your answer should consider how *Temasek Holdings* identifies attractive industries and successful enterprises.

[8 marks]

Temasek Holdings could identify attractive industries based on:

- market size
- market growth rate
- market profitability
- pricing trends
- rivalry
- risk
- entry barriers
- opportunities for product differentiation
- demand variability
- segmentation
- distribution structure
- technology development.

– 5 –

N08/3/BUSMT/SP2/ENG/TZ0/XX/M

Temasek Holdings could identify successful enterprises based on:

- strength of assets
- brand strength
- market share
- market share growth
- customer loyalty
- relative cost position
- relative profit margins
- distribution strengths
- record of innovation
- quality
- access to financial resources
- management strength.

Candidates should discuss several of the above factors in a balanced fashion.

[6 to 8 marks]

Detailed discussion of how *Temasek Holdings* could maximize shareholder value through the management of its portfolio. The answer considers how *Temasek Holdings* could identify attractive industries and successful enterprises using several of the above factors in a balanced way.

[3 to 5 marks]

Discussion of how *Temasek Holdings* could maximize shareholder value through the management of its portfolio, but the answer may lack detail or balance. The answer considers how *Temasek Holdings* could identify attractive industries and successful enterprises using several of the above factors.

[1 to 2 marks]

Some understanding of how *Temasek Holdings* could maximize shareholder value through the management of its portfolio, but the answer lacks detail. The answer may have some idea how *Temasek Holdings* could identify attractive industries and/or successful enterprises.

2. (a) Identify two types of primary market research.**[2 marks]**

Primary market research involves getting original data directly about a product and market. Primary research data is data that did not exist before. It is designed to answer specific questions of interest to the business, for example:

- **Face-to-face interviews** – interviewers ask people on the street or on their doorstep a series of questions.
- **Telephone interviews** – similar questions to face-to-face interviews, although often shorter.
- **Online surveys** – using email or the Internet. This is an increasingly popular way of obtaining primary data and much less costly than face-to-face or telephone interviews.
- **Questionnaires** – sent in the post (for example a customer feedback form sent to people who have recently bought a product or service).
- **Focus groups and consumer panels** – a small group of people meet together with a researcher and provide an insight into consumer attitudes.

Award **[1 mark]** for each correct type of primary research identified up to a maximum of **[2 marks]**. No development is needed.

(b) Explain the role of market research when setting up a new fast food business.**[4 marks]**

Market research is the process of systematically gathering, recording and analysing data about customers, competitors and the market. Market research can help create a business plan, launch a new product or service, fine tune existing products and services, expand into new markets *etc.* It can be used to determine which portion of the population will purchase the product/service, based on variables like age, gender, location and income level. It can be found out what market characteristics a target market has. With market research *Burger Bar* can learn more about current and potential customers.

The purpose of market research is to help *Burger Bar* make better business decisions about the development and marketing of new products. Market research represents the voice of the consumer in a company.

A list of questions that can be answered through market research:

- What is happening in the market? What are the trends? Who are the competitors?
- How do consumers talk about the products in the market?
- Which needs are important? Are the needs being met by current products?

[3 to 4 marks]

The answer explains the role of market research when setting up a new fast food business.

[1 to 2 marks]

Some understanding of the role of market research when setting up a new fast food business.

- (c) **Construct a break-even chart based on the above information. Your chart should show:**

- **the break-even output**
- **the margin of safety if 150000 burgers are sold.**

/6 marks

/5 to 6 marks

Clear break-even chart showing:

- the break-even output
- the margin of safety (50000 burgers).

The chart is correctly labelled, neat and accurate.

/3 to 4 marks

Break-even chart showing:

- the break-even output
- the margin of safety may not be identified at all or is incorrect.

The chart may not be correctly labelled, or is not neat or accurate.

/1 to 2 marks

Some attempt to draw a break-even chart:

- the break-even output may not be identified at all or is incorrect
- the margin of safety may not be identified at all or is incorrect.

The candidate may have worked out the correct answers but has not drawn the chart.

(d) To what extent can this break-even analysis *alone* be used to support the application for a bank loan?

[8 marks]

- Most small start-ups are funded through personal resources: savings, loans from family, friends, other investors; home equity loans; cash value of life insurance.
- Banks will lend to some business start-ups if they are satisfied with the business plan; the level of experience; credit history of owners; and the collateral you have to pledge to the loan. The bank will also require that the owners put up a significant proportion of the funds themselves.

[6 to 8 marks]

Candidate has considered the various factors listed above that the bank will consider. Clearly the break-even analysis alone will not count for much. The bank will base their decision on the above factors; especially the business plan and collateral. The answer considers the extent to which this break-even analysis alone can be used to support the application for a bank loan. The answer is detailed and balanced. A conclusion is made based on logic and reason.

[3 to 5 marks]

Candidate has considers some of the factors that the bank will consider. The answer considers the extent to which this break-even analysis alone can be used to support the application for a bank loan. The answer is detailed and balanced. A conclusion is reached, which is consistent with the discussion.

[1 to 2 marks]

The answer identifies some of the factors that the bank will consider to support the application for a bank loan. The answer may lack detail and balance. A conclusion may be made but may not be supported.

– 9 –

N08/3/BUSMT/SP2/ENG/TZ0/XX/M

3. (a) Define the term *market segment*.**[2 marks]**

A market segment is a subgroup within a market – for example the car market has subgroups, including family cars, sports cars, luxury cars *etc.*

Award **[2 marks]** for a clear definition. Award **[1 mark]** if some understanding is evident.

(b) Construct a fully labelled product life cycle diagram for *Dr. Martens* from 1947 to the present day.**[4 marks]**

The main stages of the product life cycle are:

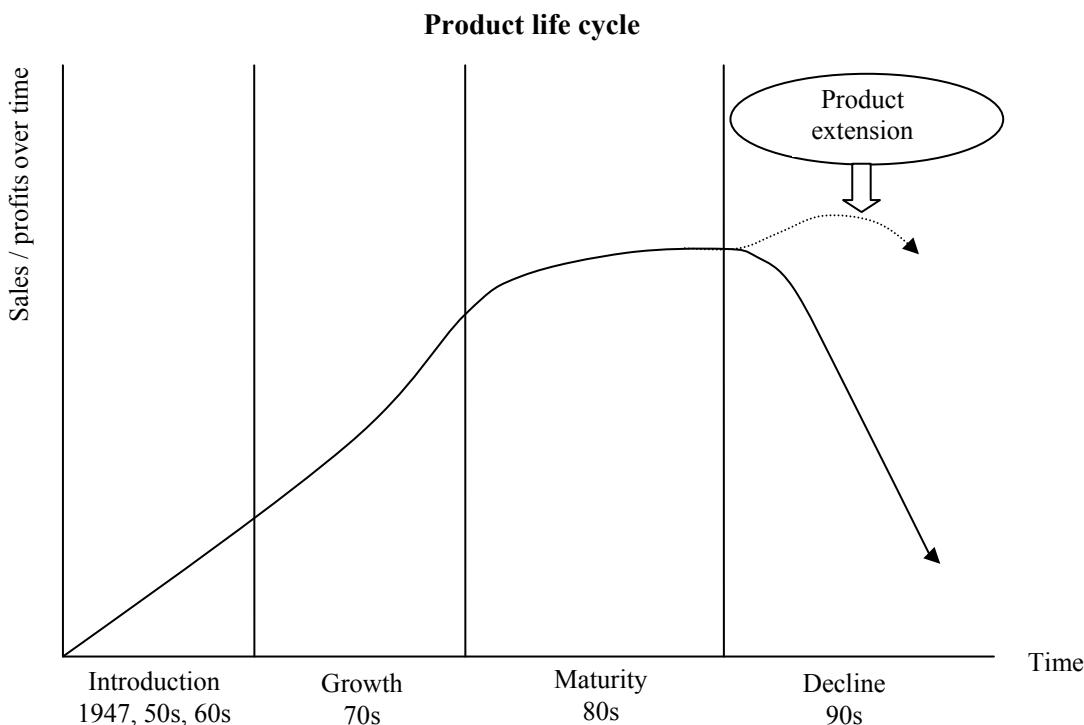
- Introduction – researching, developing and then launching the product.
- Growth – when sales are increasing at their fastest rate.
- Maturity – sales are near their highest, but the rate of growth is slowing down, *e.g.* new competitors in market or saturation.
- Decline – final stage of the cycle, when sales begin to fall.

[3 to 4 marks]

A fully labelled product life cycle diagram for *Dr. Martens* from 1947 to the present day is constructed with the correct dates. Diagram identifies early stages as slow growth then steady growth in the 50s, 60s and 70s; rapid growth. In the 80s and 90s: the beginning of the decline.

[1 to 2 marks]

A product life cycle diagram for *Dr. Martens* from 1947 to the present day is constructed but there may be several errors/omissions.



– 10 –

N08/3/BUSMT/SP2/ENG/TZ0/XX/M

(c) With reference to *Dr. Martens*, comment on the value of market segmentation.

[6 marks]

Market segmentation is the process in marketing of dividing a market into distinct subsets (segments) that behave in the same way or have similar needs. Because each segment is fairly homogeneous in their needs and attitudes, they are likely to respond similarly to a given marketing strategy. That is, they are likely to have similar feelings and ideas about a marketing mix comprised of a given product or service, sold at a given price, distributed in a certain way and promoted in a certain way.

The potential benefits of market segmentation for *Dr. Martens* are:

- price discrimination
- establish a unique selling proposition
- target markets and selling efforts
- tailor the marketing mix for each segment.

[5 to 6 marks]

A detailed commentary on the value of market segmentation. Meaningful reference is made to the different markets *Dr. Martens* caters to – or could cater to.

[3 to 4 marks]

A commentary on the value of market segmentation. Appropriate reference is made to the different markets *Dr. Martens* caters to – or could cater to.

[1 to 2 marks]

Some understanding of the value of market segmentation is evident. Some reference may be made to the different markets *Dr. Martens* caters to – or could cater to.

- (d) With reference to the product life cycle, evaluate *two* alternative extension strategies that *Dr. Martens* could introduce.

[8 marks]

Extension strategies extend the life of a product before it goes into decline. Businesses use marketing techniques to improve sales. Examples of the marketing techniques include:

- **Advertising** – try to gain a new audience or remind the current audience. However, success will depend on factors such as the consumer loyalty to sports footwear brands.
- **Price reduction** – more attractive to customers, but the success will depend upon the price elasticity of demand.
- **Adding value** – add new features to the current product. However, there may not be a great deal of scope to do this with footwear.
- **Explore new markets** – try selling abroad. However, it may take time and effort to establish a position.
- **Brand Ambassadors** – try to get famous sports, fashion, music celebrities to adopt/endorse your product. This is likely to be costly, and long-term. It is likely that your rivals are already doing this (especially *Nike* and *Adidas*).
- **New packaging** – brightening up old packaging, or subtle changes. However, this is unlikely to have a major impact on *Dr. Martens*.

[6 to 8 marks]

Candidate evaluates alternative extension strategies *Dr. Martens* can introduce. Specific reference is made to the particular challenges *Dr. Martens* faces.

[3 to 5 marks]

Candidate identifies and discusses alternative extension strategies *Dr. Martens* can introduce. However, specific reference is not made to the particular challenges *Dr. Martens* faces.

[1 to 2 marks]

Candidate identifies alternative extension strategies *Dr. Martens* can introduce. The strategies are described and little or no attempt is made to relate the strategies to the challenges faced by *Dr. Martens*.

4. (a) Define the term *globalization*. [2 marks]

Globalization refers to increasing global connectivity, integration and interdependence in the economic, social, technological, cultural, political, and ecological spheres.

Award **[2 marks]** for a clear definition. Award **[1 mark]** if some understanding is evident.

(b) Explain *two consequences of globalization for Tata Group*. [4 marks]

Consequences include:

Wages – supply and demand for labour will increase (e.g. *Tata Group* employees can go and work overseas, and overseas employees can work for *Tata Group*).

Competition – intensifies, especially in formerly protected markets.

Marketing issues – (price/product/promotion/distribution).

Materials – more sources, but also greater demand.

Technology – access to better, faster and cheaper technology.

Award **[1 mark]** for each consequence up to a maximum of **[2 marks]** and a further mark for each explanation up to a maximum of **[2 marks]**. Maximum mark is **[4 marks]**.

(c) Comment on *two consequences for the Bangladesh economy as a result of Tata Group's “\$2.5 billion investment in the country”*. [6 marks]

Possible consequences for the Bangladesh economy include:

- growth
- employment
- inflation
- balance of payments.

Other issues include supply side factors (improved factors of production) and/or demand side factors (higher aggregate demand).

Award **[1 mark]** for each consequence up to a maximum of **[2 marks]** and up to an additional **[2 marks]** for each commentary on the consequence up to a maximum of **[4 marks]**.

(d) Evaluate two strategies available to *Tata Group* to enter international markets.

[8 marks]

Answers may include:

- evolutionary
- takeover
- merger
- joint venture
- strategic alliance
- franchise
- licensing.

Each method would need to be evaluated in terms of the speed, cost, degree of control, importance of local knowledge, impact of local laws as well as ease of withdrawing should the strategy fail. It is also worth considering ethical issues given that *Tata Group* donates two thirds of its profits to charities.

[6 to 8 marks]

Evaluates two strategies available to *Tata Group* to enter international markets. The evaluation is thorough and detailed. Specific reference is made to *Tata Group*.

[3 to 5 marks]

Candidate identifies and discusses two strategies. The answer may lack an evaluation, or the evaluation is not supported with reasons.

[1 to 2 marks]

Some understanding of two strategies available to *Tata Group* is evident. Answer tends to be descriptive, with little or no assessment of the relative merits of each strategy.

5. (a) Define the term *product branding*.**[2 marks]**

Product branding is the process undertaking activities that establish a brand or brand identity.

A brand is a name, logo, slogan, and/or design scheme associated with a product or service. Brand recognition and other reactions are created by the use of the product or service and through the influence of advertising, design, and media commentary. A brand is a symbolic embodiment of all the information connected to the product and serves to create associations and expectations around it. A brand often includes a logo, fonts, colour schemes, symbols, and sound, which may be developed to represent implicit values, ideas, and even personality.

Award **[2 marks]** for a clear definition. Award **[1 mark]** if some understanding is evident.

(b) Explain why *Rizzo Fashions* needs working capital.**[4 marks]**

The working capital of a business is:

Working Capital = Current Assets – Liabilities

Positive working capital means that the company is able to pay off its short-term liabilities. Negative working capital means that a company currently is unable to meet its short-term liabilities with its current assets (cash, accounts receivable, inventory).

If *Rizzo Fashions* has low working capital it may struggle to make its day-to-day payments such as wages, electricity bills or suppliers bills. This could have very serious consequences for the day-to-day operations of the business.

[3 to 4 marks]

A good understanding of working capital is evident and the answer clearly explains why *Rizzo Fashions* needs working capital.

[1 to 2 marks]

Some understanding of working capital is evident. The answer attempts to explain why *Rizzo Fashions* needs working capital.

- (c) Use the data above to construct a cash flow forecast from January to June 2009.

[6 marks]

	January	February	March	April	May	June
Sales	100 000	110 000	121 000	133 100	146 410	161 051
Cash received	60 000	66 000	72 600	79 860	87 846	96 630.6
40% received one month later	0	40 000	44 000	48 400	53 240	58 564
Total cash	60 000	106 000	116 600	128 260	141 086	155 195
Electricity	10 000	10 000	10 000	10 000	10 000	10 000
Telephone		22 500		22 500		
Advertising	15 000	15 000	15 000	15 000	15 000	15 000
Office rent			30 000			
Finance charge	5 000	5 000	5 000	5 000	5 000	5 000
Opening balance	50 000	80 000	133 500	190 100	265 860	376 946
Total cash inflow	60 000	106 000	116 600	128 260	141 086	155 195
Outflows	30 000	52 500	60 000	52 500	30 000	30 000
Net cashflow	30 000	53 500	56 600	75 760	111 086	125 195
Closing balance	80 000	133 500	190 100	265 860	376 946	502 141

[5 to 6 marks]

For an accurate and neatly presented cash flow forecast. Award *[5 marks]* for up to two minor miscalculations or omissions.

[3 to 4 marks]

For a cash flow forecast that is essentially correct. Several errors may be present, but the general idea and presentation are correct. Do not “double penalize” a candidate if the mistake carries forward.

[1 to 2 marks]

An attempt is made to construct a cash flow forecast. Many errors may be present, do not “double penalize” a candidate if the mistake carries forward.

(d) Discuss the advantages *and* disadvantages of the alternative forms of financing the new product range that Antonio is considering.

[8 marks]

The methods of financing under consideration are:

- bank loan secured against family home
- issue new shares.

Each method needs to be discussed with reference to:

- **risk** (*e.g.* using the family home as collateral)
- **cost** (*e.g.* variable interest charges)
- **control** (at the moment all shares are owned by the family)
- **administration** (*e.g.* how long will it take to get a loan)
- **gearing** (what is the current level of gearing).

[6 to 8 marks]

The advantages and disadvantages of the alternative forms of financing are both fully discussed.

[3 to 5 marks]

The advantages and disadvantages of the alternative forms of financing are discussed, but the discussion may lack breadth and/or depth and balance.

[1 to 2 marks]

The advantages and/or disadvantages of the alternative forms of financing are considered, but the discussion tends to be descriptive.

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MARKSCHEME

November 2008

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

14 pages

– 2 –

N08/3/BUSMT/SP1/ENG/TZ0/XX/M

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– 3 –

N08/3/BUSMT/SP1/ENG/TZ0/XX/M

1. (a) (i) Define the term *gearing*.**[2 marks]**

Gearing, known as leverage in the United States, refers to the relationship between debt capital and equity capital of an organization and is typically expressed as a ratio or as a percentage. Though several ways to calculate the ratio are used, depending on the circumstances, each tries to examine what percentage of total capitalization is composed of debt and what percentage is composed of equity capital.

[2 marks]

Gearing is accurately defined.

[1 mark]

A vague definition of gearing is provided, though the response indicates some understanding.

(ii) Explain two reasons why *Organix* produces accounts.**[4 marks]**

The main reasons accounts are produced include:

- to record assets, liabilities and transactions
- to allow management to analyse and evaluate the performance of the organization
- to control the flow of funds in and out of the firm
- to allow internal stakeholders to understand the performance of the firm, which can influence decisions (for example, by the firm's owners or shareholders or labour)
- to allow external sources of funds (banks, lending institutions, suppliers, equity markets) to understand the credit-worthiness or viability of the firm.

Award **[1 mark]** for each reason identified plus **[1 mark]** for the development/explanation.

- (b) Discuss financial and non-financial implications for *Organix* of borrowing \$500 000 to finance the restaurant and the farm shop. Your answer should consider the implications for the balance sheet, profit and loss account and gearing.

[10 marks]

Financial and other implications for *Organix* of borrowing \$500 000 include:

- increased gearing and higher debt service
- higher fixed costs for the operation of the business (of the restaurant and the farm shop)
- greater complexity in maintaining accounts
- need for improved security procedures for cash/currency used in the business, which now has several locations
- increased complexity of operations
- risk associated with entry into a business activity new to *Organix* (the restaurant)
- increased complexity in maintaining accounts and records
- increased organizational stress, with the potential to exacerbate existing tensions within the business (for example, between Terry and Max, who have different leadership styles)
- greater challenges with respect to hiring or developing mid-level managers (to run the farm shops or to coordinate various aspects of the business).

Overall, at this stage, *Organix* can expect to face a number of challenges associated with the growth and the \$500 000 loan. The loan will immediately increase debt service, which is anticipated to be met from the operation of the restaurant and new farm shop. The expansion of *Organix*'s operation to include an extra farm shop and restaurant will increase the complexity of the organization, creating a number of stresses (noted above). While some synergy can be expected (organic produce being used in the farm shops and restaurant), the increase in the size of the business is small enough that it is unlikely to produce significant economies of scale and, possibly, will produce diseconomies of scale. The decision to borrow \$500 000 and proceed with the expansion constitutes implementation of a strategic-level decision and, at this stage, constitutes a significant risk for the firm.

– 5 –

N08/3/BUSMT/SP1/ENG/TZ0/XX/M

[9 to 10 marks]

Candidate discusses both financial and other implications of *Organix* borrowing \$500 000 in detail, including higher gearing and debt service, profit and loss account, and the balance sheet. Non-financial implications may include the impact of change on the organization, the stresses that will be placed on human resources and the management of personnel, and other relevant implications that the candidate may identify. At the higher end, the candidate will recognize some potential benefits stemming from the expansion of the business (made possible because of the loan), though overall the candidate will recognize that at this stage *Organix* will probably face more risks and challenges than immediate benefits of synergy or economies of scale.

[6 to 8 marks]

Candidate discusses both financial and non-financial implications of *Organix* borrowing \$500 000, including higher gearing and debt service, profit and loss account, and the balance sheet. Candidate either does not address the potential benefits stemming from the loan (and expanded business) or accepts those benefits uncritically, without serious consideration to the many risks involved in the expansion.

[3 to 5 marks]

Candidate discusses some financial and non-financial implications of *Organix* borrowing \$500 000, though the answer is limited in detail, specifics, or balance (e.g. the candidate addresses financial implications but none of the other organizational implications).

[1 to 2 marks]

Candidate provides a limited and descriptive answer.

2. (a) Define the term *social responsibility* (line 72).**[2 marks]**

Socially responsible firms are those that understand that the activities of their business have a direct and indirect impact on society and act responsibly and ethically toward all stakeholders, not just those most directly affected by the organization's decisions. The actions of socially responsible firms extend well beyond concern to increase shareholder value; they typically extend as well to employees, customers, suppliers (e.g. a socially responsible firm will not acquire supplies or raw materials from a firm that itself does not have ethical or environmental policies), the community, and other stakeholders.

[2 marks]

Social responsibility is accurately defined.

[1 mark]

A vague definition of social responsibility is provided, though the response indicates some understanding.

(b) Describe *two objectives of socially responsible organizations like Organix.***[4 marks]**

Objectives of socially responsible firms like *Organix* include:

- fair labour practices, including:
 - non-employment of children
 - non-discriminatory hiring and promotion practices
 - fair and livable wages, adequate benefits
 - a fair and transparent approach to dealing with employees
 - allowing labour to bargain collectively
- environmentally sustainable practices, including:
 - reducing energy consumption
 - using only organic and/or biodegradable supplies/products
 - when appropriate, recycling
 - not polluting the environment
 - minimizing noise and other forms of social pollution
- operation of the business in a transparent fashion (not having hidden costs to customers)
- ethical marketing, including:
 - honesty in advertising
 - avoidance of deceptive strategies, such as “bait-and-switch”
 - development of socially responsible products
- *any other valid response.*

Award **[1 mark]** for each socially responsible objective the candidate identifies, up to a maximum of **[2 marks]**. Award an additional **[1 mark]** for development of why the identified objective is socially responsible, up to a maximum of **[2 marks]**.

- (c) Examine *one* advantage and *one* disadvantage to *Organix* of making a full commitment to operating as a socially responsible organization. *[8 marks]*

Traditional for-profit organizations focus primarily on maximizing shareholder value through short to intermediate-term objectives that permit survival, profit maximization, growth, sales revenue maximization, and enhancement of image. Increasingly firms are finding that adoption of socially responsible practices can enhance image, making the firm attractive to many potential employees, customers, or investors. In the long run, therefore, acting in a socially responsible fashion can often help firms reach traditional objectives (growth, profit maximization, *etc.*), even though doing so sometimes means higher costs or lower returns in the short term. Firms making a **full** commitment to socially responsible practices do so not merely for the benefits that come with image enhancement. These firms consider their full range of stakeholders, not just shareholders, employees, or customers, and make a commitment to particular ethical ideals, even if it means “permanently” higher costs and lower returns (many firms, however, are increasingly finding that in the long run operating in a socially responsibility fashion “pays off” literally).

Advantages of operating in a socially responsible fashion include:

- many human resources advantages, including:
 - easier recruitment and retention of qualified employees
 - higher employee satisfaction and motivation
 - fewer employee distractions (such as worrying about affordable day care, health insurance, *etc.*), thus improving productivity
 - easier labour negotiations
 - a vision and focus to the employees of the firm
 - maintenance of a high internal ethical ideal (reducing, for example, employee theft)
- enhanced image in the market place, attracting customers and investors
- enhanced brand identity
- reduced litigation threats and costs
- improved relations with all stakeholders.

Disadvantages to operating in a socially responsible fashion include:

- increased costs (wages, benefits, environmentally friendly practices, *etc.*)
- training costs
- possible reduction of firms with which to do business (if the socially responsible plan, for example, includes purchasing only from firms that are socially responsible)
- costs of renovation of facilities or costs of restructuring of practices.

– 8 –

N08/3/BUSMT/SP1/ENG/TZ0/XX/M

For *Organix*, a full commitment to socially responsible practices would require adoption of policies and practices that go beyond merely being a producer of organic food. It would require, further, a full analysis of all aspects of the business to ensure that in all areas of operations the most advanced environmentally friendly approaches were being followed, which could involve considerable costs in terms of replacing equipment and restructuring the operation of the farm. In addition, all human resources policies and practices would require evaluation and many would require costly changes. Such changes would require considerable concessions on the part of Terry, whose style is generally inconsistent with socially responsible human resources practices. The firm could anticipate both one-off costs for restructuring the business as well as an increase in certain fixed and variable costs.

There are, however, many potential benefits to *Organix* of such a move. Full social responsibility would dovetail with the *Organix* brand, thus allowing the firm to leverage off its existing image in the marketplace. Improved pay, benefits, and conditions would probably lead to enhanced employee loyalty, as well as to employees working harder to promote the firm, both when on and off the job. In the long run, many socially responsible firms enjoy economies once the upfront costs have been absorbed (making the barn energy efficient through improved insulation and solar panels, for example, would increase short-term costs but lower energy costs in the long run).

– 9 –

N08/3/BUSMT/SP1/ENG/TZ0/XX/M

[7 to 8 marks]

Examining in detail one advantage and one disadvantage of *Organix* operating as a socially responsible firm, the candidate recognizes that a genuine, full commitment would mean adopting socially responsible practices not solely for the enhancement of image but because of belief in the ethical ideals behind the practices. For *Organix*, this would mean a willingness to absorb the various costs and overcome the impediments that come with this ethical ideal, even if the payoff is not certain or future profits are diminished.

[5 to 6 marks]

The candidate examines in detail one advantage and one disadvantage of *Organix* operating as a socially responsible firm, focusing largely on the value of image enhancement as the chief motive for adopting socially responsible practices.

OR

The candidate conveys an understanding that a full commitment means more than image enhancement, but the response lacks sufficient detail and balance.

[3 to 4 marks]

The candidate examines one advantage and one disadvantage of *Organix* operating as a socially responsible firm, though the response lacks balance or depth. The candidate's response indicates an understanding of social responsibility solely as a means to enhance image, not as a genuine commitment to ethical ideals.

[1 to 2 marks]

The candidate provides a limited, descriptive answer.

– 10 –

N08/3/BUSMT/SP1/ENG/TZ0/XX/M

3. (a) (i) Define the term *stakeholder*.**[2 marks]**

Various groups of people who have an interest in an organization or business activity are stakeholders.

[2 marks]

Stakeholder is accurately defined.

[1 mark]

An imprecise definition of stakeholder is provided, though the response indicates some understanding. If the candidate provides correct examples, but not a definition, award **[1 mark]**.

(ii) Identify *two* internal and *two* external stakeholder groups of *Organix*.**[4 marks]**

Internal stakeholders include:

- owner/shareholders
- directors (who typically are owners, or substantial shareholders, but not necessarily so)
- managers
- employees.

External stakeholders include:

- customers
- government
- suppliers
- lenders
- community
- pressure groups
- *any other appropriate stakeholder*.

Award **[1 mark]** for correct identification of two of the above internal stakeholders up to **[2 marks]**. Award **[1 mark]** for correct identification of two of the above external stakeholders up to **[2 marks]**.

- (b) Explain the implications for two of *Organix*'s stakeholder groups if the government reduces "organic standards to make it easier for farms to convert to organic status" (lines 149-150).

[8 marks]

The owners/shareholders of *Organix* would be affected, if the government were to make it easier for farms to convert to organic status. *Organix* could expect to see considerably increased competition as farms converted to organic status, thereby putting downward pressure on the prices *Organix* could charge. Terry and Max's investment of time and money achieving the formerly high organic status would lose considerable value, while future profits and returns on investment would be lowered. *Organix*'s brand identity would probably suffer as well, as *Organix* would no longer be one of a small group of organic producers. On the other hand, a larger range of grocery stores and chains, including those selling to price-sensitive customers, would presumably be interested in selling *Organix* products. As a lesser investment would be required to produce organic food and as there would be, probably, a larger market for their goods, *Organix* could probably bring more acreage under till. Overall, *Organix* could expect to shift from a small niche firm to a large firm competing in a thinner margin, more price sensitive market.

Other internal stakeholders would be affected as well. If the transition to a large firm competing in a thinner-margin, more price sensitive market did not go well, employees, whether managerial or ordinary staff, could, at the least, anticipate lower pay raises and no additional benefits. If increased competition were intense enough, they could face lay-offs, lower wages, and reduced benefits. Overall, added stress would be placed upon the business, whose niche position was eroded by government action.

External stakeholders would be affected as well. Customers may not be pleased with the government's actions, but would probably find the lower prices at the markets attractive. On the other hand, for those customers fully committed to organic food (such as *Organix* had produced), many might find the increased number of producers distracting, making it harder for them as customers to determine which farms still produced according to the formerly high standards. *Organix*'s lenders would also be affected. As margins and profits at *Organix* felt the downward pressure of increased competition, *Organix* would probably find it harder to service its debt, while the value of the farm, as collateral, probably would decrease as the investment in the former organic standards would now be considerably reduced. Were *Organix* to try to continue to operate as before, its suppliers would probably feel some impact, as the firm were less profitable. If, however, *Organix* acceded to the new, lower standards for the label organic, it would probably abandon its traditional suppliers for less costly ones.

Both the government and pressure groups would presumably have mixed reactions. The government would now be able to hold organic farms to lower standards, thereby reducing the intensity of inspections, but the number of farms would increase considerably, thereby increasing the scale of the regulatory and oversight work. Pressure groups would probably be pleased that a large number of farms would convert to being organic, though they would probably be dissatisfied with the erosion of standards.

Mark the question as follows:

- (i) Identify each stakeholder (up to two), label the first stakeholder S1 and the second S2.
- (ii) For each stakeholder group identified above, award up to **[4 marks]**.
- (iii) For any additional stakeholders identified within the answer that do not add value circle them.
- (iv) At the end of the second response, write END to signify that you have not marked beyond this point.

For each stakeholder group, award marks as follows:

[4 marks]

Candidate explains in detail implications for the stakeholder group, considering, where appropriate, both the opportunity and threats presented by the change in government policy.

[2 to 3 marks]

Candidate identifies a stakeholder group affected by the change in government policies, but the explanation lacks specificity, thoroughness, and/or balance.

[1 mark]

Candidate identifies a stakeholder group affected by the change in government policy.

4. (a) Compare and contrast the leadership styles of Terry and Max.**[6 marks]**

Terry's leadership style is generally autocratic, and he has Taylorist/Theory X assumptions about employee motivation and appropriate treatment of employees. Max's style is more difficult to fit neatly in the categories used by textbooks, as at times he is entrepreneurial, at other times democratic. Overall, he shows a commitment to positive relations with employees and to employee empowerment.

[5 to 6 marks]

Candidate correctly compares and contrasts the leadership styles of Terry and Max and uses appropriate business language and specific references to the case to describe them.

[3 to 4 marks]

Candidate describes the leadership styles of Terry and Max, though the response may be lacking in appropriate business language and specifics from the case study. Candidate does not have to use the terms such as "autocratic" to describe Terry, but needs to show a clear understanding of his style and must clearly differentiate it from Max's. At the lower end, candidate provides a satisfactory description of the leadership style of only Terry or only Max.

[1 to 2 marks]

Candidate provides a general and limited response.

- (b) Advise Terry and Max of an appropriate organizational structure for the farm in the future. Your answer should consider differing leadership styles, the changing external environment and *Organix's* expansion plans. **[10 marks]**

The point award is to be determined based upon the strength of the argument that the candidate makes and their use of specific evidence drawn from the case study and business concepts and theory, as well as their consideration of (1) differing leadership styles, (2) the changing external environment, and (3) *Organix's* expansion plans.

[9 to 10 marks]

Candidate provides clear advice for the organizational structure of the firm. In formulating the response, the candidate has considered fully the implications of (1) the differing leadership styles, (2) the changing external environment, and (3) *Organix's* expansion plans. In the context of the evidence presented and using appropriate business language and concepts, the candidate makes a strong case for a particular organizational structure, highlighting both its strengths and limitations.

[6 to 8 marks]

Candidate provides clear advice for the organizational structure of the firm. Though the candidate has identified (1) the differing leadership styles, (2) the changing external environment, and (3) *Organix's* expansion plans, consideration of all three may not be complete. Based upon the evidence presented and the business language and concepts used, the recommended organizational structure is plausible, though, in the absence of full treatment of each of the three factors above, the candidate's case is not fully convincing. Some weaknesses may be evident in the use of language of business or business concepts.

[3 to 5 marks]

Candidate provides advice for the organizational structure for the firm. Of the three sets of circumstances prescribed by the question (the differing leadership styles, the changing external environment, and *Organix's* expansion plans), a maximum of **[4 marks]** is to be awarded if the candidate fails to treat at least one and a maximum of **[3 marks]** is to be awarded if the candidate fails to treat at least two. Because of lack of treatment of these circumstances, or because of lack of specifics drawn from the case or from appropriate business language and concepts, the candidate's advice can not genuinely be evaluated. Nonetheless, the advice should at least be realistic with respect to the broad outline of the case and question (for example, a recommendation that *Organix* "go public" would not be a realistic recommendation).

[1 to 2 marks]

Either the candidate gives no advice, or the answer is general and limited with respect to the circumstances prescribed by the prompt and business language and concepts.

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MARKSCHEME

May 2008

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

21 pages

– 2 –

M08/3/BUSMT/SP2/ENG/TZ0/XX/M+

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– 3 –

M08/3/BUSMT/SP2/ENG/TZ0/XX/M+

1. (a) (i) State in your answer booklet the values for:

- net cash flow in October
- closing balance in October
- closing balance in November
- net cash flow in December.

[4 marks]

	September	October	November	December
Inflows				
Fees	32 000	32 000	32 000	0
Registration		48 000		
Total A	32 000	80 000	32 000	0
Outflows				
Salaries	9 500	9 500	9 500	9 500
Expenses	20 000	20 000	20 000	20 000
Total B	29 500	29 500	29 500	29 500
A-B	2 500	50 500	2 500	(29 500)
Opening bank balance	15 000	17 500	68 000	70 500
Closing bank balance	17 500	68 000	70 500	41 000

[4 marks]

The answers are completely accurately. No mistakes are made.

[2 to 3 marks]

The answers are essentially accurate but one mistake is made for **[3 marks]**.

[1 mark]

The answers are inaccurate, showing only a basic knowledge of cash flow. There are two or more mistakes.

(ii) Comment on the cash flow position of the *Cochabamba Academy*. [4 marks]

Essentially the cash flow situation is positive, since there are no months in which the school has to use the overdraft facility of the bank. It does not need to borrow. It seems that expenses are rather high for the two months when there are no students. If they could keep expenses down during those months, cash flow could improve. The registration fees are necessary to provide the buffer to face the difficulty of the months with no inflows.

[3 to 4 marks]

The cash flow situation is clearly commented on. Attention is paid to the months without inflow, and to the buffer effect of registration fees.

[1 to 2 marks]

The cash flow situation is described as positive with little or no detail given.

N.B. Please note own figure rule applies if candidate's answer in 1(a)(i) is different to those in the table.

(b) (i) Given the information opposite, calculate the annual profit or loss of the *Cochabamba Academy*. (Show all your working)**[4 marks]**

Total revenue – Total costs = Total profits/losses

Total revenue = \$368 000

(\$32 000 fees \times 10 months + \$48 000 registration fee)

Total costs = \$354 000 (\$9500 salaries \times 12 + \$20 000 expenses \times 12)

Total profits = \$14 000

[4 marks]

The calculation is correct. Working is shown.

[2 to 3 marks]

The calculation is correct but working is not shown/or working is shown, and is essentially correct, but up to two mistakes are made.

[1 mark]

The calculation is incorrect, working is wrong or incomplete, but there is a basic knowledge of profit concept.

– 5 –

M08/3/BUSMT/SP2/ENG/TZ0/XX/M+

- (ii) Calculate the payback period on the initial investment of \$63 000.
(Show all your working)

[2 marks]

At \$14 000 per year, the investment is recovered in 4 years 6 months.

Cost of project/annual profits = payback period

$$\$63\,000/\$14\,000 = 4 \text{ years 6 months}$$

[2 marks]

The calculation is correct. Working is shown.

[1 mark]

Either calculation is incorrect, but working is accurate, or calculation is correct but working is not shown.

- (c) Based on financial *and* non-financial factors, evaluate whether Silvia and Daniel should open the *Cochabamba Academy*.

[6 marks]

The forecasted financial figures given are:

Payback: 4.5 years

Return on capital invested: 22.2 %

No variable costs.

The initial forecasts seem promising (as long as we can compare them with other firms) and with no variable costs projected, any increase in student numbers beyond those already estimated would translate into further profits.

However, a number of issues remain. Additional market research will be needed. Primary, in order to gauge word of mouth recommendations from stakeholders and secondary to see if *Cochabamba Academy*'s pricing is realistic compared to other local schools. There may also be the need to find out how the school can differentiate itself in the community if projected student numbers fail to live up to expectations. We need to remember that these are forecasted figures only.

Other non-financial information could include a review of the state of the local economy surrounding *Cochabamba Academy* although some parents may be price inelastic in demand if they place a high value on education. As the school grows, staff responsibilities may increase and this may affect salary costs.

[5 to 6 marks]

Both financial **and** non-financial factors are discussed using information from the case study. A judgment is presented and is consistent with the analysis.

[3 to 4 marks]

The answer is unbalanced with either financial **or** non-financial factors being considered. A judgment may be present but is not consistent with the analysis. If no judgment is given award only **[3 marks]**.

[1 to 2 marks]

A simplistic and general response, which does not include a recommendation or does not use the available information.

2. (a) Identify two stakeholders of Belu.**[2 marks]**

Any two from:

- consumers
- workers
- management
- competitors
- government
- pressure groups
- *any other suitable interested party.*

(b) Explain how the French water bottling firm might be able to identify the target market for water sold in biodegradable bottles.**[4 marks]**

A French water bottling firm could undertake both primary and secondary research. Primary could include focus groups, a quota sample of individuals who are willing to pay a premium for bottled water sold in a biodegradable bottle.

Secondary could look at economic and social trends available from *Census* documents or other government publications about attitudes to the environment, landfill and recycling.

[3 to 4 marks]

Up to two methods of market research are given with direct reference to the French water bottling firm to help identify the target market. Both primary and secondary sources need to be present for **[4 marks]**. Candidate must give two distinctly different types of market research *e.g.* one example of primary and one example of secondary research. If the candidate gives two examples which are similar, such as questionnaires and interviews, only **[3 marks]** may be awarded.

[1 to 2 marks]

Up to two methods of market research are given but they are generalized and not appropriate to the needs of the French water bottling firm. Award **[1 mark]** if a candidate simply lists or identifies two or more sources.

- (c) Explain how the higher unit cost might affect the price and promotion elements of the marketing mix for water sold in biodegradable bottles.

[6 marks]

It is stated in the case that the new bottle's unit cost is considerably higher than that for conventional bottles. This will attract a price premium and may initially lead the firm to consider a price skimming strategy in the mix. However, the point of sale findings may limit the extent to which firms can exploit this differential unless the perceived added value of the biodegradable bottle is considerable. This may be tricky for a new product in the short run.

For promotion, the bottle provides for a significant point of difference from the existing competition, which could be highlighted at product launches and other forms of above-the-line promotion. A joint venture with an environmental pressure group or stakeholder could be mutually beneficial, enhance "green" credibility, and attract free publicity.

However, it would be foolish to ignore the test marketing findings. Promotional strategies will need to be carefully considered otherwise precious funds could be wasted.

[5 to 6 marks]

Both price and promotion elements of the marketing mix are considered and explained in detail. There is a balanced explanation of the strengths and weaknesses.

[3 to 4 marks]

There is an explanation of both the price and promotion elements but it lacks detail at the lower end of the band. Either price or promotion is considered but not both. There is some relevance to the issues in the case. For **[4 marks]**, the candidate must mention both price and promotion.

[1 to 2 marks]

The answer is generalized and descriptive and is little more than a list of points. There is a lack of marketing terminology used and relevance to the case.

- (d) Evaluate whether the French water bottling firm should use the biodegradable bottle.

[8 marks]

The French firm will be able to use the biodegradable bottle to differentiate it as a responsible firm that cares about the environment. This will increase its sales, and therefore profits. Workers may like to be part of environmentally friendly firms. They feel proud to work in a firm that prioritized the long term, and this acts as a motivating factor for them. Shareholders like to be owners of environmentally friendly firms. More ethical sources of finance might become available. External stakeholders such as *Friends of the Earth* can be allies to the firm and give positive publicity to the product, benefiting the firm.

There is a certain risk in trying to sell water in the new biodegradable bottles. The public might not be yet ready to pay a premium price for a bottle that will have beneficial long-term benefits for the planet, but not short-term benefits for them. Further investigation will need to be undertaken to evaluate this point of sale influence.

The investment required for the product launch and to fund the market research might be too high for the firm. High-income people might prefer the old-fashioned glass water, which can be easily recycled. More research into consumer buying habits will be needed. There may not be enough secondary data available.

A first-mover advantage will only be obtained if the promotion and positioning of the new drink is successful. The French were the ones who created the bottled water market so it is very possible that being pioneers again in the packaging of this water will be a positive decision.

[7 to 8 marks]

There is a balanced and detailed evaluation of the arguments for and against whether the French firm should use the new bottle. There is a clear judgment, which is fully substantiated by the analysis, which contains appropriate terminology.

[5 to 6 marks]

There is an analysis of the arguments for and against using the biodegradable bottle. For **[5 marks]** a judgment is made but only on consideration of one side of the argument. There is some appropriate marketing terminology used.

[3 to 4 marks]

A number of points are raised. There is some relevance to the French firm but the analysis is superficial. No judgment is made.

[1 to 2 marks]

A generalized and weak response which is descriptive or in the form of a list.

3. (a) (i) **Describe the difference between time rate and piece rate payment systems.**

[2 marks]

Time rate is a method of paying wages based on the hours the workers spend performing a specific task. Piece rate is a method of paying wages based on the amount of items produced, in this case, the kg of fish packed.

Award **[2 marks]** for an answer that clearly differentiates between the two terms, and **[1 mark]** if the answer lacks clarity and/or understanding.

- (ii) **Explain *two disadvantages and one advantage of introducing a piece rate payment system at Fish Packaging Ltd.***

[6 marks]

Disadvantages could be:

Quality control concerns as workers speed up the packaging process as they are now paid on a per-box-packed basis (further health and safety concerns as the production process is now more competitive and employees “cut corners” to increase their salary).

The piece rate scheme may make it harder for *Fish Packaging Ltd* to monitor and control costs especially variable wages.

The change to the new payment system may take time to “bed in”. There may be some initial worker reluctance and a decline in motivation.

Advantages could include:

Increased productivity and a reduction in short-run unit costs.

The change could provide an opportunity to discuss or consult about bringing in the changes. This could tackle the “them and us” attitude, which seems to pervade at *Fish Packaging Ltd* and lead to an improvement in the working environment.

[5 to 6 marks]

Two disadvantages and one advantage are clearly explained with direct relevance to *Fish Packaging Ltd*.

[3 to 4 marks]

A candidate clearly explains only one disadvantage and one advantage. If one advantage is clearly explained and two disadvantages stated, award **[4 marks]**.

The answer is briefly explained for **[3 marks]**. There is some relevance to *Fish Packaging Ltd*.

[1 to 2 marks]

A brief descriptive answer. If only one point is made then award **[2 marks]** only if it is applied to *Fish Packaging Ltd*.

(b) Explain two external factors that could influence *Fish Packaging Ltd.***[4 marks]**

External factors could include:

- poor weather conditions affecting the ability of the boats to catch fish
- imposition of fishing quotas by the Government
- increasing threat of competition of Russian fishing boats
- threat of increased Health and Safety guidelines at a time when there is a shortage of protective clothing.

[3 to 4 marks]

Two relevant factors are clearly explained and are applicable to *Fish Packaging Ltd.*

[1 to 2 marks]

Only one factor is explained. Award a maximum of **[2 marks]** if external factors are identified but poorly applied to the case or simply listed.

(c) Using appropriate motivation theory, evaluate possible changes the management of *Fish Packaging Ltd* could introduce to improve the motivation of the work force.**[8 marks]**

(The case study implies Herzberg's two-factor theory of motivation is the most applicable theory. However, credit must be given if alternative theories as McGregor's X and Y management study or Maslow's Hierarchy of Needs is applied in context.)

Herzberg introduces the concept of hygiene factors as those that do not motivate workers when they are offered, or are present in the work place, but they cause dissatisfaction when they are absent. The motivating factors have to do with the job itself and the possibility for growth and advancement that each worker will find in the place of work.

Hygiene factors	Motivating factors
Work conditions	Achievement
Salary	Recognition
Relationship with supervisor	Responsibility
Relationship with peers	Advancement
Company policy	Personal growth

The firm does not provide its workers with reasonable working conditions. It is too cold and generally unhealthy. Moreover, the autocratic leadership style (McGregor Theory X) and a lack of involvement in the day-to-day decision making is clearly making things difficult especially if the management are seeking to introduce changes.

As survival of the firm depends on the efforts of all employees and taking notice of the external factors beyond the firm's control, clear goals and objectives will need to be set. This will not be easy but the introduction of worker recognition, responsibility and personal growth may encourage some of the workers to accept the changes and bring the management and workers closer together to improve the current working environment. Motivation will also depend on satisfying some of the safety and security needs before negotiations can take place. This may prove expensive. There are no simple solutions to the problems of *Fish Packaging Ltd* and the analysis should try to reflect this.

[7 to 8 marks]

There is a balanced and detailed evaluation of possible changes management could make to improve motivation. There is accurate and effective application of at least two motivational theories. There is some recognition that there might be difficulties in introducing change.

[5 to 6 marks]

The analysis is relevant but not detailed. There is application of at least one motivational theory but for **[5 marks]** there is no evaluation. For **[6 marks]**, the candidate may recognise that change will be difficult to achieve.

[3 to 4 marks]

The analysis is generalized and unbalanced. For **[3 marks]** some motivational theory is present but poorly applied to *Fish Packaging Ltd*.

[1 to 2 marks]

Answers are brief and descriptive. There is no supporting theory and little or no relevance to *Fish Packaging Ltd*.

4. (a) (i) Define the term *gearing ratio*.**[2 marks]**

The term gearing ratio expresses the ratio between borrowed capital and total capital employed. It is a measure of efficiency to help interpret the degree to which the activities of the firm are too tied up in loans that have to be financed and returned.

Award **[2 marks]** for a full definition.

Award **[1 mark]** for the gearing ratio formula alone or an incomplete definition.

- (ii) **Describe two finance options that *Vino Tinto plc* can use to finance the investment other than a bank loan.**

[4 marks]

If the winery does not want to borrow from a bank it has other options. Some of the options are:

- Issuing more shares. The owners of the winery might be able to invite more shareholders to their already successful business venture. This method entails approaching individuals or institutional investors with capital and convincing them that the growth project they have is viable and profitable. Shares allow shareholders to vote at the AGM, so their capacity to influence on the firm will depend on the percentage of shares they hold.
- Selling assets, if there were any assets that are being underutilized. If there are these assets, it is an easy, cheap and efficient way to raise capital. It is not very feasible for firms which are efficient to have available assets that they can sell, or sell and lease back but it might be possible and could be considered as an option.
- Mortgage, this is borrowing from a financial institution against the ownership of a real estate asset. It is securing a loan against real estate. The firm is definitely the owner of fertile land where grape vines grow. These fields can be mortgaged and the money raised used to purchase more land for the new venture. The loan is long term, as long as 30 years, and the creditor does not become an owner, therefore has no voting rights. If the loan is not paid back the secured asset is taken by the creditor.

Also credit candidates who make references to other sources of finance such as venture capital, retained profit.

[4 marks]

Candidates describe two relevant methods of financing and are applied to *Vino Tinto plc*.

[3 marks]

The candidate describes one relevant method of finance with appropriate description and application and provides another solution to *Vino Tinto's* problem related to expansion, such as a joint venture.

[1 to 2 marks]

Two relevant methods are described, but there is no relevance to *Vino Tinto plc*. Award only **[1 mark]** if two methods are identified but no description is provided.

(b) Explain three possible difficulties of international marketing for *Vino Tinto plc.*

[6 marks]

International marketing has additional difficulties to domestic marketing:

- it is a lot more time consuming. New contacts have to be established, there are distances to cover and time gaps to fill
- it is more expensive in terms of investments that have to be made ahead of time, to be successful. An example is the joint venture suggestion, which needs a capital investment in order to get registration in China
- there might be language differences: all the specifications have to be translated, in this case the labels have to be changed
- there might be cultural differences that have to be looked into, so that the marketing of the product is properly directed to the target market
- transport options have to be investigated in order to consider the most suitable and efficient one. This adds to the costs of production
- higher financial risk since time gaps increase between production and payment of exports. The working capital needed is much higher, and cash flow problems can arise
- changes in political climate of the country to which the product is exported can affect sales. Unexpected changes in the law could, for example, affect the currency exchange rate
- there may be different “rules” that have to be learned and respected in order to be allowed to trade in some countries.

[5 to 6 marks]

Three possible difficulties of international marketing for *Vino Tinto plc* are explained.

[3 to 4 marks]

Less than three difficulties are explained, or three are explained but not all are relevant to *Vino Tinto plc* or to international marketing.

[1 to 2 marks]

The difficulties are listed or generalized. There is no relevance to international marketing or *Vino Tinto plc*.

- (c) Evaluate the two options being considered by *Vino Tinto plc.*

[8 marks]

Exporting to Latin America:

Advantages: the Latin American market is well known to the Chilean firm. Countries share the culture and the language, with the exception of Brazil, which speaks Portuguese. Generally in the Latin American countries wine is a very common drink and Chilean wine is already positioned as a premium product. Regional economic blocs in the region have the advantage of creating conditions within the bloc that promote trade, through lower tariffs or by removing them altogether.

Distances in Latin America are big, but manageable. Some countries can be reached by boat and those that can't can be reached by train or road. Some are less accessible (Bolivia and Paraguay) due to a poor infrastructure. The population of all of Latin American countries is 350 million, compared to China which is 1300 million.

Disadvantages: most of Latin America is relatively poor, and the market that can buy quality Chilean wines, is relatively small. The growth potential of Latin America is much smaller than that of China so the future development in this region is limited.

Exporting to China:

Advantages: the potential of the Chinese market is huge. The economy is growing at a very fast pace, much more than Latin America. With a population of 1300 million and still few people drinking wine, to enter the market at an early stage may allow huge growth capacity. Chile has a long coastline on the Pacific Ocean as does China and boat transport is an efficient form of transport for wine, which does not "go bad" with time or need any special refrigerated conditions, so transport to the market is relatively straightforward.

Disadvantages: distance could increase the costs of wines to such an extent that it will make the wine less competitive. The differences in cultures and language are important. People in China do not drink a lot of wine (0.36 litres per year per capita). The market has still to be developed. It is necessary to form a joint venture if going into China, which is costly and can bring about problems if the Chinese firm is not trustworthy.

Since the growth capacity of the Chilean firm is limited to the growth of the available farm land it seems that the advantages of exporting to Latin America, outweigh the disadvantages. The firm is not going to grow so much that it will saturate the Latin American market, so the advice may be to first satisfy the closer market and then consider further growth and entry into China.

[7 to 8 marks]

The two options being considered are critically analysed. A judgment as to which course of action should be taken is clearly stated. Either option could be accepted as long as the judgment is substantiated.

[5 to 6 marks]

Both options are considered but the evaluation as to which option is selected is unbalanced and lacking in detail. There is a judgment but it may not be fully substantiated by the analysis.

[3 to 4 marks]

The analysis is predominantly descriptive. Both options are considered for **[4 marks]** but the analysis may not make any reference to *Vino Tinto plc*. If only one option is considered, award a maximum of **[3 marks]**.

[1 to 2 marks]

The answer is very generalized and may contain just a list of points.

5. (a) Describe *one* advantage and *one* disadvantage of growth by franchise to *Tommy the Baker.*

[4 marks]

Advantages may include: franchisor does not have to invest capital, therefore risk is lower. It receives a franchise fee and royalties and can demand franchisor to buy its products. Has a greater capacity for growth this way, and can reach more areas (since bread is a convenience good).

Disadvantages may include: could earn more if growth was internal, and Tommy opened the shop branches himself. He would earn the profits that otherwise the franchisor will earn. He must supervise the franchises to guarantee that the bread is of the same quality as the one he makes.

[3 to 4 marks]

One advantage and one disadvantage is described in detail and relevant to *Tommy the Baker.*

[1 to 2 marks]

One advantage and one disadvantage are described but are not relevant to *Tommy the Baker.* If only two advantages or two disadvantages are given award a maximum of **[2 marks]** even if they are described in detail. If a candidate describes only one advantage or one disadvantage and describes it fully, award **[2 marks]**, as long as it is relevant to *Tommy the Baker.* For **[1 mark]** one advantage and one disadvantage are identified but not described.

- (b) Assuming that the bakery is currently producing 12 000 kg of bread per month:

- (i) calculate the monthly break-even level of output, the level of profit and the margin of safety. (Show all your working) **[4 marks]**

Calculations

$$\text{Fixed costs} = \$8000 + \$4000 = \$12\,000$$

$$\text{Variable costs} = (\$0.5 + \$0.25 + \$0.2) = \$0.95$$

$$\begin{aligned}\text{Selling price} - \text{Variable cost per unit} &= \text{Contribution} = (\$3 - \$0.95) \\ &= \$2.05\end{aligned}$$

Formula

$$\text{Fixed costs/Selling price/kg} - \text{Variable costs/kg}$$

Break-even point

$$\$12\,000 / (\$3 - \$0.95) = 5853 \text{ kilograms of bread per month} \quad \text{[2 marks].}$$

Award **[1 mark]** if basic understanding of break-even is shown but the workings are incorrect or difficult to follow.

$$\text{Margin of safety} = \text{Current output} - \text{Break-even point}$$

$$12\,000 \text{ kg} - 5853 \text{ kg}$$

$$\text{Margin of safety} = 6147 \text{ kg/month} \quad \text{[1 mark].}$$

$$\text{Total profit} = \text{Margin of safety} \times \text{Contribution}$$

$$\text{Contribution} \times \text{Margin of safety} = \$2.05 \times 1647 \text{ kg}$$

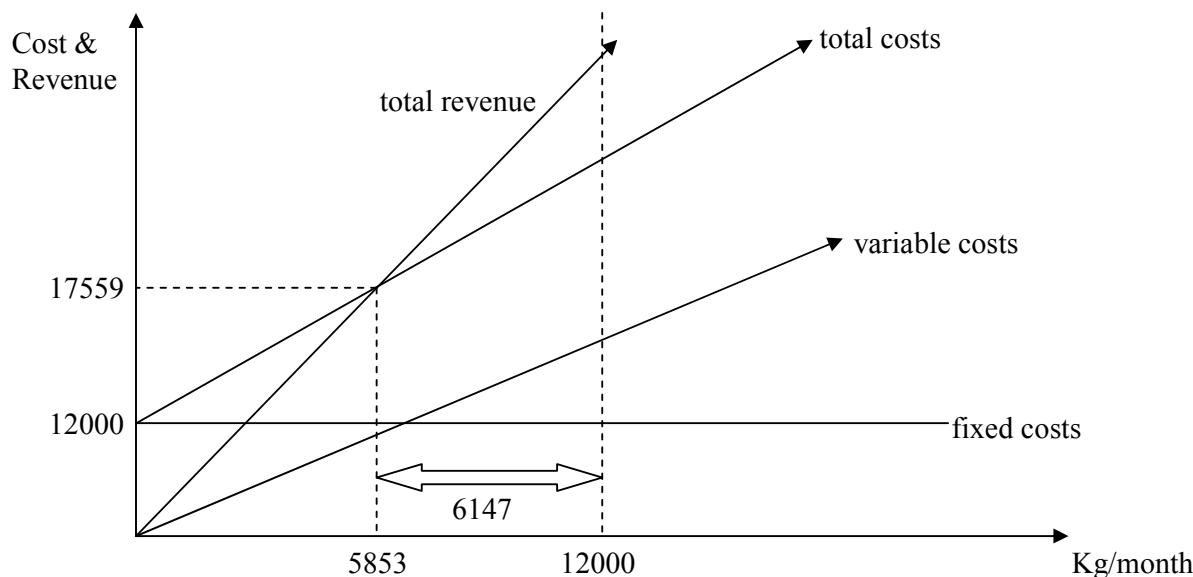
$$\text{Profits per month} = \$12\,601.35 \quad \text{[1 mark].}$$

Own figure rule applies in later calculations.

If no workings are shown and the answer is correct, award the marks as appropriate. We will assume that the answer has been calculated but the workings have been omitted.

All answers within 2 of the answer in the markscheme are acceptable.

- (ii) prepare a break-even chart showing clearly the monthly break-even level of output, the level of profit and the margin of safety calculated in (b)(i). **[4 marks]**



Own figure rule applies.

[4 marks]

The break-even graph is drawn accurately and neatly, all relevant points are shown and total revenue, total costs and fixed costs are labelled.

[2 to 3 marks]

The break-even graph is drawn as essentially correct. Award **[3 marks]** if there are two errors in labelling (break-even points not marked or no title). Award **[2 marks]** if the diagram is untidy, if the variable cost and fixed cost curves are missing or a ruler has not been used.

[1 mark]

A poorly drawn diagram with more than three labelling or omission errors. There is some limited understanding of break-even level of output.

If a candidate draws up a table rather than drawing a break even graph then award 0 marks.

- (c) Discuss the limitations of a potential franchisee using break-even analysis as the only source of information when considering whether to adopt a *Tommy the Baker* franchise.

[8 marks]

The break-even point and calculations are useful tools to guide an entrepreneur in deciding whether to adopt a *Tommy the Baker* franchise. The break-even point is less than half the current level of output and the contribution is over 2/3 the selling price. The margin of safety is considerable given the current level of output. The business seems to be successful.

However, we need to consider that:

- further market research may need to be carried out if the franchise is to develop in overseas markets
- the success of *Tommy the Baker* may attract new firms and this could dent the rosy profit scenario
- given the fast growth of the business will Tommy be able to manage this change with only a limited number of staff (dangers of overtrading)
- it would be dangerous just to rely on the break-even figures alone. It should act as a prompt to consider other financial figures.

[7 to 8 marks]

A balanced discussion of the uses of and limitations of break-even analysis as the only source of information. There is good use of the stimulus and calculations. For [8 marks] there may be a judgment that further sources of information will be needed.

[5 to 6 marks]

There is a discussion although lacking in detail that break-even analysis alone cannot be relied upon. The discussion may be unbalanced. There is relevance to *Tommy the Baker*. If no supporting calculations or use is made of the stimulus material award no more than [5 marks].

[3 to 4 marks]

The analysis is one-sided, limited and not relevant to *Tommy the Baker*. For [3 marks] the answer may only consider the benefits of break-even analysis.

[1 to 2 marks]

The answer is brief, descriptive and generalized.

M09/3/BUSMT/SP1/ENG/TZ0/XX/M+



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MARKSCHEME

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BUSINESS AND MANAGEMENT

Standard Level

Paper 1

16 pages

– 2 –

M09/3/BUSMT/SP1/ENG/TZ0/XX/M+

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The markbands on pages 3–5 should be used where indicated in the markscheme.

Section A			Level descriptors	
(c) questions				
Q1 (c)	Q2 (c)	Q3 (c)		
Marks 0–7				
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology. 	
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the case study. 	
3–5			<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the case study, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical. 	
6–7			<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the case study. 	

Section B		Level descriptors	
Q4 (b)			
Marks	0–8		
	0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology. 	
	1–2	<ul style="list-style-type: none"> • The response is purely descriptive and demonstrates little understanding of the topic. • There is little or no use of appropriate terminology. • There are few, if any, relevant examples from the case study to support any explanations. • Little or no reference is made to the case study. 	
	3–5	<ul style="list-style-type: none"> • The response exhibits a reasonable explanation that demonstrates some understanding of the topic. • There is some use of appropriate terminology throughout the response. • Some relevant examples from the case study are given to support explanations. • At the bottom of the band, the answer may be descriptive and lack some detail. 	
	6–8	<ul style="list-style-type: none"> • The response exhibits an accurate, specific, well-detailed explanation of the relevant issue(s) and demonstrates a thorough understanding of the topic. • There is an appropriate use of the appropriate terminology throughout the response. • Relevant examples from the case study are given to support explanations within the response. 	

Section B	Level descriptors
Q4 (c)	
Marks 0–8	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study.
3–4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the case study, not just to the name of the organization. • The response is mainly theoretical.
5–6	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the case study are made at places in the response.
7–8	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the case study are made throughout the response.

– 6 –

M09/3/BUSMT/SP1/ENG/TZ0/XX/M+

SECTION A

1. (a) Define the terms *sole trader* and *tertiary sector*.

[4 marks]**Sole trader**

A sole trader (or sole proprietor) can be simply defined as a person owning and running a private business. The most basic form of business organization, sole trading is a legal form of business where the business entity has no separate existence from the owner, unlike a limited company; as a consequence, the sole trader has unlimited liability and bears the financial risks of the business on their own. “Sole” refers to the fact that the entrepreneur is the only owner without business partners, though they may employ other people.

Tertiary sector

The tertiary sector can be defined as the third industrial category of a national economy, the other two being the primary sector (agriculture, fishing, forestry, mining) and the secondary sector (manufacturing, industry). It is also called the “service sector” or the “service industry” as it provides services, such as education, health, finance or leisure. (Candidates are not expected to refer to the other sectors: they can score **[2 marks]** for a full, clear definition which mentions services and provides examples.)

Mark as 2+2.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that is similar to the model answer above.

- (b) Explain why the setting of strategic objectives is important in managing *Les Maisonettes*.

[4 marks]

Strategic objectives refer to middle-term and/or long-term targets; they give a sense of direction to the management of the business (*Les Maisonettes* in this case) and they provide guidelines for growth in order to develop competitive advantages. Strategic objectives could here refer to Sophie's plan to make eco-tourism the core focus of her business, but it would be even better for Sophie to set precise targets (for example: to ensure a 20% occupancy rate in the winter months by offering new winter products).

Setting strategic objectives would give Sophie a sense of purpose and vision, which she rather lacks at the moment; she has let the business develop in an *ad hoc*, organic way, but she ought to start thinking more professionally at a strategic management level. Moreover, should she apply for further funding (for example for the Options 2 and 3), she would need to formulate a business strategy, rather than just working and managing at an operational level.

It may be helpful for examiners to think of this question as **[2 marks]** for theory and **[2 marks]** for application to *Les Maisonettes*.

[1 to 2 marks]

For **[2 marks]**, the answer refers to strategic thinking and/or to the case study, yet in descriptive way without explanation. For **[1 mark]**, the answer is limited or generic.

[3 to 4 marks]

For **[4 marks]**, the explanation is clear, with references to strategic thinking and to the case study, mentioning why Sophie ought to formulate and adopt strategic objectives. For **[3 marks]**, the explanation is clear, yet without mentioning why Sophie ought to formulate and adopt strategic objectives.

(c) Examine *two advantages and two disadvantages of Les Maisonnettes restructuring as a private limited company (line 24).*

[7 marks]

Key advantages include:

- Sophie herself would then have limited liability (she would not bear the financial risks of the business in case of major problems such as a lawsuit or bankruptcy)
- it may be easier to raise further capital (*e.g.* by selling shares)
- the status of a limited company may give more credibility to *Les Maisonnettes* as a business (for example some banks might be willing to lend money to a limited company).

Key disadvantages include:

- Sophie would have to find shareholders (her parents? Old school friends?) willing to get involved financially, including one who would be the company secretary
- the owners (shareholders) of a private limited company have to prepare and publish each year a set of legal accounts (put another way, the legal/accounting side would be more complex and possibly more costly than it is at the moment for Sophie)
- it might later be more difficult to sell the business as a whole (**Option 4**).

Some other facts could be interpreted as an advantage or a disadvantage, depending on the perspective, for example the fact that Sophie herself would become a director, *i.e.* an employee of the company.

To achieve the top markband two advantages **and** two disadvantages need to be fully examined.

Marks should be allocated according to the markbands on page 3.

– 9 –

M09/3/BUSMT/SP1/ENG/TZ0/XX/M+

2. (a) (i) Identify two appropriate sources of finance for *Les Maisonnettes* to fund the development of the barns (Option 2 or 3) (lines 162-177). **[2 marks]**

Appropriate sources of finance include:

- a bank loan (capital loan) – the most likely answer
- selling shares (private limited company)
- grants from EU government, Chamber of Commerce or local authorities (e.g. as part of a scheme to support the development of eco-tourism)
- private investors such as business angels
- sale and lease back.

Short-term sources such as overdraft or retained profit are not appropriate to fund the expensive development of the barns.

Award **[1 mark]** for each relevant and correct source of finance identified, up to a maximum of **[2 marks]**.

(ii) Define the term *gearing* (line 177). **[2 marks]**

Gearing helps measure and understand the extent to which a business is dependent on borrowings (typically bank loans). The gearing rate corresponds to the percentage of capital employed that is financed by loan capital (long-term finance) as opposed to share capital. The higher the ratio, the higher the dependence on borrowings and long-term financing. A high gearing ratio will also mean that the firm incurs higher debt servicing costs and is much more exposed to changes in interest rates. (Conversely, a lower gearing ratio means more dependence on internal funding and less exposition to fluctuations in interest rates.)

Candidates are asked to define gearing, not to give the formula to calculate gearing. A copy of the formula is provided for students in the examination, so copying the formula cannot be credited. The formula may be included in the answer, but it will not result in any extra mark.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that is similar to the model answer above.

– 10 –

M09/3/BUSMT/SP1/ENG/TZ0/XX/M+

- (b) Using data from appendices 3 and 4, calculate the gearing ratio and return on capital employed (ROCE) of Sophie's business in the financial years 2005 and 2008.

[4 marks]

The following formulae are provided to students in the examination:

$$\text{Gearing ratio} = \frac{\text{Loan capital}}{\text{Total capital employed}} \times 100$$

$$\text{Return on capital employed (ROCE)} = \frac{\text{Net profit before interest and tax}}{\text{Total capital employed}^*} \times 100$$

*Capital employed = shareholder's funds + reserves + long-term liabilities

So the expected results are:

	Gearing ratio	ROCE
2005	43.1% (43%)	13.04%
2008	34.4% (34%)	10.05%

Award **[1 mark]** for each correct calculation.

(c) **Analyse the reasons for the changes in gearing ratio and return on capital employed (ROCE) you have identified in part (b).**

[7 marks]

Both the gearing ratio and the ROCE declined between 2005 and 2008.

- The gearing ratio is within an acceptable range. The slight fall is typical as the retained profits have increased as a result of the growth of the business. Retained profits have increased (as *Les Maisonettes* is a successful business that made a retained profit of €60 890 in 2005, and Sophie has reinvested the money in the business); the relative part of the loan capital is decreasing as Sophie gradually pays back the 25-year loan.
- ROCE is a profitability ratio; the fall in ROCE shows that *Les Maisonettes* is becoming less efficient and less profitable. Although the business is still profitable, sales revenues have decreased from 2005 to 2008; as shown in Appendix 1, the occupancy rate is decreasing in summer 2008 (after the peak of 100% in summer 2005). Although Sophie is diversifying her strands of income (Appendix 2), her gross profit has declined. Expenses have increased, notably with new activities, funded by a short-term loan, as explained in the case study. This problem is even more visible if one calculates net profit margins: 41.5% in 2005 but only 33.4% in 2008 (though candidates are not required to do so).

Candidates whose calculations in (b) were not accurate may still properly analyse the changes.

Marks should be allocated according to the markbands on page 3.

3. (a) (i) Define the term *market share* (line 155).**[2 marks]**

The market share of a business is the percentage or proportion of the total available market (or market segment) that is being serviced by that business. It enables a business to compare itself to its competitors in terms of sales quantity, e.g. a business that has a 100% market share is in a situation of monopoly.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that is similar to the model answer above.

(ii) Identify *two* methods of secondary research available to Sophie.**[2 marks]**

Secondary research available to Sophie includes:

- research findings, analysis and statistics produced by organizations mentioned in the case study: *Logis de France, Association Française d'Ecotourisme*, French Tourist Board, Chamber of Commerce, local bank, Saint-Germain council, even UK low cost airline (about the number of anticipated passengers)
- research findings, analysis and statistics from sources not mentioned in the case study but acceptable in this context (*professional judgment of the examiner*), for example from a local university, tourist office, Tourism Observatory, Office of National Statistics, professional association etc.

Candidates may interpret “methods of secondary research” in different ways: they may refer to quantitative data (published statistics) as opposed to qualitative data, or existing literature (professional literature versus academic literature) – all these answers may be acceptable, as long as they are secondary research (as opposed to primary research carried out by Sophie herself).

Award **[1 mark]** for each relevant and correct method of secondary research identified up to a maximum of **[2 marks]**.

(b) Explain two ways in which *Les Maisonnettes* can differentiate themselves from *Sanctuary*.

[4 marks]

Les Maisonnettes can differentiate themselves from *Sanctuary* in several ways.

The 7 Ps of the marketing mix can help identify a range of ideas, for example:

- With regard to product, Sophie can offer holidays with a local cultural dimension (e.g. French language class to complement the French cooking class, *line 87*) whereas *Sanctuary*, as a global company, provides standardized products that would be similar in all its holiday centres irrespective of the location.
- With regard to physical evidence, *Les Maisonnettes* can strengthen the originality of its French style (*line 19*), contrasting with the uniform style of the holiday centre.
- With regard to promotion, Sophie can further stress the fact that her restaurant offers local cuisine with local products, whilst *Sanctuary* uses cheap imported produce (*line 79*). The possible joint-venture with a local winery (*line 33*) could give Sophie a competitive advantage.
- Any other relevant answer is acceptable.

Candidates are not expected to write about two different Ps of the marketing mix; for example they could write about two different aspects of the Product, as long as the differences are clear.

Mark as 2+2.

Award **[1 mark]** for each relevant and correct way in which *Les Maisonnettes* can differentiate themselves from *Sanctuary* and **[1 mark]** for each appropriate explanation, up to a maximum of **[2 marks]**.

(c) Examine the importance to *Les Maisonnettes* of adopting a total quality management (TQM) approach.

[7 marks]

Quality is already an important issue for Sophie (the high quality of her service has enabled her to gain two *Logis de France* fireplaces, she has won a number of regional awards for the quality of her food, and the quality of the décor made her feature in promotional tourism brochures). However, *Les Maisonnettes* also has a number of weaknesses and flaws with regard to human resources (“staff absence and poor punctuality”, lack of training to comply with the new legislation). An integrated TQM approach would help Sophie ensure that quality permeates the whole business, including areas where this might be more difficult to implement and control. As Sophie has many new ideas (development of a web site, partnership with a local winery, branding the name *Les Maisonnettes* as a socially responsible brand), it would be useful for her to have a quality framework in place to maximize customer satisfaction all across the organization (as opposed to only in some areas such as décor and food).

Marks should be allocated according to the markbands on page 3.

SECTION B**4. (a) Comment on the appropriateness of Sophie's leadership style.** **[4 marks]**

Sophie's leadership style is described as paternalistic. Paternalistic managers typically pay more attention to the social needs, views and happiness of their workers. Consciously or not, Sophie has adopted this style because she knows her workers very well (many are long-term family friends). It is appropriate to a certain extent: it creates a sense of belonging (*Les Maisonnettes* is not just a business but also a family); however, Sophie is not fully able to control (discipline, reprimand) her staff. This can become a problem with situations of staff absence and poor punctuality, as Sophie may not have the necessary distance or authority to manage them.

Candidates are not asked to define paternalistic leadership style; they cannot be penalised if they do not define it.

[1 to 2 marks]

For **[2 marks]**, the answer is superficial: it may explain what a paternalistic style is, yet without commenting on the appropriateness for the case study, or it might identify some generic advantages and disadvantages, yet without proper reference to the context. The answer may be theoretical only. For **[1 mark]**, the answer is limited, with little evidence of understanding of what a paternalistic leadership style implies.

[3 to 4 marks]

For **[4 marks]**, the appropriateness of Sophie's paternalistic style is presented in a balanced way: the answer explains what it means, and also covers both advantages and disadvantages. For **[3 marks]**, the answer is clear but it may lack balance or precision.

(b) Explain the impact of the external environment on *Les Masionnettes'* workforce planning.

[8 marks]

Candidates are not expected to refer to a particular number of external factors/forces. Please note that this is a HR question: candidates are not just asked to write about the external environment, but to link their answer to workforce planning.

Aspects of the external environment which are particularly important for workforce planning for *Les Masionnettes* include:

- Political environment: because of the new legislation, Sophie needs to review her staffing, as currently some of her staff are not adequately trained, which is not acceptable as *Les Masionnettes* must comply with the legislation. (Sophie could sponsor their training or she could instead employ properly trained staff, both kitchen staff with food hygiene qualifications, and horse-riding instructors trained with regard to safety.)
- Social environment: Because of the ongoing rural exodus, it is increasingly difficult to find young staff in areas such as Saint-Germain, as they prefer to move to urban areas, such as Lyon. Sophie needs to find extra incentives and/or to attract non-local workers (e.g. international students).
- Competition: *Sanctuary* is looking to recruit additional part-time staff for its holiday complex so there might be some local labour shortages.
- Other external factors may be acceptable if they are relevant.

Marks should be allocated according to the markbands on page 4.

- (c) With reference to the external environment, to what extent will the proposed rewards package of *Les Maisonettes* ensure successful recruitment and motivation of employees?

[8 marks]

The proposed rewards package includes both financial incentives (fringe payments such as on-site accommodation) and non-financial incentives (such as the experience of immersion in rural French culture, language development, life skills and the ideals of eco-tourism). It particularly targets international workers with a strong interest in eco-tourism values, as the aim is twofold: (a) to recruit non-local staff (as there is a decline in the number of potential local employees, because of the rural exodus and the competition from *Sanctuary*), (b) to motivate them to stay working at *Les Maisonettes* and to deliver the high quality service customers expect. The package is designed as a counterpart to some of the negative factors that employment at *Les Maisonettes* may present for a foreign workforce: relative isolation (rural France), harsh conditions (semi-mountainous environment, very hot summers) and limited pay (as the business is less profitable than it used to be). For core staff, Sophie proposes an enhanced pay structure and loyalty bonus; it is important as some staff may otherwise prefer to work for *Sanctuary*. When designing the rewards package, Sophie paid close attention to the external environment; as she does not require a large workforce (only a handful of staff), she is likely to be successful.

Candidates who apply relevant theory should be rewarded. To achieve the top markband candidates must cover **both** issues of recruitment and motivation.

Marks should be allocated according to the markbands on page 5.

M09/3/BUSMT/SP2/ENG/TZ0/XX/M+



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MARKSCHEME

May 2009

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

27 pages

– 2 –

M09/3/BUSMT/SP2/ENG/TZ0/XX/M+

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A		Section B			Level descriptors	
Q1 (c)	Q2 (d)	Q3 (c)	Q4 (c)	Q5 (c)		
Marks 0–6		Marks 0–5				
0		0		<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology. 		
1–2		1–2		<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the stimulus material. The response is mainly theoretical. 		
3–4		3–4		<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the stimulus material, not just to the name of the organization. 		
5–6		5		<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the stimulus material. 		

Section B			Level descriptors	
(d) questions				
Q3 (d)	Q4 (d)	Q5 (d)		
Marks 0–7				
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology. 	
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the stimulus material. 	
3–4			<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of issues and concepts. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the stimulus material, not just to the name of the organization. • The response is mainly theoretical. 	
5–6			<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the stimulus material are made at places in the response. 	
7			<ul style="list-style-type: none"> • A response with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the stimulus material are made throughout the response. 	

SECTION A**1. (a) Define the following terms:****(i) franchise****[2 marks]**

In business, a franchise refers to an agreement whereby an organization (the franchisor) sells rights to other organizations (franchisees) that allow them to sell products or use or trade under the franchisor's name. Franchising typically involves either retail outlets that share a brand and central management or a right to sell branded merchandise.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding such as simply mentioning a franchise refers to an agreement whereby an organization (the franchisor) sells rights to other organizations (franchisees).

Award **[2 marks]** for a full, clear definition, which would include both (a) drawing a distinction between the franchisor and the franchisee and (b) providing some characterization of what franchising typically involves (franchising typically involves either retail outlets that share a brand and central management or a right to sell branded merchandise) or an appropriate example of a well-known franchise operation.

(ii) economies of scale.**[2 marks]**

Economies of scale are the advantages in cost that firms obtain as they grow. In traditional manufacturing firms, this meant that in the long run, these cost advantages reduced the average unit cost of production. These advantages can include economies of scale in purchasing (buying of ever larger quantities of materials), in management (as firms grow they can afford larger numbers of ever more specialized managers), in financing (obtaining lower interest costs when borrowing from banks as well as having access to a more varied range of financial instruments), in marketing (when sales volume grows faster than marketing costs), and in production (fixed costs remain constant as sales volume/production increases).

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding such as it reduces costs as firms grow.

Award **[2 marks]** for a full, clear definition, which would include: an accurate statement of what economies of scale are (something along the lines of "economies of scale are the advantages in cost that firms obtain as they grow") **and** some sense of the idea that economies of scale reduce *average* cost (traditionally "per unit").

– 6 –

M09/3/BUSMT/SP2/ENG/TZ0/XX/M+

- (b) (i) Prepare a monthly cash flow forecast for the first 6 months of operation of the new store.**

[6 marks]

Cash inflows	January	February	March	April	May	June
Cash from savings	25 000					
Cash from bank loan	50 000					
Sales	2000	2400	2880	3456	4147	4976
Total inflow	77 000	2400	2880	3456	4147	4976
Outflows						
Start-up expenses	15 000					
Rent	2000	2000	2000	2000	2000	2000
Manager's salary	2000	2000	2120	2120	2120	2120
Loan payment	1000	1000	1000	1000	1000	1000
Labour	1000	1200	1440	1728	2074	2489
Total outflow	21 000	6200	6560	6848	7194	7609
Net cashflow	56 000	-3800	-3680	-3392	-3047	-2633
Opening balance	0	56 000	52 200	48 520	45 128	42 081
Closing balance	56 000	52 200	48 520	45 128	42 081	39 448

[1 mark]

The student conveys some understanding of what a cash flow forecast is, but otherwise the forecast is largely inaccurate, incomplete, or illegible.

[2 to 3 marks]

A cash flow forecast is drawn, but either it is not in a generally accepted format or it is untidy, and the forecast contains two or more errors.

[4 to 5 marks]

The cash flow forecast is drawn essentially correctly and neatly in a generally accepted format. Award **[5 marks]** if there is one error, **[4 marks]** if there are two errors. Bear in mind the Own Figure Rule (OFR): if a candidate makes an error in one row and carries it through the remainder of the forecast, that is only one error. If the candidate produces an accurate cash flow forecast (that is, the final closing balance is correct and the means by which the student arrived at that figure is clear and logical) but does not use a generally accepted format, award **[5 marks]**.

[6 marks]

The cash flow forecast is drawn accurately and neatly in a generally accepted format, and is error free. Candidates may round figures, as is done here, but are not required to.

(ii) Comment on the projected cash flow forecast of the new store.**[4 marks]**

Based upon the projected cash flow, *Nails by Joomin* should not have difficulty in meeting its cash requirements. Because of both the bank loan and the injection of Joomin's personal savings, she will open the store with sufficient cash reserves until it has developed a customer base adequate to be cash flow positive on a monthly basis. If the projections prove accurate and trends continue, the new shop should be cash flow positive on a monthly basis beginning in the tenth month. If trends continue and there are no unexpected expenses, the firm's cash reserves should never dip below \$35 000. Cash flow projections, however, often do not materialize, and it is difficult to anticipate all expenses. As demand for the store's services grows, Joomin may not be able to find sufficient labour to meet customers' needs. If these unexpected circumstances occur, it will prove that it was beneficial to have opened the store with such a large cash reserve.

[1 to 2 marks]

The answer is basic and does not question the accuracy or reliability of cash flow projections or if the candidate fails to recognize that the trend of the cash flow forecast is positive.

[3 to 4 marks]

The candidate recognizes that the cash flow projections, and extrapolations there from for the months following, suggest that the firm will have more than enough cash to meet its requirements until the new store is cash flow positive on a month-to-month basis.

– 9 –

M09/3/BUSMT/SP2/ENG/TZ0/XX/M+

(c) Examine *two* difficulties that small businesses like *Nails by Joomin* face in obtaining sources of finance for expansion.

[6 marks]

Reasons that small businesses such as Joomin's may face difficulties in obtaining sources of finance for expansion may include:

- The borrowing need is for working capital, which requires an intermediate-term loan for which there is often no appropriate collateral (as is the case with Joomin's shop and she secured a bank loan only because of the strength of her personal financial statement).
- Lenders may have difficulty overcoming their concerns over any of the following:
 - The new location is entirely untested, and rarely do small businesses have the resources to undertake the marketing research that can assuage the lenders' concerns.
 - Regardless of legal structure, a business such as *Nails by Joomin* is almost entirely dependent on one person, the principal (Joomin). Her illness or death could cause significant disruption to the business and even force it to close.
- If Joomin restructures as a private limited company, in theory she can raise equity capital. However, raising meaningful amounts of equity capital for firms such as *Nails by Joomin* is easier in theory than practice. There may not be individuals interested in investing in her firm (projected return is not high enough or the venture is too risky), or, to make the investment attractive, they may ask for too high a percentage of ownership to be acceptable to Joomin.

If the response is a one-sided relevant approach with no examination award a maximum of **[4 marks]**. If only one difficulty is examined award a maximum of **[4 marks]**.

Marks should be allocated according to the markbands on page 3.

– 10 –

M09/3/BUSMT/SP2/ENG/TZ0/XX/M+

2. (a) Define the following terms:**(i) *fixed costs*****[2 marks]**

Fixed costs refer to those costs that do not vary with output.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that is similar to the model answer above.

(ii) *variable costs.***[2 marks]**

Variable costs refer to those costs that change according to the quantity/output of the firm.

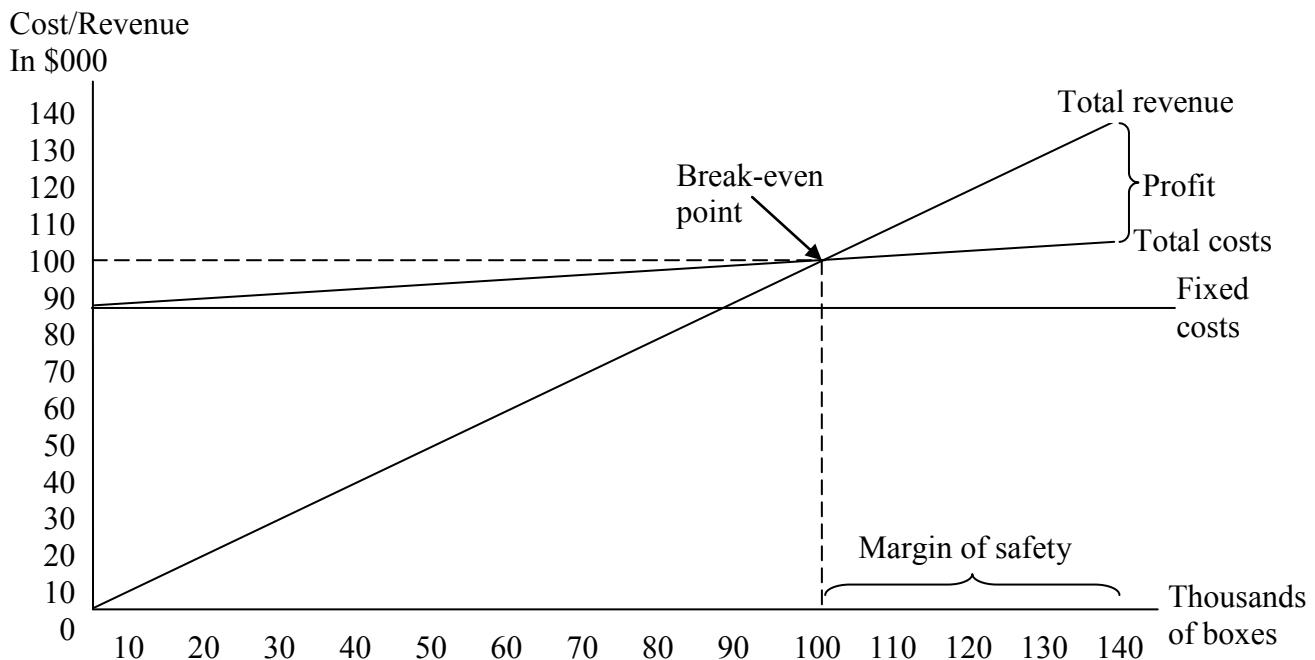
Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that is similar to the model answer above.

(b) Prepare a fully labelled break-even chart for Duranjaya Packaging.

[6 marks]

Break-even chart: Duranjaya Packaging



Award marks as follows:

[1 mark] for each appropriately labelled axis – maximum of **[2 marks]**.

[1 mark] for an accurately drawn total revenue curve.

[1 mark] for an accurately drawn total cost curve.

[1 mark] for the identification of the break-even level of output (whatever the value) and **[1 mark]** for showing the correct value of the break-even level of output.

If the break-even chart is accurately drawn but not neatly, using a ruler or straight-edge, or out of proportion, award a maximum of **[3 marks]**.

If the candidate produces a table rather than a chart, award **[0 marks]**.

(c) Comment on *two factors* that will determine whether Nirav adopts a new management style.

[4 marks]

Relevant factors affecting Nirav's adoption of a new management style may include:

- the nature of the task
- the type of labour
- the time and cost required to complete a task
- the personality of the leader
- the culture of the organization.

At present, Nirav Duranjaya manages his firm in a very autocratic fashion. Given that the margins in this segment of his industry are low and the workers are unskilled, he may believe this is the best way for him to control costs by making all decisions himself and controlling operations tightly. If *Duranjaya Packaging* shifts to creative packaging solutions, the nature of the task will change, and he will probably have to shift his style to a much more democratic style to give the packaging designers the freedom to be creative.

The type of labour will also change. The new highly qualified packaging designers will be different from the low-paid, low-skilled workers who have traditionally worked for *Duranjaya Packaging*. They will presumably expect and need more autonomy.

The time and cost required to complete tasks will also change, not only with the design of the products, but also with their production. *Duranjaya Packaging* will have to be more flexible. Cost, which will remain important, will not factor as significantly. As purchasers of the packaging, the manufacturers seeking to sell their products to middle and upper class retail customers, will want to see flawless, high quality packaging. *Duranjaya Packaging* will probably need the input of his employees to deliver this type of product in a cost-effective manner. Thus, *Duranjaya Packaging* will probably need to shift from having an autocratic leader to a more democratic leader.

This shift may not come easily to Nirav or the firm. Operating with an autocratic style for twenty years, he may find it difficult to give his employees the autonomy they require. He would probably explain his past autocratic style as necessary given the nature of the sector in which *Duranjaya Packaging* operated. He may have chosen this type of business, however, because of the nature of his personality (**Examiners:** bear in mind that changing leadership style would typically not be a “factor” that will determine whether Nirav adopts a new leadership style. Rather, the adoption of a new leadership style will be one of his reactions to a factor.)

Furthermore, long-term employees may find the new management style difficult to accept. Some employees may actually prefer to work in an autocratic environment, as it relieves them of responsibility. Others, even if they would prefer a more democratic style, may be so acculturated to the historic norms at *Duranjaya Packaging* that they will have difficulty adjusting.

Mark as 2 + 2.

For **[1 mark]** the candidate identifies an appropriate factor that will determine whether Nirav adopts a new management style but provides no meaningful commentary.

For **[2 marks]** the commentary, which may be brief, if it is relevant to *Duranjiya Packaging* and addresses the potential impact of the factor.

- (d) Examine **two elements in the marketing mix, other than price, that Duranjaya Packaging will need to adapt in order to move into the creative packaging solutions market.**

[6 marks]

The marketing mix is composed of numerous elements: Product, Place, Promotion, People, Process, Packaging, Physical evidence. *Duranjaya Packaging* will have to adapt each of these elements of the marketing mix. Possible adaptations may include:

Product:

- shift in virtually all aspects of paper packaging – higher quality cardboard, a variety of types of cardboard, as well as a variety of colours, shapes, and means of opening and closing the packaging
- *Duranjaya Packaging* may have to consider moving into packaging solutions that require materials other than cardboard – plastic, wood, etc.

Place:

At present, *Duranjaya Packaging* has no location other than its manufacturing facility. Its channels of distribution are extremely limited: customers reading its advertisements in specialized publications and, presumably, some direct efforts by Nirav to his larger customers or potential new customers. Physical distribution is direct from the factory to end-users. With the new types of packaging, retail shops would not be necessary – its potential customers are manufacturers of middle and high-end consumer products. Nevertheless, *Duranjaya Packaging* may want to consider a new location and with it a new channel of distribution: some high-end office space in central Mumbai, near where the administrative offices of manufacturers are located: rather than bring potential customers to a gritty, industrial section of town, the firm will need clean, fashionable offices where the designers can work and, practically speaking, function as a central element of the sales force. While, arguably, this is merely a change of location, rather than a new channel of distribution, having a centrally located office, where past designs can be showcased and where clients/potential clients can meet and work with designers does constitute a new channel of distribution for *Duranjaya Packaging*.

Promotion:

Duranjaya Packaging will have to modify significantly how it makes its customers aware of its products, to include:

- in new clean offices, successful past designs can be showcased
- advertising in a different variety of trade journals
- attendance at trade exhibitions and fairs
- hiring a sales force, or retaining a large number of independent sales representatives
- a web site showing a whole range of potential packaging solutions
- promotional literature, such as brochures.

People:

In addition to the fact that the firm will need a sales force, whether employees of the firm or independent sales agents, all employees who interact with customers will need sales and customer-relations training.

Process:

- *Duranjaya Packaging* will also have to reconsider how it ships its product to users. Low-cost/low-priced cardboard boxes for industrial users easily fold flat, while the variety of products that will go into the new packaging will require different means of collapsing the packaging for shipment to purchasers. Considerable attention will have to go into the design of the packaging so that they can be collapsed easily, but also reopened easily for insertion of product before retail sale.
- Often the designing of packaging will require interaction with the customer – making sure that the customer is satisfied with the aesthetics of the packaging, testing how well the product fits in the packaging, determining whether plastic “windows” displaying the product within the packaging are properly placed, etc.

Packaging:

Development of packaging for the packaging (that is, for shipment of collapsed packaging to purchasers).

Physical evidence:

Physical evidence refers to the material part of service, and *Duranjaya Packaging* is much more of a service firm than previously (before restructuring the business, ability to deliver on time was perhaps the only aspects of *Duranjaya Packaging* that could be considered a “service”). Now that the firm will be selling itself as a design company, it must pay much greater attention to material cues that tell customers about the firm. These may include:

- packaging (of packaging), noted above
- Internet/web pages, noted above
- paperwork, such as invoices, tickets, and dispatch notes
- brochures, noted above
- signage
- uniforms
- business cards
- offices, noted above.

– 15 –

M09/3/BUSMT/SP2/ENG/TZ0/XX/M+

If the response is a one-sided relevant approach with no examination award a maximum of **[4 marks]**. If only one element *other than price* is examined award a maximum of **[4 marks]**.

Marks should be allocated according to the markbands on page 3.

SECTION B

3. (a) With reference to stock control, define the term *just-in-time*. **[2 marks]**

Just-in-time stock control refers to a method of maintaining stock whereby suppliers deliver materials shortly before (this, “just-in-time” for) their use by the purchaser (typically a manufacturer). Often suppliers’ deliveries will be made in as little as a few hours prior to their use by the purchaser. Just-in-time stands in contrast to just-in-case, the traditional method of stock control whereby manufacturers often maintained large quantities of stock on hand, which exposed the stock to spoilage or theft and which increased working capital requirements.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding. For example, “just-in-time stock control is when a company receives its stock “just-in-time” for use”.

Award **[2 marks]** for a full, clear definition that is similar to the model answer above.

- (b) (i) Distinguish between batch production and flow production. **[2 marks]**

Batch production is a method of manufacturing whereby the manufacturer performs one operation at a time on all units in the production run (a batch of units) before performing the next operation, which might be a further process to the original batch or producing a new batch meeting different specifications. Flow production, characteristic of a very large-scale production of a standardized product, involves performing each operation on a unit continuously, one after the other, on a production line.

[1 mark]

Candidate accurately defines or describes either batch or flow production, but not the other and, as a result, was not able to distinguish clearly between the two.

[2 marks]

Candidate provides a sufficiently accurate definition or description of both batch and flow production techniques that the key difference is clear that one involves discrete stages and the other is continuous.

(ii) Explain two economies of scale *Piston Modules LLC* could benefit from.

[4 marks]

Economies of scale generally refer to the unit cost reductions that firms experience as they grow. In this case, *Piston Modules LLC*, the joint venture between *PA* and *Continental Teves*, stands to benefit from certain economies of scale compared to the production of brake modules by either *PA* or *Continental Teves* alone. These economies may include:

- The joint venture will presumably have higher turnover in the brake module sector than either firm could have individually, so the firm will benefit from the principle of increased dimensions, which lowers per unit cost.
- It also means many varieties of fixed costs will not have to be duplicated (one general manager over brake modules at *Piston Modules* rather than two, one running a division of *PA* and one a division of *Continental Teves*).
- If certain stages of the brake module manufacturing process require expensive, highly specialized equipment, the higher turnover of the joint venture reduces the likelihood that any single piece of equipment will be underutilized or that there will be an imbalance in the team of machines in use (principle of multiples).
- Because of the larger scale of operations than at either *PA* or *Continental Teves* alone, the joint venture will have more leverage with suppliers and lenders, that is, they can bargain for lower prices or lower interest rates.
- The joint venture will require only one marketing strategy rather than if the venture had not been formed, one each by *PA* and *Continental Teves*. Thus, the joint venture is poised to enjoy standard internal economies of scale: technical, managerial, financial, purchasing and marketing.

Mark as 2 + 2.

Award **[1 mark]** for each appropriate economy of scale identified (which may be generic), and **[1 mark]** for each appropriate explanation of the economy of scale that directly refers to *Piston Modules LLC*, up to a maximum of **[2 marks]**.

- (c) Examine *two* human resource issues *Piston Modules LLC* may face as a result of creating 100 new manufacturing jobs.

[5 marks]

For a small firm such as *Piston Modules*, hiring an additional 100 skilled employees will present many human resource issues, including:

- recruitment
- selection
- induction
- corporate culture
- training
- appointment
- appraisal
- termination
- health and safety protection
- management and supervision
- communication.

Piston Modules requires highly skilled workers. Given the turmoil in the United States (US) auto industry and *Piston*'s location in Detroit, the centre of the US auto industry, the firm should have little difficulty attracting applicants. Nonetheless, there will be two significant challenges that cut across all of the human resources issues related to the expansion. First, in contrast to the traditional means of operation of American automobile manufacturing, from where most of the new recruits will come, *Piston Modules* is small and has a highly flexible style of operations. Thus, *Piston Modules* must find workers who are not only skilled as machine toolists, but also well suited to small-scale, highly flexible operations. This concern will especially challenge the firm in recruitment, selection, induction, corporate culture, training, appointment, and termination.

Second, even though *Piston Modules* is extremely small compared to large manufacturing firms like *Ford* or *General Motors*, an increase in 100 employees will represent a significant expansion of its workforce and will challenge the firm at an organizational and operational level. The larger number of employees in such a small location will increase the potential for health and safety concerns. The firm may have to modify its procedures for and style of management and supervision and may have to consider revising its communication procedures.

If the response is a one-sided relevant approach with no examination award a maximum of [3 marks]. If only one human resource issue is examined award a maximum of [3 marks].

Marks should be allocated according to the markbands on page 3.

- (d) Discuss the appropriateness of the bank loan to *PA* as a source of finance for the \$10 million in equipment.

[7 marks]

Ideally, financing sources “match” financing uses, that is, long-term assets or requirements are financed by long-term sources of funds, short-term assets are matched by short-term sources of funds (except when there is an increased need in working capital, which is a long-term requirement of short-term assets). Here, *PA* has an intermediate asset requirement – equipment – which, if “typical”, has perhaps a useful life of five to seven years, and the firm is planning on financing the equipment with a bank loan, which is typically intermediate in length (typical also is that when bank loans are not intermediate in length, they are labelled differently, like “overdraft” or “mortgage”). Thus, from the point of view of finance, *PA* has appropriately “matched” its borrowing need to a source of finance. Any financing structure other than an intermediate-term loan would probably be inappropriate (a short-term loan would almost certainly have to be regularly renegotiated, thus creating an administrative burden, and financing the equipment with equity capital would probably lower return on equity to unacceptable levels).

There are also legal and administrative benefits to *PA* borrowing the funds rather than *Piston Modules*. *PA* presumably borrowed the funds from its principal bank or a bank with which it has some established relationship. In this structure, both the lender and the borrower know each other, and the lender can be absolutely confident it knows the borrowing entity. Had the financing been arranged through *Piston Modules*, the circumstances of the joint venture would have added a layer of complexity: a legally new borrowing entity with which either the bank of *PA* or the bank of *Continental Teves* would have had to become familiar.

Structured as a loan to *PA*, this financing arrangement is more straight-forward than if it were done to the joint venture. *PA* knows, regardless of the success of *Piston Modules*, that it is legally responsible for the full amount of the loan and the bank knows that, regardless of the success of *PA*’s relationship with *Continental Teves*, *PA* is fully legally liable. If the relationship between *PA* and *Continental Teves* were to be unsuccessful, the final disposition of the equipment would legally rest in the hands of *PA*, which could keep the equipment and pay for it out of its own cashflow or dispose of the equipment if it were not needed and if a suitable purchaser were available. In addition, the owner of the equipment (*PA*) also owns the space where the equipment is located, which makes for a simpler, less expensive resolution if the joint venture fails (that is, there would not be some costly relocation and storage expense for the equipment until all issues were resolved).

– 20 –

M09/3/BUSMT/SP2/ENG/TZ0/XX/M+

The legal and administrative benefits can be overemphasized. The leasing arrangements between *PA* and *Piston Modules* would have legal force, and presumably if the joint venture were unsuccessful, *PA* would still expect some remuneration from *Piston Modules/Continental Teves*. However, as structured, *PA* could legally take/dispose of the equipment and seek a settlement through arbitration among lawyers and/or the courts.

Marks should be allocated according to the markbands on page 4.

4. (a) Define the term *market research*.**[2 marks]**

Market research is the process of systematically gathering, recording and analysing data and information about customers, competitors and the market. Market research can be used to determine which portion of the population will purchase a product or service, based on variables like age, gender, location and income level. It is generally either primary or secondary.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that is similar to the model answer above.

(b) Distinguish between *three* different market segments for *Coolibar®*'s products.**[6 marks]**

The two clearest examples of market segments for *Coolibar®*'s products are (1) fashion and health conscious Americans and (2) Baby Boomers. Candidates could reasonably infer other markets segments, including:

- fashion-conscious Americans (consumers aware of the trend of sun protective clothing and want to wear it to be “hip”)
- health-conscious Americans (Americans who are sensitive to the health benefits of sun protective clothing and will wear it regardless of style)
- Americans who spend time out-of-doors
- Americans with skin cancer.

[1 to 2 marks]

For **[2 marks]** the candidate identifies three market segments, but the response demonstrates a limited understanding of the topic, and the candidates makes only a limited attempt to compare the segments. There is little or no use of business terminology, and there is no reference to the stimulus material to support the comparisons. If the candidate identifies two or fewer markets segments but otherwise provides a response of this calibre, award **[1 mark]**.

[3 to 4 marks]

The candidate identifies three different market segments but does not provide a clear explanation distinguishing all three. The response provides some explanation of market segmentation, but the response has only some appropriate use of the relevant business terminology. If all three markets segments are based upon information provided in the stimulus, award **[4 marks]**. If the candidate identifies two different markets segments, but otherwise provides a strong response, award **[3 marks]**.

[5 to 6 marks]

The candidate identifies three different market segments and provides a clear explanation distinguishing all three. The response has clear, appropriate use of relevant business terminology, and market segments are based upon information provided in the stimulus.

(c) Analyse the role that primary market research played in *Coolibar®*'s redesign of their clothing for the American market.

[5 marks]

Several types of primary market research were mentioned in the case:

- “focus groups indicated that many American consumers disliked designs popular in Australia”
- “surveys indicated that certain Americans would pay a premium price for sun protective clothing”.

Market research played a key role in at least two major elements of the redesign of its clothing (in effect, of the marketing mix): product and price. Although a dimension of *Coolibar®*'s strategy is product orientation, the firm also had to consider consumer tastes in fashion. The firm used focus groups to consider many styles popular in Australia, and other primary research techniques could have been used as well.

The second major way that primary market research influenced the redesign of *Coolibar®*'s clothing was the finding that many Americans would pay a premium price; although this “premium price” presumably was for the sun protective feature, it speaks to the type of purchaser – those with an ability or willingness to pay extra – which almost certainly had an impact on clothing design (style), as well. Many factors go into the price of a product, including the firm's objectives, marketing mix, its costs, competition, consumer expectations, the market segment that the firm was aiming at, and legal constraints.

Coolibar® did not rely solely on primary research, however. The firm was not in a position to determine that aging Baby Boomers are increasingly concerned about protection against skin cancer. Nor was the firm in a position to gather data on rates of melanoma, which the firm obtained from the *National Cancer Institute*. Presumably the firm used many other types of secondary research as well.

Thus, though *Coolibar®* relied heavily on primary research for the actual redesign and pricing of its product for the American market, its decision to enter the American market, and probably many other decisions, was influenced by secondary research as well.

Marks should be allocated according to the markbands on page 3.

- (d) Discuss the importance and role of branding for *Coolibar®* when launching their clothing in the American market.

[7 marks]

Product branding is a name or design that identifies the product or service of a firm. The purpose of branding is to distinguish a business from its competitors and to enable customers to recognize its products.

Coolibar®'s name and the company logo are derived from the Australian eucalyptus tree, which the firm hopes will become equated in the American mind with sun protective clothing. Already, the firm has developed a reputation for the UPF in its clothing, as well as fashionable styling suitable for the American market. The firm needs to build on these strengths and on the favourable reporting the company is getting in the media, including mainstream media.

If *Coolibar®* is successful in establishing its brand – to the point that large numbers of consumers know the name and logo – the firm will have a much easier time when introducing new products. The firm will also enjoy the “free advertising” that comes with consumers wearing *Coolibar®* clothing with its easily identifiable logo. Obtaining a registered trademark and using proprietary fabrics is another means whereby *Coolibar®* can develop a branded identity in the marketplace.

Marks should be allocated according to the markbands on page 4.

5. (a) Define the term *e-commerce*.**[2 marks]**

E-commerce is generally regarded as the trading/exchange of goods and services over online electronic systems such as the Internet and other computer networks.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that is similar to the model answer above.

(b) (i) Explain the difference between internal and external growth.**[2 marks]**

Internal growth occurs when a firm expands without involving other firms. It can occur by increasing market share in existing markets with existing products, or can involve introducing new products or entering new markets. External growth involves other businesses: mergers, acquisitions, and takeovers. There are forms of growth that are hybrids: franchising and joint ventures. These are hybrids because they have some of the characteristics of internal growth and some of the characteristics of external growth.

Award **[1 mark]** for identifying the difference between internal and external growth but not being able to explain it in more depth than one is internal to the organization and the other is external, and **[1 mark]** for greater clarity in the explanation of the difference between the two terms.

(ii) Comment on the nature of *NetShops*' growth.**[4 marks]**

NetShops' growth has been rapid and has involved both internal and external growth. Its model for internal growth is the opening of new stores – the equivalent of a traditional business starting a new division, introducing a new product line, or opening a new outlet. The other means of growth is its *NetShops*' affiliate program, which, because it involves other businesses, is a form of external growth (though of a different nature than traditionally conceived external growth, which is not uncommon with e-commerce).

Because *NetShops*' business model is identifying niche markets, there are limits to how large each single “store” is likely to grow. *NetShops* is able to obtain its rapid growth overall, however, because the e-commerce structure does not require physical, “bricks-and-mortar” stores for each new virtual store. Thus, *NetShops* can identify a market niche, quickly move to fill it, and, if it is not an especially successful “store”, close it quickly.

NetShops is also able to propel growth because of its online database on all purchasers. This allows the firm to identify trends (which reduces the likelihood it will have an unsuccessful store) and to target new product promotions to particular consumers, among other benefits.

[1 mark]

The growth is commented on as rapid but with little or no detail.

[2 to 3 marks]

The growth is commented on. Attention is paid either to (1) its growth via internal and external means **or** (2) the benefits of e-commerce, which allows the firm to grow rapidly despite targeting small niche markets.

[4 marks]

The growth is commented on. Attention is paid to both (1) its growth via internal and external means **and** (2) the benefits of e-commerce, which allows the firm to grow rapidly despite targeting small niche markets.

(c) Examine the usefulness of consumer profiles to *NetShops*.**[5 marks]**

E-commerce businesses such as *NetShops* are constantly gathering data about their customers, everything from select personal data (where they live), to their purchasing habits at *NetShops*, to their browsing habits at *NetShops*. This information can be supplemented with online customer surveys. Using these types of data, *NetShops* can make adjustments in its marketing mix.

The information is especially important for promotion and product. *NetShops* can develop profiles of their customers and send them emails and other e-promotions (as well as traditional mailings) of products fitting their consumer profile. Based upon customers' purchasing and browsing histories, *NetShops* can offer products or styles of products that fit their customers' taste (If, for example, certain customers consistently purchased "mission style" household items, when opening a new store or offering a new product at an existing store, *NetShops* might develop a "mission style" version of the new product).

NetShops can also develop product promotions for entire groups of consumers. For specific customers, based on their purchasing and browsing history, *NetShops* can also bundle complementary but distinct products and promote them with discounts if purchased together. For example, if two distinct product lines nonetheless have the same style/aesthetic that particular customers have repeatedly purchased or looked at, *NetShops* could offer products from each product line together at a 10% discount. Knowing their customers, *NetShops* can use urgency-strategies to generate sales; they can e-mail customers with specific interests to notify them that certain products will soon be out of stock and they need to purchase now.

Other aspects of the marketing mix might be influenced by the consumer profiles.

There are some limits to the usefulness of consumer profiles, as they track past habits and do not predict the future.

Marks should be allocated according to the markbands on page 3.

(d) Discuss the costs *and* benefits to consumers of *NetShops*' e-commerce approach.

[7 marks]

Benefits include:

- consumers can shop 24 hours a day, seven days a week, 365 days a year
- consumers benefit from *NetShops*' ability to identify quickly a niche market and fill it (because entry into the market place is inexpensive for *NetShops*, thus there is little lag time between when *NetShops* identifies a niche and when it is offering products to fill it compared to traditional retail commerce)
- consumers from around the globe can shop at *NetShops* the firm has access to the global market place
- consumers can communicate with the firm instantaneously
- because e-commerce allows *NetShops* to avoid many expenses of traditional “brick-and-mortar” retail shops, consumers benefit from its lower prices
- consumers can access *NetShops*' “customer service” 24 hours a day.

Costs include:

- time is required for the delivery of the purchased product
- consumers do not know the condition of the product
- consumers often question the legitimacy of online businesses
- purchased items can get lost in delivery
- many consumers like to “experience” a product first hand, with full sensory experience
- for consumers, returning goods purchased online is difficult
- consumers have many concerns over privacy and security when dealing with online businesses
- when issues arise, consumers can get frustrated with an e-business because “there is no one to talk to”
- consumers may dislike the lack of personal service.

To achieve the top markband both the costs **and** benefits need to be discussed.

If the response is a one-sided relevant approach with no discussion award a maximum of **[4 marks]**. If only the costs **or** the benefits are discussed award a maximum of **[4 marks]**. To obtain a full **[7 marks]**, a candidate must have an explicit conclusion.

Marks should be allocated according to the markbands on page 4.

N09/3/BUSMT/SP1/ENG/TZ0/XX/M



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MARKSCHEME

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BUSINESS AND MANAGEMENT

Standard Level

Paper 1

18 pages

– 2 –

N09/3/BUSMT/SP1/ENG/TZ0/XX/M

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A			Level descriptors	
(c) questions				
Q1 (c)	Q2 (c)	Q3 (c)		
Marks 0–7				
0		<ul style="list-style-type: none"> • No knowledge or understanding of issues and concepts. • No use of appropriate terminology. 		
1-2		<ul style="list-style-type: none"> • Little knowledge and understanding of issues and concepts. • Little use of appropriate terminology. • No reference is made to the information in the stimulus material. The response is theoretical. 		
3-5		<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of issues and concepts. • Some use of appropriate terminology. • Some reference is made to the information in the stimulus material. 		
6-7		<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of issues and concepts. • An analysis/examination that uses appropriate terminology. • Explicit references are made to the information in the stimulus material. 		

Section B	Level descriptors
Q4 (c)	
Marks 0–8	
0	<ul style="list-style-type: none"> • No knowledge or understanding of issues and concepts. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of issues and concepts. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the stimulus material. The response is theoretical.
3–4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of issues and concepts. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Little or no reference is made to the information in the stimulus material.
5–6	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of issues and concepts. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the stimulus material are made at places in the response.
7–8	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of issues and concepts. • A response that uses appropriate terminology. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the stimulus material are made throughout the response.

– 5 –

N09/3/BUSMT/SP1/ENG/TZ0/XX/M

SECTION A**1. (a) Identify two fixed costs and two variable costs for *Les Maisonettes*. [4 marks]**

Fixed costs for *Les Maisonettes* include:

- loan repayment (the 25yr loan, see *lines 15–16*, or the 5yr bank loan, see *line 90*)
- marketing costs (*AFE* membership, *Logis de France* membership etc.)
- salaries and basic labour costs (especially for full-time staff)
- rates such as business licence, insurance.

Variable costs for *Les Maisonettes* include:

- additional labour costs (if Sophie takes more staff in the peak season, e.g. more hours from the part-time staff, or for extra activities such as the guided tours)
- additional raw materials (for the restaurant or the cooking classes)
- utilities (e.g. heating cottages in winter).

Mark as 2+2.

Award **[1 mark]** for each relevant and correct fixed cost identified up to a maximum of **[2 marks]** and **[1 mark]** for each relevant variable cost identified up to a maximum of **[2 marks]**.

- Candidates are not asked to define “fixed costs” and “variable costs”: they will not receive any extra marks just to provide definitions.
- In their answers, candidates must clearly indicate which costs are the fixed ones and which ones are the variable ones. If they do not: maximum **[2 marks]** for the question as a whole.
- Do not accept answers that are not relevant to the case study (e.g. “rent” as fixed cost or “delivery costs” as variable costs: these are “theoretical answers” that are not applied here).
- Candidates may come up with other original and precise ideas; these may be credited if relevant to the case study and acceptable as fixed costs or variable costs; examiners may need to use their professional judgment here.
- Labour costs are ambiguous: some sources (some textbooks and authors) consider them as fixed, others as variable, and others as “semi-variable”. Candidates may be given the benefit of the doubt in that respect.

– 6 –

N09/3/BUSMT/SP1/ENG/TZ0/XX/M

- (b) Using data from appendix 4, calculate the current ratio and the acid test ratio of *Les Maisonnettes* in the financial years 2005 and 2008.

*[4 marks]***Liquidity ratios**

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Acid test (quick) ratio} = \frac{\text{Current assets} - \text{stock}}{\text{Current liabilities}}$$

	2005	2008
Current ratio	1.75	0.56
Acid test ratio	1.25	0.22

Award **[1 mark]** for each correct calculation.

- (c) With reference to the figures calculated in part (b), analyse the reasons for the changes in the liquidity position of *Les Maisonnettes*.

[7 marks]

Sophie's situation in 2005 was "too liquid", a sign of poor cash management as she could have used her finance in a more meaningful and beneficial way. She went from one extreme to the next: the liquidity ratios indicate that, in 2008 (and presumably from 2009 onwards) she may struggle to meet her short-term financial commitments. The main reason is the fact that she took up a short-term loan in 2007 (*line 90*), which is substantially affecting her liabilities. She owes much less to her other creditors in 2008 than she did in 2005, but this short-term borrowing could be worrying (*line 151*) – although of course it is only short-term; as such, in the 2008 balance sheet, it could be interpreted as an understandable anomaly. Her stock has increased a lot: this is due to the investment in equipment and start-up costs for the new strand of the business. (*Lines 88–90*) according to Appendix 2, this new strand ("activities") already represents almost 15% of the business in 2008, so the liquidity issue of 2008 might be redressed in the following years.

Candidates whose calculations were not correct may still properly analyse some of the changes. Candidate own figure rule applies.

Marks should be allocated according to the markbands on page 3.

2. (a) Describe two non-financial incentives that are being considered by Sophie. [4 marks]

(Lines 108–112) “(...) offering accommodation on-site to international students looking for work experience before university. Sophie believes that the combination of total immersion in French culture, the subsequent development of language skills for non-native speakers and greater understanding of the concepts and ideals of eco-tourism will compensate for the relatively low starting salary”.

Candidates should not just quote the sentences from the case study: they are expected to describe (see command term) those incentives. They may rephrase them or refer to the fact that they are “non-financial”: “payment in kind”, direct/practical support for international students who then do not have to pay for accommodation, experience etc.

Mark as 2+2.

Award **[1 mark]** for each relevant and correct non-financial incentive identified and **[1 mark]** for each clear description of the incentives up to a maximum of **[2 marks]**.

– 9 –

N09/3/BUSMT/SP1/ENG/TZ0/XX/M

- (b) With reference to Sophie, explain *two* features of a “paternalistic leadership style” (*lines 96–97*).

[4 marks]

A paternalistic leadership style typically sees the workforce as an extension of the family (paternal = fatherly). Respect and acceptance are gained through close supervision forms (comparable to a father’s traditional control over his children). This leadership style can be described as authoritarian; those who accept the leader and their style are rewarded, whilst those who do not are, at best, tolerated, and at worst, punished. Sophie’s paternalistic leadership style may be due to the personal relationship she has with her staff (*lines 94–97*): many are long-term family friends; in that rural environment marked by unemployment, Sophie is the local entrepreneurial woman who has a business and gives employment (and income) to people she grew up with. A particular oddity here is the fact that Sophie’s parents also work for her (although they are not formally employed), with a reversal of the usual paternalistic/family model (here: the parents work for their child, and not the other way around).

Mark as 2+2.

Award **[1 mark]** for each relevant and correct feature identified and **[1 mark]** for each appropriate explanation of the features, up to a maximum of **[2 marks]**.

- (c) Analyse how Sophie's leadership style may need to change as *Les Masionnettes* grows over time.

[7 marks]

At the moment, the structure is quite small (Sophie, her parents, two full-time staff and several part-time staff) but as *Les Masionnettes* grows, the structure will change and Sophie's style too may need to change.

- On the one hand, Sophie may need to adopt a more autocratic style, especially if she employs more staff and needs to control them more closely (to overcome problems of reliability, absenteeism and punctuality, see *lines 98–99*). This is particularly the case for option 3: repositioning *Les Masionnettes* as a luxurious eco-tourist retreat would require more staff (*line 176*) and a more professional attitude (possibly with several lines of management, chains of command *etc.*, see *line 100*).
- On the other hand, if Sophie further develops the eco-tourism dimension of her business (option 2) and stresses the “alternative experience” dimension (recruiting core staff with eco-tourism values, *lines 105–6*) she could develop a more democratic, participative leadership style, for ideological/political reasons.

Marks should be allocated according to the markbands on page 3.

3. (a) Outline how writing a business plan could help *Les Maisonettes* achieve its growth objectives (*line 92*).

[4 marks]

Sophie is very dynamic and entrepreneurial: she has many ideas, but she does not have a business plan for her business (see *line 92*). Her business has grown organically: she has developed ideas and projects, yet without any explicit long-term objectives and without a clear vision. A business plan would give Sophie an overall sense of direction as well as targets, benchmarks and priorities. This would also give her the opportunity to reflect on all key aspects of her business (from marketing to human resources) and to identify which aspects may need to be harnessed or modified in order to achieve precisely identified strategic objectives (for instance to increase the winter occupancy rates by 20% by designing and offering “Christmas on the Farm” holiday packages). A business plan would also help Sophie apply for more funding (especially as options 2 and 3 are very costly).

[1 to 2 marks]

For **[2 marks]** the answer makes some links between the need for a business plan for *Les Maisonettes* and the formulation of growth objectives. For **[1 mark]** the answer shows some knowledge and understanding of what a business plan is/covers, yet without referring to Sophie and *Les Maisonettes*.

[3 to 4 marks]

For **[4 marks]** the answer clearly outlines how writing a business plan would help Sophie, establishing clear links between the business plan itself and the need for *Les Maisonettes* to formulate strategic objectives. The terminology of business planning is correctly used. For **[3 marks]** the answer is clear but may contain some minor omissions (for example no reference to the exact contents of a business plan, or a marked absence of key concepts such as “vision” or “long-term objectives” or “strategic” or “growth” or “development”).

(b) Explain *one* cost and *one* benefit to *Les Maisonettes* of being a small organization.

[4 marks]

For *Les Maisonettes* the costs of being a small organization include:

- limited capital/resources for internal growth and for spending in general (need to borrow money for any project, see *lines 15–16* and *line 90*)
- limited pool of ideas and limited experience (Sophie and her parents do not have previous knowledge and experience of running an eco-tourism business, see *line 6*).

For *Les Maisonettes* the benefits of being a small organization include:

- full control and ownership (which is why Sophie does not favour option 4, *lines 181–182*)
- possibility to introduce new products rapidly (*e.g.* programme of outdoor activities *line 85*).

Mark as 2+2.

Award **[1 mark]** for each relevant and correct cost/benefit identified and **[1 mark]** for each appropriate explanation of the cost/benefit, up to a maximum of **[2 marks]**.

(c) **Analyse the effects of the introduction of e-commerce to future marketing strategies for *Les Maisonnettes*.**

[7 marks]

(Lines 128–134) “Changes in technology and e-commerce have combined to provide more opportunities for independent travellers booking holidays using websites. In order to respond to this trend, Sophie knows she must react by setting up a business website with online booking facilities. Published reports suggest that her target market is increasingly likely to book online. Sophie is also aware of the power of the Internet to help develop links with other eco-tourist providers. The Internet can offer a forum to strengthen the ideals of the eco-tourism movement and also to raise awareness of *Les Maisonnettes*”.

The case study already highlights why Sophie is considering e-commerce for *Les Maisonnettes*. Some of the marketing reasons are outlined in the text itself: her target market (mainly composed of middle class eco-tourists) tends to book online (they were probably some of the early adopters of that technology). This can be analysed as the P for “process” in the 7Ps marketing mix model for services; it could also be analysed in terms of distribution (the website as distribution channel for booking), communication (about the products and services Sophie offers) and promotion (not only direct advertising from her own website, but also indirectly through links to and from other websites, including the *AFE* and *Logis de France*). Complementing this marketing dimension, the Internet could help Sophie strengthen and develop her ideological project (about eco-tourism and sustainable development).

There are also some costs, especially financial costs. As Sophie herself does not have the knowledge and skills to develop an e-commerce website, she would need the professional services of a specialist (a consultant, a web designer – someone who understands the needs of small businesses such as Sophie’s). This could be a financial burden, notably as her current budget is very tight (especially in terms of cash and liquidity, Appendix 4). She would also need to employ someone to maintain the website, to process the online bookings etc. It could later be the responsibility of one of her international students (line 109), but at first Sophie would need to set up a system to implement e-commerce. The idea may be appealing, but in practice it may prove complex. It is also a new type of marketing for her, with a steep learning curve (as marketing and e-marketing are different: she would need, for example, to adapt her promotional activities and her booking procedures).

Marks should be allocated according to the markbands on page 3.

SECTION B

4. (a) **Describe two differences between the marketing of goods and the marketing of services (*lines 65–66*).** **[4 marks]**

The marketing of services builds upon the marketing of products: it includes the same elements (the 4Ps of the marketing mix: Product, Price, Place and Promotion) but three others are added (Process, People and Physical evidence) resulting in the so-called 7Ps model. This is because services have some particular characteristics (that products, *i.e.* “goods” and “objects”, do not have): services are intangible, inseparable, perishable and variable. Sophie offers services rather than products: *Les Maisonnettes* is an experience as opposed to just the material aspects (the food eaten in the restaurant). She has come to realise that she needs to change her marketing approach (*line 65*), paying more attention to aspects such as process developing online booking, *line 130*), people (her staff who may require extra training) and physical evidence (using the fact that her buildings and setting present a real asset, *lines 17–18*). According to marketing experts, marketing a service is more difficult than marketing a tangible product, so Sophie’s task (reviewing her marketing strategy) is not an easy one.

Mark as 2+2.

Award **[1 mark]** for each relevant and correct difference identified and **[1 mark]** for each difference described up to a maximum of **[2 marks]**.

- (b) (i) **Explain two disadvantages for *Les Maisonnettes* of operating in a niche market (*line 40*).** **[4 marks]**

The disadvantages for *Les Maisonnettes* of operating in a niche market include the following:

– “Eco-tourism is a relatively small niche market but is growing rapidly” (*lines 39–40*): as there are few barriers to entry, new businesses may enter the market and compete directly with Sophie. She is lucky as the main local competitor (*Sanctuary*) does not target the same customers – but there is a high risk of competition that would seriously endanger *Les Maisonnettes*. Sophie needs to make sure she keeps differentiating her products; it is not the case at the moment (*lines 82–83*), but she has good ideas (*e.g.* a new USP about offsetting travellers carbon footprints, *lines 140–141*).

- A lot of work (market research and analysis) is spent focusing on the eco-tourism niche market, in order to understand its specific needs to learn to serve them better, including the ongoing evolution of their demands and expectations. Being part of professional organizations such as the *AFE* can help Sophie keep learning about the eco-tourists she targets (*lines 60–62*), but, should the fashion for eco-tourism change, Sophie would not be able to start targeting other potential customers straightaway (*e.g.* elderly tourists “grey tourism” or gay and lesbian tourists “gay tourism” are increasingly lucrative and relatively untapped market segments).
- Her niche market limits her possibilities for expansion and extension (in the Ansoff matrix, she cannot develop new products, which limits her strategic options to market penetration and market development). She runs the risks of constraining herself too much. Statistics are promising (a 25% annual growth rate in the sector, *line 136*) but Sophie could end up limiting her strategic options too much. Sophie is dependent on eco-tourism, yet all tourism niches are subject to change: tourism is a fickle and fragile industry. The presence of the airport and motorway may ruin her image, which is why she regards them as threats (*line 144*).

Mark as 2+2.

Award **[1 mark]** for each relevant and appropriate disadvantage identified and **[1 mark]** for each relevant and appropriate explanation of the disadvantage, up to a maximum of **[2 marks]**.

- (ii) Explain how Sophie could develop her human resource requirements to cope with variations in demand for accommodation.

[4 marks]

The seasonal influences at *Les Maisonettes* follow a regular, cyclical and predictable pattern. Based on 2008, there is very low occupancy in winter (French winter: November to February), medium occupancy in spring (March to May) and autumn (October), and high peak in summer (June to August). In the high season, Sophie would logically need to hire more staff (both part-time and full-time) whereas in the low season she could run and manage the business on a very low staffing basis. Planning human resources is particularly complex with regard to these part-time workers, for several reasons: they may not feel as committed to the business, training and retraining them may prove expensive, not to mention the competition from *Sanctuary* (line 113). Even the option of offering accommodation to international students may not be entirely satisfactory: they would live on-site but would have little to do in winter (unless Sophie decides to develop new products to attract customers then, knowing that she has the human resources available).

[1 to 2 marks]

For [2 marks] the answer shows obvious understanding of the issue, yet it is rather descriptive. For [1 mark] the answer is limited and not developed beyond the obvious.

[3 to 4 marks]

For [4 marks] the answer is a clear explanation with precise references to the case study, with evidence of use of business terminology. For [3 marks] the answer shows a good understanding of the issues (the relationship between the variation in demand and the variation in staffing needs/level) but with minor omission or a lack of detail or terminology.

- (c) Recommend changes to *two* elements of the existing marketing mix to help Sophie minimize the effects of fluctuations in demand for accommodation at *Les Maisonettes*.

[8 marks]

The seasonal fluctuations in demand have detrimental effects on Sophie because of the “lost income” (or rather: “potential income not earned”). To minimize these effects, the seven elements of the marketing mix (Product, Price, Place, Promotion, Process, Physical Evidence and People) could be modified, for example:

- With regard to Product, Sophie could introduce new products in winter (“Christmas on the Farm”) to attract more customers in the low season, especially as weather conditions get better, with milder winters (*line 145*) as a consequence of global warming. She could also offer more activities in the summer so as to maximize her summer income as a counterpart for the winter low.
- With regard to Price, Sophie could adopt a more sophisticated pricing strategy, especially with differentiated prices per season (especially ensuring higher revenue in summer which would indirectly compensate for the effects of seasonal fluctuations). At the moment, she charges the same amount throughout the year (*line 63*); lower prices in winter could attract other customers (maybe some who are less well-off than the typical customers).
- With regard to Place, (which does not refer to the location of the *Les Maisonettes* but to distribution channels!) Sophie could work with tour operators specialized in eco-tourism in order to find ways to attract customers in the off-peak seasons.
- With regard to Promotion, Sophie could concentrate her promotional efforts on the lower months, either directly (especially if she develops her own website, *line 130*) or indirectly (through the *AFE*).
- With regard to Process, Sophie could improve her reservation systems (the online booking system could be very useful in that respect, *line 130*); she could ask for deposits online or other tactics to earn slightly more on all fronts (indirectly minimizing the effects of seasonal fluctuations).
- With regard to Physical Evidence, Sophie could ensure that *Les Maisonettes* is as welcoming in winter as it is in summer. As she offers a combination of “goods” and “services” (*lines 65–66*) she could further enhance the ethical/ideological message and develop a USP justifying higher prices and attracting more customers off-season.
- With regard to People, Sophie could employ specialized staff for existing activities (outdoor activities, *line 85*) or even new ones (*e.g.* French classes), especially in winter.

- 18 -

N09/3/BUSMT/SP1/ENG/TZ0/XX/M

Candidates are asked to write about two elements – their recommendations may be linked (as the 7Ps are related) but the two elements must be precisely identified.

A strong recommendation of changes to one element of the existing marketing mix might well compensate for a weaker recommendation of changes to another element of the existing marketing mix. If only one element is addressed the maximum is **[5 marks]**.

Marks should be allocated according to the markbands on page 4.

N09/3/BUSMT/SP2/ENG/TZ0/XX/M



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MARKSCHEME

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BUSINESS AND MANAGEMENT

Standard Level

Paper 2

27 pages

– 2 –

N09/3/BUSMT/SP2/ENG/TZ0/XX/M

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A		Section B			Level descriptors	
(d) questions		(c) questions				
Q1 (d)	Q2 (d)	Q3 (c)	Q4 (c)	Q5 (c)		
Marks 0–6		Marks 0–5				
0		0		<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology. 		
1–2		1–2		<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the stimulus material. The response is mainly theoretical. 		
3–4		3–4		<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the stimulus material, not just to the name of the organization. 		
5–6		5		<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the stimulus material. 		

Section B			Level descriptors	
(d) questions				
Q3 (d)	Q4 (d)	Q5 (d)		
Marks 0–7				
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology. 	
1-2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the stimulus material. 	
3-4			<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of issues and concepts. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the stimulus material, not just to the name of the organization. • The response is mainly theoretical. 	
5-6			<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the stimulus material are made at places in the response. 	
7			<ul style="list-style-type: none"> • A response with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the stimulus material are made throughout the response. 	

SECTION A**1. (a) Define the following terms:****(i) market share****[2 marks]**

Market share is the proportion of total sales in a particular market for which one or more firms are responsible. It is usually expressed as a percentage. For example, *Toyota*'s market share in the United States refers to the percentage of total car sales in a given period of time that were *Toyota* cars. Market share is calculated by the formula:

$$\frac{\text{Total sales of a particular company or companies}}{\text{Total sales of the market}} \times 100$$

Award **[1 mark]** for a basic definition referring to the sales of a particular company in a specific market. A properly labelled pie chart depicting the concept but without an explanation, formula, or express use of the term percentage shall earn only **[1 mark]**.

Award **[2 marks]** for a full, clear definition supported by a formula or a description of its elements using a proportion or percentage.

(ii) multinational company.**[2 marks]**

The definition of a “multinational company” is a firm that operates, owns, or controls production or service facilities outside the country in which it is based. The connotation of multinational company is a very large company, typically with high operating leverage and significant market power.

Multinational companies often benefit from economies of scale and access to larger markets than companies operating in only one country. They are, however, exposed to additional risks, especially political risk and foreign exchange risk.

Award **[1 mark]** for a basic definition about large companies operating around the world (that is, getting more at the connotation than the definition).

Award **[2 marks]** for a full, clear definition that may provide additional descriptors, such as the connotations or providing example companies (*Mitsubishi, BMW, BP, Microsoft, etc.*).

– 6 –

N09/3/BUSMT/SP2/ENG/TZ0/XX/M

(b) Explain the value to *Mitsubishi Motors* of a vision statement.**[4 marks]**

Vision statements define the organization's purpose, doing so in terms of the organization's values (rather than concrete measures) – guiding beliefs about how things should be done. Vision statements communicate both the purpose and values of an organization. For employees, it gives direction about how they are expected to behave and, ideally, inspires them to their best possible performance. Whereas mission statements communicate where a company is now, a vision statement – sometimes called a picture of a company in the future – outlines where a company wants to be by concentrating on the future. It is a roadmap for strategic planning. In other words, it answers the question “Where do we want to go?”.

In *Mitsubishi Motors*' case, the value of a vision statement is especially great in light of the turbulence that the firm has been through in the last decade. In the highly competitive automobile markets, *Mitsubishi Motors* has had to significantly remake itself, its product, and its goals and image. In such a period of transition, having a clear vision, expressed in a short vision statement, can remind stakeholders and especially employees of the intended direction and priorities of the firm.

Award **[1 to 2 marks]** for a general or limited response and/or no reference to the stimulus.

Award **[3 to 4 marks]** for a thorough explanation of the importance of a vision statement to *Mitsubishi Motors* that includes meaningful reference to the stimulus.

– 7 –

N09/3/BUSMT/SP2/ENG/TZ0/XX/M

(c) Calculate for 2004 and 2007 Mitsubishi Motors':**(i) gearing ratio****[2 marks]**

$$\text{Gearing ratio} = \frac{\text{Loan capital}}{\text{Total capital employed}} \times 100$$

Total capital employed for 2004 = $13 + 432 + 17 = 462$

$$\begin{aligned}\text{Gearing ratio for 2004} &= \frac{432}{462} \times 100 \\ &= 93.5\%\end{aligned}$$

Total capital employed for 2007 = $153 + 360 + 156 = 669$

$$\begin{aligned}\text{Gearing ratio for 2007} &= \frac{360}{669} \times 100 \\ &= 53.8\%\end{aligned}$$

Award **[1 mark]** for each correct calculation.

(ii) gross profit margin**[2 marks]**

Gross profit = Sales revenue – Cost of goods sold

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Sales revenue}} \times 100$$

For 2004

Gross profit = $2519 - 2160 = 359$

$$\text{Gross profit margin} = \frac{359}{2519} \times 100 = 14.3\%$$

For 2007

Gross profit = $2203 - 1789 = 414$

$$\text{Gross profit margin} = \frac{414}{2203} \times 100 = 18.8\%$$

Award **[1 mark]** for each correct calculation.

If the answers for both years are incorrect, due to the inclusion of wrong data rather than the incorrect application of the formula, award **[1 mark]**.

– 8 –

N09/3/BUSMT/SP2/ENG/TZ0/XX/M

(iii) net profit margin.

[2 marks]

Net profit before interest and tax = Gross profit – Expenses – Non operating income

$$\text{Net profit margin} = \frac{\text{Net profit before interest and tax}}{\text{Sales revenue}} \times 100$$

For 2004

$$\text{Net profit before interest and tax} = 359 - 574 - 0 = -215$$

$$\text{Net profit margin} = \frac{-215}{2519} \times 100 = -8.5\%$$

For 2007

$$\text{Net profit before interest and tax} = 414 - 405 - 0 = 9$$

$$\text{Net profit margin} = \frac{9}{2203} \times 100 = 0.4\%$$

Award **[1 mark]** for each correct calculation.

If the answers for both years are incorrect, due to the inclusion of wrong data rather than the incorrect application of the formula, award **[1 mark]**.

Do not penalize follow through errors from the calculations of the gross profit margin. Therefore if:

- in 2004 the net profit margin is 22.8% lower than the gross profit margin award **[1 mark]**.
- in 2007 the net profit margin is 18.4% lower than the gross profit margin award **[1 mark]**.

- (d) Using ratio analysis and other relevant financial information, analyse the changes in the financial situation of *Mitsubishi Motors* between 2004 and 2007.**

[6 marks]

	2004 (millions of yen)	Margins (%)	2007 (millions of yen)	Margins (%)
Sales revenue	2519	100	2203	100
Cost of goods sold	2160	85.7	1789	81.2
Gross profit	359	14.3	414	18.8
Expenses	574	22.8	405	18.4
Net profit before interest and tax	−215	−8.5	9	0.4

	2004	2007
Current ratio	$\frac{869}{1567} = 0.55$	$\frac{1061}{1111} = 0.95$
Return on capital employed	$\frac{-215}{462} \times 100 = -46.5\%$	$\frac{9}{669} \times 100 = 1.3\%$
Gearing	$\frac{432}{462} \times 100 = 93.5\%$	$\frac{360}{669} \times 100 = 53.8\%$

Based upon the information provided in the stimulus material, between 2004 and 2007 *Mitsubishi Motors* experienced important improvements to its balance sheet, seeing both improved liquidity and leverage. The income statement saw a decline in sales but the firm improved its margins considerably. Based upon the years shown, the firm has returned to profitability (barely), but further improvement is necessary.

Despite a significant decrease in sales from 2004 to 2007, falling 12.5 %, the income statement reflects a real commitment to cost-cutting. Gross profit margins improved from 14.3 % in 2004 to 18.8 % in 2007, while expenses, as a percentage of sales revenue, fell from 22.8 % in 2004 to 18.4 % in 2007. As a result of these improvements, net profit improved from a −215 million Yen in 2004 to 9 million Yen in 2007. Net profit, however, is still low, both in absolute terms, 9 million Yen, and as a margin, 0.4 %.

With what appears, possibly, to be the end of the major losses, *Mitsubishi Motors* has been able to shore up its balance sheet. The current ratio improved significantly, from 0.55 in 2004 to 0.95 in 2007. Gearing improved as well, from 93.5 % in 2004 to 53.8 % in 2007. Debt-to-worth, which was an alarming high 66.6 in 2004, had improved to 4.8 by 2007. This is still very high leverage, but an immense improvement from a few years earlier.

– 10 –

N09/3/BUSMT/SP2/ENG/TZ0/XX/M

If *Mitsubishi Motors* can maintain control of costs while growing sales, the company could return to healthier income levels, which have been eluding the firm since the economic crisis in South-East Asia in the late 1990s. Higher profits would allow for further improvement to balance sheet, which is still not at healthy levels of liquidity or leverage (though much improved from 2004). The optimism of *Mitsubishi Motors* suggests this is what the firm is anticipating.

For **[6 marks]** the candidate must demonstrate thorough analysis through the use of margins, liquidity ratios, and one of the leverage ratios (gearing, debt-to-worth, etc.) and make some connection between improvements in the income statement and improvements to the balance sheet (thus, demonstrating in some fashion an understanding of the dynamic relationship between the two). Deduct **[1 to 2 marks]** in instances when the candidate largely recognizes the improvements in the income statement and to the balance sheet, but does not support the assertion fully with ratios or does not recognize that the company is still not yet fully healthy.

Marks should be allocated according to the markbands on page 3.

2. (a) Define the following terms:**(i) *private limited company*****[2 marks]**

A private limited company is usually a small business, though that is not always the case. Shares of such companies can only be transferred privately, and all shareholders must agree on the sale/transfer. The shares may not be advertised for sale. Typically, private limited companies are family companies or are owned by close friends, with shareholders also serving as directors.

Award **[1 mark]** for a basic definition getting chiefly at the common characteristics (small “family” business), but without any legal requirements/limitations.

Award **[2 marks]** for a full, clear definition that includes legal criteria and general characteristics.

(ii) *economies of scale.***[2 marks]**

Economies of scale refer to the unit cost reductions that companies experience as they grow. There can be both internal and external economies of scale. Internal economies of scale refer to the unit cost reductions that a single company experiences as it grows, while external economies of scale refer to the unit cost reductions available to all companies within an industry as the industry grows.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

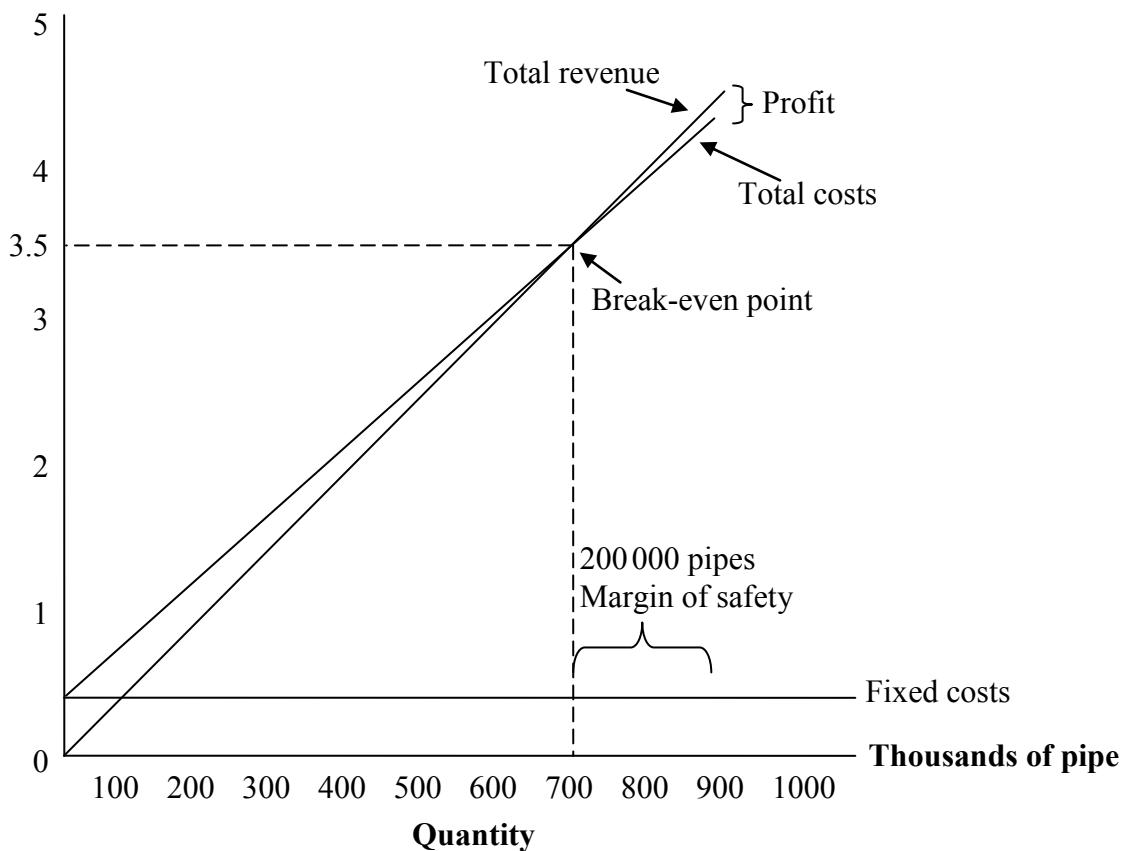
Award **[2 marks]** for a full, clear definition that includes the idea of declining average unit cost.

- (b) Construct a fully labelled break-even chart for *Niekerk Manufacturing* at the current capacity prior to the expansion.

[6 marks]

Break-even chart for Niekerk Manufacturing

Cost/revenue in \$000 000s



Award marks as follows:

[1 mark] for each appropriately labelled axis – maximum of [2 marks].

[1 mark] for an accurately drawn total revenue curve.

[1 mark] for an accurately drawn total cost curve.

[1 mark] for the identification of the break-even level of output (whatever the value) and [1 mark] for showing the correct value of the break-even level of output.

If the break-even chart is accurately drawn but not neatly, using a ruler or straight-edge, or out of proportion, award a maximum of [3 marks].

If the candidate produces a table rather than a chart, award [0 marks].

- (c) Assuming Niekerk Manufacturing sells 1 200 000 pipes in the first year in the expanded factory, calculate:

- (i) the net profit **[2 marks]**

Revenue	1 200 000 pipes at \$5 per pipe	6 000 000
Variable costs	1 200 000 pipes at \$4.25 per pipe	–5 100 000
Fixed costs		–570 000
Profit		330 000

Profit with the expansion and assuming sales of 1 200 000 pipes in the first year is \$330 000.

[1 mark]

If a candidate **who has shown workings** provides a correct procedure (thus, demonstrates an understanding of the underlying concepts) but has made an error in calculation.

[2 marks]

Candidate provides the correct answer. Workings not required.

- (ii) the margin of safety. **[2 marks]**

$$\text{Break-even point: } \frac{\text{fixed costs}}{\text{contribution}} = \frac{570\,000}{(\$5 - 4.25)} = 760\,000 \text{ units}$$

1 200 000 units per year (projected sales) minus 760 000 = margin of safety = **440 000 units**.

[1 mark]

If a candidate **who has shown workings** provides a correct procedure (thus, demonstrates an understanding of the underlying concepts) but has made an error in calculation.

[2 marks]

Candidate provides the correct answer. Workings not required.

(d) Analyse two appropriate sources of finance to fund the expansion of the factory and any additional equipment.**[6 marks]**

Niekerk Manufacturing will need additional funds to finance both the expansion of the facility and to acquire additional industrial equipment to support the added sales volume. These funds could be generated internally and externally.

Internal sources of finance: At the existing location, *Niekerk Manufacturing* has an annual profit of \$100 000 per annum, some of which could be retained and used to support either the expansion of the building or the new equipment. From the stimulus material, it is not evident what dividend payout requirements the firm has, if any.

An additional requirement for funds will be for increased working capital. The company anticipates its sales volume to increase substantially. Inventory and trade receivables will also increase substantially, which will be offset only partially by an increase in trade payables. Since this increased working capital is **not** a seasonal requirement, short-term loans of less than one year would be an inappropriate source of finance. However, since the increased working capital requirements do not represent any fixed assets, most lenders will be disinclined to lend money for this purpose. Thus, even if the firm has no dividend payout requirements, the firm would be ill-advised to allocate too much of current earnings to the building expansion and new equipment. Earnings should be reserved for increased working capital requirements.

External sources of finance: more appropriate for the building and equipment would likely be external sources of finance, of which there are several options:

- issuance/sale of ordinary shares of stock
- loan capital, such as a bank loan, for the equipment (and possibly the expansion of the building), or an insurance company for the building and a bank loan for the equipment
- leasing, for the additional equipment.

The issuance/sale of stock would dilute *Niekerk Manufacturing*'s ownership in the company and, in fact, Jan might have difficulty finding investors interested in a minority position in a private limited company.

More realistic and attractive, from *Niekerk Manufacturing*'s point of view, is borrowing funds from a bank or an insurance company or some combination thereof (finance the equipment with a bank loan and finance the building with an insurance company or some other long-term lender). Given the anticipated profitability of the company, this is presumably the most attractive option. The high levels of anticipated profits should allow for a rapid reduction in debt. However, if those profits do not materialize, *Niekerk Manufacturing* could find itself with more debt than it wants or, potentially, can service.

Leasing is often an option with industrial equipment. However, without additional information, it is difficult to make any specific judgments of feasibility. The advantages of leasing are that (1) there usually is little or no downpayment and (2) lease payments are paid with pre-tax dollars. The disadvantage of leasing is that, at the end of the lease, the lessor owns the equipment. If well made and well maintained, industrial equipment often will outlast the anticipated useful life, which typically determines the length of the lease or loan. Thus, lessees often have to give up “paid for” equipment with some remaining useful life. Had the equipment been purchased outright instead, the company would still possess it.

If the response is a one-sided relevant approach with no analysis, award a maximum of **[4 marks]**. If only **one** source of finance is analysed, the analysis is partial, award a maximum of **[4 marks]**.

For **[6 marks]** the candidate recognizes that the internal source of funds of profits is probably an inappropriate source of funds and thus discusses the other options, appropriately matching the financing need to an appropriate source of funds. Candidates demonstrate an understanding that the financing need must be matched with an appropriate source of funds.

Marks should be allocated according to the markbands on page 3.

SECTION B

3. (a) Define the term *market segment*.

[2 marks]

A market segment is a sub-group – people with similar characteristics – within a larger market. Market segments are often identified by age, gender, level of education or occupation, social class, income, ethnic group, geographical region, religion, or political affiliation.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that includes some specific characteristics of typical market segments.

- (b) (i) Explain how the online travel business can have “growing revenue but with fewer customers”.

[2 marks]

If online travel booking firms have “growing revenue but with fewer customers”, it means that some customers especially like booking their tickets online and are purchasing more online (greater number of tickets and/or more expensive tickets). Many customers, however, are apparently not finding that the online booking service meets their needs. As a result, these customers, or some of them, are not going back to the online travel firms to arrange their travel plans. In other words, some customers are purchasing more and more in dollar amount, while a number of customers are **not** returning to online booking companies.

Award **[1 mark]** for a general answer that conveys partial knowledge and understanding.

Award **[2 marks]** where the candidate precisely explains that online booking companies have fewer customers who are purchasing more online, either a greater number of tickets and/or more expensive tickets.

- (ii) Explain *two* primary market research techniques that could have been used by *LeisureLogix* to obtain its market research results.

[4 marks]

Types of primary research that might have been used include:

- questionnaires
- personal interviews
- telephone interviews
- postal surveys
- focus groups
- consumer panels.

Or any other appropriate primary research technique.

Mark as 2 + 2.

Award *[1 mark]* for each type of relevant and appropriate primary research technique identified, and *[1 mark]* for each relevant and appropriate explanation of the technique, up to *[2 marks]*.

(c) With reference to Road Trip Wizard, analyse the usefulness of market segmentation.

[5 marks]

Overall the purpose of market segmentation is to allow firms to generate greater sales volume or generate higher profits. Market segmentation, by providing companies with more knowledge about their customers, allows variation in products or the marketing mix to better suit customers' needs. Segmentation also allows companies to target particular sub-groups suitable for the marketing mix and, therefore, not waste resources by marketing to inappropriate sub-groups. Market segmentation can also allow companies to offer differentiated products to different groups.

Important characteristics of the market that Road Trip Wizard will serve include:

- those who like leisure travel (as opposed to those planning itineraries for business travel)
- Americans who travel by road
- those with access to the Internet
- those in a hurry (Customers “are tired of spending two or three hours trying to find the airline, hotel or vacation package that meets their needs”)
- those who are well-off (“85% of road travellers in the US book mid-range or expensive hotels”).

Market segmentation is useful to Road Trip Wizard, allowing it to modify its marketing mix to best suit certain market segments. For example, much of the promotion might be via the Internet, a chief characteristic of the market it will serve. Additionally, computer software which determines the product should do much of the decision-making for customers, who do not want to spend several hours on the computer planning their trips. The software should book mid-range to expensive accommodation and tourist attractions (the desired locations of its target customers).

Without market segmentation, Road Trip Wizard's marketing mix might be inappropriately shaped for its potential market (promotion might not be via the best media, or the software making the itineraries might book the wrong quality of hotels).

To achieve the top markband the candidate provides a detailed discussion with reference to the marketing mix (not just product or some other singular aspect of the marketing mix) and specifics of Road Trip Wizard's market's characteristics.

Marks should be allocated according to the markbands on page 3.

- (d) Discuss promotional strategies that *LeisureLogix* could implement to increase the use of Road Trip Wizard by American (US) consumers. [7 marks]

Above-the-line promotion available to *LeisureLogix* may include advertising through various media, especially:

- travel magazines
- the Internet (e.g. pop-up windows triggered by access to travel websites)
- newspapers
- various travel websites, such as *Travelocity* or *Expedia* or rental car companies' homepages.

Below-the-line promotion available to *LeisureLogix* may include:

- direct mailing (either regular post or e-mail) to target audiences
- coupons, reward cards for frequent users
- exhibitions and trade fairs
- public relations.

If only below- **or** above-the-line promotion is discussed the analysis is unbalanced.

To achieve the top markband the candidate provides a detailed and balanced consideration of various promotional strategies that *LeisureLogix* could implement. The response includes examples from both above-the-line and below-the-line promotion (though the candidate does not have to refer to these labels).

Marks should be allocated according to the markbands on page 4.

4. (a) Define the term *quality assurance*.**[2 marks]**

Quality assurance is a means of ensuring quality that considers customers' views of the product or service. Companies may undertake marketing research before a service is provided or a product is produced. Companies may also ask customers to be involved during the design and manufacturing stages. Often, as part of quality assurance, companies have various codes of practice that inform customers of the quality procedures and specifications.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that explicitly recognizes that quality assurance considers customers' views of the product or service.

(b) Distinguish between *two* different views that firms, such as *Mattel*, may take of their social responsibility in an international context.**[6 marks]**

The way companies respond to questions of social responsibility depend on their morals and ethics. These are the values and beliefs that govern how individuals or groups behave in a particular culture or society. Multinational companies, such as *Mattel*, face a complicated situation because, operating in two or more countries, they may have stakeholders from different social and cultural contexts and, thus, who adhere to different values and beliefs.

Multinational companies headquartered in a developed country, such as *Mattel*, often want to adhere to certain norms of social responsibility consistent with the values of most developed countries. These typically include making safe products in an environmentally sustainable manner and adhering to regulatory expectations. One challenge of these expectations, however, is that the financial cost, which is immediate and "real", can often have an impact on the income statement of the firm, thus creating pressure to cut corners on their social responsibility where possible.

If a multinational company is operating in a location where the norms of social responsibility are different, the company may, practically speaking, take a different view of their own social responsibility. Operating in a less environmentally safe manner, hiring subcontractors who do not adhere to either the multinational company's expectations or even the limited state regulations, or using materials or following procedures that are less safe for workers or end users of their products (all charges lodged against *Mattel*) may be viewed as socially irresponsible in the country in which a company is headquartered. These issues, however, may be viewed differently in other countries (such as China), which are eager for economic growth and will get it at (almost) any cost. Companies can justify this "compromise" in their own standards on the grounds that it is not inconsistent with the values where their branch or distant operation is doing business.

Companies can also justify these circumstances partly in that the lower standards of pay and safety may nonetheless provide better material circumstances than the workers would otherwise have available. Working in a dangerous “sweat shop” in a developing country may provide more material prosperity and physical and psychological safety than would otherwise be available.

[1 to 2 marks]

Candidate conveys some understanding of how firms, such as *Mattel*, may act in a socially responsible way and, for **[2 marks]** refer to at least one specific way socially responsible behaviour might be measured.

[3 to 4 marks]

The candidate distinguishes between two different views that companies, such as *Mattel*, may take of their social responsibility in an international context. References to the stimulus are limited and the answers provide few details about how social responsibility is measured.

[5 to 6 marks]

In a detailed fashion, the candidate distinguishes between two different views that firms, such as *Mattel*, may take of their social responsibility in an international context. Explanation includes references to the stimulus and several different aspects of how social responsibility is typically measured (compensation, working conditions, producing safe products, etc.). The candidate recognizes that meeting socially responsible objectives has real costs and that different levels of material prosperity in different parts of the world influence what might be considered social responsibility.

(c) Examine *one opportunity and one threat* for *Mattel* in doing business in China.

[5 marks]

Opportunities may include:

- possibilities for continued inexpensive sourcing of toys made by companies that focus on high-volume, low-cost manufacturing
- growth of understanding of Chinese market, with the possibility that eventually *Mattel* could develop products for sale in China and other large Asian markets
- the opportunity to be a leader in ensuring that its suppliers in China adhere to ethical standards of developed countries
- the opportunity to develop higher value-added toy products, such as those possibly made by Chinese companies competing at higher levels of technology and which take advantage of economies of scale, and still offer comparatively inexpensive prices.

Threats may include:

- shoddy or dangerous practices by high-volume, low-cost manufacturing companies, currently a weakness for *Mattel*, could eventually threaten to do significant or irreparable damage to *Mattel's* reputation with consumers
- failure to develop adequate compliance-monitoring procedures could undermine *Mattel's* reputation for a commitment to toy safety
- as the practices of professionally-managed companies become more commonplace in China, such firms could either purchase/restructure Chinese toy manufacturing companies and become direct competitors to *Mattel* or go directly into high value-added toy manufacturing themselves.

If only one opportunity **or** one threat is examined, the analysis is unbalanced.
Award a maximum **[3 marks]**.

To achieve the top markband the response exhibits a competent, detailed, and balanced examination of both one opportunity and one threat. The candidate demonstrates an understanding that opportunities and threats are external and examines a realistic opportunity and realistic threat with consistent and explicit reference to the stimulus material. At the lower end of the markband, the examination may lack depth or some balance or some references to the stimulus may be implicit.

Marks should be allocated according to the markbands on page 3.

- (d) Discuss *two* possible areas of conflict between *Mattel's* stakeholders that may arise from doing business in China.

[7 marks]

Possible areas of conflict between stakeholders may include:

- between *Mattel's* customers and its management over the use of Chinese manufacturers (regarding safety and/or quality)
- between *Mattel's* management and its suppliers in China over cost and/or safety record
- between top management and managers in China over costs
- between *Mattel's* shareholders and its management over the use of Chinese suppliers (to increase profits or as a source of shoddy products).

If the response is a one-sided relevant approach with no discussion, award a maximum of **[4 marks]**. If only one possible area of conflict is discussed the maximum is **[4 marks]**.

To achieve the top markband two possible areas of conflict are fully discussed, those listed above or other plausible areas of conflict, between *Mattel's* stakeholders that may arise from outsourcing production to China. A detailed discussion includes consideration of the point of view of at least two stakeholders per area of conflict.

Marks should be allocated according to the markbands on page 4.

5. (a) Define the term *commission*.**[2 marks]**

A commission is the payment an employee receives when he or she sells a good or service. Commissions are typically a percentage of the value of the good or service sold, which encourages employees to sell more products.

Companies sometimes pay their employees a base salary plus commission; other companies (where permitted by law) pay only commission.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition of commission which must explicitly state that commission is based upon the quantity or value sold.

(b) (i) Explain how the greater availability of credit cards enabled *Casas Carreras* to increase its sales.**[2 marks]**

Casas Carreras sells many large household items such as stoves, refrigerators, and washing machines, items that cost more than most Brazilian consumers can pay for all at once out of monthly earnings. Credit cards enable consumers to make these large purchases and then repay the credit card company over time. Consumers would probably be better served by saving small amounts each month and purchasing large items with cash, as interest can add considerably to the cost of an item. The greater availability of credit cards in Brazil has meant, for *Casas Carreras*, a significantly larger number of people have the resources, via credit, to purchase large household items.

Award **[1 mark]** for a general explanation that the availability of credit increases consumer flexibility.

Award **[2 marks]** for a clear explanation that the availability of credit gives consumers the opportunity to purchase large items, which allows them to spread the outlay of cash over more than one month.

(ii) Comment on two causes of the communication problems that resulted from Paolo's autocratic leadership style.

[4 marks]

Potential causes of communication problems coming from Paolo's autocratic leadership style include:

- managers, accustomed to taking orders from Paolo, may feel intimidated about two-way communication
- managers, if unaccustomed to two-way dialogue or who were hired for other qualities (executing Paolo's orders), may lack the skill to communicate effectively
- Paulo's autocratic style has led to managers having a narrow span of control and, thus, the firm has a long chain of command – communications can, at the worst, become distorted and, at the least, take a long time to filter up or down the organization
- employees, who are often dissatisfied with autocratic leaders, may develop negative perceptions and attitudes, which could influence how they receive messages.

Mark as 2 + 2.

Award **[1 mark]** for each type of appropriate cause of the communication problems identified, and **[1 mark]** for an appropriate comment on each, up to **[2 marks]**.

(c) Analyse one advantage and one disadvantage of changing the organization of Casas Carreras from a tall to a flatter structure.

[5 marks]

A narrow span of control has the advantage of tight control and close supervision. Subordinates' activities can be better coordinated. This is because managers in a tall organization with a narrow span of control supervise directly only a limited number of people, they often have time to reflect on their responsibilities without too many day-to-day distractions. The narrower the span of control, the easier it is to have quality communication with direct subordinates.

A narrow span of control, however, leads to long chains of command. Orders pass down the levels and information passes up. Communication loses its effectiveness with each additional level in the organization. Additionally, over time, employees in tall organizations grow less accustomed to making decisions and more accustomed to passing information along. This may generate employee dissatisfaction.

A wider span of control, which makes an organization "flatter", offers greater decision-making authority for subordinates and may improve their job performance. Wider spans of control mean fewer managers, which lowers the cost of supervision.

The advantages to *Casas Carreras* of shifting to a flatter organization are that store managers and regional managers will have greater flexibility to “make deals” as long as they are meeting their revenue and profit targets. Store managers and regional managers will probably feel more motivated by the greater responsibility and possible higher financial rewards, and it could well result in heightened sales and profits in stores and regions with strong managers. Having a greater voice in the marketing strategy (the ability to modify price), the flatter organization might motivate the sales and managerial force to be attentive to marketing trends.

The disadvantages to *Casas Carreras* is that some managers may not effectively manage the additional responsibility. While in the long run, such managers would presumably be re-assigned or let go, in the short run it could lead to lower margins on sales without improving overall profits. Turnover in management, while potentially bringing in new, more effective management, can also be disruptive.

To achieve the top markband the candidate analyses one advantage and one disadvantage of changing the organization of *Casas Carreras* from a tall to a flatter structure, with specific reference to the stimulus.

Marks should be allocated according to the markbands on page 3.

- (d) Evaluate the impact of the proposed payment scheme for salespeople on their job satisfaction, motivation and productivity.**

[7 marks]

The shift in compensation from one salary of only (\$350 per month) to salary (\$200 per month), plus 5% commission on sales will be appreciated by the better salespeople, who can expect their new salary to increase to at least \$500 per month, a 43% increase. Those who appreciate the security of the former system, or who are not high-producing salespeople, may not like the system, which could mean a decrease in salary. If Suzanna is correct that, overall, this shift will enhance the performance of *Casas Carreras*, it should also mean increased job satisfaction, improved employee motivation, and increased productivity.

A commission system is an easy way for a company to make sure that salespeople are paid according to their effectiveness and hard work. The more salespeople sell, the more they earn. For those who take great pride in “getting the sale” and being recognized for it, either with more money or merely recognition, job satisfaction will probably increase noticeably with the new system. Others, however, may be put off by the increased pressure to sell, pressure that may lead salespeople to try to sell goods to people who do not need, want, or can pay for certain items. They may also be put off by the potential prospect of a lower salary. Overall, though, a shift to a salary plus commission system is likely to increase employee motivation, as employees can increase their salary with increased sales, which would increase employee productivity as well.

Candidates may expand upon the above ideas by drawing on comparisons of different compensation systems and theories of motivation, such as Maslow’s hierarchy of needs, McGregor’s Theory X and Theory Y, and Herzberg’s two-factor theory.

To achieve the top markbands the response is detailed and balanced, uses appropriate subject terminology, and considers job satisfaction, motivation, and productivity. There is a good understanding of advantages and disadvantages of the new compensation approach and the candidate considers the potential impact on *Casas Carreras* of changing the compensation system.

Marks should be allocated according to the markbands on page 4.

M10/3/BUSMT/SP1/ENG/TZ0/XX/M



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MARKSCHEME

May 2010

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

17 pages

– 2 –

M10/3/BUSMT/SP1/ENG/TZ0/XX/M

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A			Level descriptors	
(c) questions				
Q1 (c)	Q2 (c)	Q3 (c)		
Marks 0–7				
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology. 	
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the case study. 	
3–5			<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the case study, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical. 	
6–7			<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the case study. 	

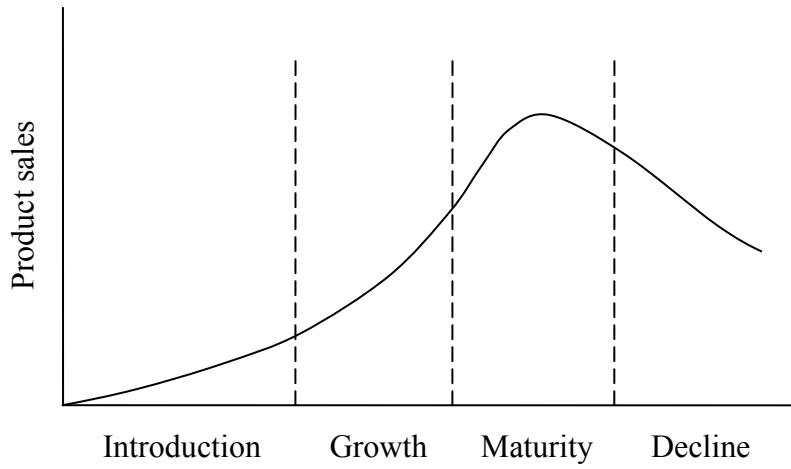
Section B	Level descriptors
Q4 (d)	
Marks 0–8	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study.
3–4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the case study, not just to the name of the organization. • The response is mainly theoretical.
5–6	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the case study are made at places in the response.
7–8	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the case study are made throughout the response.

– 5 –

M10/3/BUSMT/SP1/ENG/TZ0/XX/M

SECTION A**1. (a) Define the following terms:****(i) product life cycle (line 32)****[2 marks]**

Product life cycle refers to the fact that any new product, once commercialized (*i.e.* first launched on the market) progresses through a sequence of stages conventionally called “introduction”, “growth”, “maturity” and “decline”. The product life cycle (often abbreviated as PLC) is mainly associated with changes in marketing (as the marketing strategy needs to adapt according to the stage).



Candidates may include a figure showing a product life cycle (with the named stages); this can enable them to score **[2 marks]** but this is not required.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above. Key concept: sequential stages.

For **only** a relevant example **or** application to the case study award **[1 mark]**.

– 6 –

M10/3/BUSMT/SP1/ENG/TZ0/XX/M

(ii) ***brand loyalty (line 51).*****[2 marks]**

Brand loyalty refers to consumers' commitment to purchase products from a particular brand (literally, it means "fidelity", "allegiance", "faithfulness" to one brand and not to its competitors). The central idea is that of repurchasing. Brand loyalty is often regarded as the ultimate goal of marketing.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above. Key concept: repurchasing.

For **only** a relevant example **or** application to the case study award **[1 mark]**.

- (b) With reference to *N-Pharma* and its new drug Pharmatics, distinguish between “above the line and below the line promotion” (line 45). [4 marks]

Above the line (ATL) promotion refers to advertising a brand (*N-Pharma*, in this case) through conventional forms of mass media such as television, radio and newspaper. To launch its new anti-aging drug Pharmatics, *N-Pharma* may have led a national campaign on television, with famous actresses praising the beneficial effects of Pharmatics to keep their skin smooth and youthful.

Below the line (BTL) promotion refers to advertising through short-term, focused methods such as direct mail, public relations and sales promotions; for *N-Pharma*, it could include discount coupons, sponsorship of health-related events, point-of-sale displays (e.g. in drug stores) or giving away samples of Pharmatics through doctors. (Most of the pharmaceutical companies actually do BTL promotion through doctors, as for a patient, personal advice from a doctor may hold more value than commercial advertisements.)

NB: “Direct to Consumer” (DTC) advertising is only permitted in some countries. Candidates should not be penalized if they do not discuss TV adverts.

Accept any other relevant answer.

[1 mark]

The answer shows some confused or limited understanding of the difference between ATL and BTL promotion.

[2 marks]

The two concepts are understood, but they are not clearly defined or not applied to the case study.

[3 marks]

The two types of promotion are presented and the distinction is clear; one type of promotion (ATL **or** BTL) is well illustrated but the other is not.

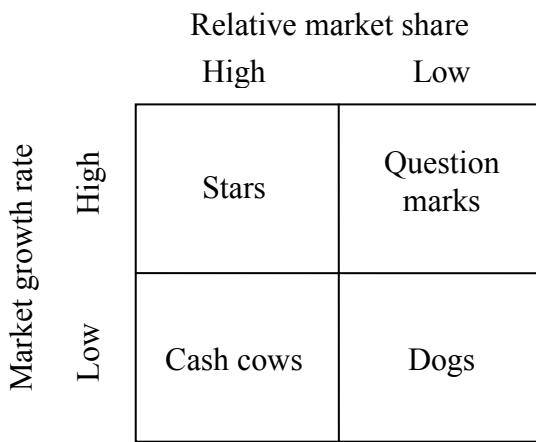
[4 marks]

The two types of promotion are well presented and the distinction is clear; ATL **and** BTL are defined as two advertising strategies and the distinction between them is clearly illustrated.

(c) Apply The Boston Consulting Group (BCG) matrix to *N-Pharma's* product portfolio.

[7 marks]

The BCG matrix distinguishes between four types of products according to their market share and to the growth rate of the market in which they are sold.



N-Pharma's product portfolio lends itself well to a BCG matrix:

- Pharmax is a cash cow (well-established, high market share of “around one-third of the market for painkillers in Japan and the USA” (*lines 33–34*) in a market which is “growing very slowly” (*line 35*))
- Pharmaflo is a star (launched less than ten years ago, it “already has a high 15% share in a market that is still growing rapidly”)
- Pharmaslim is a question mark: “the market [...] is growing rapidly” but “gaining market share is proving more difficult than anticipated” (*lines 41–43*).

Accept any other relevant application e.g. about Pharmatics.

Award a maximum of **[2 marks]** if the matrix is only drawn with no application.
 Award a maximum of **[4 marks]** if the matrix is correctly applied but with no explanation.

Marks should be allocated according to the markbands on page 3.

2. (a) “Since 1980, *N-Pharma* has been a public limited company with its shares traded on the Tokyo Stock Exchange” (*lines 83–84*). Outline two key aspects of this form of ownership.

[4 marks]

The key aspects of this form of ownership include the following points:

- *N-Pharma* sells its shares to the general public, so anyone can be an investor and have part ownership of the company
- *N-Pharma* has access to capital markets and is thereby able to raise more funds (which was not so easy when it was a private company prior to 1980)
- *N-Pharma*’s accounts must be audited and released to the public (they are public information)
- *N-Pharma* may be vulnerable to takeover bids (*line 117*); its value may also be very dependent upon stock exchange fluctuations
- *any other relevant aspect*.

Award **[1 mark]** for each correct key aspect identified, and **[1 mark]** for the development of each of these key aspects.

- (b) Prepare a SWOT analysis showing *only* the opportunities and threats for *N-Pharma*.

[4 marks]

The case study refers to several opportunities and threats (see below) though candidates may be credited for others, if appropriate (for example about exchange rates between currencies):

Opportunities include:

- illnesses and more health problems all around the world, resulting in an increasing demand for drugs (*e.g.* the more people at risk of heart attacks, the higher the demand for Pharmaflo) (*lines 38–39*)
- further trends for youth-obsessed looks, resulting in an increasing demand for anti-aging products such as Pharmatics (*line 44*)
- financial difficulties for competitors (especially small ones who could then be taken-over more easily) (*lines 129–130*)
- changes in the regulations on joint ventures at the European Union Commission (as it would enable the joint venture with *R-Taylor*) (*lines 135–136*).

Threats include:

- economic recession, leading to customers buying cheaper generic drugs rather than *N-Pharma* branded products (*lines 53–54*)
- another financial crisis, leading to a drop in the price of shares as in 2008 (*lines 109–110*)
- political tensions between China and Japan, creating problems with the development of the Beijing subsidiary (*lines 146–147*)
- more instances of PR problems *e.g.* another ethical scandal (*lines 88–91*).

Accept any other relevant answer.

– 10 –

M10/3/BUSMT/SP1/ENG/TZ0/XX/M

In a SWOT analysis, opportunities and threats are external factors; consequently, an “internal threat” (such as industrial action in the Canadian subsidiary) and an “internal opportunity” (such as Susan James adopting a new leadership style) are not acceptable. They are misclassifications and the candidate cannot gain any marks for them.

Candidates are not expected to explain nor develop the opportunities and threats they identify; a list is acceptable.

[1 mark]

For a limited answer, with just a couple of valid points.

[2 marks]

For a basic answer, some of the opportunities and threats are correct and appropriate but some are not.

[3 marks]

For a satisfactory answer overall; most opportunities and threats are correct and appropriate, but the answer shows a slight imbalance (for example: three opportunities but only one threat).

[4 marks]

For a clear answer, with at least two correct and appropriate opportunities, and at least two correct and appropriate threats. One or two misclassifications may be present.

(c) Analyse *N-Pharma*'s position using the information in the SWOT analysis (additional information, page 3) and your answer to part (b).

[7 marks]

Analysing an organization's **market position** using a SWOT analysis can be done in several ways, so this task may be addressed differently by candidates. For example:

- some candidates may develop a position map and answer in terms of marketing (with references to concepts such as positioning and USP)
- some candidates may decide to use Porter's five forces model in their answer and to examine *N-Pharma*'s position towards its competitors (*i.e.* analysing *N-Pharma*'s competitive advantage)
- some candidates may structure their analysis by successively examining *N-Pharma*'s position in different national/continental markets
- some candidates may not use additional tools but can analyse the SWOT using the key points from the SWOT analysis (additional information and answer to part (b)).

Accept any other relevant analysis.

All these approaches are fine – what is assessed here is the candidate's ability to analyse *N-Pharma's position* by referring to the SWOT analysis. Just repeating key points from the SWOT analysis (additional information and answer to part (b)) should not be credited though: candidates must use these elements in their answer, and not just copy them.

Marks should be allocated according to the markbands on page 3.

3. (a) Define the following terms:

(i) profitability (line 64) **[2 marks]**

The ability of a business to generate consistent sales revenue to cover costs over a period of time. It can be measured by using profit ratios such as GPM, NPM or ROCE.

Candidates are **not** expected to word their definition **exactly** as above.

Do not award any extra mark for the formulae of the profitability ratios (gross profit margin, net profit margin).

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above. Key concept: consistent.

For **only** a relevant example **or** application to the case study award **[1 mark]**.

For a definition of profit (as opposed to profitability): award **[1 mark]**.

– 12 –

M10/3/BUSMT/SP1/ENG/TZ0/XX/M

(ii) ***liquidity (line 111).*****[2 marks]**

The term “liquidity” is used in several cognate ways, which all relate to the availability of cash or the convertibility of assets into cash. The liquidity of an asset is its ability to be sold quickly and without any price discount – but a business itself could be described as having liquidity if it can easily meet its needs for cash (*i.e.* in simple terms, liquidity is the ability of a business to pay the bills). Two ratios can help calculate the liquidity of a business: the current ratio and the acid test (quick) ratio.

Candidates are **not** expected to word their definition **exactly** as above.

Do not award any extra mark for the formulae of the profitability ratios (current ratio, acid test (quick) ratio).

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above. Key concept: convertibility.

For **only** a relevant example **or** application to the case study award **[1 mark]**.

(b) Using data from Appendix 2, calculate the liquidity ratios for the USA subsidiary of N-Pharma in the financial years 2008 and 2009.

[4 marks]

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Acid test (quick) ratio} = \frac{\text{Current assets} - \text{stock}}{\text{Current liabilities}}$$

	Current ratio	Acid test ratio
2008	1.02 (accept 1)	0.68 (accept 0.7)
2009	0.89 (accept 0.9)	0.48 (accept 0.5)

(this is to 2 d.p.)

Award **[1 mark]** for each correct calculation.

(c) Analyse the liquidity ratios calculated in part (b) from the perspective of two stakeholders of N-Pharma.

[7 marks]

This is a case of “own figure rules” – candidates may make valid points in their answer even if they did not accurately calculate the ratios in 3(b).

The contents of the answer will depend on the choice of the two stakeholders. There is no expectation that candidates will choose one external and one internal stakeholder.

Examples:

- Chosen stakeholder: suppliers. The current ratio has dropped from just over 1 in 2008 to 0.89 in 2009, which means that the USA subsidiary may not be able to pay off its debts and bills. Suppliers should be very concerned by this decrease, as the USA subsidiary may not have enough liquidity over the next 12 months. The decrease in cash directly available (from US\$190m in 2008 to US\$60m in 2009) only worsens the subsidiary’s financial situation and some suppliers may insist on rapid payment and terminate or renegotiate contracts. This could affect the operations and add operational problems to the subsidiary.
- Chosen stakeholder: Suzuko Tanaka. As auditor, her role is to analyse the situation and make recommendations to the Tsukuba headquarters. She may recommend that the Tsukuba headquarters review the status of all the current borrowings of the USA subsidiary. As auditor, she should also examine why the stock is increasing so much (from US\$250m in 2008 to US\$356m in 2009) and what can be done to help get rid of the stock (although the high amount of stock could just mean that sales are booming and that they are producing masses to keep up with demand). Suzuko will need other data to understand the overall situation.

Accept any other relevant analysis.

If **only one** stakeholder is taken into consideration, or if the answer is generic without referring to the perspective of two different stakeholders, the answer cannot score above the **[3–5 marks]** markband.

Marks should be allocated according to the markbands on page 3.

SECTION B**4. (a) Define the following terms:****(i) delegation (line 59) [2 marks]**

Delegation (sometimes called “deputation”) refers to the transfer and sharing of authority and control of tasks and duties to another person. Typically, it allows a subordinate to make decisions and to feel empowered at work. The overall responsibility remains with the manager.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above. Key concepts: transfer of authority within limits.

For **only** a relevant example **or** application to the case study award **[1 mark]**.

(ii) performance-related pay (PRP) (line 72). [2 marks]

Performance-related pay (PRP) is a method of financial motivation whereby employees earn according to how well (or how much) they work. “Piece work” is the most common example of PRP, although many schemes of commission are also based on the principle of PRP.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above. Key concept: rewarding performance.

For **only** a relevant example **or** application to the case study award **[1 mark]**.

- (b) *N-Pharma* is considering several strategic options for its future growth, including a takeover (*Option 1(b)*) and a merger (*Option 3*). Distinguish between a merger and a takeover.

[4 marks]

A merger occurs when two companies combine and form a new, larger company: the merger of *N-Pharma* and *Anigam* would result in the creation of a new company (which would develop and market both human and animal drugs, and be present in all the countries where *N-Pharma* and *Anigam* already separately operate). Senior managers of both companies would need to support the merger.

A takeover can be defined as the acquisition of a company; typically a large company (such as *N-Pharma*) takes control of a smaller one (small European pharmaceutical ones, *line 126*). A takeover may occur even if the senior managers of the company being purchased do not want it.

The main difference is the fact that mergers are usually the result of positive negotiations and decisions, whereas takeovers are often “hostile”, creating tension and resentment in the smaller company that has been absorbed by the other.

Accept any other relevant answer.

Award [1 mark] for a correct definition of one of the two concepts.

Award [2 marks] if both concepts are correctly defined; such an answer is just theoretical.

Award [3 marks] if both concepts are defined with reference to *N-Pharma* and the case study.

Award [4 marks] if the answer explicitly stresses the difference between a merger and a takeover.

To achieve full marks [4 marks], the answer must clearly distinguish between a merger and a takeover. The question is not “define a merger and define a takeover”: it is not marked as 2+2. The aim of this point of assessment is to ensure that candidates understand the difference between the two.

- (c) Laura Davies anticipates “that the Australian employees of N-Pharma will respond positively to non-financial rewards” (lines 80–81). Explain how non-financial rewards might affect job satisfaction and productivity. **[4 marks]**

Some employees (such as the Australian employees of N-Pharma) may prefer non-financial rewards (such as job enrichment, job enlargement, empowerment and teamwork) to financial rewards (unlike the Canadian employees who are more motivated by financial rewards). Different types of non-financial rewards can affect job satisfaction and productivity in slightly different ways:

- Job enrichment means giving employees more interesting, challenging and complex tasks. It gives them the chance to test themselves and to use their full range of skills and abilities, which may be very relevant for N-Pharma’s researchers and scientists. They can thereby obtain a greater sense of achievement and possibly more praise or recognition of their work. Besides, employees may respond better as their managers have shown trust in the fact that they possess the ability to handle the increasing complexity and pressures of their work.
- Job enlargement means giving employees more tasks to do of a similar nature or complexity. This will reduce the monotony or repetition involved in their work; job rotation is a part of this and involves having a wider variety of tasks to do, perhaps rotating jobs with other members in one’s team, but not increasing the challenge of the job. This might be more relevant for some of the lower skilled employees of N-Pharma.
- Empowerment means that power or authority is given to employees so they can make their own decisions regarding their working life. For instance employees may have control over how to use their time and decide which tasks could be done from home. According to the case study, the Australian employees are very keen on flexitime and teleworking, so empowerment could be a good strategy for Laura to change the employment patterns and practices at the Australian subsidiary so as to ensure higher productivity and stronger job satisfaction.
- Teamworking is where employees work in groups or teams. This can also meet an employee’s social needs, as a person can more easily build friendships and feel a sense of belonging to a unit or group and hopefully to the business as a whole. It is very likely that N-Pharma researchers and scientists already work in teams, as R&D is a collective process, but Laura could put other teams in place, for example quality circles and management teams.

Accept any other relevant explanation as well as reference to methods such as flexi-working which arguably exemplifies non-financial rewards in practice.

Candidates are likely to write about these four methods/rewards; some could equally decide to answer firstly about job satisfaction (what it means and how non-financial rewards affect it) and secondly about productivity (what it means and how non-financial rewards affect it).

Award **[1 mark]** for each correct reward identified, and **[1 mark]** for the explanation of each of these rewards.

(d) To what extent would a change in Susan James' leadership style improve productivity and morale at the Canadian subsidiary of N-Pharma? [8 marks]

Susan's authoritative leadership style contradicts with the Canadian employees' desire for more delegation and a wider span of control. Her inability to communicate and the tall organizational structure have only made the situation worse.

On the one hand, changes in her leadership style could improve productivity and morale:

- Employees are dissatisfied and disillusioned, which explains why their productivity is lower than in other *N-Pharma* subsidiaries (resulting in the Canadian subsidiary trading at a loss). By listening to the employees and providing them with the delegation, empowerment and other non-financial rewards they want, Susan could boost their morale and enhance their productivity.
- By becoming more democratic, Susan could involve employees in the decision-making processes to help identify some of the problems at the subsidiary (for example there might be some issues about supply chain or organizational culture that she is not aware of). Once involved by a democratic leader, employees could help solve the problems and prevent the causes of low productivity.
- By becoming more democratic, Susan could develop good two-way communication with her staff; communication has clearly been a problem in the past, hence the escalation towards industrial action could be avoided through a different leadership style.

On the other hand, further problems could arise from a (sudden) change in leadership style:

- Susan could lose the support from her management team and even from Yukio who sent her there because of her non-compromising attitude.
- Employees and negotiators may feel that she is malleable and threaten further action; to be successful, a democratic leader needs the support of the employees, but the situation may have been too conflictual to change.
- Susan herself could struggle psychologically as leadership styles are intrinsically linked to a person's own values and belief system; although she could be trained and coached to change her leadership style, it would remain unnatural for her (not believing in it herself, would she be able to make her workforce believe she has changed?).

Accept any other relevant answer.

Marks should be allocated according to the markbands on page 4.

M10/3/BUSMT/SP2/ENG/TZ0/XX/M



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MARKSCHEME

May 2010

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

23 pages

– 2 –

M10/3/BUSMT/SP2/ENG/TZ0/XX/M

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A part (d) questions
and
Section B part (c) questions

Marks	Level descriptors
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the stimulus material. The response is mainly theoretical.
3–4	<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the stimulus material, not just to the name of the organization.
5	<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the stimulus material.

Section B part (d) questions

Marks	Level descriptors
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the stimulus material.
3–4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of issues and concepts. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the stimulus material, not just to the name of the organization. • The response is mainly theoretical.
5–6	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the stimulus material are made at places in the response.
7	<ul style="list-style-type: none"> • A response with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the stimulus material are made throughout the response.

SECTION A**1. (a) Outline the purpose of the mission statement of *Natura Cosméticos*. [4 marks]**

Mission statements are brief statements of the purpose of a company or organization. They are intended to guide the actions of the organization. Mission statements spell out an organization's overall goals and provide a sense of direction and a guide to decision making for all levels of management.

For *Natura Cosméticos*, its mission statement provides the same kind of guidance that mission statements are intended to. Whenever managers or even ordinary employees face a decision, whether strategic, tactical, or even operational, *Natura Cosméticos*' mission statement can serve as a practical frame of reference for the decision. As is often the case, and especially so in the case of *Natura Cosméticos*, the organization's brand in the marketplace is firmly connected to the ideas embedded in the mission statement. Were the organization to make decisions not in the spirit of its mission statement, over time its brand would probably suffer.

Accept any other relevant answer.

[1 mark]

The candidate provides a general statement of what a mission statement is.

[2 to 3 marks]

The candidate details several aspects of a mission statement. If the candidate makes no reference to *Natura Cosméticos*, award no more than **[2 marks]**.

[4 marks]

The candidate provides a detailed outline of the purpose of the mission statement of *Natura Cosméticos*.

(b) From the profit and loss accounts provided:**(i) calculate the missing values X for 2006 and 2007. [2 marks]**

Cost of goods sold: 992

Gross profit: 1909

Expenses: 1265

Net profit before interest and tax: 678

Apply Own Figure Rule (OFR).

Award **[1 mark]** for up to two errors.

Award **[2 marks]** for all calculations correct.

– 6 –

M10/3/BUSMT/SP2/ENG/TZ0/XX/M

- (ii) calculate the gross profit margin and the net profit margin for 2006 and 2007.

[4 marks]

	2006	2007
Gross profit margin	68.2 %	68.2 %
Net profit margin	23 %	21.7 %

Award **[1 mark]** for each correct calculation.

- (iii) comment on the change in interest between 2006 and 2007.

[2 marks]

Interest rose 164.7% in 2007, from 34 to 90. This increase in interest is almost certainly connected to the increase in long-term debt to finance the new manufacturing plant.

If the candidate only lists absolute figures (interest increases from 34 to 90) award **[0 marks]**.

If the candidate only states percentage increase (164.7%) award **[1 mark]**.

For **[2 marks]** there must be commentary in addition to some statement regarding the change in interest.

Award **[1 mark]** if the candidate comments that interest rose significantly.

Award **[2 marks]** if the candidate comments on the fact that interest rose significantly and makes the connection between the increase in long-term debt to finance the new manufacturing plant and the response correctly states the percentage increase in interest.

- (c) Distinguish between the purpose of accounts for **one** internal stakeholder group of *Natura Cosméticos* and the purpose of accounts for **one** external stakeholder group.

[3 marks]

The purpose of accounts for internal stakeholders is to manage the business, that is to have quantitative data to support decision making. For example, an increase in accounts receivable turnover, which is calculated based upon accounts, could lead management to change its credit policy or change its collection procedures. For external stakeholders, the purpose of accounts is to make evaluative judgments that would inform the external stakeholders relationship to the business. For example, an increase in the accounts payable turnover at the business might lead some suppliers to reduce their credit exposure to the firm.

A shareholder can be considered as an internal or external stakeholder.

Accept any other relevant answer.

Award **[1 mark]** for an explanation of how a stakeholder may make use of accounts. The candidate may have made no reference to the stimulus material, or the explanation may not be fully clear.

Award **[2 marks]** for a vague distinction between the purpose of accounts for **one** internal and **one** external stakeholder. The candidate may not have selected stakeholders relevant to *Natura Cosméticos*, or may not have made reference to *Natura Cosméticos*, or the differences may not be fully clear.

Award **[3 marks]** for a clear distinction (the differences) between the purpose of accounts for **one** internal and **one** external stakeholder. The candidate has selected stakeholders relevant to *Natura Cosméticos* and made references to the stimulus material.

(d) Examine *two* reasons why organizations such as *Natura Cosméticos* set ethical objectives.

[5 marks]

Organizations such as *Natura Cosméticos* often establish ethical objectives because of certain benefits such as:

- consumers often view ethical organizations favourably
- organizations find it easier to recruit and retain employees
- employees are often more motivated
- it reduces negative publicity from pressure groups
- it reduces the risk government will increase regulation and oversight
- it can help develop a brand image distinguishing it from its competitors.

If the response is a one-sided relevant approach with no examination, award a maximum of **[3 marks]**. If only one reason is examined award a maximum of **[3 marks]**.

To achieve the top markband the candidate must provide a thorough examination of **two** reasons why organizations such as *Natura Cosméticos* consider setting ethical objectives. This could be an expansion of the bullet points above. The response reflects detailed knowledge and understanding of ethical objectives in business.

Accept any other relevant examination.

Marks should be allocated according to the markbands on page 3.

– 9 –

M10/3/BUSMT/SP2/ENG/TZ0/XX/M

2. (a) Define the following terms:**(i) non-profit organization.****[2 marks]**

A non-profit organization is an organization that does not distribute its surplus funds to owners or shareholders, but instead uses them to pursue its goals. Many non-profit organizations are charities; others include trade unions and public arts organizations. Although many government agencies meet this definition, in most instances they are **not** considered non-profits.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

(ii) overheads**[2 marks]**

Overheads are indirect expenses that are not chargeable to a particular part of work or production. Typically overheads are items such as accounting fees, advertising, depreciation, insurance, interest, legal fees, rent, repairs, supplies, taxes, telephone bills, travel and utilities costs.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

(b) Calculate for fee-paying patients in 2007 at Aravind Eye Care (Show all your working):**(i) the contribution to fixed costs of each fee-paying patient****[2 marks]**

Contribution = selling price – variable cost

Contribution = US\$60 – US\$20

Contribution = US\$40

Award **[1 mark]** for the correct workings and **[1 mark]** for the correct calculation.

– 10 –

M10/3/BUSMT/SP2/ENG/TZ0/XX/M

(ii) the break-even quantity**[2 marks]**

The break-even quantity occurs when total costs equal total revenue.

Total costs = Total revenue, where

Total costs = Fixed costs + variable costs

Variable costs = quantity sold × US\$20

AND

Total revenue = price × quantity sold

$$FC + Q \times US\$20 = Q \times 60$$

$$3\ 000\ 000 + 20Q = 60Q$$

$$3\ 000\ 000 = 40Q$$

$$75\ 000 = Q$$

Award **[1 mark]** for the correct workings and **[1 mark]** for the correct calculation.

(iii) the margin of safety.**[2 marks]**

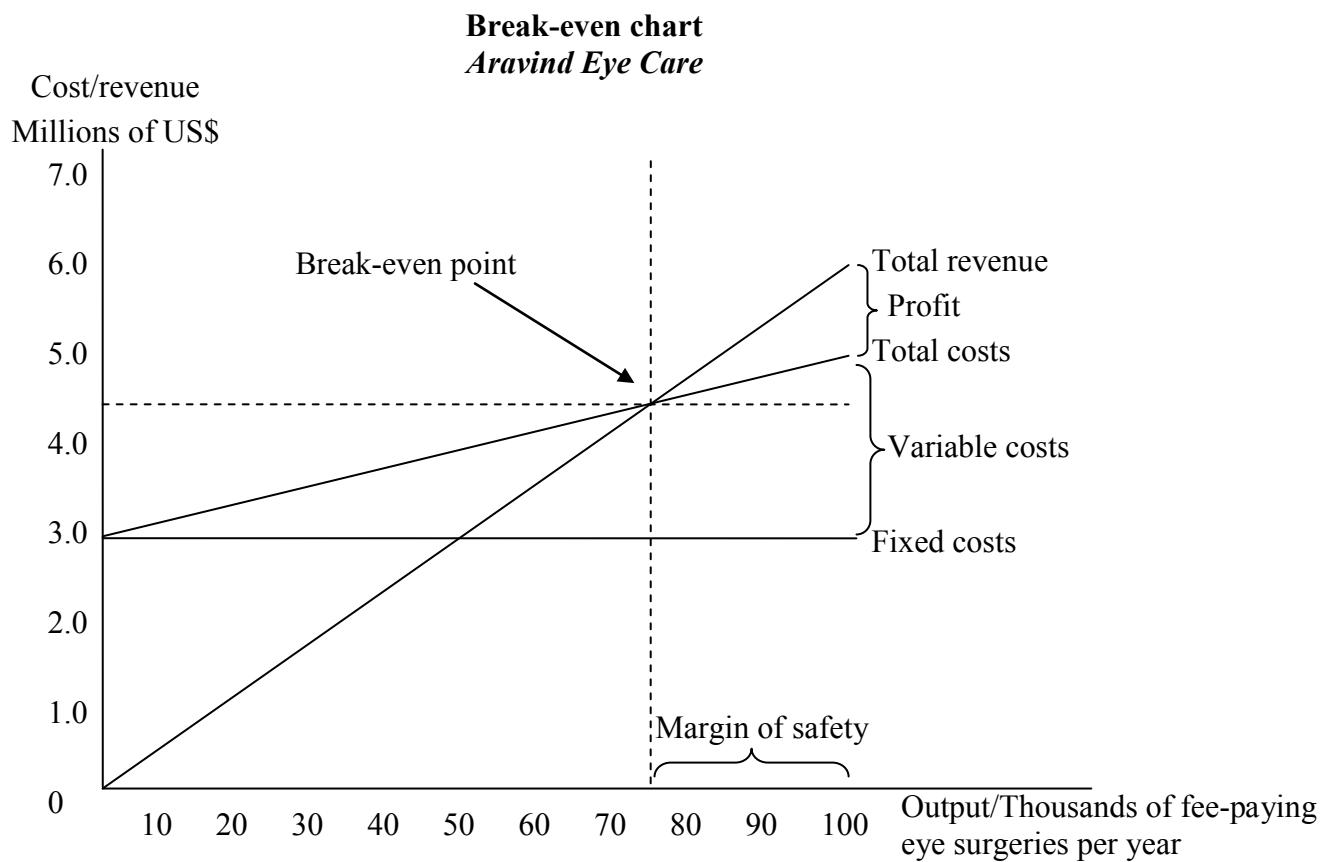
Fee-paying quantity per year – break-even quantity = margin of safety

$$100\ 000 - 75\ 000 = 25\ 000$$

$$\text{Margin of safety} = 25\ 000$$

Award **[1 mark]** for the correct workings and **[1 mark]** for the correct calculation.

(c) Prepare a fully labelled break-even chart for *Aravind Eye Care* in 2007. [5 marks]



Award marks as follows:

[1 mark] for each correctly labelled axis – maximum of [2 marks]. For the y-axis, candidates must label it “cost/revenue”, or something equivalent thereto, to receive [1 mark]. Just labelling the axis with a US\$ sign is insufficient for a mark.

[1 mark] for an accurately drawn and labelled total revenue curve.

[1 mark] for an accurately drawn and labelled total costs curve.

[1 mark] for either identification of the break-even level of output or the value of the break-even level of output.

Award [0 marks] if a candidate produces a table, and award no more than [3 marks] if the chart is not neat, not drawn with a straight-edge, or is not to scale.

- (d) With reference to appropriate content theory, examine *two factors that could influence the motivation of doctors at Aravind Eye Care.*

[5 marks]

Candidates should refer to and apply appropriately any of the standard content theories addressed in a standard-level course (Taylor, Maslow, McGregor and Herzberg) and might consider the factors below (and any other appropriate factors).

For example, according to Maslow's hierarchy of needs, after social needs have been met individuals want recognition, such as the award from the *Bill & Melinda Gates Foundation*, which honoured all employees but especially the doctors at *Aravind Eye Care*. After the need for recognition, according to Maslow, people have the opportunity to self-actualize (to feel complete and valid), which for medical doctors might well be achieved by providing medical care to the poor.

Factors potentially influencing doctors' motivation **positively** may include:

- the focus on surgery alone – specialization could enhance doctors' skills as surgeons
- providing an important medical service to many of India's poor
- freedom from other responsibilities, some of which may be bureaucratic or unfulfilling
- recognition (such as the award from the *Bill & Melinda Gates Foundation*)
- gaining concrete experience/immersion in a cost-effective way to provide health services to the poor – a learning opportunity.

Factors potentially influencing doctors' motivation **negatively** may include:

- by only doing surgery, doctors' work could become routine or they could fear lack of development of other skills
- lesser opportunity to develop relationships with patients
- lesser autonomy than doctors in traditional eye clinics
- 24 hour-a-day operations require doctors to work non-traditional hours for surgeons
- because *Aravind Eye Care* is a non-profit organization, doctors' compensation might be lower than working in a for-profit clinic or hospital.

Accept any other relevant examination.

To achieve the top markband the candidate must provide a thorough examination of factors that might affect the motivation of doctors. The response reflects detailed knowledge and understanding of motivational theory, to which the candidate refers to explicitly, appropriately, and meaningfully.

Marks should be allocated according to the markbands on page 3.

SECTION B**3. (a) Define the term *secondary sector*. *[2 marks]***

Unlike the primary sector, which involves the extraction of raw materials from the earth or the growing of food or the tertiary sector, which involves the service industry, the secondary sector of the economy includes those economic activities like manufacturing and construction that create a finished, usable product. In the secondary sector, raw materials are transformed into finished goods.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above. Key concept: manufacturing.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

(b) Prepare a PEST analysis for the textile factory in Alumbre. *[6 marks]*

Factors in a PEST analysis of Alumbre's textile factory might include:

Political

- agreement of Peruvian government to help fund improvements in communication between Alumbre and the rest of Peru
- Spanish government's response to the economic crisis.

Economic

- regional economic development as a result of *Ecosoluciones*
- new jobs created as a result of *Ecosoluciones*
- economic crisis in Europe.

Social

- remote village where people are unfamiliar with modern technologies.

Technological

- development of economically viable wind generators.

Accept any other relevant answer.

If a candidate answers that PEST stands for Political, Economic, Social and Technological but otherwise does not develop their response further correctly award **[1 mark]**.

Award **[1 mark]** for each appropriate and correct entry in the PEST analysis up to **[6 marks]**. All four categories must be addressed for top marks.

(c) **Contrast the objectives of non-profit organizations such as *Ecosoluciones* to those of profit-based organizations.**

[5 marks]

Unlike profit-based organizations, which ultimately all have the goal of making profits for owners/investors, non-profit organizations such as *Ecosoluciones* exist solely to provide programs and services that are of public benefit. For example, one objective of *Ecosoluciones* is to introduce a non-polluting source of electricity. Often such services are not otherwise provided by governments.

Like profit-based organizations, non-profit organizations can, in some sense, earn a profit. However, unlike profit-based organizations, non-profit “profits” are really surpluses that must be retained for the future provision of programs and services.

Effective non-profit endeavors have a commitment to management. At one time, many non-profits were not seriously concerned with effective management, which was often viewed as too closely related to business and, thus, commercial interest. Today, most non-profits have learned that they need management even more than business does, precisely because they lack the discipline of the free market. The non-profits are still dedicated to “doing good,” but they also realize that good intentions are no substitute for organization and leadership, for accountability, performance, and results. Those require management and that, in turn, begins with the organization’s mission.

Accept any other relevant contrast.

To achieve **[4 marks]**, a candidate must mention one of the two ideas below; to achieve **[5 marks]**, a candidate must have **both** ideas below:

- A non-profit organization must pay attention to the fact that they cannot spend an infinite amount of money. It must make a “profit”, which it will retain for its organization’s purpose, or break-even.
- Non-profit organizations have a commitment to managing their organization well (for example in line with their mission statement and with “doing good”).

To achieve the top markband the candidate provides a thorough contrast of the objectives of non-profits, such as *Ecosoluciones* and profit-based organizations. The response reflects detailed knowledge and understanding of the objectives of profit-based and non-profit organizations.

Marks should be allocated according to the markbands on page 3.

- (d) Discuss **two** possible areas of conflict between stakeholders in the Alumbre Project.

[7 marks]

The Alumbre Project has the potential to have a transformative impact on Alumbre, Peru, and the surrounding area. With change, however, some people may benefit and some people may suffer.

For example, with the introduction of electric-powered machinery in the textile factory, productivity rose dramatically, a clear benefit to the owners of the factory (one stakeholder). However, automatization may have also meant that the traditional skills of the workers (another stakeholder group) related to the hand-production of cloth were devalued (proletarianization), thereby weakening their control over the workplace or their bargaining position.

A second area of conflict could stem from issues of *Ecosoluciones*' long-term commitment to the Alumbre Project. Although initially there was alignment of interests between the owners of the textile factory (one stakeholder), the Peruvian government (another stakeholder) and *Ecosoluciones* (a third), the latter's indication that it may no longer maintain Alumbre's wind generators is a major source of potential conflict: the factory owners have invested in electric-powered machinery while their source of power is now threatened, and the Peruvian government may now need to provide the maintenance service for which it had been counting on *Ecosoluciones*. Workers (another stakeholder) may also be dissatisfied, especially the newly hired, as they modified their economic lives to work in the textile factory, which is now threatened.

Accept any other relevant discussion.

There are many other potential areas of conflict. Examiners should evaluate them based upon their relevance to and basis in the stimulus material. If the response is a one-sided relevant approach with **no discussion**, award a maximum of **[4 marks]**. If the candidate discusses only one possible area of conflict between the stakeholders in the Alumbre Project, award a maximum of **[4 marks]**.

To achieve **[4 marks]** or more candidates must discuss two issues and clearly identify two stakeholders per issue.

Marks should be allocated according to the markbands on page 4.

4. (a) Identify two features of a sole trader.**[2 marks]**

Features of a sole trader may include:

- A type of business that legally has no separate existence from its owner
- There is unlimited liability: all debts of the business are debts of the owner. The person who sets up the business has sole responsibility for its debts.
- The business has no partners.
- A sole proprietorship essentially refers to one person (individual) doing business in his or her own name and in which there is only one owner.
- A sole proprietor may do business with a trade name other than his or her legal name.
- *Accept any other relevant feature of a sole trader.*

Award **[1 mark]** for each appropriate feature of a sole trader that the candidate identifies, up to a maximum of **[2 marks]**.

(b) Comment on two appropriate sources of finance which Elena Rudaki might have used to set up her distribution centre.**[6 marks]**

For someone such as Elena Rudaki, the question of finance is challenging. Because the organization is a start-up, she has no internal source of funds. Thus, she must rely on external sources of funds, either debt or equity. In terms of equity, she could use personal savings or take on a partner, someone who has the resources to fund or share the cost of starting up the business. Borrowing money is another option: she could borrow funds from a bank or another institution that has an interest in seeing small organizations get started and succeed, such as Coca-Cola itself or the government. She could also try to get a grant from the regional government.

Even though specific sources of finance are not mentioned in the stimulus, candidates are still capable of answers that represent application to the stimulus. Internal sources are NOT appropriate, and many external sources would not fit the circumstances. A bank term loan would NOT be appropriate, as she has no collateral. Nor, given the scale of the business, would be conversion to a private limited company and selling shares.

Thorough appropriate comments might include the availability of the type of source of finance and/or its limitation (taking on a partner might mean losing some control over the business).

Accept any other relevant answer.

Award **[0 marks]** if candidate only mentions a bank loan. However, if the candidate identifies a bank loan as a source of finance and “clearly explains” why it is **not** an appropriate source, award **[1 mark]**. Candidates may suggest borrowing from family and friends as a source of finance; for further marks they must provide an appropriate commentary why it is appropriate.

Mark as 3+3.

For each appropriate source of finance, award **[1 mark]** for its identification, **[2 marks]** for partial, appropriate comments, and **[3 marks]** for thorough, appropriate comments. Maximum award **[6 marks]**.

- (c) Examine **two problems that other entrepreneurs in Elena Rudaki's town may face if they start up a new business.** **[5 marks]**

Generally, a business may face a number of issues when starting up. A partial list of potential issues may include determination of:

- the basic business idea (the product or service)
- the market and its features
- the human resources the organization will need
- the target market of the product or service
- the suppliers
- the business location
- how to raise the initial funds to open the business
- the most cost effective means to produce the product or service
- the main risks involved in the business
- the record keeping procedures for the business.

Many of these issues would be more complicated in Tajikistan, which is among the poorest countries in this region of Asia and is still suffering from the effects of a civil war from 1992 to 1997 following the dissolution of the Soviet Union. For example, these entrepreneurs would have difficulty with obtaining supplies and delivering products because of the lack of quality infrastructure. If horse-drawn carts are a relevant form of transportation, it suggests that the economy is not particularly modern and there may be other business issues complicated by lack of modern technologies.

Accept any other relevant examination.

If the response is a one-sided relevant approach with no examination, award a maximum of **[3 marks]**.

If the candidate assumes that the other entrepreneur/s is opening a *Coca-Cola* distributorship in Elena's town award a maximum **[3 marks]** for a high quality answer. Marks **[1–3]** should be awarded according to the quality of the answer.

To achieve the top markband the candidate must provide a thorough examination of **two** problems that other entrepreneurs in Elena's town may face when setting up a new business. The response reflects detailed knowledge and understanding of starting up a business.

Marks should be allocated according to the markbands on page 3.

(d) Discuss the effectiveness of the different types of distribution channels for Coca-Cola in Tajikistan.

[7 marks]

There are two types of distribution channels available to *Coca-Cola* in Tajikistan:

- a short channel of delivering small orders directly to retail outlets
- a long channel through intermediaries such as distribution centres.

Short channel distribution centres means that *Coca-Cola* either directly controls its distribution channels or is working with large-scale distributors or even independent *Coca-Cola* bottlers, part of whose agreement with *Coca-Cola* is distribution. This type of distribution generally means a large business with competent management, access to needed finance and sophisticated delivery equipment (lorries). However, firms this large may have neither the local knowledge to penetrate the remote markets as in Elena Rudaki's small town, just as large short channel distributors may not have the interest, either, in penetrating these markets, which are relatively small.

Long channel distribution such as reliance on people like Elena solves several of these problems. For Elena, the small markets in her region of Tajikistan represents a real business opportunity. She knows the market and probably has limited options for owing her own business. She doesn't, however, have many resources or, probably, formal business skills. To reach these markets, *Coca-Cola* must provide her with considerable support.

Accept any other relevant discussion.

To achieve the top markband the candidate's response demonstrates a detailed knowledge and understanding of the effectiveness of the two types of distribution channels available to *Coca-Cola* in Tajikistan. The candidate effectively uses business and management terminology throughout. The response includes judgments and/or conclusions that are well supported and underpinned by a balanced analysis.

Marks should be allocated according to the markbands on page 4.

5. (a) Outline briefly the difference between market orientation and product orientation.

[2 marks]

Market orientation is one that allows the wants and needs of customers and potential customers to drive all the organization's strategic decisions. The organization's corporate culture is systematically committed to creating customer value. The rationale is that the more a company understands and meets the real needs of its consumers, the more likely it is to have happy customers who come back for more, and tell their friends. Product orientation is an approach to business that places the main focus of attention upon the production process and the product itself. The rationale is that the unique selling proposition of the organization is centred on the special features of the product.

Accept any other relevant answer.

Award **[1 mark]** for a basic response that indicates some understanding of the difference. Award **[2 marks]** for a full clear brief outline of the primary difference between market orientation and product orientation.

- (b) Comment on the appropriateness of “surveys, focus groups and interviews” as methods of primary market research for *Bajaj*.

[6 marks]

Surveys involve questionnaires, which typically have open and closed questions. Questionnaires are often mailed to customers (postal survey) or the consumer fills it out at the business location. Focus groups involve groups of customers being brought together on one or a number of occasions, where customers and consumers are asked to answer and discuss questions related to the product or service. Interviews involve obtaining information from one person face-to-face. The interviewer rather than the person being interviewed records responses to questions, which often contain more open than closed questions.

Surveys are relatively inexpensive, have no interviewer bias, and can yield information on many people covering a wide geographic area. Consumers, however, often will not fill out questionnaires, or they fill them out in haste, not considering carefully their responses. If the questions are poorly worded, the questionnaire may be misleading or produce inaccurate results. Focus groups, while relatively inexpensive, often involve only a small number of customers who may not reflect the views of the market or market segment in which the business is interested. Interviews allow for detailed knowledge. Long or difficult questions can be explained, and many of the interviewee’s responses can be used. Follow up or tag questions can be asked. However, interviews are time consuming and can be expensive. Moreover, the interviewer may have a bias that influences the responses of the interviewee.

For *Bajaj*, these types of market research techniques are appropriate. *Bajaj* considers itself a market-oriented company, so it needs to understand the wants and needs of its customers, who vary. The surveys allow *Bajaj* to get input from a large number of customers at a relatively low cost. Once preliminary ideas are developed from this information, *Bajaj* can get more in-depth information from focus groups. Focus groups also have the advantage that participants can learn from other participants, which can influence subsequent input. Finally, a select number of interviews can be done to obtain detail knowledge. These details can either be “positive”, in the sense that *Bajaj* can hear interviewees discuss what they want, or “negative”, in the sense that *Bajaj* can learn in detail interviewees’ concerns.

Market research is especially important because many of *Bajaj*’s products are sold in remote areas where service is difficult. Getting customer input about quality, reliability, and safety help *Bajaj* shape its product to meet these priorities. Also, because *Bajaj* serves many markets outside of India, they need to have a keen understanding of local circumstances in each market. Consumers’ needs, wants, and priorities in India may be quite different from consumers’ needs, wants, and priorities in other markets and countries.

As increasing numbers of consumers around the world possess portable telephones, *Bajaj* may want to consider alternate types of market research techniques, such as computer-aided telephone interviews, which can be highly cost effective and reach a large number of customers.

Accept any other relevant answer.

[1 to 2 marks]

The candidate provides a limited commentary of surveys, focus groups, and interviews. The response suggests minimal knowledge and understanding of the three types of primary market research. The candidate does not use business and management terminology, and no reference to *Bajaj* is made.

[3 to 4 marks]

The candidate comments on surveys, focus groups, and interviews. The response suggests some knowledge and understanding of the three types of primary market research. The candidate's use of appropriate business and management terminology is limited or the references to *Bajaj* are minimal or superficial.

[5 to 6 marks]

The candidate comments on surveys, focus groups, and interviews in detail. The response reflects detailed knowledge and understanding of the three types of primary market research. The candidate uses appropriate business and management terminology and explicitly refers to *Bajaj*.

- (c) Analyse the usefulness of market segmentation and consumer profiles for *Bajaj*.

[5 marks]

Market segmentation involves determination of a segment of the market sharing one or more characteristics that cause them to have similar product and/or service needs. A market segment is distinct from other segments, is largely homogeneous within the segment, responds similarly to a market stimulus, and can be reached by a market intervention. The term is also used when consumers with identical product and/or service needs are divided up into groups so they can be charged different amounts.

A consumer profile is an outline of significant demographic and psychographic details about the user of a particular product. Consumer profiles typically include the user's age, marital status, income, education, occupation, sex, area of residence, and purchase behaviour patterns. Knowledge of the consumer profile is very important in the determination of the marketing mix.

For *Bajaj*, market segmentation and consumer profiles play an especially important role and are largely the key to *Bajaj*'s success. By managing its marketing mix to specific market segments determined by extensive consumer profiles, *Bajaj* is able to meet the needs of large numbers of consumers in diverse markets.

Accept any other relevant analysis.

If the response is a one-sided relevant approach with **no analysis**, award a maximum of **[3 marks]**. If the candidate analyses only market segmentation or only consumer profiles, award a maximum of **[3 marks]**.

To achieve the top markband the candidate provides a thorough analysis of both market segmentation and consumer profiles. The response reflects detailed knowledge and understanding of these marketing concepts.

Marks should be allocated according to the markbands on page 3.

(d) Evaluate the use of franchising as a growth strategy for *Bajaj*.**[7 marks]**

Franchising refers to the method of practicing and using another person's business philosophy. The *franchisor* grants the independent operator the right to distribute its products, techniques, and trademarks for a percentage of gross monthly sales and a royalty fee. Various tangibles and intangibles such as national or international advertising, training, and other support services are commonly made available by the franchisor.

For *Bajaj*, there are numerous advantages to franchising:

- franchising would allow access to investment capital without the need to give up control in the process
- franchising would allow rapid expansion across countries and continents using the capital and resources of their franchisees, and *Bajaj* can earn profits commensurate with its contribution to these new markets
- franchising would provide *Bajaj* with a distribution network
- *Bajaj* would be relieved of many of the mundane duties necessary to start a new outlet, such as obtaining the necessary licenses and permits, which, in some jurisdictions, are more easily obtained by locally based, owner-operator type applicants
- *Bajaj* franchisees would have considerable incentive to operate their businesses successfully because they have a direct stake in the operation
- *Bajaj* would not need to closely scrutinize the day-to-day operations of franchisees (compared to directly-owned outlets).

Disadvantages for *Bajaj* would include:

- in any particular area there will be only a small number of people who have both the resources and the desire to set up a *Bajaj* franchise compared to the pool of individuals who would be able to competently manage a directly-owned business
- successful franchising would require a thorough vetting process to evaluate the limited number of potential franchisees than would be required to hire a direct employee. An incompetent manager of a directly-owned outlet can easily be replaced, while regardless of the local laws and agreements in place removing an incompetent franchisee is much more difficult
- incompetent franchisees could easily damage the public's goodwill towards the franchisor's brand by providing inferior goods and services. If a franchisee is cited for legal violations, (s)he will probably face the legal consequences alone but *Bajaj*'s reputation could still be damaged.

Accept any other relevant evaluation.

To achieve the top markband the candidate's response demonstrates a detailed knowledge and understanding of the potential strengths **and** limitations for *Bajaj* of expanding through franchising. The candidate effectively uses business and management terminology throughout. The response includes judgments and/or conclusions that are well supported and underpinned by a balanced evaluation.

Marks should be allocated according to the markbands on page 4.

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MARKSCHEME

November 2010

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

16 pages

– 2 –

N10/3/BUSMT/SP1/ENG/TZ0/XX/M

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A			Level descriptors	
(c) questions				
Q1 (c)	Q2 (c)	Q3 (c)		
Marks 0–7				
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology. 	
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the case study. 	
3–5			<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the case study, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical. 	
6–7			<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the case study. 	

Section B	Level descriptors
Q4 (d)	
Marks 0–8	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study.
3–4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the case study, not just to the name of the organization. • The response is mainly theoretical.
5–6	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that have balanced analysis and demonstrate understanding. • Explicit references to the information in the case study are made at places in the response.
7–8	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the case study are made throughout the response.

– 5 –

N10/3/BUSMT/SP1/ENG/TZ0/XX/M

SECTION A

1. (a) ***N-Pharma* is now a successful business, but it initially struggled: “poor cash flow meant that the early years were financially challenging” (lines 6–7). Outline *two* problems that Yukio Nakamura’s business start-up may have faced.**

[4 marks]

Problems that Yukio’s business start-up may have faced include:

- a limited budget available for research and development (R&D) (critical in that industry: *line 20*)
- a limited budget available for promotion and advertising
- a limited, erratic or unreliable income
- a lack of customer base
- difficulties in finding external sources of finance (such as investors or bank loans)
- difficulties in planning strategically
- *accept any other relevant problem outlined.*

Mark as 2+2.

N.B. Do not credit the sentence “poor cash flow meant that the early years were financially challenging” alone because this is just a direct quote from the case study (lines 6–7).

Each problem may be awarded up to **[2 marks]**.

Award **[1 mark]** for a basic outline of each possible problem, conveying partial knowledge and understanding.

Award **[2 marks]** for a clear outline of each possible problem, conveying knowledge and understanding through exemplification or application to the case study.

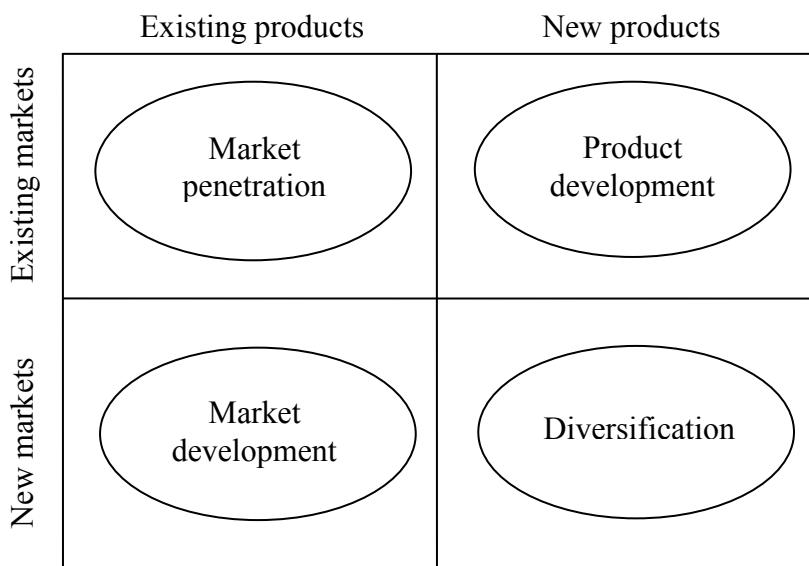
– 6 –

N10/3/BUSMT/SP1/ENG/TZ0/XX/M

- (b) Construct a fully labelled Ansoff matrix to show *N-Pharma's* possible growth strategies.

[4 marks]

The Ansoff matrix is as follows:



N-Pharma already uses or could use the four strategies:

- ongoing product development (*lines 20–27*)
- option 1: market development in Europe (*lines 121–136*)
- option 2: market penetration within China (*lines 137–147*)
- option 3: diversification (*lines 148–153*).

The breakdown of marks is as follows: up to **[2 marks]** for the theory (or Ansoff matrix), **and** up to **[2 marks]** for application to the case study.

Award up to **[2 marks]** for an accurate, fully labelled presentation of the Ansoff matrix – only **[1 mark]** if one term is absent or not correct.

Award an additional **[2 marks]** for the application to *N-Pharma* – only **[1 mark]** if one of the strategies is absent or not correct.

(c) Analyse the value of “social and environmental audits” (*line 107*) to *N-Pharma*.

[7 marks]

It has become common for large companies to carry out social and environmental audits because of an increasing awareness, by all stakeholders, of the social and environmental impacts that large companies have on local communities and on the environment.

In the case of *N-Pharma*, some other factors explain why Tadashi plans to carry out such audits:

- *N-Pharma* operates in an industry which has been criticised for its lack of conscience and social responsibility, being more motivated by money than by healthcare and polluting through chemicals
- *N-Pharma* itself has suffered PR problems and a poor image because of some of its practices
- *N-Pharma* employs over 30 000 staff globally (*line 2*), so it directly affects thousands of households (any restructuring such as closing one subsidiary would have substantial socio-economic impacts on local communities).

However, such social and environmental audits present some drawbacks too:

- they can be expensive (especially in a period of recession when some staff may fear for their jobs and would not understand why substantial amounts would be spent to employ auditors and consultants rather than on the core business of *N-Pharma*)
- they can be seen as unreliable or biased (as they are commissioned by *N-Pharma* which expects certain results); they may seem little more than a PR/communication exercise
- their results may be difficult to implement.

Accept any other relevant substantiated analysis.

Marks should be allocated according to the markbands on page 3.

2. (a) Define the following terms:**(i) *span of control (line 60)*****[2 marks]**

Span of control refers to the number of people under a given manager. The more people under the control of one manager, the wider the span of control.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the case study award **[1 mark]**.

(ii) *empowerment (line 64).***[2 marks]**

Empowerment is a HR practice that consists of allowing employees to make autonomous decisions without consulting their line manager. One aim is to help employees develop a sense of ownership over their work and to take responsibility for their results. It also gives managers more time to concentrate on other strategic and/or operational issues.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the case study award **[1 mark]**.

– 9 –

N10/3/BUSMT/SP1/ENG/TZ0/XX/M

(b) Comment on the effectiveness of Susan James' leadership style in the Canadian subsidiary of N-Pharma.

[4 marks]

Susan's leadership style can be defined as autocratic as she tends to impose her decisions without listening to employees' requests and desires (she has "dismissed requests for greater empowerment" (*line 64*), she seems unable to communicate with them (*line 67*)).

On the one hand, that style may seem ineffective as it is exacerbating the tensions between employees and direction at the Canadian subsidiary (threats of industrial action and strike (*line 65*)). This is rather the view from the employees who are unhappy with Susan's leadership style.

On the other hand, that style may be effective as strict measures must be implemented in order to redress the productivity problems ("the Canadian subsidiary has recently suffered lower levels of productivity compared to other *N-Pharma* subsidiaries" (*lines 60–61*)). Only an autocratic leadership style may result in productivity improvements. This is rather the view from Yukio and the directors at the *N-Pharma* headquarters, which is why they appointed Susan.

Accept any other relevant answer.

[1 to 2 marks]

For **[1 mark]** the answer is limited, with little evidence of understanding what an autocratic leadership style implies. For **[2 marks]** the answer is superficial; it may explain what an autocratic leadership style is, yet without commenting on the appropriateness for the Canadian subsidiary, or it may identify some generic advantages and disadvantages (*i.e.* what makes it effective and what makes it ineffective), yet without proper reference to the case study.

[3 to 4 marks]

For **[3 marks]** the answer is clear but it may lack balance or precision. For **[4 marks]** the effectiveness of Susan's autocratic leadership style is presented in a balanced way: the answer explains what it means, and also covers both advantages and disadvantages (*i.e.* what makes it effective and what makes it ineffective).

– 10 –

N10/3/BUSMT/SP1/ENG/TZ0/XX/M

(c) Analyse the appropriateness of a cost-based pricing strategy (*line 29*) for *N-Pharma's* drugs.

[7 marks]

A cost-based pricing strategy simply means that the prices (of *N-Pharma's* drugs) are partly/mainly based on the costs (to cover all the costs, both fixed and variable, from R&D to distribution). It is the simplest pricing method; it is a common model in the pharmaceutical industry (*line 29*) and in many other industries, such as the construction or retail industry. A “cost-plus” approach is often used:

$$\text{Price} = \text{cost of production} + \text{margin of profit}$$

A cost-based pricing strategy can be appropriate for *N-Pharma's* drugs for the following reasons:

- it is relatively easy to calculate
- it can help ensure break-even, recovering all the previous costs, especially the long-term ones of R&D (see *Appendix I*)
- it can ensure a margin of profit (usually a percentage mark-up)
- it has an ethical advantage: the so-called “just price”.

However, it may also be inappropriate for two key reasons:

- it takes no account of demand: there is no way of determining if potential customers will purchase the drugs at the calculated price, which is a problem as “in periods of economic difficulties, many people prefer to buy generic drugs, which are cheaper” (*lines 53–54*)
- it takes no account of competitors' prices (both branded and generic ones).

Accept any other relevant substantiated analysis.

Marks should be allocated according to the markbands on page 3.

3. (a) Tadashi Agi has been appointed to the new post of “director of corporate social responsibility” (*line 101*). Outline *two* methods of recruitment that could have been used in this appointment. **[4 marks]**

Recruitment can be:

- internal
- external (which clearly was the case for Tadashi as he was working at the National University of Tsukuba).

The four most common methods of external recruitment are:

- job centres
- job advertisements
- recruitment agency
- personal recommendation
- *accept any other relevant method of recruitment.*

Mark as 2+2.

Award **[1 mark]** for each valid method of recruitment identified up to a maximum of **[2 marks]**, and **[1 mark]** for a correct brief explanation of each of these methods of recruitment up to a maximum of **[2 marks]**.

- (b) Explain how Tadashi Agi could use new technologies within *N-Pharma* to communicate his ethical vision effectively with stakeholders (*lines 105–106*). [4 marks]

To communicate his ethical vision with external stakeholders, Tadashi could keep a blog focusing on the (new) ethics of *N-Pharma* or he could commission and publish video clips. For internal stakeholders, an online corporate newsletter may be more appropriate, or regular updates on the company portal; this would help Tadashi “encourage ethical practices in all departments” (*lines 104–105*) as he could reach all staff and would thereby remind them of the new ethical objectives of *N-Pharma*.

Accept any other relevant explanation.

N.B. Candidates may refer to a range of Web 2.0 tools and may give precise examples – but the question is not just about imagining and describing what Tadashi could do. In order to score above [2 marks], candidates must explain how these technologies can be used (what they would enable Tadashi to do, which objectives he could reach).

[1 to 2 marks]

For [1 mark] the answer is limited, with little evidence of understanding of the use of new technologies to communicate with stakeholders. For [2 marks] the answer is superficial; it may comment on the importance or potential of new information technologies, yet without precise reference to the case study.

[3 to 4 marks]

For [3 marks] the answer is clear but it may lack depth or breadth (for example only writing about blogs). For [4 marks] the answer is clear and detailed, with explanations about the use of new technologies, with explicit references to some examples of technology and stakeholders.

- (c) Tadashi Agi is now writing a “Charter of Ethics”, setting ethical objectives for *N-Pharma* (*lines 102–103*). Examine the reasons why organizations consider setting ethical objectives. [7 marks]

Organizations may set ethical objectives because they are increasingly aware of their corporate social responsibility (CSR) or because they want to respond to the public demand for transparency and business ethics. It could also increase employee motivation and reduce negative publicity from pressure groups. However, this is sometimes regarded as a sudden knee-jerk reaction to scandals e.g. “experiments on animals” (*line 90*) (the appointment of Tadashi could be cynically interpreted that way) or as a way to pay lip-service to political agendas and to external pressure (from stakeholders such as campaigning organizations). Ultimately, one could argue that the exact motives themselves may not matter (is it a genuine interest in ethics?) as long as the objectives are set and achieved.

Accept any other relevant substantiated examination.

Marks should be allocated according to the markbands on page 3.

SECTION B

4. (a) Outline *two* alternative strategies that could have been used to deal with the liquidity problem at the USA subsidiary of *N-Pharma* (line 11). **[4 marks]**

The USA subsidiary could have used the following strategies to deal with the liquidity problem:

- delaying purchases (or getting longer payment terms from vendors and suppliers)
- considering long-term borrowing (including from *N-Pharma*'s headquarters or other external sources of capital) to repay short-term debt
- reviewing credit policies with clients and customers (possibly adjusting them to minimize the time it takes to collect payment)
- reviewing how assets are being used: they could have sold some unproductive assets (such as buildings, equipment and vehicles)
- reviewing the profitability on some of the *N-Pharma* drugs on the USA market (e.g. they might have increased some prices to maintain or increase profitability)
- accept any other valid suggestion.

Mark as 2+2.

Award **[1 mark]** for each valid strategy identified up to a maximum of **[2 marks]**, and **[1 mark]** for a correct brief explanation of each of these strategies up to a maximum of **[2 marks]**.

(b) Explain the importance of quality assurance and quality control (*lines 26–27*) for *N-Pharma*.

[4 marks]

Candidates may refer to the following points in their answer:

- *N-Pharma* operates in the pharmaceutical industry where drugs must be carefully tested (otherwise it could be dangerous, even life-threatening, for consumers)
- quality assurance and quality control give *N-Pharma* its reputation: any problem with drugs safety could escalate and be very detrimental to the company's image/brand (and even to its very existence)
- quality control is also important (for *N-Pharma* as well as any other company) because it can help reduce costs
- quality control is an old fashioned approach increasingly replaced by quality assurance to ensure that the whole organization focuses on quality production (as opposed to just one quality controller).

Accept any other relevant explanation.

Candidates are not asked for a precise number of points. They could write one long answer or cover a range of separate elements.

Award **[1 mark]** for each correct element of the answer, and **[1 mark]** for the development/explanation of that element, if appropriate up to a maximum **[4 marks]**.

- (c) “*N-Pharma* already sells some of its drugs in China, especially through business-to-business (B2B) operations with private clinics” (*lines 137–138*). Explain the benefits for *N-Pharma* of using B2B operations compared to business-to-customers (B2C).

[4 marks]

“Business-to-business” (B2B) means that *N-Pharma* does not directly distribute and commercialize its drugs into the Chinese market, but through private clinics. This means fewer resources spent on direct promotion, but more promotional activities with the private clinics. The disadvantage is that *N-Pharma* is dependent on its relationship with the clinics (as intermediaries and brokers): should this relationship break down (for a range of reasons *e.g.* the clinics change supplier), *N-Pharma* would lose its main channel of distribution in China. On the other hand, “business-to-customers” (B2C) requires more resources spent on promotion (advertising, developing brand recognition, convincing consumers to switch from their usual drugs, creating brand loyalty *etc.*) – but *N-Pharma* would have a more stable customer base.

[1 mark]

The answer shows some confused or limited understanding of the differences between B2B and B2C.

[2 to 3 marks]

The two concepts are understood and described, but the explanation or the application to the case study (*N-Pharma* in China) remains limited. For **[3 marks]** there is reference to the case study but the explanation is partial.

[4 marks]

The two concepts are well presented and the benefits for *N-Pharma* of using B2B operations compared to B2C is clearly explained, with references to the case study.

- (d) ***N-Pharma* subsidiaries have a double role: they “are responsible for both production and distribution of *N-Pharma* drugs in their national markets” (lines 18–19). Discuss the advantages and disadvantages of such a double role.**

[8 marks]

Advantages include:

- there is no need to import drugs produced abroad, which cuts costs and may represent a competitive advantage for *N-Pharma*’s branded drugs
- some consumers may prefer to buy drugs produced in their own country (this could be for political reasons, for example to support national economies, or because they feel safer about the quality control systems in place)
- managerial economies of scale can be achieved (and all the operations may be in one location, which is beneficial for the organizational structure and for the supply chain)
- knowledge of the national markets is important for marketing and distribution (because of the cultural differences between Vietnam, USA and Chile for example)
- *accept any other relevant advantage.*

Disadvantages include:

- economies of scale for the manufacturing of drugs cannot be achieved (the same drugs are produced in all the countries where *N-Pharma* has subsidiaries)
- if one area/department of the subsidiary suffers (as in Canada or Australia), the entire subsidiary may be financially affected
- subsidiaries may end up working in isolation from one another, which is not good for R&D as it may lead to duplication of efforts and waste of time
- the Japanese headquarters at Tsukuba may only become aware of problems when it is too late (as with the USA subsidiary)
- *accept any other relevant disadvantage.*

The candidate’s answer should be a balanced substantiated discussion that is supported by evidence from the case study.

Candidates may come to a conclusion/judgment for the top markband that the advantages outweigh the disadvantages or vice versa.

Marks should be allocated according to the markbands on page 4.

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MARKSCHEME

November 2010

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

22 pages

– 2 –

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A		Section B			Level descriptors	
		(c) questions				
Q1 (c)	Q2 (d)	Q3 (c)	Q4 (c)	Q5 (c)		
Marks 0–5						
0		<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology. 				
1–2		<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the stimulus material. The response is mainly theoretical. 				
3–4		<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the stimulus material, not just to the name of the organization. 				
5		<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the stimulus material. 				

Section B			Level descriptors	
(d) questions				
Q3 (d)	Q4 (d)	Q5 (d)		
Marks 0–7				
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology. 	
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the stimulus material. 	
3–4			<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues and concepts. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the stimulus material, not just to the name of the organization. • The response is mainly theoretical. 	
5–6			<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the stimulus material are made at places in the response. 	
7			<ul style="list-style-type: none"> • A response with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the stimulus material are made throughout the response. 	

SECTION A

1. (a) Outline *two* advantages for Alejandra's father of changing the legal status of *LCS* from a sole trader to a private limited company. **[4 marks]**

Advantages of changing legal status from a sole trader include:

- investors such as Alejandra and her father have limited liability, which is to say that their liability is limited to their investment in the company
- as a private limited company has a legal existence separate from the owners, it increases the likelihood of a successful continuity in the event of the death of one of the principals/principal shareholders
- ownership of the company can be more easily transferred (note that Alejandra purchases additional shares every year)
- shares can provide an additional source of compensation, which may be appropriate in the case of *LCS*
- with a private limited company, there is a convenient legal structure (selling shares) to raise additional equity capital
- banks, trade creditors and other external sources of finance are generally more likely to lend money/provide finance to private limited companies.

Accept any other relevant advantage outlined.

Award **[1 mark]** for each relevant advantage identified of changing legal status to a private limited company up to **[2 marks]**. For each advantage identified (up to two), award an additional **[1 mark]** if the advantage is briefly explained or summarized, is appropriate to the circumstances of *LCS*, and the candidate has made explicit reference to the stimulus material up to **[2 marks]**. Award a maximum of **[4 marks]**.

- (b) (i) Prepare a monthly cash-flow forecast for the first six months of operation of the new wholesale facility of LCS.**

[6 marks]

	January	February	March	April	May	June
Cash sales						
Credit sales received		10 000	10 200	10 404	10 612	10 824
Capital introduced	60 000					
Total receipts	60 000	10 000	10 200	10 404	10 612	10 824
Payments						
Purchase equipment	60 000					
Meat purchases	3 000	3 060	3 121	3 184	3 247	3 312
Wages	3 000	3 000	3 000	3 000	3 000	3 000
Monthly charges*	3150	3150	3150	3150	3150	3150
Electricity	400		400		400	
Total payments	69 550	9 210	9 671	9 334	9 797	9 462
Net cash flow	–9 550	790	529	1 070	815	1 362
Opening balance	0	–9 550	–8 760	–8 231	–7 161	–6 346
Closing balance	–9 550	–8 760	–8 231	–7 161	–6 346	–4 984

* Monthly charges: telephone, rent, debt repayment, insurance and miscellaneous.

[1 mark]

The candidate conveys some understanding of what a cash-flow forecast is, but otherwise the forecast is largely inaccurate, incomplete, or illegible.

[2 to 3 marks]

A cash-flow forecast is drawn, but either it is not in a generally accepted format or it is untidy, and the forecast contains two or more errors.

[4 to 5 marks]

The cash-flow forecast is drawn essentially correctly and neatly in a generally accepted format. Award **[5 marks]** if there is one error, **[4 marks]** if there are two errors. If the candidate produces an accurate cash-flow forecast (that is, the final closing balance is correct and the means by which the candidate arrived at that figure is clear and logical) but does not use a generally accepted format, award **[5 marks]**.

[6 marks]

The cash-flow forecast is drawn accurately and neatly in a generally accepted format, and is error free. Candidates may round figures, as is done here, but are not required to.

Do not penalize a response more than once for errors that are carried forward.

- (ii) Comment on the impact that the *new wholesale facility* will have on the current cash position and cash flow of *LCS*.

[5 marks]

The impact of the new location on *LCS* appears positive in the long run, assuming that her forecasted sales materialize rather quickly. After expenses, the company has positive cash flow on a monthly basis and by the end of six months is averaging over US\$1000 a month. In the short run, the cash position of *LCS* will be much lower, as in the first month of the new location there will be a net cash outflow of US\$9550, reducing the company's total cash to less than US\$5000. This may be less of a reserve than the company is accustomed to or is comfortable with. Moreover, these are forecasts. The actual net cash flow could be lower. Until the new location is fully established and the debt is paid off, *LCS* may struggle both to pay off the debt and pay US\$12 000 a year in dividends. For Alejandra personally, suspension of the dividends might not be a problem; she has her salary. For her father, however, this might be a concern.

[1 to 3 marks]

The answer is basic and does not question the accuracy or reliability of cash-flow projections or if the candidate fails to recognize that the trend of the cash-flow forecast is negative. For **[3 marks]** there is recognition that the cash flow is positive but reduces the company's total cash.

[4 to 5 marks]

The candidate recognizes that the cash-flow projections, and extrapolations therefrom for the months following, suggest that the new facility will have a net cash flow that reduces the company's total cash and that they need to take into consideration the loan repayments, which may have to be paid by the established *LCS* location until the new facility becomes more established.

- (c) Examine *two financial rewards LCS could use to “encourage effective leadership and strong performance by the senior butcher”.* **[5 marks]**

Financial rewards available to *LCS* to encourage effective leadership and strong performance could include:

- commissions based upon sales volume
- salary increases based upon sustained sales volume and low employee turnover (performance-related pay)
- shares in the company (some type of share-ownership scheme)
- some form of profit-related pay.

The purpose of rewards such as these are to give the senior butcher some sort of figurative or literal ownership in the company – that is, to elevate the interest in the senior butcher to a level higher than merely someone collecting a salary. Rewards based upon sales volume alone expands volume, but *LCS* runs the risk that the senior butcher will not focus on other aspects of the business. If the reward is based upon sales volume and low employee turnover, the senior butcher then has to consider more aspects of the business than sales. However, sometimes there is employee turnover that is beyond the control of the manager and this may be a disincentive to the senior butcher that his salary increases are linked to external factors. Share of the company would give the senior butcher literal ownership of the company, but Alejandra would lose some ownership in the company. Profit-sharing has many advantages, in that it gives the senior butcher an interest in the company’s success and is tied to profits (which in theory include all the costs of a business, including human resource practices that influence turnover). Alejandra would also not have to give up ownership in the company. However, profit-sharing is usually governed by a contract and, if profits soared, *LCS* might have to pay more in profit-sharing than it would prefer.

Each of the above rewards has advantages and disadvantages. Alejandra should select the one that has the best fit with the overall aims of the business.

Accept any other relevant examination.

If the response is a one-sided relevant approach with no examination, award a maximum of **[3 marks]**. If only one financial reward is examined, award a maximum of **[3 marks]**.

Marks should be allocated according to the markbands on page 3.

2. (a) With reference to *ThaiModa* and *Sleek Textiles*, outline two differences between a strategic alliance and a joint venture.

[4 marks]

Differences between a strategic alliance and a joint venture include:

- Whereas strategic alliances usually have legal standing (that is, there is some documented understanding of the relationship between strategic partners: “Both companies agreed to sell each other’s products in their showrooms and share their design resources in Thailand. *ThaiModa* also uses *Sleek Textiles*’ extensive international sales network, primarily in Austria, Australia, Germany and Malaysia”), a joint venture will have a legal existence separate from the organizations or persons forming the venture. In other words, the joint venture will legally constitute a new organization and will not be merely a documented understanding.
- Strategic alliances are typically formed when two or more companies can achieve synergies without fundamentally changing their individual long-term strategies. In the case of *ThaiModa* and *Sleek Textiles*, their strategic alliance allows each company to grow without changing the strategy of either company. Joint ventures are typically created when companies want some aspect of their company to go in a new direction (in this case, antibacterial fabrics) and realize that they can benefit by sharing expertise and resources with another company or companies.
- Although strategic alliances may be long-term, because they typically do not have legal existence apart from the companies involved (as noted above, they typically have a legal understanding between companies), they are generally easier to enter and easier to exit. If *ThaiModa* found that it was getting no benefit from its strategic alliance with *Sleek Textiles*, it would get out of the relationship easily. Joint ventures, on the other hand, involve the creation of a new legal entity (the joint venture) and are typically more difficult to terminate, as the new legal entity will have legal obligations, such as debt and leased space, that require complicated negotiations for resolution.

Accept any other relevant difference outlined.

Award **[1 mark]** for each difference between a strategic alliance and a joint venture that the candidate identifies, up to **[2 marks]**. For each difference identified, award an additional **[1 mark]** if the difference is briefly explained or summarized, is appropriate to the circumstances of the stimulus material, and the candidate has made explicit reference to the stimulus, up to **[2 marks]**. Award a maximum of **[4 marks]**.

– 10 –

N10/3/BUSMT/SP2/ENG/TZ0/XX/M

- (b) Calculate the missing figures X, Y, Z and with those figures and from the financial information provided, construct a complete balance sheet for *ThaiModa* for 2009.

[7 marks]

$$X = 249, Y = 2458, Z = 1503$$

***ThaiModa* balance sheet as at 31 May 2009 (in millions of Thai baht)**

Fixed assets		1555
Current assets		
Stock	781	
Debtors	479	
Cash	243	
Total current assets		1503
Current liabilities		
Creditors	249	
Short-term borrowing	351	
Total current liabilities		600
Net assets		2458
Share capital		1150
Retained profit		1308
Capital employed		2458

Award **[1 mark]** each for the calculation of (X) creditors, (Y) net assets, and (Z) total current assets. Maximum award for calculations: **[3 marks]**.

In terms of layout, award **[4 marks]** for a fully accurate and fully labelled balance sheet that conforms to the layout in the guide. If the balance sheet balances but the order of the assets or liabilities is slightly inaccurate (according to the generally accepted method the candidate has chosen), award **[3 marks]**. If the balance sheet balances but the order of the assets or liabilities is significantly inaccurate, such as placing share capital and retained profit as a liability, award **[2 marks]**. Award **[1 mark]** if the candidate conveys some understanding of a balance sheet and some sense that assets equal liabilities + owners' equity.

Candidates do not have to list total current assets or total current liabilities as separate lines.

– 11 –

N10/3/BUSMT/SP2/ENG/TZ0/XX/M

- (c) (i) Calculate the acid test (quick) ratio of *ThaiModa*. [1 mark]**

$$\frac{\text{Current assets} - \text{stock}}{\text{Current liabilities}} = \frac{1503 - 781}{600} = 1.2$$

Award **[1 mark]** for the correct calculation. Apply Own Figure Rule (OFR).

- (ii) Calculate the current ratio of *ThaiModa*. [1 mark]**

$$\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{1503}{600} = 2.5$$

Award **[1 mark]** for the correct calculation. Apply Own Figure Rule (OFR).

- (iii) Using these ratios, briefly comment on the liquidity position of *ThaiModa*. [2 marks]**

A manufacturing company should typically have a current ratio between 1.5 and 2 and an acid test ratio greater than 1. *ThaiModa* certainly has an acceptable level of liquidity despite its significant investment in inventory.

Award **[1 mark]** if the candidate notes that the liquidity is strong but provides no basis for that assertion or makes no other relevant or meaningful commentary.

Award **[2 marks]** if the candidate assesses the liquidity position favourably and provides some basis for that judgment or notes that *ThaiModa* has a strong liquidity position despite its significant investment in inventory or makes some other relevant and meaningful commentary on the liquidity.

- (d) Examine *one* possible advantage and *one* possible disadvantage for *ThaiModa* of the joint venture with *Sleek Textiles*. *[5 marks]*

In forming a joint venture, *ThaiModa* will benefit from *Sleek Textiles'* expertise in the textile industry, including a human resource pool that has knowledge of the textile industry, production facilities (or, if a new production facility has to be built, established contacts with companies that supply textile manufacturers), expertise in the actual production of cloth (once the new fabric is developed), and insight/infrastructure for marketing the new textiles. *ThaiModa* will enjoy the advantages of growth without having to lose its identity, both *ThaiModa* and *Sleek Textiles* can specialize in their respective areas of business while avoiding the high legal and administrative costs of a takeover.

However, some joint ventures do not achieve the desired results. Sometimes in joint ventures, compromises are made that are not ideal for either company individually or for the joint venture (which, had a takeover occurred, the purchasing company would and could act more decisively in terms of achieving its objectives). As with any partnership, disagreements can occur. *ThaiModa* or *Sleek Textiles* might regret the partnership were either one to conclude, after the fact, that it could have been as or more profitable without the joint venture.

Accept any other relevant possible advantage and disadvantage examined.

If the response is a one-sided relevant approach with no examination, award a maximum of *[3 marks]*. If only one possible advantage **or** disadvantage is examined, award a maximum of *[3 marks]*.

Marks should be allocated according to the markbands on page 3.

SECTION B**3. (a) Describe *one* marketing advantage for *Cyprus Tours* of owning its own cars. [2 marks]**

Examples of marketing advantages for *Cyprus Tours* of owning its own cars include:

- price: *Cyprus Tours* will have greater control over the price of transport and can adjust price according to its strategic needs
- promotion: *Cyprus Tours* could have the company's name, logo, and contact information on the vehicles, thus providing a form of promotion
- product: owning the vehicles itself and providing its own drivers, *Cyprus Tours* has greater control over the quality of the vehicles and the service
- people: the drivers of the vehicles, as employees of *Cyprus Tours*, can be proactive and positive representatives of the company and can cross-sell products and services.

Accept any other relevant marketing advantage.

Award **[1 mark]** for an appropriate and correct marketing advantage identified and **[2 marks]** for a correct description that includes specific reference to the stimulus material. If there is no reference to the stimulus material, award no more than **[1 mark]**.

(b) Calculate, showing all your working:

- (i) the payback period and the average rate of return (ARR) for the petrol-only cars. **[3 marks]**

Payback period

$$= \frac{\text{Capital outlay (cost)}}{\text{Net return (profit) per annum}} = \frac{\text{€}400\,000}{\text{€}85\,000} = 4.7059 \text{ years}$$

$$0.7059 \times 12 \text{ months} = 8.47 \text{ months} \approx 9 \text{ months}$$

Payback period is 4 years and 9 months (accept 4 years and 8.47 months)

Average rate of return

$$= \frac{\text{Net return (profit) per annum}}{\text{Capital outlay (cost)}} \times 100$$

Net return (profit) per annum: €85 000

Capital outlay (cost): €400 000

$$\frac{\text{€}85\,000}{\text{€}400\,000} = 0.2125$$

$$0.2125 \times 100 = 21.25$$

Average rate of return on petrol-only cars = 21.25 %

Award **[1 mark]** for each correct answer for a maximum of **[2 marks]** and award **[1 mark]** for correct workings of both the payback period and the average rate of return. Award a maximum of **[3 marks]**. If correct calculations for **both** are not shown, award a maximum of **[2 marks]**.

– 15 –

N10/3/BUSMT/SP2/ENG/TZ0/XX/M

- (ii) the payback period *and* the average rate of return (ARR) for the hybrid cars.

*[3 marks]***Payback period**

$$\frac{\text{€}500\,000}{\text{€}85\,000} = 5.88235 \text{ years}$$

$$0.88235 \times 12 \text{ months} = 10.59 \text{ months} \approx 11 \text{ months}$$

Payback period is 5 years and 11 months (accept 5 years and 10.59 months)

Average rate of return

Net return (profit) per annum: €85 000

Capital outlay (cost): €500 000 ($\text{€}400\,000 \times 1.25$)

$$\frac{\text{€}85\,000}{\text{€}500\,000} = 0.17$$

$$0.17 \times 100 = 17$$

Average rate of return on hybrid cars = 17%

Award **[1 mark]** for each correct answer for a maximum of **[2 marks]** and award **[1 mark]** for correct workings of both the payback period and the average rate of return. Award a maximum of **[3 marks]**. If correct calculations for **both** are not shown, award a maximum of **[2 marks]**.

- (c) Analyse the usefulness for *Cyprus Tours* of using the payback period and the average rate of return (ARR) methods for investment appraisal. **[5 marks]**

For *Cyprus Tours*, as for any company, the payback method is simple to use and it lets the company know how quickly the investment will be repaid. This is especially helpful when technologies are changing rapidly and the investment is subject to technological obsolescence. Also, although the payback method does not refer specifically to paying back external sources of funds, almost certainly *Cyprus Tours* will have to borrow money to purchase the vehicles and, in some sense, the payback method will correspond to debt repayment. For small companies like *Cyprus Tours*, without a broad range of revenue streams, this can give some peace of mind – knowing when the investment/debt will be repaid. A drawback to the payback method is that it does not take into account cash earned after the payback nor the profitability of the investment considered.

The average rate of return (ARR), on the other hand, will clearly show *Cyprus Tours* the profitability of the investment. That way, *Cyprus Tours* can compare the investment of funds in the vehicles to other possible investments. ARR does not take into account the time value of money.

Accept any other relevant analysis.

If the response is a one-sided relevant approach with no analysis, award a maximum of **[3 marks]**. If the usefulness of only **one** investment appraisal is analysed, award a maximum of **[3 marks]**.

Marks should be allocated according to the markbands on page 3.

(d) Discuss whether *Cyprus Tours* should purchase the hybrid cars.**[7 marks]**

Cyprus Tours' decision whether to purchase hybrid cars depends on the company's commitment to social responsibility and their estimation of the validity of their forecasts.

From the point of view of social responsibility, unquestionably the company should purchase the hybrids, which are better for the environment and reduce *Cyprus Tour's* dependence on imported oil. Furthermore, the people of Cyprus want to preserve the environment of their small island not only for its own sake, but also for tourism, which is one of the most important industries in Cyprus. *Cyprus Tours* might be in a position to use hybrids for marketing purposes, as many consumers at least claim to be committed to "going green".

On the other hand, saving €100 000 over six years is a significant saving for a small business. Moreover, were the forecasts too optimistic and the profits from the vehicles lower, the burden of the additional cost of the hybrids could pose a real problem for the company. The company would, nevertheless, have to consider the potential damage in the marketplace it would suffer from using petrol-only cars. If the pressure groups focused on specific companies, and *Cyprus Tours* were one of them, the negative publicity could hurt the company. Also, purchasing the hybrid cars would result in redundancies and reduced bonuses in order to fund the initial investment, which may subsequently reduce employee motivation and morale.

One alternative would be to purchase five petrol-only cars and five hybrids. This way, the company could achieve some savings from the less expensive petrol-only cars, while also demonstrating, to some degree, its social responsibility.

Accept any other relevant discussion.

If the response is a one-sided relevant approach with no discussion, award a maximum of **[4 marks]**.

Marks should be allocated according to the markbands on page 4.

4. (a) Define the term *job production*. [2 marks]

Job production refers to the process of production whereby each order (job) is manufactured when the order comes in and according to the individual specifications of the order (thus each order is a one-off). Job production typically involves products that are expensive and are designed according to the particular needs and wants of a specific buyer.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

(b) (i) With reference to MKD, distinguish between fixed costs and variable costs.**[4 marks]**

Fixed costs are costs that do not vary with output; variable costs do. Compared to traditional house construction companies, MKD has higher fixed costs and lower variable costs. The higher fixed costs stem from the fact that the company maintains a factory, which has fixed costs such as rent, which do not change regardless of output. By using a factory, however, the company is able to build modules/the houses more efficiently, thus lowering the variable costs of the company (expenses such as petrol, wages, materials (due to less waste), etc.).

Accept any other relevant answer.

If the candidate demonstrates some understanding between fixed and variable costs, but their understanding is vague or imprecise and they make no reference to the stimulus material, award **[1 mark]**.

For **[2 marks]** or more the candidate must convey the idea, however worded, that variable costs change **with output** while fixed costs do not.

For **[2 to 3 marks]**, the candidate demonstrates understanding, but the application to the stimulus material may be limited, the response may lack balance, or there may be some lack of clarity.

For **[4 marks]**, the candidate clearly distinguishes between fixed and variable costs (and includes the idea of output) and explains the distinction clearly in terms of the specifics of MKD.

(ii) Explain *one* reason why it is important for MKD to strengthen its brand.

[2 marks]

One reason could include:

- With the competition in the market, MKD needs to raise awareness of the brand for a competitive edge, especially during the severe downturn in the market.

Other reasons could include that branding:

- creates product awareness
- can relay a product's performance
- helps to ensure customers will remember a company and can create brand loyalty
- makes marketing so much easier
- promotes sales.

Accept any other relevant explanation.

Award **[1 mark]** for a relevant and appropriate reason identified, and **[1 mark]** for a relevant and appropriate explanation of the reason, up to **[2 marks]**.

(c) With reference to MKD, analyse the role of a mission statement and a vision statement.

[5 marks]

A mission statement conveys the fundamental purpose of the organization. It defines critical processes and allows the company and customers to know the meaningful and measurable criteria of the company, thus allowing some understanding of the desired level of performance. A vision statement is loftier, more abstract. It outlines what the organization wants to be, or how it wants the world in which it operates to be. It concentrates on the future. It is a source of inspiration.

Both mission and vision statements provide clear decision-making criteria. Because MKD's mission and vision powerfully outline socially responsible objectives, the mission and vision statements are crucially important tools providing guidance, primarily to Michelle and her employees but also to all stakeholders. The company's commitment to green construction and green processes is constantly being challenged by merely the fact that non-green options are available everywhere and at lower cost. Pressure is further added because some of the clients/potential clients are pressuring the company to make compromises. The company can constantly turn to their mission and vision statements to help make decisions, assuming everyone in the company buys into them.

Accept any other relevant analysis.

– 20 –

N10/3/BUSMT/SP2/ENG/TZ0/XX/M

If the response is a one-sided relevant approach with no analysis, award a maximum of **[3 marks]**. If the role of only a mission **or** a vision statement is analysed, award a maximum of **[3 marks]**.

Marks should be allocated according to the markbands on page 3.

- (d) **Discuss whether Michelle should start using “non-environmentally friendly materials to keep prices down”.** **[7 marks]**

Although for some companies the question of whether to “go green” is open, for a company such as *MKD*, it is less so. To be sure, making some compromises on materials would not entirely vitiate the company’s commitment to “Making green architecture affordable to everyone”. Also, some might argue that making “semi-green” architecture affordable is still laudable. Nonetheless, once compromises were made, the company’s commitment to being green would be weakened and could lead to further erosion of its vision and mission statement. Moreover, the company would open itself to charges of hypocrisy by any competitors who were not making such compromises. To be consistent with both the vision statement and the mission statement of the company, *MKD* must continue to strive to live by its principles. The downturn in the United States (USA) housing market has probably put real pressure on Michelle, and perhaps the only justification for making compromises on materials used would be if the very existence of the company were at stake.

Accept any other relevant discussion.

If the response is a one-sided relevant approach with no discussion, award a maximum of **[4 marks]**.

Marks should be allocated according to the markbands on page 4.

5. (a) Outline the importance of innovation for *Café Paradise*. [2 marks]

Innovation is the commercial use of new inventions or processes. For *Café Paradise*, innovation has been important on two occasions in the business, the first when Imran transformed his business into an Internet café and now, at the current stage, when he is determining the next phase of the business. In both instances, new technologies, first the Internet and second Wi-Fi, have played a major role in his decision to innovate and, in both instances, the decisions regarding innovation had and will have an important impact on the success of the business.

Award **[1 mark]** for a general statement about innovation in business that demonstrates some understanding of the concept. Award **[2 marks]** for a brief explanation or summary of the importance of innovation for *Café Paradise*.

(b) Explain the effect of *one political, one economic and one social factor* on *Café Paradise*. [6 marks]

Political factors referred to in the stimulus material include the Moroccan government's commitment to making computer use easier by having Wi-Fi available in major cities and a provincial governor issuing warnings about a certain pressure group, a sign that governmental action could be a factor restricting access to certain web sites. The first will increase personal and laptop computer use, thereby decreasing demand for Internet cafés. If the government restricts web site access, that could further reduce demand for Internet cafés.

An economic factor referred to in the stimulus material is the downturn in the economy. A weaker economy could mean that consumers have less money for discretionary uses, like going out to a café. On the other hand, with less money for discretionary spending, consumers may delay the purchase of a major item, like a computer, and continue to use Internet cafés.

Social factors referred to in the stimulus material include increased usage of personal computers by Moroccans, who are increasingly knowledgeable about computers (innovation), and potentially growing concern about access to certain web sites. As even more Moroccans use computers on a regular basis, they will tend toward owning their own, reducing the need for "traditional" Internet cafés. However, there could be some backlash against computer use by the more socially conservative members of society.

Accept any other relevant explanation.

Mark as 2+2+2.

Award **[1 mark]** for identification of a political factor, **[1 mark]** for an economic factor, and **[1 mark]** for a social factor. Award an additional mark for each factor identified when the candidate explains its effect on *Café Paradise*. Do not award marks for the identification of a second political, economic, or social factor.

(c) Analyse the relationship between investment, profit and cash flow at *Café Paradise*.

[5 marks]

There is a clear relationship between investment, profit, and cash flow at *Café Paradise*. Imran's decision to transform his café into an Internet café, a decision that required investment in computers and presumably some modification to the set-up of the café, led to several years of high profits. Now, as circumstances have changed and profits have diminished, he must consider his next investment option, whether to buy new computers or to transform his café into a next-generation café. Whichever way the business goes, it will be Imran's intention to see an increase in profits. Regardless of which path he chooses, in the short term he will probably experience some cash flow challenges. Revenues will rise, but in terms of cash position or cash flow, it will take several years to recoup the investment.

Accept any other relevant analysis.

Marks should be allocated according to the markbands on page 3.

(d) Evaluate Akila's recommendation for the future direction of *Café Paradise*. **[7 marks]**

There are many strengths to Akila's recommendation. The "boom years" for Internet cafés are clearly over in the major cities of Morocco, as many individuals now possess their own computers. Even if the business could earn enough profit to pay for the computers, the profitability from "traditional" Internet cafés is not what it formerly was and will probably never be again. Akila's suggestion requires a significantly lower capital investment and the business will have substantially reduced operating expenses (laying-off the two remaining part-time employees).

On the other hand, with their established customer base accustomed to an Internet café, they may find that if they no longer offer computer access, they may lose many customers. Also, with the economy in recession, it is possible that the sale of personal computers will slow and there will continue to be demand for Internet cafés. With the Internet café "industry" in decline, possibly other Internet cafés are closing, reducing competition, which might give further life to *Café Paradise*'s current business model.

The Kwashanes should conduct a thorough marketing analysis to determine which action to take.

Accept any other relevant evaluation.

If the response is a one-sided relevant approach with no evaluation, award a maximum of **[4 marks]**.

Marks should be allocated according to the markbands on page 4.

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MARKSCHEME

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BUSINESS AND MANAGEMENT

Standard Level

Paper 1

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– 2 –

M11/3/BUSMT/SP1/ENG/TZ0/XX/M

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A			Level descriptors
Q1 (c)	Q2 (c)	Q3 (d)	
Marks 0–7			
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the case study.
3–5			<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the case study, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical.
6–7			<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the case study.

Section B	
Q4 (d)	Level descriptors
Marks 0–8	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study.
3–4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the case study, not just to the name of the organization. • The response is mainly theoretical.
5–6	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the case study are made at places in the response.
7–8	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the case study are made throughout the response.

SECTION A**1. (a) (i) Identify two external stakeholders of *Reach Out*. [2 marks]**

External stakeholders of *Reach Out* include:

- families of children with autism (and children themselves) – do not count twice
- private therapists (accept “private sector companies” but not just “competitors”)
- local university and trainee teachers who need work experience with children with autism
- companies producing communication resources/PECS cards
- government (local, regional or national – not all)
- accept any other relevant external stakeholder (as long as they are relevant for *Reach Out* – for example “suppliers” is too vague unless specified).

Award **[1 mark]** for each correct and relevant external stakeholder identified up to a maximum of **[2 marks]**.

(ii) Outline a possible interest of one of *Reach Out*'s external stakeholders identified in part (i). [2 marks]

Answers will depend on the chosen stakeholder – for example, the private therapists see *Reach Out* therapists (trainee teachers) as a new form of competition (*i.e.* new entrants); *Reach Out*'s approach to pricing (up to four times cheaper) presents a real threat to them, hence the interest. They may protest or complain over the fact that the *Reach Out* therapists are not professionally qualified.

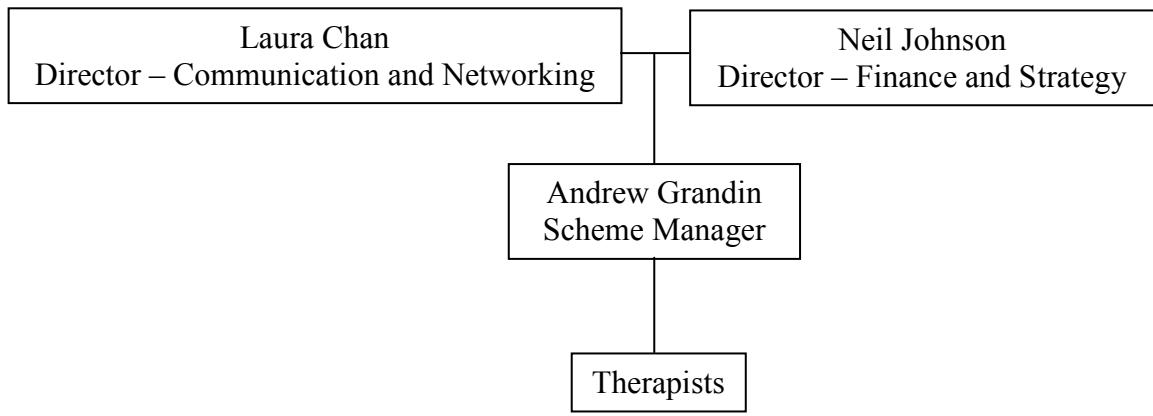
Accept any other relevant outline.

Award **[1 mark]** for a basic outline of a possible interest of one external stakeholder identified in part (i).

Award **[2 marks]** for a clear outline of a possible interest of one external stakeholder identified in part (i); for **[2 marks]** the interest must be realistic and explicit.

If the chosen external stakeholder is not from the answer to part (i), award a maximum of **[1 mark]**, no matter how good the outline of the possible interest.

- (b) Construct a fully labelled organizational chart of *Reach Out* after the appointment of Andrew Grandin. **[4 marks]**



Note: the job titles might be on one side, depending on the layout.

Award **[1 mark]** for the relationship between Neil and Laura (at the same level).

Award **[1 mark]** for the relationship between Andrew, Neil and Laura (Andrew reporting to both of them).

Award **[1 mark]** for the relationship between Andrew and the therapists (trainee teachers) (the number of therapists on the chart does not matter).

Award **[1 mark]** for the labelling of the job titles (for Andrew, accept alternatives such as "manager" or "therapists manager"; for Laura and Neil, accept "co-directors").

(c) Analyse the advantages *and* disadvantages for *Reach Out* of accepting the sponsorship offer from *N-Pharma* (Option 3).

[7 marks]

Advantages include:

- a new and regular source of income for *Reach Out* (\$10 000 a month), without any need for extra work/activities/spending
- the sponsorship from *N-Pharma* could, in turn, attract other sponsors
- the marketing advantage of being associated with *N-Pharma* – a well-known company
- potential advice and support
- information or research into autism
- accept any other relevant advantage.

Disadvantages include:

- compromising *Reach Out*'s integrity (Laura's main argument against it)
- there is no link between a pharmaceutical company and the mission and vision statement of *Reach Out* (other than research on autism, *line 137*), so it is not clear what message this sponsorship would communicate to *Reach Out*'s stakeholders
- should *N-Pharma* suffer bad publicity, *Reach Out* too could be negatively affected
- accept any other relevant disadvantage.

Accept any other relevant analysis.

Marks should be allocated according to the markbands on page 3.

2. (a) Neil Johnson has prepared a business plan for *Reach Out* (line 31). Identify four elements of a business plan. **[4 marks]**

Possible elements could include:

- an overall summary
- the mission statement/vision statement
- the aims/objectives of the business
- a section about legal status
- a section about marketing
- a section about human resources (HR)
- a section about operations
- a section about finance/accounting
- a calculation of start-up costs
- appendices such as cash-flow forecast
- accept any other relevant element.

Award **[1 mark]** for each correct element identified, up to a maximum of **[4 marks]**.

- (b) With reference to *Reach Out*, distinguish between a vision statement and a mission statement (lines 44–47). **[4 marks]**

The vision statement is about the future: it presents the purpose of the organization, usually in terms of values or ideals. *Reach Out*'s vision is that "no child with autism will be left behind": this is *Reach Out*'s driving force, the ultimate aim they seek, hence the idea of "vision".

In contrast, the mission statement is a concise description of what the organization does: in the case of *Reach Out*, they "provide online support for families of children with autism". It is concrete and practical: it is about what they already do (e.g. through Laura's blog and web site), their purpose or what they want to do as soon as possible ("to offer them communication resources at a greatly reduced price").

Accept any other relevant distinction.

[1 to 2 marks]

Award **[1 mark]** for an answer that just copies/lifts quotes from the case study.

Award **[2 marks]** for an answer that shows some limited understanding of the difference between a vision statement and a mission statement, for example through a theoretical definition of the two.

[3 to 4 marks]

Award **[3 marks]** for an answer that combines "theory" (i.e. definition) and "practice" (i.e. reference to the case study). Award **[4 marks]** for an answer that clearly distinguishes between a vision statement and a mission statement, stressing the difference, with explicit reference to *Reach Out*.

– 9 –

M11/3/BUSMT/SP1/ENG/TZ0/XX/M

- (c) Analyse the importance of information and communication technology (ICT) in the creation *and* operations of *Reach Out*.

[7 marks]

On the one hand, ICT played an important role right from the beginning as *Reach Out* is originally based on Laura's blog about raising a child with autism. That blog even enabled Laura and Neil to meet, as Neil read it and saw the business potential. The first part of *Reach Out*'s mission statement is about online activities; some fundraising comes from it and it has further potential, for example with the sponsorship from *N-Pharma*. ICT is also important in the interactions between families and therapists; it is through ICT shortcomings that Neil found out that Andrew is not able to use a computer, which is a major problem for *Reach Out*, as they rely a lot on electronic communication.

On the other hand, ICT remains a tool to support the other activities of *Reach Out*, especially the current therapist scheme and the future marketing of communication resources such as PECS cards. Both could not just exist virtually: therapists need to be in a room with the children, the PECS cards have to be real objects in the hands of the parents.

Accept any other relevant analysis.

Answers must be balanced and analyse both creation **and** operations for full marks.

Note: the balance may be between creation and operations; it does not have to be “for” and “against” the importance of ICT.

Marks should be allocated according to the markbands on page 3.

3. (a) Define the term *corporate social responsibility* (line 138).

[2 marks]

A socially responsible business is one that realises it has an obligation or commitment which incorporates the interests of various stakeholders and the environment in a manner which is deemed to be beneficial and correct according to societal values, *e.g.* a socially responsible business may manufacture products in such a way as to limit carbon emissions. (This includes behaving **ethically** to its stakeholders.)

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the case study award **[1 mark]**.

– 10 –

M11/3/BUSMT/SP1/ENG/TZ0/XX/M

(b) Identify two possible indirect costs of Reach Out.**[2 marks]**

Organizations' indirect costs include rent, utilities, taxes *etc*. Possible answers in the case of *Reach Out* include the electricity bill, internet access and web site hosting – though a range of other answers can be accepted (*e.g.* office sundries, even rent as Laura's office is in her house and *Reach Out* could pay her some rent).

Award **[1 mark]** for each correct possible indirect cost relevant to *Reach Out* identified, up to a maximum of **[2 marks]**.

(c) Using information from Appendix 1,

- (i) calculate the total cash receipts and the closing balance at the end of September 2010 if all figures follow the same pattern as in the previous months.**

[2 marks]

	September 2010
Opening balance (start of month)	16 920
Cash receipts	
Commission from therapist scheme	32 000
Charity contributions (donations)	200
Total cash receipts	32 200
Cash paid out (expenses)	
Neil's salary (10% of cash receipts)	3220
Laura's salary	2000
Andrew's salary	1000
Direct costs	350
Indirect costs	150
Total cash paid out	6720
Net cash flow	25 480
Closing balance (end of month)	42 400

Candidates are not expected to complete the cash-flow forecast for September as above.

Total cash receipts = 32 200

Closing balance = 42 400

Award **[1 mark]** for each correct calculation, up to a maximum of **[2 marks]**.

- (ii) calculate the total cash receipts *and* the closing balance at the end of September 2010 if Neil Johnson's proposal to ask families to pay higher fees (*lines 121–124*) is implemented that month.

[2 marks]

	September 2010
Opening balance (start of month)	16 920
Cash receipts	
Commission from therapist scheme	64 000
Charity contributions (donations)	200
Total cash receipts	64 200
Cash paid out (expenses)	
Neil's salary (10 % of cash receipts)	6420
Laura's salary	2000
Andrew's salary	1000
Direct costs	350
Indirect costs	150
Total cash paid out	9920
Net cash flow	54 280
Closing balance (end of month)	71 200

Candidates are not expected to complete the cash-flow forecast for September as above.

Total cash receipts = 64 200

Closing balance = 71 200

Award **[1 mark]** for each correct calculation, up to a maximum of **[2 marks]**.

(d) Examine the success of two elements of the marketing mix used by *Reach Out*. [7 marks]

The 7 Ps of the marketing mix may be used here: candidates are expected to examine two elements from the list of price, product, promotion, place, people, process and physical evidence.

Example for promotion:

Reach Out's promotion has two main channels: Laura's blog (and other online activities such as podcasts where she must mention the therapist scheme) and word-of-mouth (as parents of children with autism must talk to one another about the scheme). This has been very successful (as “the number of families asking for support was doubling each month” (*lines 77–78*), ensuring an ever increasing stream of income for *Reach Out* (see monthly cash flow) but many other promotional methods could be considered. Neil's proposal about brand development would further develop *Reach Out's* notoriety and goodwill, which could also help with further fundraising. At the moment, fundraising is a minor source of income (\$200 on average a month) but it has a lot of potential (*e.g.* with the sponsorship from *N-Pharma*) – however, promotion and communication are essential: this is one aspect of its marketing mix that has been successful but *Reach Out* could further develop.

Example for people:

People here refers to all the staff of *Reach Out*: the two directors, Andrew as well as the therapists. They all have skills and strengths that contribute to the success of *Reach Out* (*e.g.* Neil's business acumen, Laura's passion and drive) but some weaknesses too (*e.g.* Andrew's inability to use a computer, the therapists' lack of qualifications). From a marketing viewpoint, *Reach Out* could further use its strengths (*e.g.* Laura's and Andrew's personalities for networking and fundraising) – however they have to be careful that the weaknesses do not negatively affect the charity (*e.g.* Andrew's lack of computer literacy blocking the process of booking/confirming therapists' sessions). This is an aspect of the marketing mix that has not been so successful.

Accept any other relevant examination.

If the response is a one-sided relevant approach with no examination, award a maximum of **[4 marks]**. If only one element of the marketing mix is examined, award a maximum of **[4 marks]**.

Marks should be allocated according to the markbands on page 3.

SECTION B**4. (a) Identify *four* elements of the process of setting up a business. *[4 marks]***

Although there is no definite answer, the following shows what could be included:

- identifying a business opportunity *e.g.* a gap in the market
- preparing a business plan (*i.e.* considering all aspects of the venture, from objectives to finance via staffing and operations)
- finding the necessary resources especially from a financial viewpoint (funding)
- preparing the launch or the opening
- *accept any other relevant element.*

Please note that country-specific answers must be accepted.

Note: correct answers are likely to be written with verbs (*e.g.* “carry out market research”) though shorter answers such as “market research” are acceptable; vague answers however such as “finance” are not enough.

Award **[1 mark]** for each correct element identified (*e.g.* reference to objectives) up to a maximum of **[4 marks]**.

(b) Explain the purpose of *Reach Out*'s final accounts (line 32).**[4 marks]**

Final accounts include profit and loss accounts (candidates may refer to statement of financial activities (SOFA) for charities) and balance sheets (as well as others e.g. for manufacturing firms, final accounts also include trading accounts and appropriation accounts). They are called “final” because they are written at the end of a company’s financial year. The main purpose of these financial statements is to provide information to stakeholders (especially directors, managers and investors) about the financial profile, health and performance of the organization. It seems that *Reach Out* is a very successful venture but at the end of the financial year, when Neil prepares the final accounts, he will be able to calculate ratios such as current ratio and acid test ratio. He can then compare them to other charities’ benchmark performances. Once they start producing and commercializing communication resources, this will be very important; at the moment, they only deal with services and have no debt. A particular purpose here is to identify the success of the venture in meeting the needs of its client group – children with autism and their families.

[1 to 2 marks]

Award **[1 mark]** for an answer that shows some knowledge of what final accounts are (e.g. with references to profit and loss accounts (accept charity equivalent) and balance sheets). Award **[2 marks]** for an answer that refers to the purpose of final accounts at a generic, theoretical level (e.g. about providing financial information to stakeholders).

[3 to 4 marks]

Award **[3 marks]** for an answer that combines “theory” (i.e. definition) and “practice” (i.e. reference to the case study) though not fully/clearly explaining the purpose of final accounts to *Reach Out*. Award **[4 marks]** for an answer that fully and clearly explains the purpose of final accounts to *Reach Out*.

(c) Explain two reasons why Neil Johnson wishes to brand the products offered by *Reach Out* (Option 2).**[4 marks]**

Neil wishes to brand the products for several reasons:

- the name *Reach Out* is already well-known so there will be no need to spend much time and money on raising brand awareness
- some potential customers may buy the products (clothes and accessories) to support the charity as they recognize its name and its cause (children with autism)
- all marketing and promotion for the brand *Reach Out* will benefit all products (e.g. accessories) and services (e.g. the therapist scheme) that are commercialized under the same umbrella name
- to raise additional revenue for *Reach Out* which will also increase his salary.

Mark as 2+2.

Award **[1 mark]** for each correct reason identified, and **[1 mark]** for the development of that reason up to a maximum of **[2 marks]**.

- (d) **Laura Chan is unsure about the future growth of *Reach Out* (lines 156–158). Recommend an appropriate scale of operation for *Reach Out*, justifying your answer.**

[8 marks]

Laura is torn. On the one hand, she can see some of the long-term advantages of Neil's plans (for example about branding) but on the other hand she does not want *Reach Out* to grow for growth's sake.

Different scales of operations are possible:

- Neil could convince Laura that the next six months should be about maximum growth – then once *Reach Out* has one million dollars (for example as a target) of surplus in the bank, they will be able to start producing and distributing communication resources. (They will also be in a strong position to negotiate good deals with suppliers.)
- Laura could convince Neil that the focus should already be on the communication resources (the mission statement), using the ongoing revenue from the therapist scheme for funding, rather than diversifying towards sponsorship or branding.
- Laura and Neil could review the funding structure of the charity, deciding to develop the fundraising strand of income (rather than marketing, especially branding) by making use of Laura's and Andrew's public relation (PR) profile.
- Laura and Neil could realize that their ambitions, motivations and personalities are too different and that they cannot work together any more on *Reach Out*; they would need to decide on the best exit strategy (for either of them – or both of them, should they decide to fold *Reach Out* in its current form).

Accept any other relevant recommendation.

Candidates could consider the advantages and disadvantages of small versus large organizations. This could be with reference to economies of scale, bureaucracy, organization, specialization, financial security, etc.

Candidates are not expected to cover all the suggestions outlined above: they are only expected to recommend a scale of operation, examining its advantages and possibly disadvantages. The recommendation must be justified to reach the top markband.

Marks should be allocated according to the markbands on page 4.

M11/3/BUSMT/SP2/ENG/TZ0/XX/M



International Baccalaureate®
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MARKSCHEME

May 2011

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

23 pages

– 2 –

M11/3/BUSMT/SP2/ENG/TZ0/XX/M

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A		Section B					Level descriptors		
(c) questions					Q1 (c)	Q2 (c)	Q3 (c)	Q4 (c)	Q5 (c)
Marks 0–5									
0					<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology. 				
1–2					<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the stimulus material. The response is mainly theoretical. 				
3–4					<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the stimulus material, not just to the name of the organization. 				
5					<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the stimulus material. 				

Section B			Level descriptors	
(d) questions				
Q3 (d)	Q4 (d)	Q5 (d)		
Marks 0–7				
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology. 	
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the stimulus material. 	
3–4			<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of issues and concepts. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the stimulus material, not just to the name of the organization. • The response is mainly theoretical. 	
5–6			<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the stimulus material are made at places in the response. 	
7			<ul style="list-style-type: none"> • A response with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the stimulus material are made throughout the response. 	

SECTION A**1. (a) (i) Define the term *batch production*. *[2 marks]***

In batch production, items are produced in consignments and undergo a stage of the production process together. The whole consignment is then moved on to the next stage of production and another task is performed.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

(ii) Identify *two fixed costs* for *Informatic*. *[2 marks]*

For *Informatic* fixed costs could include:

- rent of the premises
- insurance of machinery
- salary for managers
- *accept any other relevant fixed cost for Informatic.*

If a candidate refers to “cost of workers” or “workers’ salaries,” the candidate must make clear that the employees referred to are (a) salaried (not earning wages) and (b) “permanent” (short of some financial or other disaster). In other words, if the candidate says workers’ salaries / cost of workers, the presumption is that these costs are variable (not fixed) unless the candidate fully and clearly explains that they are fixed.

Also, distribution costs, unless otherwise appropriately explained, are variable, not fixed.

Award **[1 mark]** for each correct and relevant fixed cost identified up to a maximum of **[2 marks]**.

– 6 –

M11/3/BUSMT/SP2/ENG/TZ0/XX/M

(b) For Informatic:

- (i) calculate the break-even quantity in units (*show all your working*). [2 marks]**

$$\text{Fixed Costs} = \$100\,000$$

To calculate contribution we need variable costs per unit. They are equivalent to 80% of sales price = \$800.

$$\begin{aligned}\text{Contribution per unit} &= \text{sales price} - \text{variable cost per unit} \\ &= \$1000 - \$800 = \$200\end{aligned}$$

$$\text{Break-even point} = \frac{\text{fixed costs}}{\text{contribution per unit}} = \frac{\$100\,000}{\$200} = 500 \text{ units}$$

[1 mark]

If a candidate **who has shown working** provides a correct procedure (thus, demonstrates an understanding of the underlying concepts) but has made an error in calculation.

[2 marks]

Candidate provides the correct answer with working.

- (ii) calculate the margin of safety in units (*show all your working*). [2 marks]**

$$\begin{aligned}\text{Margin of safety} &= \text{current level of output} - \text{break-even level} \\ &= 4000 - 500 = 3500 \text{ units}\end{aligned}$$

Apply Own Figure Rule (OFR).

[1 mark]

If a candidate **who has shown working** provides a correct procedure (thus, demonstrates an understanding of the underlying concepts) but has made an error in calculation.

[2 marks]

Candidate provides the correct answer with working.

– 7 –

M11/3/BUSMT/SP2/ENG/TZ0/XX/M

- (iii) calculate the net profit if 4000 computers are sold (*show all your working*). **[2 marks]**

Method 1

Revenue	4000 computers at \$1000 per computer	4 000 000
Variable costs	4000 computers at \$800 per computer	–3 200 000
Fixed costs		–100 000
Profit		700 000

Net profit = \$700 000

Method 2

$$\begin{aligned}\text{Net profit} &= \text{margin of safety} \times \text{contribution} \\ &= 3500 \text{ units} \times \$200 \\ &= \$700 000\end{aligned}$$

Apply Own Figure Rule (OFR).

[1 mark]

If a candidate **who has shown working** provides a correct procedure (thus, demonstrates an understanding of the underlying concepts) but has made an error in calculation.

[2 marks]

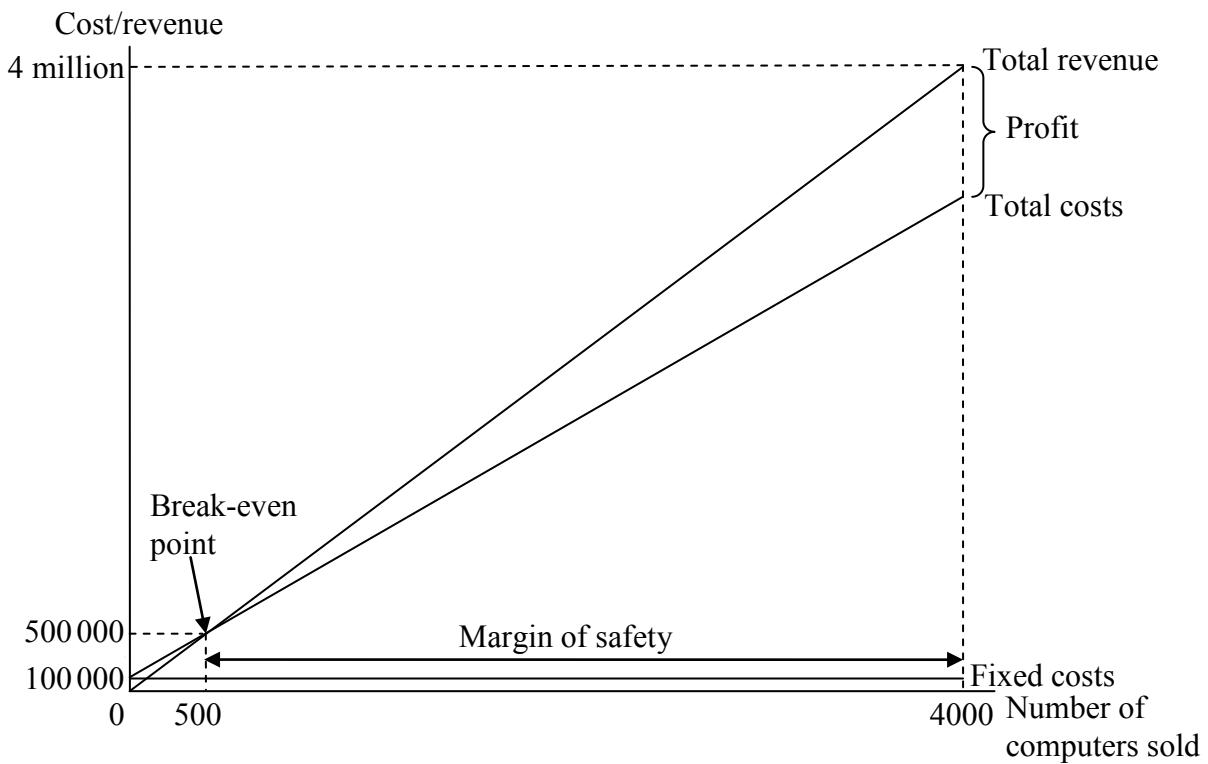
Candidate provides the correct answer with working.

– 8 –

M11/3/BUSMT/SP2/ENG/TZ0/XX/M

(iv) prepare a fully labelled break-even chart.

[5 marks]



Award marks as follows:

[1 mark] for each appropriately labelled axis – maximum of [2 marks].

[1 mark] for an accurately drawn and labelled total revenue curve.

[1 mark] for an accurately drawn and labelled total costs curve.

[1 mark] for the identification of the break-even level of output.

Award [0 marks] if a candidate produces a table, and award no more than [3 marks] if the chart is not neat, not drawn with a straight-edge, or is not to scale.

Ideally, the candidate will draw an arrow pointing to the break-even point and label the arrow. However, accept as an “appropriately labelled” break-even point a vertical line from the x -axis to the break-even point provided that the line is labelled “break-even point”.

(c) Examine the effectiveness of the new distribution channel for *Informatic*. [5 marks]

Currently *Informatic* is using local independent distributors to distribute 90% of its annual sales. We must assume that the new channel is intended to reduce selling prices (by eliminating distributors' fees) by selling directly to customers.

Benefits include but are not limited to:

- cost savings, with an increase in profit margins per computer sold
- if variable costs are reduced, contribution will increase, reducing the break-even level of computer sales and increasing profits (if the number of units sold remains the same)
- additional profits generated could be used to pay for the training of staff taking the telephone orders
- if selling prices are reduced, additional volumes of computer sales will be generated, perhaps further reducing the break-even level of output.

However:

- a lack of experience in selling through this channel and also not being able to take advantage of the local knowledge of the Pakistani distributors
- given that orders will be taken by telephone, additional staff training will be required to process those orders
- the new system may not be able to cope with increased orders
- the new telephone system may not be entirely reliable.

Accept any other relevant examination.

If the response is a one-sided generally relevant approach with no examination, award a maximum of **[3 marks]**.

If there is no mention of the cost savings, award a maximum of **[3 marks]**.

Marks should be allocated according to the markbands on page 3.

– 10 –

M11/3/BUSMT/SP2/ENG/TZ0/XX/M

2. (a) Define the following terms:**(i) *variable costs*****[2 marks]**

Variable costs refer to those costs that change according to the quantity/output of the business.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

(ii) *retrenchment.***[2 marks]**

Retrenchment is the permanent dismissal of an employee or employees in order to reduce the workforce to lower costs or to address declining profits.

Candidates are **not** expected to word their definition **exactly** as above.

“Retrenchment” and “redundancy” are not synonyms. A business can make a position redundant but not let the employee go (the employee must be reassigned). Retrenchment involves the permanent separation of employees from a business in order to reduce the workforce to lower costs or to address declining profits. Because the two often occur simultaneously or in unison, they are sometimes used interchangeably (when they should not be).

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

- (b) (i) Using the information in Table 1, calculate the cost of goods sold (figure x) and construct a profit and loss account for BA for 2009. [4 marks]**

**Profit and loss account for BA for the year ended 30 April 2009
(US\$ millions)**

Sales revenue	9074
Direct labour costs	2160
Aviation fuel costs	3000
Other operating costs	4034
Cost of goods sold	9194 *
Gross profit	-120
Expenses	100
Net profit before interest and tax	-220
Interest	180
Tax	0
Net profit after interest and tax	-400
Dividends	0
Retained profit	-400

* Cost of goods sold = $2160 + 3000 + 4034 = 9194$

$$\text{OR cost of goods sold} = \text{sales revenue} - \text{gross profit} = 9074 - (-120) = 9194$$

Award **[1 mark]** if the candidate has correctly calculated cost of goods sold (COGS).

If the profit and loss account is constructed following a generally accepted format and is correct in all respects, award **[3 marks]**. Apply own figure rule (OFR): if the candidate incorrectly calculated COGS but otherwise the profit and loss account is constructed following a generally accepted format and is correct in all other respects, award **[3 marks]** (the “penalty” will be that the candidate does not receive the mark for correctly calculating COGS).

Award **[2 marks]** if the candidate produces a profit and loss account that follows a generally accepted format but has one or two errors (OFR regarding COGS). Award **[1 mark]** if the candidate shows some understanding of what a profit and loss account is, but the actual account constructed is not in a generally accepted format and/or has more than two errors.

– 12 –

M11/3/BUSMT/SP2/ENG/TZ0/XX/M

- (ii) Using the information in Table 1 and Table 2, calculate the return on capital employed (ROCE) and net profit margin (NPM) for BA (show all your working).

[4 marks]**Return on capital employed (ROCE)**

$$\begin{aligned}\text{Capital employed} &= \text{share capital} + \text{loan capital} + \text{retained profit} \\ &= 1046 + 800 + (-400) = 1446\end{aligned}$$

$$\begin{aligned}\text{ROCE} &= \frac{\text{Net profit before interest and tax}}{\text{Total capital employed}} \times 100 \\ &= \frac{-220}{1446} \times 100 = -15.21 \% \text{ to 2 d.p.}\end{aligned}$$

Net profit margin (NPM)

$$\begin{aligned}\text{NPM} &= \frac{\text{Net profit before interest and tax}}{\text{Sales revenue}} \times 100 \\ &= \frac{-220}{9074} \times 100 = -2.42 \% \text{ to 2 d.p.}\end{aligned}$$

Mark as 2+2.

For each calculation, award **[2 marks]** if the candidate has the correct answer and shows working. Award **[1 mark]** if the candidate makes a mathematical error (thus the answer is incorrect) OR if the candidate has the correct answer but does not show working.

Award **[0 marks]** for merely writing the formulae.

- (iii) Comment on your results from part (ii), using information from the stimulus material.

[3 marks]

The ROCE is a performance ratio that measures the company's efficiency in the use of its resources to generate profit. The results for *BA* show that the company has made a loss of 15.21% on its assets (or on the capital employed).

The NPM is the result of dividing a company's net profit before taxes and interest by its sales revenue. It reflects the company's ability to manage its costs and make profits out of its sales. The NPM shows that for every \$ worth in sales, the company has made on average a 2.42% of net loss. Both ratios are suggesting a negative financial performance for *BA*.

There are several factors that could explain *BA*'s negative financial performance. Possible reasons could be found in a falling demand of business travellers, who represent *BA*'s most important market segment, increased borrowing costs due to the global financial crisis, and increasing aviation fuel costs, which are essential operating costs for an airline company.

Award **[1 mark]** for a comment on each ratio (ROCE and NPM) that demonstrates some understanding of their purpose up to **[2 marks]**. Award an additional **[1 mark]** if the candidate comments that the performance is negative (apply Own Figure Rule (OFR)) or, implying an understanding that the performance is negative, and offers possible reasons or explanation.

(c) Examine the impact of not awarding pay increases and managerial fringe payments for BA.

[5 marks]

The impact could include the following:

- If workers are not given a pay increase, BA will save on labour costs, which represent an important percentage of total operating expenses of the company. However, such a measure could result in bitter conflict with workers and unions. It could also harm workers' motivation and rapport with the company, which may be already eroded due to the 2500 jobs that the company has retrenched.
- Managerial costs would be reduced as managers will not receive fringe payments. However, this could affect managers' motivation and lead to a swing of highly skilled personnel to other companies offering better working prospects.
- Although these two measures may result in important cost reductions they could lead to job dissatisfaction and de-motivation among staff and therefore negatively affect productivity. The quality of the services provided by the airline may in turn suffer. This may also in turn affect passenger satisfaction upon flights.

Accept any other relevant examination.

If the response is a one-sided relevant approach with no examination award a maximum of **[3 marks]**. If only one impact is examined, award a maximum of **[3 marks]**.

Marks should be allocated according to the markbands on page 3.

SECTION B

3. (a) Define the term **pressure group**. **[2 marks]**

A pressure group is an external stakeholder that through direct lobbying or by raising awareness of key issues hopes to influence decision-makers.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

- (b) (i) Calculate the payback period of Cinegames. **[2 marks]**

Cost of Cinegames refurbishment US\$280 000.

Income from year 1 = US\$64 000

Income from year 2 = US\$88 000

Total income = US\$152 000

$$BLC \text{ require } \frac{128}{142} \times 365 \text{ to payback initial investment} = 329.01 \text{ days.}$$

Accept 2 years 329 days and 2 years and 11 months.

Rounded to 329 days to payback assuming revenue from year 3 is distributed evenly.

[1 mark]

The candidate who has shown working and provides a correct procedure (thus demonstrating an understanding of the underlying concepts) but has made an error in calculation.

[2 marks]

The candidate provides the correct answer. Working not required.

If the candidate calculates the payback period correctly but expresses it as a rational number (2.901 years/2.90 years/2.9 years), award **[1 mark]**.

- (ii) Calculate the average rate of return (ARR) of Cinegames in the first five years of its operation.

[2 marks]

(all figures in US\$000s)

$$\begin{aligned}\text{Total revenue from Cinegames over five years} &= 64 + 88 + 142 + 124 + 88 \\ &= 506\end{aligned}$$

$$\text{Profit from Cinegames} = 506 - 280 = 226$$

$$\text{Average profit} = \frac{226}{5} = 45.2 \text{ per year}$$

$$\text{ARR} = \frac{45.2}{280} \times 100 = 16.14\% \text{ to 2 d.p.}$$

[1 mark]

The candidate who has shown working and provides a correct procedure (thus demonstrating an understanding of the underlying concepts) but has made an error in calculation.

[2 marks]

The candidate provides the correct answer. Working not required.

- (iii) Comment briefly on your results from parts (i) and (ii).

[2 marks]

- The conversion of a movie theatre to a Cinegames experience would be a good investment.
- The payback period for Cinegames is just almost 3 years assuming the revenue earned from the experience is even through the 5 years of forecasts. The ARR is 16.14%.

Accept any other relevant comment.

For **[1 mark]** candidates only comment on the suitability of the investment and for **[2 marks]** candidates justify their comment by referring to both payback and ARR. Apply Own Figure Rule (OFR).

(c) Analyse the usefulness of market segmentation to *BLC*.**[5 marks]**

The stimulus highlights that market segmentation may be useful to *BLC* as it would allow them to target their marketing effort.

From the stimulus, market segmentation allows *BLC* to:

- Target the young 18–30 year-old male segment when designing promotional activities when the experience is launched. There could also be pricing opportunities here.
- Allow them to cater for families by identifying a product mix which could satisfy the individual needs of parents, sons and daughters. Again by segmenting the market in this way it allows *BLC* to use different pricing strategies.

Limitations for market segmentation for *BLC* could potentially include:

- Neglect of other market segments (such as seniors or independent cinema lovers), allowing competitors to get ahead of *BLC* or even attracting competitors to the new niche.
- Increased marketing costs if *BLC* were to target too many markets.

Accept any other relevant analysis.

If the response is a one-sided relevant approach with no analysis, award a maximum of **[3 marks]**.

Marks should be allocated according to the markbands on page 3.

(d) Discuss whether *BLC* should open a second Cinegames experience. [7 marks]

The financial success of the first Cinegames experience was beyond *BLC*'s expectations. It also offered the possibility of an enlarged product mix to satisfy the two key market segments (explained in part (c)). For those two reasons, the decision to open a second Cinegames experience seems fully justified.

However, *BLC* must take into account the concerns of the pressure group and the impact of the success of the first experience on the local infrastructure. If a second theatre is converted, ensuing social costs may grow, alienating *BLC* and leading to losses in goodwill. Besides the costs of converting a theatre into a second Cinegames experience may be difficult to recoup, especially if the pressure group begins a campaign and audience numbers begin to fall.

BLC may have to convince the local community that they are keen to avoid any more bad publicity and contribute to schemes such as extended car parking to convince the community that they take their social responsibilities seriously.

Accept any other relevant discussion.

If the response is a one-sided relevant approach with no discussion, award a maximum of **[4 marks]**.

Marks should be allocated according to the markbands on page 4.

4. (a) Define the term *primary research*. [2 marks]

Primary research is the collection of data about a product/service that does not already exist.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

- (b) Explain two non-financial rewards that *Dome Hospital* could use to encourage Ghanaian nurses to stay in Ghana.

[6 marks]

Non-financial rewards could include:

- opportunities for promotion leading to responsibility
- opportunities for job enlargement to gain additional experience in other areas of the health industry
- other possible non-financial rewards could be linked to empowerment and teamwork
- accept any other relevant non-financial reward.

Accept any other relevant explanation.

3+3 marks.

For each relevant non-financial reward identified, award **[1 mark]**. Award **[2 marks]** for partial, appropriate explanations, and **[3 marks]** for thorough, appropriate explanations. Award a maximum of **[6 marks]**. If a candidate names as one reward a generic non-financial reward that does not realistically fit the organization (a hospital), award a maximum of **[1 mark]** for that reward. “Flexi-time” is not fully realistic for most nurses at a hospital.

In any instance where a candidate names a “financial” reward (free housing, for example), award **[0 marks]** for that reward.

– 20 –

M11/3/BUSMT/SP2/ENG/TZ0/XX/M

(c) Analyse the likely benefits for *Dome Hospital* of *Afua*'s support. [5 marks]

“*Afua* will probably offer *Dome Hospital* advice and guidance on recruitment and retention, but not direct funding.”

Afua could provide:

- Information and secondary data about successful recruitment schemes in other countries.
- Guidance about potential sources of additional finance from other NGOs.
- Improved media awareness of the problems of increased international labour mobility affecting Ghanaian hospitals.

Limitations:

- There is no evidence of financial resources in order to help finance the recruitment strategy.
- It may not be realistic to expect international law to be changed by one NGO alone.
- A more concerted effort with other NGOs will help, but *Dome Hospital*'s need is immediate. Clearly patient care could suffer if there are any further delays in recruitment.

Accept any other relevant analysis.

If the response is a one-sided relevant approach with no analysis, award a maximum of **[3 marks]**.

Marks should be allocated according to the markbands on page 3.

(d) Discuss the advantages and disadvantages of *Dome Hospital's* recruitment strategy.

[7 marks]

The new recruitment strategy may benefit *Dome Hospital* by:

- Attracting the best nurses back to Ghana, encouraged by the job enrichment opportunities, leading to motivational and productivity gains for *Dome Hospital*.
- These nurses may also bring back to Ghana new ideas from their overseas experiences.

However:

- Costs of flights home and moving expenses will need to be paid even before the non-financial rewards and job enrichment schemes are accounted for.
- Resources will need to be diverted to the recruitment events and web site to monitor the cost-effectiveness of the strategy. This will also take time.
- The recruitment package may not work, given the global labour mobility challenges facing hospitals such as *Dome Hospital*.

Dome Hospital may be left with no option but to implement this new recruitment strategy and then review it in a six month period, making adjustments where necessary.

Accept any other relevant discussion.

If the response is a one-sided relevant approach with no discussion, award a maximum of **[4 marks]**. If the candidate discusses only the advantages or disadvantages award a maximum of **[4 marks]**.

Marks should be allocated according to the markbands on page 4.

5. (a) Outline what a marketing audit is.

[2 marks]

A marketing audit provides a company with the opportunity to evaluate its current marketing strategy. This is a valuable tool to help with planning possible adjustments to the marketing mix.

Award **[1 mark]** for a basic outline that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear answer that conveys knowledge and understanding.

- (b) Explain two flexible working practices that would allow an accounting business, such as *CMP*, to offer an increased range of accounting services (Option 1).

[6 marks]

Possible flexible working practices include:

- Flexitime working – especially important given that *CMP*'s customers are small businesses and may be so busy that *CMP* is forced to offer its services during out of office hours and at weekends. Staffing at *CMP* will need to be flexible enough to accommodate these working patterns.
- Teleworking. Given the above and the desire for *CMP* to offer new accounting software services such as installation, some of *CMP*'s staff may need to use ICT to a greater extent and perhaps work remotely to provide after sales support to potential new clients.
- Hiring part-time employees with special technical knowledge in software installation and support.
- Accept any other flexible working practice.

If a candidate names as one flexible working practice a generic flexible working practice that does not realistically fit the business, award a maximum of [1 mark] for that practice.

Accept any other relevant explanation.

Mark as 3+3.

For each relevant change to *CMP*'s working practices identified, award [1 mark]. Award [2 marks] for partial, appropriate explanations, and [3 marks] for thorough, appropriate explanations. Award a maximum of [6 marks].

- (c) Analyse the appropriateness of an autocratic leadership style for *CMP*.

[5 marks]

CMP is a small accounting business employing three people with Carl firmly in control. The advantages of narrow spans of control, increasing productivity and consistent service leading to considerable goodwill are documented in the stimulus. The Theory X environment has served Carl well.

However, if *CMP* wishes to offer more services to its clients, some empowerment/delegation to allow greater teamwork/participation will be required. This point is particularly relevant if *CMP* has to change work practices and as a result more democratic or more likely paternalistic leadership styles will be needed to be adopted.

Accept any other relevant analysis.

If the response is a one-sided relevant approach with no analysis, award a maximum of [3 marks].

Marks should be allocated according to the markbands on page 3.

- (d) Discuss the two options (Option 1 and Option 2) put forward by Carl to replace lost revenue. **[7 marks]**

Carl is considering two options to replace lost revenue at his accounting business: Option 1 is to offer accounting software installation and support and build a customer base through internal growth generated largely through above the line promotion. Option 2 is to merge with *AS*, a business already engaged in accounting software installation and support.

There are advantages and disadvantages to both options. For Option 1, the benefit is that Carl will retain full ownership of his accounting business, which gives him full control over decision-making and profits. On the other hand, developing new income streams in-house can be complicated. It requires investment of capital to acquire the necessary tools and programs to offer the new services as well as time to learn them and how to sell them. The promotion strategies necessary to sell the new services will be expensive, and there is no guarantee that the promotion efforts will be successful.

Option 2 also has advantages, because *AS* is already operating in accounting software installation and support, it will immediately bring new revenue to *CMP*. Because overheads at the combined business will be lower, the profitability of the new revenue stream will have a greater impact than it otherwise might. In addition, Matt Auth brings expertise to the business in the area of accounting software and support, freeing Carl to continue to focus on *CMP*'s business, traditional accounting services. The opportunities for "cross selling" to *CMP*'s and *AS*'s customers may offer an opportunity to see the generation of new sales quickly (beyond the mere increase in revenue that will come from merging the two businesses).

The major disadvantage of a merger is that both Carl and Matt will lose some control of their businesses. From Carl's point of view, because he will own 55% of the new company, he will be the majority owner and his decisions would be final. However, as a practical matter, given that *AS*'s employees respond well to Matt, Carl will have to consider Matt's views. In addition to issues of decision-making, Carl will also have to share profits of the business with Matt, according to the dividend payout rate and their respective ownership of the shares.

Please note that "culture clash" is NOT in the SL syllabus. Candidates may address this issue and it be considered a legitimate part of their response for the receipt of marks. However, a candidate cannot be penalized for NOT addressing culture clash in merging leadership styles.

Accept any other relevant discussion.

If the response is a one-sided relevant approach with no discussion, award a maximum of **[4 marks]**. If only one option is discussed, award a maximum of **[4 marks]**.

Marks should be allocated according to the markbands on page 4.

N11/3/BUSMT/SP1/ENG/TZ0/XX/M



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MARKSCHEME

November 2011

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

16 pages

- 2 -

N11/3/BUSMT/SP1/ENGTZ0/XX/M

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A			Level descriptors	
(c) questions				
Q1 (c)	Q2 (c)	Q3 (c)		
Marks 0–7				
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology. 	
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the case study. 	
3–5			<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the case study, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical. 	
6–7			<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the case study. 	

Section B	
Q4 (d)	Level descriptors
Marks 0–8	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study.
3–4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the case study, not just to the name of the organization. • The response is mainly theoretical.
5–6	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the case study are made at places in the response.
7–8	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the case study are made throughout the response.

SECTION A**1. (a) Describe Andrew Grandin's:****(i) chain of command at *Reach Out* [2 marks]**

Chain of command is the formal line of authority through which orders and decisions are passed down from top to bottom of the hierarchy in a given organization. In the case of *Reach Out* and Andrew, the chain of command is very short as there are only three levels: Laura and Neil on top, Andrew in the middle of the chain and all the therapists at the bottom of the chain/hierarchy.

Award **[1 mark]** for a basic description, which shows some understanding of the concept of “chain of command”.

Award **[2 marks]** for a clear description correctly applying the concept of “chain of command” to Andrew Grandin.

(ii) span of control at *Reach Out*. [2 marks]

Span of control is the number of people who report directly to one manager in a hierarchy – in this case: all the therapists report to Andrew as he is their manager. It is a wide span of control because there are many therapists.

Award **[1 mark]** for a basic description, which shows some understanding of the concept of “span of control”.

Award **[2 marks]** for a clear description correctly applying the concept of “span of control” to Andrew Grandin.

- (b) Using the case study, comment on two sources of income (current or potential) for *Reach Out* other than the therapist scheme. [4 marks]

Besides the therapist scheme, *Reach Out* has several other sources of income (current ones and potential ones):

- as shown in Appendix 1: the sales of subsidized PECS cards – although the cash flow shows that this is not an actual source of income yet (as *Reach Out* has not started selling the PECS cards)
- as shown in Appendix 1: the charity contributions (donations) of \$200 every month (a very small amount but a regular one)
- as mentioned in the case study (**Option 2**): the possible sale of branded products such as clothes and accessories with the *Reach Out* name and logo
- as mentioned in the case study (**Option 3**): the possible sponsorship from *N-Pharma*.

Mark as 2+2.

Award [1 mark] for each appropriate source of income identified and [1 mark] for an appropriate comment that directly refers to *Reach Out* up to a maximum of [2 marks].

- (c) Analyse the social and economic impacts of the actions of the non-profit organization *Reach Out*. [7 marks]

The social and economic impacts of the actions of *Reach Out* include the following:

- *Reach Out* provides a social service without which many families could not afford treatment for their children with autism: *Reach Out* has a positive social impact on these families, especially on the children.
- Some private sector providers must be affected by the competition from *Reach Out*; they may lower their fees (currently up to four times higher); they are affected economically in a negative way as they run the risk of losing business.
- The popularity of the actions of *Reach Out* contributes to the awareness raising of autism and could make it a funding priority for policy makers (this would be a positive impact).
- The public sector (national or local government) may decide that they do not need to spend money on autism support, as organizations such as *Reach Out* now cater for it (this would be a negative impact for families).
- *Accept any other relevant impact.*
- *Accept any other relevant substantiated analysis. Theoretical comments from outside the case study are acceptable.*

Candidates are **not** expected to refer to all the above points for top marks, but their analysis must be balanced with regards to the positive and negative social and economic impacts, in order to reach the highest level of the markband.

Marks should be allocated according to the markbands on page 3.

2. (a) Describe Laura Chan's desired pricing strategy for *Reach Out*'s PECS cards. [4 marks]

Laura's pricing strategy may be described in several ways:

- Laura's starting point (mentioned in *Reach Out*'s mission statement) is the fact that competitors' PECS cards are very expensive: she wants her PECS cards to be much more affordable. Her pricing strategy is therefore competition-based strategy.
- As *Reach Out* is a new entrant, it needs to create and gain market share against its competitors; the pricing strategy could be described as penetration pricing (as Laura may later decide to put her prices up, once she has developed brand loyalty towards *Reach Out*'s PECS cards).
- Cheaper PECS cards affordable to all families can be classified as market-based strategy, which further supports the fact that she does not use cost-based pricing strategy.

Accept any other relevant answer.

Award **[1 mark]** for each valid point, statement or application to *Reach Out*, up to a maximum of **[4 marks]**.

- (b) Explain two reasons why Neil Johnson prepared a STEEPLE analysis for *Reach Out* (line 31).

[4 marks]

Neil prepared a STEEPLE analysis for several reasons:

- Preparing a STEEPLE is necessary in order to write a SWOT analysis (as the O and T refer to the external environment).
- As a businessman, Neil knows that the external environment must be analysed and taken into account when deciding on any strategic move, STEEPLE is a very important initial step for the development of any business plan.
- The use of a STEEPLE is vital for the identification of opportunities and threats which Neil can use to strategically match with *Reach Out's* internal strengths and weaknesses. (For example some candidates may answer by outlining some key findings from the STEEPLE model like political factors: in the absence of support from the public sector, there is a demand for affordable therapists such as the ones provided by *Reach Out*).
- The STEEPLE framework is comprehensive as it covers social/cultural technological, environmental, economic, political, legal and ethical factors.

Accept any other relevant explanation.

Candidates are **not** expected to write a STEEPLE analysis for *Reach Out*.

Mark as 2 + 2.

Award **[1 mark]** for each correct reason identified and **[1 mark]** for an appropriate explanation that directly refers to *Reach Out* up to a maximum of **[2 marks]**.

- (c) Laura Chan “did not see how marketing objectives could help *Reach Out* achieve its goals” (*lines 148–149*). Examine how appropriate it is for *Reach Out* to have marketing objectives.

[7 marks]

On the one hand, marketing objectives can be associated with profit-making organizations, as shown by the terminology of “marketing” and “market”; Laura does not embrace this approach, which is why she is “not interested in brand development and product development”. Marketing objectives may not be appropriate for *Reach Out* because *Reach Out* does not operate as a commercial organization that needs to maximize profit to satisfy its owners or shareholders. Having marketing objectives may lead to some external stakeholders feeling that *Reach Out* has become too commercialized.

On the other hand, *Reach Out*, like all other organizations in the non-profit sector does operate in a competitive environment, even if some people (such as Laura) find it difficult to apply business concepts to charities (or other non-profit organizations such as churches and political parties). Having marketing objectives could help *Reach Out* identify targets and devise a strategy to generate further income (hence Neil’s three options) and possibly to reduce cost; from that viewpoint, marketing objectives would be appropriate, especially if they choose **Option 2**, which will involve developing and distributing products: a whole new marketing philosophy would then be needed for *Reach Out*, including setting marketing objectives and striving to reach them. Having marketing objectives can help to increase donations by increasing public awareness of *Reach Out*. The existence of marketing objectives allows for a more accurate performance analysis.

Accept any other relevant substantiated examination.

Marks should be allocated according to the markbands on page 3.

– 10 –

N11/3/BUSMT/SP1/ENGTZ0/XX/M

3. (a) Define the following terms:**(i) commission (line 40)****[2 marks]**

A commission is the payment an employee receives when he or she sells a good or service. Commissions are typically a percentage of the value of the good or service sold, which encourages employees to sell more products.

Organizations sometimes pay their employees a base salary plus commission; other organizations (where permitted by law) pay only commission.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the case study award **[1 mark]**.

(ii) dismissal (line 109).**[2 marks]**

Dismissal occurs when an employer terminates the contract of an employee; it is colloquially called “firing”. The employee must have been incompetent or breached the terms of their contract to be dismissed.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the case study award **[1 mark]**.

– 11 –

N11/3/BUSMT/SP1/ENGTZ0/XX/M

- (b) Using the additional information on page 3 about publishing company B, calculate (*show all your working*):

- (i) the payback period (to the nearest month)

[2 marks]

$$\text{Cost} = \$100\,000$$

Income streams to payback:

$$20\,000 + 30\,000 + 40\,000 + \left(\frac{10\,000}{60\,000} \times 12 \text{ months} \right)$$

Payback = 3 years and 2 months.

Award [1 mark] for the correct answer and [1 mark] for workings.

- (ii) the average rate of return (ARR).

[2 marks]

$$\text{Total net return over 4 years} = 150\,000 - 100\,000 = \$50\,000$$

$$\text{Average annual net return} = \frac{50\,000}{4} = \$12\,500 \text{ per year}$$

$$\text{ARR} = \frac{12\,500}{100\,000} \times 100 = 12.5\%$$

Award [1 mark] for the correct answer and [1 mark] for workings.

- (c) Neil Johnson “eventually decided to donate the \$10 000 himself” (line 36).
Analyse the consequences for *Reach Out* of Neil’s decision. [7 marks]

Neil’s decision has several consequences for *Reach Out*:

- *Reach Out* does not need to pay him back (even without interest), which is financially better for the charity, especially in its first months of operation.
- *Reach Out* is not dependent on any bank or any community grant scheme from the local public authorities; this gives *Reach Out* more autonomy.
- Neil may be more motivated to make *Reach Out* successful as he has invested some of his personal money.
- This decision shows Laura that Neil is really committed to *Reach Out*, giving her further confidence in the venture.
- Having donated towards the setup of *Reach Out* Neil may have a sense of ownership and may expect to have more decision-making power. This may cause tension between Laura and Neil, which in turn may affect the performance of the charity.

To be balanced the answer must consider both the positive and negative consequences.

Accept any other relevant substantiated analysis. Theoretical comments from outside the case study are acceptable.

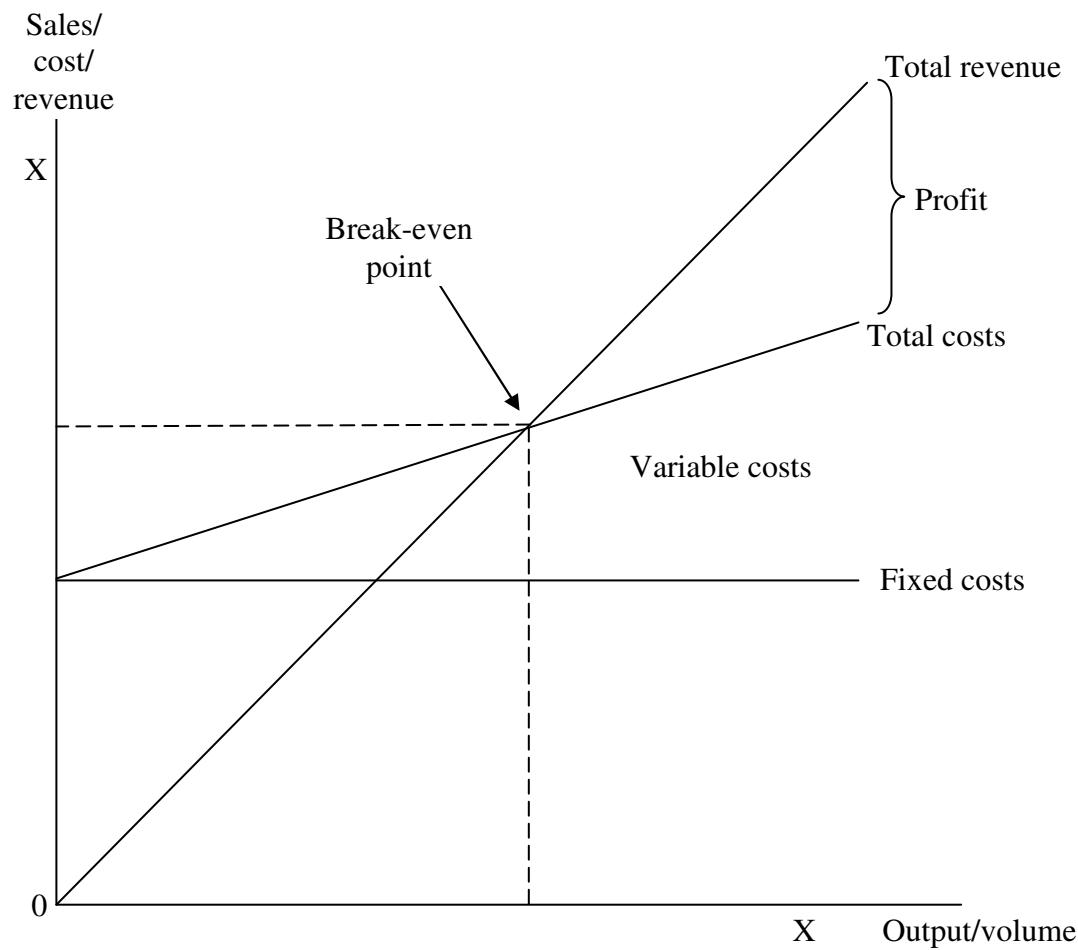
Marks should be allocated according to the markbands on page 3.

SECTION B

4. (a) Neil Johnson tried to convince Laura Chan that (*Option 2*) would be a worthwhile investment by using a break-even model (lines 130–131). Use a fully-labelled diagram to illustrate the break-even analysis model (*no figures are required*).

[4 marks]

The answer must be in the form of a diagram. No figures are required. Only the diagram enables candidates to gain marks. If there is no diagram, the only mark that may be awarded here is 0.



Award [1 mark] for each correct drawing and/or labelling of the following, up to a maximum of [4 marks]:

- axes
- total costs
- total revenue
- profit or variable costs or fixed costs
- break-even point.

- (b) Explain the difference between internal and external sources of finance for *Reach Out*.

[4 marks]

The only conceivable internal source of finance for *Reach Out* is surplus (*i.e.* the “retained profit” of a charity) – and it is most relevant for them, as they start earning a surplus from the end of month 2 onwards, as shown in Appendix 1. *Reach Out* does not have other internal sources of finance, as there is no asset to sell (except arguably the IT equipment in Laura’s office, but this is negligible). Depreciation and utilizing working capital more effectively are not relevant either.

Several external sources of finance may be considered, such as bank overdraft (short term), bank loan (long term) or community grant from the local public authorities (short or long term, not specified in the case study).

Due to the nature of *Reach Out* as a charity and because of its objectives (ultimately selling affordable PECS cards), an internal source of finance is more appropriate for their projects.

Accept any other relevant explanation.

Award [1 mark] for a basic answer showing some limited knowledge of what constitutes internal *versus* external source of finance (such an answer could take the form of a couple of bullet points with the candidate only writing down what they have learnt and remember about sources of finance).

Award [2 marks] for an answer which shows some knowledge and understanding of different types of sources of finance in the context of *Reach Out*.

Award [3 marks] for an answer which lists different types of sources of finance in the context of *Reach Out*.

Award [4 marks] for a good answer which clearly explains the difference between internal and external sources for *Reach Out*.

- (c) With reference to *Reach Out* and to one organization of your choice, explain two reasons for setting up a business.

[4 marks]

Reasons for setting up a business include:

- passion about an idea, an area or a cause; this has been the case of Laura for *Reach Out*
- having identified a business opportunity or a gap in the market; this too has been the case for Laura and *Reach Out*
- family tradition: being entrepreneurial is sometimes seen as a family trait; many entrepreneurs have had parents and even grandparents who too ran their own business
- redundancy: someone lost their job and, rather than struggling to find another employer, they decide to be self-employed.

Accept any other relevant explanation.

Mark as 2 + 2.

Award [1 mark] for each relevant and correct reason for setting up a business identified and [1 mark] for an appropriate explanation in context up to a maximum of [2 marks].

One reason **must** include a reference to *Reach Out*. The choice of the other organization is not important, it is not directly assessed. It may well be a small business from the candidate's community or family circle; this is entirely acceptable.

- (d) **Laura Chan has a laissez-faire leadership style (line 115). Evaluate the effectiveness and implications of her leadership style for *Reach Out*. [8 marks]**

Laura's laissez-faire leadership style is particularly apparent in the way she deals with Andrew, as she gives him free rein (autonomy) and trusts him (too much, according to Neil). Such a leadership style means that power and authority are given to employees who determine their goals, make decisions and resolve problems on their own. It is an effective style with Theory Y workers (to use McGregor's typology) or with employees who are highly skilled, experienced and educated. This type of leadership style may not be appropriate for Andrew.

Laura's leadership style has several consequences for a range of stakeholders:

- Andrew may only feel comforted in his own beliefs and may not change his approach/behaviour, in his work.
- Neil is feeling more and more antagonized and irritated by Laura; this may convince him that he and Laura cannot actually work together. Laura does not see the point of raising income/revenue (**Options**) in a business sense.
- Parents and therapists alike may lose their trust in the scheme, if it is not properly managed – and indirectly the wider community could have a negative image of *Reach Out* because of Laura's ineffective leadership style.

Accept any other relevant substantiated evaluation.

There is no right or wrong conclusion that candidates can reach at the end of their evaluation (though they are likely to conclude that Laura's style is not effective, which mainly has negative implications for *Reach Out*); however for top marks there must be a final conclusion.

Marks should be allocated according to the markbands on page 4.

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MARKSCHEME

November 2011

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

24 pages

– 2 –

N11/3/BUSMT/SP2/ENG/TZ0/XX/M

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A (d) questions	Section B (c) questions	Level descriptors
Marks 0–5		
	0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
	1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the stimulus material. The response is mainly theoretical.
	3–4	<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the stimulus material, not just to the name of the organization.
	5	<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the stimulus material.

Section B	
(d) questions	Level descriptors
Marks 0–7	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the stimulus material.
3–4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues and concepts. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the stimulus material, not just to the name of the organization. • The response is mainly theoretical.
5–6	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the stimulus material are made at places in the response.
7	<ul style="list-style-type: none"> • A response with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the stimulus material are made throughout the response.

– 5 –

N11/3/BUSMT/SP2/ENG/TZ0/XX/M

SECTION A

1. (a) (i) Identify *two* appropriate sources of finance for Fang to purchase a lorry. **[2 marks]**

Appropriate sources of finance would include:

- a medium-term bank loan
- a hire-purchase (lease)
- personal savings.

Award **[1 mark]** for each relevant and applicable source of finance for Fang's lorry purchase identified up to a maximum of **[2 marks]**.

- (ii) Define the term *overhead costs*. **[2 marks]**

Overhead costs are the indirect recurring costs of running a business that are not linked directly to the goods or service produced and sold. Overhead costs can include payments for the rent of premises, utility bills, and employees' salaries.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

- (b) Prepare a monthly cash-flow forecast for the first six months of operation of Fang's business.**

[6 marks]

All figures are in US\$.

	September	October	November	December	January	February
Cash sales	1000	1000	1000	1100	1200	1300
Government loan	10 000					
Total receipts	11 000	1000	1000	1100	1200	1300
Payments						
Monthly rent	400	400	400	400	400	400
Monthly salary	200	200	200	200	200	200
Monthly supplies	50	50	50	50	50	50
Monthly interest	42	42	42	42	42	42
Overhead costs	0	200	0	200	0	200
Purchases	0	1500	500	500	500	500
Total payments	692	2392	1192	1392	1192	1392
Net cash flow	10 308	-1 392	-192	-292	8	-92
Opening balance	0	10 308	8916	8724	8432	8440
Closing balance	10 308	8916	8724	8432	8440	8348

Apply Own Figure Rule (OFR): if a candidate makes an error in one row and carries it through the remainder of the forecast, that is only one error.

[1 mark]

The candidate conveys some understanding of what a cash-flow forecast is, but otherwise the forecast is largely inaccurate, incomplete, or illegible.

[2 to 3 marks]

A cash-flow forecast is drawn, but either it is not in a generally accepted format or it is untidy, and the forecast contains two or more errors.

[4 to 5 marks]

The cash-flow forecast is drawn essentially correctly and neatly in a generally accepted format. Award **[5 marks]** if there is one error, **[4 marks]** if there are two errors. If the candidate produces an accurate cash-flow forecast (that is, the final closing balance is correct and the means by which the candidate arrived at that figure is clear and logical), but does not use a generally accepted format, award **[5 marks]**.

[6 marks]

The cash-flow forecast is drawn accurately and neatly in a generally accepted format, and is error free.

- (c) Explain *XIAN Technology's* requirement that Fang present them with financial accounts every three months.

[5 marks]

Generally, the purpose of accounts is to provide information for stakeholders – shareholders/partners, lenders, suppliers, *etc.* who have a right or insist on seeing them. Accounts also allow businesses to monitor their own activities and prevent fraud. *XIAN Technology* insists on seeing Fang's accounts every three months for financial reasons as well as for reasons of public image.

Financial reasons could include:

XIAN Technology will be extending credit to Fang's franchise. Were Fang to mismanage her business and it fail, *XIAN Technology* could stand to take credit losses. Seeing the financial accounts would alert *XIAN Technology* to the possibility that Fang's business will not survive. In addition, typically a franchisee must pay a fee or percentage based upon sales to the franchisor. If this were the case, receiving financial accounts would allow *XIAN Technology* to monitor if Fang is paying the appropriate fee.

Public image reasons could include:

Xian Technology certainly has an interest in a more general sense in seeing Fang's business survive. Were it to fail, it would reflect negatively on *XIAN Technology*. Presumably with greater business expertise than Fang, *XIAN Technology* could step in to provide Fang with support on the first sign of trouble, which the accounts would reveal.

Accept any other relevant explanation.

[1 to 2 marks]

The answer displays some basic knowledge and understanding of the requirements for Fang's accounts – the answer is mainly theoretical. There is no reference to *Xian Technology*.

[3 to 4 marks]

The requirement for Fang's accounts is explained with reference to *Xian Technology*. Only one aspect of finance **or** public image is clearly presented.

[5 marks]

The requirement for Fang's accounts is explained with reference to *Xian Technology*. The two main aspects of finance **and** public image are clearly presented.

- (d) **Analyse the impact on Fang's business if new competition leads to a decrease in her gross profit margin.**

[5 marks]

Were increased competition to reduce Fang's gross profit margin, she would either have to sell more ovens to have the same gross profit **or** would, in all likelihood, experience a loss of overall profitability and profits. If she had lower profitability and profits, her return on investment would decline and, if serious enough, could have a major negative impact on the business. Promotional expenses might be cut, which could reduce sales. Cash flow could be strained, perhaps to the point of hurting her relationship with *Xian Technology*. If that occurred, the balance sheet would deteriorate. In a worse case scenario, Fang could no longer make a profit, eventually leading to a closure of the business.

If Fang could offset the decline in margins with higher sales volume, that would, nevertheless put additional strain on the business. There would be an increased need for working capital to support the larger volume of trading. More ovens would have to be ordered, sold, and delivered, all of which add to the complexity of the business. Ineffectiveness or lack of capacity for these more complex activities could prevent Fang's business from executing its business model.

Accept any other relevant analysis.

Marks should be allocated according to the markbands on page 3.

– 9 –

N11/3/BUSMT/SP2/ENG/TZ0/XX/M

2. (a) (i) Define the term *competition-based pricing*. [2 marks]

Competition-based pricing is a price set by a company for a product to compete with another company's pricing. Production and distribution costs are ignored to drive demand towards another brand. This method of pricing can cause a long-term decrease in product perception and decrease a product's value for future profits.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

(ii) Identify *two increases in fixed costs that AM would incur to meet the new EU quality standards*. [2 marks]

The two increases in fixed costs are (1) salaries for the quality experts and (2) lease payments on new equipment.

N.B. Do not accept the increase in the higher quality materials because it is not a fixed cost.

Award **[1 mark]** for each correct fixed cost identified up to a maximum of **[2 marks]**.

– 10 –

N11/3/BUSMT/SP2/ENG/TZ0/XX/M

(b) Calculate for 2010 (show all your working):

- (i) the contribution to AM's fixed costs of a wheelchair sold in Europe [1 mark]**

$$\begin{aligned} \text{US\$200 (sales price)} - \text{US\$60 (variable cost per wheelchair)} \\ = \text{US\$140 (contribution)} \end{aligned}$$

Award **[1 mark]** for the correct workings and **[1 mark]** for the correct calculation.

- (ii) AM's overall net profit for both markets. [3 marks]**

$$\begin{aligned} &3\,090\,000 \text{ total sales} \\ &-1\,242\,000 \text{ variable costs} = (60 \times 10\,200) + (60 \times 10\,500) \\ &\underline{-1\,500\,000 \text{ fixed costs}} \end{aligned}$$

$$\text{US\$348\,000} = \text{2010 net profit}$$

Award **[1 mark]** for the correct variable cost calculation.

Award **[1 mark]** for the correct answer.

Award **[1 mark]** for the correct workings.

- (c) Using an appropriate layout, prepare a report showing the increase in costs and the impacts on profitability for *AM* if Aaliyah decides to proceed with *Option 1*.

[7 marks]

To: Aaliyah Ashrafuzzman

From: Candidate

Re: Decision to improve the quality of all wheelchairs and continue to sell in Europe

The decision to continue to sell in Europe will involve the following cost increases:

- A 20% increase in variable costs per wheelchair, from US\$60 to US\$72 ($\text{US\$60} \times 1.2$)
- An increase in fixed costs of $\text{US\$220\,000} = (4 \times \text{quality experts salary}) \text{ US\$22\,000} + (\text{new equipment lease}) \text{ US\$132\,000}$.

Sales revenue will increase from US\$200 per chair sold in Europe to US\$212. Sale price and sales revenue per chair will remain the same in Bangladesh.

AM will see the following changes in its profit and loss, assuming sales volume remains the same as last year:

Year	Last Year		New Year	
Sales revenue	3 090 000		3 212 400	
Variable costs	1 242 000	40.2 %	1 490 400	46.4 %
Fixed costs	1 500 000	48.5 %	1 720 000	53.5 %
Net profit	348 000	11.3 %	2000	0.06 %

The impact of the increase in costs, both variable and fixed, will be a significant decrease in net profit. Because of the increase in variable costs, the already low contribution from sales in Bangladesh will contract from US\$40 to US\$28 (in Bangladesh wheelchair sells for US\$100 and variable cost with **Option 1** is US\$72). Although the contribution in Europe will remain the same, the higher fixed costs can only be made up for by increased sales. (It would take sales of an additional 1572 wheelchairs (wheelchairs in Europe sell for US\$212, contribution is $(212 - 72) = \text{US\$140}$) in Europe to equal the increase in fixed costs in Europe ($220\,000/140$) and more sales in Europe to compensate for the reduced contribution from sales in Bangladesh.)

These figures have not taken into account any increases in selling expenses, which we should anticipate if we are to realize any increases in sales. Given that the projected profits, without an increase in sales, are virtually zero, any increase in selling expenses would result in negative profit if those sales do not materialize.

These data strongly suggest that we need immediately to begin formulating a sales strategy for Europe.

Accept other valid components of the report. It is not expected that the candidates answer will look exactly as above or contain all the above points.

N.B. Candidates are not expected to make any recommendation.

[1 to 2 mark]

The candidate conveys a basic understanding of some of the impacts of the increase in costs for *AM*, but otherwise the report mainly quotes from the stimulus.

[3 to 4 marks]

The candidate conveys some understanding of the impacts of the increase in costs for *AM*. Some calculations may be present but the answer is mainly qualitative.

[5 to 6 marks]

The answer shows a clear understanding of the impacts of the increase in costs and decline in profitability for *AM*. Quantitative data is included. For **[6 marks]**, the answer must be written in the style of a report.

[7 marks]

The answer is written in the style of a report and shows a clear and detailed understanding of the impacts of the increase in costs and decline in profitability for *AM*. Quantitative data is included and is all correct and includes a calculation of net profit for strategic **Option 1**.

(d) Analyse the two growth options facing *AM* by applying the Ansoff matrix. [5 marks]

Using the Ansoff matrix, *AM* has four options: market penetration, product development, market development, and diversification. Of the four, the evidence from the stimulus material suggests that market penetration is the best option: existing market (Europe and Bangladesh) and existing product (wheelchair – although it will be slightly improved, it is not a new product).

	Existing products	New products
Existing market	Market penetration	Product development
New market	Market development	Diversification

For several reasons, this appears to be the best decision that the company can make. Its alternatives do not offer the same benefits:

Product development: the company has a steady and solid customer base with its current (slightly upgraded) product. To develop a new product would be expensive, requiring both market research and designing a new product. Given that *AM* is in the wheelchair business and already has considerable knowledge of the market, it seems unlikely that there is some large, unfilled gap that would yield large profits quickly. Rather, product development would likely be a long-term proposition.

Market development: market development always has inherent risks, especially when the market being developed is foreign. To enter a foreign market requires market research to make sure that the marketing mix is suitable for the market. Even then, there are risks about operating in a foreign market, where a culture can be different. Furthermore, a new distribution system has to be developed. While these risks can be overstated, especially when the market *AM* is considering is neighbouring India, with which it has many cultural similarities, compared to Europe, the contribution would be significantly lower than in Europe. Under the old cost structure, the contribution in India would be US\$65 versus US\$140 in Europe (under the new cost structure). Without factoring in the costs of marketing wheelchairs in India (those figures are not available from the stimulus material), to break-even, *AM* would have to sell 16 616 wheelchairs in India, whereas *AM* stands basically to break-even if it can merely achieve the same sales in units this year as last.

Diversification: diversification is not a realistic option for *AM*, given that they are unwilling even to make two varieties of wheelchairs.

Given the above consideration and the fact that *AM* already has a presence there, market penetration in Europe seems to be the best option. It is not without risks, however, *AM* will have to work hard to return to former levels of profits.

Accept any other relevant analysis.

N.B. It is not expected that the candidates incorporate all of the above points/issues.

Marks should be allocated according to the markbands on page 3.

SECTION B

- 3. (a) Describe *one* reason why technological innovation has been important for *Bauli*. [2 marks]**

While *Bauli* has probably innovated in a number of areas in recent years, especially in the use of information technologies, the stimulus specifically refers to two areas where innovation has been important: (1) using improved technologies to achieve uniform quality of its product and (2) using improved technologies to increase the shelf-life of its product. Achieving uniform quality of product enhances its organization's reputation for consistency, and consumers are not disappointed by a "bad" or "off" *panettone*. Increasing the shelf-life of the product lessens *Bauli*'s requirement to hire temporary workers, as full-time workers can produce the cakes well before the peak seasonal demand.

Accept any other relevant description.

N.B. It is not expected that the candidates incorporate all of the above.

Award **[1 mark]** for a basic description that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear description that conveys knowledge and understanding through application to the stimulus.

- (b) (i) Explain *one* advantage and *one* disadvantage for *Bauli* of hiring temporary workers. [4 marks]**

Advantages and disadvantages for *Bauli* of hiring temporary workers could include:

Advantages	Disadvantages
Company hires workers only when they need them, thus giving the company flexibility.	Temporary workers typically have less loyalty to the company, which may affect their performance and productivity.
With temporary workers supporting operations, full-time workers do not become overworked, which can lead to loss of focus (mistakes) and burnout.	Temporary workers have to be trained, which incurs cost and takes time.
Temporary workers cease working when their temporary contract expires. There are not the costs typically associated with redundancy.	

Mark as 2+2.

Award **[1 mark]** for each appropriate advantage/disadvantage for *Bauli* of hiring temporary workers identified and **[1 mark]** for an appropriate explanation that directly refers to *Bauli* up to a maximum of **[2 marks]**.

- (ii) **Explain one difference between internal and external growth.** **[2 marks]**

Internal growth occurs when a business focuses on increasing sales, market share, or scale of operations by modifying its marketing mix in order to penetrate further the market, to develop new markets, or to diversify. Internal growth can occur with new or existing products.

External growth occurs when a business achieves growth objectives by acquisition of other business. The reasons are the same: increasing sales, market share, or scale of operations. Modifying its marketing mix, in this instance, is very similar but achieved by other means: penetrate further the market by horizontal integration, to develop new markets by acquiring businesses that operate in them, or to diversify into “new” products by acquiring businesses that already produce them.

Differences between internal and external growth include:

- external growth is generally more rapid
- external growth more often requires external financing
- external growth more often includes dilution of ownership (though if internal growth expansion is financed by a capital share issue dilution can occur)
- external growth requires merging corporations, which can sometimes be difficult
- external growth involves more financial risk.

In contrast to the above points, internal growth is generally slower, can more often be financed internally, is less likely to lead to dilution, and is organic. It involves less financial risk. However, internal growth does not preclude the competition from responding, which external growth often takes care of by eliminating (via acquisition).

Accept any other relevant explanation.

N.B. It is not expected that the candidates incorporate all of the above.

Award **[1 mark]** for a basic explanation that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear explanation that conveys knowledge and understanding through application to the stimulus.

(c) Analyse the benefits for *Bauli* of developing a broader product mix.**[5 marks]**

The benefits to *Bauli* of the development of a broader product mix include:

- developing a group of products (e.g. including the Colombo cake) will increase brand awareness of *Bauli*
- reducing the danger of relying on one single product: diversification of revenue streams (especially for seasonal goods such as the Christmas *panettone*)
- having products at different stages of the product life cycle (as one product gets to the end of its product life cycle, other products should be reaching maturity and generating profits for reinvestment and for shareholders)
- having a broad range of products with seasonal peaks at different times of year reduces the requirement for temporary workers.

However, managing the product mix for a company is very demanding and requires constant attention. Michele *Bauli* must provide accurate and timely analysis of his company's product mix so the appropriate adjustments can be made to the product line and individual products. In addition, in terms of operations, marketing, and possibly distribution, managing multiple products increases complexity and costs.

Accept any other relevant analysis.

N.B. It is not expected that the candidates incorporate all of the above.

Marks should be allocated according to the markbands on page 3.

(d) With reference to *Bauli*, evaluate the benefits of small versus large organizations.**[7 marks]**

Generally speaking, the advantages and disadvantages (strengths and limitations) of small and large organizations include:

Possible disadvantages of a small organization include:

- competition by bigger organizations
- not enough financial resources
- changing demographics particular to location
- lack of expertise of specialists
- difficulty in gaining a significant market share
- fluctuation in the economy
- liability issues.

Possible advantages of a small organization include:

- it can be started at a very low cost
- it can easily serve specialized niches
- it is typically easier to respond to the marketplace quickly
- small business proprietors tend to be intimate with their customers and clients, which results in greater accountability and maturity
- independence is another advantage of owning a small organization
- freedom to operate independently is a reward for small organization owners
- small business owners have the satisfaction of making their own decisions within the constraints imposed by economic and other environmental factors.

Accept any other relevant point.

N.B. It is not expected that the candidates incorporate all of the above.

Possible disadvantages of a large organization include:

- it requires large amounts of capital
- it has difficulty in serving specialized niches, which are often profitable
- it is often difficult or unwieldy to respond to the marketplace quickly
- large businesses often do not have a “human face” to customers
- large businesses, even when independent, affect more stakeholders, which functions as a constraint
- they are often bureaucratic in character.

Possible advantages of a large organization:

- they often have more capital than their rivals
- they have easier access to finance
- they have continuity apart from the principals
- they enjoy the expertise of specialists
- they often have significant market share
- they typically can better withstand fluctuations in the economy
- they have greater resources to do market research and to innovate.

By themselves, bulleted points of advantages and disadvantages do not constitute an evaluation. Candidates must mention some advantages and disadvantages of small and large organizations and synthesize these ideas to produce an evaluative response.

With respect to the stimulus, *Bauli* specifically has the advantage of resources to innovate, to purchase rivals to gain market share, and to develop a broad product line. Small organizations can fill niche markets and, in the case of *panettone*, charge a premium price. Workforce and industrial planning is also significantly easier for small organizations.

Candidates must come to a judgment/conclusion.

Marks should be allocated according to the markbands on page 4.

4. (a) Define the term *partnership*.**[2 marks]**

A partnership is a type of organization made up of no more than 20 owners (depending on the country of origin). A partnership will normally have unlimited liability for its owners and key functions will be shared out according to the partnership agreement.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

(b) (i) Explain why quality control may become more important for *Liturgi*. **[4 marks]**

Quality control is a system for ensuring the maintenance of proper standards in a product, for example through inspections. Quality control may become more important for *Liturgi* because, by going into the market for high-quality, organic olive oil, they will be reaching out to consumers who want a higher quality product and are willing to pay a premium price. However, if *Liturgi* does not meet these high consumer expectations, the product will not sell and the *Liturgi* brand could suffer. In light of the fact that the olive farmers themselves, who know the raw materials that go into the product better than anyone, are worried that their olive trees do not yield sufficiently high-quality olives, *Liturgi* needs to be especially careful. *Liturgi* will need to have inspectors randomly check the product at production facilities.

Accept any other relevant explanation.

Award **[1 to 2 marks]** for a basic explanation of quality control that conveys partial knowledge and understanding. If there is no application to the stimulus, award no more than **[2 marks]**.

Award **[3 to 4 marks]** for a full, clear explanation that conveys knowledge and understanding of quality control and has explicit application to the stimulus.

(ii) Calculate the gross profit per litre for the two types of olive oil. [2 marks]

For the organic olive oil: $\text{€}15 \times 0.6 = \text{€}9$.

For the regular olive oil: $\text{€}3 \times 0.4 = \text{€}1.2$.

Award **[1 mark]** for each correct calculation. Working not required.

(c) Using two elements of the marketing mix other than place, analyse *Liturgi's challenge to produce the new organic olive oil.* [5 marks]

Producing the new organic olive oil is a marketing challenge for *Liturgi*, as shown by the 4Ps of the marketing mix (apart from place):

In terms of **promotion**, it means that *Liturgi* must establish its brand and reputation in a new market where it is not competing yet. Advertising campaigns may be expensive, even if they only target specific customers (*e.g.* expensive restaurants in Europe). On the other hand, in the long term this investment in promotion may prove beneficial, once *Liturgi* has established itself, as that market seems particularly lucrative.

In terms of **pricing**, the partners have already calculated a retail price of €15 per litre, however they may need to later review this in the light of both internal and external factors (internal factors such as the quality of the organic olive oil itself, external factors such as the responses of competitors in the market they want to penetrate).

In terms of **product**, the marketing challenge is about the fact that *Liturgi* will have two products: the traditional, good-quality olive oil, as well as the new, organic olive oil. This form of product diversification has advantages (*e.g.* as they are less dependent on one single product for their revenue), but also disadvantages (*e.g.* as two farmers already think that they will not be able to take part because of the quality of their olive trees, which may affect the whole partnership itself).

Accept any other relevant analysis.

Candidates may also write about People, Process, Packaging and Physical evidence – this is acceptable and they should be rewarded accordingly.

N.B. Candidates are only asked to use and apply **two** elements of the marketing mix. If a candidate uses only one P, award a maximum of **[3 marks]**.

Marks should be allocated according to the markbands on page 3.

(d) Discuss the effectiveness of the two types of distribution channels for *Liturgi*. [7 marks]

Liturgi's current distribution (the farm shop plus sales via telephone and internet orders) is effective in that, with limited overhead costs directly attributable to distribution, it is relatively inexpensive to operate; it is also simple. However, the method of distribution does not aggressively reach out to consumers, who must drive to the farm shop or contact *Liturgi* via internet or telephone, and largely limits the geographic range of sales to customers within driving distance to the farm shop (to be sure, telephone and internet sales reach out across Spain, but most sales are at the farm shop).

The new method of distribution (to the restaurants across Europe) will reach a much broader geographic area and will be more "customer-friendly", as the sales person will contact business and arrange for shipment of the product to them. However, the costs of distribution will increase, as will its complexity, because of issues such as transport, logistics and storage. This may prove more expensive than the partners initially thought, though initial investments may prove beneficial in the long term.

Accept any other relevant discussion.

N.B. Candidates are asked to discuss both distribution channels. If a candidate discusses only one, award a maximum of **[4 marks]**

To access top marks, the discussion must end with a conclusion which could be, for example, about the fact that the new distribution channel requires substantial investment.

Marks should be allocated according to the markbands on page 4.

5. (a) Identify *two examples of contemporary changes in work patterns and practices other than the adoption of the four-day working week.* **[2 marks]**

Examples of contemporary changes in work patterns and practices include:

- working from home
- teleworking
- flexitime.

Award **[1 mark]** for each work pattern or practice identified up to a maximum of **[2 marks].**

- (b) (i) Explain *one impact that the four-day working week in the public sector may have on the private sector in Utah.* **[2 marks]**

The impact of the four-day working week in the public sector could impact the private sector in a number of ways, including a reduction in demand/business volume on Fridays for a variety of businesses that provide support services for government personnel, including: parking garages, petrol stations, commercial carpool services, and restaurants.

On the other hand, because most employees of the state government now have three-day weekends and have lower expenditure in the areas just noted, state employees could increase their discretionary spending in areas such as recreation, entertainment, and home improvement.

Another area of the private sector that will be affected is day care (child care). Presumably, some private sector day care centres will shift to a schedule that matches the government schedule, resolving the problem that some state employees are currently experiencing and allow the operators of those day care centres to enjoy the benefits of a four-day working week.

Accept any other relevant explanation.

N.B. It is not expected that the candidates incorporate all of the above.

Award **[1 mark]** for identifying one relevant and correct impact, such as those listed above or some other appropriate response and award **[1 mark]** for an appropriate explanation thereof.

(ii) Distinguish between the public sector and the private sector.**[4 marks]**

The public sector, sometimes referred to as the state sector, is a part of the state that deals with either the production, delivery and allocation of goods and services by and for the government or its citizens, whether national, regional or local/municipal.

The private sector (also called commercial sector) is that part of the economy that is both run for private profit and is not controlled by the state.

Accept any other relevant distinction.

Award **[1 mark]** if the candidate correctly indicates that public sector refers to state or government.

Award an additional **[1 mark]** if the candidate indicates that the private sector refers to non-governmental enterprises.

Award an additional **[1 mark]** mark per term (public sector and private sector) for a full, clear response that conveys knowledge and understanding through development **or** exemplification **or** application to the stimulus, up to a maximum of **[2 marks]**.

- (c) Analyse the value of the social and environmental audit to two different stakeholders of the government of the state of Utah.

[5 marks]

A social and environmental audit evaluates the social and environmental effects of an organization's economic actions and communicates these effects to stakeholders and to society at large. These types of audits are commonly used in the context of business, or corporate social responsibility, although any organization, including NGOs, charities, and government agencies may engage in social accounting. Social and environmental audits emphasize the notion of corporate accountability and are intended to quantify social and environmental performance and environmental position. In this way they perform an analogous function to financial audits. A social and environmental audit report ideally contains a statement of social and environmental performance and a social and environmental position, and may also aim to define what needs to be done to sustain or improve on indicators of such performance and position.

A social and environmental audit provides considerable value to all of the stakeholders of the government of the state of Utah, that is, to all groups involved with the state's activities. It provides useful information to the governor and legislators to make decisions regarding the social programs the state sponsors. Preparing the social and environmental audit stimulates the state employees by making them aware of the government's efforts at social and environmental responsibility. The private sector learns how the government faces its responsibilities with regard to human resources and the environment, which is a good indicator of how the state government is run. The social and environmental audit shows the citizens of Utah the government's philosophy and the impact on society and the environment of how the state operates its affairs. If the audit reveals an unsatisfactory level of social or environmental responsibility, citizens can take action to influence politicians to make changes in the state's approach to these matters.

Although most argue that a social and environmental audit benefits everyone, because it communicates to all stakeholders the social and environmental performance and position of an organization, some stakeholders may resent the findings of an audit. For example, while the four-day working week was largely affirmed by the audit, those businesses negatively affected by its implementation, such as those that provide support services for government personnel (parking garages, petrol stations, commercial carpool services, and restaurants), may believe that the audit has no value or negative value. In addition, different stakeholders can have a different view of social and environmental responsibility. Those with lesser concern for social and environmental responsibility may not like the cost of the performance of the audit.

Accept any other relevant analysis.

N.B. It is not expected that the candidates incorporate all of the above.

Marks should be allocated according to the markbands on page 3.

- (d) Discuss *two* possible areas of conflict between *two* stakeholders when the government of the state of Utah imposed a four-day working week for most state employees.

[7 marks]

When answering this question, candidates should provide two areas of conflict, identify (for each conflict) the two stakeholders affected, and discuss the nature of the conflicts. Examples of conflicts between stakeholders might include

Stakeholder #1	Conflict	Stakeholder #2
Businesses affected positively by the four-day working week.	Government's decision to have the four-day working week.	Businesses affected negatively by the four-day working week.
Citizens who visited government offices on a Friday.	Friday closure of government offices.	The government, which made the decision to close government offices.
State employees who must still work five days a week.	Determination of which state agencies would operate on a four-day schedule and which on a five-day schedule.	Senior government officials who decided that those employees would remain on a five-day schedule.
Pressure groups for greater social and environmental responsibility.	Decision to perform a social and environmental audit.	Pressure groups for lesser role of government in public life.
State employees with young children.	Problem of procuring extended day care.	The government, which made the decision to close government offices.

Accept any other relevant discussion.

If a candidate discusses only one area of conflict, award a maximum of **[4 marks]** (and, if only one area of conflict is identified, the response would otherwise have to be excellent, including the explicit identification of the stakeholders, to receive **[4 marks]**).

Marks should be allocated according to the markbands on page 4.

M12/3/BUSMT/SP1/ENG/TZ0/XX/M



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MARKSCHEME

May 2012

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

13 pages

– 2 –

M12/3/BUSMT/SP1/ENG/TZ0/XX/M

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A			Level descriptors
Q1 (c)	Q2 (d)	Q3 (c)	
Marks 0–7			
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the case study.
3–5			<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the case study, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical.
6–7			<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the case study.

Section B	
Q4 (d)	Level descriptors
Marks 0–8	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study.
3–4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the case study, not just to the name of the organization. • The response is mainly theoretical.
5–6	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the case study are made at places in the response.
7–8	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the case study are made throughout the response.

SECTION A

1. (a) General Ron Meiri was autocratic (*lines 8–9*). Identify four key features of an autocratic leadership style. **[4 marks]**

An autocratic leadership style has features such as:

- the leader wants to hold on to as much power, authority and control as possible
- the leader does not delegate
- employees are not involved in consultation
- employees are just expected to obey
- accept any other relevant feature.

N.B. Answers about organizational structure (centralized, tall) are not directly relevant and should **not** be credited.

Award **[1 mark]** for each correct feature identified, up to a maximum of **[4 marks]**.

- (b) “The organizational structure of the UWP Mission was tall” (*lines 9–10*). Explain **one** advantage and **one** disadvantage of this type of structure. **[4 marks]**

A tall organizational structure has the following advantages:

- hierarchies and managerial chains of command are clear and unambiguous
- roles, posts and departments tend to be highly specialized
- rules and procedures are written and formalized
- the working environment is often very stable
- accept any other relevant advantage.

A tall organizational structure has the following disadvantages:

- it may appear impersonal, overly administrative and bureaucratic
- decision-making can be slow and centralized
- employees are not encouraged to participate or share their views
- responding to changes in the internal or external environment can be slow
- accept any other relevant disadvantage.

Accept any other relevant explanation.

Mark as 2 + 2.

Award **[1 mark]** for each correct advantage/disadvantage identified, and **[1 mark]** for the appropriate explanation of that advantage/disadvantage up to a maximum of **[2 marks]**.

- (c) Analyse the appropriateness of a bank loan as a source of finance for Kos Palouk's new lorry (*lines 129–130*). *[7 marks]*

The bank loan is appropriate because it is a well-established method of external funding to buy fixed assets such as machinery or property. In Loyka, Kos may not have access to other sources of external funding such as venture capitalists. Moreover, due to the small size of his part-time business and the fact that he can only save \$100 a month before tax (Appendix 5), he probably does not have enough savings or retained profit for internal funding.

However, the bank loan may not be appropriate because Kos would have to pay interest, even if he is not very successful at the start. Besides, the bank manager requires the lorry as collateral: this means that one day Kos could lose his lorry if he does not keep up with repayments, which is vital for the business, even if he has paid back some of the loan.

N.B.

- Candidates may refer to other sources of finance (such as leasing); this is an acceptable way to analyse the appropriateness of the bank loan, as opposed to other sources of finance. This should be credited.
- As in all answers, correct use of subject terminology (e.g. about retained profit) should be credited.
- Candidates are **not** required to make any recommendation at the end; the ones who do so will **not** receive extra marks, as the command term is “analyse” and not “recommend”.

Accept any other relevant analysis.

Marks should be allocated according to the markbands on page 3.

2. (a) Loyka's economy is mainly in the primary sector (*line 1*). Briefly describe the nature of business activity in this sector. *[2 marks]*

The primary sector of an economy includes agriculture as well as fishing, forestry and mining. It converts natural resources into primary products.

Accept any other relevant description.

Award **[1 mark]** for each correct element of the description up to a maximum of **[2 marks]**.

- (b) Outline *one* reason why Kos Palouk does not need to do any additional marketing at the UWP Mission. **[2 marks]**

Kos does not need to do any additional marketing at the UWP Mission because he is already known there: he already has an established base of customers who trust him (customer loyalty) and will be ready to buy more produce from him.

Accept any other relevant answer.

Award **[1 mark]** for a basic outline that shows some knowledge and understanding.

Award **[2 marks]** for a clear outline that shows clear knowledge and understanding.

- (c) Using information from Appendix 5a,

- (i) calculate the net profit margin and the gross profit margin for Kos Palouk from his current operation (*Option 1*). **[2 marks]**

$$\text{Net profit margin} = \frac{150}{400} \times 100 = 37.5\%$$

$$\text{Gross profit margin} = \frac{200}{400} \times 100 = 50\%$$

Award **[1 mark]** for each correct answer, up to a maximum of **[2 marks]**.

- (ii) calculate the net profit margin and the gross profit margin for Kos Palouk from his forecast operation (*Option 2*). **[2 marks]**

$$\text{Net profit margin} = \frac{1600}{4000} \times 100 = 40\%$$

$$\text{Gross profit margin} = \frac{2200}{4000} \times 100 = 55\%$$

Award **[1 mark]** for each correct answer, up to a maximum of **[2 marks]**.

(d) Interpret your results from part (c) and the data from Appendix 5a and 5b. [7 marks]

The calculations show that the net profit margin for the forecast operation increases by 2.5% and the gross profit margin increases by 5% (from 50% to 55%).

For the forecast operation (**Option 2**), gas and vehicle maintenance are eight times higher (\$400 as opposed to \$50) as it involves more driving, and there is a new type of expense (rent of storage facility for \$200 per month), however Kos can multiply his sales by ten (from \$400 to \$4000) and realize economies of scale. The forecast operation also means that he would multiply his income more than twice (from \$650 to \$1500, see Appendix 5b). As he needs \$550 to support himself and his family, he currently saves \$100 every month (before tax). With the forecast operation, if he expands, he could save over \$900 a month ($\$1500 - \$550 = \950) though not all of it would be personal savings as he would need to pay back the bank loan (currently \$100 interest a month) and any tax (he is likely to pay more taxes).

The profitability ratios overall show that Kos' operations (the current one as well as the forecast one) are financially healthy, however the forecast one (**Option 2**) shows a slightly higher margin (for both net and gross profit), which could support the choice for that option.

Apply Own Figure Rule (OFR).

Accept any other relevant answer.

Marks should be allocated according to the markbands on page 3.

3. (a) Kos Palouk prepared a business plan (*line 142*). Identify four elements of a business plan. *[4 marks]*

Business plans usually include the following elements:

- mission statement and/or vision statement (*count as one answer*)
- aims / objectives / strategic objectives (*count as one answer*)
- information about the business environment (industry, competitors), PEST analysis (*count as one answer*)
- description of operations
- marketing plan / marketing strategy / marketing intelligence (*count as one answer*)
- information about staffing / HR (*count as one answer*)
- financial statements / cash-flow forecast / start-up costs (*count as one answer*)
- accept any other relevant element.

N.B. The list above is not exhaustive.

- Do **not** award a mark for “appendices” or “table of contents” or “executive summary”.
- Do **not** award a mark for just “SWOT analysis”.

Award **[1 mark]** for each correct element up to a maximum of **[4 marks]**.

(b) With reference to Kos Palouk’s business, distinguish between just-in-time and just-in-case stock control (*lines 136–138*). *[4 marks]*

Just-in-time (JIT) stock control means that Kos was only buying stock (fresh produce) from suppliers (farmers) when required, for example when he had particular orders from the UWP Mission. This was a good way for him to avoid storage and wastage.

Just-in-case (JIC) stock control means that Kos would need to buy produce and keep a reserve (the buffer stock); he would need to store the produce, which is why he would require a storage facility with a refrigerated room for the eggs, vegetables and poultry. With just-in-case stock control, Kos would be ready to deliver larger amounts of produce to the new university or hospital, whenever required.

Accept any other relevant answer.

[1 to 2 marks]

Award **[1 mark]** for an answer that shows some knowledge of stock control methods. Award **[2 marks]** for an answer that refers to the difference between just-in-time and just-in-case stock control at a generic, theoretical level.

[3 to 4 marks]

Award **[3 marks]** for an answer that combines “theory” (*i.e.* definitions) and “practice” (*i.e.* reference to the case study). Award **[4 marks]** for an answer that fully and clearly distinguishes between just-in-time and just-in-case stock control with reference to Kos Palouk’s business.

- (c) **Analyse the value of the social and environmental audit (line 96) for both General Diane Pierce and the local community.** **[7 marks]**

The results of the formal social and environmental audit of the construction of both facilities will enable General Diane Pierce to assess the relative impacts of the two proposed facilities (university *vs* hospital) and to make a more informed decision. Some of the results of the audit will probably be positive in the short term (*e.g.* by increasing access to medical sources straightway) and in the long term (*e.g.* by training the next generation of Loykese engineers, teachers and nurses), but some others may be negative (*e.g.* the destruction of the botanical gardens).

The audit will also be of value for the local community as it represents a channel to express their views, either to express approval (*e.g.* as there is a lack of doctors in Loyka) or disapproval (*e.g.* about the issue of foreign male doctors looking after local female patients). Audits make it possible to go beyond the anecdotal (*e.g.* the earlier conflicts between the local governor and General Ron Meiri) and to have a more holistic, objective view with recommendations.

Accept any other relevant analysis.

N.B. candidates may not refer much to environmental aspects; this is acceptable as there is little in the case study about that. There is no expectation that candidates will cover social and environmental aspects to the same extent, as the focus here is on social impacts.

Marks should be allocated according to the markbands on page 3.

SECTION B**4. (a) Define the following terms:**

- (i) *span of control (lines 10–11)* **[2 marks]**

Span of control refers to the number of subordinates under a single line manager. When a manager has many subordinates reporting directly to him/her there is a “wide” span of control, and a “narrow” span when there are few.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the case study award **[1 mark]**.

- (ii) *primary research (line 97).* **[2 marks]**

The aim of primary research is to create data that does not already exist. Primary research is carried out (first-hand) by the researcher (for example through interviews or surveys); data is collected for a specific purpose, as opposed to secondary research which means re-using and analysing data already collected by someone else, for another purpose.

N.B. Just writing “surveys and focus groups” is not enough for **[1 mark]**.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the case study award **[1 mark]**.

(b) Prepare a SWOT analysis of Kos Palouk's current produce distribution business (with no changes) showing *only* the strengths *and* weaknesses.

[4 marks]

The strengths of his current produce distribution business include the following:

- he has a network of reliable suppliers (local farms)
- he has an established reputation at the *UWP* Mission where he has good contacts (such as Colonel Michael Donovan) and good customers (the troops)
- his just-in-time (JIT) stock control system ensures fresh produce, avoiding wastage
- his business model is simple yet effective (he has a gross profit of \$200 a month)
- *accept any other relevant strength.*

The weaknesses of his current produce distribution business include the following:

- he is a sole trader with no employee, so if ever he is ill and cannot work, he has nobody to cover for him
- he has limited capital (working capital) and limited resources
- he is very dependent on his car: what would he do if it breaks down?
- he is overly dependent on one large customer (*UWP*)
- his current business is so small that there is no scope for economy of scale
- *accept any other relevant weakness.*

N.B.

- Do **not** credit external factors (such as the opportunity for expansion coming from the *UWP* Mission's development of a new facility, or the threat coming from road attacks); the strengths and weaknesses must be **internal** and must refer to the current operation.
- To receive a mark, each point must be clear, precise and without any ambiguity.

Mark as 2+2.

Award **[1 mark]** for each correct strength, up to a maximum of **[2 marks]**, and **[1 mark]** for each correct weakness, up to a maximum of **[2 marks]**.

- (c) Explain two social factors that could influence General Diane Pierce's decision regarding the construction project.

[4 marks]

The following social factors could influence General Diane Pierce:

- current decline in healthcare
- the need for education, especially in a forward-looking sustainable way (by training professionals such as teachers, nurses, doctors and engineers)
- the relative poverty of a developing country that relies mainly on the primary sector
- the social values and cultural attitudes of the local community (the Loykese) towards: foreigners, the *UWP* Mission or the construction project itself
- accept any other relevant social factor.

Accept any other relevant explanation.

Mark as 2+2.

Award **[1 mark]** for each correct factor identified, and **[1 mark]** for an appropriate explanation of that factor (how can it influence General Diane Pierce's decision).

- (d) With reference to the *UWP* Mission to Loyka when General Diane Pierce arrived, discuss the relationship between aims, strategic objectives and operational objectives.

[8 marks]

Aims refer to long-term goals which are often formulated in a generic way (thereby comparable to the vision statement of an organization); the aim of the *UWP* Mission is “to maintain order, peace and security”. Strategic objectives are more specific: General Diane Pierce's strategic objective is “to improve the image of ‘the Olive Hats’”. Such objectives have a long-term dimension, but they can be more easily measured. They need to be broken down into tactical objectives with specific targets and timelines to make it possible to assess if/when they have been reached. Operational objectives are more precise and refer to day-to-day activities. The main operational objective for General Diane Pierce is to remotivate her troops.

There is a hierarchy of objectives (from aims to strategic objectives to operational objectives), however the vocabulary of strategy relies heavily on semantic distinctions that successful organizations do not always follow; some organizations also have corporate objectives, departmental objectives, team objectives etc.

Accept any other relevant discussion.

N.B. Do not credit the elements of an answer that only copy the case study: quotes may be useful, but they must be integrated into the discussion.

Marks should be allocated according to the markbands on page 4.

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MARKSCHEME

May 2012

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

22 pages

– 2 –

M12/3/BUSMT/SP2/ENG/TZ0/XX/M

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Section A		Section B			Level descriptors	
Q1 (d)	Q2 (e)	Q3 (c)	Q4 (c)	Q5 (d)		
Marks 0–5						
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology. 			
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the stimulus material. The response is mainly theoretical. 			
3–4			<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the stimulus material, not just to the name of the organization. 			
5			<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the stimulus material. 			

Section B			Level descriptors
Q3 (d)	Q4 (d)	Q5 (e)	
Marks 0–7			
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the stimulus material.
3–4			<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues and concepts. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the stimulus material, not just to the name of the organization. • The response is mainly theoretical.
5–6			<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the stimulus material are made at places in the response.
7			<ul style="list-style-type: none"> • A response with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the stimulus material are made throughout the response.

SECTION A**1. (a) Describe two below the line promotion methods that Roberto could use. [4 marks]**

Below the line promotional methods that *AH* could use include:

- Direct mail could be used to inform customers about delivery services, contact details, menu, prices and promotions.
- Leaflets and 2 for 1 offers could be handed out in the neighborhood of the restaurant. *AH* could offer 2 for 1s either promoted on the leaflets, or at point-of-sale, or through other means.
- Loyalty programs for frequent customers could be introduced to allow special discounts or free meals after a number of visits. These could also encourage brand loyalty and provide *AH* with a database that could be used for further promotions.
- Birthday clubs, special date promotions and refer-a-friend tactics could be set up to increase the number of customers.
- Selling internal merchandising such as special barbecue utensils and aprons with the restaurant's logo/name to enhance brand awareness.
- *Accept any other relevant below the line promotion method described.*

Award **[1 mark]** for each correct and relevant below the line promotion method identified up to a maximum of **[2 marks]**. Award an additional **[1 mark]** for a relevant description of each method identified up to a maximum of **[2 marks]**.

(b) Calculate for AH for each month (show all your working):**(i) other employee salaries (figure X) and hence the break-even level of output. [2 marks]**

$$\text{Other employee salaries (X)} = 500 + (350 \times 2)$$

$$\text{Fixed costs} = 200 + 500 + 400 + 500 + (350 \times 2) + 150 = \text{US\$2450}$$

$$\begin{aligned}\text{Contribution per meal} &= \text{sales price} - \text{variable cost per meal} \\ &= 10 - 8 = \text{US\$2}\end{aligned}$$

$$\text{Break-even level of output} = \frac{\text{fixed costs}}{\text{contribution per meal}} = \frac{2450}{2} = 1225$$

Award **[1 mark]** for the correct workings and **[1 mark]** for the correct answer.

– 6 –

M12/3/BUSMT/SP2/ENG/TZ0/XX/M

(ii) the margin of safety.

[2 marks]

Margin of safety = current level of output – break-even level

$$\text{Margin of safety} = 30 \times 100 - 1225 = 1775 \text{ meals}$$

Apply Own Figure Rule (OFR).

Award **[1 mark]** for the correct workings and **[1 mark]** for the correct answer.

(iii) the profit or loss at the current level of meals served.

[2 marks]**Method 1**

Revenue	3000 meals at US\$10 per meal	30 000
Variable costs	3000 meals at US\$8 per meal	-24 000
Fixed costs		<u>-2450</u>
Profit		3550

$$\text{Profit} = \text{US\$}3550$$

Method 2

$$\begin{aligned}\text{Profit} &= \text{margin of safety} \times \text{contribution} \\ &= 1775 \text{ meals} \times 2 \\ &= \text{US\$}3550\end{aligned}$$

Apply Own Figure Rule (OFR).

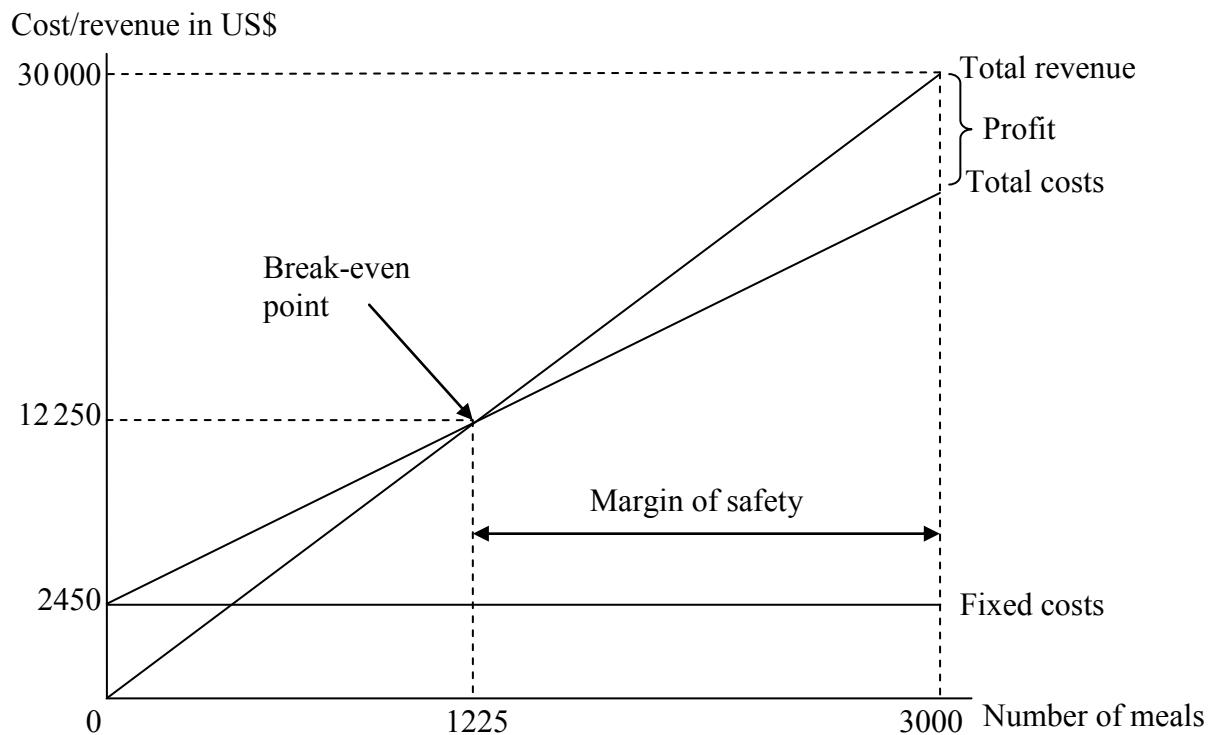
Award **[1 mark]** for the correct workings and **[1 mark]** for the correct answer.

– 7 –

M12/3/BUSMT/SP2/ENG/TZ0/XX/M

(c) Construct a fully labelled break-even chart for AH.

[5 marks]



Award marks as follows:

[1 mark] for each appropriately labelled axis – up to a maximum of [2 marks].

[1 mark] for an appropriately drawn and labelled total revenue curve.

[1 mark] for an appropriately drawn and labelled total cost curve.

[1 mark] for the identification of the break-even level of output.

Award [0 marks] if a candidate produces a table, and award no more than [3 marks] if the chart is not neat, not drawn with a straight-edge, or is not to scale.

Ideally, the candidate will draw an arrow pointing to the break-even point and label the arrow. However, accept as an “appropriately labelled” break-even point a vertical line from the x -axis to the break-even point provided that the line is labelled “break-even point”.

- (d) **Using the position map, analyse how *AH* can differentiate itself from its main competitors.**

[5 marks]

Roberto has constructed a position map to determine where his restaurant stands vis-à-vis the other competing restaurants in the street. According to the position map, *AH* is competing with restaurants A, B and C in the high quality high priced segment, meanwhile restaurant D is all alone in the economy segment offering an inferior service.

The map suggests that *AH* has a distinct position in the market. On the one hand, restaurant B is perceived as offering services with the same quality than *AH* but at a higher price. Restaurant C on the other hand, is perceived as offering services at the same price than *AH* but with a lower quality. Restaurant A in turn, is perceived as providing better quality services but substantially more expensive.

Roberto could design his future promotions so as to emphasize *AH*'s distinct position in the market. His restaurant is perceived as offering good quality service for good value for money. Future promotions could aim at showing that his restaurant is cheaper than competitor B for the same service quality, and better quality service than competitor C for the same price.

Another option for *AH* is to try to change its market position to a “less crowded” position to differentiate more effectively from restaurants B and C. It could aim at the premium segment such as restaurant A, or inversely, at the economy segment like restaurant D. However, these alternatives would imply competing with restaurants A or C which are already positioned in their market segments. It could also entail several risks such as losing customers or drastic changes to the restaurant's image.

Roberto should then take advantage of *AH*'s current position to deepen its differentiation over its competitors. Future promotions should emphasize *AH*'s distinct position on quality service and price.

Accept any other substantiated analysis.

Marks should be allocated according to markbands on page 3.

– 9 –

M12/3/BUSMT/SP2/ENG/TZ0/XX/M

2. (a) Identify *two* advantages and *two* disadvantages of changing the legal structure of *BS* to a private limited company. [4 marks]

Advantages could include:

- shareholders have limited liability
- capital can easily be raised by having more shareholders
- control of the business cannot be lost as all shareholders must agree to sell to new shareholders
- the business will continue even if one of the owners dies.

Disadvantages could include:

- profits must be shared among shareholders
- the legal costs of setting up this type of organization
- shares cannot be sold to the public
- financial information becomes public.

N.B. Some candidates may say that control of ownership could be lost even if this is actually not the case in the scenario of this stimulus. If the business changes from a sole trader to a private limited company, Aroon can control the sale of shares such that he will always have a controlling interest in the company.

Accept any other relevant advantage or disadvantage.

Mark as 2 + 2.

Award **[1 mark]** for each correct and relevant advantage identified up to a maximum of **[2 marks]** and **[1 mark]** for each correct and relevant disadvantage identified up to a maximum of **[2 marks]**.

(b) Assuming shrimp prices remain at current high levels, calculate for the new shrimp boat (*show all your working*):

(i) the payback period (without depreciation). [2 marks]

$$\frac{175\ 000}{35\ 000} = 5 \text{ years}$$

Award **[1 mark]** for the correct working and **[1 mark]** for the correct answer.

(ii) the average rate of return (ARR) over a seven-year period. [2 marks]

$$\text{Total net return over 7 years} = 245\ 000 - 175\ 000 = 70\ 000$$

$$\text{Average annual net return} = \frac{70\ 000}{7} = 10\ 000$$

$$\text{ARR} = \frac{10\ 000}{175\ 000} \times 100 = 5.71\% \text{ to 2 d.p.}$$

Award **[1 mark]** for the correct working and **[1 mark]** for the correct answer.

– 10 –

M12/3/BUSMT/SP2/ENG/TZ0/XX/M

- (c) Assuming shrimp prices return to their pre-2011 levels *two years after BS acquires the new shrimp boat, calculate (show all your working):*

- (i) the payback period (without depreciation). *[2 marks]*

$$175\,000 - 35\,000 \text{ (year 1)} - 35\,000 \text{ (year 2)} = 105\,000$$

$$\frac{105\,000}{10\,000} = 10.5 \text{ years}$$

$$2 \text{ years} + 10.5 \text{ years} = 12.5 \text{ years or 12 years and 6 months}$$

Award *[1 mark]* for the correct working and *[1 mark]* for the correct answer.

- (ii) the average rate of return (ARR) over a seven-year period. *[2 marks]*

$$\text{Profit over seven years} = 35\,000 \times 2 + 10\,000 \times 5 = 120\,000$$

$$\text{Net profit} = 120\,000 - 175\,000 = -55\,000$$

$$\text{Average annual net return} = \frac{-55\,000}{7} = -7857.14 \text{ to 2 d.p.}$$

$$\text{ARR} = \frac{-7857.14}{175\,000} \times 100 = -4.49\% \text{ to 2 d.p.}$$

Award *[1 mark]* for the correct working and *[1 mark]* for the correct answer.

- (d) Comment on the results of your investment appraisal calculations in parts (b) and (c).

[3 marks]

Allow candidate own figure rule (OFR) based on their calculations to parts (b) and (c).

The results of the investment appraisal calculations indicate that, if shrimp prices remain high, purchasing a new boat will be a positive investment. The payback period of 5 years is also a short period of time, especially since Aroon believes that the useful life exceeds 7 years. If, after 2 years, prices fall to their pre-2011 levels, the investment becomes negative. The payback on the loan now extends to 12.5 years, which means that the boat would not be paid for until after his retirement.

Accept any other relevant comment.

[1 mark]

A general or limited response.

[2 marks]

The candidate's response is somewhat general (the candidate does not support the answer with specific references to the rates of return and payback periods), or too optimistic (the candidate does not make some commentary on the problematical nature of projections, which tends to be optimistic and which cannot anticipate the unexpected).

[3 marks]

The candidate's response makes specific references to the rates of return and payback periods. The candidate also makes some commentary on the problematical nature of projections, which tends to be optimistic and which cannot anticipate the unexpected.

- (e) **Using Maslow's hierarchy of needs theory, analyse Aroon's motivation to acquire the additional shrimp boat.** **[5 marks]**

The acquiring of an additional shrimp boat is a difficult decision for Aroon and his family. If shrimp prices remain high for several years, the boat can be paid off quickly.

There are risks to the move. If shrimp prices return to pre-2011 levels quickly, Aroon could be paying for the boat for many years. He would have to renegotiate the loan, and his bank may not be happy with this situation and could raise the interest rate. It could also mean that Aroon and Kanya have to delay their retirement, which they may not want to do and for Aroon this may cause difficulties given the physical demands of shrimping. Why would he want to take a risk of jeopardizing the comfort and prosperity he currently enjoys to buy another boat? Why does he just not enjoy the post-2011 profits and bank as much money as possible until shrimp prices fall to pre-2011 levels?

According to Maslow, humans must first satisfy their physiological needs then their safety needs, and then their need for love and belonging. Aroon has met these needs – he runs a profitable business with his wife. The explanation for risk taking could well lie in the next stages of Maslow's hierarchy: the need to gain the respect and esteem of others and, finally, self-actualization – the realization of full potential. Perhaps Aroon wants to see his standing in the shrimping community go up, which it certainly would if he successfully increased his fleet. Other shrimpers would believe him to be a successful businessman and Aroon himself would feel not merely competent but successful.

Given the risks he is considering, though, the motivation may even be greater. For Aroon, self-actualization, reaching his full potential (in his eyes) may be not merely providing for his family now, but also in providing for the future of his sons and their families by leaving each son his own boat.

Accept any other relevant analysis.

Marks should be allocated according to markbands on page 3.

SECTION B**3. (a) Identify two features of quality control.** **[2 marks]**

Features of quality control could include:

- it is a set of procedures intended to ensure a certain level of quality in a product or service
- it emphasizes testing of products to uncover defects
- it is product orientated instead of process orientated
- quality control activities are usually performed after the production has been completed
- it is reactive rather than proactive
- *accept any other relevant feature.*

N.B. Some candidates may define quality control. If in their definition, two appropriate features are identified, award marks for identification of those features.

Award **[1 mark]** for each correct and relevant feature of quality control identified up to a maximum of **[2 marks]**.

(b) Explain one advantage and two disadvantages to *Hands* of using a piece rate rewards package for its workers. **[6 marks]**

A piece rate reward package (scheme) is such that workers are paid purely on results.

Advantages for *Hands* could include the following:

- It could increase motivation among workers and therefore increase productivity.
- It helps to reward extra productivity. This means that efficient and fast craftswomen who make an extra effort will be rewarded for it.
- It allows some labour costs flexibility. If the business faces a downturn in sales, labour cost can be easily adapted to the circumstances as craftswomen are only paid if they produce.
- *Accept any other relevant advantage.*

Disadvantages for *Hands* could include the following:

- Craftswomen may worry about losing pay if production and sales are lowered.
- The quality of knitted items could be affected as workers mainly focus on production. This could negatively affect sales and threaten *Hands'* permanence in sophisticated and competitive markets.
- It could be more complicated to administrate than other payment schemes, as each craftswoman will see its wage calculated every payroll. This could lead to an increased administrative cost for the business.
- Innovation and group work could be discouraged as the worker's main focus is quantity produced. This can particularly affect a business in the fashion industry like *Hands*, where creation of new designs is essential.
- *Accept any other relevant disadvantage.*

Mark as 2+2+2.

[2 marks] are awarded for **one** advantage and **[4 marks]** are awarded for **two** disadvantages.

Award **[1 mark]** for each correct and relevant advantage/disadvantage identified. Award an additional **[1 mark]** for a relevant explanation of the advantage/disadvantage up to a maximum of **[6 marks]**.

- (c) **Analyse two challenges that *Hands* may have faced entering into international markets.**

[5 marks]

The entrance into international markets may have placed several challenges on *Hands*.

For example:

- *Hands* may have faced strong competition from other hand knitting companies from India, New Zealand and Uruguay wanting to reach the same markets. However, the usage of high quality raw materials and exhaustive quality controls methods may have helped *Hands* to finally access those markets.
- Additional working capital to expand internationally and to develop new distribution channels may have been difficult to find. This may have been solved through government grants, or financial support from international institutions helping small businesses in developing countries.
- Entering into international markets implied that some workers were given managerial authority; these organizational changes may have caused concern over workers and may have led to de-motivation and/or conflict among them. However, craftswomen's loyalty to *Hands* may have helped to cope with these challenges.
- Exchange rate fluctuations between the Argentine Peso and the Euro and the US\$, may affect sales and profitability.
- *Hands* may have faced problems when contacting important clients overseas and when bridging cultural and language barriers. Agents in the target countries where *Hands* was willing to export may have been contacted for this purpose.
- *Hands* may have faced additional innovation costs to introduce new knitting techniques and designs. It is possible that *Hands* may have contacted national and international designers to develop new products to meet the needs of top fashion markets.
- *Hands* may have adapted its scale of production to an increasing demand so as to be able to meet orders in the time and quality required. This may have been solved by hiring specialist or external consultants that may have helped *Hands* to adapt to its new position.

Accept any other relevant challenge and analysis.

Marks should be allocated according to the markbands on page 3.

(d) Evaluate the effectiveness of the democratic leadership style of the partners at *Hands*.

[7 marks]

In a democratic leadership style workers are involved in the decision-making processes of the business; that is, consultation and collaboration are considered central elements.

- The collaborative environment created by a democratic leadership style could have resulted in better solutions to the challenges that the business had to face over the years, such as lack of finance and economic recessions.
- A democratic leadership style could have also enabled the sense of belonging and loyalty of craftswomen and thus increase motivation among them.
- A democratic leadership style probably enabled the sharing of ideas, designs, and knitting techniques which could have led to the success of *Hands*' products in international markets.

On the other hand:

- A democratic leadership style could have negatively affected the efficiency of the business by slowing down the decision-making processes. As the business employs around 300 craftswomen, coordination and cooperation although valuable, may have been chaotic, time consuming and therefore costly. Reaching a consensus over decisions may have been difficult.
- It is highly probable that most craftswomen belonging to *Hands* lacked managerial skills. For urgent decisions in challenging times, the democratic leadership style may have been inappropriate.

Hand's survival over the years and its current success seem to show that the application of a democratic leadership style was effective. Such success is clearly crystallized in the achievement of *Hand's* challenges in entering into the world's most demanding markets despite fierce competition.

Accept any other relevant evaluation.

If the response is a one-sided relevant approach with no evaluation award a maximum of **[4 marks]**.

Marks should be allocated according to the markbands on page 4.

4. (a) Identify two features of e-commerce.**[2 marks]**

Features of e-commerce include:

- 24/7
- lowers transaction costs
- worldwide
- universal standards
- interactivity
- personalization
- customization
- *accept any other relevant feature.*

[Source: adapted from www.cs.siena.edu, 6 March 2011]

N.B. A comment along the lines of “customers buy products over the Internet” is not a feature of e-commerce but rather a definition. For credit as a feature, the candidate must say something along the lines of “24/7”, “worldwide” etc.

Award **[1 mark]** for each correct feature of e-commerce identified up to a maximum of **[2 marks]**.

(b) Explain two ways *PF* practices corporate social responsibility.**[6 marks]**

PF practices corporate social responsibility when, beginning in 2007, it introduced organic cotton T-shirts to its brand line. The cotton in these shirts meets rigorous organic certification standards and the T-shirts are made without the use of environmentally harmful chemicals. This shift to environmentally friendly products is one form of corporate social responsibility.

Another is the fact that these products are cut and sewn in manufacturing facilities committed to socially responsible practices. Presumably *PF* could have the manufacturing done in factories in developing nations, where workers are often poorly paid and overworked but which, nevertheless, can produce the product for less than those factories that practice social responsibility towards its employees.

A final way that *PF* practices corporate social responsibility is the fact that the company makes donations to several organizations committed to environmental protection. Although doing so strengthens *PF*’s brand identity, it could strengthen its identity by other means, which does not include charitable contributions.

Accept any other relevant explanation.

Mark as 3+3.

For identification of an appropriate way *PF* practices corporate social responsibility, award **[1 mark]**. Award **[2 marks]** for partial, appropriate explanations, and **[3 marks]** for thorough, appropriate explanations. Award a maximum of **[6 marks]**.

(c) Analyse the benefits of two methods of distribution of PF's products.**[5 marks]**

The stimulus identifies three forms of distribution:

1. the Internet (e-commerce)
2. retail stores
3. mobile retail stores –vans.

The benefits of using the Internet is that it is inexpensive, provides worldwide access, and can be easily adapted as new products are introduced and old ones phased out. *PF*'s customer base is young people, who are not intimidated by the Internet and who, ever more frequently, have Internet access via their mobile phones. A major part of *PF*'s marketing strategy is to project a hip, somewhat Bohemian image, which *PF* can manage via its web site.

Retail stores have certain benefits that the web page does not. Like the web page, retail stores can through décor and people shape an image that strengthens the *PF* brand. Unlike the web, sales representatives can develop a rapport with customers that can enhance sales. Also, customers can touch, feel, and try on the products. A drawback to retail stores is that they are expensive – rent, decorations/furnishings, and salaries and wages.

The mobile retail concept allows *PF* to target events and venues where young people go with fewer expenses than a fixed retail store. With the mobile retail stores, buyers can touch and feel the products. Vans can be on location for the duration of the time young people are there – in the summer for theme parks, for one night in the event of concerts – but the company does not have to support a store during times when young people are not there.

Accept any other relevant analysis.

To achieve more than **[3 marks]** the benefits of two methods of distribution need to be analysed.

Marks should be allocated according to the markbands on page 3.

(d) Discuss the importance and role of branding for PF.**[7 marks]**

Branding is crucially important to *PF* – except for its products made from organic cloth (and there are many labels made only from organic cloth) the only thing separating its products from many other vendors is the concept and look of the frog and the peace sign. *PF* has carefully crafted an image of products for the socially aware, environmentally conscious young person committed to peace. As long as the constellation of values is associated with the brand, *PF* can add products and lines as other products, such as the flag shorts, go into decline.

In a general sense, branding provides many benefits to a company: branding can help create loyal customers, differentiate the product (even if only a perception of difference), and can give the company pricing flexibility – loyal customers will pay more to have the brand. Presumably, *PF* enjoys all of these benefits.

One element of branding that is crucially important is the image of the “peace frog”. It helps potential customers and potential return customers quickly identify the maker of the product when they see someone wearing a *PF* product.

There is a negative side to a strong brand identity. If one of its products has problems, the problem product can affect the entire brand. In addition, *PF* appeals to a certain type of person – someone who is environmentally aware, “politically correct,” and perhaps a bit Bohemian or “hippy”. As the brand identity strengthens, *PF* might not attract potential customers who do not identify with this image.

Accept any other relevant discussion.

Marks should be allocated according to the markbands on page 4. If no negative aspects of branding are addressed, award a maximum of **[4 marks]**.

5. (a) Define the term *product life cycle*.**[2 marks]**

Any product introduced to a market typically goes through six sequential stages: development, introduction, growth, maturity, saturation, and decline. The term product life cycle refers to the full cycle of the different stages in the life of a product and the anticipated sales volume at each stage.

N.B. Not all sources list six stages to the product life cycle. Some list only five and do not have saturation. A good definition for full marks does **not** have to include saturation.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

(b) Calculate:

- (i) the 2011 stock turnover in days at MOS.**

[1 mark]

Stock turnover is calculated with the formula:

$$\frac{\text{Average stock}}{\text{Cost of goods sold}} \times 365 = \text{stock turnover in days}$$

$$\frac{608000}{50\% \times 12000000} \times 365 = 37 \text{ (36.99 to 2 d.p.) days}$$

Award **[1 mark]** for the correct answer.

- (ii) the 2011 stock turnover in days for typewriters.**

[2 marks]

The stock turnover for typewriters can be calculated with the information given:

$$\frac{43000}{40\% \times 120000} \times 365 = 327 \text{ (326.98 to 2 d.p) days}$$

Award **[2 marks]** for the correct answer. **[1 mark]** can be awarded for working if the answer is incorrect.

- (c) Explain how the slow turnover of typewriters contributes to the liquidity problem of MOS.

[3 marks]

On average, stock at MOS turns over rather quickly. For all products it turns over in 37 days. One product segment where that is not the case is typewriters, which make up only a small percentage of MOS' sales (3% in 2009 and 1% in 2011). Typewriters turnover in 327 days, which means that MOS has funds invested in typewriters that sit on the shelves a long time before selling. Thus, despite the fact that the gross profit margin on typewriters (60%) is better than average (50%), the company has considerable funds tied up in stock, weakening the company's liquidity position. If MOS could reduce its stock inventory on typewriters to 30 days, the company's average inventory balance would be \$39 000 lower, freeing up those funds for other uses.

Accept any other relevant explanation.

Apply Own Figure Rule (OFR).

[1 mark]

A general or limited response.

[2 marks]

The candidate's response indicates some understanding that increases in stock turnover increases funds tied up in stock, thus worsening liquidity, and that a decrease in stock turnover reduces the amount of funds invested in stock, thus freeing up funds for other uses.

[3 marks]

The candidate's response indicates a clear understanding that increases in stock turnover increases funds tied up in stock, thus worsening liquidity, and that a decrease in stock turnover reduces the amount of funds invested in stock, thus freeing up funds for other uses. The candidate supports these assertions with specific references to stock amounts and turnover periods.

- (d) Analyse *MOS*' product portfolio by applying the Boston Consulting Group (BCG) matrix. **[5 marks]**

The BCG matrix provides some insight into the product mix at *MOS*. Of the four categories of products (star, cash cow, problem child, and dog), two of *MOS*' products are clearly identifiable:

Personal computers (PCs) are cash cows: *MOS* sells many PCs, and PC sales are declining slightly (suggesting saturation of the market). In general, in developed countries or markets such as Santiago, PC sales reached the top of the product life cycle in the first decade of the twenty first century. Then, sales shifted to replacement rate. If *MOS* wants to continue to grow, it will have to find new products.

Typewriters are *MOS*' dog: the company sells very few typewriters, and the market is contracting. While *MOS* probably has a specialty market segment at this point in typewriters – they are probably very hard to find in Santiago – the company should question whether to continue to offer them: they take up a lot of *MOS*' stock for very few sales.

The other two products *MOS* sells modern mobile telephones and portable DVD players are harder to categorize. Modern mobile telephones are probably a “problem child” for the company. They are one of the most rapidly changing technologies today, and they represent an enormous growth potential for *MOS*. However, modern mobile telephones make up only a small percentage of *MOS*' sales. This problem with sales may stem from image problems: known as an office machine company, *MOS* may not attract many young customers, or those seeking only modern mobile telephones. In this instance, the idea to change the name and image of the company would make sense. That way, *MOS* could start to sell more modern mobile telephones.

Portable DVD players are also difficult to place. While *MOS* did experience solid sales growth with them from 2010 to 2011, the technology may soon be eclipsed by video streaming to devices such as personal computers, tablets (such as *Apple iPads*), and even modern mobile telephones. Thus, despite the solid sales, it may be too much to categorize them as stars and may be best to suggest that they are soon to be cash cows: products at the top of the product life cycle.

Accept any other relevant application and analysis.

If a candidate correctly draws the BCG matrix and places *MOS*' products in it, identifying PCs as “cash cows” and typewriters as “dogs”, but otherwise does not have a written analysis, award **[1 mark]**. If the candidate does not refer to the BCG matrix at all, award **[0 marks]**.

Marks should be allocated according to the markbands on page 3.

- (e) **Discuss Maria's plans to stop selling typewriters and to change the name of MOS.**

[7 marks]

Maria's plans for the business are driven by need (the liquidity problem) and by her desire to update the image of the company. By eliminating typewriters from the product line, she will be able to invest those funds currently invested in typewriters into items such as modern mobile telephones, portable DVD players, and personal computers, that turnover faster. She will also be able to give the business a fresher, newer look as typewriters, which are rarely used and have an outdated feel about them, will be removed from the shelves. These changes, coupled with the name change and, presumably, a new logo and business look, will give *MOS* a more modern feel. These kinds of changes can invigorate a business by attracting new customers and getting existing customers to consider new types of products and services.

Her father, however, has reason to be concerned. One of the strengths of the business is its long-standing ties with the Santiago business community. Some of those loyal customers still use typewriters. If *MOS* no longer supplies them, these customers might start going to other office supply stores, giving *MOS*' competition an opportunity to establish relationships with some of *MOS*' oldest customers. At the least, these customers will feel slighted and feel that their business is less meaningful to *MOS* than previously. Moreover, these changes to the business may not immediately resolve the liquidity problem. Just to move out the typewriters, *MOS* may have to sell them at deep discounts, lowering their current above-average profitability. Changing the name and signs (and probably the logo) will be expensive, and there will be some disruption in the business community, unless *MOS* introduces the changes with an extensive marketing campaign, which will also involve expenses.

Accept any other relevant discussion.

Marks should be allocated according to the markbands on page 4.

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– 2 –

N12/3/BUSMT/SP1/ENG/TZ0/XX/M

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A			Level descriptors
Q1 (c)	Q2 (c)	Q3 (c)	
Marks 0–7			
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the case study.
3–5			<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the case study, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical.
6–7			<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the case study.

Section B	
Q4 (c)	Level descriptors
Marks 0–8	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study.
3–4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the case study, not just to the name of the organization. • The response is mainly theoretical.
5–6	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the case study are made at places in the response.
7–8	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the case study are made throughout the response.

– 5 –

N12/3/BUSMT/SP1/ENG/TZ0/XX/M

SECTION A

- 1. (a) General Diane Pierce uses a situational leadership style (*lines 33–34*). Identify *four* key features of a situational leadership style.** **[4 marks]**

A situational leadership style has features such as:

- the leader adapts their style to different situations (hence the name “situational”)
- flexibility (e.g. General Diane Pierce may lead “the Olive Hats” differently according to changes in Loyka)
- it is influenced by the nature of the followers, or the nature of the organization, or the nature of the task
- the leader will sometimes delegate (as General Diane Pierce has done with Colonel Michael Donovan about the construction project), but may sometimes be more directive (e.g. when a strategic decision needs to be made and implemented)
- it can be presented as a combination of other leadership styles
- *accept any other relevant feature.*

Award **[1 mark]** for each correct feature identified, up to a maximum of **[4 marks]**.

- (b) Explain why General Diane Pierce decided to order Colonel Michael Donovan to carry out surveys *and* also to organize focus groups (*lines 97–101*).** **[4 marks]**

General Diane Pierce decided to order Colonel Michael Donovan to carry out surveys because in addition to qualitative data providing an indication of “local community’s opinion” the results should give quantitative data (percentages, statistics) to help make a better informed decision about which facility to build, a hospital or a university (see Appendix 4). Surveying 2000 local residents should provide a “valid and reliable indication of the local community’s opinion” as this is a large sample, however the results proved inconclusive.

General Diane Pierce also decided there was a need to organize focus groups because the results would provide more detailed qualitative data, exploring in more depth some issues, for example about locals’ resistance to both projects. This would help interpret the results from the surveys. As she is aware of cultural differences, she also thought that the men and the women of Loyka would have different opinions, which is why she wanted focus groups composed differently (some of men only, some of women only, and some of both men and women).

Award **[1 mark]** for reference to a survey as providing quantitative data and **[1 mark]** for mentioning that focus groups provide qualitative data. Award a further **[1 mark]** for an explanation of General Diane Pierce’s decision for each research method up to a maximum of **[2 marks]**.

Award **[1 mark]** only for generic comments about data collection to make an informed decision.

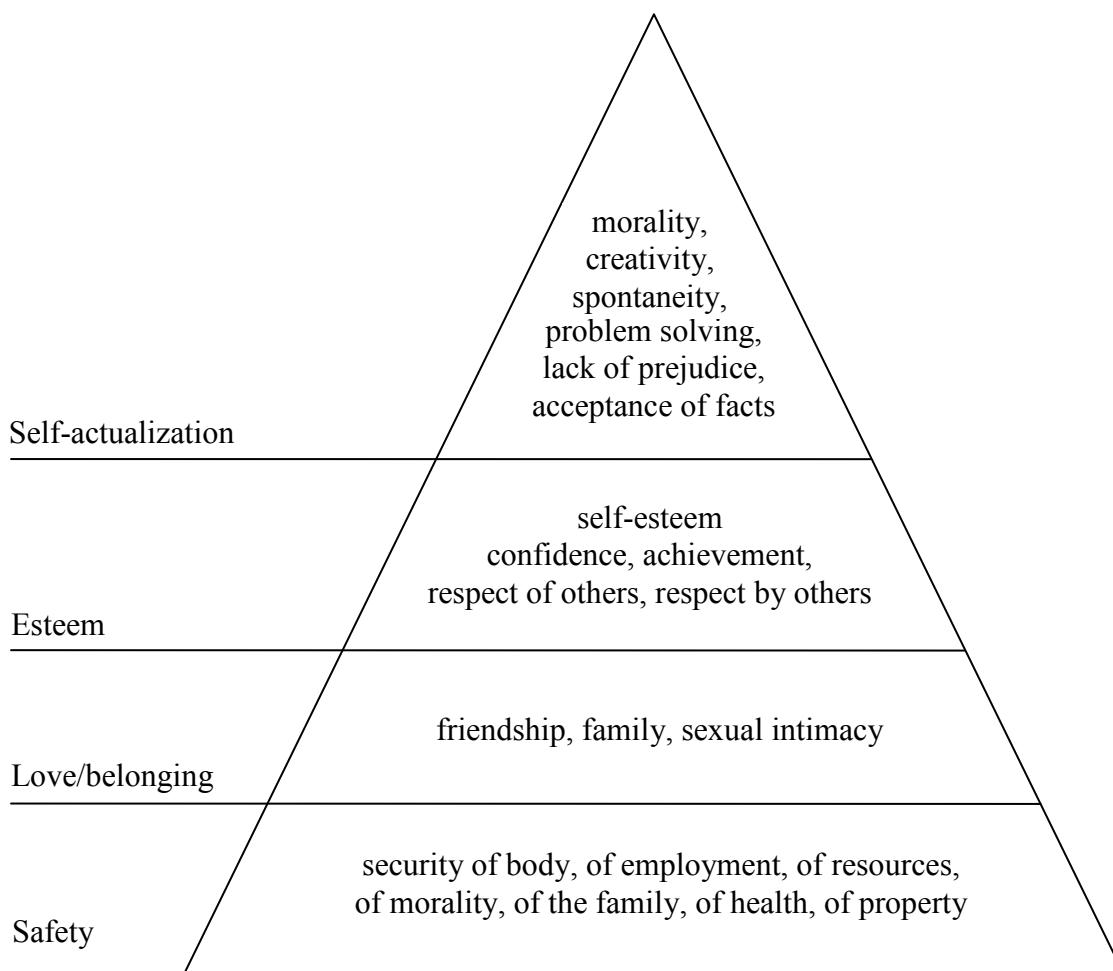
– 6 –

N12/3/BUSMT/SP1/ENG/TZ0/XX/M

- (c) General Diane Pierce decided to use *UWP* resources to build either a new hospital or a new university campus. Using Maslow's motivation theory, analyse the impact of this decision on *both* the local population *and* "the Olive Hats".

[7 marks]

Maslow's motivation theory is usually represented through a pyramid of needs, ranging from safety (at the bottom of the pyramid) to self-actualization (at the top of the pyramid).



[Source: Clark, P. et al., 2009, *Business and Management Course Companion*, page 125, Glasgow, U.K. Oxford University Press]

After a period of civil war, the Loykese population needs safety, especially security of resources and of property. General Diane Pierce's project of building a hospital also corresponds to the safety needs at the bottom of Maslow's pyramid, about health and security of the family. Her project of building a university is higher up on the pyramid model as it would address some locals' needs of achievement and confidence through their studies and qualifications, even leading to self-actualization. According to this model, the hospital satisfies more basic needs than the university; this could be a factor to help General Diane Pierce's decision.

With regard to “the Olive Hats”, General Diane Pierce is well aware of their security and safety needs at the *UWP* Mission where they work. The community-based military environment also offers the soldiers a sense of belonging and togetherness. The involvement of Colonel Michael Donovan’s engineering group would even satisfy their needs for esteem and self-actualization: “the officers in the *Civil Engineering Group* were excited by the opportunity to lead the project”. The soldiers’ “motivation was beginning to deteriorate” before her arrival, General Diane Pierce has well understood how to act in order to satisfy a range of needs, not only basic ones for safety and security, but also more complex ones.

Accept any other relevant analysis.

N.B. Candidates are not expected to draw the model itself. For maximum marks, candidates must refer to both the needs of the local population **and** the needs of “the Olive Hats”.

If the response is one-sided with only the local population **or** “the Olive Hats” being referred to then a maximum of **[4 marks]** should be awarded.

Marks should be allocated according to the markbands on page 3.

2. (a) Define the following terms:**(i) *economies of scale (line 121)*****[2 marks]**

Economies of scale are defined as a cost saving which a business experiences when the long-run unit costs or production costs fall as a business engages in larger-scale production.

N.B. Examples are **not** required for full marks provided the definition is accurate.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding of economies of scale (with reference to **both** decrease in cost per unit and increase in production volume).

For **only** a relevant example **or** application to the case study **or** statement about bulk buying award **[1 mark]**.

(ii) *just-in-case stock control (line 140).***[2 marks]**

Stock control is about checking/monitoring the level(s) of inventory *i.e.* in the case of Kos Palouk's business: the amount of fresh produce he stores. There are two types of stock control methods: just-in-case (JIC) and just-in-time (JIT). JIC is about keeping a certain level of stock because of emergencies *i.e.* having a reserve (the buffer stock) just in case (literally) it might be needed (hence the name of JIC).

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the case study award **[1 mark]**.

– 9 –

N12/3/BUSMT/SP1/ENG/TZ0/XX/M

- (b) Explain how Kos Palouk's fixed and variable costs would be affected by pursuing *Option 2* (lines 150–152).

[4 marks]

Option 2 is an increase in the scale of operation, though not as radical as **Option 3**. With **Option 2**, Kos Palouk would sell more produce, so his output would increase, yet without major changes to his business.

- Fixed costs are costs that do not change as output does; an example of a fixed cost is the rent of the storage facility, or the lorry loan repayment. Pursuing **Option 2** would mean an increase to such fixed costs.
- Variable costs are costs that do change as output does; an example of a variable cost is the cost of the products bought by Kos Palouk from farmers for resale to the *UWP* Mission and to the university or hospital. Pursuing **Option 2** would mean an increase to such variable costs.

*Accept any other relevant example of fixed costs and variable costs in the context of Kos Palouk and **Option 2**.*

N.B. Candidates may refer to economies of scale in their answer. This is acceptable as Kos Palouk could well realize economies of scale with **Option 2**, though there is no explicit indication in the case study.

N.B. Candidates are **not** required to give a detailed definition of fixed/variable costs.

N.B. Candidates may refer to maintenance costs for the lorry as either fixed or variable; accept either.

Mark as 2 + 2: **[2 marks]** for fixed costs and **[2 marks]** for variable costs.

Award **[1 mark]** for a clear understanding of the concept of fixed costs/variable costs and **[1 mark]** for relating this accurately to Kos Palouk, explaining any change, up to a maximum of **[2 marks]**.

– 10 –

N12/3/BUSMT/SP1/ENG/TZ0/XX/M

(c) Analyse the advantages and disadvantages for Kos Palouk of pursuing Option 2 (*lines 150–152*). [7 marks]

Option 2 has several advantages for Kos Palouk:

- he would benefit from economies of scale and would earn much more every month (he would have personal savings of \$950 a month, compared to \$100 with his existing, small-scale business model)
- once built, the university or hospital will represent a large volume new customer, without Kos Palouk having to do much marketing, promotion or advertising in order to target that market (first mover advantage)
- *accept any other relevant advantage.*

However, it also has the following disadvantages:

- there are strong elements of risk: risk for his own safety (the danger of driving to remote communities where he may be perceived as collaborating with the *UWP* troops), risk for his own property (as the bank wants his lorry as collateral)
- competition may become fierce, once other local entrepreneurs realize the potential and enter the market; if his business is not successful, Kos Palouk might regret leaving his safe job at the officers' dining hall
- Kos Palouk would need to leave his job at the officers' dining hall and lose his regular source of income
- *accept any other relevant disadvantage.*

Accept any other relevant analysis.

Marks should be allocated according to the markbands on page 3.

3. (a) General Diane Pierce needs to remotivate her troops but cannot offer any financial rewards (*lines 39–41*). Describe *two* non-financial rewards that she could use.

[4 marks]

General Diane Pierce could use several non-financial rewards to remotivate her troops, such as:

- Job enrichment: she could give her troops opportunities to use the skills they have, which will be the case for the officers when they start working on the construction of the hospital or university, as they have said that they are excited to do so.
- Job enlargement / job expansion: she could increase the range of tasks of the soldiers, motivating them by a variety of jobs and a change of routine (this can be called “job rotation”). As part of their job enlargement, they could be more involved in projects with the local population.
- Empowerment / increased responsibility / delegation: she could give some staff (especially officers) more power in decision-making, for example she could empower Colonel Michael Donovan by letting him follow his own recommendation to build a hospital in 30 weeks.
- Teamwork: although soldiers are likely to work in teams already, she could strengthen the importance of teamwork, for example by having the troops build the hospital using cell production.

N.B. The concepts themselves (e.g. “empowerment”) might not be mentioned explicitly in the answer, but candidates may achieve the marks nonetheless.

Mark as 2 + 2.

Award **[1 mark]** for each relevant non-financial reward and **[1 mark]** for a description of that non-financial reward in the context of the “Olive Hats”, up to a maximum of **[2 marks]**.

- (b) With reference to *Option 3* (lines 153–157), distinguish between a wholesaler and a retailer.

[4 marks]

In a long distribution channel, a wholesaler sells products to a retailer who, in turn, sells to customers. Wholesalers do not usually sell directly to the public, but to another agent: the retailer. Wholesalers buy and store large quantities and resell these in smaller quantities to retailers.

At the moment there is no wholesaler for the produce that Kos Palouk distributes; this means that the produce are bought directly from the farmers and sold directly to the *UWP* Mission. With **Option 3**, Kos Palouk would become a wholesaler: he would start selling to other retailers (other shop owners), creating a longer distribution chain.

N.B. A diagram of the supply chain is acceptable as part of the answer.

[1 to 2 marks]

Award **[1 mark]** for an answer that shows some basic knowledge of the definitions of a wholesaler and a retailer. Award **[2 marks]** for a theoretical answer that shows some clear knowledge of the difference between a wholesaler and a retailer.

[3 to 4 marks]

For **[3 marks]** the candidate refers to Kos Palouk. For **[4 marks]** the candidate refers to Kos Palouk and to the wholesale operation he may set up if he pursues **Option 3**.

- (c) The *UWP* Mission has ethical objectives (*lines 5–7*). Examine whether the setting of ethical objectives by the *UWP* will be beneficial.

[7 marks]

Organizations may set ethical objectives for several reasons, for instance:

- in the 21st century, there is an increasing expectation that organizations will behave as “good citizens”, hence the concept of corporate social responsibility (CSR), which in practice often means setting ethical objectives (in the case of the *UWP* Mission “to create stability, fulfilling the *UWP* Mission’s aim to maintain order, peace and security”)
- some organizations are aware that their actions and activities may negatively affect some stakeholders or the environment, which is why setting up ethical objectives will create a counterbalance (for example in the short term the *UWP* soldiers may have to restrict locals’ movements, but as a counterpart they will help create longer-term stability).

However, setting ethical objectives also has disadvantages:

- in some cases, it can appear as a mere exercise to give the impression that the organization is (suddenly) becoming ethical (*i.e.* what in English is called “paying lip service” to a cause), without anything concrete behind it
- in some cases, it can give the impression that the organization is trying to hide some bad practice by drawing attention to what they do well for the benefit of the wider society (for example opponents to the presence of “the Olive Hats” in Loyka could argue that the ethical objectives are just a way to justify the invasion of their land by foreign troops).

Accept any other relevant examination.

Marks should be allocated according to the markbands on page 3.

SECTION B**4. (a) Define the following terms:****(i) *tertiary sector (line 2)*** **[2 marks]**

The tertiary sector of the economy is the sector of services (which is why it is also called “the service sector”) such as health, education or retail.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition of tertiary sector (for example referring only to the term “services”).

Award **[2 marks]** for a clear description that conveys knowledge and understanding of tertiary sector (for example with a reference to “services” **and** at least one example such as retail/shops).

For **only** a relevant: example **or** application to the case study award **[1 mark]**.

(ii) *workforce planning (line 91)* **[2 marks]**

Workforce planning refers to the forecast of future human resources, especially in terms of recruitment and training. It normally involves assessing the current workforce and identifying needs for new skills or knowledge in order to help the organization meet its strategic objectives.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition of workforce planning.

Award **[2 marks]** for a clear description that conveys knowledge and understanding of workforce planning.

For **only** a relevant: example **or** application to the case study award **[1 mark]**.

(b) Using relevant information from below:

- (i) calculate the payback period (without depreciation) for Kos Palouk's purchase of a new lorry (*show all your working*). [2 marks]**

$$\frac{43\ 500}{17\ 400} = 2.5 \text{ years or 2 years and 6 months}$$

N.B. 2 years and 5 months is **not** the correct answer. If the working is correct, award **[1 mark]** only.

Award **[1 mark]** for the correct working and **[1 mark]** for the correct answer.

- (ii) calculate the average rate of return (ARR) for Kos Palouk's purchase of a new lorry (*show all your working*). [2 marks]**

$$\left(\frac{17\ 400}{43\ 500} \right) \times 100 = 40\%$$

N.B. Award **[1 mark]** only if the percentage sign (%) is not present.

Award **[1 mark]** for the correct working and **[1 mark]** for the correct answer.

- (iii) comment on the results to your calculations from parts (i) and (ii). [4 marks]**

The payback period of 2 years and 6 months means that it would not take long for Kos Palouk to recover enough cash to cover the initial investment. Payback periods are often over several years; the payback here is short – especially as the useful life of the lorry is almost three times longer (7 years). Although the purchase price is very high (\$43 500 *i.e.* more than 66 times Kos Palouk's current monthly income), it seems that the lorry will enable him to make a higher income (see Appendix 5).

The ARR of 40% is very high, which again indicates that this seems to be a very good investment, however this is based on optimistic assumptions about high returns; the case study states that the bank would require the lorry as collateral, so if his revenues are below expectations, Kos Palouk may actually lose the lorry; other factors would need to be taken into account as part of the investment appraisal.

Apply Own Figure Rule (OFR).

Award **[1 mark]** for each valid point, up to a maximum of **[4 marks]**.

N.B. To achieve **[4 marks]**, the answer must cover **both** payback and ARR (though not necessarily with **[2 marks]** for each: for **[4 marks]** the

answer may include more explanations about one calculation than the other. It is not marked as 2+2).

(c) Advise General Diane Pierce whether the hospital or the university should be built. Justify your recommendation.

[8 marks]

Several factors would suggest that the hospital should be built:

- there is an identified need for a hospital (for example the complications from the lack of prenatal care have recently increased) and this would have immediate, short-term benefits (as opposed to the longer term impacts of the university)
- the results from the survey showed that a slight majority (52%) prefer the hospital (so there is market research evidence)
- Colonel Michael Donovan (who has coordinated the research and has been in the country for longer than General Diane Pierce) recommends the hospital
- it would help the *UWP* Mission reach its strategic objective to improve the image of the Olive Hats and to display their corporate social responsibility by improving the healthcare of the Loykese.

However, some other factors suggest that the university should be built:

- there is a clear need for a university to train professionals such as teachers, nurses, doctors and engineers who will ensure the sustainable future of the country of Loyka
- from a business viewpoint, the university “could also attract private capital for future public-private partnerships in research and development”
- many locals have formulated objections to the hospital (for example about the presence of foreign male doctors): the survey showed that 17% of respondents strongly oppose the project (this is a large proportion: more than one person in six)
- the local governor prefers the university; although 10% of respondents strongly oppose it, he may still be able to rally support.

At the end of their answer, candidates need to have a clear conclusion.

Accept any other relevant advice and recommendation.

N.B. The arguments presented must be about Business and Management (for example with reference to costs, duration of building operations, survey results as market research, stakeholders views *etc.*); social aspects (*e.g.* about demographics) are useful, but they only provide contextual information.

Marks should be allocated according to the markbands on page 4.

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MARKSCHEME

November 2012

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

24 pages

– 2 –

N12/3/BUSMT/SP2/ENG/TZ0/XX/M

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A		Section B			Level descriptors	
Q1 (d)	Q2 (c)	Q3 (d)	Q4 (d)	Q5 (d)		
Marks 0–5					<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology. <ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the stimulus material. The response is mainly theoretical. <ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the stimulus material, not just to the name of the organization. <ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the stimulus material. 	
0						
1–2						
3–4						
5						

Section B			Level descriptors
Q3 (e)	Q4 (e)	Q5 (e)	
Marks 0–7			
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the stimulus material.
3–4			<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues and concepts. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the stimulus material, not just to the name of the organization. • The response is mainly theoretical.
5–6			<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the stimulus material are made at places in the response.
7			<ul style="list-style-type: none"> • A response with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the stimulus material are made throughout the response.

SECTION A**1. (a) (i) Identify one advantage and one disadvantage of internal recruitment. [2 marks]**

Advantages of internal recruitment include:

- it is generally cheaper and faster than external recruitment
- it strengthens employees' loyalty to the company (as they know that they have opportunities for career development within the company)
- existing employees are already familiar with the practices and culture of the company (no need for long induction processes)
- other employees and managers know the promoted person better than a newcomer recruited from the outside.

Disadvantages of internal recruitment include:

- the number of applicants will be limited
- external candidates may be better qualified
- it might create tension amongst workers (as their new manager might be a previous colleague who is now above them in the chain of command)
- hiring someone internally will create a vacancy (the position that the recruited person vacates) so further recruitment will be needed.

Accept any other relevant advantage or disadvantage.

Award **[1 mark]** for a correct and relevant advantage identified and **[1 mark]** for a correct and relevant disadvantage identified, up to a maximum of **[2 marks]**.

(ii) Describe one method of external recruitment. [2 marks]

Methods of external recruitment include:

- employment agencies
- government-run employment agencies/job centres
- placement companies ("headhunters")
- recruitment from/coordination with local schools and universities
- advertisements in newspapers, trade magazines, and other media outlets.

Accept any other relevant method of external recruitment and description.

Award **[1 mark]** for a correct and relevant external method of recruitment identified and **[1 mark]** for a description of the method of recruitment, up to a maximum of **[2 marks]**.

– 6 –

N12/3/BUSMT/SP2/ENG/TZ0/XX/M

- (b) Prepare a fully labelled break-even chart for WS at its current actual sales of 2400 units in the *current building*.

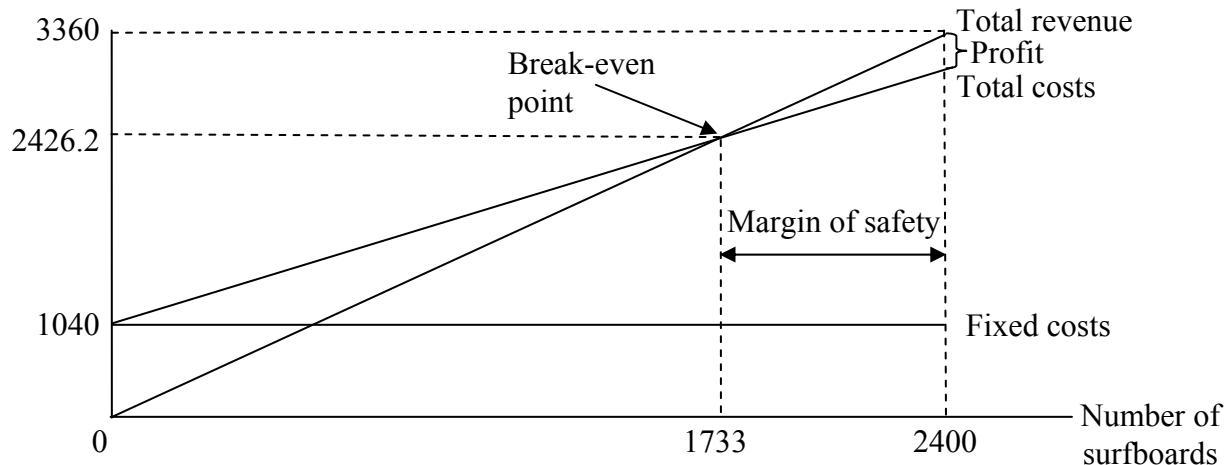
[5 marks]

Total fixed costs: $\$590\,000 + 450\,000 = \$1\,040\,000$

$$\text{Break-even point: } \frac{1\,040\,000}{(1400 - 800)} = 1733 \text{ units}$$

$$\text{Margin of safety: } 2400 - 1733 = 667$$

Cost/revenue
in \$000's



Apply Own Figure Rule (OFR).

Award marks as follows:

[1 mark] for each appropriately labelled axis (the vertical axis must include reference to both costs and revenue) – award a maximum of **[2 marks]**.

[1 mark] for an accurately drawn and labelled total revenue curve.

[1 mark] for an accurately drawn and labelled total cost curve.

[1 mark] for the identification of the break-even level of output.

Award **[0 marks]** if a candidate produces a table, and award no more than **[3 marks]** if the chart is not neat, not drawn with a straight-edge, or is not to scale.

Ideally, the candidate will draw an arrow pointing to the break-even point and label the arrow. However, accept as an “accurately labelled” break-even point a vertical line from the x -axis to the break-even point provided that the line is labelled “break-even point”.

– 7 –

N12/3/BUSMT/SP2/ENG/TZ0/XX/M

- (c) (i) Calculate the contribution of one surfboard in the proposed new building.

[1 mark]

sales price per unit – variable cost per unit = contribution

Proposed new building: \$1400 – \$750 = \$650

Award [1 mark] for the correct answer (working not required).

- (ii) Calculate the initial forecast profit for WS for its first year of operation in the proposed new building (show all your working).

[3 marks]

Profit can be calculated as follows:

Sales (no. of units × sales price per unit)	\$4 620 000
– variable costs (no. of units × variable costs per unit)	– \$2 475 000
– fixed costs (from table)	– \$1 050 000
– managers' salaries (from table)	– \$600 000
	\$495 000

Alternative method:

$$\frac{\text{Fixed cost}}{\text{Contribution}} = \frac{1\,650\,000}{650} = \text{Break-even} = 2538.4615 \text{ units}$$

$$\begin{aligned}\text{Margin of safety} &= \text{Output} - \text{Break-even} \\ &= 3300 - 2538.4615 \\ &= 761.5385 \text{ units}\end{aligned}$$

$$\begin{aligned}\text{Profit} &= \text{Margin of safety} \times \text{Contribution} \\ &= 761.5385 \times 650 \\ &= \$495\,000.025\end{aligned}$$

Award [1 mark] if the candidate clearly demonstrates an understanding of how to calculate the profit (candidate shows revenue – expenses = profit).

Award [2 marks] if the candidate demonstrates that the method is (no. of units × sales price per unit) – (no. of units × variable costs per unit) – (fixed costs + managers' salaries) = profit, but with an error in the calculation.

Award [3 marks] if the candidate demonstrates the method (show working) and correctly calculates the answer.

If the candidate produces the correct answer but does not show workings, award [2 marks].

If the candidate uses the alternative method and rounds the number of units to 762, accept the profit as \$495 300.

- (iii) Explain why Brent's accountant forecasted lower variable costs per unit in the proposed new building.**

[2 marks]

Award **[1 mark]** if the candidate identifies economies of scale, or provides a sufficient description of the concept (even if the candidate does not explicitly state “economies of scale”). Just saying (something to the effect of) “getting bigger” would **not** be sufficient to earn a mark.

Award an additional **[1 mark]** for applying the concept to *WS*.

- (d) Using appropriate calculations for the actual units produced (2400) in the current building and initial forecasted units produced (3300) in the proposed new building, analyse the impact of the proposed expanded scale of operation on profits and profitability.**

[5 marks]

Using the same approach as for (c)(ii), candidates may calculate the current profit for the existing building with actual production levels. The current profit is $(\$1400 \times 2400) - (\$800 \times 2400) - \$590\ 000 - \$450\ 000 = \$400\ 000$. This shows that, when doing a simple comparison with the new building, profit would increase significantly (from \$400 000 to \$495 000, so + 23.75%), a calculation that the accountant probably did in order to justify the expansion.

In terms of profitability ratio, the profit margins for *WS* are:

- current building: $\left(\frac{400\ 000}{3\ 360\ 000} \right) \times 100 = 11.9\%$
- proposed new building: $\left(\frac{495\ 000}{4\ 620\ 000} \right) \times 100 = 10.7\%$

From these calculations the profitability would slightly decrease. The slight decrease is mainly due to the sharp increase in fixed costs.

The proposed expanded scale of operation has clear impacts on both profit and profitability, though Brent Bass would also need to take other factors into account before deciding on the expansion, especially as financial gain (measured through profit and profitability) does not seem to be his main motivation.

Accept any other relevant analysis.

If the response does not include quantitative data, award a maximum of **[3 marks]**.

If only profit **or** profitability are considered, award a maximum of **[4 marks]**: to achieve the top markband candidates need to refer to both.

Marks should be allocated according to the markbands on page 3.

– 9 –

N12/3/BUSMT/SP2/ENG/TZ0/XX/M

2. (a) Define the following terms:**(i) *share capital*****[2 marks]**

Share capital is a long-term, external source of finance for a company. It is a portion of a company's equity obtained by selling shares of stock to individual investors.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

(ii) *batch production.***[2 marks]**

In batch production, items are produced in consignments and undergo a stage of the production process together. The whole consignment is then moved on to the next stage of production and another task is performed.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

- (b) (i) Using the information in *Table 1*, construct a balance sheet for *WW* as at 31 May 2009 and calculate the loan capital (figure X).

[5 marks]

Fixed assets		
Total (net fixed assets)		1800
Current assets		
Stock	400	
Debtors	850	
Cash	150	
Total assets		3200
Current liabilities		
Creditors	515	
Short-term borrowing	285	
Total		800
Share capital		300
Loan capital		800
Retained profit		1300
Capital employed		2400

$$\text{Loan capital: } 3200 = 2400 + X$$

$$X = 800$$

Award **[1 mark]** if the candidate has correctly calculated loan capital.

If the balance sheet is constructed following a generally accepted format and is correct in all respects, award **[4 marks]**. Apply own figure rule (OFR): if the candidate incorrectly calculated loan capital but otherwise the balance sheet is constructed following a generally accepted format and is correct in all other respects, award **[4 marks]** (the “penalty” will be that the candidate does not receive the mark for correctly calculating loan capital).

Award **[3 marks]** if the candidate produces a balance sheet that follows a generally accepted format but has one error, or award **[2 marks]** if there are two errors (OFR regarding loan capital). Award **[1 mark]** if the candidate shows some understanding of what a balance sheet is, but the actual balance sheet constructed is not in a generally accepted format and/or has more than two errors.

– 11 –

N12/3/BUSMT/SP2/ENG/TZ0/XX/M

- (ii) Using relevant information from *Table 1*, calculate the acid test (quick) ratio (*show all your working*). *[2 marks]*

Allow candidate own figure rule (OFR) from calculations made in part (i).

$$\text{Acid test ratio} = \frac{\text{current assets} - \text{stock}}{\text{current liabilities}}$$

$$\frac{\$1400 - \$400}{\$800} = 1.25$$

Award **[1 mark]** for working (do not credit the formulae, which is already given) and **[1 mark]** for the correct answer, up to a maximum of **[2 marks]**.

- (iii) Using relevant information from *Table 1*, calculate the gearing ratio. *[1 mark]*

Allow candidate own figure rule (OFR) from calculations made in part (i).

$$\text{Gearing ratio} = \frac{\text{loan capital}}{\text{total capital employed}} \times 100$$

$$\frac{800}{2400} \times 100 = 33.33\% \text{ (to 2 d.p.)}$$

Award **[1 mark]** for the correct answer (working not required).

- (iv) Using the information in *Table 2*, calculate the net profit before interest and tax (*show all your working*). *[2 marks]*

Sales revenue	\$6895
Cost of goods sold	<u>-\$4700</u>
Gross profit	\$2195
Expenses	<u>-\$2150</u>
Net profit before interest and tax	\$45

Award **[1 mark]** for working and **[1 mark]** for the correct answer, up to a maximum of **[2 marks]**.

- (v) Using relevant information from *Table 2*, calculate the gross profit margin.

[1 mark]

$$\text{Gross profit margin} = \frac{\text{gross profit}}{\text{sales revenue}} \times 100$$

$$\frac{\$2195}{\$6895} \times 100 = 31.8\%$$

N.B. If a candidate rounds to 32%, accept for **[1 mark]**. If a candidate rounds to 31%, award **[0 marks]**.

Award **[1 mark]** for the correct answer (working not required).

- (c) Using financial and non-financial information, examine *WW's* decision to start producing special-order windows.

[5 marks]

Producing the “special order” windows would have both advantages and disadvantages for the company.

The financial position of the business is precarious. Although, the gross profit margin is 31.83%, its net profit margin is extremely slim at 0.652%, so that any further deterioration in the company’s position may place it in a loss making position.

$$\begin{aligned}\text{Net profit margin} &= \frac{\text{Net profit before interest and tax}}{\text{Sales revenue}} \times 100 \\ &= \frac{45}{6895} \times 100 = 0.652\%\end{aligned}$$

The cash-flow position of the business is adequate at the moment. Its acid test ratio of 1.25 means that the business has \$1.25 of liquid funds for every \$1 of current liabilities, which is acceptable given a rule of thumb of 1:1 for this ratio. Its stock levels are also acceptable and its gearing ratio of only 33.33% means that it is in a position to borrow money to fund any additional finance associated with the new special orders.

As the break even for each order is only 100 units, this suggests that the company will not be risking too much financially to take this option if this order level is achievable. It will be up to the marketing department to make this judgment. The 50% deposit at the order stage should also ensure that the company’s cash flow is adequate during the production process and before the units are delivered.

– 13 –

N12/3/BUSMT/SP2/ENG/TZ0/XX/M

There would be additional costs associated with recruiting an additional member of staff and this would need to be factored into the issue, but the business should be able to fund this. Given that the present net profit margin is so low, producing special orders could be a good idea if these generate a higher net profit margin for the business. Given that *WW* is considering making special order windows because it has underutilized capacity, the business will not have to borrow additional money to purchase new equipment.

Accept any other relevant examination.

If the response is one-sided and includes only financial **or** only non-financial data, award a maximum of **[3–4 marks]**: to achieve the top markband candidates need to refer to both.

Marks should be allocated according to the markbands on page 3.

SECTION B

3. (a) Define the term *redundancy (lay-off)*. **[2 marks]**

Redundancy (lay-off) is “the termination of employment where an employee is asked to leave through no fault of his or her own” (Paul Clark *et al.*, IB Business and Management Course Companion, Oxford University Press, 2009, page 391). A payment may be made to staff that are made redundant.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

- (b) Calculate *Sokol's market share for the last year*. **[1 mark]**

20%

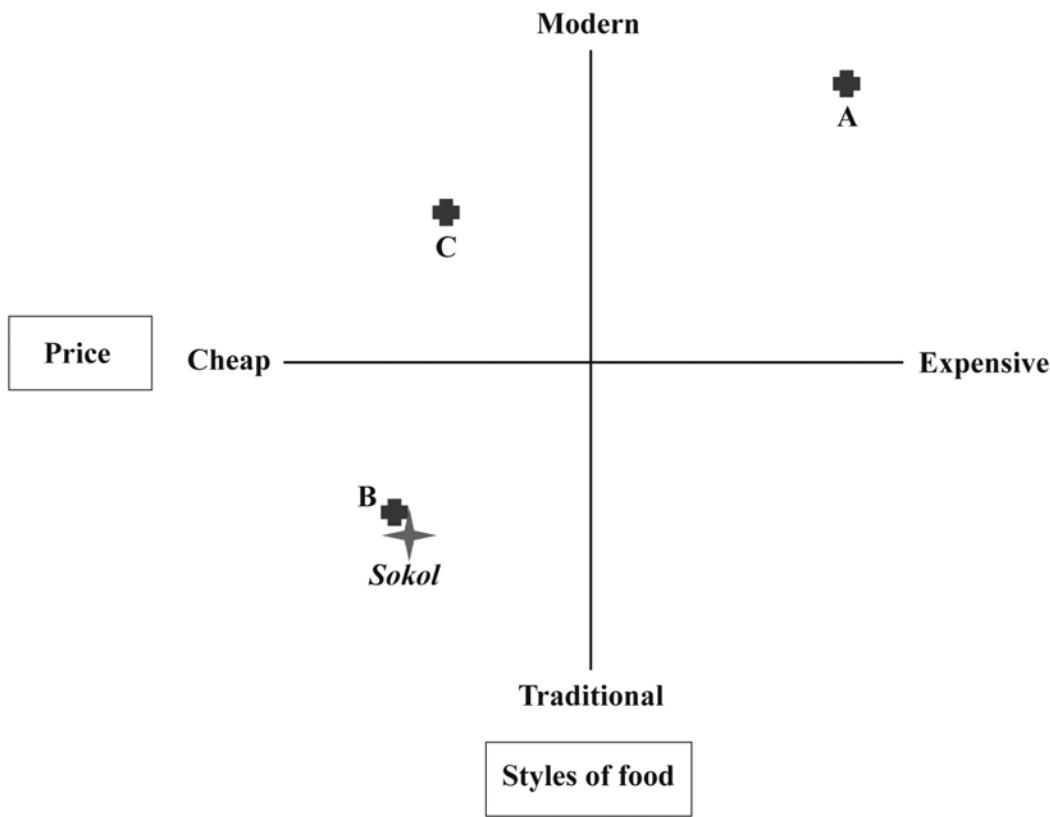
Candidates are **not** asked to show their working $\left(\frac{12\ 000}{60\ 000} \times 100 \right)$.

N.B. The answer must include the symbol % or the words “per cent” or “percentage”: writing “20” (twenty) alone is **not** enough to earn **[1 mark]**.

Award **[1 mark]** for the correct answer.

- (c) Construct the position map of *Sokol* before Andrej made any changes to his restaurant.

[5 marks]



Award [1 mark] for the overall layout of the map with **both** axes correctly labelled (price: cheap or expensive; styles of food: traditional or modern).
N.B. It does not matter which one is horizontal / vertical.

Award [1 mark] for correct positioning of *Sokol* in the quadrant “cheap and traditional”, provided that the placement does not imply **very** cheap or **very** traditional.

Award [1 mark] for correct positioning of Restaurant A in the quadrant “modern and expensive”. **N.B.** the restaurant is described as “very modern” and “very expensive” and this needs to be graphically or textually indicated, award [0 marks] if this aspect is not clear.

Award [1 mark] for correct positioning of Restaurant B in the same quadrant as *Sokol* (“cheap and traditional”), the placement should be near each other, or in the same place and should not imply **very** cheap or **very** traditional.

Award [1 mark] for correct positioning of Restaurant C in the quadrant “cheap and modern”, provided that the placement does not imply **very** cheap or **very** modern.

- (d) Analyse the usefulness of market segmentation and targeting specific markets for *Sokol*.

[5 marks]

Market segmentation is useful for *Sokol* because it helped Andrej see a niche in a market and identify a new business opportunity. If he decides to target “tourists who are ready to pay higher-than-average prices”, he will have to promote his restaurant in publications they may read.

Targeting a specific market is useful for *Sokol* because, as part of the process, Andrej must understand better who his customers are (“young locals who want to eat out with friends”) and will give him insight into their expectations about their experiences (for example about atmosphere and product range *i.e.* type of food served in the restaurant) and also how much they may be willing to pay.

Market segmentation and targeting specific markets however have limitations as they only create a limited number of categories (with some stereotypical customers); some current or potential customers may not fit these categories. The marketing success of segmentation and targeting are highly dependent on the quality and effectiveness of the market research conducted. As a small business this may not be the outcome

Accept any other relevant analysis.

It is not expected that the candidates incorporate all of the above arguments.

If the response is a one-sided relevant approach with no analysis, award a maximum of **[3 marks]**. If only the usefulness is analysed (without reference to limitations) award a maximum of **[3 marks]**.

To achieve the top markband candidates need to refer to both the usefulness of market segmentation and targeting specific markets for *Sokol*.

Marks should be allocated according to the markbands on page 3.

(e) Advise Andrej about the most suitable option for *Sokol*.**[7 marks]**

Option 1 is a joint venture: this means that *Sokol* and the new hotel would join forces and join resources – for example *Sokol* could manage the restaurant operating in the hotel. The main advantage is that they could help each other grow faster, however it would involve creating a new business entity (the joint venture) which can be a complex project (to define the exact agreements and the terms, for example about revenue sharing). Joint ventures are usually created for finite periods of time, which may not be appropriate here.

Option 2 is a strategic alliance: this means that the two restaurants would sometimes work together (for example on specific projects such as the village festival), however at other times they would remain competitors. This option has the advantage that it will allow *Sokol* to target a new group of customers – those who are prepared to pay higher prices for modern style foods. This is an example of diversification. However it may cause some confusion for its traditional customers who choose it because it offers cheap and traditional meals. This could also make the relationship sometimes difficult between Andrej and the manager of Restaurant A.

Option 3 is a merger: this means that *Sokol* and Restaurant B would become just one entity, even if they still operate under two different names. They could have economies of scale (for example when ordering traditional Slovenian ingredients from their suppliers), however their local image may suffer because of the redundancies. Their market share could consequently go down. Further, the market position of the two businesses that may merge is cheap and traditional food — this does not fit with Andrej's future aspirations.

Accept any other relevant advice.

It is not expected that the candidates incorporate all of the above arguments.

N.B. All 3 options have advantages and disadvantages. Candidates are expected to have a clear conclusion (and advise Andrej on one course of action) – it could be any of the three, as long as the answer is justified.

If the candidate refers to only one option, award a maximum of **[4 marks]**.

To achieve the top markband, candidates must formulate a final advice (recommendation).

Marks should be allocated according to the markbands on page 4.

4. (a) Define the term *below the line promotion*.**[2 marks]**

Below the line promotion refers to techniques that do not use the main media such as newspapers, radio, television and the Internet. Below the line promotion is generally (though not exclusively) targeted at consumers who already have some interest in the product, and, therefore, occur in that context: point-of-sale promotions; direct mailings; exhibits in a shopping centre; or coupons, refunds, or loyalty cards, among others.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

If the **only** basis for awarding a mark were exemplification and the example is word of mouth, award **[0 marks]**.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

(b) Explain *one* possible type of diseconomy of scale that *P&G* may experience in the dry cleaning industry.**[2 marks]**

Possible diseconomies of scale include:

- communication costs
- government regulations (which often apply to large/larger companies)
- office politics
- more resources devoted to management
- supplier restrictions (main office may insist on sourcing from particular suppliers)
- more difficult to coordinate the business
- productive inefficiency of being too large.

Accept any other relevant diseconomy of scale and explanation.

Award **[1 mark]** for identification of a relevant and correct diseconomy of scale and **[1 mark]** for its explanation and its application to the dry cleaning industry. Award a maximum of **[2 marks]**.

- (c) Explain two types of primary research that the market analysts may have used.**

[4 marks]

Possible types of primary research include:

- surveys / questionnaires
- interviews (structured, semi-structured or unstructured)
- consumer panels / focus groups
- observation.

N.B. If a candidate identifies surveys and questionnaires, this situation will virtually always be just one type of primary research. The burden of proof that surveys and questionnaires are different is on the candidate, and they must have clear and valid reasons why they are different.

Accept any other relevant type of primary research and explanation.

Mark as 2+2.

Award **[1 mark]** for identification of a relevant and correct type of primary research and **[1 mark]** for its explanation and its application to the context of research on the dry cleaning industry. Award a maximum of **[2 marks]**.

- (d) Using the Ansoff matrix, analyse P&G's entry into the dry cleaning industry.**

[5 marks]

		Product	
		Existing	New
		Existing	Market Penetration
Market	Existing		Product Development
	New	Market Development	Diversification

N.B. P&G, relying on the power of its brand, it could arguably be placed in any of the four quadrants of the Ansoff matrix. There is no right or wrong answer here: any answer may be argued and defended (put another way, how one views P&G's entry into the dry cleaning industry is a matter of perspective).

– 20 –

N12/3/BUSMT/SP2/ENG/TZ0/XX/M

At one level, what *P&G* is doing is extending the product life cycle of its cleaning products by:

- penetrating an existing market (existing product: Tide soap; existing market: a market where Tide has brand awareness)

Or

- taking its existing product (Tide soap) to a new market (the dry cleaning industry).

From another perspective, *P&G* is doing something quite new:

- entering an existing market (that is, where there is Tide brand awareness) with a wholly new product (clean, cool, fresh-smelling branded dry cleaning stores)

Or

- diversifying by going into a new market (heretofore Tide has not been in the dry cleaning business) with a wholly new product (clean, cool, fresh-smelling branded dry cleaners).

Accept any other relevant analysis.

If the candidate draws the Ansoff Matrix fully and accurately, but writes nothing else, award **[1 mark]**. On the other hand, the candidate does **not** have to draw the matrix (though most will) as long as they demonstrate knowledge of it and use it in their analysis.

Marks should be allocated according to the markbands on page 3.

For **[5 marks]**, candidates must demonstrate an understanding that how one places *Tide Dry Cleaners*[®] on the Ansoff matrix is somewhat a matter of perspective. Candidates must show their understanding that the Ansoff matrix is a theoretical tool and that real business situations are not as clear cut, or show an understanding that *P&G*'s dry cleaning franchise could arguably be placed in any of the four quadrants of the Ansoff matrix.

(e) Discuss franchising as a way for P&G to enter the dry cleaning industry. [7 marks]

Franchising has both advantages and disadvantages for P&G.

The advantages include the following:

- as the franchisees themselves provide most of the finance, this is a relatively inexpensive method of expansion for P&G (unlike the acquisition of dry cleaning companies)
- if the franchise model works well, there are large profits to be made (not only from selling the franchises as well as the royalty payments, but also from further strengthening the Tide brand name)
- some of the existing independent dry cleaners may decide to become franchisees in order to benefit from the brand (rather than struggling as competitors).

The disadvantages include the following:

- some customers may decide to avoid the Tide franchises for ideological reasons, preferring to patronize independent businesses (this is linked to an increase of small-scale, anti-globalization actions)
- it seems that P&G does not have any experience in franchises and in the dry cleaning industry itself (as the company is rather a manufacturer of consumer goods); unlike other businesses (such as *McDonald's®*) they may not have the expertise to properly manage a franchise (in terms of quality control and marketing) though as they are so big (global sales of US\$80 billion) they could recruit managers who are franchising specialists
- diseconomies of scale are a risk, even with franchises, especially if the brand name "Tide" is suddenly affected by a negative image e.g. an accident in one of the franchises, then all the franchises could be negatively affected.

Accept any other valid discussion.

It is not expected that the candidates incorporate all of the above arguments.

If the candidate refers to only advantages **or** disadvantages, award a maximum of **[4 marks]**.

Marks should be allocated according to the markbands on page 4.

5. (a) Define the term ***multinational company***. **[2 marks]**

A multinational company is one that operates in two or more countries. Generally, this refers to a large-scale global operation that enjoys economies of scale and has a powerful brand (*McDonald's®*, *BMW*, *Sony®*, etc.). However, a multinational company can be a much smaller organization that operates in at least two countries (in Norway and Sweden, or Belgium and Luxembourg, for example).

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding (for example with a reference to several countries of operation).

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

(b) Explain the importance of branding for the decision of *Starbucks®* to enter the Indian market. **[4 marks]**

The *Starbucks®* brand is already well known in many parts of the world, even in India. The market research shows many Indians, as potential customers, have already encountered the name “*Starbucks®*” (for example in the media, on the Internet) so they are familiar with it and will be keen to purchase *Starbucks®* coffee and to patronize *Starbucks®* coffee shops (including in *Tata Group*'s nationwide hotel chain).

A key aspect is the fact that *Starbucks®* is not just about coffee (the drink and its taste) nor the coffee shops (the venues and their atmosphere): *Starbucks®* is relying on its world-famous name (hence the idea of “a global brand”) for its marketing strategy and to appeal to new customers in a new market.

Accept any other relevant explanation.

Award **[1 mark]** for every valid point (or development of a valid point) up to a maximum of **[4 marks]**.

Accept four separate points, award **[1 mark]** each, or two separate points which are developed for **2+2 marks**.

- (c) Explain *one* PEST factor that may influence the decision of *Starbucks[®]* to enter the Indian market.

[2 marks]

Economic factor / sociological factor: the country of India (with its population of over 1 billion) is still poor overall, but it is developing fast (with a growth rate of 8% of its GDP this year); this economic development means that there is an increasing market of young people with disposable income as potential *Starbucks[®]* customers (*i.e.* this is a business opportunity for *Starbucks[®]*).

Political factor: although the Indian government limits the entry of foreign-owned retail chains into India, it is possible for foreign companies (such as *Starbucks[®]*) to form alliances or joint ventures (this is actually a legal factor that would appear under L in a more developed STEEPLE analysis).

N.B. Candidates may refer to their own knowledge of India, especially for economic factors; this is not an expectation, however this is acceptable.

A candidate does not have to say which type of factor (political, economic, etc.). A response may open, for example, “A PEST factor that...”.

Accept any other relevant PEST factor and explanation.

Award **[1 mark]** for a basic outline of a relevant and correct factor (which could be a repeat or mere rephrasing from the stimulus). Award an additional **[1 mark]** for a development of that idea, *i.e.* an explanation linking it to the decision of *Starbucks[®]* to enter the Indian market. Award a maximum of **[2 marks]**.

- (d) Analyse *one* advantage and *one* disadvantage for *Tata Group* of forming a strategic alliance with *Starbucks[®]*.

[5 marks]

N.B. The question is about the advantages and disadvantages for *Tata Group*, not for *Starbucks[®]*. Answers that fail to take *Tata Group*'s perspective (and focus instead on *Starbucks[®]* only) should not be awarded.

Advantages for *Tata Group* of forming a strategic alliance with *Starbucks[®]* could include:

- some customers may decide to go to *Tata Group* retail chains precisely because there is a *Starbucks[®]* cafe there (especially at the beginning, when there is a novelty aspect)
- *Tata Group* would benefit from the positive image of having facilitated the arrival of *Starbucks[®]* in India; it can help “westernize” the image of *Tata Group*, both domestically and internationally
- the alliance could also strengthen their other business arrangements (as *Starbucks[®]* had previously bought coffee from *Tata Group*) so *Tata Group* might be in a better position to negotiate or renegotiate some contracts (for example for the coffee supplied to *Starbucks[®]*).

Disadvantages for *Tata Group* of forming a strategic alliance with *Starbucks*® could include:

- *Starbucks*® is often presented or perceived as an emblem of globalization, especially Americanization: there is a risk that some stakeholders might disapprove of *Tata Group* as a consequence
- unlike *Café Coffee Day*®, *Starbucks*® is not Indian, so the profits will be sent back to the American headquarters; *Tata Group* could suffer from a negative image, as it supports foreign businesses rather than Indian ones.

Accept any other relevant analysis.

Candidates are only expected to address one advantage and one disadvantage.

If the response is one-sided (only one advantage **or** one disadvantage), award a maximum of **[3 marks]**.

Marks should be allocated according to the markbands on page 3.

(e) Discuss the decision of *Starbucks*® to enter the Indian market. [7 marks]

For *Starbucks*®, the business case to enter the Indian market is clear-cut: research and other external factors show that there is a potential demand (“young Indians with disposable income”) throughout the country (both in the south and in the north). To circumvent the legal impossibility for a foreign chain to operate in the Indian market, *Starbucks*® has found a good method: forming a strategic alliance or joint venture with a company (called *Tata Group*) with which they have already done business (purchasing coffee from them). Moreover, that group is well established in India and would directly give *Starbucks*® access to a range of venues suitable for its coffee shops, such as hotels and retail chains. This all looks very good and promising for *Starbucks*®, however they will need to take some other factors into consideration.

Market penetration (to refer to the Ansoff matrix) always represents an element of risk; *Starbucks*® has been successful in many countries (*e.g.* in Europe and its native US) though usually in developed countries; India is a different market, both economically and sociologically. Will its standardized products appeal to Indian customers (*e.g.* in terms of coffee drinks)? Global brands take time to adapt to national cultures (for example *McDonald's*® struggled for a long time in India until it recently started to offer its first “aloo tikki burger”, which is a patty of potatoes and peas flavoured with Indian spices): *Starbucks*® will need to take national/local aspects into account, otherwise it might struggle, after an initial enthusiasm due to the arrival of the brand itself.

If one-sided, award a maximum of **[4 marks]**.

Accept any other relevant discussion.

Marks should be allocated according to the markbands on page 4.

M13/3/BUSMT/SP1/ENG/TZ0/XX/M



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MARKSCHEME

May 2013

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

17 pages

– 2 –

M13/3/BUSMT/SP1/ENG/TZ0/XX/M

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A			Level descriptors
Q1 (c)	Q2 (c)	Q3 (c)	
Marks 0–7			
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the case study.
3–5			<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the case study, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical.
6–7			<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the case study.

Section B	
Q4 (d)	Level descriptors
Marks 0–8	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study.
3–4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the case study, not just to the name of the organization. • The response is mainly theoretical.
5–6	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the case study are made at places in the response.
7–8	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the case study are made throughout the response.

SECTION A**1. (a) Define the following terms:****(i) *regional trading bloc (line 30)*****[2 marks]**

A regional trading bloc is “an organization of countries which have formed economic alliances for mutual benefit” (Clark, P. *et al.*, 2009, *Business and Management Course Companion*, page 391, Glasgow, U.K., Oxford University Press) *eg* CARICOM (in the Caribbean Community), EU (European Union). Regional trading blocks typically have some type of written agreement (between states, regions, or countries) whereby rules regarding trade are specified (such as reducing barriers between participating states, regions, or countries).

Candidates are **not** expected to word their definition exactly as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

(ii) *corporate social responsibility (lines 88–89)***[2 marks]**

Corporate social responsibility is a voluntary approach by businesses that recognises they have an obligation to assess and take responsibility for the organizations effects on the environment and on social welfare. A socially responsible business incorporates the interests of various stakeholders in a way which is beneficial and correct (“right”) according to societal values, *eg* a socially responsible ball bearing business will manufacture its products in a way that limits pollution in the vicinity of its factories (which is not the case of *RDB*). Socially responsible businesses often go beyond what is required by law.

Candidates are **not** expected to word their definition exactly as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

(b) Explain two reasons why innovation is important for RDB.**[4 marks]**

Innovation is important for *RDB* for several reasons:

- As mentioned at the start of the case study, the market size of the ball bearing industry keeps increasing. It is a very dynamic industry (as exemplified by the fact that there are ball bearings in fighter jets and space shuttles); with the development of new materials (lighter and stronger) and of new technologies (especially “green” technologies), there is a need to keep innovating.
- To remain competitive: if *RDB* fails to innovate, it will lose its market share and maybe its reputation. *RDB* has successfully overcome several competitive challenges (*eg* against *UAB* and *FIB* in the 1930s, or against Japanese companies after the second world war) but sustaining a competitive advantage is key to any business strategy (this is in fact how Michael Porter defines strategy).
- To attract potential customers: if *RDB* is to widen its pools of customers (not just from the manufacturing community but also from the design community), it may need to offer slightly different types of ball bearings; R&D are essential in terms of innovation, which is why Anna wants to invest in that part of *RDB*’s activities.
- Innovation is required to save energy, which was *RDB*’s main aim and was a key element of the company’s credentials as a ‘green’ business.

Accept any other relevant reason and explanation.

Mark as 2 + 2.

Award **[1 mark]** for each relevant and correct reason identified and **[1 mark]** for an explanation of that reason up to a maximum of **[2 marks]**.

(c) Anna Holstein believes that “the marketing department should start carrying out market research” (lines 114–115). Analyse the roles that primary and secondary research could play for RDB.**[7 marks]**

Market research could play several roles:

- Primary market research could help *RDB*’s marketing department find out more precisely from their existing customers what they need and want (the case study implicitly suggests that *RDB* has followed a product-orientation marketing strategy as opposed to a market orientation one). One of the tasks of the “engineers-turned-salesmen” could be to carry out primary research (*eg* through interviews) to feedback to the R&D department about ways in which *RDB* can produce competitive ball bearings.
- Secondary market research could help *RDB*’s marketing department understand the current demand for ball bearings and trends in the market; it would offer a background picture, including an analysis of existing products offered by *RDB*’s competitors. This could provide useful indications to the R&D department about the directions in which they should develop new products (for example, greener ball bearings, or ball bearings adapted to the needs of the design community).

Accept any other relevant analysis.

Candidates are **not** expected to refer to all the above points for full marks, but their analysis must be balanced in order to reach the top markband. This balance could be about primary *vs* secondary research, or it could be articulated in terms of supply *vs* demand, or product orientation *vs* market orientation.

Marks should be allocated according to the markbands on page 3.

2. (a) Using a SWOT analysis framework, identify *two* weaknesses and *two* threats to RDB. [4 marks]

RDB weaknesses could include the following:

- senior management does not always pay attention to some warning signals (*eg* the need for maintenance and technological upgrades)
- there are high pollution levels near RDB factories (which has attracted some environmental campaigners), so they may need to review their operations, especially if they want to enhance their corporate social responsibility and their “green” credentials
- the conflict between father and daughter, the two top figures in the family-owned business, could lead to problems for the company overall
- marketing activities are limited, which is a weakness in any competitive business environment
- no cultural understanding of customers.

RDB threats could include the following:

- Demand for ball bearings is slowing down in Europe, whereas growing substantially in countries such as Brazil, China and India. At present, RDB is not present in these countries.
- Demographic changes in Europe may eventually undermine Valdemar’s vision of a “happy European family”.
- Global economic interconnectedness: any economic crisis, such as the global banking crisis of 2008 or economic recession in almost any part of the world may affect RDB.
- Competition past (*eg* Japanese companies in the 1970s) and present.

Accept any other relevant weakness/threat.

N.B. The threats must be **explicitly** about external factors (*ie* factors that could be identified through a PEST/STEEPLE analysis); the weaknesses must be internal (*ie* about finance, marketing, leadership *etc*).

Mark as 2 + 2.

Award **[1 mark]** for each relevant and correct weakness identified, up to a maximum of **[2 marks]**.

Award **[1 mark]** for each relevant and correct threat identified, up to a maximum of **[2 marks]**.

– 8 –

M13/3/BUSMT/SP1/ENG/TZ0/XX/M

(b) Using data from the additional information on page 3, calculate RDB's:

(i) return on capital employed (ROCE) in 1965 and 1975.

[2 marks]

$$\text{ROCE} = \frac{\text{Net profit before interest and tax}}{\text{Total capital employed}} \times 100$$

	1965	1975
ROCE	$\frac{22}{121} \times 100 = 18.18\%$	$\frac{34}{203} \times 100 = 16.75\%$

N.B. Do not penalize the absence of % sign. Candidates can give their responses to 1 or 2 decimal places.

Award **[1 mark]** for each correct answer (no working required), up to a maximum of **[2 marks]**.

Candidates should **not** be awarded any marks merely for writing down a formula (as the formula is provided).

(ii) stock turnover in 1965 and 1975.

[2 marks]

Stock turnover is calculated in one of two ways:

Method 1: $\frac{\text{Cost of goods sold}}{\text{Average stock}}$
 = number of times stock turned over in a year

or

Method 2: $\frac{\text{Average stock}}{\text{Cost of goods sold}} \times 365$
 = stock turnover in days

$\text{COGS} = \text{Sales revenue} - \text{gross profit}$

For 1965 COGS = $113 - 35 = 78$

For 1975 COGS = $194 - 56 = 138$

– 9 –

M13/3/BUSMT/SP1/ENG/TZ0/XX/M

In the absence of an average stock figure being provided, or in the absence of two consecutive years' figures, candidates should use the stock figure for the year requested. Thus, stock turnover for *RDB* would be:

	1965	1975
Method 1: Stock turnover (times per year)	$\frac{78}{29} =$ 2.69 times per year	$\frac{138}{54} =$ 2.56 times per year
Method 2: Stock turnover (in days)	$\frac{29}{78} \times 365 = \mathbf{136 \text{ days}}$	$\frac{54}{138} \times 365 = \mathbf{143 \text{ days}}$

N.B. Do not penalize the absence of units: times per year or days. Candidates can give their responses to 1 or 2 decimal places when using Method 1.

Award **[1 mark]** for each correct answer (no working required), up to a maximum of **[2 marks]**. If the candidate incorrectly calculates cost of goods sold but otherwise performs the calculations correctly, award **[1 mark]** because of own figure rule (OFR).

Candidates should **not** be awarded any marks merely for writing down a formula (as the formulae are provided).

(c) Interpret your results from part (b).**[7 marks]**

Apply Own Figure Rule (OFR) from calculations made in part (b).

The comparison of the two sets of ratios suggests a company that has experienced a slight deterioration in efficiency between 1965 and 1975. The decrease in ROCE from 18.18% to 16.75% is not a dramatic decline, but it is not a positive indicator. Were ROCE to continue to decline by this amount for another two or three decades (as the case study implies), these minor negative concerns would grow into major concerns about efficiency. The increase in stock turnover is similar. Though the increase in stock turnover from 136 to 143 days is not a huge increase, it is not a positive sign. This ratio means that, on average, raw materials purchased by *RDB* and converted into stock is on the company's books for 136–143 days, between four and five months. Without industry comparisons, it is not possible to fully understand the implications of this length of time.

Nevertheless, this stock situation seems like a long time to hold stock and that implies the company relies on a just-in-case stock control method. As with the ROCE, the increase is relatively minor but nevertheless a worrisome sign. In combination, the two sets of ratios suggest a slippage of the company in terms of efficiency, coming at a time when *RDB* is facing increased competition from foreign competitors (Japanese). One of the major issues facing *RDB* is just as these ratios indicate: a slow deterioration of its situation, one that Valdemar did not fully appreciate and which, by the twenty-first century, had become a much greater problem. Still a profitable company, a smouldering problem was occurring at *RDB* over many decades, and the changes suggested by the changes in these ratios are an indication of it.

If a candidate uses only one of the sets of ratios (for example only ROCE), award a maximum of **[4 marks]**. For **[6–7 marks]**, answers must be balanced, which is to say some recognition that the company is still healthy and profitable even though there are some worrying signs. Also the balance required for higher marks means that both efficiency ratios need to be interpreted.

Marks should be allocated according to the markbands on page 3.

3. (a) Define the following terms:**(i) *retrenchment* (line 133)****[2 marks]**

Retrenchment occurs when a business cuts its workforce (by laying-off/redundancy), closing factories / branches and is sometimes called downsizing.

Candidates are **not** expected to word their definition exactly as above.

N.B. Strictly speaking, retrenchment is not necessarily only about HR (as it could imply streamlining production or downsizing a product portfolio, however candidates are only expected to refer to the HR dimension).

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

(ii) *commission* (line 153).**[2 marks]**

A commission is a form of payment to an agent (*eg* salesperson) often calculated on a percentage basis of sales made.

Candidates are **not** expected to word their definition exactly as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

- (b) With reference to *RDB*, distinguish between flow production and job production (lines 63–66).

[4 marks]

Flow production (also called mass production and line production) means producing a standardized product using a continuous flow of production, typically through an assembly line. As mentioned in the case study, *RDB* manufactures its standard-sized ball bearings using a flow production process – this corresponds to the archetypal imagery of the conveyor belt on the shop floor of Fordist megafactories. It is about high volumes *ie* quantity.

Job production, on the other hand, is not about quantity and standardization, but about designing and producing a special product that precisely fits the customer's requirements; a typical example would be a wedding cake of a particular size and shape, or in the case of *RDB*: “one-off special orders, such as large ball bearing systems for power stations or mines”. The mark-up and the prices are then high, but it is much more expensive and complex to produce, as opposed to flow production.

[1–2 marks]

Award [1 mark] for an answer that shows some knowledge of flow production and job production. Award [2 marks] for an answer that refers to the difference between flow production and job production at a generic, theoretical level.

[3–4 marks]

Award [3 marks] for an answer that combines “theory” (*ie* definitions) and “practice” (*ie* reference to the case study). Award [4 marks] for an answer that fully and clearly distinguishes between flow production and job production with reference to *RDB*.

- (c) Analyse the advantages and disadvantages for *RDB* of forming “strategic alliances with ball bearing companies in Brazil, China and India” (line 155). [7 marks]

A strategic alliance is a collaborative agreement between two or more firms to pursue a set of agreed goals, but where the firms remain completely independent organizations. The alliance ends when the goals are achieved.

Advantages:

Demand for ball bearings is growing in Brazil, China and India. The proposed strategic alliances with companies based in these countries will provide cheaper options for *RDB* to sell directly to them by providing access to the markets and local knowledge of their specific cultures and characteristics. This would satisfy Anna’s objective to be closer to customers. *RDB* would be able to share fixed costs, technical knowledge and resources with its strategic partners and would gain access to new distribution channels.

For Valdemar, it means that *RDB* would not need to close or downsize its European megafactories.

Disadvantages:

RDB may lose control over important issues as product quality, operating costs and employees. The *RDB* brand may be damaged by partners who do not meet their high operational standards. In addition finding suitable partners may be time consuming and therefore costly, especially because potential partners are in three different countries in which *RDB* have not operated. There may be language and cultural barriers between *RDB* and its strategic partners and the possibility of conflicting objectives, strategies, corporate values, and ethical standards.

Strategic alliances must be mutually beneficial, typically reducing overall costs (for the companies involved) and better satisfying customers. The strategic partners could probably benefit from *RDB*’s experience and long tradition of manufacturing high quality ball bearings, however *RDB* would have to convince them. With strategic alliances, the businesses remain independent and still compete on some markets, which might not be sustainable for *RDB* in the long term.

Accept any other relevant analysis.

Candidates are **not** expected to cover all the above-mentioned points.

Marks should be allocated according to the markbands on page 3.

SECTION B

- 4. (a) Identify two causes and two consequences of the possible relocation of RDB factories.** [4 marks]

Causes could include:

- the market demand for ball bearings is shifting from Europe to countries such as Brazil, China and India
- the current workforce (in the European factories) do not culturally understand their customers in those new markets; they could lose them to competitors that are local or are more culturally-aware
- Anna believes that the sites of production (the factories) should be located closer to the sites of consumption (where customers are)
- the cost of labour is lower in other parts of the world.

Consequences could include:

- relocating would eventually save time (without the delays due to transport, logistics and distribution)
- relocating would eventually save money (without the costs of transport, storage, logistics and distribution)
- relocating would require building/opening new factories
- relocating would require hiring local workers as well as local managers
- relocating would lead to job losses at current factory locations
- relocation could lead to greater profitability.

Accept any other relevant cause/consequence.

N.B. The causes must clearly be reasons why RDB is considering the relocation; some candidates are likely to mix causes and consequences.

Mark as 2 + 2.

Award **[1 mark]** for each relevant and correct cause identified, up to a maximum of **[2 marks]**.

Award **[1 mark]** for each relevant and correct consequence identified, up to a maximum of **[2 marks]**.

- (b) Explain why shortening the working capital cycle would be “an important benefit for RDB” (line 83).

[4 marks]

The working capital cycle can be defined as “money tied up in the business and used to finance its day-to-day needs, such as buying raw materials” (Clark, P. *et al.*, 2009, *Business and Management Course Companion*, page 149, Glasgow, U.K., Oxford University Press). In the case of RDB, the working capital cycle includes money spent to buy raw materials (*eg* steel) which then becomes (unsold) stock (*eg* ball bearings); when the stock is sold, consumers (debtors) pay for it (sometimes after a slight delay expressed in debtors days) and cash is returned into the business (to pay for new raw materials from suppliers as well as workers’ salaries *etc*). Having factories in Brazil, China and India would mean that the customers based there would receive the goods more quickly (without delays due to distribution and delivery). This could ensure prompter payment which, in turn, could result in a faster purchase of new raw materials to produce more ball bearings (a sort of virtuous circle). Utilizing working capital more effectively is actually an internal source of finance that also enables the company (RDB in this case) to manage its stock better. Just as the Japanese companies adopting just-in-time (JIT) production in the 1970s (as mentioned in the case study), RDB could also consider that approach in order to further shorten the working capital cycle in its new, flexible factories.

Award [1 mark] for a basic answer showing some limited knowledge of the working capital cycle (for example, a definition of “working capital”, but no reference to the cycle that includes raw materials, stock and payment).

Award [2 marks] for an answer which shows some knowledge and understanding of the working capital cycle (yet without application to RDB).

Award [3 marks] for an answer which correctly applies the working capital cycle to RDB.

Award [4 marks] for an answer which correctly applies the working capital cycle to RDB and explains why shortening it would be an important benefit for the company.

- (c) With reference to *RDB*, contrast *one* advantage and *one* disadvantage of operating in the business-to-business (B2B) market.

[4 marks]

For *RDB*, advantages of operating in the B2B market include the following:

- *RDB* is a well-established company known for the quality of their ball bearings, so they have a solid reputation with their business customers (they do not need expensive and wide-ranging campaigns to create brand awareness)
- advertising to business customers in the B2B market is more focused than advertising to a very high number of individual customers
- marketing in the B2B market place is likely to be easier, and possibly less expensive than B2C marketing, because *RDB*'s business customers are more likely concerned with the quality and function of its products rather than the image or brand perception of the company. *RDB* has a well-established reputation for quality and so the product may sell itself and minimize the promotional spend.

For *RDB*, disadvantages of operating in the B2B market include the following:

- there may be only a small number of business customers, who consequently may have strong bargaining power (reference to Porter's Five Forces model) so they can negotiate contracts and discounts (which is not in *RDB*'s favour)
- the impact of economic recessions may be more significant on capital goods industries and hence on *RDB*'s orders from these industries
- the marketing channels for B2B are more restricted than for B2C. For example, it is likely to be more difficult to use the social media to promote industrial products, like ball bearings, rather than B2C products, where recommendations and word of mouth promotion can be important.

Accept any other relevant contrasting advantage/disadvantage.

N.B. B2B is different to direct marketing and is not about supply chain.

Mark as 2 + 2.

Award [1 mark] for each relevant and correct advantage/disadvantage identified and an additional [1 mark] for the development of that point up to a maximum of [2 marks].

(d) Discuss whether Anna Holstein's "RDB 2020" plan is ethical.**[8 marks]**

Anna's plan may be presented as ethical for several reasons. One of the cornerstones of "RDB 2020" is "green" engineering (the topic that Anna studied at university); it is about energy efficiency and environmental friendliness. When she started working at *RDB*, implementing "green" approaches to manufacturing was her personal mission – and with "RDB 2020" she is turning this personal mission into a corporate strategy. Sustainable development is one of the values underpinning corporate social responsibility and business ethics in general. Anna's plan aims to ensure the financial success of *RDB* in the 21st century (making sure the family business remains a key player in the ball bearing industry) – this is most ethical for the continuing survival of *RDB* in a global context.

It is however possible to argue that Anna's plan is unethical, when one considers some of the direct implications, especially about the workers of the European megafactories who are likely to lose their jobs. This actually goes further than just relocating, outsourcing and offshoring: as stressed by Valdemar, *RDB* has had almost a century of strong links with the local communities where it has been based, contributing to the development of "company towns", working in partnerships with national governments and other stakeholders. Valdemar's references to a "social contract" and to "a moral obligation to provide jobs in Denmark" are powerful counterparts to Anna's own ethical views about sustainable development.

Accept any other relevant discussion.

It does not matter which conclusion candidates reach at the end of their discussion (*ie* whether they conclude that the plan is ethical or not), however for the top markband there must be a final conclusion.

Marks should be allocated according to the markbands on page 4.

M13/3/BUSMT/SP2/ENG/TZ0/XX/M



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MARKSCHEME

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BUSINESS AND MANAGEMENT

Standard Level

Paper 2

25 pages

– 2 –

M13/3/BUSMT/SP2/ENG/TZ0/XX/M

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A		Section B			Level descriptors	
Q1 (e)	Q2 (e)	Q3 (d)	Q4 (c)	Q5 (d)		
Marks 0–5					<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology. <ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the stimulus material. The response is mainly theoretical. <ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the stimulus material, not just to the name of the organization. <ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the stimulus material. 	
0						
1–2						
3–4						
5						

Section B			Level descriptors
Q3 (e)	Q4 (d)	Q5 (e)	
Marks 0–7			
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the stimulus material.
3–4			<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues and concepts. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the stimulus material, not just to the name of the organization. • The response is mainly theoretical.
5–6			<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the stimulus material are made at places in the response.
7			<ul style="list-style-type: none"> • A response with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the stimulus material are made throughout the response.

SECTION A**1. (a) Define the term *tertiary sector*. *[2 marks]***

The tertiary sector of the economy, also known as the service industry, is related to the provision of services to customers and to other businesses. Activities in the tertiary sector include: retail and wholesale sales, transportation and distribution, entertainment, restaurants, tourism, insurance, banking and healthcare among others.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

(b) Identify *two* features of a sole trader. *[2 marks]*

A sole trader could have the following features:

- It is a business unit owned and operated by a single individual. The individual bears all the risks of loss or failure and receives all profits if the business is successful.
- It is the simplest form of organization as it involves few legal requirements to set it up.
- It has unlimited liability; the owner is personally liable for the debts of the business.
- A sole trader enjoys unlimited freedom of action and decisions.
- Legally, a sole trader and his business are considered as one. The business is not a separate entity from the owner.
- In a sole trader business, capital to run the business is provided by the owner.
- *Accept any other relevant feature.*

Award **[1 mark]** for each relevant and correct feature of a sole trader identified up to a maximum of **[2 marks]**.

- (c) (i) Prepare a monthly cash-flow forecast for the bank contract for the first six months assuming Sayaka employs one new worker. **[5 marks]**

All figures are in \$.

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Cash inflows						
Cash from bank loan	2500					
Contract Payment		6000		6000		6000
Inflows						
Total inflows	2500	6000	0	6000	0	6000
Cash outflows						
Employee salary	2000	2000	2000	2000	2000	2000
Payment on equipment loan	0	150	150	150	150	150
Business taxes and overheads	300	300	300	300	300	300
Cleaning products	200	200	200	200	200	200
Total outflows	2500	2650	2650	2650	2650	2650
Net cash flow	0	3350	-2650	3350	-2650	3350
Opening balance	1600	1600	4950	2300	5650	3000
Closing balance	1600	4950	2300	5650	3000	6350

Apply Own Figure Rule (OFR): if a candidate makes an error in one row and carries it through the remainder of the forecast, that is only one error.

In addition, based upon the stimulus, a candidate may assume that Sayaka may have borrowed the \$2500 before the beginning of the six-month period. Under this assumption, the cashflow would not have the line “cash inflow from bank” as listed above but would have instead an “Opening balance” of \$4100. Candidates may present the cashflow in either way and still be fully correct.

[1 mark]

The candidate conveys some understanding of what a cash-flow forecast is, but otherwise the forecast is largely inaccurate, incomplete, or illegible.

[2–3 marks]

A cash-flow forecast is drawn, but either it is not in a generally accepted format or it is untidy, and the forecast contains two or more errors.

[4 marks]

The cash-flow forecast is drawn essentially correctly and neatly in a generally accepted format, but there is one error.

[5 marks]

The cash-flow forecast is drawn accurately and neatly in a generally accepted format, and is error free.

- (ii) Calculate the impact on the monthly closing balance of the six month cash-flow forecast if the new employee is absent from work due to illness for two days per month. Assume Sayaka still pays the ill employee a monthly salary of \$2000. **[2 marks]**

Sayaka will have an additional monthly labour cost of \$600.
The impact on OC's cash-flow forecast will be as follows:

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Closing balance	1000	3750	500	3250	0	2750

Award **[1 mark]** for each three correct calculations, up to a maximum of **[2 marks]**.

Candidates may approach the problem in a different way that shows the impact on the sixth month only, calculated as follows:

Closing balance initially: \$6350

2 days per month x 6 months = 12 days (total) of replacement labour

12 x \$300 (daily cost of replacement labour) = \$3600

\$6350 (closing balance initially) – \$3600 = \$2750

- (d) Comment on the impact that the bank contract will have on the cash flow of OC.

[4 marks]

If Sayaka accepts the bank contract and employs one new worker, the forecasted cash flow will be positive for all the time period considered. This means that her personal savings, the bank loan and the two-year contract with the bank will be enough to meet all the cash requirements.

If the new employee gets ill two days a month, the cash-flow forecast will still be positive except for month 5. Such an imbalance cannot be perceived as very significant and there are chances that the new employee will not become ill. Sayaka could then take the risk to employ one new worker, accept the bank contract and expand the size of her business.

Moreover, these are forecasts. The actual net cash flow could be lower. What if the employee is ill one month for more than 2 days?

Apply Own Figure Rule (OFR).

[1–2 marks] The answer is basic and does not question the accuracy or reliability of cash-flow projections, or if the candidate fails to recognize that the trend of the cash-flow forecast is positive if one worker is employed.

[3–4 marks] The candidate recognizes that the cash-flow projections, and extrapolations are affected by whether one worker is employed and whether or not they are ill each month.

(e) Analyse the impact on Sayaka's role if she expands the size of her business. [5 marks]

If Sayaka expands the size of her business she will have to employ an additional employee to cope with the increased number of clients. Her role within the business will change as she will have to devote less time to doing the cleaning herself and concentrate more on managerial functions such as the following:

- organizing worker and material resources to ensure a successful outcome for her business
- supervising, guiding, motivating and eventually training her worker to make sure that the cleaning tasks are carried out properly and customer's requirements are met
- controlling and evaluating worker's performance to ensure quality standards
- planning, preparing the cleaning schedules, workforce needs.

On the other hand, it seems that Sayaka is worried about the impact that *OC*'s expansion may have on her role. Sayaka has always liked the small size of her business. If *OC* grows, she will have to deal with employee absenteeism. Delegation could also bring problems to be dealt with, as it may create dissatisfaction among clients that were used to "her ways" of doing the cleaning.

It seems that Sayaka is unsure of the responsibilities that her potential new role as a manager could entail. All in all, if Sayaka finally decides to expand her business, she will have to overcome her insecurities as they may erode her managerial and leadership skills in her new role.

Accept any other relevant analysis.

If the response is a one-sided relevant approach with no analysis award a maximum of **[3 marks]**.

Marks should be allocated according to the markbands on page 3.

2. (a) **Describe one appropriate source of finance other than a bank loan that KDS could use for the purchase of the cranes.** **[2 marks]**

Ahmed could choose to use one of the following sources of finance to purchase the cranes:

- Retained profit is not an appropriate response, as KDS has only \$55 000 in cash on the balance sheet. If a candidate writes “Retained profit”, award **[1 mark]**.
- Hire purchase – this is a system by which he could buy the cranes over a long period of time by paying monthly installments with an interest charge and a cash deposit at the starting period. During the payment period, ownership of the cranes will not be passed to Ahmed.
- Through a leasing system he will be able to use the cranes for a specific period of time without the responsibility of owning them. He will have to make monthly leasing payments and at the end of the leasing period he could decide to purchase the cranes. An initial deposit is not required.
- If available, Ahmed could sell existing assets that are no longer required by the business so as to gain some cash availability to finance part of the new cranes.
- He could decide to reduce stocks to raise part of the finance needed to purchase the cranes.
- If available, Ahmed could use his personal savings.
- Sale of shares.
- *Accept any other relevant source of finance.*

Award **[1 mark]** for an appropriate source of finance other than a bank loan identified and **[1 mark]** for a clear description up to a maximum of **[2 marks]**.

(b) **Define the term *retained profit*.** **[2 marks]**

Retained profits, are the portion of a company’s profits, which after the owners have taken their dividends, remains in the business to be reinvested or kept as a reserve.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

- (c) (i) Using relevant information from the table, construct a balance sheet for KDS as at 31 May 2012 (before the purchase of the cranes) and calculate debtors (figure X).

[5 marks]

	(\$)	(\$)
Fixed assets		
Building and equipment	350 000	
Total (net fixed assets)		350 000
Current assets		
Stock	50 000	
Debtors	55 000	
Cash	55 000	
Total assets		160 000
Current liabilities		
Creditors	45 000	
Short-term borrowing	10 000	
Total		55 000
Net assets		455 000
Share capital		200 000
Loan capital		40 000
Retained profit		215 000
Capital employed		455 000

If capital employed = net assets = 455 000

Net assets = fixed assets + (current assets – current liabilities)

Current assets = net assets – fixed assets + current liabilities

Current assets = 455 000 – 350 000 + 55 000 = 160 000

If current assets = 160 000

Debtors = 160 000 – 55 000 – 50 000 = 55 000

Award **[1 mark]** if the candidate has correctly calculated debtors.

If the balance sheet is constructed following a generally accepted format and is correct in all respects, award **[4 marks]**. Apply own figure rule (OFR): if the candidate incorrectly calculated debtors but otherwise the balance sheet is constructed following a generally accepted format and is correct in all other respects, award **[4 marks]** (the “penalty” will be that the candidate does not receive the mark for correctly calculating debtors).

– 12 –

M13/3/BUSMT/SP2/ENG/TZ0/XX/M

Award **[3 marks]** if the candidate produces a balance sheet that follows a generally accepted format but has one error, or award **[2 marks]** if there are two errors (OFR regarding debtors). Award **[1 mark]** if the candidate shows some understanding of what a balance sheet is, but the actual balance sheet constructed is not in a generally accepted format and/or has more than two errors.

If a candidate produces a balanced balance sheet (including the calculation of X) but one that does not conform to a generally accepted format, award **[4 marks]** if, with the formatting, it has one major formatting error. Award **[3 marks]** if it has two major errors. An example of a major error would be, on a horizontal balance sheet, having fixed assets before current assets or, on either a horizontal or vertical balance sheet, having long-term debt out of place (either in equity or in current liabilities). A minor formatting error not to be penalized would be, for example, if a candidate places debtors within current assets but not in the generally accepted place.

- (ii) Using relevant information from the table, calculate the gearing ratio and the gross profit for KDS before the purchase of the cranes (show all your working). [4 marks]**

$$\begin{aligned}\text{Gearing ratio} &= \frac{\text{loan capital}}{\text{total capital employed}} \times 100 \\ &= \frac{40\,000}{455\,000} \times 100 \\ &= 8.79\% \text{ (to 2 d.p.)}\end{aligned}$$

$$\begin{aligned}\text{Gross profit} &= \text{sales revenue} - \text{cost of goods sold} \\ &= 5\,600\,000 - 3\,000\,000 = \$2\,600\,000\end{aligned}$$

Mark as 2+2.

Award **[1 mark]** for workings and **[1 mark]** for the correct answer up to a maximum of **[2 marks]**.

- (d) Comment on the financial impact on *KDS* if Ahmed uses a bank loan to fund the purchase of the cranes. **[2 marks]**

If Ahmed decides to fund the purchase of the cranes with a bank loan, there will be borrowing associated costs. The gearing of the company will increase. At present, the company is not highly geared with a gearing ratio of 8.79%. With the bank loan, it would increase to 36.64% ($\frac{240}{655} \times 100 = 36.64\%$). This is a significant increase in gearing.

Using a bank loan will increase his costs as interest payments have to be made, thus reducing his net profits compared with if he financed the purchase through the use of internal sources of funds. However, it is unlikely that *KDS* could generate \$200 000 internally.

Award **[1 mark]** for each relevant point up to a maximum of **[2 marks]**.

(e) Contrast the *three* options of who will operate the cranes. [5 marks]

If Ahmed decides to train his employees to operate the cranes, he will probably generate a positive impact on his employee's motivation and productivity. His workers will gain additional job skills, job enrichment and experience. What is more, some have already shown interest in learning how to operate the new cranes. On the other hand, training is costly. Ahmed will have to hire an instructor or send his workers to a training course, and additionally pay for the additional insurance costs. Workers will be diverted from their tasks and this may disrupt the working day of the business. Training could be a risky investment if labour turnover at *KDS* is high; trained employees may end up working in rival construction companies.

If Ahmed decides to hire two new experienced employees he will not have to incur training and additional insurance costs; there will not be any disruption in the working day of his company. However, the new skilled workers may have to be paid higher salaries than the rest. Ahmed will then have a permanent increase of his labour costs. His current employees may also feel disappointed and demotivated as they will not be given the chance of training and eventually promotion. Productivity may then be hampered such as the working environment.

Finally, Ahmed could only rent the cranes to customers who themselves employ licensed crane operators. This option will not imply additional costs for Ahmed as he will operate the business with his current employees and training is not required. However, the opportunity cost of this option can be high. Ahmed may lose customers such as the many small construction companies that do not employ licensed crane operators; the potential growth of his business could be put at risk.

Accept any other relevant contrast.

If the response is a one-sided relevant approach with no contrast, award a maximum of **[3 marks]**. If only one option is examined, award a maximum of **[2 marks]**.

Marks should be allocated according to the markbands on page 3.

SECTION B

3. (a) Identify *two ways* in which the market for canoes may be segmented. **[2 marks]**

The market for canoes may be segmented in different ways, such as:

- by age (for example young people in their 20s *versus* older people in their 50s and 60s); this is the segmentation mentioned in the stimulus
- by gender (as BC could design different canoes for men and women)
- by residence (as occasional canoeists from urban areas may represent a different market from local people who use their canoe every day)
- activity/lifestyle (fishing as a hobby rather than exercising as a hobby)
- income/wealth (but not price).

Accept any other relevant answer.

Award **[1 mark]** for each correct and relevant way identified, up to a maximum of **[2 marks]**.

- (b) Calculate the break-even quantity for the smaller canoes (*show all your working*). **[2 marks]**

$$\begin{aligned}\text{Break even quantity} &= \frac{\text{Fixed costs}}{(\text{Price} - \text{variable cost per unit})} \\ &= \frac{300\,000}{(2400 - 1900)} \\ &= 600 \text{ units (canoes)}\end{aligned}$$

Award **[1 mark]** for workings and **[1 mark]** for the correct answer up to a maximum of **[2 marks]**.

- (c) Explain how the “marketing issues and the slower payments” would create a need for additional working capital. **[4 marks]**

Working capital is the money used by the business for its operational activities – in the case of BC; it is the money necessary to buy the raw materials to make the canoes, but also the money used in other parts of the business, for example marketing. BC would need more working capital for two reasons:

- Firstly, BC will need to spend money in advance (before selling the smaller canoes) on promotional activities (to raise awareness, to create interest, to launch the product etc). Working capital is that portion of capital employed invested in current assets. Expenses are a reduction in equity, thus reducing the amount of total capital employed available for investment in working capital (and thus creating a need for BC to find replacement working capital). Another marketing issue is that sales revenue from the smaller canoes may take longer to materialize than BC anticipates, thus leading to a stock build up and lengthening of the trading cycle.
- Secondly, if customers take longer to pay (for example in installments: a partial amount every month), BC will have less cash available (as the debtors owe the company money), so more working capital will be necessary (to support the operations of the business: buying raw materials etc). As payments slow, the debtor balance on the balance sheet increases. Funds to support that growth should come from total capital employed. Thus, an increase in debtors balance requires an increase in working capital. This too represents an increase in the trading cycle.

Accept any other relevant explanation.

Mark as 2+2.

Award **[1 mark]** for each correct element of the answer with regard to how marketing issues would create a need for additional working capital, up to a maximum of **[2 marks]**.

Award **[1 mark]** for each correct element of the answer with regard to how slower payments would create a need for additional working capital, up to a maximum of **[2 marks]**.

(d) Apply the Ansoff matrix growth strategies to BC.**[5 marks]**

The Ansoff matrix is a tool used to identify possible growth strategies, according to the product (is it existing or new?) and the market (is it existing or new?). It is represented as follows:

		Products	
		Existing	New
Markets	Existing	Market Penetration	Product Development
	New	Market Development	Diversification

Applying it to BC comes down to asking:

- Are the smaller canoes a new product? Shareholders view it as such, although it could be argued that it is the same product (a canoe), just the size is different (a new product for BC would be canoeing clothing, for example).
- Are the two target markets (people in the 20s and people in their 50s and 60s) a new market? Ashton thinks so, as presumably the current customers are people in their 30s and 40s; however, it could be argued that a new market would mean exporting canoes to another country.

The shareholders consider the suggested strategy as a form of diversification (new product, new market), however other views can be defended (for example one could say it is market development, as the product is still the same: canoes).

Marks should be allocated according to the markbands on page 3.

If a candidate draws an Ansoff matrix, but writes nothing, award a maximum of **[1 mark]**.

N.B. The “balanced analysis” required to achieve **[5 marks]** means showing awareness that the application of the matrix to BC is not clear cut; put another way, in order to achieve **[5 marks]**, a candidate must explicitly write that more than one interpretation is possible (*ie* not necessarily diversification). However, just because a candidate has written that more than one interpretation is possible does not necessarily mean that the candidate’s response deserves **[5 marks]**. Other elements from the **[5 marks]** markband on page 3 must also be present.

(e) Discuss Ashton's proposal to start manufacturing and selling smaller canoes. [7 marks]

Ashton is keen to start producing and selling smaller canoes. His proposal has several advantages:

- Market research has identified a need (a demand) for smaller canoes: this means a business opportunity. As BC has both experience and resources to start manufacturing this product, it would be a pity not to seize the opportunity; if BC does not do it, other competitors will. BC could have a first mover advantage. (*Note: candidates are not expected to know this term*).
- Manufacturing seems quite easy: the stimulus states that “BC can easily manufacture 1000 small canoes” and this would not affect the existing production; it seems to be just an extra, like a baker offering loaves of bread of a different size.
- Break-even seems achievable, at 600 canoes (*allow candidate own figure rule (OFR)*).
- This new product could help BC strengthen its brand image and reputation.
- This new product could help spread risks (in case the larger canoes stop selling).

However, there are some disadvantages too:

- As noted by the marketing director, there will be some marketing costs, higher than expected, to communicate about the new canoes (and money is needed in advance for that).
- In terms of product life cycle, it will take time for the new smaller canoes to become an established product; the launch and growth phase might be long, especially in a period of recession, when buying a canoe will not be a priority for many people, especially the young people that Ashton wants to target (they may find a cheaper way to exercise in an environmentally friendly way, rather than buying a \$2400 canoe).
- Shareholders are not convinced; Ashton may not want to antagonize them, as ultimately they are members of his family.

As in all strategic decisions, there is no correct answer, but Ashton will need to balance the arguments between various stakeholders. It would be advisable to seek additional market research to provide more support for the new development, or to provide counter arguments. Other means could be found to proceed, such as the use of strategic alliances, and/or joint ventures.

“Balance” for this response means including both advantages and disadvantages to Ashton’s proposal to start manufacturing and selling smaller canoes. “Balance” also refers to the range of issues examined. If a candidate produces a response that includes advantages and disadvantages, supported judgements/conclusions, and references to the stimulus but otherwise focuses solely on (for example) financial considerations, award a maximum of **[4 marks]**.

Accept any other relevant discussion.

Marks should be allocated according to the markbands on page 4.

4. (a) Define the term *branding*.**[2 marks]**

Branding is an essential part of marketing. A brand is an identifying symbol, words, or mark that distinguishes a product or company from its competitors. The brand will have its own related customer perception as customers associate the brand with certain qualities. Usually brands are registered (trademarked) with a regulatory authority and so cannot be used freely by other parties.

Candidates are not expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic description that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear description that conveys knowledge and understanding similar to the description above.

(b) Explain the importance of the information in *Kabaret's* business plan for *one* internal stakeholder and for *one* external stakeholder.**[6 marks]**

Valid internal stakeholders include Matt and Shailah, as well the actors employed by *Kabaret*. For Matt and Shailah, the information in the business plan is important as it gives a roadmap for the operational and strategic development of *Kabaret* as a new business; it also covers a range of aspects they need to bear in mind, for example about how to market and promote their theatre company.

Valid external stakeholders include *Kabaret's* competitors as well as funding agencies such as a bank or an arts council. In order to set up *Kabaret*, Matt and Shailah may need to borrow money from a bank: for the bank, the information from the business plan is important as it shows the total start-up costs as well as the business' chances to be successful and eventually repay the loan.

N.B. Mr Lloyd could be described as an internal stakeholder (as he may be paid a fee by Matt and Shailah) or he could be described as an external stakeholder (as he may work on behalf of the local government to support new local entrepreneurs). Both approaches are acceptable.

Accept any other relevant explanation.

Mark as 3+3.

For each stakeholder (one internal and one external):

Award **[1 mark]** for the correct identification of the (internal/external) stakeholder.

Award **[2 mark]** for the correct identification of the (internal/external) stakeholder and a basic explanation that conveys partial knowledge and understanding. Here, the response may be more descriptive than explanatory or may lack detail.

Award **[3marks]** for the correct identification of the (internal/external) stakeholder and a full, clear explanation that conveys knowledge and understanding of the importance of the information in the business plan for the named stakeholder.

N.B. If a candidate has used two internal **or** two external stakeholders, the maximum they may achieve is **[3 marks]**. If a candidate has not correctly identified a stakeholder as internal/external, award a maximum of **[2 marks]** for that stakeholder. If a candidate has not identified a specific interval or a specific external stakeholder, award **[1 mark]** if the candidate demonstrates an understanding of what a business plan is and an additional **[1 mark]** if a general explanation of how stakeholders use it. Award a maximum of **[2 marks]**.

(c) Analyse the main problems that *Kabaret*, as a business start-up, may face. **[5 marks]**

As a business start-up, *Kabaret* may face several problems:

- Problems in terms of marketing: the stimulus refers to “developing a customer base and branding”; *Kabaret* has to make a name for itself and to create a competitive advantage; this is always time-consuming and difficult for new entrants in a market (here: the local theatre scene).
- Problems with finance: Matt and Shailah will probably need to borrow money; it is difficult for new businesses (especially in periods of economic recessions), as banks may hesitate to fund them. The fact that Matt and Shailah are young (having just finished university) and quite inexperienced is a disadvantage for them, as it can make it even harder to obtain funding, although some agencies specialise in helping younger people set up new businesses.
- Problems with cash flow: the stimulus refers to the fact that they do not know how much they should charge; pricing is one of the financial decisions they will have to make, but they will also need to learn how to manage their cash flow; according to page 11 in Paul Clark *et al's Business and Management Course Companion (2009)* “many new start-ups fail, not because their product is poor or that they can't make a profit, but because they don't manage their cash flow in the early years”.
- *Accept any other relevant analysis.*

N.B. The “balanced analysis” required to achieve **[5 marks]** is not about a balance of difficulty and ease, but about a balance of problems covering several areas such as finance and marketing. In order to achieve **[5 marks]**, a candidate must cover more than one problem.

Marks should be allocated according to the markbands on page 3.

- (d) Analyse the appropriateness of the two pricing strategies Mr Lloyd suggests and recommend to Matt and Shailah which one to use for the tickets to *Kabaret's* shows.

[7 marks]

Two pricing strategies are mentioned in the stimulus: cost-based pricing and competition-based pricing.

Cost-based pricing means that Matt and Shailah would calculate how much it costs to stage a play (taking into account all factors such as paying the actors, buying the costumes and props, advertising the play *etc*) and would add a mark-up for their profit margin. This may be easy to calculate, however it assumes that they would sell all the theatre tickets (*ie* that the theatre would be full) which cannot be certain, especially as they are not known yet.

Competition-based pricing means that they will research and find out how much their competitors charge and decide accordingly. They may decide to charge less than other theatre companies, in order to attract theatre-goers and to build a reputation. This however assumes that their customers are price-sensitive and that *Kabaret* does not have higher costs than its competitors.

Each pricing strategy has advantages and disadvantages. There is no right or wrong answer: Matt and Shailah could equally be advised to opt for cost-based pricing or competition-based pricing.

Candidates need to include a recommendation with supported relevant reasons to achieve more than **[5 marks]**.

Accept any other relevant analysis with a recommendation.

Marks should be allocated according to the markbands on page 4.

5. (a) Define the term *pressure group*.**[2 marks]**

A pressure group can be defined as an organized group of people who believe in the same cause and decide to join forces to act together, for example *Greenpeace* campaigns to protect the environment. This pressure group can put pressure on businesses and business developers (for example about pollution, or about the ecological impacts of airport expansions).

Candidates are not expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the definition above.

(b) Explain the meaning of Sylvia's statement that “for organizations, training volunteers is a form of investment”.**[2 marks]**

Investment usually refers to purchasing new machines, or financing new ventures in the hope that they will later result in financial gains; here, Sylvia applies this concept to organizations that employ volunteers in terms of human resources management: training volunteers takes time (and money), but organizations know that, through this workforce, they will reap the benefits in the long term.

Accept any other relevant explanation.

Award **[1 mark]** for a basic explanation that conveys partial knowledge and understanding of Sylvia's statement.

Award **[2 marks]** for a full, clear explanation that conveys knowledge and understanding of the importance of Sylvia's statement.

Candidates are not expected to word their explanation **exactly** as above.

- (c) Distinguish between *two forms of non-financial rewards that may be used by organizations to motivate volunteers.* **[4 marks]**

Non-financial rewards that may be used to motivate volunteers include job enrichment, job enlargement, empowerment and teamwork. These methods of motivation are linked yet different, for example “job enrichment entails giving employees opportunities to make use of the different skills they have, while job enlargement involves simply increasing the range of tasks a worker has to do” (pages 127–128 in Paul Clark *et al's Business and Management Course Companion (2009)*).

If a candidate refers to something to the effect of “good feeling” as a reward, they need to clarify how an organization can offer the reward of “good feeling” rather than merely state “good feeling,” which could be viewed as a feature of volunteering rather than as a reward.

Candidates may focus on the benefits of training and CV (resumé) building. Doing so is acceptable; however, whether training and CV-building is two rewards or one depends upon the candidate’s answer. For example, if the candidate writes “training, which makes the volunteer more employable” and “something to put on their CV”, the candidate has really written about two aspects of one reward: how to make oneself more employable.

If the candidate writes “training, which makes the volunteer feel more valued” and “something to put on their CV”, the candidate has really written about two distinct rewards.

If a volunteer is given benefits that have monetary value it must be considered a form of monetary reward. If the reward has monetary value and receipt of it is necessary for the performance of the volunteering (for example, travel to a location, paid for by the organization, to do the tasks of the volunteer), the reward is non-financial.

Accept any other relevant point.

Award **[1 mark]** for a basic answer showing some limited knowledge of non-financial rewards (for example naming methods such as empowerment and teamwork).

Award **[2 marks]** for an answer which shows some knowledge and understanding of two forms of non-financial rewards (for example by defining the two methods, though not very clearly).

Award **[3 marks]** for an answer which distinguishes between the two forms (showing the difference) yet remaining at a theoretical level (*ie* without reference to motivating volunteers).

Award **[4 marks]** for an answer which distinguishes between the two forms (showing the difference) with explicit reference to motivating volunteers.

- (d) Apply Maslow's hierarchy of needs to the situation of an unemployed person who volunteers at a local non-profit organization. **[5 marks]**

The lower levels of Maslow's hierarchy of needs are about safety and security, as well as a sense of love and belonging. Depending upon their circumstances, an unemployed person may already fulfil them (for example their family may provide them with shelter and food); in some countries, the welfare state also helps unemployed people, through systems of benefits. More crucially, volunteering will help people fulfil higher levels of Maslow's hierarchy of needs, about esteem and self-actualization: being surrounded by colleagues and feeling useful will create a sense of self-respect; this may be particularly important for an unemployed person who could otherwise stay at home and have the impression that they do not contribute to society. By volunteering in a local non-profit organization, an unemployed person may meet other people, make new friends and maybe even get a new job through networking contacts.

N.B. Theoretical knowledge of Maslow's model should be credited: award up to **[2 marks]** if a candidate correctly draws the model using the right terminology.

N.B. The balanced application (examination) required to achieve **[5 marks]** is about a balance between the lower and higher levels of Maslow's model: in order to achieve **[5 marks]** candidates must cover both.

Marks should be allocated according to the markbands on page 3.

(e) Discuss the advantages and disadvantages of employing volunteers in profit-based organizations. **[7 marks]**

The advantages of employing volunteers in profit-based organizations could include the following:

- They provide free labour (even though training them may require some investment, as suggested by Sylvia Warnecke); for a profit-based organization, this means less spending on human resources (so some savings – or at least the possibility to invest in other areas of the business, for example marketing and promotion).
- They may provide a flexible workforce (as they may be employed at different times of the year, when the organization is busier); this may be important in terms of workforce planning (especially in sectors where seasonality is an issue).
- They may provide much needed expertise (as the stimulus mentions that some volunteers are retired people, so not just inexperienced students); for example a new organization may particularly welcome the expertise of a retired businessman who could act as a mentor.

The disadvantages of employing volunteers in profit-based organizations could include the following:

- Possible tensions or resentment between paid workers and unpaid (volunteer) workers, especially if the latter have the impression that they work as hard and fully contribute to the company's operations (and ultimately to its commercial success). This could create a negative atmosphere at the workplace.
- Some volunteers may not always be reliable or may not be fully committed; this can be difficult in terms of human resources management, if some volunteers do not turn up or are late, they cannot be disciplined like other staff.
- The legislation to employ volunteers is different from the employment law that the business managers may be familiar with; this may require preparing new policies or new types of contract, which could be time-consuming for a profit-based organization whose priority remains profit maximization.

Accept any other advantage/disadvantage and discussion.

N.B. The question is about “profit-based” organizations. In order to achieve **[5 marks]** and above, candidates must explicitly address that aspect.

Marks should be allocated according to the markbands on page 4.

N13/3/BUSMT/SP1/ENG/TZ0/XX/M



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MARKSCHEME

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Standard Level

Paper 1

14 pages

– 2 –

N13/3/BUSMT/SP1/ENG/TZ0/XX/M

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A			Level descriptors
Q1 (c)	Q2 (c)	Q3 (c)	
Marks 0–7			
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the case study.
3–5			<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the case study, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical.
6–7			<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the case study.

Section B	Level descriptors
Q4 (e)	
Marks 0–8	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study.
3–4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the case study, not just to the name of the organization. • The response is mainly theoretical.
5–6	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the case study are made at places in the response.
7–8	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the case study are made throughout the response.

SECTION A**1. (a) Define the following terms:**

(i) *economies of scale (line 16)* **[2 marks]**

Economies of scale refer to the decrease in cost per unit produced, as the total scale of the production facility increases.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding, with reference to **both** decrease in cost per unit **and** increase in scale of production.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

(ii) *empowerment (line 35).* **[2 marks]**

Empowerment is a form of non-financial reward and a motivational technique; it means that some power is given to employees so they can make some of their own decisions regarding their working life (for instance they may have control over how to use their time and decide which tasks could be done from home).

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above with reference to decision making.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

– 6 –

N13/3/BUSMT/SP1/ENG/TZ0/XX/M

- (b) With reference to *RDB*, distinguish between internal growth and external growth.

[4 marks]

Internal growth (also called organic growth) refers to the growth of a business (*RDB* in this case) through increasing sales (for example, developing first-mover advantage in the market for “technologically advanced, energy-efficient ball bearings” (*lines 95–96*) or developing marketing activities (hence Anna’s idea of using “engineers-turned-salesmen” (*line 116*)). Internal growth is also possible by cutting costs and selling goods at a lower price, thereby increasing market share, though there is no reference to this in the case study.

External growth takes place through external solutions, such as joint ventures and mergers and acquisitions. Valdemar suggested strategic alliances which would be a form of external growth with companies based in Brazil, China and India. Strategic alliances would enable *RDB* to operate or at least sell directly in those countries, without having to develop its own marketing activities there.

Mark as 2 + 2.

Award **[1 mark]** for a basic definition of each type of growth. Award another **[1 mark]** for an application to *RDB* up to a maximum of **[2 marks]**.

- (c) Analyse the advantages and disadvantages of each new *RDB* factory being “jointly managed by one experienced *RDB* senior manager from Europe and one local manager familiar with the language and culture” (lines 100–101). [7 marks]

Advantages include the following:

- the factories will benefit from having two managers who combine forces (in terms of synergy, when adding the experience of the European *RDB* senior manager and the field knowledge of the newly appointed local manager)
- having two complementary managers avoids the problem of *RDB* headquarters having to decide who to appoint as a sole manager: on their own, expats from northern Europe might struggle to be accepted and respected; on their own, newly appointed local managers might not appreciate the *RDB* culture of high-quality ball bearings
- for *RDB* as a whole, this means a more diverse workforce, which is in line with Anna’s ideas about reflecting customers’ profiles; diversity in the workforce is often seen as a vector of creativity; it is also more politically correct and it seems that Anna has that agenda too
- communication between head office and managers, and managers and employees
- accept any other relevant advantage.

Disadvantages include the following:

- the two managers, being from different cultural backgrounds, could be prejudiced against each other, or could have different values and attitudes, which might create tension or conflict between them and hinder communication between them
- the two managers may have different management/leadership styles, which could be confusing for the employees, for example if one is more autocratic and the other more democratic
- the two managers may have different ideas about quality control, operations or marketing, which could slow the decision-making process in the factories
- accept any other relevant disadvantage.

Accept any other relevant analysis.

Candidates are **not** expected to refer to all of the above points for top marks, but their analysis must be balanced in order to reach the highest level of the markband.

Marks should be allocated according to the markbands on page 3.

– 8 –

N13/3/BUSMT/SP1/ENG/TZ0/XX/M

2. (a) By the 1970s, Japanese companies had moved to just-in-time production (line 26). Outline *one* advantage and *one* disadvantage of just-in-time production.

[4 marks]

Advantages of just-in-time production stock control include:

- it improves the working capital cycle (as the companies only produce the ball bearings that have been ordered: they do not keep stock, so there is no capital “blocked” in the form of stock)
- it reduces storage costs (unlike with a just-in-case approach)
- it reduces the chances of holding unsellable stock (if business customers change specification or requirements)
- accept any other relevant advantage.

Disadvantages of just-in-time production stock control include:

- unlike with a just-in-case approach, sudden large orders cannot be met (as there is no stock), so customers could then turn to competitors
- if the suppliers also operate on a just-in-time basis, it can create some delays
- accept any other relevant disadvantage.

Accept any other relevant answer.

N.B. Accept answers that only refer to just-in-time stock control.

Mark as 2 + 2.

Award [1 mark] for each relevant advantage/disadvantage identified, award an additional [1 mark] for the development of that advantage/disadvantage up to a maximum of [2 marks].

- (b) Using data from the additional information on page 3, calculate *RDB*'s:

- (i) gross profit margin in 1970 and 1975.

[2 marks]

	1970	1975
Gross profit margin	$\frac{(118 - 55)}{118} \times 100$ = 53.39% (to 2 d.p.)	$\frac{(164 - 92)}{164} \times 100$ = 43.90% (to 2 d.p.)

Award [1 mark] for each correct calculation up to a maximum of [2 marks] (no working required). Allow appropriate rounding.

- (ii) acid test (quick) ratio in 1970 and 1975.

[2 marks]

	1970	1975
Acid test (quick) ratio	$\frac{(19 + 25 + 46 - 46)}{16}$ = 2.75 times	$\frac{(28 + 32 + 64 - 64)}{26}$ = 2.31 times (to 2 d.p.)

Award [1 mark] for each correct calculation up to a maximum of [2 marks] (no working required). Allow appropriate rounding.

(c) Interpret the results from your calculations in part (b).**[7 marks]**

The gross profit margin of *RDB* declined significantly between 1970 and 1975, falling from 53.39% to 43.90%. Profitability from the manufacturing process declined. In the case study, mention is made of intensifying competition from Japanese manufacturers. In all likelihood, as Japanese firms became more fierce competitors, companies such as *RDB* had to lower sales prices of its products. With lower sales prices, the gross profit margin contracted.

With the decline in profitability but with expanding operations, *RDB*'s liquidity weakened – though it was still strong. The acid test ratio fell from 2.75 times in 1970 to 2.31 times in 1975. The expanded operations meant that *RDB* had to commit greater funds to support its growth thus decreasing liquidity.

It is arguable that *RDB*'s acid test ratio was too high (that it had too much money tied up in low-yielding assets and that the decrease in the acid test ratio was actually a positive development).

In isolation, the decline in gross profit margin is a negative development, the slight deterioration in liquidity less so. However, as part of a long-term trend, these developments were worrisome.

Accept any other relevant interpretation.

Apply Own Figure Rule (OFR) from calculations made in part (b).

Marks should be allocated according to the markbands on page 3. The balance required for higher marks means that both profitability and liquidity ratios need to be interpreted.

– 10 –

N13/3/BUSMT/SP1/ENG/TZ0/XX/M

3. (a) Describe *one* consequence of the likely relocation of the factories (*lines 96–99*):

- (i) for *one* internal stakeholder of *RDB*.

[2 marks]

An example of one internal stakeholder that would be affected by the relocation is the **workforce** in the Swedish megafactory: as *RDB* would be closing their workplace, many would be laid off. Some might be offered jobs in the new factories (for example, some of the senior managers) but the majority of workers' jobs would be made redundant and the workers themselves would become unemployed.

Accept any other relevant internal stakeholder with a description.

Award **[1 mark]** for a basic description of the consequence; award an additional **[1 mark]** for the development of that point, up to a maximum of **[2 marks]**. Award **[0 marks]** if the stakeholder is not internal or is not precisely identified.

- (ii) for *one* external stakeholder of *RDB*.

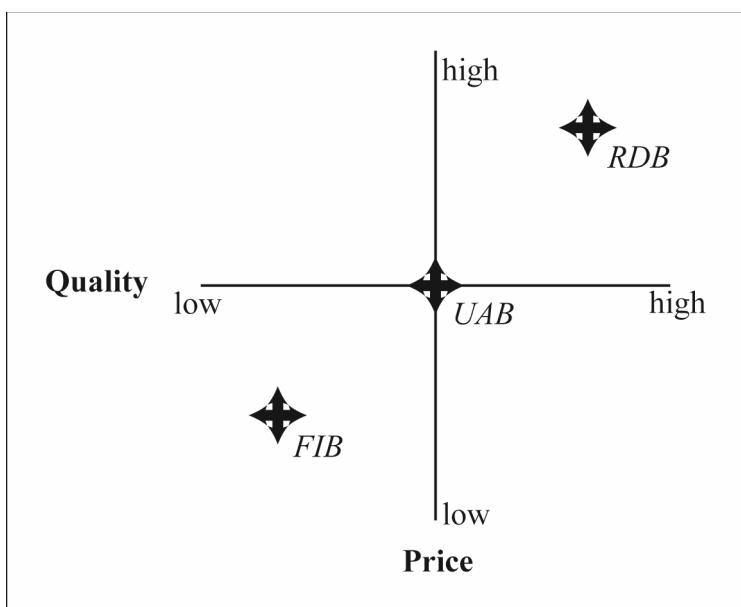
[2 marks]

An example of one external stakeholder that would be affected by the relocation is the **Swedish government**: firstly, they would lose all the business rates (taxes) paid by *RDB*; secondly, they would see an increase in unemployment in the towns that were dependent on *RDB* (for direct and indirect jobs); thirdly, as “the Swedish factory was so large that railroad lines had been installed in order to deliver supplies and to transport finished products” (*lines 139–140*), the Swedish government might try to put pressure on *RDB* to keep the factory there.

Accept any other relevant external stakeholder with a description.

Award **[1 mark]** for a basic description of the consequence; award an additional **[1 mark]** for the development of that point, up to a maximum of **[2 marks]**. Award **[0 marks]** if the stakeholder is not external or is not precisely identified.

- (b) Using information in lines 19–21, construct a position map of the ball bearing industry in the 1930s and place *RDB* and its two main competitors on it. [4 marks]



Award **[1 mark]** for the overall layout of the position map with **both** axes correctly labelled (quality and price) and high/low clearly indicated. *N.B.* it does not matter which axis is horizontal/vertical.

Award **[1 mark]** for correct positioning of *RDB* in the quadrant “high quality and high price”.

Award **[1 mark]** for correct positioning of *UAB* at the centre of the model (to show “medium quality and medium price”).

Award **[1 mark]** for correct positioning of *FIB* in the quadrant “low quality and low price”.

- (c) Analyse the advantages and disadvantages for *RDB* of becoming a public limited company (line 123). [7 marks]

Becoming a public limited company means that *RDB* shares would be traded on the stock market. By selling shares to the general public, they would be able to rapidly raise more funds, hence Anna’s keenness, as that extra capital is essential to implement her “*RDB 2020*” vision. Supporting further expansion by changing status from a private to a public limited company is a common method to raise capital – however there are several disadvantages. *RDB*’s audited accounts would have to be released to the public, but more importantly *RDB* would become vulnerable to takeover bids and the Holstein family would also lose some control and ownership (hence Valdemar’s resistance). Moreover, the value of *RDB* shares may also be very dependent upon stock exchange fluctuations.

Accept any other relevant analysis.

Candidates are **not** expected to cover all the above-mentioned points.

Marks should be allocated according to the markbands on page 3.

SECTION B

4. (a) **Outline why ball bearings are particularly important in the secondary sector of the economy.** **[2 marks]**

The secondary sector of the economy is about manufacturing (for example, the construction of cars and vehicles) – and this type of engineering often requires ball bearings (both in the car factories and in the cars themselves).

Candidates are **not** expected to answer exactly as above.

Award **[1 mark]** for a basic answer (for example an answer that only defines secondary sector without explicit reference to ball bearings in manufacturing).

Award **[2 marks]** for a full, clear answer that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

- (b) **Describe an autocratic leadership style.** **[2 marks]**

An autocratic leadership style is one where the leader wants to hold on to as much power, authority and control as possible, without delegating and without consulting the employees who are just expected to obey.

Candidates are **not** expected to answer exactly as above.

Award **[1 mark]** for a basic description that conveys partial knowledge and understanding by making one valid point about autocratic leadership style.

Award **[2 marks]** for a full, clear description that conveys knowledge and understanding by making two or more valid points.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

– 13 –

N13/3/BUSMT/SP1/ENG/TZ0/XX/M

- (c) Explain Valdemar Holstein's suggestion of hiring local salesmen who would be "paid low salaries, but with high commissions as an incentive" (lines 152–153).

[4 marks]

Valdemar has become aware of the importance of having a more diverse workforce, especially regarding the salespeople working in the field in Brazil, China, and India, visiting potential customers to try to generate orders from them. That salesforce needs to have knowledge of the local languages and cultures; to motivate them, Valdemar suggests a system of commissions *ie* besides a small, basic salary, they would receive a commission (typically calculated as a percentage) of the value of the business they create for *RDB*. This would be an incentive for them (because the more orders they get, the more they earn) and it would eventually benefit *RDB* too – a win-win solution.

Accept any other relevant explanation.

Award **[1 mark]** for each basic point; award an additional **[1 mark]** for the development of that point, up to a maximum of **[4 marks]**.

- (d) With reference to *RDB*, distinguish between primary research and secondary research.

[4 marks]

Primary research is carried out by staff from *RDB*'s marketing department, who could be carrying out surveys or interviews from existing customers (or potential customers) to find out about their satisfaction level (to identify areas of improvement, for example after-sales service), about the image they have of *RDB* (to create a perception map), or about their specific needs (to develop new products if necessary).

Secondary research (also called desk research) means using existing materials (published in professional journals, in the media, by consultants, *etc*); although the information is not directly about *RDB*, it can be useful by providing a background picture (for example, about trends in the demand for greener or more energy-efficient ball bearings, or about ball bearings adapted to the needs of the design community).

Accept any other relevant point.

Mark as 2 + 2.

Award **[1 mark]** for each definition (primary research, secondary research); award an additional **[1 mark]** for the application to *RDB* (giving an example with reference to *RDB*) up to a maximum of **[2 marks]**.

- (e) Discuss the relative merits of producing ball bearings in small factories as opposed to the three European megafactories.

[8 marks]

Megafactories have several merits, especially economies of scale (in different parts of the organization, for example managerial economies of scale, or getting discounts from suppliers or minimizing transport costs). The existing megafactories are also well established in their local environments with loyal workers who are clearly committed to the ongoing success of *RDB* (and may consequently be more productive). These workers are also highly skilled: *RDB* expertise (a tradition that is almost 100 years old!) is linked to the megafactories that seem very well suited for mass production (line production).

Small factories however have merits too, especially in terms of flexibility: the case study stresses the fact that the Japanese competitors of the 1970s became successful thanks to their flexibility – and *RDB* does not seem as flexible, which is not surprising as it based on a different factory model (where configurations cannot be as easily modified and adapted). Small factories may be better suited for job production (for example, for one-off orders) or even for batch production.

Accept any other relevant discussion.

N.B. This question is not about offshoring, location and relocation: the focus is on size (small factories versus megafactories).

It does not matter which conclusion candidates reach at the end of their discussion (*ie* whether it is better to produce ball bearings in small or large factories), however for top marks there must be a final conclusion.

Marks should be allocated according to the markbands on page 4.

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International Baccalaureate®
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MARKSCHEME

November 2013

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

22 pages

– 2 –

N13/3/BUSMT/SP2/ENG/TZ0/XX/M

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A		Section B			Level descriptors	
Q1 (d)	Q2 (d)	Q3 (d)	Q4 (c)	Q5 (c)		
Marks 0–5					<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology. <ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the stimulus material. The response is mainly theoretical. <ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the stimulus material, not just to the name of the organization. <ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the stimulus material. 	
0						
1–2						
3–4						
5						

Section B			Level descriptors
Q3 (e)	Q4 (d)	Q5 (d)	
Marks 0–7			
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the stimulus material.
3–4			<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues and concepts. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the stimulus material, not just to the name of the organization. • The response is mainly theoretical.
5–6			<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the stimulus material are made at places in the response.
7			<ul style="list-style-type: none"> • A response with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the stimulus material are made throughout the response.

SECTION A**1. (a) (i) Define the term *private sector*.** **[2 marks]**

The private sector (also called commercial sector) refers to those areas of the economy mostly owned and run by private individuals, partnerships and corporations, typically for a profit. Organizations in the private sector are not controlled by the state. The private sector exists/operates in contrast to the public sector, which are organizations majority owned and run by local, regional/provincial, and national governments.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

(ii) Identify *two* advantages for *BF* of operating as a private limited company. **[2 marks]**

Advantages for *BF* of operating as a private limited company could include:

- limited liability of the owners
- it allows continuity in the event of the death of one of the principals/ principal shareholders
- ownership of the company can be more easily transferred
- shares could provide an additional source of compensation
- with a private limited company, there is a convenient legal structure (selling shares) to raise additional equity capital
- banks, trade creditors, and other external sources of finance are generally more inclined to lend money/provide finance to private limited companies.

Award **[1 mark]** for each correct and relevant advantage for *BF* of operating as a private limited company identified up to a maximum of **[2 marks]**.

– 6 –

N13/3/BUSMT/SP2/ENG/TZ0/XX/M

(b) Calculate for *BF* per month at the *current location* (*show all your working*):**(i) the break-even level of output.****[2 marks]**

$$\text{Fixed costs} = 400 + 3600 + 3600 + 1400 = €9000$$

$$\text{Contribution per frame} = \text{sales price} - \text{variable cost per frame} = 24 - (14 + 1) = €9$$

$$\text{Break-even level of output} = \frac{\text{fixed costs}}{\text{contribution per frame}} = \frac{9000}{9} = 1000$$

Award **[1 mark]** for the correct workings and **[1 mark]** for the correct answer up to a maximum of **[2 marks]**.

(ii) the margin of safety.**[2 marks]**

$$\begin{aligned}\text{Margin of safety} &= \text{current level of output} - \text{break-even level of output} \\ &= 1300 - 1000 = 300 \text{ frames}\end{aligned}$$

Apply Own Figure Rule (OFR).

Award **[1 mark]** for the correct workings and **[1 mark]** for the correct answer up to a maximum of **[2 marks]**.

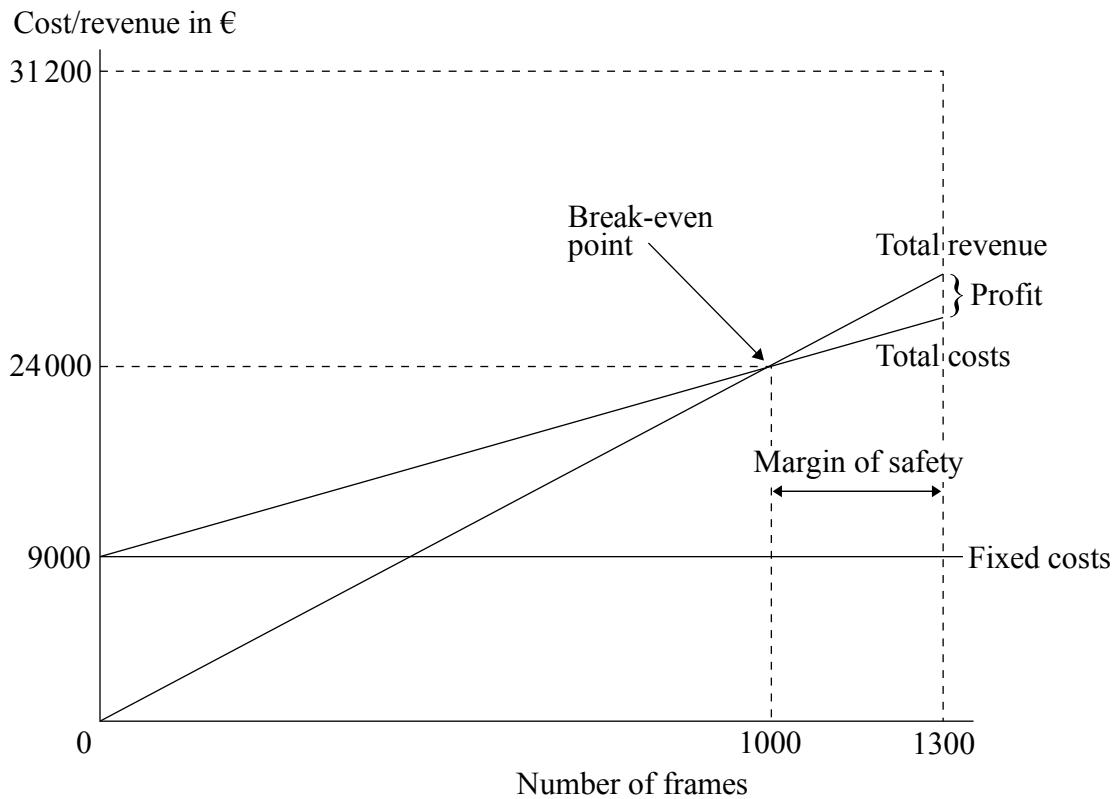
(iii) the profit or loss at the current level of 1300 frames sold.**[2 marks]**

$$\begin{aligned}\text{Profit} &= \text{SR} - \text{TC} = (1300 \times 24) - (9000 + 1300 \times 15) \\ &= 31200 - (9000 + 19500) \\ &= 31200 - 28500 \\ &= 2700\end{aligned}$$

Apply Own Figure Rule (OFR).

Award **[1 mark]** for the correct workings and **[1 mark]** for the correct answer up to a maximum of **[2 marks]**.

(c) Construct a fully labelled break-even chart for *BF* at the *current location*. [5 marks]



Award marks as follows:

[1 mark] for each appropriately labelled axis – award up to a maximum of [2 marks].

[1 mark] for an appropriately drawn and labelled total revenue curve.

[1 mark] for an appropriately drawn and labelled total costs curve.

[1 mark] for the identification of the break-even level of output.

Award [0 marks] if a candidate produces a table, and award no more than [3 marks] if the chart is not neat, not drawn with a straight-edge, or is not to scale. If a candidate produces a chart with no figures (which prevents determination if it is to scale) but in other respects it is fully accurate, award a maximum of [3 marks].

Ideally, the candidate will draw an arrow pointing to the break-even point and label the arrow. However, accept as an “appropriately labelled” break-even point a vertical line from the x -axis to the break-even point provided that the line is labelled “break-even point”.

- (d) Examine *one* factor that might improve employee motivation and *one* factor that might worsen employee motivation if *BF* moves to a building in the industrial park in Belluno.

[5 marks]

Factors that might improve employee motivation include:

- possible extra financial rewards
- growth and possible increased professionalization and visibility of business
- evidence that Antonio is thinking about the long-term health of the business
- *accept any other relevant positive factor.*

Factors that might worsen employee motivation include:

- move from small town where people live
- increased commute time/costs
- slight decrease in the face-to-face feel of the business
- expectation that they produce more frames per month
- *accept any other relevant negative factor.*

Overall, the move to Belluno represents a form of modernization of *BF*. In many ways, this transition will be de-motivating for the reasons identified above. On the other hand, Antonio's moves show that he is concerned about the long-term viability of his family's business and is taking the necessary steps for *BF* to be successful in the future, which could give comfort and satisfaction to the employees.

Accept any other relevant examination.

N.B. Balance means that the candidate has considered both factors that improve and worsen employee motivation.

Marks should be allocated according to the markbands on page 3.

– 9 –

N13/3/BUSMT/SP2/ENG/TZ0/XX/M

2. (a) Describe *two* appropriate sources of finance for *NTB* to acquire the 5 cars (Option 2).

[4 marks]

Appropriate sources of finance would include:

- bank loan
- hire-purchase
- leasing
- personal savings
- becoming a partnership and taking equity funds from the new partner
- profits from the business.

Accept any other appropriate sources of finance identified with an appropriate description.

Mark as 2 + 2.

Award **[1 mark]** for each appropriate source of finance identified and **[1 mark]** for an appropriate description up to a maximum of **[2 marks]**.

(b) (i) Calculate for Option 1, the payback period and the average rate of return (ARR) (show all your working).

[4 marks]

Payback period:

$$\frac{\$120\,000}{\$40\,000} = 3 \text{ years}$$

Payback period is 3 years.

Average rate of return:

Average profit from investment: \$40 000 , investment: \$120 000

$$\begin{aligned} \$40\,000 \times 6 &= 240\,000 \\ 240\,000 - 120\,000 &= 120\,000 \\ \frac{120\,000}{6} &= 20\,000 \\ \frac{20\,000}{120\,000} \times 100 &= 16.67\% \end{aligned}$$

Average rate of return on motorcycles = 16.67% .

Mark as 2 + 2. ([2 marks] for payback period and [2 marks] for ARR.)

Award **[1 mark]** for the correct workings and **[1 mark]** for the correct answer up to a maximum of **[2 marks]**.

– 10 –

N13/3/BUSMT/SP2/ENG/TZ0/XX/M

- (ii) Calculate for Option 2, the payback period and the average rate of return (ARR) (show all your working). **[4 marks]**

Payback period:

$$\begin{aligned} \$110\,000 - 27\,000 \text{ (yr 1)} - 35\,000 \text{ (yr 2)} - 35\,000 \text{ (yr 3)} &= 13\,000 \\ \frac{13\,000}{35\,000 \text{ (yr 4)}} &= 0.3714 \\ 0.3714 \times 12 \text{ month} &= 4.4568 \text{ months} \approx 5 \text{ months} \end{aligned}$$

Payback period is 3 years and 5 months (accept 3 years and 4.5 months or 3 years and 4.6 months).

Average rate of return:

Average profit from investment:

$$\begin{aligned} 27\,000 + (5 \times 35\,000) &= 202\,000 \\ 202\,000 - 110\,000 &= 92\,000 \\ \frac{92\,000}{6} &= 15\,333 \\ \frac{15\,333}{110\,000} &= 0.1393 \times 100 = 13.94\% \end{aligned}$$

Average rate of return on cars = 13.94%.

Mark as 2 + 2. (*[2 marks]* for payback period and *[2 marks]* for ARR.)

Award **[1 mark]** for the correct workings and **[1 mark]** for the correct answer up to a maximum of **[2 marks]**.

Award a maximum of **[4 marks]**.

(c) Comment on your results to part (b).**[3 marks]**

Both investment options, purchasing 10 motorcycles or 5 cars, are attractive investment options, with payback periods of 3 years (motorcycles) and 3 years and 5 (or 4.46) months (cars) and ARRs of 16.67% (motorcycles) and 13.94% (cars). The difference in ARRs is material. If no other factors were involved, it would clearly be better to invest in motorcycles. Over time, a 2.73% difference in investment returns (the difference between 16.67% and 13.94%) is substantial. There is also a difference in the payback period, indicating that the motorcycles are a better investment. However, these forecasted returns are just that, forecasts, and actual returns may vary.

Award **[1 mark]** if the candidate recognizes that the motorcycles represent the better investment. Award **[2 marks]** if the candidate recognizes that the motorcycles represent the better investment and explains in numerate terms why. Award **[3 marks]** if the candidate recognizes that the motorcycles represent the better investment, explains in numerate terms why, and provides some other relevant comment (other factors could influence the investment decision, these investment appraisals are based upon forecasts and that actual returns could differ, etc). Award up to a maximum of **[3 marks]**.

(d) Analyse whether NTB should purchase the 10 motorcycles (Option 1) or the 5 cars (Option 2).**[5 marks]**

NTB's decision whether to purchase motorcycles or cars probably depends on (1) the organization's commitment to social responsibility, (2) Chinh's concerns over increasing the scale of his business, and (3) Chinh's long-term vision. Based upon the information provided, the motorcycles have a better average rate of return. However, from the point of view of social responsibility, NTB should purchase the cars. Though they consume petrol, they are much quieter than the motorcycles. In addition, Chinh will have far less paperwork than with the motorcycles, which rent on a daily basis.

From an investment point of view, the reason that NTB has a lower rate of return from the cars is the lower profits in first year, when the organization is trying to establish its identity in the car rental market. Once it is established, Chinh predicts no problem offering car rental and the rate of return will improve to what he would have on motorcycles. Thus, if Chinh can accept the slightly lower rate in the first year, he will soon be making as much with cars as with motorcycles, the scale of his business will not be as large as with motorcycles, and he can appease the pressure group in Nha Trang.

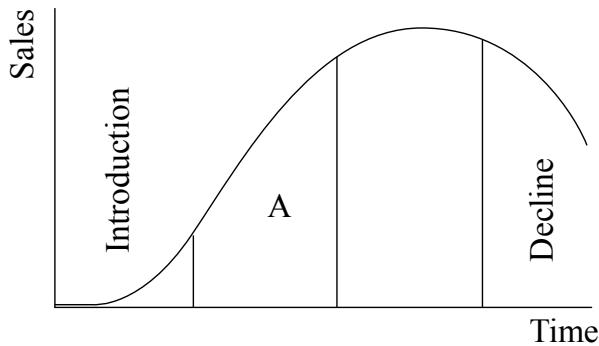
Accept any other relevant analysis.

N.B. If the candidate fails to use figures in their argument, award a maximum of **[3 marks]**.

Marks should be allocated according to the markbands on page 3.

SECTION B

3. (a) With reference to the product life cycle diagram below, identify the missing stages:



(i) A.

[1 mark]

Accept growth or development.

Award **[1 mark]** for the correct answer.

(ii) B.

[1 mark]

Accept saturation or maturity.

Award **[1 mark]** for the correct answer.

- (b) With reference to *Anigam*, distinguish between above the line and below the line promotion.

[4 marks]

“Above the line promotion” refers to forms of advertising in a newspaper, on the internet, on television and on the radio where the business (in this case: *Anigam*) is not entirely responsible for the process, as another organization controls the process. For example, *Anigam* could advertise Anislim through short commercials on television and on *YouTube*, showing animals that are losing weight at the same time as their owners.

“Below the line promotion” refers to methods of promotion where the business (in this case: *Anigam*) is in direct contact with customers (for example, through loyalty cards, point of sale displays, direct marketing, even public relations). As Anitox is sold B2B to veterinary clinics, *Anigam* is very likely to use below the line promotion with the vets it targets.

N.B. Candidates are not expected to word their answer **exactly** as above.

[1 to 2 marks]

Award **[1 mark]** for an answer that shows some basic knowledge of the definitions of “above the line” and “below the line” promotion. Award **[2 marks]** for a theoretical answer that shows clear knowledge of the difference between “above the line” and “below the line” promotion.

[3 to 4 marks]

Award **[3 marks]** for a clear answer that is not just theoretical, but applies the concepts to *Anigam*. Award **[4 marks]** for a thorough answer that applies the concepts to *Anigam* and explicitly shows the difference between “above the line” and “below the line” promotion, with reference to different products of *Anigam*.

- (c) Explain **one reason why a promotional mix chosen by *Anigam* might fail.**

[2 marks]

A promotional mix is a combination of different methods of promotion with specific targets. *Anigam*’s promotional mix may fail if the chosen methods do not properly target the intended segments, for example as Anitox is sold B2B to veterinary clinics, it would be inappropriate to target individual animal owners through television adverts, as they are not the ones who decide which drugs are used in their veterinary clinic. Likewise, a system of loyalty cards or regular purchase coupons would be inappropriate for Aniplus, as it would suggest that the drug does not work well, if customers are expected to buy it regularly.

Do not credit elements of an answer about the marketing mix (the 4Ps or 7Ps), as the question is about a promotional mix, not a marketing mix.

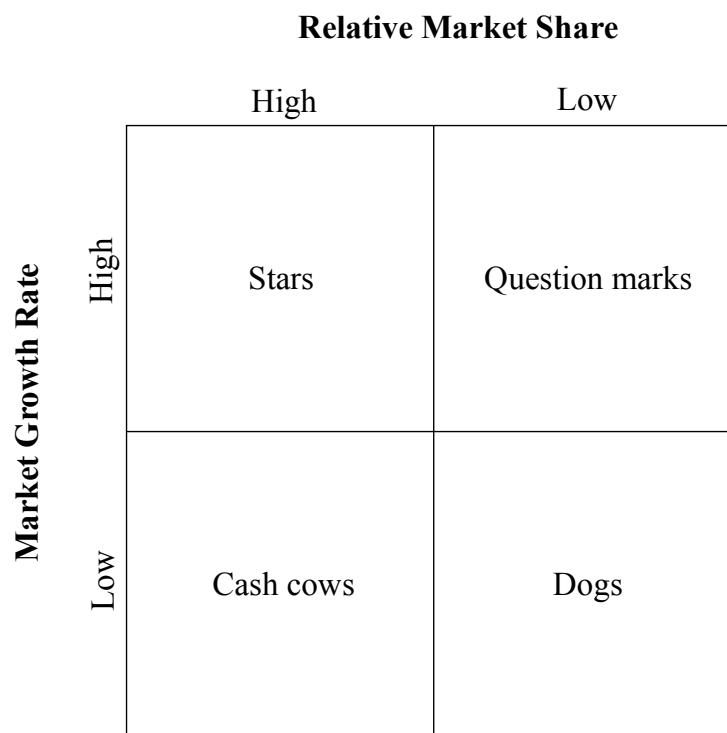
Award **[1 mark]** for an answer that shows some basic knowledge of the definition and/or purpose of a promotional mix.

Award **[2 marks]** for an answer that explains one reason why a promotional mix chosen by *Anigam* might fail.

(d) Analyse *Anigam*'s portfolio of animal drugs by applying the Boston consulting group (BCG) matrix.

[5 marks]

The BCG matrix distinguishes between four types of products according to their market share and to the growth rate of the market in which they are sold.



The *Anigam* portfolio of products lends itself well to a BCG matrix:

- Anitox is a cash cow (it “has a high 25% share of the global market” and the market is “growing very slowly”)
- Anisan is a star (“it already has a high 15% share of a rapidly growing market”)
- Aniplus is a question mark (the market “is growing rapidly” however it seemingly has a low market share, as it is not performing well)
- Anislim is not a perfect fit for the BCG matrix; it is too early to tell whether it will become a star, a question mark, or a dog.

Accept any other relevant analysis.

If the candidate presents the matrix theoretically, award up to **[2 marks]**. Award **[1 mark]** for a basic presentation of the model with a minor error or omission, or poor labelling; award **[2 marks]** for a correct and accurate presentation of the model.

N.B. For **[5 marks]**, the candidate must demonstrate thorough knowledge of the BCG matrix and accurately address all four products.

Marks should be allocated according to the markbands on page 3.

- (e) With reference to *Anigam* and one other company of your choice, discuss reasons for the increase in the number of multinational companies. **[7 marks]**

“Positive” reasons for the increase in the number of multinational companies include the following:

- strategies of market development (to use a concept from the Ansoff matrix), when national markets are saturated
- potential growth in some foreign markets that are still untapped/available
- cost-saving (being closer to global customers and/or to cheaper labour and/or cheaper raw materials)
- differentiation from competitors
- exploitation of a brand name already popular, with market research showing potential
- financial motivation: taxes may be lower in some foreign markets
- accept any other relevant positive reason.

“Negative” reasons for the increase in the number of multinational companies include the following:

- saturation within host-country market
- consolidation within a company’s industry is forcing companies to find means to grow
- government legislation or regulation within the home country are limiting domestic sales
- being forced to offshore as a means to reduce costs
- accept any other relevant negative reason.

Accept any other relevant discussion of the reasons identified.

N.B. To achieve more than **[5 marks]**, candidates must include explicit examples of multinational companies (such as *Starbucks®*, *Subway®*, etc).

Marks should be allocated according to the markbands on page 4.

4. (a) **Describe flow production in the context of a fast food restaurant such as *Zeitim*.**

[2 marks]

Flow production (also known as mass production and line production) is the production of high volumes of standardized products using a continuous flow (with the image of an assembly line in a factory).

In the context of a fast food restaurant such as *Zeitim*, flow production looks like a series of employees, in line, each adding one element to the food being prepared, *eg* for a sandwich: one worker slices the bread, one worker adds vegetables, another one adds some sauce, *etc.*

N.B. Candidates are not expected to word their answer **exactly** as above.

Award **[1 mark]** for a theoretical answer that shows knowledge of the definition of flow production.

Award **[2 marks]** for an answer that describes the process.

(b) **With reference to *Zeitim* and other organizations of your choice, explain *three ways in which businesses can differentiate their products from their competitors*.**

[6 marks]

Product differentiation can be achieved in the following ways:

- the product is radically different from competitors (*eg* the first iPads, iPods, iPhones)
- the product has minor yet unique differences (*eg* KFC®'s “original recipe” making its fried chicken taste slightly differently from its competitors)
- product specification (*eg* some clothing retailers specialize in very large sizes only)
- product portfolio (*eg* some bookshops have differentiated themselves by including a coffee shop on site, or by stocking books on specialized topics such as gardening or foreign literature)
- the product may be very similar, but branding ensures a difference of perception in customers' minds (*eg* many fast food restaurants sell similar products, but only some are branded *Zeitim* or *McDonald's*®).

Accept any other relevant explanation.

Mark as 2 + 2 + 2.

For each valid method of product differentiation: award **[1 mark]** for a theoretical answer that shows knowledge of the method of product differentiation, award **[2 marks]** for an answer that explains the method (which could be through an example), *ie* providing both “theory” and “practice”.

- (c) Examine how branding may have contributed to the success of *Zeitim* restaurants. **[5 marks]**

Branding is a marketing strategy: it is about creating a name that potential customers will recognize and remember (brand awareness). *Zeitim* has creatively developed its own branding around the amusing use of the letter Z (“*Zeitim Zalads*”, “*Zeitim Zandwiches*”, “*Zeitim Zmoothy*”). This may have contributed to the success of *Zeitim* restaurants because customers learn to recognize the *Zeitim* range of products, both because of the underpinning humour and because of the uniqueness of the family brand (as with the “Mc” range at *McDonalds*®: McChicken Sandwich®, Chicken McNuggets®, McMuffin®, etc). In turn, this brand development may have contributed to brand loyalty; as the *Zeitim* products are highly standardized (flow production), customers know what to expect, even when they travel (to Asia and the Middle East), hence the success of *Zeitim* restaurants not only in high streets and shopping areas, but also in train stations and airports.

Accept any other relevant examination.

N.B. To receive top marks (according to the generic markbands on page 3), a candidate must have some balance in their answer. If a candidate explains that factors other than branding may have contributed to *Zeitim*'s success, that is sufficient for “balance”.

Marks should be allocated according to the markbands on page 3.

- (d) With reference to *Zeitim* and one other organization of your choice, discuss the use of franchising as a growth strategy.

[7 marks]

Franchising is often used as an external growth strategy. For franchisors, it is a means of rapid expansion (which was the case of *Zeitim*) with franchisees providing most of the finance (as opposed to internal growth, requiring capital to buy or rent premises). When the franchise model works, there are large profits to be made from royalty/copyright payments (on the marketing use of the brand name) and possibly from selling raw materials and equipment. There are also many advantages for the franchisee, who receives support from the franchisor (*eg* through marketing and staff training) and may benefit from the well-known brand name (or at least from a successful model of production or distribution). This is why franchising has been used in the restaurant industry by so many international companies such as *McDonald's®*, *Starbucks®*, *KFC®* and *Pizza Hut®*.

Franchising, however, has limitations and disadvantages, especially for the franchisee. It can be very expensive (not only in terms of start-up costs, but also as the franchisee may have to pay a percentage of profit to the franchisor, which may substantially cut the profit margin). Besides, the franchisor has little or no flexibility (for example a *Zeitim* restaurant may not be allowed to decide what drinks it sells, what advertising it does or what colour is chosen to repaint the walls). For the franchisor, using franchising as a growth strategy requires having high level of structures in place and tight control over the franchisees' operations, as a negative story about one of them (*eg* about lack of hygiene) would affect the whole brand.

Accept any other relevant discussion.

N.B. To achieve more than [5 marks], candidates must include explicit examples of franchises (they may be national ones, this is acceptable as the question does not ask for international examples).

Marks should be allocated according to the markbands on page 4.

5. (a) Define the term *dividends*.**[2 marks]**

The term dividends refers to payments made to shareholders from a company out of its profits, typically sometime after the close of an accounting period (quarter or year). The board of directors of the company will determine the payout rate as a fixed amount per share and, thus, each individual shareholder's portion of the distribution corresponds to their proportion of the shares.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above. For **[2 marks]**, a candidate must use the word profit or income in their response.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

(b) Explain the advantages for WV of operating both non-profit and profit-based shops.

[6 marks]

The advantages for WV of operating non-profit shops are that it gives the organization the legitimate right to claim their mission of doing good: providing programmes, services, and products that are of public benefit. In the case of WV, villages in developing countries receive crucial economic benefit, as artisans can remain in the villages rather than migrate to other places for lucrative work, traditional skills are preserved, thus protecting the indigenous culture of these villages, consumers in developed countries like the United States are made more aware of markets and people in developing countries. As a result, in its non-profit shops WV can enjoy:

- the marketing advantages that come with being a non-profit shop (often free publicity, and favourable word-of-mouth)
- the human resource benefits that come with being a non-profit shop – generally easy to recruit staff and many are highly motivated
- tax-free status, at least on portions of its income that derive from the non-profit shops – governments typically do not tax the income of non-profit organizations
- *accept any other relevant advantage for WV of operating non-profit shops.*

The advantages of operating profit-based shops include:

- the organization can grow faster than it probably otherwise would and draw on the energy and enthusiasm of entrepreneurs
- as a larger organization, WV may enjoy some economies of scale
- because of the profit imperative (and because WV would in some fashion have to be responsive to its profit-based franchisees), the profit-based shops would probably be more attentive to market conditions
- *accept any other relevant advantage for WV of operating profit-based shops.*

Mark as 3 + 3.

Award **[1 mark]** for an advantage of operating non-profit shops, **[2 marks]** if an advantage is described, and **[3 marks]** if an advantage is explained.

Award **[1 mark]** for an advantage of operating profit-based shops, **[2 marks]** if an advantage is described, and **[3 marks]** if an advantage is explained.

- (c) With reference to *WV*, analyse the roles of a mission statement and a vision statement. *[5 marks]*

A mission statement states the fundamental purpose of the organization. It defines critical processes and allows the firm and customers to know the meaningful and measurable criteria of the firm, thus allowing some understanding of the desired level of performance. A vision statement is more abstract. It outlines what the organization wants to be, or how it wants the world in which it operates to be. It concentrates on the future. It is a source of inspiration.

Both mission and vision statements provide clear decision-making criteria. Because *WV*'s mission and vision powerfully outline socially responsible objectives, the mission and vision statements are crucially important tools providing guidance. The organization's commitment to helping artisans, fair practices, environmental friendliness and green processes is constantly being challenged by merely the fact that the global economic downturn is putting pressure on artisans and franchisees to lower costs and/or offer products not fully consistent with the mission of the organization.

Accept any other relevant analysis.

Marks should be allocated according to the markbands on page 3.

- (d) Discuss whether Yvonne should allow artisans to use “non-environmentally friendly materials in their products” to cut costs.

[7 marks]

Although for some organizations, the question of whether to “go green” is open, for a company such as *WV*, it is less so. Making some compromises on materials would not entirely work with the organization’s commitment to “Making the world a village by supporting local artisans”. And, perhaps, some might argue that making artisanal products available, even if artisans are using non-environmentally friendly materials, is still laudable. Nonetheless, once compromises are made, the company’s commitment to eco-friendliness would be weakened and could lead to further erosion of its vision and mission. Moreover, the organization would open itself to charges of hypocrisy by any competitors who were not making such compromises. To be consistent with both the vision statement and the mission statement of the organization, *WV* must continue to strive to live by its principles.

On the other hand, the downturn of the global economy has probably put real pressure on *WV* and its franchises, and perhaps the only justification for making compromises would be if the very existence of the organization were at stake. Depending on the franchise agreement, Yvonne may not have full control over the products the franchises sell. Even if she does, she might not, practically speaking, have the power to monitor their activities. If the franchisees are in jeopardy of going out of business, some owners may do whatever they can to stay open and face whatever consequences Yvonne may try to impose.

Accept any other relevant discussion.

N.B. For **[6 or 7 marks]**, the candidate must address at least two advantages or “pros” and two disadvantages or “cons”.

Marks should be allocated according to the markbands on page 4.

M14/3/BUSMT/SP1/ENG/TZ0/XX/M



International Baccalaureate®
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MARKSCHEME

May 2014

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

18 pages

– 2 –

M14/3/BUSMT/SP1/ENG/TZ0/XX/M

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A			Level descriptors
Q1 (c)	Q2 (c)	Q3 (c)	
Marks 0–7			
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the case study.
3–5			<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the case study, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical.
6–7			<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the case study.

Section B	Level descriptors
Q4 (d)	
Marks 0–8	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study.
3–4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the case study, not just to the name of the organization. • The response is mainly theoretical.
5–6	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the case study are made at places in the response.
7–8	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the case study are made throughout the response.

– 5 –

M14/3/BUSMT/SP1/ENG/TZ0/XX/M

SECTION A**1. (a) Define the following terms:****(i) primary sector (line 2) [2 marks]**

The primary sector of an economy includes agriculture as well as fishing, forestry and mining. It extracts natural resources/raw materials.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding, similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

(ii) dividends (line 23). [2 marks]

Dividends are the payments that a business pays to its shareholders on a proportional basis (percentage) of the company's profit (a fixed payment amount for each share of the business).

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

- (b) Explain *one advantage and one disadvantage for Martin Kimathi of receiving “a salary based on performance-related pay” (line 45).*

[4 marks]

Possible advantages include:

- Martin will be financially motivated to ensure the success of *The Imperial*, because the higher the number of guests, the more Martin himself will earn, which is also good for *GP* as it ensures higher dividends.
- In the longer term, Martin will pay attention to areas such as marketing and strategic development: if some of the options are very successful, that is, if Martin performs well as manager he could become very rich, which could be a major achievement for the son of a groundskeeper.

Possible disadvantages include:

- For some external reasons, for example political or economic, beyond Martin’s control, Mombasa could lose its popularity as a tourist destination; fewer tourists would stay at *The Imperial* and Martin’s salary would decrease, by no fault of his own, even if he does an excellent job as a manager.
- The notion of “performance” could be very ambiguous for Martin if it is not well defined in his contract: it could be about the number of guests coming to the hotel, or the amount they spend (duration, extras...) or it could involve other aspects, such as their ratings or comments posted on a website (TripAdvisor for example) that Martin cannot control; he would earn less money to support his family just because someone gave unfair negative feedback about the hotel.

Accept any other relevant advantage / disadvantage in the context of The Imperial.

Mark as 2 + 2.

Award **[1 mark]** for each valid advantage/disadvantage, and **[1 mark]** for each development of a valid point, showing why this is an advantage/disadvantage in the context of the *Imperial*.

Award a maximum of **[2 marks]** if there is no application to the case study.

– 7 –

M14/3/BUSMT/SP1/ENG/TZ0/XX/M

- (c) Analyse the advantages and disadvantages for *The Imperial* of the strategic alliance with *KenSafar* (Option 3).

[7 marks]

The strategic alliance with *KenSafar* presents both advantages and disadvantages for *The Imperial*. On the one hand, this scheme would ensure a regular and predictable flow of guests at *The Imperial*; the hotel would know when to expect them and could make special arrangements, for example organizing transport to the hotel. Martin could also benefit from Kamau's networks and contacts, and take advantage of the increasing number of tourists interested in safaris. On the other hand, the strategic alliance with *KenSafar* would be costly for *The Imperial*, in two ways: firstly, the cost of the initial improvements to the building; secondly, the 20 % commission, which could substantially make a dent into *The Imperial*'s cash-flow (Martin would need to take this into account when calculating his break-even; it could even affect his own performance-related pay).

Accept any other relevant point, such as spreading risk, poor communication, brand image, reputation.

Accept any other relevant advantage / disadvantage in the context of The Imperial.

Candidates are **not** expected to refer to all of the above points for top marks, but their analysis must be balanced in order to reach the highest level of the markband.

Marks should be allocated according to the markbands on page 3.

2. (a) Define the following terms:**(i) appraisal (line 102)****[2 marks]**

Appraisal refers to a meeting between a worker and a manager (in the case study: Susan and Martin) where they review key aspects of the worker's performance, including objectives and development. Different organizations have different systems of appraisal; such as peer appraisal and 360 degrees appraisal.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

(ii) dismissal (line 113).**[2 marks]**

Dismissal occurs when an employer terminates the contract of an employee; it is often just called "firing". To be dismissed, the employee must have been incompetent or must have breached the terms of his or her contract.

Accept the term lay-off.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

– 9 –

M14/3/BUSMT/SP1/ENG/TZ0/XX/M

- (b) Martin Kimathi prepares two types of final accounts for *Global Properties (GP)*: profit and loss accounts and balance sheets. Explain the importance of those two types of final accounts for GP (lines 69–70).

[4 marks]

The profit and loss account of a company shows the sales revenue for a given period of time (usually a year), as well as the costs – and also the levels of profit (gross profit, net profit). In the case of *GP* and *The Imperial*, it is important for *GP* to see how profitable the hotel is and what the dividends and retained profit are (the dividends that can be paid to *GP* shareholders, the retained profit that can be used by the hotel for maintenance and other types of investment).

The balance sheet shows what an organization owns (fixed assets such as the building, current assets such as stock and cash) and what it owes others (liabilities such as money still to be paid to suppliers). In the case of *GP* and *The Imperial*, it is important for *GP* shareholders to see how safe the investment is and how well the manager (Martin) is performing, for example towards debtors and creditors. The balance sheet also indicates the business's level of working capital and its liquidity, which provide insight into the business's ability to survive in the short term.

Mark as 2 + 2.

Award **[1 mark]** for each correct answer, and **[1 mark]** for each development about the importance for *GP* (*i.e.* to get the second mark, the candidate must refer to *GP* in the context of the case study: a purely theoretical answer is not sufficient for full marks).

(c) Analyse the impact that *one* opportunity and *one* threat may have on *The Imperial*.

[7 marks]

This question implicitly refers to a SWOT analysis (opportunities and threats being external, as opposed to internal strengths and weaknesses). Candidates are not required to carry out a SWOT analysis, but they must identify a valid and relevant opportunity and a valid and relevant threat.

The opportunity / threat must be external.

Valid and relevant opportunities include:

- Tourists to Kenya are increasingly interested in combining leisurely beach holidays with safaris or cultural tourism; lying by the Indian Ocean, *The Imperial* has traditionally targeted holidaymakers, but Martin has carried out market research and realised that market development (to use a term from the Ansoff matrix) is a possible opportunity for *The Imperial*; this corresponds to Martin's Option 3 (strategic alliance with *KenSafar*).
- Although *The Imperial* has always been a hotel for leisure tourists, paying per night, Martin has recently considered a different target market altogether (this is the opportunity): "business travellers staying at least one week" (see Option 2). Although the core product would stay the same (accommodation), several aspects would be different (the rooms would be turned into "self-contained apartments with small kitchens"). This may seem quite a radical change, but there may well be a business opportunity there. The marketing audit has revealed that there is increasing demand for this kind of accommodation and there are very few hotels in Mombasa offering such apartments.
- The case study makes some brief and separate references to WiFi access, to business travellers and to special events services – although this is not explicitly suggested, *The Imperial* could also specialise in other areas, for example developing conference facilities to target high-level meetings with politicians and senior civil servants of organizations such as the AU (African Union); this again represents an external opportunity that *The Imperial* could seize.

Valid and relevant threats:

- Competition from the "new luxurious hotels" nearby: "with their spas, themed restaurants and fast WiFi internet access, they offered better facilities and better services than *The Imperial*"; Martin is very aware of the issue, he has also travelled to Dubai and Muscat to get ideas about how *The Imperial* could reinvent itself to try to compete.
- Although Kenya is seen as a stable country, terrorist attacks are always possible (some candidates might have researched the fact that there was a terrorist attack in Mombasa in 2002, outside the Paradise Hotel, killing 13 people); this threat could deter some travellers from going to Kenya, which would affect *The Imperial*.
- Global economic conditions. When major economies such as those of the United States, Europe, or the Pacific Rim are in economic recession or are merely in periods of slower economic growth, the tourism industry often suffers or experiences decreases in revenue.

If only one threat, or one opportunity is external award a maximum of [4 marks].

Marks should be allocated according to the markbands on page 3.

3. (a) Describe how a hotel such as *The Imperial* combines human resources, physical resources and financial resources for its business activity. **[4 marks]**

The “human resources” correspond to the staff employed (not just the workers but the managers too, middle managers such as Susan and even Martin as manager of the entire hotel), the “physical resources” correspond to the hotel itself (the building with the rooms), the “financial resources” correspond to current assets, liabilities and even retained profit (simply put: the money in the bank that the manager can use). As in any business, the three types of resources are combined, *ie* not taken in isolation: they are interrelated, as for example the financial resources may make it possible to improve the human resources (by hiring more staff) and the physical resources (by renovating the rooms), which in turn may lead to more financial resources.

Award **[1 mark]** for a basic answer showing some limited knowledge of what “human resources”, “physical resources” or “financial resources” are.

Award **[2 marks]** for an adequate answer showing knowledge of “human resources”, “physical resources” and “financial resources” by applying them to a hotel (for example the fact that “physical resources” correspond to the premises and that “human resources” are the staff employed in the hotel).

Award **[3 marks]** for a satisfactory answer which partially describes how the resources (human, physical and financial) are combined in a hotel (for example how the main revenue comes from the physical resources); such an answer shows the integration of any two types of resources.

Award **[4 marks]** for a good answer which correctly describes how the resources (human, physical and financial) are combined in a hotel (for example how the financial resources may make it possible to improve the human resources, by hiring more staff); such an answer shows the integration of the three types of resources.

(b) Explain two benefits for Martin Kimathi of conducting a marketing audit (line 59).

[4 marks]

A marketing audit evaluates the existing marketing activities in a business. It has the following benefits:

- Based on his experience and intuition, Martin has some generic (preconceived) ideas about the types of tourists who come to Kenya; his marketing audit however will give him more reliable, factual information. (Note: candidates could refer to TOK concepts here).
- As Martin knows *The Imperial* and its guests (customers) so well, he might miss/ignore some important marketing aspects, for example about some of their needs or some of the extra services they could benefit from; the marketing audit will enable *The Imperial* to find out the changes in customers' needs that Martin has not perceived and to analyse data in a more systematic way, not based on anecdotes, but on representative samples.
- The marketing audit could help Martin appreciate which aspects of the marketing mix he should change, or not, at *The Imperial* (for example about “physical evidence” the marketing audit could reveal the fact that many guests do seek and value the old-fashioned colonial charm of the hotel and stay there precisely for that reason).

Candidates are not asked to define “marketing audit”; they may do so at the beginning of their answer. A candidate whose answer solely consists in a definition of “marketing audit” would still be awarded **[1 mark]** overall, in order to credit the fact that they have some knowledge of the concept being examined here (“marketing audit”).

There are two references to marketing audit in the case study, one about tourism to Kenya in general (see lines 59–61) and one about strategic option 3 (see line 161). Candidates may refer to one in particular or to both or just to Martin’s marketing audits in general.

Accept market research as part of a marketing audit. However, if the answer only refers to market research, award a maximum of [2 marks].

Mark as 2 + 2

Award **[1 mark]** for each valid answer, and **[1 mark]** for each development, showing why this is beneficial for Martin.

- (c) Using examples of migrant workers (such as Jomo Kimathi, Martin Kimathi and Craig Chapman), analyse the significance of changes in domestic and international labour mobility.

[7 marks]

The case study provides three examples of migrant workers: Jomo Kimathi (who first worked in Kenya, then in England, once *The Imperial* was sold in 1959), Martin Kimathi (who was born and educated in England, but went to Kenya in 2000 to work as hotel receptionist there) and Craig Chapman (who went to Kenya in the early 20th century to open and operate an orphanage there). Those three examples of international labour mobility show that people migrate for a range of work motivation (to find a new job, to find a first job, for financial or humanitarian reasons). It is beneficial for the country of arrival (eg with Martin and Craig: qualified workforce in Kenya) and sometimes also for the country of departure too (eg in the short term, migrants often send money back home, as did Jomo, maybe; in the long term, many migrant workers decide to go back home, as Jomo returned to Kenya to retire). International labour mobility usually has an economic dimension (for example from less developed countries to more developed countries) though other factors are important too (for example joining family or avoiding political situations, as with refugees).

Accept any other relevant point.

N.B. Change can refer to changes in individual circumstances as well as to labour markets.

Candidates are **not** expected to cover all the above-mentioned points. However, for candidates' responses in the 6–7 markband, they must include **at least two** of the examples above, in some fashion and consider both the impact on the destination country and the "departure country" and recognize that people migrate for both financial and non-financial reasons.

Marks should be allocated according to the markbands on page 3.

SECTION B

4. (a) (i) Outline one possible area of conflict between two internal stakeholders of *The Imperial*. [2 marks]

One possible area of conflict is about Guthoni's dismissal by Susan. It is a conflict between two internal stakeholders:

- the workers (Guthoni's colleagues) who are outraged (line 113) as they believe that Susan unfairly dismissed her
- the hotel management: Susan and especially Martin, who see how a strike could damage the hotel operations, compromising its financial situation and even its whole future.

Accept any other relevant answer.

Award **[1 mark]** for the explicit identification of two correct internal stakeholders.

Award **[1 mark]** for the outline of a possible area of conflict between those two internal stakeholders.

N.B: If at least one of the stakeholders is external (for example Kamau Onyango) the answer cannot receive any mark.

(ii) Identify two fixed costs for *The Imperial* (line 146). [2 marks]

Fixed costs include:

- the salary (wages) of the hotel staff (as they would be employed, no matter how many rooms are let)
- some utility bills such as electricity, internet access (as Martin may pay the server a fixed amount, no matter whether 10 guests or 100 guests use the bandwidth)
- some local taxes that the hotel may pay, based on the land/property itself (no matter how many guests are at the hotel)
- some promotional costs (for example if Martin pays for advertisements in business directories or websites targeting business travellers who need to stay in Mombasa for at least a week).

The answers must be applied to the hotel – so generic answers such as rent, marketing, maintenance, taxes cannot be credited, unless they are contextualized.

N.B: Some costs are always semi-variable or can be interpreted differently (for example the hotel could have hourly-paid contractual cleaners who are only employed if there is work for them).

Candidates are not asked to define “fixed costs”; they may do so as the beginning of their answer. A candidate whose answer solely consists of a definition of “fixed costs” would still be awarded **[1 mark]** to credit the fact that they have some knowledge of the concept being examined here (“fixed costs”).

- (b) Explain the value of the Ansoff matrix as a decision-making tool for Martin Kimathi to choose between Options 1, 2 and 3.

[4 marks]

	Existing products	New products
Existing market	Market penetration	Product development
New market	Market development	Diversification

Option 1 is “existing market” “The new hotel would attract the same customer types” (see line 135) but with a slightly different product (renovated hotel) – however this is still a hotel, so “product development” is not an ideal description. Option 2 is “quite a different product” (though still a hotel) with “quite a different type of customers” (still visitors to Mombasa though), so again “diversification” would not be appropriate.

Option 3 is “slightly different market” (though still tourists to Kenya) with a “slightly different product” (some improvements to the hotel) – but talking about “diversification” may be too exaggerated.

The three options at the end of the case study illustrate very well the limits of the Ansoff matrix.

N.B: Candidates are not asked to draw the Ansoff matrix itself (*ie* the table); candidates are very likely to do so, but a candidate could receive full marks even without it. Put another way, a candidate will not be penalized if their answer is only textual.

The **[4 marks]** available are allocated as follows:

Award **[1 mark]** for an answer that shows **partial** knowledge and understanding of what the Ansoff matrix is; this could be in the form of a diagram.

– 16 –

M14/3/BUSMT/SP1/ENG/TZ0/XX/M

Award **[1 mark]** for an answer that shows clear knowledge and understanding of the strategies within the Ansoff matrix (market development, product development *etc*); this could be in the form of a diagram.

Award **[1 mark]** for the application to *The Imperial* (bearing in mind that interpretations may vary, for example Option 3 could be presented as market development).

Award **[1 mark]** for an explanation of the value of the matrix for Martin (although the case study shows that the matrix is of very limited value, a candidate could argue that it is a valuable tool in some ways).

- (c) Explain how being empowered by Martin Kimathi can positively affect the job satisfaction, motivation and productivity of the employees at *The Imperial* (line 90).

[4 marks]

Empowerment refers to the fact that Martin readily gives his employees some autonomy and some responsibility about their working arrangements (for example if a guest has a problem in the restaurant about a disappointing dish, the hotel manager could directly offer them a free dessert to apologize). Being empowered can affect staff in several ways:

- It may increase their level of job satisfaction, as they rightfully feel that they are trusted and, as such, appreciate their job more, as opposed to being micro-managed in a bureaucratic way.
- It may motivate them more, as they become aware of other forms of non-financial motivation that they could enjoy as well, for example through job enrichment and job enlargement, as they realize that their employer supports them and gives them some control over some areas of their work.
- It could make them more productive, as they are able to make decisions faster, without having to refer to their line manager every time.
- It could however be unsuitable for some workers who start abusing this new power that they have, and adopt unprofessional attitudes, for example if some office staff are allowed to use online social networking websites, they might use it too much and lose focus on their work, thereby becoming unproductive, although their level of job satisfaction would be very high (so this would still be positive, but with a negative dimension too).

Accept any other relevant point.

Candidates are not asked to define “empowerment”; they may do so as the beginning of their answer. A candidate whose answer solely consists of a definition of “empowerment” would still be awarded **[1 mark]** to credit the fact that they have some knowledge of the concept being examined here (“empowerment”).

Candidates are not expected to refer separately to (i) job satisfaction, (ii) motivation and (iii) productivity, though they are likely to do so, as the question is worded that way.

Award **[1 mark]** for each basic point; award an extra **[1 mark]** for the development of that point. Award up to a maximum of **[4 marks]**.

- (d) Evaluate the effectiveness of Susan Chapman's and Martin Kimathi's leadership styles, and their implications for *The Imperial*. [8 marks]**

Susan and Martin have very different leadership styles – almost antithetic and stereotypical. Susan is presented as (very) autocratic, whereas Martin appears as mainly laissez-faire (possibly with some elements of democratic, in his treatment of the Guthoni incident). Both are partly effective and partly ineffective (for example Susan is not appreciated by her employees, but her work performance is very high; Martin seems affable with his staff, but in his appraisal meetings with Susan, he is not able to convince her that she should change her own leadership style). There are several consequences for *The Imperial*, some positive ones (for example about the high quality of housekeeping standards, as praised by the French journalist), some negative ones (for example about Martin's inability to manage Susan who alienates her staff so much that they threaten to go on strike in one of the busiest months of the year for the hotel).

Accept any other relevant point.

For top marks, candidates must evaluate the effectiveness of both leadership styles, in context, with reference to the possible implications for the hotel.

Marks should be allocated according to the markbands on page 4.

M14/3/BUSMT/SP2/ENG/TZ0/XX/M



International Baccalaureate®
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MARKSCHEME

May 2014

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

26 pages

– 2 –

M14/3/BUSMT/SP2/ENG/TZ0/XX/M

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A		Section B			Level descriptors	
Q1 (e)	Q2 (d)	Q3 (d)	Q4 (d)	Q5 (d)		
Marks 0–5					<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology. <ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the stimulus material. The response is mainly theoretical. <ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the stimulus material, not just to the name of the organization. <ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the stimulus material. 	
0						
1–2						
3–4						
5						

Section B			Level descriptors
Q3 (e)	Q4 (e)	Q5 (e)	
Marks 0–7			
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the stimulus material.
3–4			<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues and concepts. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the stimulus material, not just to the name of the organization. • The response is mainly theoretical.
5–6			<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the stimulus material are made at places in the response.
7			<ul style="list-style-type: none"> • A response with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the stimulus material are made throughout the response.

SECTION A**1. (a) Define the term *market share*. *[2 marks]***

Market share refers to the percentage or proportion of a particular market represented by an individual company's sales (measured either in value [\$ or €, for example] or number of units). In the case of *LE*, the company's sales revenue has grown faster than the market for commercial lighting and faster than the market for energy efficient commercial lighting. As a result, its market share in both markets has increased.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

(b) Describe *one* diseconomy of scale for *LE*. *[2 marks]*

Diseconomies of scale refer to increases in per unit cost because of increased complexity that can occur with growth. One example from the stimulus of a diseconomy of scale is the ever more costly administration of manufacturing in 12 small factories in Algiers. If *LE* operated out of one large factory, managing deliveries to the factory, organizing the work schedules, and managing shipments of finished product would presumably be more streamlined than managing these processes through 12 different sites. Other diseconomies of scale relevant to *LE* include:

- financial/transactional diseconomies of scale (related to the having use of 12 small factories versus one large factory)
- technical diseconomies of scale (engineers may have to move from one factory to the next in resolving technical issues, driving up costs)
- inventory management.

Accept any other diseconomy of scale appropriately described.

Award **[1 mark]** for a basic description or an identification of a diseconomy of scale that conveys partial knowledge and understanding of the concept of diseconomy of scale.

Award **[2 marks]** for a full, clear description based on *LE* that conveys knowledge and understanding similar to the answer above. Though the candidate does not have to say "increases in per unit cost", to receive **[2 marks]** a candidate must convey that idea in the description.

– 6 –

M14/3/BUSMT/SP2/ENG/TZ0/XX/M

(c) Calculate for LE:

For parts (i) to (v) accept properly rounded numbers to 1 place right of decimal point and any answer specified as acceptable in the markscheme.

If 1 place to the right of the decimal is zero and the candidate correctly rounds to an integer, the response is correct.

Do **not** penalize candidates if they omit the € sign, days, percentage sign, or other appropriate symbol, nor if they use the incorrect symbol.

(i) the gross profit for 2009 (figure Y).**[1 mark]**

€28m

<11.5m>

€16.5. Gross profit for 2009: €16.5m

Award **[1 mark]** for the correct answer (working not required).

(ii) the gross profit margin for 2013.**[1 mark]**

$$\frac{\text{€58m}}{\text{€93m}} = 0.6237 \text{ . Gross profit margin for 2013: } 62.37\%$$

Accept 62.37 %, 62.36 % or 62.4 %.

Award **[1 mark]** for the correct answer (working not required).

(iii) the stock turnover for 2009 and 2013.**[2 marks]**

$$\frac{\text{€0.94m}}{\text{€11.5m}} \times 365 = 29.83 \text{ days (2009)}$$

$$\frac{\text{€4.32m}}{\text{€35m}} \times 365 = 45.05 \text{ days (2013)}$$

Or may be calculated as follows:

$$\frac{\text{€11.5m}}{\text{€0.94m}} = 12.23 \text{ times in a year (2009)}$$

$$\frac{\text{€35m}}{\text{€4.32m}} = 8.10 \text{ times in a year (2013)}$$

If the candidate calculates in terms of days, they may round to 30 and 45 and receive full marks.

Award **[1 mark]** for the correct answer for 2009 and **[1 mark]** for the correct answer for 2013. Award a maximum of **[2 marks]**.

– 7 –

M14/3/BUSMT/SP2/ENG/TZ0/XX/M

(iv) the current ratio for 2009 and 2013.

[2 marks]

$$\frac{\text{€}5.74\text{m}}{\text{€}1.94\text{m}} = 2.96 \text{. Current ratio for 2009: } 2.96$$

$$\frac{\text{€}15.52\text{m}}{\text{€}11.0\text{m}} = 1.41 \text{. Current ratio for 2013: } 1.41$$

Award **[1 mark]** for the correct answer for 2009 and **[1 mark]** for the correct answer for 2013. Award a maximum of **[2 marks]**.

(v) the acid test (quick) ratio for 2009 and 2013.

[2 marks]

$$\frac{(\text{€}5.74\text{m} - \text{€}0.94\text{m})}{\text{€}1.94\text{m}} = 2.47 \text{. Acid test ratio for 2009: } 2.47$$

$$\frac{(\text{€}15.52\text{m} - \text{€}4.32\text{m})}{\text{€}11.0\text{m}} = 1.02 \text{. Acid test ratio for 2013: } 1.02$$

Award **[1 mark]** for the correct answer for 2009 and **[1 mark]** for the correct answer for 2013. Award a maximum of **[2 marks]**.

(d) Comment on the decline in liquidity at LE.**[3 marks]**

Between 2009 and 2013, liquidity declined at *LE*: the current ratio fell from 2.96 to 1.41 and the acid test ratio from 2.47 to 1.02. Based upon the information provided, the main cause of the decrease in liquidity was the slower turnover of stock (stock turnover in days increased from 29.83 days in 2009 to 45.05 days in 2013). The probable cause of the increase in stock turnover was certain inefficiencies that resulted from growth because the firm did not have one large manufacturing facility but rather had numerous small facilities scattered around Algiers. Whereas *LE*'s liquidity situation at present is not a crisis, the trend is worrisome and, if it continues, *LE* will have genuine liquidity problems.

Award **[1 mark]** if the candidate comments on the decline in liquidity such that their comment conveys some understanding of liquidity.

Award **[2 marks]** if the candidate (1) comments that liquidity at *LE* is worsening and (2) supports the response with some numerate details and/or addresses that the liquidity situation is adequate and not yet a genuine problem (though soon will be).

Award **[3 marks]** if, in addition to the above, the candidate specifically links the decrease in liquidity to the slower stock turnover or the diseconomies of scale that have resulted from rapid growth, or makes some other relevant important and insightful comment.

Maximum award: **[3 marks]**.

(e) Analyse communication at *LE*.**[5 marks]**

The positives of communication at *LE* are many:

- The company appears to have a “working language”: French.
- Whereas the workers in Algeria prefer Arabic, most have at least basic French. It is probably rare when a worker speaks to customers.
- The supervisors in Algeria are salaried and speak both French and Arabic well and thus can communicate with French speakers (customers, vendors, employees in Luxembourg, *etc*) and to workers in Arabic.
- French is one of the major European languages.

There are some negatives of communication at *LE*:

- The business operates on two continents and, in Algeria, it operates in twelve different factories. Communication between these disparate sites is complicated and dependent on ICT, which can have problems from time to time.
- The fact that there are occasional problems with the IT infrastructure in Algeria causes some inefficiencies in operation.
- There are cultural differences in non-verbal communication between Algeria and Europe. On occasions when someone from Algeria travels to Europe or a European customer wants to see production facilities in Algeria, some training of the Algerian staff may be necessary.

Candidates are **not** required to know or refer to historical or cultural geographic factors (that French, for example, is an official language in Luxembourg [though that is certainly implied] or that Algeria has had a long relationship with France and the Franco-phone world). Candidates may raise these points if they know them, but they should not be awarded marks for knowledge of these areas but rather the marks should be awarded for business knowledge.

If the response is a one-sided generally relevant approach with no analysis, award a maximum of **[3 marks]**.

Marks should be allocated according to the markbands on page 3.

– 10 –

M14/3/BUSMT/SP2/ENG/TZ0/XX/M

2. (a) (i) Define the term *pressure group*. [2 marks]

A pressure group is a formal organization, an informal organization, or diverse and scattered people and organizations that (1) has common interest and (2) tries to influence governments, businesses, or public opinion in favour of or in opposition to causes, generally related to social or environmental issues or related to human and civil rights.

Candidates are **not** expected to word the definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above. A candidate may deepen their response through exemplification. Exemplification alone, when expressed in a complete sentence with an action verb, could earn **[1 mark]**. However, “Greenpeace is a pressure group”, with nothing else, would not earn even a mark.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

(ii) Describe the production method known as batch production. [2 marks]

Batch production is a manufacturing technique in which goods are produced in groups (batches) and not in a continuous stream. Batch production can be useful for small businesses who cannot afford to run continuous production lines.

N.B. Non-native speakers especially, may not know a synonym for batch.

Do not accept tautological answers: “Batch production is when the product is made in batches”; a response such as this, all by itself, would earn **[0 marks]**. However, if a candidate can describe batch production (a batch moves through stage, all products in the batch are the same, *etc*) or deepen through exemplification, do **not** penalize for overuse of the word batch.

Award **[1 mark]** for a basic description that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear description that conveys knowledge and understanding similar to the answer above.

(b) Calculate for Klar's new flavoured drinks (*show all your workings*):

(i) the break-even level of output.

[2 marks]

$$\text{Break-even point} = \frac{\text{Total fixed costs}}{\text{Contribution}}$$

$$\text{BEP} = \frac{240\,000}{(1.6 - 0.4)} = 200\,000 \text{ bottles}$$

Award **[1 mark]** for the correct answer and **[1 mark]** for working, up to a maximum of **[2 marks]**.

(ii) the margin of safety if it operates at full capacity.

[2 marks]

$$\begin{aligned}\text{Margin of safety} &= \text{Expected sales level} - \text{Break-even sales level} = \\ &3\,000\,000 - 2\,000\,000 = 2\,800\,000 \text{ bottles}\end{aligned}$$

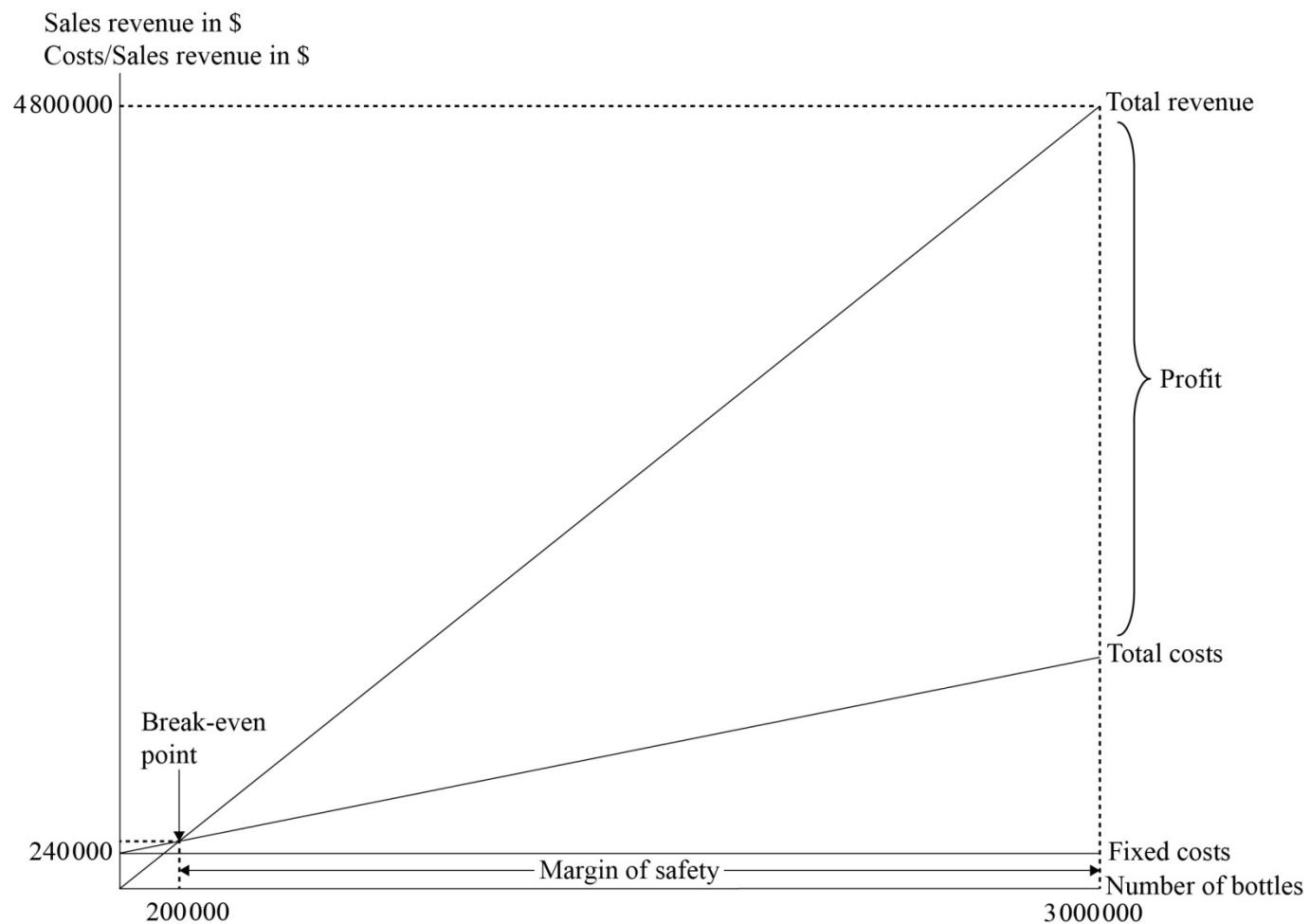
Award **[1 mark]** for the correct answer and **[1 mark]** for working, up to a maximum of **[2 marks]**.

(iii) the profit or loss if it operates at full capacity.

[2 marks]

$$\begin{aligned}\text{Profit} &= \text{SR} - \text{TC} = (1.6 \times 3\,000\,000) - (240\,000 + (0.4 \times 3\,000\,000)) = 4\,800\,000 - 1\,440\,000 \\ \text{Profit} &= \$336\,000\end{aligned}$$

Award **[1 mark]** for the correct answer and **[1 mark]** for working, up to a maximum of **[2 marks]**.

(c) Construct a fully labelled break-even chart for *Klar's* new flavoured drinks. [5 marks]

Award marks as follows:

[1 mark] for each appropriately labelled axis (the vertical axis must include reference to both costs and revenue) – award a maximum of [2 marks].

[1 mark] for an accurately drawn and labelled total revenue curve.

[1 mark] for an accurately drawn and labelled total costs curve.

[1 mark] for the identification of the break-even level of output.

N.B. If candidates use the word “sales” instead of “revenue” accept. In many places in the world, sales and revenue are virtually synonyms, at least in everyday use.

Award [0 marks] if a candidate produces a table, and award no more than [3 marks] if the chart is not neat, not drawn with a straight-edge, or is not to scale. If a candidate produces a chart with no figures (which prevents determination if it is to scale) but in other respects it is fully accurate, award a maximum of [3 marks].

Ideally, the candidate will draw an arrow pointing to the break-even point and label the arrow. However, accept as an “accurately labelled” break-even point, a vertical line from the x-axis to the break-even point provided that the line is labelled “break-even point”.

(d) Analyse *one* advantage and *one* disadvantage for *Klar* of having ethical objectives.

[5 marks]

To support its ethical objectives of being environmentally friendly, *Klar* has decided to use reusable glass bottles instead of plastic containers. With such a decision, *Klar* can gain on brand image and reputation, which might lead to an increased customer base and support from government and environmental groups. A growing trend among consumers is consume products that will not damage the environment. However, products that do not damage the environment usually cost more.

If *Klar* wants to support the environment by using glass bottles, they must do one of two things:

- Pass the higher cost on to consumers. However, with price still a determinant component in choice for most of the customers, under this option *Klar* must persuade price-conscious consumers that the more expensive *Klar* products are worth it because it helps protect the environment or *Klar* runs the risk of losing market share, lowering profits, and weakening returns.
- Absorb the higher cost of the containers themselves, lowering margins and lowering return on investment (ROI). However, shareholders of *Klar* may object to this approach, regardless of how much good this approach does for the environment.

The issue for *Klar* is one of time horizon. Though some consumers are getting more conscientious about pollution issues and are probably more open to adopt responsible consumption habits, for the majority of consumers, price is still what matters. In the long run, however, if consumer trends continue, most consumers will probably become conscientious about environmentally friendly products.

Balance, on this question, is more than analysing the binarity of good reputation/image versus higher cost. Balance comes from deepening their response by extending their reasoning. For example,

- bringing into account the fact that for most consumers, price is the determining factor
- giving consideration to the time element (short-term versus long-term)
- extending the higher cost implications out to different stakeholders groups, such as shareholders
- *accept any other relevant extension.*

Accept any other relevant analysis.

Marks should be allocated according to the markbands on page 3.

SECTION B

3. (a) Identify *one advantage and one disadvantage of mass production for the American company.* **[2 marks]**

Advantages of mass production include:

- per unit cost of production is low (by comparison to other forms of production)
- the rate of production tends to be high
- products are uniform and often of very high quality
- most workers do not require a high skill level – easy to find workers
- machines tend to make fewer errors than humans.

Disadvantages of mass production include:

- production runs typically must be of great volume to reach break-even
- mass production lacks the flexibility of other forms of production
- mass produced items do not have anything unique about them
- workers may take less pride in work and overall pride in the business
- mass production is capital intensive
- production in large quantities can be financially risky if the product fails to sell.

Accept any other relevant advantage or disadvantage. If a candidate offers as a disadvantage something to the effect of “quality is likely to be lower,” do not award a mark. All by itself, that assertion is inaccurate.

Mark as 1 + 1.

Award **[1 mark]** for an advantage identified and **[1 mark]** for a disadvantage identified up to a maximum of **[2 marks]**.

- (b) Explain *one difficulty that the American company may face when entering the South African market.* **[2 marks]**

When entering the South African market, the American company could face a number of difficulties based upon differences in:

- business cultures and practices
- economies and social practices
- exchange rate/trade barriers
- political culture and laws
- the cultures of South Africa and the United States.

Accept any other relevant difficulty that the American company may face.

Award **[1 mark]** for identification of a difficulty that the American company could face. Award **[2 marks]** for a full, clear explanation of how it will be a difficulty.

(c) Explain two possible purposes of penetration pricing.**[4 marks]**

Penetration pricing has many purposes. It can:

- allow a business to acquire rapidly market share
- catch existing businesses in the market by surprise and not allow them time to react
- create satisfied early adopter customers who know that they are getting a favourable price now and that prices will eventually rise as more people want the product
- discourage any potential new competitor.

In many cases, candidates are going to say something to the effect “gaining customers” or “increasing market share”. Be cautious so that marks are **not** awarded for what is basically a repetition. The second idea must be distinct. However, the candidate may break penetration pricing into two time segments; the first being to get customers/gain market share and the second being (a) building brand loyalty, for example, or (b) increasing profitability by raising prices because there is now a loyal customer base.

Accept any other relevant purpose of penetration pricing with an explanation.

Mark as 2+2.

Award **[1 mark]** for identification of a relevant and correct type of purpose of penetration pricing and **[1 mark]** for its explanation. Award a maximum of **[2 marks]** for each purpose.

[Source: <http://www.inc.com/encyclopedia/penetration-pricing.html>, accessed 2014]

- (d) Examine the roles of intrinsic motivation and extrinsic motivation of the workers at *KP* and at the factory opened by the American company. **[5 marks]**

Intrinsic motivation refers to a motivational basis that is within an individual and corresponds to tasks that are inherently rewarding. In situations where intrinsic motivation is at work, external incentives are not required to get the employee to perform the tasks or do the work. Extrinsic motivation refers to situations where the tasks that must be performed are not inherently motivating and workers have no internal desire to complete them. However, for rewards, typically pay and fringe benefits, workers can be extrinsically motivated to perform certain tasks. *KP* has traditionally operated by reliance on intrinsic motivation: workers were not paid very much, but had job security and were encouraged to take their time to make the most beautiful pottery that they could. The American company, on the other hand, mass produces large quantities of pottery and only a small number of employees are involved in the design. Most employees will work in automated manufacturing and warehouse processing that will require little creativity. Because the work will not be intrinsically motivating, the American company will rely on external rewards: good wages with fringe benefits.

Balance, in this context, means addressing both types of motivation and conveying some sense of the strengths and weaknesses of motivating workers intrinsically or extrinsically. To receive **[5 marks]** a candidates' answer must have significant detailed reference to the stimulus or some detailed reference plus explicit use of a motivational theory.

If a candidate clearly knows the meaning of both intrinsic and extrinsic motivation and correctly applies to the stimulus with some detail, award a maximum of **[4 marks]**.

If a candidate accurately describes intrinsic motivational approaches at *KP* and accurately describes extrinsic motivational strategies at the American company but does not label/call them intrinsic and extrinsic, award **[2 marks]**.

Marks should be allocated according to the markbands on page 3.

(e) Evaluate the impact on South Africa of the American company opening a factory in Johannesburg.

[7 marks]

The arrival of the American pottery company in South Africa could have a significant impact on the host country. Some implications of the arrival will not be welcomed:

- small companies, like *KP*, will face new competitive pressures and could possibly be put out of business
- the hand-made craft tradition in pottery could die (at least be weakened) and be lost and replaced with mass production
- profits will be directed out of the country
- small, African owned businesses such as *KP* could be weakened or altogether cease to exist
- assuming the success of the American company, there will be “an Americanization” of South African culture, at least in the area of pottery.

On the other hand, the presence of the American company will also have some positive implications:

- the presence of the new and modern American facility will put pressure on South African pottery businesses to modernize, which in the long run could make them more competitive and, thus, viable for a longer period of time
- the greater uniformity of the product (via mass production) and the reduction in per unit cost may appeal to many South African consumers – they could feel positive out of purchasing these types of goods
- the decision by the American business to locate in South Africa, rather than in some other country in southern Africa, means that South Africa will get the benefit of 150 new, well-paying positions
- the construction of the new manufacturing facility in South Africa represents a major capital investment in the country.

Marks should be allocated according to the markbands on page 4.

4. (a) Identify two variable costs for Magda's flower business. **[2 marks]**

Relevant variable costs for Magda's flower business include:

- the flowers she buys before reselling them
- the energy bills, for example, electricity bill for heating the shop will be higher in winter
- the fuel for the vehicle of the assistant who delivers flowers in the morning
- supplies (decorative tissue paper, ribbons, boxes, vases, *etc*)
- accept transporting but **not** cost of vehicle.

Accept any other relevant variable cost.

N.B. Do not accept wages (of part-time employees).

Award **[1 mark]** for each relevant and correct variable cost identified up to a maximum of **[2 marks]**.

(b) Explain the meaning of the sentence: “Magda's small business has only one source of revenue”. **[2 marks]**

Magda's flower business follows a simple business model: she resells flowers; this is, however, the only strand of revenue for her business: if one day she has no customer who wants to buy flowers, the business will not earn any money that day. She could have other sources of revenue, for example, selling other goods (*eg* greetings cards, gifts, accessories) or services (*eg* teaching flower arrangements at a local adult college), that way she would be less dependent on just selling flowers.

Candidates are **not** expected to word their explanation **exactly** as above.

Award **[1 mark]** for a basic answer that shows partial knowledge and understanding of the topic of sources of revenue.

Award **[2 marks]** for a full, clear explanation of the sentence.

(c) Using Magda's flower business, distinguish between "just-in-case" and "just-in-time" methods of stock control.

[4 marks]

A "just-in-case" method of stock control means that a business needs to have a certain amount of stock to be able to supply any product to a possible customer. If Magda joins *Interflora*, she will need to have a high number of flowers in stock, which is likely to be expensive, especially as flowers cannot be stored for long periods: they wither and decay. This is easier in some industries, keeping large amounts of stock, just in case (literally) someone asked.

A "just-in-time" method of stock control is different. It means that a business is able to get hold of some products if the need arises. For example, Magda could have a supplier of all types of flowers in the nearby town. If someone orders her red roses in the morning, she can arrange this for the same day in the afternoon, as one of the part-time assistants could drive there and get the flowers.

Accept any other relevant answer.

[1 to 2 marks]

Award **[1 mark]** for an answer that shows some knowledge of stock control methods. Award **[2 marks]** for an answer that refers to the difference between just-in-case and just-in-time stock control at a generic, theoretical level.

It is possible to get one method of stock control correct, with application to the stimulus, but **not** get the other stock control method correct and earn **[2 marks]**. **[1 mark]** for the correct method and **[1 mark]** for correct application.

[3 to 4 marks]

Award **[3 marks]** for an answer that combines "theory" (*ie* definitions) and "practice" (*ie* reference to Magda's flower business). Award **[4 marks]** for an answer that clearly distinguishes between just-in-case and just-in-time stock control with reference to both Magda's flower business, and offers some other element to the response that deepens it such as:

- relevant reference to another business.
- Some elaboration on implications (for example, just-in-case increases working capital requirements)
- A brief explanation of which method is more appropriate for Magda's business.

- (d) Analyse the advantages *and* disadvantages for Magda of joining an international franchise such as *Interflora*.

[5 marks]

Joining an international franchise such as *Interflora* has several advantages for Magda. She would benefit from a wide existing network of customers and suppliers. She would benefit from the brand name and well-established marketing methods. She could also receive some training from the franchisor, which could help her improve professionally (this may be important as she left school at 18, when she was young).

However, there are some disadvantages too. Joining the franchise would cost her money, probably high initial joining fees plus a percentage of the sales revenue of the flower business. She might also be tied up by specific constraints (for example, about what she is allowed to sell, flowers or other products); she could lose some of her freedom (customers like the fact that she is creative, but she might not be able to be as creative in the future).

The balance required for higher marks refers to the need to analyse both advantages and disadvantages.

Marks should be allocated according to the markbands on page 3.

- (e) Recommend to Magda **one** of the three methods of external growth that she has considered.

[7 marks]

Three methods of external growth are mentioned in the stimulus: a joint venture with a local wedding organizer, a strategic alliance with a garden centre, a merger with another florist. Candidates may compare and contrast their relative advantages and disadvantages, for example, a merger with another florist means that Magda would lose her independence yet stay in the sector that she knows and loves, whereas the joint venture with the local wedding organizer is a form of product development (to use Ansoff matrix) in a sector that Magda does not know at all, though it could be financially very good in the long term, through new business opportunities for Magda (flower arrangements for weddings and, later, other occasions too).

An important aspect of the question is about Magda's legal status: Magda could still remain a sole trader (for example, a strategic alliance would not affect this) but some other arrangements might be necessary (for example, a status of partnership of the two florists might be best in the case of a merger). Ultimately, all three options could be recommended (*ie* there is no right/wrong answer).

If no meaningful reference/attention is given to the business structure (details of a joint venture, strategic alliance, or a merger), award a maximum of **[2 marks]**.

If there is reference/attention to the business structure (details of a joint venture, strategic alliance, or a merger) is present but limited, award a maximum of **[3 marks]** if the discussion of the business venture (with wedding planner, garden centre, or another florist) is basic. Award a maximum of **[4 marks]** if the present-but-limited reference/attention to the business structure is complemented with a more detailed consideration of the business venture.

For **[5 marks]** or more, the candidate must discuss in some detail the business structure.

Candidates do **not** have to address all three options. They may, or they may address only one or two options. Evidence of evaluation can occur with a detailed consideration of one option **or** a less detailed but comparative consideration of all three options.

Accept any relevant substantiated recommendation.

If a candidate does not refer to the implications for the legal status, the maximum they can achieve is **[4 marks]**.

Marks should be allocated according to the markbands on page 4.

5. **N.B. Throughout the questions under “Setting up a new business in Albania”, if a candidate inadvertently reverses the names of the two characters, Gent and Agon, do not penalize candidates.**

- (a) **Describe *one* form of non-financial reward that Gent could use to motivate the teachers in the evening school.**

[2 marks]

Gent could use the following forms of non-financial reward:

- Job enrichment – giving employees a “richer” job experience through more variety of tasks and some tasks of greater responsibility and/or complexity.
- Job enlargement – giving employees a “larger” job experience through more tasks, usually of the same level of complexity and responsibility.
- Empowerment – giving employees more information related to, responsibility for, and autonomy over their jobs.
- Team work – having work performed in teams or groups with the expectation that the group performance is more important than individual accomplishment. Many workers and in many cultures, the experience of teamwork is deeply rewarding and motivating.
- Praise and recognition – praising employees and giving them recognition, such as mentioning their good work at a faculty meeting or naming them “teacher of the month” can boost employees self-esteem and give them something to work for.
- Purpose – working for a good cause, such as Gent’s school, can be motivating. Employers can build on this by reminding employees of the good service that they are providing, the social good that is coming out of their efforts. Reminding people of the higher purpose can be very motivating.
- Training – providing training often motivates employees, even if the training has no immediate economic or cash value. Many people like to learn, feel that training, in the long-run, keeps them viable in the workforce, and provides a break from routine.

An example of a description, using job enrichment, would be something like: A work colleague could have his job enriched if Gent asked him, in addition to teaching his subject (for example, business), to oversee some other aspects of the evening school, for example, marketing (advertising the school), recruitment (choosing the students) or liaising with the bank or the local authorities (for fundraising).

Candidates are **not** expected to word their description **exactly** as above.

N.B. Do not accept any reward that has short-term or concrete financial value, such as subsidized canteen, holidays, health benefits, car, etc.

Award **[1 mark]** for a basic answer that conveys partial knowledge and understanding (this could be a theoretical definition of the chosen form of non-financial reward).

Award **[2 marks]** for a full, clear description that conveys knowledge and understanding (explicitly mentioning what the chosen form of non-financial reward means in the context of Gent’s evening school).

- (b) Explain *one* benefit for Agon's business if Albania joins a regional trading bloc such as the European Union (EU). **[2 marks]**

Joining a regional trading bloc such as the European Union (EU) means that commerce would be easier. This would particularly benefit Albanian businesses involved in exports (towards other EU countries such as Italy) and imports (from other EU countries such as Germany); Agon's business (importing electrical appliances from Germany) is in that latter category: if Albania joins the EU, his business may be able to operate faster, with less paperwork and less border control, and cheaper, with fewer import taxes.

Candidates are **not** expected to word their answer **exactly** as above.

N.B. If a candidate writes about Gent's business instead of Agon's business (regardless of the name that they use), award **[1 mark]** if the candidate demonstrates some understanding of how joining a regional trading bloc can help a country's businesses. No mark would be awarded for the application, as the candidate is talking about the wrong business.

Award **[1 mark]** for a basic answer that conveys partial knowledge and understanding of the topic of regional trading blocs in general.

Award **[2 marks]** for a full, clear explanation that conveys knowledge and understanding of a benefit for a business importing goods applied to Agon's business.

(c) With reference to Gent's evening school, contrast *two reasons for setting up a business.*

[4 marks]

Reasons for setting up a business include:

- passion about an idea, an area of interest or a cause; the aim is not primarily to make a profit; this is the case of Gent and his evening school, or of social enterprises such as *The Big Issue* in England (social enterprises)
- having identified a business opportunity or a gap in the market; this seems to be the case of Agon; this is the case of most commercial ventures (for example, Stelios Haji-Ioannou when he created *Easyjet*)
- family tradition: being entrepreneurial is sometimes seen as a family trait; many entrepreneurs have had parents and even grandparents who too ran their own business
- redundancy: someone lost their job and, rather than struggling to find another employer, they decided to be self-employed.

N.B. If a candidate talks about Agon's business but not Gent's, follow the markscheme, which indicates that one of the reasons **must** talk about Gent's school.

Mark as 2 + 2.

The two reasons need to be different (see command term “contrast”); if the reasons are similar, the maximum a candidate may achieve here is **[2 marks]**. One reason **must** include a reference to Gent's evening school. If neither reason mentions Gent's school, award a maximum of **[2 marks]**.

Award **[1 mark]** for each relevant and correct reason for setting up a business identified and **[1 mark]** for an appropriate explanation in context up to a maximum of **[2 marks]**.

(d) Analyse the main problems that a business start-up may face in a less economically developed country such as Albania.

[5 marks]

A business start-up in a less economically developed country such as Albania may face several problems, such as:

- poor infrastructure might create challenges, for example, the stimulus mentions that access to electricity can be sometimes unreliable in the countryside; likewise, transport and logistics can sometimes be difficult; on the other hand, workforce is sometimes cheaper and more flexible than in developed countries, so it might be easier for new businesses in some areas
- there might be domestic problems with security, safety, stability; on the other hand, the government may be keen to change that negative image and may be implementing policies to support economic development through new businesses
- access to initial funding may be more difficult than in developed countries, where banks abound; interest rates might also be quite high (though on the other hand, some organizations such as *Kiva* have micro-credit lending schemes for a business start-up specifically located in less economically developed countries).

Accept any other relevant analysis.

The balance required for higher marks means that the answer must include counter arguments to relativize the problems.

Marks should be allocated according to the markbands on page 3.

(e) Discuss Gent's proposed sources of finance for the evening school.**[7 marks]**

Gent's proposed sources of finance are indicated in the table: they rely heavily on external funding from international NGOs (40%) and from local authorities (40%) – and to a much lesser extent on fees paid by students themselves (10%) and a bank loan (10%). Gent is aware that a bank is unlikely to loan much money to a business which is not a commercial venture aimed at making profit (*ie* a “social enterprise”), and that the students themselves are unlikely to be able to pay much more for the classes (“one of Europe’s poorest countries” according to the stimulus).

This has advantages and disadvantages, for example it is beneficial to have several sources of funding (for instance for match-funding purposes or to avoid depending upon one sole funder), but it also means that Gent’s school depends largely upon international agencies (the NGOs) whose priorities might change in the future. These sources of finance are appropriate to a certain extent, though other sources could be considered as well, for example, a rich donor or philanthropist, or sponsorship.

Accept any other relevant substantiated discussion.

Marks should be allocated according to the markbands on page 4.

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International Baccalaureate®
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MARKSCHEME

November 2014

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

17 pages

– 2 –

N14/3/BUSMT/SP1/ENG/TZ0/XX/M

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A			Level descriptors
Q1 (c)	Q2 (c)	Q3 (c)	
Marks 0–7			
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the case study.
3–5			<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the case study, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical.
6–7			<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the case study.

Section B	Level descriptors
Q4 (d)	
Marks 0–8	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study.
3–4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the case study, not just to the name of the organization. • The response is mainly theoretical.
5–6	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the case study are made at places in the response.
7–8	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the case study are made throughout the response.

– 5 –

N14/3/BUSMT/SP1/ENG/TZ0/XX/M

SECTION A

1. (a) **Describe two methods of recruitment that GP may have used to recruit a new manager for *The Imperial*.** **[4 marks]**

GP may have used the following methods:

- internal recruitment (recruiting only within the existing employees, specifically targeting the ones in supervisory or mid-management positions)
- external recruitment through job advertisement (in Mombasa, or nationally or even internationally)
- external recruitment through a recruitment agency (for example, specializing in hotel management)
- personal recommendation (“word-of-mouth”) for example, from the previous manager or from a *GP* representative who had visited *The Imperial*
- accept any other relevant method.

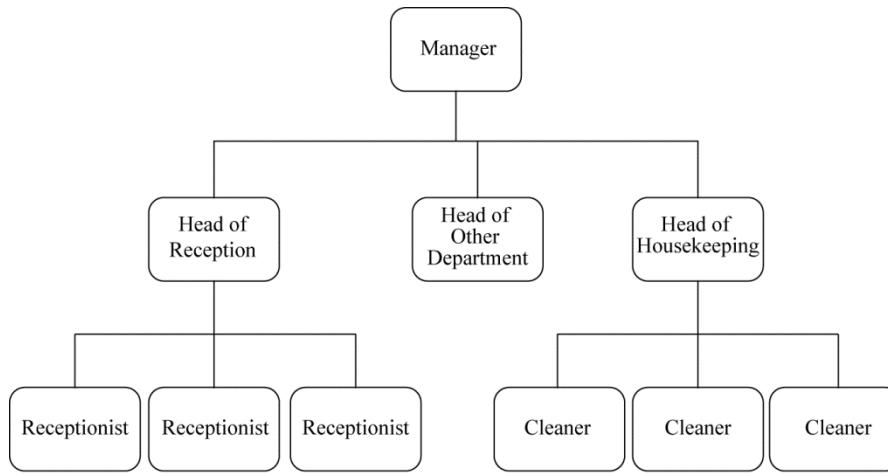
Mark as 2 + 2

Award **[1 mark]** for each method identified, and **[1 mark]** for the description of the relevance of that method to *The Imperial*. Award up to a maximum of **[2 marks]** per method.

- (b) Construct an organization chart showing the levels of hierarchy at *The Imperial*.

[4 marks]

Overall, the organization chart is likely to look like this:



The names of the postholders (*eg* Martin, Susan, Guthoni) are not necessary. Candidates will not be penalized if they do not mention those names; however the names of the posts themselves (*eg* “Manager”, “Head of Housekeeping”) are essential.

Award **[1 mark]** for identifying the top level of the hierarchy (“manager”; accept “general manager” or “CEO”).

Award **[1 mark]** for identifying the middle level of the hierarchy *ie* middle management (“Head of Reception”, “Head of Housekeeping”; both titles do not need to be present; candidates could also add others such as “Head of Restaurant”).

Award **[1 mark]** for identifying a lower level of the hierarchy (“Receptionist”; candidates could add others such as “Waiter”).

Award **[1 mark]** for the overall shape of the organization chart.

N.B. Do not reward *GP* as a level as the question is about *The Imperial*.

Award up to a maximum of **[4 marks]**.

(c) Analyse the advantages *and* disadvantages for *GP* of using a SWOT analysis. [7 marks]

A SWOT analysis has several advantages:

- the acronym is well-known (strengths, weaknesses, opportunities, threats)
- the framework is easy to understand (positive aspects: strengths and opportunities; negative aspects: weaknesses and threats)
- it is an expected element of the study of any organization
- a key advantage of the model is that it covers both internal and external aspects.

This is good for *GP*, as it provides a simple and yet comprehensive overview of internal aspects (such as the internal tensions and conflicts around Susan's leadership style, as a weakness) and external ones (such as the increasing competition from other high-quality local hotels, as one of the threats).

A SWOT analysis however has several disadvantages:

- it would only give a snapshot of *The Imperial* at a particular time (for example, the liquidity problems, as a weakness, are only relevant during certain months of the year)
- it would also need to be revised regularly, following changes in the internal environment (for example, if the quality of the hotel was deteriorating, as a new weakness) or in the external environment (for example, if tourism to Mombasa was suddenly decreasing or stopping, following an outburst of terrorist activity)
- it produces many ideas, but without any sense of priority nor solution or decision
- it is also likely to be based on opinions and therefore subject to bias.

Accept any other relevant advantage and disadvantage with relevant analysis.

N.B. candidates are **not** asked to do a SWOT analysis. The question is about the advantages and disadvantages of using the model. If an answer only consists of a SWOT analysis, award a maximum of **[2 marks]**.

If an answer is one-sided award a maximum of **[5 marks]**.

If an answer has no context award a maximum of **[3 marks]**.

Marks should be allocated according to the markbands on page 3.

– 8 –

N14/3/BUSMT/SP1/ENG/TZ0/XX/M

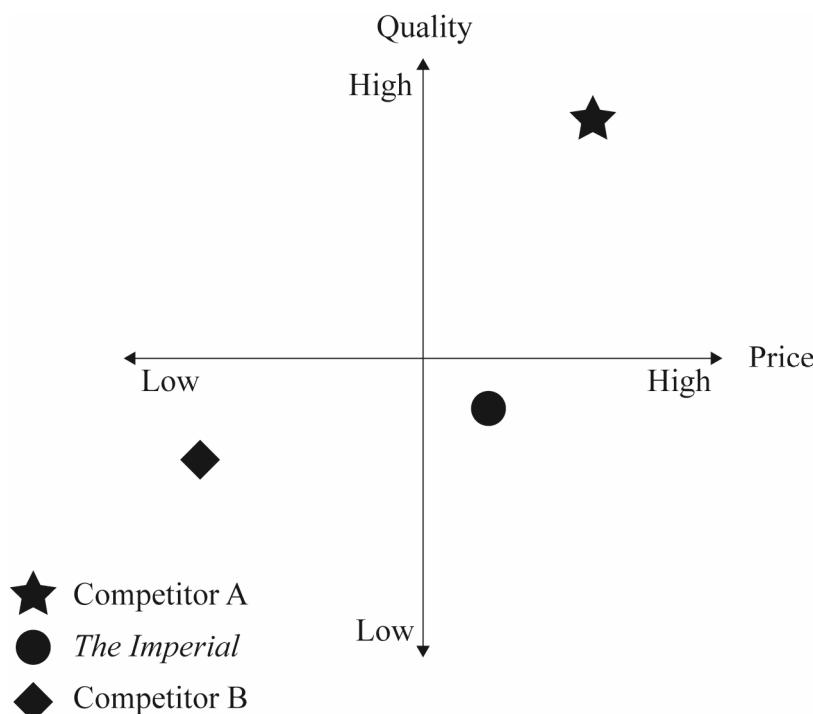
2. (a) Martin constructed a position map (line 60). With reference to *The Imperial*, describe what this position map may look like. **[4 marks]**

The position map is a diagram which shows a product (or in this case: an organization, *The Imperial*) in relation to its competitors (other local hotels). Martin will have chosen two key variables for the axes *x* and *y* (for example price and quality, or reputation and price), with scores ranging from low to high. Martin will have positioned *The Imperial* on that diagram (hence the name “position map”) as well as the other hotels it competes with.

Accept any other relevant description.

Award **[1 mark]** for each valid element of the answer, up to a maximum of **[4 marks]**.

N.B. candidates are **not** asked to draw a position map. They may do so if they wish, in order to illustrate their answer. Candidates will not be penalized if they do not draw the diagram. The command term is “describe” so candidates’ answers could be textual. If a diagram has no reference to *The Imperial*, award a maximum of **[2 marks]**. For **[4 marks]** the diagram would need to be fully-labelled, as illustrated below. (The chosen axes and the position of *The Imperial* will vary.)



– 9 –

N14/3/BUSMT/SP1/ENG/TZ0/XX/M

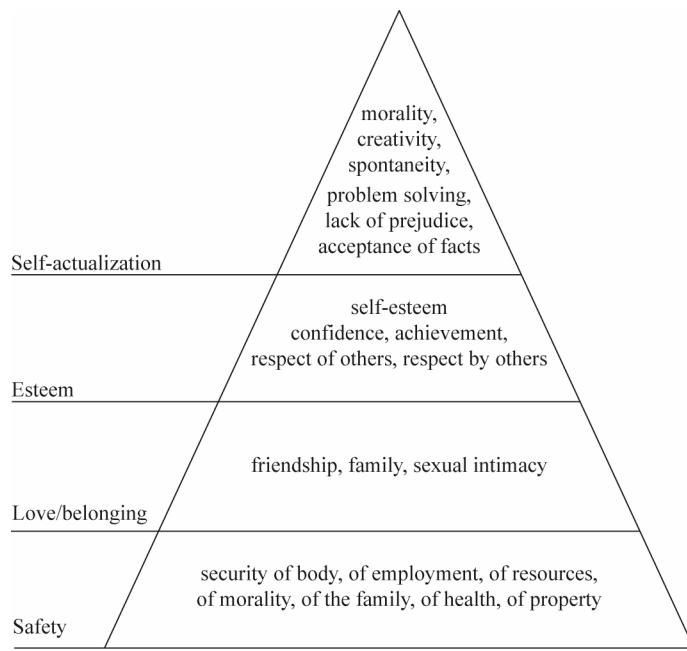
- (b) Using Maslow's motivation theory, explain two reasons why Martin had applied for the job of manager at *The Imperial*.**

[4 marks]

Martin was working as a receptionist, then Head of Reception, at *The Imperial*. He had a full-time job, so to use Maslow's motivation theory, his lower-order needs were fulfilled (physiological needs: food, shelter; safety needs: security, income).

The case study also mentions the fact that he has a wife called Anima and two lovely daughters, so his love/belonging needs are fulfilled as well.

For Martin, applying for the job of manager was an ideal way to fulfil his needs in terms of esteem (self-esteem, achievement, respect by others) and even self-actualization: pride to be “managing the hotel where his father had been a groundskeeper years earlier” (lines 46–47).



[Source: Clark, P. et al., 2009, *Business and Management Course Companion*, page 125, Glasgow, U.K. Oxford University Press]

Accept any other relevant explanation.

Mark as 2 + 2.

Award **[1 mark]** for each valid reason identified and **[1 mark]** for each explanation (with a direct link to Maslow). Award up to a maximum of **[4 marks]**.

N.B. candidates are **not** asked to draw Maslow's pyramid of needs. They may do so if they wish. Candidates will not be penalized if they do not draw it. If an answer only consists of a diagram, award a maximum of **[2 marks]**.

– 10 –

N14/3/BUSMT/SP1/ENG/TZ0/XX/M

- (c) With reference to *The Imperial* and to *one other business that you have studied*, analyse the importance of leadership styles in an organization. [7 marks]

Leadership styles: autocratic, laissez-faire and democratic are important in all organizations. They help understand and explain how managers (both senior managers and middle managers) relate to their employees.

Leadership styles at *The Imperial*: Susan is rather autocratic (which explains the tensions with the cleaners that she manages, and even the threat of industrial action), whereas Martin appears as more conciliatory (which is typical of a laissez-faire or situational leadership style). In the case of Susan and Guthoni, the misunderstandings that have happened might be based more on a lack of communication (if Susan had known about Guthoni's health problems, she might have reacted differently, not dismissing her) rather than on Susan's leadership style alone.

The same ideas about leadership can be observed in other organizations; leadership styles are largely due to the personality of the leader, though other factors may come into play, such as the organization's culture (for example: employees' expectations, or their experience with previous managers). Leadership styles are important to a certain extent, however they are often based on stereotypes. The reality of leadership is more complex.

Accept any other relevant analysis.

N.B. by contrasting leadership styles, candidates can implicitly develop ideas of importance.

If only one leadership style is analysed award a maximum of **[5 marks]**.

If no application to *The Imperial* award a maximum of **[3 marks]**.

Marks should be allocated according to the markbands on page 3.

3. (a) Describe the importance of monitoring the cash flow at *The Imperial*. [4 marks]

Cash flow is the movement of money in and out of a business. It can refer to actual cash flows or forecast cash flows.

Monitoring cash flow is important to avoid cash shortages which could lead to liquidity problems, *ie* a situation where the business does not have enough money to pay its bills and debtors. It is also useful in managing expenditure, planning and decision making.

In the case of *The Imperial*, cash inflow mainly comes from the hotel operations (rooms), as well as other services (restaurant, special events); Martin calls them “profit centres” (*line 67*). Cash outflow will include all expenditure (staff wages, energy bills, maintenance *etc*).

Cash-flow problems can happen at *The Imperial* in the short term because of the seasonality of hotel operations: in some months of the year, *The Imperial* has fewer customers (so less cash inflow) but still has substantial cash outflow – this imbalance is the reason why Martin needs to “implement strategies for dealing with those liquidity problems” (*line 66*).

Accept any other relevant description.

Award **[1–2 marks]** for a limited answer that conveys partial knowledge and understanding. Such an answer is likely to define cash flow **[1 mark]**, and make reference to the factors influencing cash flow **[1 mark]**, but without considering the importance of monitoring the cash flow.

Award **[3–4 marks]** for a full, clear description that conveys knowledge and understanding of the importance of monitoring cash flow at *The Imperial*. For **[4 marks]** the answer will refer precisely to the case study.

- (b) With reference to Craig Chapman's orphanage and to *one other* non-profit organization that you have studied, explain *two* objectives of non-profit organizations.

[4 marks]

Non-profit organizations may have different objectives (which, by definition, are not about making profit). It could be a humanitarian motivation, as in the case of Craig Chapman's orphanage. It could also be for lobbying/campaigning purposes, either on a global scale (in the case of pressure groups such as Amnesty International and Greenpeace), or on a local scale (in the case of action groups protesting, for example, against the construction of a new airport or motorway).

Accept any other relevant objectives and relevant explanation.

Mark as 2 + 2.

Award **[1 mark]** for each relevant objective identified, and **[1 mark]** for the development/exemplification of that objective. Award up to a maximum of **[2 marks]** per objective.

- (c) Examine how changes in the external environment may impact upon *The Imperial's* operations.

[7 marks]

Changes in the external environment may include a range of aspects, some that are identified through a PEST analysis (political changes, economic changes, socio-cultural changes, technological changes).

Changes that are specific to the business environment in which *The Imperial* operates include:

Political: Although Kenya is a stable country, political turmoil is always possible (as in the neighbouring countries, see *lines 15–16*), which could lead to a decrease in the number of foreign tourists going to Mombasa. This would negatively affect the operations of *The Imperial* (and the hotel's profit levels); in turn, *GP* would have to review the target profits (*line 24*) and the objectives.

Economic: Changes to the economy may have two dimensions: improved economic conditions in the countries from which customers originate could have a positive impact on *The Imperial*. Changing economic conditions in Kenya could have an impact on interest rates, exchange rates, wages. All of which have an impact on *The Imperial's* operations costs and therefore profits.

Sociocultural changes: All sorts of possibilities. For example, if *The Imperial* were featured in a very famous film, thousands of international tourists would want to go there (and Martin could then try to push for faster renovation and modernization of parts of the hotel, to cater for the sharp increase in demand, or he could raise *The Imperial's* prices substantially).

Technological changes: *The Imperial's* competitors are already far more advanced technologically. Customers, too, use technology much more for finding hotels and booking them. If *The Imperial* does not keep up to date it will lose further market share.

N.B. competitor's behaviour can be considered as an impact.

Accept any other relevant examination.

N.B. to reach the highest markband, candidates must refer to more than one type of change.

For an answer with no context award a maximum of **[3 marks]**.

For only one change award a maximum of **[4 marks]**.

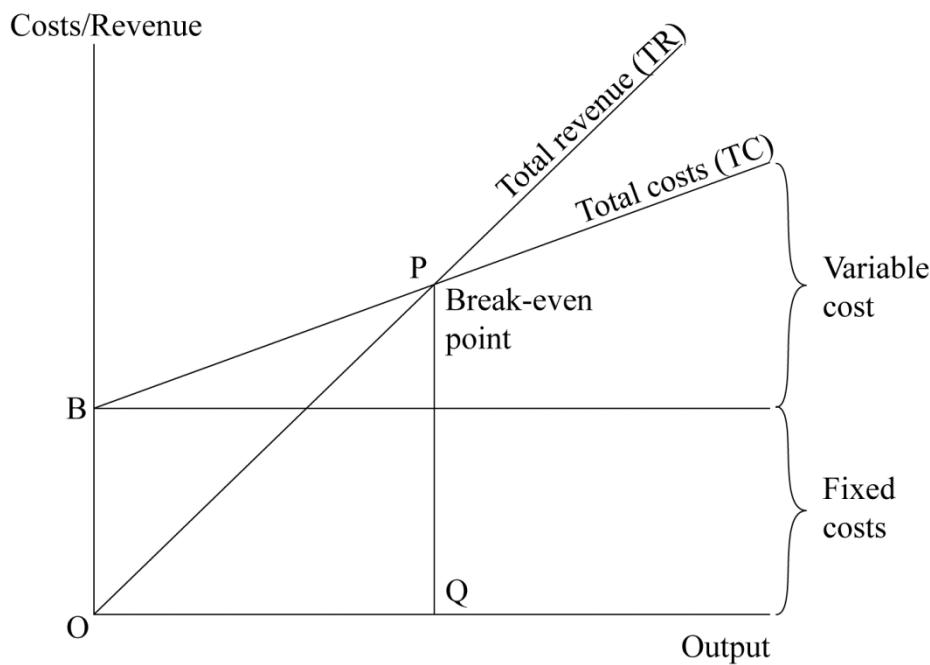
Award a maximum of **[2 marks]** for internal factors.

Marks should be allocated according to the markbands on page 3.

SECTION B

4. (a) “Once a year, the manager and a representative from GP would meet to calculate the break-even quantity...” (lines 23–24). Use a fully labelled diagram to describe the break-even analysis model (no figures required). **[4 marks]**

For this question, unlike 2(a), candidates are not expected to write text: a diagram alone is enough. The answer will look like the following diagram:



Award **[1 mark]** for the overall layout of the break even with both axes correctly labelled (horizontally: time or quantity/number of rooms; vertically: price/\$/sales/costs/revenue).

Award **[1 mark]** for correct indication of the costs (fixed/variable).

Award **[1 mark]** for correct indication of the total revenue and total costs.

Award **[1 mark]** for correct indication of the break-even point.

N.B. Candidates are **not** asked to mention the margin of safety.

- (b) Explain the meaning of the sentence “[Martin] believed in empowerment”
(line 90).

[2 marks]

Empowerment is a form of non-financial reward and a motivational technique; it means that some power is given to employees so they can make some of their own decisions regarding their working life (for instance at *The Imperial*, a receptionist may have control over how to use their time, or the chef at the restaurant could decide on the menus and dishes). The fact that Martin likes to empower employees, whenever possible, means that he is ready to give them some autonomy (in contrast to Susan’s leadership style).

Accept any other relevant explanation.

Award **[1 mark]** for an answer that provides a correct definition of empowerment.

Award **[2 marks]** for an answer that explains the meaning of the sentence in relation to Martin (his leadership style, or the way he motivates his employees).

- (c) Explain the following *two* elements of the marketing mix in the case of a hotel such as *The Imperial*: place and physical evidence. **[6 marks]**

Place refers to distribution channels, *ie* how the business (the hotel) can ensure that customers gain access to its products (the rooms); put another way, how potential guests book a room at *The Imperial*. Option 3 (strategic alliance with *KenSafar*) is a new distribution channel for *The Imperial*; the tour company would ensure a steady flow of guests staying at *The Imperial*, though of course there are conditions attached, such as paying *KenSafar* a 20 % commission, which is high. Alternatively, for its distribution, *The Imperial* could use online tour operators (websites such as *Expedia* are often used by hotels).

Physical evidence refers to the aspects of the hotel that guests directly experience, for example the lobby and reception area, the old-fashioned furniture and their old colonial style. Although *The Imperial* does not offer the same facilities as some of its competitors (*lines 50–51*), the physical evidence itself seems very good overall, as noted by the journalist who praised the housekeeping at the hotel (*lines 106–107*).

Accept any other relevant explanation.

Mark as 3 + 3.

Award **[1 mark]** for each correct definition (of place / physical evidence), and **[1 mark]** for each development/exemplification of that element of the marketing mix, up to **[2 marks]**. Award up to a maximum of **[3 marks]** for each element.

- (d) Discuss the usefulness of the Ansoff matrix when choosing between the three options available to Martin.

[8 marks]

	Existing Products	New Products
Existing Market	Market Penetration	Product Development
New Markets	Market Development	Diversification

Option 1 is an “existing market” (“same customer types” see *line 135*) but with a slightly different product – however this is still a hotel, so “product development” is not the most appropriate description (it would be “product development” if the hotel started offering conferences or business facilities).

Option 2 is a slightly different market (though still tourists in Kenya) with a slightly different product (some improvements to the hotel) – but talking about “diversification” may be too exaggerated.

Option 3 is quite a different product (though still a hotel) with quite a different type of customer (still visitors to Mombasa though), so again “diversification” would not be appropriate.

Nonetheless by considering Ansoff it does focus attention on the concept of “risk”. The three options at the end of the case study illustrate the limits of the Ansoff matrix because they do not fit into neat categories.

Accept any other relevant discussion.

N.B. candidates are not asked to draw the Ansoff matrix itself (*ie* the table); candidates are very likely to do so, but a candidate could receive full marks without it. Put another way, a candidate will not be penalized if their answer is only textual.

Award a maximum of **[5 marks]** for a discussion of fewer than 3 options.

Award a maximum of **[3 marks]** for a discussion of options without reference to the Ansoff matrix.

For a one-sided discussion award a maximum of **[6 marks]**.

Marks should be allocated according to the markbands on page 4

N14/3/BUSMT/SP2/ENG/TZ0/XX/M



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MARKSCHEME

November 2014

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

27 pages

– 2 –

N14/3/BUSMT/SP2/ENG/TZ0/XX/M

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A		Section B			Level descriptors	
Q1 (f)	Q2 (d)	Q3 (d)	Q4 (c)	Q5 (d)		
Marks 0–5					<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology. <ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the stimulus material. The response is mainly theoretical. <ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the stimulus material, not just to the name of the organization. <ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the stimulus material. 	
0						
1–2						
3–4						
5						

Section B			Level descriptors
Q3 (e)	Q4 (d)	Q5 (e)	
Marks 0–7			
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the stimulus material.
3–4			<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues and concepts. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the stimulus material, not just to the name of the organization. • The response is mainly theoretical.
5–6			<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the stimulus material are made at places in the response.
7			<ul style="list-style-type: none"> • A response with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the stimulus material are made throughout the response.

– 5 –

N14/3/BUSMT/SP2/ENG/TZ0/XX/M

SECTION A**1. (a) (i) Define the term *secondary sector*. *[2 marks]***

Secondary sector refers to the manufacturing and processes whereby raw materials (derived from the primary sector) **or** already manufactured components are transformed into finished goods for sale.

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding. In general, the **[1 mark]** will key on use of the word manufacturing or production but with little elaboration.

Award **[2 marks]** for a definition that conveys knowledge and understanding similar to the answer above, through elaboration, comparison (to primary or tertiary sectors) or exemplification.

For **only** a relevant example **or** application to the stimulus award **[1 mark]**.

(ii) Identify *two* advantages to *SF* of being a private limited company. *[2 marks]*

For *SF* the advantages could include:

- limited liability of shareholders
- capital raised through the sale of shares
- increased credibility of the business, which can facilitate borrowing and other activities
- no risk of loss of control of company
- continued legal existence of the business when a shareholder dies
- though the degree of privacy information varies from country to country, in general private limited companies have more privacy than public limited companies, and more privacy could be listed as an advantage
- *accept any other relevant advantage.*

It is easier to obtain financing, often in the form of additional share capital, but **not** necessarily from a bank loan or as an unsecured bank loan. In the context of this stimulus, becoming a private limited company would not increase the likelihood of getting unsecured financing.

Award **[1 mark]** for each correct and relevant advantage of *SF* being a private limited company identified. Award up to a maximum of **[2 marks]**.

– 6 –

N14/3/BUSMT/SP2/ENG/TZ0/XX/M

(b) Explain why electricity is a semi-variable cost for SF.**[2 marks]**

Semi-variable costs have characteristics of both fixed and variable costs. *SF* has to pay a fixed monthly rate of \$100, which is a fixed-cost characteristic: this \$100 must be paid every month regardless of output. *SF* must also pay \$0.10 for each kilowatt hour, which is a variable-cost component: the amount of electricity usage (and, thus, the cost) will vary according to output.

Candidates are **not** expected to word their explanation **exactly** as above. Be attentive for candidates explaining variable costs rather than semi-variable. If they define variable cost (rather than using it as a contradistinction) award **[0 marks]**.

Award **[1 mark]** for an explanation that conveys knowledge and understanding of semi-variable costs (explanation but no application to the stimulus).

Award **[2 marks]** for an explanation of how electricity is a semi-variable cost for *SF* (explanation with application to the stimulus). For **[2 marks]** candidates must convey the idea (though they do **not** have to use the exact wording) of varying according to output.

- (c) Prepare a monthly cash-flow forecast for SF for the first four months of operation.

[6 marks]

All figures in \$

	Month 1	Month 2	Month 3	Month 4		Total
Sales revenue	1000.0	1200.0	1440.0	1728.0		5368.0
Payments						
Manager's salary	300.0	300.0	300.0	300.0		
Workers' wages	350.0	525.0	700.0	875.0		
Variable costs	400.0	480.0	576.0	691.2		
Electricity fixed	100.0	100.0	100.0	100.0		
Electricity variable	10.0	11.0	12.1	13.31		
Total payments	1160.0	1416.0	1688.1	1979.51		6243.61
Net cash flow	-160.0	-216.0	-248.1	-251.51		
Opening balance	15000.0	14840.0	14624.0	14375.9		
Closing balance	14840.0	14624.0	14375.9	14124.39		
					Profit	-875.61

Apply Own Figure Rule (OFR): if a candidate makes an error in one row and carries it through the remainder of the forecast, that is only one error.

N.B. if a candidate rounds, for example, 691.2 to 691, that is acceptable provided the candidate rounds correctly.

[1 mark]

The candidate conveys some understanding of what a cash-flow forecast is, but otherwise the forecast is largely inaccurate, incomplete, or illegible.

[2–3 marks]

A cash-flow forecast is drawn, but either it is not in a generally accepted format or it is untidy, and the forecast contains two or more errors.

[4–5 marks]

The cash-flow forecast is drawn essentially correctly and neatly in a generally accepted format (and includes clear rows indicating opening and closing balance), but there is one or two errors.

[6 marks]

The cash-flow forecast is drawn accurately and neatly in a generally accepted format (and includes rows opening balance, closing balance and net cash flow), and is error free. Substituting the term “net profit” in the cash-flow forecast for “net cash flow” is inaccurate.

If the candidate has only one row for all cash outflows, subtract **[1 mark]** from the total mark awarded.

– 8 –

N14/3/BUSMT/SP2/ENG/TZ0/XX/M

- (d) Calculate SF's forecast net profit for the first four months of operation
(show all your working).

[2 marks]

All figures in \$. Candidates may calculate this in several ways.

One method is determining first four months' sales revenue by adding monthly sales revenue:

$$1000 + 1200 + 1440 + 1728 = 5368$$

Then adding total monthly payments (all expenses):

$$1160 + 1416 + 1688.1 + 1979.51 = 6243.61$$

Then calculate net profit by subtracting all expenses from total sales revenue:

Net profit for first four months:

$$5368 - 6243.61 = (875.61), \text{ or } -875.61$$

Another method would be to subtract the opening balance from the closing balance:

$$14124.39 - 15000 = (875.61), \text{ or } -875.61$$

There might be other means whereby the candidate calculates the net profit (for example, adding up the monthly net cash-flow figures).

N.B. some candidates may read the question such that they calculate the net profit for each of the four months. In that case, award **[1 mark]** for correct procedure and **[1 mark]** for the correct answers (four different profit figures: -160, -216, -248.1, -251.51, in total -875.61).

[1 mark]

If a candidate **who has shown working** provides a correct procedure (thus, demonstrates an understanding of the underlying concepts) but has made an error in calculation.

[2 marks]

Candidate provides the correct answer with working.

– 9 –

N14/3/BUSMT/SP2/ENG/TZ0/XX/M

- (e) Calculate SF's forecast net profit margin for the first four months of operation.

[1 mark]

$$\frac{-875.61}{5368} \times 100 = (16.31\%), \text{ or } -16.31\%$$

Accept -16.3% but **not** -16% .

If the candidate calculates net profit margin by month, the correct answers are:

Month 1: -16%
 Month 2: -18%
 Month 3: -17.22%
 Month 4: -14.55%

Award **[1 mark]** if the candidate provides the correct answer(s). Working not required.

- (f) Examine *two* potential stakeholder conflicts when Gepa opens his factory. **[5 marks]**

Potential stakeholder conflicts include:

- Gepa versus the residents of the village over the issues of pollution and smells and/or versus pressure groups;
- Gepa versus the local government employment office over working conditions at the factory;
- Gepa versus the potential workers over working conditions;
- potential workers versus employment agency and/or residents of the village over whether the factory should open
- accept other relevant potential stakeholder conflict.

Accept any other relevant examination.

If a candidate lists two stakeholder conflicts and names the stakeholders, and the response is based on the stimulus, the candidate should be awarded **[3 marks]**, provided what they have written is largely accurate (though is perhaps **not** well developed).

N.B. according to the stimulus, Gepa will own 100% of the shares of SF. Therefore, disagreement between shareholders, or between Gepa and other shareholders, is **not** an acceptable stakeholder conflict.

If a candidate examines only **one** stakeholder conflict, award a maximum of **[3 marks]**. In the case of only **one** stakeholder conflict addressed award **[1 mark]** for identification of the stakeholder and **[1 mark]** for identification of the stakeholder and their conflict, award an additional **[1 mark]** for application to the stimulus, and an additional **[1 mark]** for depth and nuance.

Marks should be allocated according to the markbands on page 3.

– 10 –

N14/3/BUSMT/SP2/ENG/TZ0/XX/M

2. (a) (i) Describe how *one* demographic change in Finland affects RG. [2 marks]

The one demographic change mentioned in the stimulus is the higher level of education that Finnish youth have in contemporary society compared to some earlier periods. Thus, “recently, RG has struggled to recruit talented teenagers for the apprentice program.”

Though it is unlikely that many candidates would know of any other demographic changes in Finland (that is, a change not mentioned in the stimulus), accept it if it is correct and appropriate to the situation in the stimulus.

Award **[1 mark]** for a response that conveys partial knowledge and understanding of demographic change.

Award **[2 marks]** for a full, clear description of a demographic change in Finland affecting RG.

(ii) Identify *two* features of a flow production process. [2 marks]

Features of flow production include:

- Standardized/similar product
- comparatively easy to expand production
- finished product is completed continuously
- high degree of automation
- workforce can be unskilled or semi-skilled
- workforce can be specialized (even if unskilled)
- large scale of production (accept economies of scale)
- low cost per unit (do **not** accept just “low cost” or “cheaper”)
- high/higher fixed costs
- all stages of production are interdependent (accept: “if a problem occurs in one place in the assembly line, the whole production stops”).

Accept any other relevant feature of a flow production process.

Many candidates may struggle with the difference between a feature and an advantage/disadvantage. If the examiner can reasonably infer a feature from a stated advantage or disadvantage (such as large scale of operation versus economies of scale) award **[1 mark]**.

Award **[1 mark]** for each correct feature of a flow production process identified. Award up to a maximum of **[2 marks]**.

– 11 –

N14/3/BUSMT/SP2/ENG/TZ0/XX/M

(b) Calculate for RG for one year:

- (i) manager's and craftsmens' salaries (figure X).**

[1 mark]

$$(42 \text{ craftsmen} \times €50000) + €70000 = €2170000$$

Award **[1 mark]** for the correct answer (working not required).

- (ii) the break-even level of output (show all your working).**

[2 marks]

$$\text{Break-even level of output} = \frac{\text{fixed cost}}{\text{contribution}}$$

$$\text{Fixed costs} = 120k + 480k + 2170k + 700k + 600k = 4070000$$

$$\text{Contribution} = 1200 - 275 = 925$$

$$\text{Break-even level of output} = \frac{4070000}{925} = 4400$$

Which means the break-even level of output is 4400 units.

Apply candidate own figure rule (OFR).

[1 mark]

If a candidate **who has shown working** provides a correct procedure (thus, demonstrates an understanding of the underlying concepts) but has made an error in calculation.

[2 marks]

Candidate provides the correct answer with working.

– 12 –

N14/3/BUSMT/SP2/ENG/TZ0/XX/M

(iii) the profit or loss last year (*show all your working*). **[3 marks]**

Profit is calculated by total revenue – total costs, where total costs equal total fixed costs + total variable costs.

$$\text{Total revenue: } 4920 \text{ units} \times €1200 = €5904000$$

$$\text{Total fixed costs: } 120000 + 480000 + 2170000 + 700000 + 600000 = €4070000$$

$$\text{Total variable costs: } 4920 \text{ units} \times (225 + 35 + 15) = €1353000$$

$$\text{Total costs} = €4070000 + €1353000 = €5423000$$

$$\text{Total revenue} - \text{total cost} = €5904000 - €5423000$$

$$\text{Profit} = €481000$$

Candidates may also use the contribution method, calculated as follows:

Sales in units – break-even quantity = margin of safety

$$4920 - 4400 = 520 \text{ units}$$

Margin of safety \times contribution = profit

$$520 \times (1200 - 275)$$

$$520 \times 925 = €481\,000$$

Apply candidate own figure rule (OFR).

Award **[1 mark]** if the candidate clearly demonstrates an understanding of how to calculate the profit (candidate shows revenue – expenses = profit, or an understanding of the contribution method).

Award **[2 marks]** if the candidate demonstrates that the method properly but makes an error in the calculation.

Award **[3 marks]** if the candidate demonstrates the method (show working) and correctly calculates the answer.

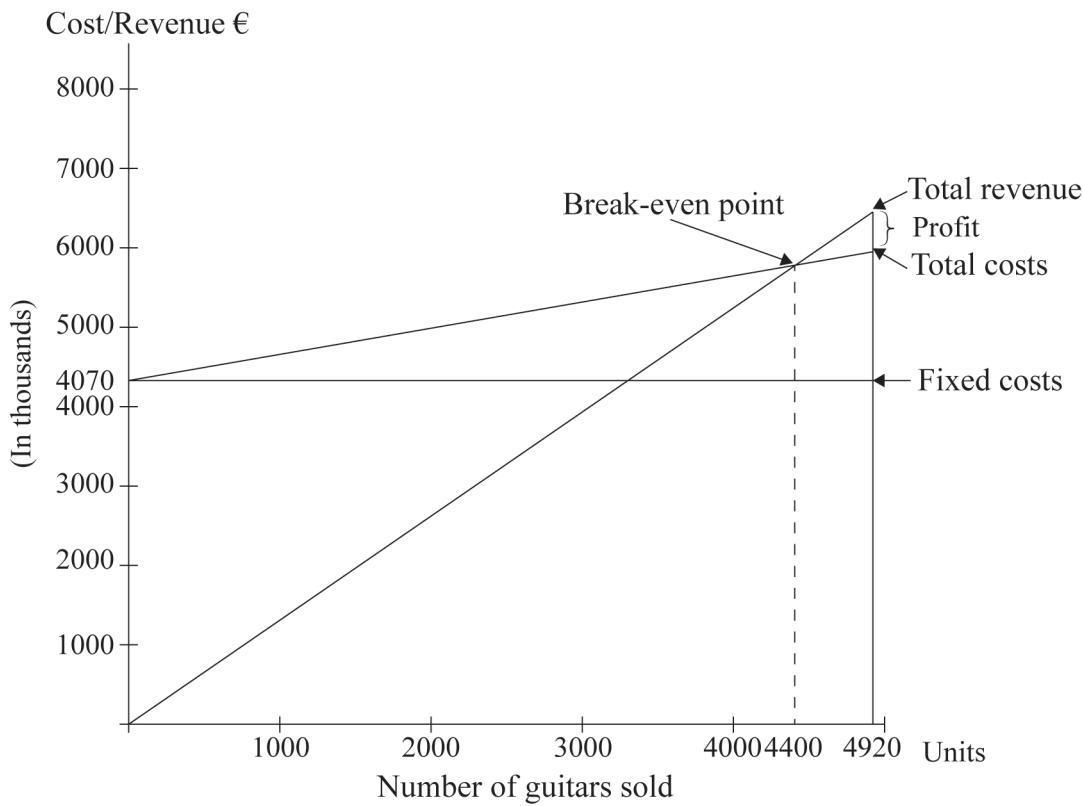
If the candidate produces the correct answer, but does not show working, award a maximum of **[2 marks]**.

– 13 –

N14/3/BUSMT/SP2/ENG/TZ0/XX/M

(c) Construct a fully labelled break-even chart for RG.

[5 marks]



Award marks as follows:

[1 mark] for each appropriately labelled axis – maximum of [2 marks].

[1 mark] for an accurately drawn and labelled total revenue curve.

[1 mark] for an accurately drawn and labelled total costs curve.

[1 mark] for the identification of the break-even level of output.

Award [0 marks] if a candidate produces a table, and award no more than [3 marks] if the chart is not neat, not drawn with a straight-edge, or is not to scale.

Ideally, the candidate will draw an arrow pointing to the break-even point and label the arrow. However, accept as an “appropriately labelled” break-even point a vertical line from the x -axis to the break-even point provided that the line is labelled “break-even point”.

If the candidate does **not** specify the scale by placing numbers periodically on the axes (1000, 2000, 3000, etc) they have **not** demonstrated the scale, and, therefore, award a maximum of [3 marks].

If the candidate labels the x axis as “sales” **and** the numbering on the axis corresponds to the unit of output of RG (that is, the number scale is in the range of 0 to 5000 +/-) accept sales as a correct label.

- (d) Analyse the possible impacts of Anni's proposed changes on the motivation of the workers at RG.

[5 marks]

The impact of the changes on the motivation of workers will be significant and mostly negative. Currently the workers enjoy the prestige and intrinsic rewards of being professional craftsmen. Those intrinsic rewards include the knowledge that they are making a high-quality product that requires specialized training and skill, and the camaraderie that comes from being in an “elite” group of skilled workers who know how to make their product. Because their skill is specialized, they also receive the extrinsic motivation of high pay (€50 000 per year).

When the factory is converted, the workers will go from doing jobs that require highly specialized skills to ones that require far less skill. The work routine will become more routine and less interesting. They will probably take less pride in their work as a professional craftsman will not be personally responsible for individual guitars that he and two apprentices made. While in the short run most workers retain some degree of their camaraderie, as people who had been trained in the craft, over time this sense of group consciousness will probably diminish.

One positive of Anni's changes is that all current employees will retain their high salaries. Another positive is that the changes Anni is making may keep the business in operation. RG has high operating leverage (that is, high fixed costs) and must sell many guitars to break even. If RG lost the ability to attract teenagers into the craft, a reduced number of workers might mean an inability to produce enough guitars to break-even. Workers will at least be motivated by having a job and, for current workers, a well paying one.

In the long run, these changes will significantly adversely affect motivation. New employees will receive only half the pay of the skilled workers, even though they will be doing the same jobs. This will cause dissension. Eventually, when all the skilled workers have retired, RG will employ mostly low-skilled workers receiving low pay, which creates a difficult motivational situation.

Accept any other relevant analysis.

If the answer has some balance, has application to the stimulus, and effectively applies theory, an answer would typically be in the **[4–5 mark]** range. Be attentive when candidates use theory, for often they use it poorly or ineffectively. Just the use of a name (Maslow, Taylor, etc) is not sufficient to earn marks for theory.

If the response is a one-sided relevant approach with no analysis, award a maximum of **[3 marks]**.

Marks should be allocated according to the markbands on page 3.

– 15 –

N14/3/BUSMT/SP2/ENG/TZ0/XX/M

SECTION B

3. (a) Identify *two* methods of primary market research that SGS may have used. **[2 marks]**

Types of primary research that SGS may have used include:

- surveys/questionnaires
- focus groups
- personal or telephone interviews.

Accept any other relevant type of primary market research.

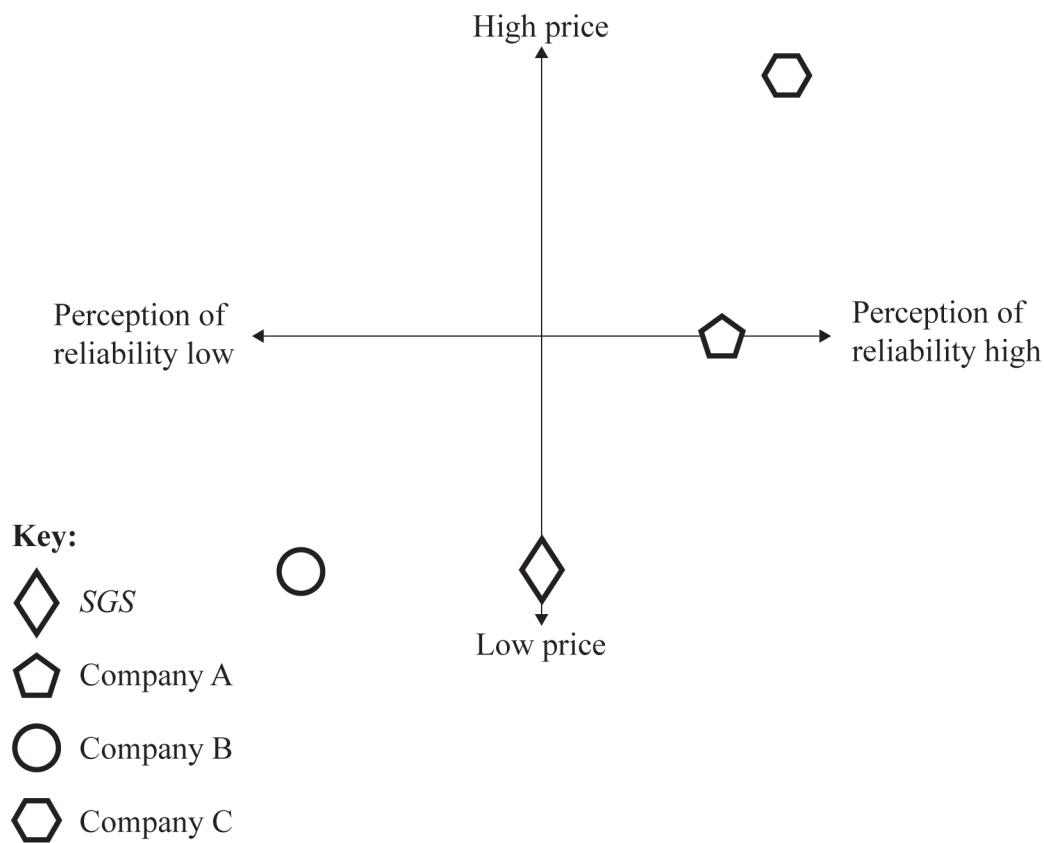
Award **[1 mark]** for each type of primary market research identified. Award up to a maximum of **[2 marks]**.

– 16 –

N14/3/BUSMT/SP2/ENG/TZ0/XX/M

- (b) Using information from the table, construct a fully labelled position/perception map of SGS and its three main competitors.

[4 marks]



Award **[1 mark]** if the candidate has some general sense of what a position/perception map is: two axes on which companies are placed according to a position in the market. Award **[2 marks]** if the candidate labels the axes, one for price, the other for perception of reliability.

Award **[3 marks]** if (i) the candidate labels the axes according to price and perception of reliability and the candidate places three or more of the companies in approximately the correct place.

Award **[4 marks]** if the candidate labels the axes according to price and perception of reliability and the candidate places all four of the companies in approximately the correct place.

(c) Explain *one* disadvantage of Jean-Paul changing to a situational leadership style.

[2 marks]

The central idea of situational leadership is that leaders should adapt their style of leadership according to the situation. There is no best leadership but rather that different contexts (or situations), require different styles of leadership. Possible disadvantages of Jean-Paul changing to a situation leadership style is that:

- He has a bias toward an autocratic leadership style and changing leadership style according to contexts is not always easy. In the stimulus, Jean-Paul decides he will become more democratic, yet ample evidence in the stimulus indicates that a democratic style is not innate to him.
- People in the organization have probably grown accustomed to Jean-Paul's autocratic style and might often feel disoriented were he to change style. In the stimulus, workers and managers accustomed to "fearlessly autocratic" leaders may not find having the authority to make decisions on their own that easy.
- A third disadvantage is that people at SGS may not know when the style changed and the degree to which Jean-Paul wants change according to different situations. Thus, some workers may perceive more freedom when Jean-Paul did not intend that.

Accept any other relevant disadvantage with explanation.

N.B. when the answer is theoretical, with no real application to the stimulus, award a maximum of **[1 mark]**. Also, it is possible for some candidates to be awarded **[1 mark]** for correctly explaining a disadvantage without making fully clear that they understand what situational leadership is. For example, a candidate could explain that a change in leadership styles can disorient employees used to a different style of leadership for **[1 mark]** without otherwise clarifying what situational leadership is.

Award **[1 mark]** for a response that indicates some understanding of what situational leadership is (though they must go beyond the tautology that situational leadership is when leaders adopt a style according to the situation). Award **[2 marks]** for an explanation of a disadvantage of Jean-Paul changing to a situational leadership style. Award up to a maximum of **[2 marks]**.

- (d) Examine the relationship between investment, profit and cash flow for SGS.

[5 marks]

There is a clear relationship between investment, profit, and cash flow at SGS. Jean-Paul's decision to transform SGS into a green company, a decision that will require investment in computers and new airplanes, should lead to several (or many) years of increased market share, which, Jean-Paul believes, will presumably lead, in the long run, to higher profits. In the short run, profits may actually decrease as the company has to absorb the costs of the new computer system and higher fixed costs of the more expensive airplanes. Short-term profits may also decrease as, initially, customers may be unaware of SGS's decision to go green (a situation made worse by Jean-Paul's unwillingness to listen to his Marketing Director). Customers may believe that SGS is merely raising prices and, in response, go to a lower cost carrier. Nevertheless, in the long-run Jean-Paul believes that "going green" is a better strategy for SGS and he is willing to invest in the business for its longer term profitability. Cash flow will also be affected. With higher expenditures, SGS will see pressure on cash flow. This situation will be mitigated against by new sources of finance for airplanes. If the new strategy is successful, eventually SGS will see cash flow improve. Initially, however, that will not be the case.

N.B. balance, in this response, refers to some understanding between short term and long term (though the candidate does not have to use those exact expressions). However, to achieve **[4 or 5 marks]**, the candidate must convey the idea that investment in the short run reduces available funds but the intention is, in the long run, to have those investments paid off with higher profits and improved cash flow.

Accept any other relevant analysis.

Marks should be allocated according to the markbands on page 3.

(e) Discuss the interrelationships between SGS's aims, strategies and tactics. [7 marks]

Aims refer to the approach that is often formulated in a broad way and often corresponds to ideas in the vision statement of an organization. The initial aim of *SGS* is “to deliver all packages on time, at low prices, anywhere in the world”. Strategies are medium-to-long-term means to reach the aims, are more specific, and often have quantifiable objectives supporting them. For example, *SGS*'s strategy includes specific and measurable elements: prices charged to customers, costs, on-time delivery rates, and customer satisfaction. These strategic objectives fit into a long-term framework (“deliver all packages on time, at low prices, anywhere in the world”), but they can be more easily measured. Tactics refers to how the strategy will be achieved. When Jean-Paul decides to change the aims (and strategy of *SGS* to delivering packages on time and, presumably, in as “green” a fashion as the business can achieve profitably), he knows that tactics must change. In this case, that is to transition the fleet to more fuel efficient planes as well as adopt new software for determining routes. Tactics are more precise and concrete approaches to meeting objectives. They have a bearing on day-to-day activities.

There is a hierarchy of objectives (from aims to strategies to tactics) that successful organizations do not always follow; some organizations also have corporate objectives, departmental objectives, team objectives *etc.*

Accept any other relevant discussion.

N.B. do **not** credit the elements of an answer that only copy the stimulus: quotes may be useful, but they must be integrated into the discussion.

Marks should be allocated according to the markbands on page 4.

4. (a) **Describe *one source of finance, other than a bank loan, that Gavin could use to fund the start-up of the new salon.***

[2 marks]

Sources of finance can include the following:

- Trade credit. Gavin could ask suppliers to delay his payments to lead the business to a better cash starting position.
- Leasing allows the firm to use an asset without actually buying it. Gavin could lease some of the equipment that he needs for the new salon.
- Overdraft. Gavin could arrange an overdraft with the bank to spend more money from his account than is currently in it. He could use this finance in the short term to pay wages or suppliers.
- Gavin could ask a friend or relative for a loan.
- Small business grant. Often local authorities or the national government will encourage small businesses to start with grants. These are often free money or a low interest loan.

Accept any other relevant source of finance.

Award **[1 mark]** for a response that conveys partial knowledge and understanding of a source of finance other than a bank loan.

Award **[2 marks]** for a full, clear description of a source of finance other than a bank loan for Gavin.

(b) (i) **Explain *one disadvantage to H&B of introducing a flexitime workscheme.***

[2 marks]

Disadvantages to *H&B* of introducing a flexitime workscheme could include:

- The workscheme itself could be time consuming to arrange. Bettina will have to ensure an optimal work flow and full coverage of all the services she offers.
- Supervision costs could be increased as Bettina will have to supervise and monitor that the required hours are worked by all the employees.
- A flexitime workscheme could also lead to communication problems between workers and Bettina.

Accept any other relevant disadvantage.

N.B. if a candidate says something to the effect that demotivated employees may not come to work or employees will take advantage of the situation, do not award any marks.

Award **[1 mark]** for a relevant and correct disadvantage identified and award an additional **[1 mark]** for an explanation that refers to *H&B* (application). Award up to a maximum of **[2 marks]**.

- (ii) Explain *one advantage and one disadvantage to H&B of using a commission-based financial reward package.*

[4 marks]

Advantages to *H&B* of using a commission-based financial reward package could include:

- It is an incentive to motivate employees to produce more. Workers at *H&B* will put in more effort to increase their income by servicing more clients. Clients will spend less time waiting and as a result, customer satisfaction may be improved; customer base could grow.
- It could help to identify those workers who do not have enough talent or skills for the job; it could also help to identify the ones that need further training.
- Through the use of commission the more clients the higher the pay for workers. The contrary is also true; in times of low demand commission can be a way of adjusting costs for *H&B*.

Disadvantages to *H&B* of using a commission-based financial reward package could include the following:

- Customer service may be resented as workers may focus on quantity of clients serviced rather than providing a good quality service.
- It can cause resentment among workers and prevent employees from working as a team. Motivation can also be negatively affected.

Accept any other relevant advantage and disadvantage.

Mark as 2+2.

Award **[1 mark]** for an explanation that conveys knowledge and understanding of an advantage/disadvantage (explanation but no application to the stimulus).

Award **[2 marks]** for an explanation of an advantage/disadvantage to *H&B* of using a commission-based financial reward package (explanation with application to the stimulus).

- (c) Analyse the importance of Gavin's business plan when seeking finance from his bank manager.

[5 marks]

If Gavin asks for a bank loan, he will have to provide a business plan to the bank manager containing detailed information about the franchise he wants to start up. For instance, Gavin will have to explain his business idea, how he plans to develop and market his business, the resources he requires and who his competitors are. He will also have to back up arguments with documented research and include financial forecasts. A business plan will give the bank manager a summary of the key points of the business and evidence of Gavin's payback possibilities. It is therefore an important tool for the bank manager to assess and minimize the risks of credit allocation.

Although important, business plans have some limitations. Gavin may find it difficult to gather reliable and precise data to cover some of the main points of his business plan. In addition, external factors such as the macro-economic environment could be very difficult for him to predict.

All in all, the bank manager should then supplement Gavin's business plan with other sources of information, such as Gavin's credit history records to fully evaluate the risks of giving him a loan.

Accept any other relevant analysis.

Marks should be allocated according to the markbands on page 3.

- (d) Evaluate the use of franchising as a growth strategy for Bettina and her salon, *H&B*.

[7 marks]

Through the use of franchising, Bettina can expand her business without the need to raise finance and investing her own funds to make her business grow. In addition, if the franchise is successful, Bettina will receive an annual fee of 10 % from Gavin's profits. The expansion will increase *H&B*'s brand value and contribute to local and regional brand recognition. Economies of scale such as purchasing economies of scale could be gained when buying hairdressing products.

Although, in general, franchising may be a quicker way of expanding the business rather than taking an organic-growth route. Franchising serves as a source of expansion for *H&B*, Bettina will still have to cover some costs such as the advertising and training expenses. In addition, if her brother Gavin does not respect quality standards or goes out of business, *H&B*'s brand reputation may be affected. Since Gavin and Bettina are siblings, their commercial relationship could be intermingled with personal or family issues. Their business relationship and the franchise strategy may be compromised. There are some risks to be faced, such as the fact that most of *H&B*'s success is based on Bettina's personal talent, networks and expertise.

Accept any other relevant evaluation.

Marks should be allocated according to the markbands on page 4.

5. (a) Define the term *mission statement*.**[2 marks]**

The term mission statement is an explanation of an organization's reason for existence. It also embodies the organization's philosophies, goals and ambitions.

Candidates are **not** expected to word their definition **exactly** as above.

N.B. award **[0 marks]** if candidates, as part of their response, write down *RP*'s mission statement. Please bear in mind that *RP*'s mission statement is in the stimulus and, thus, just re-writing, with nothing else, does not really demonstrate any understanding.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

(b) Explain *one formal method of communication that might be used at RP*.**[2 marks]**

Formal methods of communication that might be used at *RP* could include the following:

- Oral communication: one-to-one talks, telephone, meetings *etc.* Oral communication can be planned or spontaneous. If someone is an effective speaker, he or she can sharpen the message by control of tone and use of facial expressions and body gestures. With oral communication, the speaker runs the risk of going "off script", which can weaken or compromise the intended message.
- Written communication: memos, reports, notices pinned on boards *etc.* Written communication allows the writer to say exactly what they intend and a permanent record of the communication exists, which can thus be referred back to. With written communication – emails are notorious for this because they are often written in haste – the author has to worry about spirit in which the message will be read and thus the writer has the difficult challenge of conveying tone in writing. Email, letters, or other types of written communication can be considered a substitute for written communication.
- Visual communication: videos, posters, charts *etc.* Visual communication can get people's attention and, if done well, send a message that is easy to remember. With visual communication, the producer can use pictures, format, and other visual cues which shape the viewers understanding. With visual communication, some risk exists that the message will be oversimplified. At other times, visual communication gets to the heart of the matter (YES! to the question of collective action, for example).

Accept any other relevant explanation.

– 25 –

N14/3/BUSMT/SP2/ENG/TZ0/XX/M

Award **[1 mark]** for a correct and relevant identification of a formal method of communication and **[1 mark]** if the candidate provides a reasoned explanation. Candidates do not have to say exactly what is written above, but some relevant explanation of the method they have identified. Award a maximum of **[2 marks]**.

- (c) Explain **one advantage and one disadvantage for McMikey of having a corporate social responsibility policy.**

[4 marks]

Possible advantages: brand image and reputation could be improved as customers will associate *McMikey's* brand name with *RP*; good relationships with local authorities or government enables doing business easier.

Possible disadvantages: costly to maintain; in addition it may cause a disadvantage against competitors who do not have social responsibility programs and thus reduced costs.

Accept any other relevant advantage and disadvantage.

Mark as 2+2.

Award **[1 mark]** for an explanation that conveys knowledge and understanding of an advantage/disadvantage of having a corporate social responsibility policy (explanation but no application to the stimulus).

Award **[2 marks]** for an explanation of an advantage/disadvantage for *McMikey* of having a corporate social responsibility policy (explanation with application to the stimulus).

(d) Analyse the impact on RP of McMikey's offer to pay for the books.**[5 marks]**

As a non-governmental and non-profit organization, *RP* is financially supported by national businesses. Internal sources of finance are not available and public funding seems to be quite difficult to obtain at the moment.

If Alice wants to launch a new literacy program she does not have many options. She could accept *McMikey's* donation as a starting point to finance the program and then contact other national businesses for following up the program.

However, if Alice accepts the offer, the program runs the risk of lacking continuity. If *McMikey's* Finance Manager's views prevail, the new literacy program will only have financial support for two years. If the program is stopped *RP*'s image could be damaged; and staff morale could be negatively affected.

Alice should perhaps revise her expectations and postpone the program until she finds suitable support for a minimum of five years.

Accept any other relevant analysis.

Marks should be allocated according to the markbands on page 3.

(e) Evaluate *RP*'s use of a very large number of part-time volunteers.**[7 marks]**

The use of a large number of part-time volunteers has a direct impact on *RP*'s finance. Using unpaid workers is a low cost and effective way for *RP* to complete the teaching tasks that may not otherwise be done due to a lack of time and resources. *RP*'s savings in recruitment costs would be very important. With a large number of volunteers, *RP* will be able to cover most parts of the city; it will also allow the permanent staff to dedicate their time to plan new projects instead of doing direct teaching. In addition, volunteers are usually vocationally involved and supportive to the cause. It could be very valuable for *RP*'s working environment to have a large number of motivated volunteers.

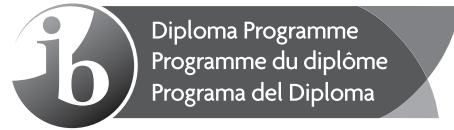
However, a large number of volunteers can be time-consuming in terms of training; *RP* will have to provide them with adequate training if they want their programs to be successful. In addition, a large number of volunteers will be difficult to coordinate; communication problems may arise. As volunteers don't usually work under a contract they could leave unexpectedly and put at risk the continuity of the teaching programs.

All in all, a large number of volunteers can be difficult to manage, however, so far it seems to be the only realistic possibility for *RP* to actually reach its strategic objective.

Accept any other relevant evaluation.

Marks should be allocated according to the markbands on page 4.

M15/3/BUSMT/SP1/ENG/TZ0/XX/M



Markscheme

May 2015

Business and management

Standard level

Paper 1

16 pages

– 2 –

M15/3/BUSMT/SP1/ENG/TZ0/XX/M

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A			Level descriptors
Q1 (c)	Q2 (c)	Q3 (c)	
Marks 0–7			
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the case study.
3–5			<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the case study, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical.
6–7			<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the case study.

Section B	Level descriptors
Q4 (c)	
Marks 0–8	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study.
3–4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the case study, not just to the name of the organization. • The response is mainly theoretical.
5–6	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the case study are made at places in the response.
7–8	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the case study are made throughout the response.

Note to examiners: do not penalize candidates for the use of “LadyA” or “Alejandra” interchangeably in their responses.

Section A

1. (a) (i) Define the term *mission statement* (line 11).

[2]

A mission statement is a statement of a business's core value/aim and it is phrased in a way that will motivate the employees and attract the interest of external stakeholders.

N.B. disregard reference to “short term” / “long term” and allow descriptions which are more appropriate to vision statement.

*Candidates are **not** expected to word their definition **exactly** as above.*

Award [1] for a basic definition that conveys partial knowledge and understanding. Such as mission statement is a statement of a business's core value/aim.

Award [2] for a full, clear definition that conveys knowledge and understanding similar to the answer above.

- (ii) Identify **two** fringe payments, **other than** health insurance, which Mrs Carroccio may have received from the school.

[2]

Fringe payments which Mrs Carroccio may have received include: meal packages / lunch vouchers / coupons, free meal or discounted meal (which is very likely, as she works in the cafeteria); free uniform; free transportation / use of school bus / discounted bus pass (and similar wording); childcare; free English classes; further/higher education classes for herself in a local college; maternity leave; school fees for young Alejandra etc.

It is not possible to write an exhaustive list of acceptable answers – examiners will have to use their professional judgment.

However, do **not** accept:

- Dental insurance / dental plan (too similar to “health insurance”).
- Unrealistic examples (“company car”, “**free** accommodation”, “laptop”, “mobile phone” as Mrs Carroccio has a low-paid job in the cafeteria, it is unlikely that she is offered free accommodation on the school grounds, unlike the school director: the example has to be plausible in the context of the case study).
- Vague answers (“discounts for family members” which is too vague and should be further contextualized; “access to school facilities” which is also too vague – *however accept “free membership of school gym” or “free access to the school swimming pool”*); paid vacation (does this mean a paid vacation package?).
- Cash benefits: overtime, bonuses, share-ownership scheme.
- Training: (which is in the case study: “she received training and some fringe payments...” line 13; the question is designed to assess candidates’ knowledge and understanding of what fringe payments may be).

- Repetitive answers: for “free food for herself and for family members” award [1], not [2].

It is not possible to write an exhaustive list of non-acceptable answers – examiners will have to use their professional judgment.

In some ambiguous cases, examiners may want to give “BOD” (or “NBOD”).

Award [1] for each relevant and correct fringe payment (non-cash benefit) identified for Mrs Carroccio, award up to a maximum of [2].

- (b) **Other than** financial security, explain **one** advantage and **one** disadvantage of Mr Carroccio operating as a sole trader (line 5). [4]

Advantages for Mr Carroccio of operating as a sole trader could include:

- Total ownership and control of his business, where he is his own boss, not requiring to consult with others before making decisions or share the profits.
- Simplest form of organization with fewer legal restrictions for setting up the business.
- Freedom to choose his own holidays, hours of work, prices to be charged, who to employ etc.
- *Accept any other relevant advantage applied to / in context of Mr Carroccio.*

Disadvantages for Mr Carroccio of operating as a sole trader could include:

- Unlimited liability, a sole trader’s business is not considered as a separate legal unit and therefore his personal possessions are at stake if the business cannot pay its debts.
- Limited capital/resources for set up, internal growth and for spending in general. Must largely rely on his own savings and resources, banks are often reluctant to loan to these businesses (Mr Carroccio being turned down several times for bank loans, see line 8)
- Limited pool of ideas and limited experience.
- Must bear the financial risks of the business and all losses on his own. “Sole” refers to the fact that the entrepreneur is the only owner without business partners, though they may employ other people.
- There is no continuity of the business after the death of the owner.
- *Accept any other relevant disadvantage applied to / in context of Mr Carroccio.*

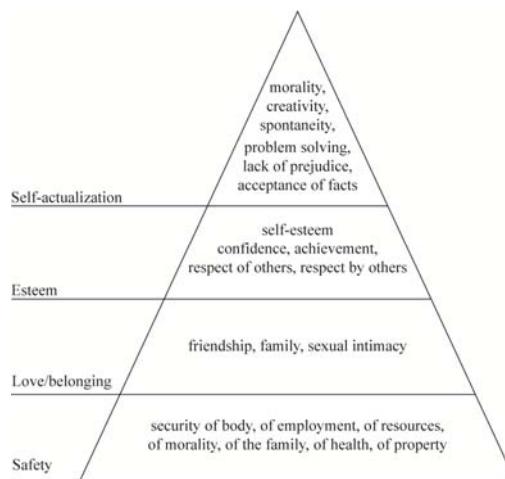
N.B. context of Mr Carroccio is likely to come from limited finance, being new to the country, bank loan refused, and desire to work independently. If the disadvantage is unlimited liability, award [2] when there is a good explanation.

Mark as 2 + 2.

*Award [1] for each correct and relevant advantage / disadvantage identified and [1] for an appropriate explanation, showing why it is an advantage / disadvantage.
Award up to a maximum of [2] for each advantage / disadvantage.*

- (c) Analyse the relevance of Maslow's motivation theory to Alejandra. [7]

Maslow's Pyramid:



[Source: Clark, P. et al., 2009, *Business and Management Course Companion*, page 125, Glasgow, U.K. Oxford University Press]

As young Alejandra approached eighteen, she may have experienced higher-order needs – self-esteem needs, recognition, status. She had several sources of income from CD album sales, concerts, magazine covers and music videos – physiological and safety needs were met. Belonging needs may have been met through her popularity with fans.

One of the future strategic options suggested by K&J could probably allow Alejandra to meet self-actualization needs. These would also generate new streams of revenue for Alejandra.

Candidates could be rewarded for answering how Alejandra could use Maslow to motivate her employees.

Accept any other relevant application / analysis.

N.B. Candidates are not expected to draw the model itself.

If there is only development / analysis of one level of Maslow, award a maximum of [4].

For answers with no effective use of the case study award a maximum of [3].

Marks should be allocated according to the markbands on page 3.

– 8 –

M15/3/BUSMT/SP1/ENG/TZ0/XX/M

2. (a) Define the following terms:

(i) *quality control* (line 115);

[2]

Quality control refers to systems in place at a business to check whether that level of quality has been achieved. It can involve sampling, inspection and checking of quality. It is usually carried out on the product/service rather than the process itself.

Candidates are not expected to word their definition exactly as above.

Award [1] for a basic definition that conveys partial knowledge and understanding.

Award [2] for a full, clear definition that conveys knowledge and understanding similar to the answer above.

(ii) *workforce planning* (line 122).

[2]

Workforce planning refers to the forecast of future human resources, especially in terms of recruitment and training. It normally involves assessing the current workforce and identifying future needs for new skills, or knowledge, in order to help the organization meet its strategic objectives.

Candidates are not expected to word their definition exactly as above.

Award [1] for a basic definition that conveys partial knowledge and understanding.

Award [2] for a full, clear definition that conveys knowledge and understanding similar to the answer above.

Award a maximum of [1] if the answer is only about matching employees to jobs.

- (b) Using information from lines 120–124, explain **two** possible relevant effects, **other than** “employees complained less”, of changing the organizational structure. [4]

Possible effects of changing the organizational structure:

- Better decisions for the business can be made as the Managing Director and Human Resources Manager are specialized in their roles.
- Less employees to manage allows Alejandra time to concentrate on the work that she is involved with and hence carry out her work better.
- Delegating some business functions could make employees/staff feel empowered and hence more motivated.
- Alejandra could feel less in control as she is not managing the majority of staff herself.

Mark as 2+2.

Award [1] for each appropriate effect identified and [1] for an appropriate explanation in context of the case study. Award up to [2] for each effect.

Context is likely to come from raising issues such as:

- previous poor communication
- change to limited company
- change of leadership style
- creation of new roles, such as Human Resources Manager.

- (c) Analyse **two** methods of market research that Alejandra could have used to help her establish her brand (lines 111–112). [7]

Market research is the process of systematically gathering, recording and analysing data about customers, competitors and the market. With market research Ruth Liebermann, through focus groups (a primary market research method), learnt that some English speakers in the US did not like the name “Lady Alejandra” and were unable to make an association with it; therefore Ruth suggested adopting the new name *LadyA*.

The purpose of market research was to help Ruth make better business decisions about the development and marketing of new products. Market research represents the voice of the target market. A list of questions can be answered through market research.

Primary market research methods (first hand and gathered for a specific purpose) could include:

- Questionnaires / surveys: these may include closed or open-ended questions. For example, “do you subscribe to magazines, which ones?” “What type of music do you like?” Questions may be both qualitative as well as quantitative. Gathering opinion in order to design and modify products, *LadyA* and the merchandise to meet preferences.
- Observation: observers “watch” consumers in stores – how readily they notice the CD albums displayed, which magazines they buy; how much time they take in making spending decisions.
- Focus groups: a group of customers brought together to form a panel, to discuss and answer questions prepared by market researchers (example above).

Secondary market research methods (desk research / secondhand data gathered for a different purpose) could include:

- Government data eg census: US demographics and the shift – expanding Spanish-speaking American market, English speakers, Hispanics, number of teenage girls and women in the population. Growth rates, income trends
- Company data, past records, eg accounts, sales data
- The media
- Internet
- Trade organizations
- Competitor data / records, eg sales data.

N.B. allow “methods” to be interpreted as questionnaires, focus groups and so on. The two do not have to be related to primary / secondary. The relationship to “brand” could come from exploring customers and their perceptions.

Accept any relevant analysis.

N.B. do not credit sampling, or sampling methods.

If the answer does not refer to the case study award a maximum of [3].

If there is no reference to “brands” award a maximum of [5].

Marks should be allocated according to the markbands on page 3.

3. (a) Describe the relationship between “opening balance” and “closing balance” in a cash-flow forecast (line 7). [4]

The opening balance is the cash in a business at the beginning of a time period.

The closing balance is the cash in a business at the end of a time period.

Closing balance = opening balance + forecast cash in – forecast cash out.

The closing balance for one time period is the opening balance for the next time period.

N.B. no need to refer to the formula to show full understanding.

Award [1] for each valid element of the answer, up to a maximum of [4].

- (b) “Alejandra needed an accountant to help her prepare her final accounts” (lines 35–36). Explain the importance of final accounts to **two** different *LadyA* stakeholders. [4]

- For owner *LadyA*: to determine the level of profit made from various streams /sources, to determine the most profitable sources and the weaker ones. To determine her total net worth / net assets.
- Government: for taxation purposes (net profit before interest and tax).
- Malaysian manufacturer (perfumes and cosmetics) would be interested in the liquidity ratios: *LadyA*'s ability to pay the 40% balance.
- Employees: *LadyA*'s ability to pay the wages, working conditions, fringe benefits.
- Managers: to maintain and control costs within budgets.
- Fans / customers: little or no usefulness.

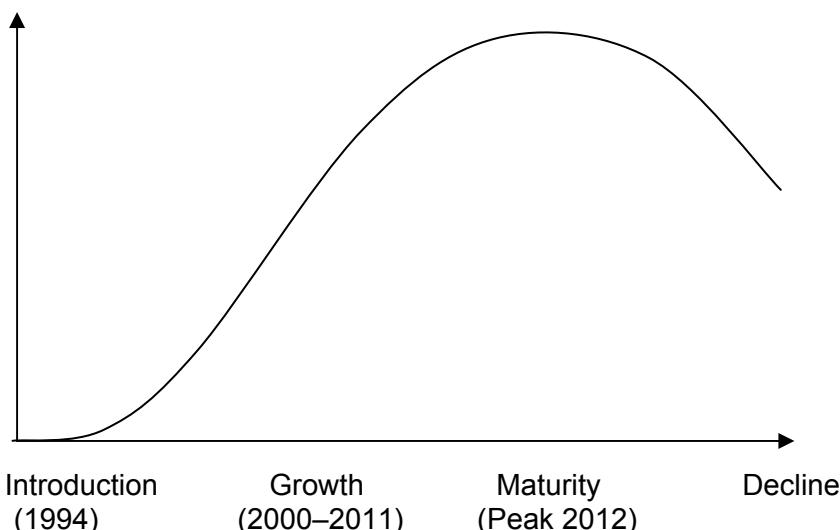
Accept any other relevant stakeholder and explanation.

Mark as 2+2.

Award [2] for theory of what are final accounts / stakeholders and [2] for application of final accounts to two different but relevant stakeholders. Award a maximum of [4].

(c) Analyse the usefulness to *LadyA* of the product life cycle model since 1994.

[7]



1994 – Introduction of *Lady Alejandra* in the film *La Bella Rosa* (**introduction phase**).

2000 – one of the most successful musicians in the US.

2001 – millions of dollars earned through CD album sales, concerts, magazine covers and music videos

2009 – engaged in promotion / endorsements

2010 – her own product line of perfumes and cosmetics

Approximately, the years from 2000 can be shown as **growth phase**.

2012 – was the **peak (maturity phase)** of her media power, wealth and fame (began planning for extension strategies through *K&J*, in order to prevent the **decline phase**).

Knowing the stages of the product life cycle can help a business plan the appropriate marketing mix and the right marketing strategies. It helps identify how cash flow may depend on the product life cycle, which will be at its highest peak in 2012; *LadyA*'s business may also experience economies of scale.

It can identify the need for extension strategies adopted by a business to prevent sales from falling, in order to push sales further; it intends to prolong the maturity phase of the product life cycle. For example, *K&J* were hired to identify extension strategies.

Disadvantages include:

- not always reliable
- do not know where you are
- good concept, but poor in practice.

Accept any other relevant application.

N.B. candidates are not expected to draw the diagram nor write about the events chronologically as above.

For answers without effective use of the case study award a maximum of [3].

If the answer lacks balance award a maximum of [5].

– 13 –

M15/3/BUSMT/SP1/ENG/TZ0/XX/M

*If the response only develops LadyA's product life cycle award a maximum of [4].
The question is about the "usefulness".*

Marks should be allocated according to the markbands on page 3.

Note to examiners: do not penalize candidates for the use of “LadyA” or “Alejandra” interchangeably in their responses.

Section B

4. (a) Describe **one** strength and **one** weakness of K&J's **Option 3** (lines 153–161). **[4]**

Possible strengths could include:

- LadyA associating herself with a “charitable cause, to tackle issues such as malnutrition in developing countries, homelessness in big cities, or international trafficking of children”, demonstrating social responsibility to society.
- Using her personal wealth to set up non-profit organizations to support the above causes – demonstrating responsibility to society, by paying back to them for specific causes to humanity.
- Build new brand identity by appearing on American television talk shows and magazine interviews – an image of a “strong, mature, determined and compassionate woman”, building a new image, a new product life cycle, or extension.

Possible weaknesses could include:

- Lowering media profile for three years – may prove difficult in the media world “out of sight, out of mind” of the target market, new competitors may develop.
- Seeking new revenue streams based on the new brand identity, the outcomes of which are unknown.

N.B. some candidates may identify the use of personal wealth to set up non-profit organizations as a weakness of this option and thus this can be credited.

Do not credit external factors such as the opportunity, or the threat, coming from the external environment; the strengths and weaknesses must be internal and must refer to K&J's Option 3.

Mark as 2+2.

Award **[1]** for a correct strength / weakness identified and **[1]** for a relevant description in context. Award up to a maximum of **[2]**.

- (b) Using the additional information below, for a LadyA concert:

- (i) calculate the break-even quantity in units (*show all your working*); **[2]**

$$\frac{\text{Fixed costs}}{\text{Contribution}} = \frac{2750\,000}{(300 - 50)} = \frac{2750\,000}{250} = 11\,000 \text{ units} \quad (\text{Accept } 11\,000)$$

Award [1] if the candidate has shown working provides a correct procedure (thus, demonstrates an understanding of the underlying concepts) but has made an error in calculation.

Award [2] if the candidate provides the correct answer with working.

– 15 –

M15/3/BUSMT/SP1/ENG/TZ0/XX/M

- (ii) calculate the profit if 15 000 tickets are sold;

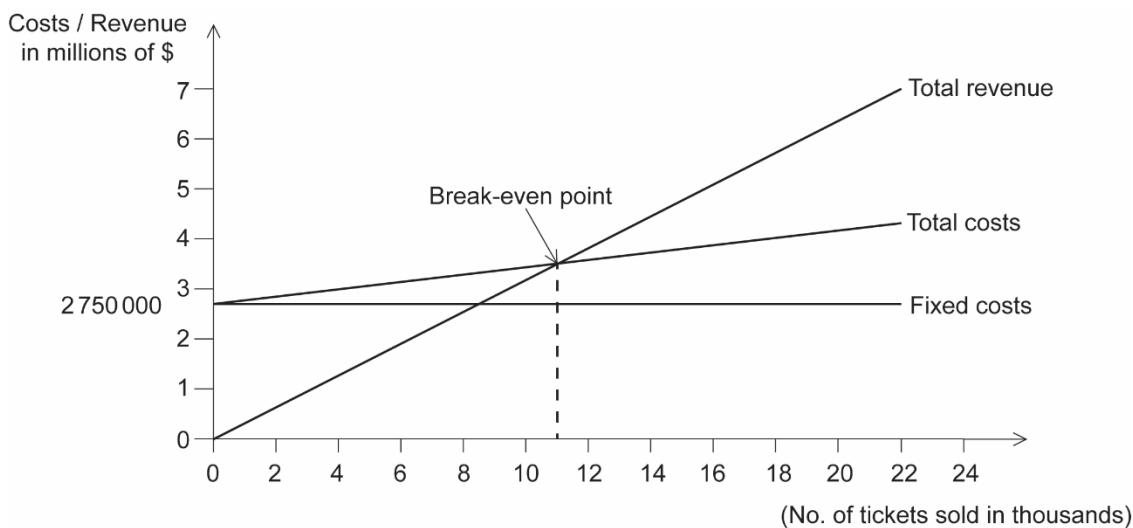
[1]

$$\begin{aligned}
 & \text{Total revenue} - \text{Total costs} \\
 &= (15000 \times \$300) - (\$2750000 + 15000 \times \$50) \\
 &= \$4500000 - (\$2750000 + \$750000) \\
 &= \$4500000 - \$3500000 \\
 &= \$1000000
 \end{aligned}$$

Award [1] for the correct answer, (no working required).

- (iii) construct to scale a fully labelled break-even chart.

[5]



N.B. allow candidate own figure rule (OFR) from calculations made in previous question parts.

Award marks as follows:

- [1] for each appropriately labelled axis, up to a maximum of [2].
- [1] for an appropriately drawn and labelled total revenue curve.
- [1] for an appropriately drawn and labelled total costs curve.
- [1] for the identification of the break-even level of output.

Award [0] if a candidate produces a table, and award no more than

[3] if the chart is not neat, not drawn with a straight-edge, or is not to scale. Ideally, the candidate will draw an arrow pointing to the break-even point and label the arrow. However, accept as an “appropriately labelled” break-even point a vertical line from the x-axis to the break-even point provided that the line is labelled “break-even point”.

- (c) *LadyA* has rejected **Option 3** (lines 153–161). Recommend whether *LadyA* should choose **Option 1** (lines 139–146) or **Option 2** (lines 147–152). [8]

Option 1: Move into South American markets

Possible advantages include:

- Some fans in Spanish-speaking markets.
- South American markets generally accept older female musicians and film stars, also *Lady Alejandra* has an Hispanic background which could help her fit well with the target market as from “their own”.

Possible disadvantages include:

- Fans in English-speaking target market may be lost, this will also affect product sales, the perfumes and cosmetics – they may also see a decline with the English-speaking target markets.
- Any future re-entry into the English-speaking target market may be difficult.
- Huge costs (not known) to be incurred in re-establishing a new brand altogether, entering an untested market with a major concert tour and rebuilding the brand name *Lady Alejandra*, through sale of music, films, product endorsements, magazine covers, perfume and cosmetics etc.

Option 2: Develop more products

Possible advantages include:

- Further exploitation of the already established brand name to develop more products – *LadyA* shoes, *LadyA* handbags and *LadyA* lingerie.
- Uses the already established distribution network in the US (for perfumes and cosmetics) for the new products. Economies of scale may be experienced.
- Develops a global market – while some products work well in some markets others will work in other markets.
- Opportunities for e-commerce within US and worldwide.

Possible disadvantages include:

- New producers will have to be sought, design, product quality details and other arrangements – worked out – more management, logistics etc.

Candidates may even mention high risk / medium risk. The stimulus material has not articulated costs / profits. We may need further information.

Accept any relevant substantiated recommendation.

If the response is a one-sided relevant approach with no discussion, award a maximum of [4]. If only one strategic option is discussed, award a maximum of [5].

*Award a maximum of [5] if the answer has no **substantiated** judgment/conclusion.*

Marks should be allocated according to the markbands on page 4.

M15/3/BUSMT/SP2/ENG/TZ0/XX/M



Markscheme

May 2015

Business and management

Standard level

Paper 2

23 pages

– 2 –

M15/3/BUSMT/SP2/ENG/TZ0/XX/M

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A		Section B			Level descriptors
Q1 (c)	Q2 (d)	Q3 (c)	Q4 (d)	Q5 (c)	
Marks 0–5					
0					
1–2					<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
3–4					<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the stimulus material. The response is mainly theoretical.
5					<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the stimulus material, not just to the name of the organization.
5					<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the stimulus material.

Section B			Level descriptors
Q3 (d)	Q4 (e)	Q5 (d)	
Marks 0–7			
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the stimulus material.
3–4			<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues and concepts. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the stimulus material, not just to the name of the organization. • The response is mainly theoretical.
5–6			<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the stimulus material are made at places in the response.
7			<ul style="list-style-type: none"> • A response with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the stimulus material are made throughout the response.

– 5 –

M15/3/BUSMT/SP2/ENG/TZ0/XX/M

Section A

1. (a) Using a PEST framework, describe **two** external factors that may affect NK. [4]

PEST stands for political, economic, social, and technological. The categories are not perfectly distinct.

External factors in the stimulus include:

Political

- regional trading bloc
- inefficient national governments
- limited public sector services.

Economic

- developing economies
- weak infrastructure.

Social

- low quality of life
- poorly educated population.

Technological

- weak infrastructure
- by inference, weak high technology.

Accept any relevant external factor.

Mark as 2+2.

Award [1] for each relevant external PEST factor identified and [1] for an appropriate description, up to a maximum of [2].

- (b) Using data from the table:

- (i) calculate loan capital X (*show all your working*); [2]

All figures in 000s

$$\text{Total of all assets: } = \$176 + \$674 + \$320 + \$2600 = \$3770$$

$$\begin{aligned} \text{Total of liabilities and owner's equity, other than X:} \\ = \$270 + \$230 + \$300 + \$970 = \$1770 \end{aligned}$$

$$X = \$3770 - \$1770 = \$2000$$

Award [1] for working and [1] for the correct answer. Award up to a maximum of [2].

- (ii) construct a fully labelled balance sheet for NK; [4]

NK's balance sheet as at 31 May 2014 (all figures in \$)

Net fixed assets		2 600 000
Current assets		
Stock	320 000	
Debtors	674 000	
Cash	176 000	
Total assets		3 770 000
Current liabilities		
Creditors	230 000	
Short-term borrowing	270 000	
Total		500 000
Net assets		3 270 000
Share capital	300 000	
Loan capital	2 000 000	
Retained profit	970 000	
Total capital employed		3 270 000

Award [4] if the candidate constructs an accurate balance sheet (that balances) according to the IB prescribed format, such as the vertical balance sheet above or the horizontal model typically used in the United States. The balance sheet must be dated.

Award [3] for a largely accurate balance sheet that balances, according to a generally accepted format, such as the vertical format above or the horizontal model typically used in the United States.

Award [2] if the candidate constructs a largely recognizable balance sheet but it does not balance, or it has two major problems of classification.

Award [1] if the candidate conveys some idea of what a balance sheet is.

- (iii) calculate NK's gross profit margin (no working required); [1]

$$\frac{\text{Gross profit: } 4300\,000}{\text{Sales revenue: } 8200\,000} \times 100 = 52.44\%$$

Gross profit margin is 52.44 %. Accept 52.4 %.

Award [1] for the correct answer (no working required).

– 7 –

M15/3/BUSMT/SP2/ENG/TZ0/XX/M

- (iv) calculate NK's forecasted gearing ratio for **Option A and for Option B**
(show all your working).

[4]

$$\text{Gearing ratio} = \frac{\text{Loan capital}}{\text{Total capital employed}} \times 100$$

All figures in 000s

$$\text{Option A: } \frac{2000 + 720}{3270 + 720} = \frac{2720}{3990} \times 100 = 68.17\% \quad (\text{Accept 68.2 or 68.17})$$

$$\text{Option B: } \frac{2000}{3270 + 800} = \frac{2000}{4070} \times 100 = 49.14\% \quad (\text{Accept 49.1 or 49.14})$$

Mark as 2+2.

N.B. please be especially careful when marking these responses. Candidate own figure rule (OFR) applies. Often, to check the candidate's response, the examiner must refer to the balance sheet produced by the candidate in part (ii), identify the loan capital and/or total capital employed from the balance sheet and then calculate what the gearing ratios should be using these figures.

Award [1] for working and [1] for the correct answer. Award up to a maximum of [2] for each option.

- (c) Examine the **disadvantages** of Option A and of Option B as sources of finance for the purchase of the new equipment.

[5]

The disadvantages of Option A, which will increase NK's gearing ratio, are that:

- NK's profitability after tax and interest will be affected because of the interest expense on the new loan
- NK's cashflow will be affected by the debt service (payments), which is money that could have gone into other needs (increased working capital requirements, other capital expenditures, etc).

The disadvantages of Option B, which will lower NK's gearing ratio, are that:

- ownership of the business may be affected – the \$800 000 may come from new investors, thus diluting ownership for current owners, or, if the \$800 000 comes from existing owners, it may change the percentage ownership of existing shareholders.
- Financing capital expenditures with capital rather than equity increases the total equity amount, which makes it more difficult to maintain return on equity ratio for investors.

Overall, the use of equity for capital is the safest option, but has the potential for lower reward. The use of debt is the riskier of the two options, but the chance for very strong investor returns exists with the debt-financing option.

Accept any other relevant examination.

In the context of this response, a balanced response is when a candidate address the disadvantages of both types of financing. If a candidate addresses only one type, award a maximum of [3].

Marks should be allocated according to the markbands on page 3.

2. (a) Describe *ET*'s current distribution channel and the channel recommended by the marketing consultant.

[4]

ET's current distribution channel is B2C shipment directly from the production facility to the purchaser. In e-commerce terms, it is "pure play," meaning that, from a consumer's point of view, *ET* has only an Internet presence. It has no physical stores to which consumers can go to see and experience the toys.

ET's proposed new distribution channel is by way of the toy parties. This approach is somewhat unusual. A typical integration of Internet commerce with a physical presence, known as "brick-and-click," involves a retail store or locations with fixed addresses to which consumers can go. The toy parties represent something different: a physical presence of representatives of the company, but not a permanent physical presence (locations could change and the physical presence exists only when there is a party).

Mark as 2+2.

*Award [1] for identifying *ET*'s current distribution channel Award [1] for describing it. Candidates do not have to use the term "pure play" for [1] but they do have to convey the idea that, to consumers, *ET* currently only has an Internet presence. Award up to a maximum of [2].*

*Award [1] for identifying *ET*'s new distribution channel (toy parties). Award [1] for describing it. Candidates do not have to use the term "click-and-brick", but they do have to provide some additional descriptor for a second mark. That descriptor could emphasize that there is now an intermediary between *ET* and the customers (sales representatives), or that *ET* now has a one level distribution system (in addition to its continued B2C online sales). However, if the description is of the promotional and marketing technique features of "toy parties" (children can play with the toys, etc), do not accept this as a relevant descriptor (as it is not describing distribution). Award up to a maximum of [2].*

- (b) (i) Using **Table 1**, calculate *ET*'s net profit margin for 2014 (show all your working).

[2]

Sales – fixed costs – variable costs = net profit before interest and tax

$$300\,000 - 121\,800 - 125\,000 = 53\,200$$

$$\frac{53\,200}{300\,000} \times 100 = 17.73\% \quad (\text{Accept } 17.7\% \text{ or } 17.8\%)$$

Award [1] for working and [1] for the correct answer. Award up to a maximum of [2].

- (ii) Using **Table 2**, calculate *ET*'s forecasted net profit margin for 2015 (show all your working). [2]

Sales – fixed costs – variable costs = net profit before interest and tax

$$352\,000 - 180\,000 - 128\,000 - 32\,000 - 32\,000 = <20\,000>$$

$$\frac{<20\,000>}{352\,000} \times 100 = <5.68\%> \quad (\text{Accept } <5.6\%> \text{ or } <5.7\%>)$$

Award [1] for working and [1] for the correct answer. Award up to a maximum of [2].

- (iii) Comment on the change in net profit margin from 2014 (actual) and 2015 (forecasted). [3]

Net profit margin fell from a healthy 17.73 % to a negative 5.68 %. The biggest reason for the decrease is the increase in fixed costs, which rose from €121 800 to €180 000. The combination of lower prices and sales commission also had an impact, as variable costs as a percentage of sales increased from 41.67 % to 54.55 %. *ET* will have to increase volume if it is to return to profitability, or determine some ways to cut its variable costs.

Award [1] if the candidate makes an assertion about the change using figures to support their response. Award [1] for each relevant commentary on the situation (for example, the increase in fixed costs, the increase in variable costs, the need for greater volume, etc). Award a maximum of [3].

N.B. a candidate could make a relevant comment and earn a mark without using figures. For example, compare:

“The forecasted net profit margin for 2015 is lower than the net profit margin for 2014, possibly because of the higher promotion costs and lower prices.” This response would receive [1].

Versus:

“The forecasted net profit margin of <5.68%> for 2015 is lower than the net profit margin of 17.73% for 2014, possibly because of the higher promotion costs and lower prices.” This response would receive [2].

A comment as basic as “the net profit margin declined from 17.73% to <5.68%>” would receive only [1], despite having figures and a basic valid assertion. This is because the candidate is just putting into words the basic differences in the two figures.

- (c) Using relevant data from **Table 2**, prepare an **annual** cash-flow forecast for *ET*, for 2015.

[4]

Receipts	
Cash sales revenue	€352 000
Total receipts	€352 000
Payments	
Fixed costs	€180 000
Raw materials	€128 000
Sales commissions	€32 000
Other variable costs	€32 000
Total payments	€372 000
Net cash flow	€<20 000>
Opening balance	€37 000
Closing balance	€17 000

Award [1] if the candidate has some idea of an annual cash-flow forecast but otherwise has numerous errors. Award [2] if the cash flow has two or more errors or has a largely inaccurate format. Award [3] if it is largely formatted correctly and/or has one error. Award a maximum of [4] for a correctly formatted and mathematically accurate cash-flow forecast.

N.B. *an example of how a candidate can demonstrate “some idea” is if they produce a table with many errors (balance sheet figures, wrong order, mathematical errors, etc, but still conveys some sense of opening cash balance and a closing cash balance.*

- (d) Examine **two** reasons why *ET* originally charged higher prices for its toys than those charged by its competitors.

[5]

Possible reasons why *ET*'s toys were more expensive than their competitors include:

- *ET* hoped that if it priced its toys higher, consumers would think of them as of higher quality or of better value (educational).
- The parents who purchase *ET*'s toys are loyal, believe in the product, and, therefore, are willing to pay premium pricing.
- *ET* has a small scale of operations. Compared to most toy manufacturers, *ET* is very small and may not enjoy the economies of scale that other manufacturers do.

Accept any other relevant reason and examination.

N.B. *Award [1] for each reason identified, up to [2]. Award an additional [1] if the candidate provides a reasonable examination. Award [1] if the candidate has one reason that is primarily psychological (brand perception, customer loyalty, etc) and the second reason is “real,” based upon possible higher per-unit cost because of the small scale of operations.*

Marks should be allocated according to the markbands on page 3.

Section B

3. (a) Describe **one** type of below the line promotion that SP may use to promote its “running clinics”. [2]

Types of below the line promotion include:

- direct marketing (catalogues, email, flyers, mail, online display ads and pop-ups, promotional letters, text messages, etc)
- personal selling (of which there are many varieties)
- public relations
- sponsorship (charities, sports events, etc)
- celebrity appearance at events or in the store
- accept any other relevant below the line promotion.

As this question is about below the line promotion rather than below the line advertising, reward for discounts but do not reward logos or slogans.

N.B. do not accept word of mouth as a type of below the line promotion.

Award [1] when a candidate correctly identifies a type of below the line promotion and [1] for describing it. Award up to a maximum of [2].

- (b) Explain **two** reasons why SP supports the local running community. [6]

Reasons why SP would support the local running community include:

USP: The main reason SP supports the local running community is to develop a local customer base. SP's USP is not price. Runners in the Santa Fe area can purchase running shoes more cheaply online. Though the stimulus does not say so, they can probably also buy shoes cheaper at chain sporting goods store, like *Foot Locker* or *Dick's Sporting Goods*. SP simply cannot compete on price, so its USP is based upon the idea that SP supports and fosters a whole community of people with the same interest. Buying from SP means joining a community, and the community is self-reinforcing because everyone has a common interest (running).

Promotion/publicity: One method of supporting the running community is having events, like local races and, especially, its annual event “Race to the Top”. By hosting such events, which garner publicity, SP's marketing reaches beyond the immediate community of its customers. Local events wind up being reported on local TV, so even non-runners come to know the store and support the event. Along with other sponsored events, like other races and running clinics, SP gets to be better known. Other businesses will want to get involved and play some role in the event, making it even bigger, attracting more people.

Create sales opportunities: The events probably lead to increased sales. This is true of races but also of running clinics, which probably attract people who are not runners (they go to the clinic to learn about running). If the clinic piques their interest, SP has positioned itself to sell those people shoes. Clinic participants could, of course, buy their shoes online (and perhaps some do), but others and perhaps even most would feel some loyalty/obligation to SP to buy a pair of shoes from them. Soon, these customers are part of the running community.

Purpose: Another reason that *SP* supports the local running community is because its owners and manager (and probably most of the staff) really do believe that “Running sustains life, locally and globally”. One of many reasons small businesses are opened and exist is that the founder/owners are genuinely interested in, or have a passion for, what the store does. The owner/founders are probably runners themselves, as are probably the salespeople. This would make sense: because *SP* sponsors running events, the staff would need to be knowledgeable about running and enjoy being at running events.

Brand Loyalty: Events, passion, social connections and community, all these would create a branded identity for *SP*, even if selling products with their own brand names (*Nike, Adidas, Puma, etc*), and build loyalty. This is also true of giving special discounts to school-aged children. After buying shoes at *SP* when young, possibly initially because of the discounts, these children runners would join the *SP* community, be grateful for past discounts and ongoing events, and continue to patronize *SP* by buying their shoes, even if more expensive.

Research: Running clinics allow *SP* to work with its customers actually in the context of their use of its products. This way, *SP* staff can dialogue with customers to learn about their interests and wants. In certain respects, running clinics are like focus groups, but in some ways even better.

Accept any other relevant reasons and explanations.

Mark as 3+3.

Award [1] for each reason identified, award [1] for explaining the reason, and [1] for an explanation of the reason in context of the stimulus. Award up to a maximum of [3] per reason.

If the reason is not framed in terms of a specific business concept with appropriate use of business vocabulary, award a maximum of [2] per reason if the reason is relevant and well developed. For a basic “common sense” answer with little development and virtually no use of business vocabulary, award a maximum of [1] per reason.

(c) Analyse the role of SP's vision statement.

[5]

In general, the characteristics of a good vision statement include:

- clarity
- brevity
- abstract and challenging
- tells the organization's purpose
- future-oriented
- provides a goal
- implies a framework for strategic planning (and, thus, a framework for measurable goals, though such measurable goals would not be in the vision statement)¹.

Vision statements have as their intended audience all stakeholders in the business, not just customers and employees. SP's vision statement – "Running sustains life, locally and globally" – contains some of the qualities of an effective vision statement, but many are missing. It is clear, brief, abstract and, in some ways, challenging, and could well have some resonance with all stakeholders. However, it does not tell the purpose of SP, it is not future oriented, and has no explicit or implicit goal, and, thus, provides no direct or indirect framework for strategic planning. In many ways, "Running sustains life, locally and globally" is more like a slogan, not unlike Campbell's Soup's® slogan several decades ago: "Soup is Good Food". That slogan was selling soup, not Campbell's soup, and was eventually dropped. SP's vision statement is similar: it is selling running, not entering the running community of SP, or buying shoes at SP because its customers get so much more than just shoes.

The attributes of a good vision statement will vary from author to author, though in general most such lists share the characteristics listed above. Candidates should have some knowledge of precise attributes of an effective vision statement and refer to them, either in some form of list or embedded throughout their response.

Accept any other relevant analysis.

N.B. in the context of this question, balance means that candidates address both the strengths of SP's vision statement and some of its weaknesses.

Marks should be allocated according to the markbands on page 3.

¹ Kelly Burke, "Characteristics of a Good Vision Statement: integrated and paraphrased from various sources including the Academic Leadership", University of Hawaii HILO, Strategic Planning Committee Paper 07/11, January 12, 2011. Retrieved from http://hilo.hawaii.edu/strategicplan/documents/SPC_07_11_vision_characteristics.pdf , 6 July 2014.

- (d) Advise the local authorities as to whether permission for SP's "Race to the Top" should be refused.

[7]

The "Race to the Top" event has both advantages and disadvantages for the local community, whose interests the local authorities are to serve. The main advantage is that it is a major local event that attracts large numbers of people, garners media attention, and, we can reasonably infer, promotes the local economy and fosters community spirit, at least among the running community. It is SP's "flagship" event, thus benefitting one local business. By supporting the event, the local authorities would appear "business friendly," which could attract other businesses to the Santa Fe area. In turn, new businesses strengthen the economy. A virtuous cycle of growth can be fostered.

The negatives include the negative attention the event garners from pressure groups worried about the image of Native Americans and about the environment around Starvation Peak. Some people are more concerned about these types of issues than economic growth, and local authorities have a responsibility to everyone in the community, not just businesses. Because the event is so big, probably attracting local TV crews, pressure groups probably stage protests onsite and get media attention. Given that more and more people are focused on sustainability, the fact that the "Race to the Top" event does some damage to the local environment may cast local authorities in a bad light if they support the event.

There is no "correct" answer to this question. Candidates may be for or against "Race to the Top". What matters is the degree to which they support their position, provide a balanced argument, use business concepts and vocabulary, and have a conclusion with sustained judgments.

Accept any relevant answer.

If the response is a one-sided relevant approach with no discussion, award a maximum of [4]. One-sided means that the candidate only recommends that the "Race to the Top" event should be stopped with no discussion of what benefits SP derives from it OR is only in favour of the event with no discussion of the disadvantages and negatives of hosting the event. To earn a mark in the top markbands [5, 6, or 7], a candidate must have a balanced response with a supported conclusion.

Marks should be allocated according to the markbands on page 4.

4. (a) Identify **one** opportunity and **one** constraint for companies caused by demographic change.

[2]

Possible opportunities include:

- To replace workers. Some companies, in countries with ageing populations might otherwise have great difficulty finding replacement employees, who can be recruited from countries with more young people.
- To lower costs of salaries or wages by replacing older workers with younger workers (who in many contexts will have lower salaries than retiring employees).
- To have “new blood,” as younger employees with new innovative ideas join companies.
- To diversify the workforce, which leads to greater creativity.
- Homogenous workforces experience lesser misunderstanding and conflict in the workplace.

Possible constraints include:

- Cost of recruiting workers from other countries.
- The lack of experience of younger workers recruited from countries with large numbers of young people.
- Loss of experience, depth of knowledge, and wisdom about the company.
- Though homogenous workforces experience lesser misunderstanding and conflict in the workplace, such workplaces are less creative and innovative.

N.B. though the content of the question suggests an opportunity and constraint with respect to human resources, candidates may approach the question differently. Doing so is fine as long as the response is relevant and makes sense. For example, because of an ageing population, an opportunity may exist if the company revises its marketing mix and starts to target an older population.

Accept any other relevant opportunity or constraint.

Mark as 1+1. Award a maximum of [2].

- (b) Comment on **one** potential communication problem for a company with a diverse international workforce.

[2]

Communication problems for a company can exist at a number of levels due to a diverse international workforce and include:

- Differing levels of competence in the language of the business (English in an English or American company, French in a French company, Japanese in a Japanese company, etc). A problem here is when one employee cannot decode a basic verbal message, whether written or spoken, or cannot communicate sufficiently well in the company's language of business to provide precision and subtlety.
- Different cultural meanings even when the words have been properly decoded. In some cultures, to say "The meeting starts at 2:00pm" means it starts at exactly 2:00pm. In other cultures, the same message means around 2:00pm.
- Different meanings attached to various types of non-verbal communication (hand gestures, bowing, hand-shaking, etc). In a diverse workforce, someone can make a hand signal and, without intending to, give offense at someone from another culture where such a gesture has negative connotations.
- Companies that engage in international recruitment are probably multinationals, and communication could have problems due to the mechanics of international communication: time zones, reliance on different telephone companies and internet providers, etc.

Accept any other relevant communication problem.

N.B. remember that the question is about communication, not agreement or decision-making. A response such as "a diverse workforce may have difficulty agreeing because of different values / backgrounds / cultures" is not addressing the issue of communication per se, which is what the question requires.

Award [1] for identification of a communication problem and [1] for some relevant commentary thereon. Award a maximum of [2].

- (c) Explain the statement “difficulties in meeting operational objectives of recruitment prevent many companies from meeting their strategic objectives”.

[4]

Organizations have tiers of objectives: strategic objectives are long-term and the fate of companies usually depends on wise strategies. Below strategic objectives are tactical (medium-term) and operational (short-term). Even though operational objectives are of less gravitas than strategic – and typically are made by middle and lower managers of a company – failure to meet them can weaken a business's performance significantly. In the case of the stimulus, “difficulties in meeting operational objectives of recruitment, prevent many companies from meeting their strategic objectives” means that some companies have a strong long-term vision in terms of their marketing mix and their ability to bring it properly to the market provided that they can recruit and retain the right quality and quantity of workers and employees. In some cases, companies with an otherwise very sound vision cannot find the right employees which compromises the business's ability to meet their long-term (strategic) objectives.

Award [1] if the candidate shows an understanding of strategic objectives and [1] if the candidate shows some understanding of tactical and/or operational objectives. Award an additional [1–2] for application to the stimulus: providing a precise explanation of the statement in the question. Award a maximum of [4].

- (d) Analyse **one** strategy that a global company could adopt for developing future human resources (you may refer to a global company that you have studied). [5]

The major options for developing a plan for future human resources include those listed below.

- Analysing current employees supply (skill and number).
- Analyse number and skills of locally available labour (in the different local contexts where the company operates).
- Forecasting demand for employees based upon:
 - estimates of mid and senior managers (the number of employees that will be needed)
 - estimates of labour turnover
 - past experiences
 - the skills that will be needed
 - worker productivity.
- Developing a program for internal recruitment.
- Developing training programs.
- Developing a program for external recruitment:
 - local
 - national
 - international.

Accept other relevant options.

Candidates should discuss at least one of the options above in some depth or discuss two in lesser depth. To receive more than [3], candidates must show balance. In this context, balance means the strengths and limitations of the approach adopted.

Though, in practice, most global companies are going to rely on some combination of all of the approaches, some companies try very hard to be known in the market for certain types of human resources.

- For most of its history *NationsBank* (now *Bank of America*) was famous for recruiting internally for mid-level and senior positions. As a result, many talented people wanted to work there because they knew they would have opportunities to be promoted, gain more responsibility, and make more money. A drawback to this approach is that sometimes promoted employees could not perform in their new roles, whereas an externally recruited senior person might have fared better.
- *Qatar Airways* very consciously recruits externally and globally. The airline is trying to be a global company, and wants its employees to be from around the world. A drawback to this approach is that it is expensive, many problems of language and communication can occur, and diverse workforces sometimes can have conflicts based upon cultural differences.
- Very large companies with huge workforces, like *ExxonMobil*, *Walmart*, and large auto manufacturers often forecast demand for future employees using all of the techniques noted above. Because they have such huge numbers of employees, statistical modelling and quantitative analysis can work with a high degree of reliability. However, no company can know the future, and all of the methods used for forecasting future employees can fail because of changes in the company's fortunes, unexpected political factors, and changing technologies.

Accept any other relevant analysis.

Marks should be allocated according to the markbands on page 3.

(e) Discuss the significance of changes in international labour mobility.

[7]

The significance of changes in international labour mobility include:

- More workers/people are able to find work that matches their skill set and ability.
- More companies are able to fill positions with appropriate personnel.
- Managers and shareholders may welcome immigrant workers, who fill crucial voids.
- People may resent immigrants taking jobs.
- Young emigrants moving for work lose contact with their home cultures.
- Many rural areas are losing young people who move to cities in search of work.
- Workplaces and cities are becoming diverse, which fosters creativity.
- Diversity increases the likelihood of cultural conflict.
- Emigrant workers often find economic opportunity.
- Emigrant workers are often separated from their families and often lack political rights in the country to which they move.

Accept other relevant implications of changes in labour mobility.

A [7] response would consider at least two positive outcomes of changes in labour mobility and two negative or challenging outcomes of changes in labour mobility and have a conclusion or judgment. If less than two positives or less than two negatives, award a maximum of [5]. If the candidate discusses two or more positive outcomes of changes in labour mobility and two or more negative or challenging outcomes of changes in labour mobility, but does not have a conclusion or judgment, award a maximum of [4].

Marks should be allocated according to the markbands on page 4.

5. (a) Define the term *product portfolio*.

[2]

Product portfolio refers to the variety or range of products/services or the particular mix of products/services offered by a business. Businesses usually have a variety of products in order to spread risks or attract more target markets.

Candidates are not expected to word their definition exactly as above.

Award [1] for a basic definition that conveys partial knowledge and understanding.

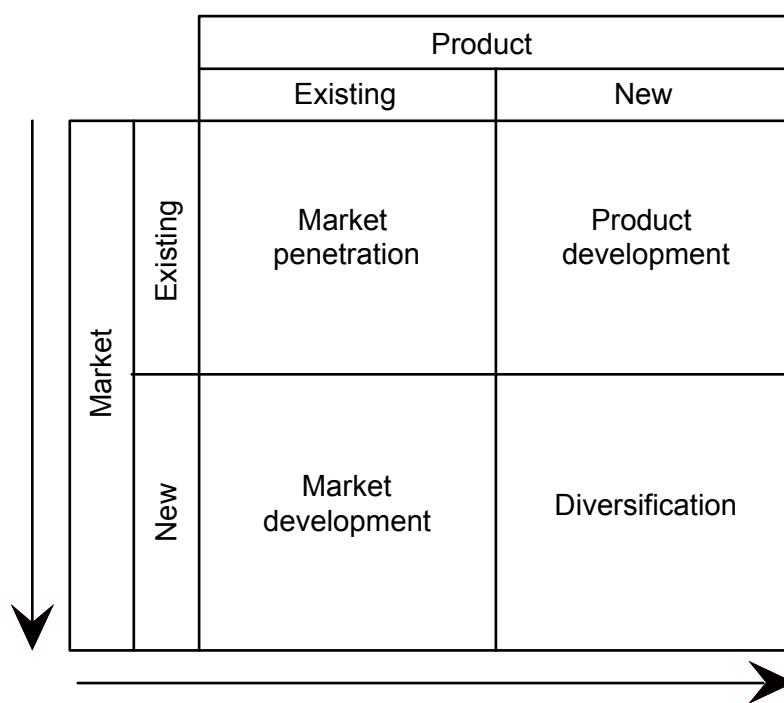
Award [2] for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For only a relevant example or application to the stimulus award [1].

- (b) (i) Draw and label all elements of the Ansoff matrix.

[2]

The Ansoff matrix is a tool used to identify possible growth strategies, according to the product (is it existing or new?) and the market (is it existing or new?). It is represented as follows:



Award [1] if the candidate produces something indicating some idea of what the Ansoff matrix is but with one or more errors. Award a maximum of [2] for a correctly drawn and labelled Ansoff matrix.

- (ii) Explain **one** advantage and **one** disadvantage for Coca-Cola in India of using the Ansoff matrix as a decision-making tool.

[4]

Advantages of using the Ansoff matrix include:

- provides an analytical framework for making strategic marketing decisions.
- highlights the various degrees of risk associated with strategic direction of marketing.
- once a quadrant of the matrix is identified, it points to marketing tactics that can be used.

Disadvantages of using the Ansoff matrix include:

- like all analytical tools, it is only a tool and may be misused.
- it tends to simplify a complex problem, sometimes too much.
- It cannot predict actual events and, thus, can be misleading.

Accept any other relevant advantage/disadvantage with an explanation.

N.B. something conceptually equivalent to the own figure rule (OFR) has to be used here if the candidate gets 5(b)(i) wrong by drawing the wrong decision-making tool but then, in 5(b)(ii) accurately or partially explains an advantage or disadvantage of the tool the candidate has used.

Mark as 2+2.

Award [1] for identification of an advantage/disadvantage and an additional [1] for its explanation. If no reference is made to Coca-Cola in India, award a maximum of [2].

- (c) With reference to Coca-Cola, analyse the role played by multinational companies in the global business environment.

[5]

The role of multinational companies (MNCs) in the global business environment is mainly seen in terms of economic activity. They contribute to economic development as they invest in countries around the world (eg when Coca Cola entered India, it brought capital (a factor of production) into the Indian economy). Through outsourcing, they create employment (eg Apple's outsourcing to China brings employment to millions in China). However the role of MNCs is also criticized as they contribute to the standardization of products (eg Johnson & Johnson sells the same soaps and baby shampoo all around the world) and are sometimes accused of unethical practices (eg "sweatshops" factories in Vietnam manufacturing goods for companies such as Nike).

Accept any relevant analysis.

If the response is generic, award a maximum of [3].

Marks should be allocated according to the markbands on page 3.

(d) Discuss the costs **and** benefits to *Coca-Cola India* of e-commerce.

[7]

Some of the benefits that e-commerce may bring to *Coca-Cola India* include the following:

- A reach to a wider customer base, making more sales possible (eg party orders) since an online order is taken and home delivery made.
- Comfort and convenience building brand loyalty, exploring the benefits of shopping through mobile and internet networks is widely growing across the globe.
- If e-commerce is to be added to an already functioning organization of such a high scale, the cost of buying the technology is usually not very high.
- Transaction costs are relatively low.
- There is no issue with customers being put off by the intangibility of buying this product over the net, since this merchandise does not require sensory perceptions or experience during the purchase process, and customers already know what to expect.
- *Accept any other relevant benefit.*

However, some of the costs to *Coca-Cola India* include:

- Security issues – consumers have many concerns over privacy and security when dealing with online businesses, credit/debit card numbers may be stolen; personal information may be hacked.
- Costs of setting up the technology and systems.
- *Coca-Cola India* will have to set up distribution channels assuring deliveries at all hours, often there may be lean periods where orders are less compared to weekends and festive periods.
- Some hostility may develop among *Coca-Cola India* and retailers and supermarkets as they may fear losing larger orders to the online store run by *Coca-Cola India*.
- *Accept any other relevant cost.*

Accept any relevant discussion.

*To achieve the top markband, both the costs **and** benefits need to be discussed.
If the response is one-sided, award a maximum of [4].*

Marks should be allocated according to the markbands on page 4.

M16/3/BUSMT/SP1/ENG/TZ0/XX/M



Markscheme

May 2016

Business management

Standard level

Paper 1

14 pages

– 2 –

M16/3/BUSMT/SP1/ENG/TZ0/XX/M

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A			Level descriptor
Q1 (c)	Q2 (c)	Q3 (c)	
Marks			
0			The work does not reach a standard described by the descriptors below.
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues and business management tools (where applicable), techniques and theories. • Little use of business management terminology. • Little reference to the stimulus material.
3–4			<ul style="list-style-type: none"> • A description or partial analysis of some relevant issues with some use of business management tools (where applicable), techniques and theories. • Some use of appropriate terminology. • Some reference to the stimulus material that goes beyond the name of a person(s) and/or the name of the organization. • At the lower end of the markband, responses are mainly theoretical.
5–6			<ul style="list-style-type: none"> • An analysis of the relevant issues with good use of business management tools (where applicable), techniques and theories. • Use of appropriate terminology throughout the response. • Effective use of the stimulus material.

Section B	Level descriptor
Q4 (d)	
Marks	
0	The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"> • Little understanding of the demands of the question. • Few business management tools (where applicable), techniques and theories are explained or applied, and business management terminology is lacking. • Little reference to the stimulus material.
3–4	<ul style="list-style-type: none"> • Some understanding of the demands of the question. • Some relevant business management tools (where applicable), techniques and theories are explained or applied, and some appropriate terminology is used. • Some reference to the stimulus material but often not going beyond the name of a person(s) and/or the name of the organization.
5–6	<ul style="list-style-type: none"> • Understanding of most of the demands of the question. • Relevant business management tools (where applicable), techniques and theories are explained and applied, and appropriate terminology is used most of the time. • Some reference to the stimulus material that goes beyond the name of a person(s) and/or the name of the organization. • Some evidence of a balanced response. • Some judgments are relevant but not substantiated.
7–8	<ul style="list-style-type: none"> • Good understanding of the demands of the question. • Relevant business management tools (where applicable), techniques and theories are explained and applied well, and appropriate terminology is used. • Good reference to the stimulus material. • Good evidence of a balanced response. • The judgments are relevant but not always well substantiated.
9–10	<ul style="list-style-type: none"> • Good understanding of the demands of the question, including implications, where relevant. • Relevant business management tools (where applicable), techniques and theories are explained clearly and applied purposefully, and appropriate terminology is used throughout the response. • Effective use of the stimulus material in a way that significantly strengthens the response. • Evidence of balance is consistent throughout the response. • The judgments are relevant and well substantiated.

Section A

1. (a) Describe **one** benefit for Henri Trouv 's father of his unique selling point (USP) (lines 5–7). [2]

Henri's father's USP was "personal customer service" / "free delivery". Benefits to Henri's father include:

- satisfied customers who will make return purchases
- satisfied customers who will advertise via word of mouth and bring in new customers
- he would gain a sense of achievement and pleasure from satisfied customers
- ability to charge more because of the added value from customer service
- customer loyalty.

Accept any other relevant benefit described.

N.B. *the business is a sole trader so candidates can talk about either the father or the business.*

Award [1] for stating a relevant benefit, or a general theoretical understanding of USP, or a vague description.

Award a maximum of [2] for a clear description of a relevant benefit with application to Henri's father.

- (b) Describe **one** feature of TM's marketing strategy. [2]

Possible features include:

- TM's marketing strategy is based on low price with other elements of the mix supporting that strategy.
- It is based on a diverse product range.

Award [1] for a simple statement of an element of the marketing mix, eg pricing, or for mention of low price strategy without development.

Award a maximum of [2] for describing the feature in relation to TM's marketing mix, eg, using low price strategy in the context of TM, eg retail outlets.

(c) Explain the advantages for *TM* of internal growth rather than external growth.

[6]

Advantages include:

- more able to retain more control
- easier to manage and coordinate
- no need to seek synergy
- can use tried and trusted managers
- creates career opportunities for employees with a known employer
- franchising was unsuccessful
- has enabled *TM* to expand stores, services and markets
- possible retention of future profits
- *accept any other relevant advantage.*

Explanation should come from at least two advantages stated.

Relevant stimulus material includes: unsuccessful franchising; successful expansion into new stores/markets/services; its systems of rigid controls which would be easier to maintain and might not work through external growth.

Marks should be allocated according to the markbands on page 3 with further guidance below.

Award a maximum of [3] for a theoretical answer, or for only explaining one advantage.

Award a maximum of [5] if the explanation of at least two advantages are not developed but in context.

2. (a) State **two** benefits for *TM* of having aims (line 18).

[2]

An aim is where the business wants to go in the future – a statement of purpose.

It gives a business:

- a sense of direction
- something by which to measure progress
- a focus for employees/departments
- a framework for decision making
- a motivational tool
- *accept any other reasonable benefit.*

Award [1] for each benefit, up to a maximum of [2].

(b) State **two** reasons why *TM* should consider using e-commerce (line 84).

[2]

Reasons why *TM* should consider using e-commerce could include:

- greater efficiency
- larger markets
- competitors are doing it
- allows for dynamic pricing
- more convenient for customers
- *accept any other relevant reason.*

Award [1] for each reason, up to a maximum of [2].

(c) Explain the interests of **one** of TM's internal stakeholders.

[6]

Internal stakeholders are likely to be employees and managers. Allow shareholders, but not any other type of owner.

Employee interests are likely to be:

- decent working conditions
- competitive wages
- secure employment
- contracts
- rights to belong to a union.

Manager interests are likely to be:

- all the above, plus the tools to manage effectively.

Shareholder interests are likely to be:

- a decent return
- good prospects
- being kept informed
- a say in major decisions.

N.B. analysis should come from explaining how TM affects their interests.

Relevant stimulus material includes:

- TM's growth, which gives employees opportunities and securities, managers opportunities for advancement and new challenges and shareholders growth
- autocratic approach to management: could make managers' jobs easier, but unlikely to be accepted by workers.
- TM's aims of keeping wages at a minimum: could lead to higher profits for shareholders, goes against what employees might want.

Accept any relevant stakeholder interest and explanation.

Marks should be allocated according to the markbands on page 3 with further guidance below.

Award a maximum of [2] if the stakeholder chosen is external.

Award a maximum [3] for a theoretical answer, or if only one interest in context.

Award a maximum [5] if the explanation is mainly descriptive, but in context.

N.B. for example, mentioning "pay" is theoretical but "keeping wages to a minimum" is contextual; "job security" is non-contextual, however, "have no chance of getting another job" is contextual.

N.B. if more than one stakeholder is chosen only award marks for the best answer.

3. (a) Describe **one** benefit for *TM* of low labour turnover (lines 38–39). [2]

Low labour turnover can mean:

- a company with low turnover is generally quite productive. This is because the employees know and trust each other and are better at their specific roles. However, working relationships at *TM* are not good.
- employees are likely to be more loyal to the company and more willing to devote their personal energy to the job. However, there is unlikely to be strong motivation at *TM*.
- low turnover makes it easier for the company to focus its time and energy on the business at hand rather than adapting to new staff.
- recruitment and training costs are likely to be lower – important because *TM* always aims to reduce costs.

Accept any other relevant benefit.

Award [1] for stating a relevant benefit but not linked to TM and award an additional [1] for a description of how the benefit might affect TM. Award a maximum of [2].

- (b) Describe **one** benefit for *TM* of improving its corporate social responsibility (CSR) (line 46). [2]

CSR is a set of policies designed to demonstrate a commitment to the well-being of society by considering the impact of business activity on all stakeholders.

Benefits include:

- greater public awareness
- enhanced image
- customer loyalty
- reduced risks of negative publicity
- marketing opportunities.

Accept any other relevant benefit with a description.

Award [1] for stating a relevant benefit but not linked with TM and award an additional [1] for a description in context of TM. Award a maximum of [2].

– 10 –

M16/3/BUSMT/SP1/ENG/TZ0/XX/M

- (c) Explain the appropriateness of Henri Trouvé's paternalistic leadership style at TM.

[6]

Examples that give hints as to Henri's leadership style include:

- Keeping quiet about two young employees and protecting them from dismissal.
- He resents having to clock in and likes Delphine's leadership – warm and encouraging.
- He seems to see some merit in Pink's ideas and wonders why TM do something completely different.

These suggest a soft approach to leadership and support the idea that he is a paternalistic leader.

The above contrasts with TM's hard approach to management/leadership:

- Controls all aspects of employee performance
- Regimented/centralized approach
- No empowerment
- Some suggestions that employees are dissatisfied.

Whether or not it is appropriate can be explained both ways. It may not be what TM want, but it may help employees in their day-to-day working lives in what appears to be a hostile working environment.

Accept any relevant explanation.

Marks should be allocated according to the markbands on page 3 with further guidance below.

Award a maximum of [3] for a theoretical answer.

Award a maximum of [5] if the explanation of the leadership style is mainly descriptive, but in context.

N.B. candidates do not necessarily need to cover "appropriateness" in their response to be awarded [5-6].

Section B

4. (a) Define the term *current liabilities*. [2]

Current liabilities are short-term debts of the business that will usually have to be paid within one year, such as a bank overdraft.

Accept any other relevant definition.

N.B. no application required. Do not credit examples.

Award [1] for limited understanding or a vague definition.

Award [2] for a clear definition similar to the answer above.

- (b) With reference to *TM*, explain **two** benefits for *TM* of market segmentation. [4]

Market segmentation enables *TM* to identify and target specific market segments, for example developing promotional campaigns specifically for the type of price-conscious customers they have, advertising in the papers and magazines they are likely to read. If its marketing effort was more general, it would be wasting time trying to attract people from the “higher” end of the market. Their market segmentation may also influence the products they decide to sell in their stores, catering for the needs of customers who look for low prices rather than for quality.

Mark as 2+2.

*Award [1] for identification of a relevant benefit. Award an additional [1] for explaining the benefit of segmentation in relation to *TM*. Award a maximum of [2] per benefit. If there is no application to *TM* award a maximum of [2] in total.*

– 12 –

M16/3/BUSMT/SP1/ENG/TZ0/XX/M

(c) Using the information above, calculate for *TM*:

(i) the current ratio (*show all your working*); [2]

$$\text{Current ratio} = \frac{\text{current assets}}{\text{current liabilities}} = \frac{80}{40} = 2$$

Award [1] for working and [1] for the correct answer. Award up to a maximum of [2].

(ii) the acid-test/quick ratio (*show all your working*). [2]

$$\text{Acid-test/quick ratio} = \frac{\text{Current assets} - \text{stocks}}{\text{current liabilities}} = \frac{80 - 26}{40} = \frac{54}{40} = 1.35$$

Accept 1.3 and 1.4

Award [1] for working and [1] for the correct answer. Award up to a maximum of [2].

- (d) Henri tells the rest of his class that he thinks that *TM* employees are demotivated. Using **two** motivation theories, discuss the factors that may demotivate employees at *TM*. [10]

All the motivation theories/theorists in the subject guide may be used by candidates:

- Taylor
- Maslow
- Herzberg (motivation-hygiene theory)
- Adams (equity theory)
- Pink (autonomy-purpose-mastery)

N.B. some candidates may refer to McGregor (theory X/Y); this is acceptable even if this is not in the new version of the subject guide.

Factors in the case study possibly leading to demotivation include:

- Strict control: could be related to Herzberg (hygiene conditions not met), Maslow (restricts esteem needs, self-actualization opportunities), Pink (lack of autonomy).
- Low wages: Taylor (who says man is driven by economic factors and low pay does not meet this need), Herzberg dissatisfaction with pay is failing to meet hygiene factor needs), Adams (rewards do not meet the efforts).
- Autocratic leadership: Herzberg (limits opportunities for achievement and restricts choices both of which mean hygiene factors not met), Maslow (various levels including denying self-actualization), Pink (lack of autonomy).
- No pay rises (links in with arguments about low pay).
- Senior managers treated far better: Taylor (poor relative pay will demotivate as much as poor pay, Herzberg (lack of sense of fairness will demotivate, Adams (relative rewards do not meet efforts).

This could be a discussion of factors supported by theorists or a discussion of theorists illustrated by factors.

Marks should be allocated according to the markbands on page 4 with further guidance below.

For [1 to 2], theories are quoted in a meaningless, or purposeless way, or evidence is simply lifted from the case study. There is general discussion about motivation without application to TM.

For [3 to 4], candidates show some understanding of the motivational issues facing TM, but little understanding is shown of the theories. Simplistic comments are made. Alternatively there is theoretical understanding of relevant theories, but with little application to TM.

For [5 to 6], candidates may have only used one relevant theory. Alternatively they may have addressed two theories with limited application to TM and little, or no evaluation.

For [7 to 8] candidates are expected to have used some of the relevant evidence (application to TM) in relation to two theories, but the evaluation is little more than assertions.

*For [9 to 10], candidates are expected to have used two relevant theories and analysed key factors from the relevant evidence in the case study **and** additional material. They will have evaluated some factors.*

M16/3/BUSMT/SP2/ENG/TZ0/XX/M



Markscheme

May 2016

Business management

Standard level

Paper 2

27 pages

- 2 -

M16/3/BUSMT/SP2/ENG/TZ0/XX/M

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Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"> • Little understanding of the demands of the question. • Few business management tools (where applicable), techniques and theories are explained or applied, and business management terminology is lacking. • Little reference to the stimulus material.
3–4	<ul style="list-style-type: none"> • Some understanding of the demands of the question. • Some relevant business management tools (where applicable), techniques and theories are explained or applied, and some appropriate terminology is used. • Some reference to the stimulus material but often not going beyond the name of a person(s) and/or the name of the organization.
5–6	<ul style="list-style-type: none"> • Understanding of most of the demands of the question. • Relevant business management tools (where applicable), techniques and theories are explained and applied, and appropriate terminology is used most of the time. • Some reference to the stimulus material that goes beyond the name of a person(s) and/or the name of the organization. • Some evidence of a balanced response. • Some judgments are relevant but not substantiated.
7–8	<ul style="list-style-type: none"> • Good understanding of the demands of the question. • Relevant business management tools (where applicable), techniques and theories are explained and applied well, and appropriate terminology is used. • Good reference to the stimulus material. • Good evidence of a balanced response. • The judgments are relevant but not always well substantiated.
9–10	<ul style="list-style-type: none"> • Good understanding of the demands of the question, including implications, where relevant. • Relevant business management tools (where applicable), techniques and theories are explained clearly and applied purposefully, and appropriate terminology is used throughout the response. • Effective use of the stimulus material in a way that significantly strengthens the response. • Evidence of balance is consistent throughout the response. • The judgments are relevant and well substantiated.

Assessment criteria for Section C

Criterion A: Knowledge and conceptual understanding

This criterion addresses the extent to which the candidate demonstrates knowledge and understanding of the given concepts and relevant business management content (theories, techniques or tools, depending on the requirements of the question).

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Superficial knowledge of the given concepts is demonstrated. Business management content is not selected or the content selected is irrelevant.
2	Satisfactory understanding of one or both of the given concepts is demonstrated. Some business management content selected is relevant. The relevant content is satisfactorily explained.
3	Good understanding of one or both of the given concepts is demonstrated. The business management content selected is relevant, though it may not be sufficient. The relevant content is generally well explained, though the explanation may lack some depth or breadth.
4	Good understanding of both of the given concepts is demonstrated. The business management content selected is relevant, sufficient and well explained.

Criterion B: Application

This criterion addresses the extent to which the candidate is able to apply the given concepts and the relevant business management content (theories, techniques or tools, depending on the requirements of the question) to his or her chosen real-world organization(s). **The real-world organization(s) must not be the organization featured in the prescribed case study for paper 1.**

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	The given concepts and/or any relevant business management content are connected to the real-world organization(s), but this connection is inappropriate or superficial.
2	The given concepts and/or relevant business management content are connected appropriately to the real-world organization(s), but this connection is not developed.
3	The given concepts and relevant business management content are generally well applied to explain the situation and issues of the real-world organization(s), though the explanation may lack some depth or breadth. Examples are provided.
4	The given concepts and relevant business management content are well applied to explain the situation and issues of the real-world organization(s). Examples are appropriate and illustrative.

Criterion C: Reasoned arguments

This criterion assesses the extent to which the candidate makes reasoned arguments. This includes making relevant and balanced arguments by, for example, exploring different practices, weighing up their strengths and weaknesses, comparing and contrasting them or considering their implications, depending on the requirements of the question. It also includes justifying the arguments by presenting reasonable evidence or other support for the claims made.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Statements are made but these are superficial.
2	Relevant arguments are made but these are mostly unjustified.
3	Relevant arguments are made and these are mostly justified.
4	Relevant, balanced arguments are made and these are well justified.

Criterion D: Structure

This criterion assesses the extent to which the candidate organizes his or her ideas with clarity, and presents a structured piece of writing comprised of:

- an introduction
- a body
- a conclusion
- fit-for-purpose paragraphs.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Two or fewer of the structural elements are present, and few ideas are clearly organized.
2	Three of the structural elements are present, or most ideas are clearly organized.
3	Three or four of the structural elements are present, and most ideas are clearly organized.
4	All of the structural elements are present, and ideas are clearly organized.

Criterion E: Individuals and societies

This criterion assesses the extent to which the candidate is able to give balanced consideration to the perspectives of a range of relevant stakeholders, including individuals and groups internal and external to the organization.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	One individual or group perspective is considered superficially or inappropriately.
2	One relevant individual or group perspective is considered appropriately, or two relevant individual or group perspectives are considered superficially or inappropriately.
3	At least two relevant individual or group perspectives are considered appropriately.
4	Balanced consideration is given to relevant individual and group perspectives.

– 6 –

M16/3/BUSMT/SP2/ENG/TZ0/XX/M

Section A

1. (a) Define the term *outsourcing*. [2]

Outsourcing refers to the practice of having an external organization perform some aspect of a business's operations (production, HRM, distribution, marketing, etc).

Candidates are not expected to word the definition **exactly** as above.

N.B. *no application required. Do not credit examples.*

N.B. *outsourcing and offshoring, which is asked in question 4, are not equivalent. A company may outsource within its own country, just as a company may offshore a process without outsourcing it (some argue that offshoring never involves outsourcing).*

N.B. *a candidate must convey the idea that outsourcing involves having an external organization perform some aspect of a business's operations. If a candidate conveys that idea but otherwise treats outsourcing and offshoring as equivalent, award a maximum of [1].*

Award [1] for a basic definition that conveys partial knowledge and understanding.

Award [2] for a full definition that conveys knowledge and understanding similar to the answer above.

- (b) (i) Calculate the gross profit X for RM (no working required). [1]

$$\text{R\$}5256 - \text{R\$}3074 = \text{R\$}2182 = \text{Gross profit}$$

N.B. *do not penalize candidates for the absence of an R before the \$ symbol, or the absence of \$, or the absence of R\$.*

Award [1] for the correct answer (no working required).

- (ii) Calculate **Y** and hence, calculate the net profit margin for *RM* (*no working required*). [2]

To calculate the net profit margin, candidates must first calculate net profit before interest and tax and divide it by sales revenue.

Net profit before interest and tax can be calculated by taking the gross profit (calculated in part [i]) and subtracting expenses:

$$\text{R\$}2182 - \text{R\$}1390 = \text{R\$}792 = \text{Net profit before interest and tax}$$

$$\frac{792}{5256} \times 100 = 15.1\%$$

Accept 15.07 %, 15.10 %, or 15 %. Candidates must have a percentage sign or have the exact mathematical equivalent (for example, accept 15.07 % or .1507. However, 15.07, without a percentage sign, would be incorrect).

N.B. allow candidate own figure rule (OFR).

N.B. do not penalize candidates for the absence of an R before the \$ symbol, or the absence of \$, or the absence of R\$.

Award [1] for each correct calculation/answer (*working not required*), up to a maximum of [2]. If a candidate has no workings at all but does have a correct answer for NPM, award [2].

- (iii) Using relevant information from the table, construct a fully labelled balance sheet for RM.

[5]

RM

Balance sheet as of 31 December 2015 (all figures in millions of Brazilian reals)

Net fixed assets	3110
------------------	------

Current assets

Cash	486
Debtors	958
Stock	<u>1562</u>
Total current assets	3006

Current liabilities

Overdraft	52
Creditors	498
Short-term loans	<u>650</u>
Total current liabilities	1200

Net current assets (working capital)	1806
--------------------------------------	------

Total assets less current liabilities	4916
---------------------------------------	------

Long-term liabilities (debt)	0
-------------------------------------	---

Net assets	4916
------------	------

Financed by:

Share capital	800
Accumulated retained profit	4116
Equity	4916

N.B. if the candidate does not follow the IB prescribed format award a maximum of [3].

N.B. candidates should not be penalized for: omitting the row “Long-term liabilities (debt)”, or for writing “retained profit” omitting the word “accumulated”.

Award [1] if the candidate conveys some idea of what a balance sheet is.

Award [2] if the candidate constructs a largely recognizable balance sheet, but it does not balance, or it has two major problems of classification.

Award [3] for a largely accurate balance sheet that balances. (There could be one misclassification.)

Award [4] if the candidate constructs an accurate balance sheet (that balances) according to the IB prescribed format.

Award [5] if the candidate constructs an accurate balance sheet (that balances) according to the IB prescribed format and the balance sheet is dated.

– 9 –

M16/3/BUSMT/SP2/ENG/TZ0/XX/M

2. (a) Define the term *variable costs*.

[2]

These are costs that vary/change directly/proportionally with the level of output/production.

Candidates are not expected to word their definition exactly as above.

N.B. no application required. Do not credit examples.

Award [1] for a basic definition that conveys partial knowledge and understanding.

Award [2] for a full, clear definition that conveys knowledge and understanding similar to the answer above which will include a reference to output, or to the amount/quantity made/produced.

- (b) (i) Calculate for *Parder*, for 2016, the break-even level of output (*show all your working*).

[2]

$$\text{Break-even level of output} = \frac{\text{Fixed costs}}{\text{Selling price} - \text{variable cost per unit}}$$

$$\begin{aligned} &= \frac{100\,000}{1500 - 500} \\ &= 100 \text{ units /ride-on lawnmowers} \end{aligned}$$

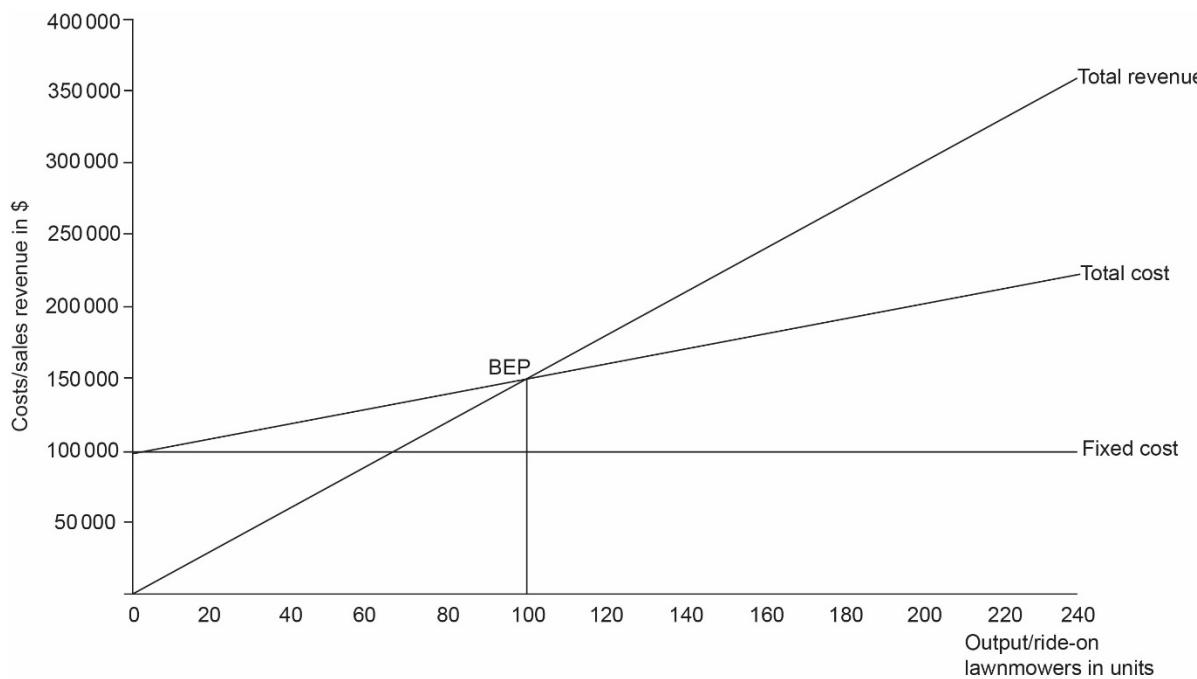
Award [1] for correct working and [1] for the correct answer. Award up to a maximum of [2]. Do not penalize candidates who omit the word unit/ride-on lawnmowers from their answer.

– 10 –

M16/3/BUSMT/SP2/ENG/TZ0/XX/M

- (ii) Construct a fully labelled break-even chart, to scale, for *Pader*, for 2016.

[4]



Award marks as follows:

[1] for both appropriately labelled axes – y-axis must include both costs and revenue. The x-axis can be any suggestion of quantity: units, (ride-on) lawnmowers.

[1] for accurately drawn and labelled total cost line.

[1] for accurately drawn and labelled total revenue line.

[1] for indication of break-even point. OFR applies from part (b)(i).

Award a maximum of [2] if the chart is not neat, not drawn with a straight edge, or is not to scale.

If a candidate produces a table rather than a chart, award [0].

- (iii) Calculate the profit or loss if 700 ride-on lawnmowers are sold in 2016 (show all your working).

[2]

$$\text{Total revenue} = \$1500 \times 700 = \$1 050 000$$

$$\text{Total costs} = \$100 000 + (\$500 \times 700) = \$450 000$$

$$\text{Profit} = \$1 050 000 - \$450 000 = \$600 000$$

Award [1] for correct working and [1] for the correct answer. Award up to a maximum of [2].

Section B

3. (a) State **two** secondary methods (sources) of market research for GCK. [2]

Types of secondary methods of market research GCK might use include:

- information produced by government agencies
- information produced by industry or trade associations
- trade journals
- magazines
- various forms of media (newspapers, scholarly journals, other public media).

Accept any other relevant method (source).

N.B. do not accept “internet”, “information from the internet, or “market analyses” as acceptable methods.

Award [1] for each relevant method (source) stated up to a maximum of [2].

- (b) Using a fully labelled Boston Consulting Group (BCG) matrix, explain the position of GCK's current product (physical car keys). [4]

Award a maximum of [4]:

Award [1] if the candidate has some idea of what the BCG matrix is.

Award [2] if the candidate:

- correctly draws, labels and explains the BCG matrix, **or**
- largely draws correctly the BCG matrix and properly places GCK's current product in the matrix, but with **no** explanation.

Award [3] if the candidate conveys a fully accurate understanding of the BCG matrix and identifies GCK's current product as “a cash cow”.

Award [4] if the candidate conveys a fully accurate understanding of the BCG matrix, identifies GCK's current product as “a cash cow” and explains why.

- (c) With reference to GCK, explain the relationship between investment and profit.

[4]

The relationship between investment and profit is as follows: a business invests money into the development or marketing of a product. Typically the sales revenue of the product grows until it hits a plateau, when sales are either extended (through investment in extension strategies), or when sales revenue begins to fall as the product is near the end of its product life cycle. During periods of rapid sales growth, the business will often make a profit (but cash flow is strained due to working capital requirements of rapid sales growth). During the saturation phase, the business continues to have high profits. In the decline stage, profits fall.

GCK fits this model. Its product (physical car keys) are probably at the end of its product life cycle. If true, GCK's current product would become a dog and the company would need to make an investment to re-make itself. However, for years, GCK chose not to innovate and instead paid high dividends with its profits. Now, those shareholders are shocked – shocked at learning the long-term consequences of failure to innovate. To generate profits anew, GCK must invest. For GCK to invest, it must raise sources of finance, spend on renovating the factory, and then start selling the new product(s).

Without investment, companies cannot, in the long-run, make a profit. During the investment stage, profit is often strained, as resources are going into the introduction and development of the new product(s). During the growth stage, profit grows (but rarely keeps up with the growth in working capital requirements). However, during the maturity stage (at which point the product is a "cash cow" in the terms of the BCG matrix), cash flow improves.

Accept any other relevant explanation.

Award [1] if a candidate has demonstrated some idea of the relationship between investment and profit. Award [2] if the candidate demonstrates a clear understanding of the relationship between investment and profits.

In addition, award [1] for some application to the stimulus. Award [2] for thorough application to the stimulus.

Award a maximum award of [2] if there is no application to the stimulus.

Award a maximum of [4].

N.B. if a candidate never defines or describes investment and profit but establishes their proper relationship, award [1]. Award up to [2] if in this case that relationship is illustrated through application to the stimulus.

(d) Discuss **two** appropriate sources of finance for the renovation of GCK's factories.

[10]

Appropriate sources of finance for GCK include:

- A long-term loan or mortgage, which could be from a bank, or some other type of long-term lender. In this instance, the lender would lend money to GCK and secure the loan on the plant and/or equipment. While the stimulus does not really provide much insight into an appropriate term of the loan, it would almost certainly be longer than five to seven years. Arguments for: the building can be used as collateral, also they currently have little debt so banks may be more willing to lend the required money. On the other hand, loans have to be paid back and interest rates can fluctuate. In addition, GCK is going into largely new lines of business largely because management failed to plan for the future. GCK's track record may not impress the bank lender.
- Share capital through the issuance of new shares to family and friends. The advantage of shares is that GCK would not have debt service. However, the question remains whether they could attract the investors through family (who are already shocked). GCK must then, over the long run, generate sufficient profit to satisfy the investors' return requirements. If the sales of shares is to friends, the Schmidt family will no longer own 100 % of the business. There will be a loss of some privacy and the Schmidt family will have to consult with others.
- Become a publically traded company, which would be very expensive. In this instance, GCK would have to write a prospectus explaining to potential investors why it needs the funds from the sale of shares, how GCK is going to renovate, and what new market it is going into. If persuasive, the prospectus would attract investors. Lots of funds can be generated to invest into product development and into the renovations. However, going public fundamentally changes the relationship of the Schmidt family to the business which they may not like.
- Sale of assets. In light of GCK's failure to anticipate changes in its industry, either from a product standpoint or from a financial standpoint, traditional industrial leaders might be wary of lending the business large sums of money for an untested product. GCK may have to demonstrate a greater willingness to make fundamental change and greater willingness to rely on its own sources of funds. Two advantages to this approach are that (1) it forces the management to think deeply about its future direction and needs and (2) GCK may have less debt. However, selling older industrial equipment and property may not yield as much cash as GCK needs. The plant, in particular, may have considerable value as part of a going concern (GCK) but less value on the open market. And, if GCK sells its current plant, it has to acquire a new facility, probably through leasing, which may be more expensive in the long run.
- Accept debentures. Though it is probably unlikely that a company such as GCK, as described in the stimulus, could issue debentures (especially at this time in its history), candidates may well not know that. Other than additional debt (rather generic) there are relatively few downsides to debentures, so candidates opportunities for "balance" on this one type of finance is relatively limited.
- Leasing is acceptable only if the candidate provides a thorough explanation. At face value, leasing (unlike a bank loan) is not fully appropriate. With appropriate explanation, it can be.

Accept any other relevant substantiated discussion.

N.B. do not accept any form of short-term loan, or a venture capitalist, nor accept joint venture or merger. Personal savings is **not** an acceptable answer.

In general, retained earnings or retained profits is not an appropriate source of finance, as GCK is facing a pressing situation now. With a history of high dividend payments, GCK is unlikely to have a large cash balance. Were GCK to suspend dividend payments immediately, some profits would be available for renovation, but those profits would probably be insufficient for the entire retooling of an old factory. Thus, in general, retained profit is not an appropriate source. If, however, candidates name retained profit **and** have some intelligent discussion thereof, some minor credit for that portion of the response may be awarded.

Marks should be allocated according to the markbands on page 3 with further guidance below.

A balanced response that covers at least one argument for and one argument against each source of finance.

Maximum mark award	One source of finance	Two sources of finance	Judgments/conclusions
3	Unbalanced	N/A	N/A
4	N/A	unbalanced	N/A
5	One balanced and one unbalanced		N/A
5	Balanced	N/A	Judgments/conclusions
6	N/A	Balanced	No judgments/conclusions A nominal conclusion (conclusion paragraph) does not necessarily mean judgments/conclusions.
7-8		Balanced	Judgments/conclusions based upon analysis and explanation in the body of the response
9-10		Balanced	Judgments/conclusions based upon analysis and explanation in the body of the response

4. (a) Define the term *offshoring*.**[2]**

Offshoring occurs when a company moves a business process (manufacturing, for example) from one country to another country (thus, “offshore”).

Disagreement exists over the relationship between offshoring and outsourcing. Two possible relationships are:

- offshoring occurs only by foreign direct investment (a company building or purchasing manufacturing facilities offshore and then operating them itself);
- offshoring can be achieved by outsourcing (having an external organization perform some aspect of a business’s operations provided that the external organization is “offshore”).

N.B. accept either. However, award a maximum of [1] when a candidate defines offshoring as outsourcing or considers outsourcing as a necessary condition of offshoring.

Accept any other relevant definition.

N.B. no application required. Do not credit examples.

Award [1] for a basic definition that conveys partial knowledge and understanding that offshoring occurs when a company moves a business process to another country.

Award [2] for a full definition that conveys knowledge and understanding similar to the answer above.

- (b) Explain **one** advantage and **one** disadvantage for *Vinn* of using an identical marketing mix.

[4]

Possible advantages include:

- *Vinn* could develop a brand identity which in turn could improve *Vinn*'s customer and brand recognition and loyalty everywhere they sell. Customers' decision making in favour of *Vinn* could be enhanced.
- *Vinn* is likely to experience a promotion / advertising economies of scale. With increased movement by consumers and the widespread use of media, uniformity in promotion could be less expensive regionalized marketing, allowing *Vinn* to use resources for other purposes.
- Without a need for product adaptation, *Vinn* can cut costs of production of its jeans substantially. Product and promotional adaptation (or any adaptation) can create a material extra cost.
- *Accept any other relevant benefit for Vinn due to any use of identical marketing mix like price / distribution and so on.*

Possible disadvantages include:

- An identical marketing mix everywhere it sells may not recognize cultural and language differences. For instance, *Vinn* advertisements could use male and female models, colours and language that may not be acceptable in some places with strong religious traditions. *Vinn* may not be able to reach local markets as it fails to capture local audiences.
- Brand image: anti-globalization pressure groups such as "B-Local" may argue that *Vinn* is imposing a uniform culture on different regions by the power of advertising. *Vinn*'s brand image and consumer perception may be negatively affected.
- Differences in the legal environment may prevent *Vinn* from actually applying the same marketing strategy everywhere it sells. *Vinn* may find some legal restrictions to advertise its jeans in some countries.
- An identical marketing mix would include the same price, and the same price may preclude sales in some markets.

Accept any other relevant advantage / disadvantage.

Accept any other relevant explanation.

N.B. just using the name *Vinn* does not constitute application to the stimulus.

Mark as 2+2.

Award [1] for each correct advantage / disadvantage identified or described and [1] for a relevant explanation with application to *Vinn*. Award up to a maximum of [2].

[2] can not be awarded per advantage / disadvantage if the response lacks either explanation **and / or** application.

For example:

For an identification or a description of an advantage / disadvantage **with or without** application [1].

For explanation of an advantage / disadvantage **with no** application [1].

For explanation of an advantage / disadvantage **and** application [2].

- (c) Explain **one** advantage and **one** disadvantage for *Vinn* of operating as a public limited company.

[4]

Advantages of operating as a public limited company (plc) could include:

- Easier, and typically cheaper, access to additional capital. *Vinn* may need additional capital to implement its repositioning strategy that is likely to be expensive as new technology is needed.
- Enhanced media coverage, especially beneficial when the news is positive. Being an American plc, *Vinn* can use the media to reposition itself and create awareness in the American market.
- Greater prestige and, thus, typically greater opportunities to recruit first-rate employees and executives. *Vinn* may need to recruit better designers or employees who can work with the new technology.

Disadvantages of operating as a public limited company (plc) could include:

- Attracts greater media coverage, which can be negative when used by anti-globalization pressure groups / *Vinn*'s brand image could be tarnished everywhere it sells.
- Decision making tends to be more cumbersome, as greater efforts have to be made to communicate with and even coordinate with stakeholders. *Vinn* has to communicate their decision to offshore back to the US. Some shareholders may disagree with a complete change of strategic focus.
- Lack of privacy or the required transparency. The re-shoring and re-direction of focus could lead to a reduction in short-term profits for *Vinn*, which could damage its reputation in the market place.

N.B. advantages and disadvantages do **not** have to be unique to a public limited company. For example, a candidate could have as an advantage “limited liability”, which is also an advantage for private limited companies.

Accept any other relevant advantage / disadvantage.

Accept any other relevant explanation.

Mark as 2+2.

Award [1] for each correct advantage / disadvantage identified or described and [1] for a relevant explanation with application to *Vinn*. Award up to a maximum of [2].

[2] can not be awarded per advantage / disadvantage if the response lacks either explanation **and / or** application.

For example:

For an identification or description of an advantage / disadvantage **with or without** application [1].

For explanation of an advantage / disadvantage **with no** application [1].

For explanation of an advantage / disadvantage **and** application [2].

- (d) Discuss *Vinn*'s decision to re-shore back to the US **and** to produce only individually designed jeans.

[10]

Re-shoring:

In the near future *Vinn* may not be able to benefit from lower manufacturing costs as labour costs in China are rising faster than in the US. Producing jeans in China and Turkey will be less attractive and cost effective for *Vinn* and generally for multinational companies.

Offshoring resulted in some quality issues that negatively affected *Vinn*'s brand image given customers' complaints. Given the increase in global competition, communication issues and the erosion of costs advantage, perhaps the decision to reshore is appropriate, especially if coupled by the repositioning strategy. With a change / re-shoring, brand reputation may be gained and communication problems with offshore employees will be eliminated as manufacturing will now take place in the US. Moreover, re-shoring the production process could improve quality control processes and improve *Vinn*'s quality standards.

However, re-shoring manufacturing to the US may not be that straight forward, *Vinn* will have to invest in the building of new factories, and the necessary finance may not be that easy to raise in a context of global economic recession.

Nevertheless, one may judge these issues as less significant due to their short-term nature.

Change of strategic focus to produce individually designed jeans:

Vinn is planning to change its strategic focus from standardized jeans to individually designed jeans to create a new competitive position. Although, management made the decision, does this have shareholder agreement? The production of individually designed jeans requires specialized technology which is currently available in the US only. In addition, highly skilled creative labour such as designers are currently located in major American cities. Re-shoring production to the US will enable both market proximity and labour proximity to produce jeans for a niche market ready to pay high prices at lower costs. Transport cost will also be reduced. The strategic refocus may be judged as an appropriate one given the intense competition in the mass market and the discovery of an untapped and potentially profitable niche market in the US. To gain a first-mover advantage, *Vinn* must re-shore and change its strategic focus. These two strategies appear complementary.

However, *Vinn* is moving into a new market, one it is unfamiliar with. There are risks associated with possible misjudgments about the size and nature of the target market - how good is its market research? Designer branded jeans are not exactly new. Could there be competitive issues, either known or unknown?

Although the potential profits per unit in niche markets are usually high, by their nature, niche markets are small and success may attract other manufacturers that are possibly smaller and more flexible. Still, further niche markets usually emerge as part of trends, and this is especially so in fashion.

N.B. candidates do **not have to favour both decisions to (1) re-shore and (2) to switch strategic direction. However, they are expected to evaluate both and make a judgment about both. For example, a candidate could conclude that *Vinn* **should** re-shore but **not** switch strategic direction.**

*Candidates are expected to provide a conclusion and a judgment.
Accept any other relevant discussion.*

Candidates are not expected to use the term “a change in strategic focus”.

Marks should be allocated according to the markbands on page 3 with further guidance below.

A “balanced response” means that the response covers at least one argument for and one argument against each decision (re-shoring and producing individually designed jeans).

Maximum mark award	One decision	Two decisions	Judgments/conclusions
3	Unbalanced	N/A	N/A
4	N/A	unbalanced	N/A
5	One balanced and one unbalanced		N/A
5	Balanced	N/A	Judgments/conclusions
6	N/A	Balanced	No judgments/conclusions A nominal conclusion (conclusion paragraph) does not necessarily mean judgments/conclusions.
7-8		Balanced	Judgments/conclusions based upon analysis and explanation in the body of the response.
9-10		Balanced	Judgments/conclusions based upon analysis and explanation in the body of the response.

5. (a) Define the term *market segment*.

[2]

A market segment is a group of people who share one or more identifiable characteristics or needs.

Candidates are **not** expected to word their definition **exactly** as above.

N.B. no application required. Do not credit examples.

Award [1] for a basic definition that conveys partial knowledge and understanding.

Award [2] for a full, clear definition that conveys knowledge and understanding similar to the answer above. For [2] candidates will need to refer to “groups” of people that “share” similar traits or characteristics.

- (b) Explain **one** advantage and **one** disadvantage for JJ of using focus groups as a method of market research.

[4]

Focus groups usually refer to a group of ten or fewer individuals. The group usually consists of volunteers gathered to discuss a particular product or idea. They are asked a series of questions or are given statements to which they freely share their opinions, ideas and reactions. They may also be asked to try out the new JJplus layout in the airplane cabins – they are unlikely to be offered flights. All their responses are viewed and studied to measure the reaction of the larger market population.

Advantages could include:

- Focus groups usually provide immediate ideas for the improvement of particular products or concepts. Feedback is quick. In this case they will be able to give their views on the facilities provided in the first-class cabins of the aircraft. They may also help identify needs not addressed by JJ.
- Focus groups allow for in-depth questions to be asked, replies considered. The researcher/moderator can then pose follow-up questions or ask questions that probe more deeply. The interaction with potential customers may be important for an airline that clearly operates in the service sector and provides an intangible service.
- The researcher can get information from non-verbal responses, such as facial expressions or body language.
- Information is provided more quickly than if people were interviewed separately. JJ might want to collect information ASAP for such an important strategic decision to be made.
- *Accept any other relevant advantage.*

All of the above are particularly relevant / applicable to JJ as the organization provides an intangible new service.

Disadvantages could include:

- As only a small number of consumers are involved, they may not be fully representative of the target market and therefore the results may be unreliable. More specifically, the selection of the participant is very important as they should be the target market. Participants should be potential or actual first class flyers. Hence they have probably never flown JustJet. As such they are not aware of the brand name, something the JJ directors identified as a success factor.
- There is the possibility that the members may not express their honest and personal opinions about the topic at hand. They may be hesitant to express their thoughts, especially when their thoughts oppose the views of another participant.
- Compared with surveys and questionnaires, focus groups are much more expensive to execute. Usually, each participant will have to be compensated in cash or in kind. There is very little in kind that JJ can offer.
- Moderators can greatly impact the outcome of a focus group discussion. They may, intentionally or inadvertently, inject their personal biases into the participants' exchange of ideas. This can result in inaccurate results. Moderators can also lead focus group participants into reaching certain assumptions or conclusions about an idea or product.
- *Accept any other relevant disadvantage.*

Mark as 2+2.

Award [1] for each correct advantage / disadvantage identified or described and [1] for a relevant explanation with application to JJ. Award up to a maximum of [2].

Application can be regarded as any reference to the company, the service / product or the industry.

[2] can not be awarded per issue if the response lacks either explanation and / or application.

For example:

*For an identification or a description of an issue **with or without** application [1].*

*For explanation of an issue **with no** application [1].*

*For explanation of an issue **and** application [2].*

N.B. whether focus groups are “easier” or quicker than other types of primary market research requires some explanation. In general, if the candidate is conveying the idea that feedback from focus groups is immediate, that is an advantage. Compared to surveys, often focus groups are quicker, especially if the survey is long, detailed and “scientifically” constructed. On the other hand, companies can, and do, put together quick online surveys that probably take less time than focus groups. Examiners should be aware that a candidate may be correct in saying that they are “quick” or be misleading, depending on the response. Be inclined to give benefit of doubt (BOD).

- (c) Using the Ansoff matrix, explain JJ's strategy of offering the first-class-only service, JJplus.

[4]

The Ansoff matrix is an analytical model assists organizations to map strategic product market growth.

The launch of the new airline could be viewed in two different ways:

- Product development: this is where a business aims to introduce new products into an existing market. The first-class-only flights are certainly a new product and they are hoping to sell it to its existing market – European customers, more specifically vacationers seeking luxury travel.
- Diversification: the first-class-only flights could be regarded as (related) diversification as this is a new product / service targeted at new geographical markets (New York and the BRIC countries) as well as new untapped segments of vacationers seeking luxury travel at lower cost than first class services offered by other airlines in the European, New York and the BRIC markets / countries.

N.B. the Ansoff matrix does not need to be drawn for full marks, but reference has to be made to the type of product and market.

Award [1] some minimal understanding idea of what an Ansoff matrix is or for just drawing the matrix or inappropriate application.

Award [2] for some limited theoretical understanding of an Ansoff matrix (it could be drawn) and limited application.

Award [3] for some description and some application/categorization of the strategy according to the Ansoff matrix, but both lacks some depth / detail.

Award [4] for a clear and relevant explanation and application/categorization of the strategy according to the Ansoff matrix.

(d) Evaluate JJ's proposal to launch the JJplus service.

[10]

The new target market consists of two market segments:

- vacationers seeking luxury travel at a price lower than other airlines,
- business flyers, such as entrepreneurs from BRIC countries.

JJ already has a well-known brand name within Europe and is a market leader in the budget flights market. This can be both an advantage and a disadvantage. Existing, satisfied customers may decide to upscale and purchase first-class-only flights based on their previous experience with the airline. However it has a "no frills" image which could count against it in this new market where the quality of the product will be a key factor in selling tickets. Also JJ is only well-known within Europe. Its aim is to break into the American and BRIC markets – here it will have very little brand recognition, which will count against it.

Will the JJ brand image affect the image it is trying to create for JJplus or the other way around? This may be the greatest challenge the business faces.

Pricing and branding also intertwine – setting the price too low might create the wrong brand image, an image that is already a possible issue as it has built its reputation as a business that offers only economy seating and charges for all extra services on board. It is also an unknown brand in the American and BRIC markets and it will take time and funding before it can establish a suitable brand image. Still, JJ is profitable so the cost argument might not be of significant importance.

JJ has decided to set its prices below those of rival, established airlines offering flights with first-class seats to persuade their customers to switch allegiance. These airlines are likely to already have brand loyal customers. Lower fares than the main competitors might confuse the luxury seeking business flyers from the BRIC countries, assuming the quality is not as high. However, it may be more successful in attracting business flyers from smaller companies where travel costs may be considered to be more important.

To break even, each flight has to sell at least 90 % of the seats. This is potentially a small margin of safety as there might be little, or no opportunity to cut cost for such a service.

JJ has only used focus groups so the market research is limited.

It will need to offer a sufficient discount compared to the prices charged by established carriers if it to be a success. If it is successful initially it might invite retaliation from existing airlines – a price war might develop and this may force the business to cut its prices below costs and operate at a loss. The business can finance this, at least in the short-term, from the profits being made by its existing and original business, which is very profitable, but does it really have the financial fortitude especially if competitors retaliate?

Other airlines offering a first-class service failed, so perhaps one might argue that JJ should be cautious. However, this was a while ago so perhaps the new external environment is more favourable, allowing the business to grow the market. Some favourable PEST factors in the BRIC countries, such as increases in income, changes in taste / preference, to name just a few, might create opportunities for the JJplus service.

Candidates are expected to provide conclusions and judgment.

Accept any other relevant answer.

Marks should be allocated according to the markbands on page 3 with further guidance below.

A balanced response is one that provides at least two arguments for and two arguments against the option.

For one relevant issue that is one-sided, award up to [3]. For more than one relevant issue that is one-sided, award up to a maximum of [4].

Award a maximum of [6] if the answer is of a standard that shows balanced analysis and understanding throughout the response with reference to the stimulus material but there is no judgment/conclusion.

Candidates cannot reach the [7–8] markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

Section C

Marks should be allocated using the assessment criteria on pages 4 to 5 with further guidance below.

N.B. examiners should include a breakdown of each mark awarded per criterion and a brief note explaining the mark awarded at the end of each candidate's response.

The main aim of paper 2 (SL or HL) section C is to assess candidates' understanding of the six major concepts (change, culture, ethics, globalization, innovation, strategy) within a business context. Candidates are to demonstrate their understanding through an organization of their choice. The expectation of the use of an organization is to allow assessment of the depth of candidates' understanding through their ability to apply the concepts and their knowledge.

Assessment of candidates' knowledge of the organization itself is not an aim of the assessment. If a candidate makes minor factual errors and these minor errors have no genuine bearing on whether the candidate understands the concepts, examiners should not penalize. For example, a minor error of historical fact (the year when a company was founded, for example, or the year in which a change was implemented) which has no genuine bearing on candidates' understanding of the concepts does not warrant penalty.

Individual question marking notes

6. With reference to an organization of your choice, discuss the impact of **innovation** on operations management **strategy**. [20]
Accept any content from operations management linked to strategy.

7. With reference to an organization of your choice, examine the impact of **culture** on organizational **ethics**. [20]
Accept any discussion that is focused on internal or external culture.

8. With reference to an organization of your choice, examine the impact of **globalization** on organizational **change**. [20]
Accept any type of change to any part of an organization.

It is expected that the candidate explains the chosen theoretical direction / content of their response.

Additional guidance in relation to the assessment criteria

For each criterion, the aim is to find the descriptor that conveys most accurately the level attained by the candidate, using the best-fit model. It is not necessary for every single aspect of a level descriptor to be met for that mark to be awarded.

- The highest level descriptors do not imply faultless performance and should be achievable by a candidate.
- A candidate who attains a high level of achievement for one criterion will not necessarily reach high levels of achievement for the other criteria and vice versa.

If only **one** concept is addressed:

Criteria A, B, C and E: award up to a maximum **[3]**.

Criterion D: full marks can be awarded.

Where the question ask for impacts of two concepts on content, examiners must allow for unbalanced treatment of the two concepts throughout a candidate's response. One concept may be more significant than the other.

In section C, the question rubric explicitly states that "organizations featured in sections A and B and in the paper 1 case study may not be used as a basis" to candidate's answers to questions 6, 7 and 8. When this happens please award marks as follows:

Criterion A: award a maximum of **[1]**. The business management content cannot be relevant if the organization is fictitious.

Criterion B: 0 marks – there is no connection to a "real-world organization"

Criterion C: award a maximum of **[1]**. The arguments cannot be relevant if the organization is fictitious.

Criterion D: mark as normal.

Criterion E: award up to a maximum of **[1]**. The individual and/or group perspective(s) cannot be relevant if the organization is fictitious.

Criterion B

For **[2]**: "...connection is not developed" should be treated the same as superficial.

Criterion C

- Questions 6 to 8 require consideration of the impact of one concept **on** a second concept – therefore accept 2+2 arguments for a balanced response.
- Justification is through logic or data.
- For **[2]** there is no balance as there are no counter arguments at all, or the arguments are all one-sided then this would be unjustified.
- For **[3]** there is some balanced arguments – some of which are justified.

Criterion D

- Introductions need to be concise and related to the question.
- The candidate's response does not have explicit headings for each structural element.
- A body is the area in which the substance of arguments occur. It is usually located between the introduction and the conclusion.
- Fit-for-purpose paragraph means that ideas are presented in a clear academic way.
For example, one idea per paragraph.

Criterion E

- One example of an “individual” could be an individual consumer or an individual manager. However this could not be considered with a “group” of consumers or a management team.
 - For **[4]**, a balanced response: need to look at the perspectives of **both** individual **and** group(s). The chosen individual, group needs to be applicable and relevant to the question with specific explanation.
 - Candidates need to go beyond stating the stakeholder.
 - Candidates need not explicitly say “stakeholder”.
-

M17/3/BUSMT/SP1/ENG/TZ0/XX/M



Markscheme

May 2017

Business management

Standard level

Paper 1

12 pages

– 2 –

M17/3/BUSMT/SP1/ENG/TZ0/XX/M

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– 3 –

M17/3/BUSMT/SP1/ENG/TZ0/XX/M

The following are the annotations available to use when marking responses.

Annotation	Explanation	Associated shortcut
 AE	AE - Attempts Evaluation	Alt+7
 BOD	BOD - Benefit of the doubt	Alt+0
 CKS	CKS - Clear Knowledge Shown	
 X	Cross - Incorrect point	
 DES	DES - Descriptive	Alt+2
 EE	EE - Effective evaluation	Alt+4
 GA	GA - Good Analysis	
 GD	GD - Good Definition	
 GEXA	GEXA - Good Example	
 GEXP	GEXP - Good Explanation	Alt+9
GP	GP - Good Point	Alt+5
 H	H Line - Underline tool	
 H	Highlight - Highlight tool	
 IR	IR - Irrelevant	
 IU	IU - Inappropriate Use	
 LD	LD - Lacks Depth	
 LLS	LLS - Lacks Logical Structure	

	NAQ - Not Answered Question	Alt+6
	NBOD - No benefit of the doubt	Alt+8
	NE - Not enough	
	On Page Comment - On page comment tool	Alt+3
	P - Paragraphing	
	PE - Poorly expressed	
	QuestionMark - Unclear	
	SEEN_Small - Seen	
	Tick Colourable	Alt+1
	TV - Too vague	
	UR - Unbalanced Response	

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The markbands and assessment criteria on pages 5 –6 should be used where indicated in the markscheme.

Section A			Level descriptor
Q1 (b)	Q2 (b)	Q3 (b)	
Marks			
0			The work does not reach a standard described by the descriptors below.
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues and business management tools (where applicable), techniques and theories. • Little use of business management terminology. • Little reference to the stimulus material.
3–4			<ul style="list-style-type: none"> • A description or partial analysis of some relevant issues with some use of business management tools (where applicable), techniques and theories. • Some use of appropriate terminology. • Some reference to the stimulus material that goes beyond the name of a person(s) and/or the name of the organization. • At the lower end of the markband, responses are mainly theoretical.
5–6			<ul style="list-style-type: none"> • An analysis of the relevant issues with good use of business management tools (where applicable), techniques and theories. • Use of appropriate terminology throughout the response. • Effective use of the stimulus material.

Section B Q4 (d)	Level descriptor
Marks	
0	The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"> • Little understanding of the demands of the question. • Few business management tools (where applicable), techniques and theory are explained or applied and business management terminology is lacking. • Little reference to the stimulus material.
3–4	<ul style="list-style-type: none"> • Some understanding of the demands of the question. • Some relevant business management tools (where applicable), techniques and theories are explained or applied, and some appropriate terminology is used. • Some reference to the stimulus material but often not going beyond the name of a person(s) and/or the name of the organization.
5–6	<ul style="list-style-type: none"> • Understanding of most of the demands of the question. • Relevant business management tools (where applicable), techniques and theories are explained and applied, and appropriate terminology is used most of the time. • Some reference to the stimulus material that goes beyond the name of a person(s) and/or the name of the organization. • Some evidence of a balanced response. • Some judgments are relevant but not substantiated.
7–8	<ul style="list-style-type: none"> • Good understanding of the demands of the question. • Relevant business management tools (where applicable), techniques and theories are explained and applied well, and appropriate terminology is used. • Good reference to the stimulus material. • Good evidence of a balanced response. • The judgments are relevant but not always well substantiated.
9–10	<ul style="list-style-type: none"> • Good understanding of the demands of the question, including implications, where relevant. • Relevant business management tools (where applicable), techniques and theories are explained clearly and applied purposefully, and appropriate terminology is used throughout the response. • Effective use of the stimulus material in a way that significantly strengthens the response. • Evidence of balance is consistent throughout the response. • The judgments are relevant and well substantiated.

Section A

1. (a) With reference to *Utopia*, describe the importance of **two** external stakeholders (line 12). **[4]**

External stakeholders could be:

- Suppliers – the local business in particular and coffee suppliers. The business relies on the quality of these products
- Local craftsmen – can be considered different from suppliers
- Customers – this is in the service industry and customers are critical. Word-of-mouth is so important in this industry and these will tend to be influential people
- Banks, etc – unlikely to be important as the business does not use external finance
- The government – very important for regulations such as H&S. Also collects taxes so has an impact on profits.
- Local community – Utopia provides work, has focus on local suppliers
- Pressure groups/media – no obvious importance although bad publicity to be avoided
- Competitors are allowed as external stakeholders

N.b.: shareholders are **not** external. Do not reward comments about stakeholders in general – there has to be references to specific stakeholders

Mark as 2+2.

Award [1] for each correct stakeholder identified and [1] for a description of how that stakeholder relates to Utopia. Award a maximum of [2] per stakeholder.

- (b) With reference to *Utopia*, explain the role of promotion (line 6). **[6]**

Promotion will have to be very focused to be effective.

Two aspects of promotion:

- **Providing information:** This is an upmarket business offering quite a different kind of tourist service. Potential customers will want to know a great deal about the specialities, such as locally produced goods and services, local cuisine, local culture, luxurious facilities and services
- **Persuasion:** Probably important early in the life of the business but less so as word-of-mouth promotion will now be a critical way to get new customers (C2C). How many customers are return visitors? Advertising through public relations may well be important, as tourist destinations often appear in travel pages of newspapers.

Creating, maintaining, reinforcing the ‘upmarket’ brand and image is important. Promotion may not be quite as important as for other tourist destinations because its focus is going to be on a niche market.

Accept any other relevant application.

Marks should be allocated according to the markbands on page 5.

Award a maximum of [3] for a theoretical answer.

– 8 –

M17/3/BUSMT/SP1/ENG/TZ0/XX/M

Award a maximum of [5] if the explanation of promotion is mainly descriptive but in context.

For full marks the explanation needs to be developed and in context.

2. (a) With reference to JAC, describe **two** advantages of internal growth (line 52). [4]

Internal growth: selling more; widening product range; expanding facilities

- JAC is a relatively small enterprise relative to *Utopia* so it would not be too difficult to raise the resources to grow JAC internally.
- John Ariki's philosophy is for internal growth.
- Because of the emphasis on local culture, specialised coffee, etc, it is important for JAC to retain control – control might be diluted with external growth.
- With outside influences the vision for JAC might be diluted.
- JAC is part of *Utopia* so the vision for *Utopia* is relevant.
- *Gaining economies of scale e.g. bulk buying coffee for the whole business*
Remember: JAC is owned as a sole trader

Mark as 2+2.

Award [1] for each advantage identified, and [1] for the development of each of these key aspects in the context of JAC/Utopia/John, up to a maximum of [2].

- (b) With reference to John, explain the key functions of management. [6]

Key functions of management are:

- setting objectives and planning
- organising resources to meet objectives, including staff recruitment
- directing and motivating staff
- coordinating activities
- controlling and measuring performance.

With reference to John:

- He created the original business plan.
- He made decisions about reflecting local culture and resisting external stakeholders.
- He organises local suppliers.
- It was his decision to open café.
- He creates crisis management and contingency plans.
- He decides on options.
- He delegates to his children but keeps the reigns.
- He organised and managed a meeting between himself, Liza and Paul.
- He monitors performance.
- He sets organisational structure and manages changes.
- He makes the final decision.

Accept any other relevant analysis.

Marks should be allocated according to the markbands on page 5.

Award a maximum of [3] for a theoretical answer.

Award a maximum of [5] if the explanation of functions is mainly descriptive but in context.

For full marks the explanation needs to be developed and in context.

– 10 –

M17/3/BUSMT/SP1/ENG/TZ0/XX/M

3. (a) With reference to *Utopia*, describe **two** suitable sources of finance for the 3D printers (line 60). [4]

Relative to the size of *Utopia*, the cost of the printers is not large.

Sources could include:

- retained profits – but are these sufficient after the problems of 2016?
- sale of assets – but are there any? The villas are only just being rebuilt and the café is growing
- reductions in working capital – impossible to say but it does seem an efficient organization
- loans – although John does not want external influences, he is thinking that he will have to look outside. Loans would dilute his control the least. Debentures are unrealistic. Debt factoring
- joint ventures, strategic alliances, franchising would seem rather unsuitable for the 3D printing as it is a small project. Would anyone be interested?
- Shares: Unlikely to be suitable as John owns 100% of shares and does not want external influences
- Hire purchase/leasing – would this be available from 3D printer manufacturers?
- Can also consider grants

Shares not acceptable as John owns 100% of shares. Remember, *Utopia* is a private limited company

Accept any other relevant point.

Mark as 2+2.

Award [1] for each source identified, and [1] for the development of each of these sources in the context of the project, up to a maximum of [2].

- (b) Explain the role of ethics in John's businesses. [6]

Ethical objectives are difficult to define and vary from culture to culture; however, the following might be regarded as ethical/socially responsible:

- using local craftsmen
- focussing on local culture
- using local ingredients
- using ethically produced fair trade coffee and paying above market prices.

Importance relates to:

- maintaining the goodwill of the community
- maintaining the goodwill of suppliers, employees
- maintaining the brand image (perhaps the most important).
- Aiming to improve long term success and profitability of the business

Accept any other relevant analysis.

Marks should be allocated according to the markbands on page 5.

Award a maximum of [3] for a theoretical answer.

Award a maximum of [5] if the analysis is mainly descriptive but in context.

For full marks the explanation needs to be developed and in context.

Section B

- 4.** (a) Define the term *variable cost*. **[2]**

Variable costs are costs that vary in direct proportion to change in output/level of production.

*Candidates are **not** expected to word their definition **exactly** as above.*

*Award [1] for a basic definition that conveys partial knowledge and understanding.
Award [2] for a full, clear definition that conveys knowledge and understanding similar to the answer above.*

- (b) With reference to *Utopia*, explain the differences between secondary sector activities and tertiary sector activities. **[4]**

Secondary sector: manufacturing – converting raw materials. Usually capital intensive, often B2B – 3D printing.

Tertiary sector activities – providing services. Usually labour intensive, often B2C. Predominant in developed economies – serving coffee, providing resort facilities.

Award [1] for each difference identified, and [1] for the development of this difference in the context of Utopia.

Award a maximum of [2] if the answer is not about differences but only provides definitions.

- (c) Using the information above, calculate the payback period and the average rate of return (ARR) for the 3D printing project (*show all your working*). **[4]**

Year	Net cash flow (\$000)	Cumulative net cash flow (\$000)
0	–10	–10
1	2	–8
2	3	–5
3	4	–1
4	4	+3
5	4	+7

The project breaks even after 3 years and 3 months (3 ¼ years).

$$\begin{aligned} \text{ARR} &= \frac{(\text{total returns} - \text{capital cost}) / \text{years of use}}{\text{capital cost}} \times 100 \\ &= \frac{(17 - 10) / 5}{10} \times 100 = 14\% \end{aligned}$$

Mark as 2+2.

For each calculation:

Award [2] for correct answer with working and correct unit.

Award [1] for correct answer with working but incorrect unit or no unit, or for correct answer with correct unit but no working.

- (d) Using information from the case study, additional information above **and** your results from part (c), recommend whether *Utopia* should proceed with the 3D printing project. [10]

For:

- Paul likes the idea
- Unique souvenirs
- Cost reductions
- \$10k is not large in the scale of the operation
- Use of recycled materials fits in with *Utopia*'s ethos and image
- ARR reasonable (14 %) – allow OFR

Against:

- Payback period quite long (OFR) for such a small project
- Does this market really do souvenirs?
- Liza does not like
- Recruitment difficulties
- Impact on local people – part of the ethos
- Costs of recycling unclear
- Not suited to niche market?
- This is a very small investment (10K) and the returns at 14% actually amount to quite a small sum – if it is a success it actually adds very little to annual revenue streams. For such a small return is the risk that it perhaps cheapens the image of the business worthwhile? Such souvenirs could be regarded as “tacky” and do not fit the profile of the target market.

Decision depends on John and whether other alternatives are better, eg doing nothing, leaving the money in the bank, etc. John believes the technology will bring other benefits, which may swing him that way; however, the impact on local craftsman would weigh heavily.

Marks should be allocated according to the markbands on page 6.

Award a maximum of [4] for a purely theoretical answer or with no effective use of case material.

Award a maximum of [5] if only one side of argument is considered in context.

Award a maximum of [6] if both sides are considered but there is limited use of data.

Award a maximum of [8] if both sides considered, and there is good use of data.

For full marks two sides of the argument should be considered, data used effectively, and the recommendation supported.

Note – a recommendation that a decision cannot be made due to lack of information (eg market research) can be regarded as a decision provided the arguments are supported.

M17/3/BUSMT/SP2/ENG/TZ0/XX/M



Markscheme

May 2017

Business management

Standard level

Paper 2

23 pages

– 2 –

M17/3/BUSMT/SP2/ENG/TZ0/XX/M

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 Highlight	Highlight - Highlight tool	
 IR	IR - Irrelevant	
 IU	IU - Inappropriate Use	
 LD	LD - Lacks Depth	
 LLS	LLS - Lacks Logical Structure	

- 4 -

M17/3/BUSMT/SP2/ENG/TZ0/XX/M

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	NE - Not enough	
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1–2	<ul style="list-style-type: none"> • Little understanding of the demands of the question. • Few business management tools (where applicable), techniques and theories are explained or applied, and business management terminology is lacking. • Little reference to the stimulus material.
3–4	<ul style="list-style-type: none"> • Some understanding of the demands of the question. • Some relevant business management tools (where applicable), techniques and theories are explained or applied, and some appropriate terminology is used. • Some reference to the stimulus material but often not going beyond the name of a person(s) and/or the name of the organization.
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Assessment criteria for Section C

Criterion A: Knowledge and conceptual understanding

This criterion addresses the extent to which the candidate demonstrates knowledge and understanding of the given concepts and relevant business management content (theories, techniques or tools, depending on the requirements of the question).

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Superficial knowledge of the given concepts is demonstrated. Business management content is not selected or the content selected is irrelevant.
2	Satisfactory understanding of one or both of the given concepts is demonstrated. Some business management content selected is relevant. The relevant content is satisfactorily explained.
3	Good understanding of one or both of the given concepts is demonstrated. The business management content selected is relevant, though it may not be sufficient. The relevant content is generally well explained, though the explanation may lack some depth or breadth.
4	Good understanding of both of the given concepts is demonstrated. The business management content selected is relevant, sufficient and well explained.

Criterion B: Application

This criterion addresses the extent to which the candidate is able to apply the given concepts and the relevant business management content (theories, techniques or tools, depending on the requirements of the question) to his or her chosen real-world organization(s). **The real-world organization(s) must not be the organization featured in the prescribed case study for paper 1.**

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	The given concepts and/or any relevant business management content are connected to the real-world organization(s), but this connection is inappropriate or superficial.
2	The given concepts and/or relevant business management content are connected appropriately to the real-world organization(s), but this connection is not developed.
3	The given concepts and relevant business management content are generally well applied to explain the situation and issues of the real-world organization(s), though the explanation may lack some depth or breadth. Examples are provided.
4	The given concepts and relevant business management content are well applied to explain the situation and issues of the real-world organization(s). Examples are appropriate and illustrative.

Criterion C: Reasoned arguments

This criterion assesses the extent to which the candidate makes reasoned arguments. This includes making relevant and balanced arguments by, for example, exploring different practices, weighing up their strengths and weaknesses, comparing and contrasting them or considering their implications, depending on the requirements of the question. It also includes justifying the arguments by presenting reasonable evidence or other support for the claims made.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Statements are made but these are superficial.
2	Relevant arguments are made but these are mostly unjustified.
3	Relevant arguments are made and these are mostly justified.
4	Relevant, balanced arguments are made and these are well justified.

Criterion D: Structure

This criterion assesses the extent to which the candidate organizes his or her ideas with clarity, and presents a structured piece of writing comprised of:

- an introduction
- a body
- a conclusion
- fit-for-purpose paragraphs.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Two or fewer of the structural elements are present, and few ideas are clearly organized.
2	Three of the structural elements are present, or most ideas are clearly organized.
3	Three or four of the structural elements are present, and most ideas are clearly organized.
4	All of the structural elements are present, and ideas are clearly organized.

Criterion E: Individuals and societies

This criterion assesses the extent to which the candidate is able to give balanced consideration to the perspectives of a range of relevant stakeholders, including individuals and groups internal and external to the organization.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	One individual or group perspective is considered superficially or inappropriately.
2	One relevant individual or group perspective is considered appropriately, or two relevant individual or group perspectives are considered superficially or inappropriately.
3	At least two relevant individual or group perspectives are considered appropriately.
4	Balanced consideration is given to relevant individual and group perspectives.

Section A

1. (a) Define the term *price skimming*. [2]

Price skimming is setting prices high when introducing a new product to the market. This strategy typically works only for a limited time, as competitors will respond to the new product with innovations to their own products. As competitors introduce new products in response, demand for the original company's product (the company price skimming) falls, and prices must be lowered.

Candidates are not expected to word their definition exactly as above.

Award [1] for a basic definition conveying the idea that price skimming involves setting a high price for a new product. Award and additional [1] mark for extra relevant information, such as the idea that the product is unique or differentiated from competitors' products or that the price will fall over time. Maximum award: [2].

- (b) (i) Calculate the values of **X** and **Y** in Table 1 (no working required). [2]

$$\begin{aligned} \mathbf{X} &= \$2200 \text{ (millions of dollars)} \\ \mathbf{Y} &= \$1500 \text{ (millions of dollars)} \end{aligned}$$

Award [1] mark for each correct answer up to a maximum of [2].

- (ii) Construct a profit and loss account for SE for 2015 and 2016. [4]

	2015	2016
Sales revenue	4300	5100
Cost of goods sold	2100	2300
Gross profit	2200	2800
Expenses	1200	1300
Net profit before interest and tax	1000	1500

Award [4] if both profit and loss accounts are correct. Award [3] if the candidate correctly formats both profit and loss accounts, but has one mathematical error.

If a candidate does not correctly format the profit and loss accounts or has two mathematical errors, award [2]. Award [1] if the candidate demonstrates some understanding of a profit and loss account but otherwise has numerous errors.

Own figure rule applies. Many candidates will probably rough out a P & L on scratch paper to produce answers for 1(b)(i) and then neatly reproduce the P & L on the examination paper. If a candidate makes a mathematical error in (b)(i) and makes the same error in (b)(ii), apply the OFR.

– 9 –

M17/3/BUSMT/SP2/ENG/TZ0/XX/M

- (c) Calculate net current assets (working capital) for 2016 (*show all your working*). **[2]**

Net current assets (working capital) is calculated by subtracting current liabilities from current assets (all in millions of dollars):

Current assets – Current liabilities = Net current assets

$$\$700 - \$300 = \$400$$

Writing out “current assets – current liabilities = net current assets” is not sufficient for getting the [1] for correct working. Candidates must write out $\$700 - 300 = 400$.

Award [1] for the correct working and [1] for the correct answer. Award up to a maximum of [2].

– 10 –

M17/3/BUSMT/SP2/ENG/TZ0/XX/M

2. (a) Outline **two** appropriate external short-term sources of finance for *Anubis other than* loans from family and friends.

[2]

The sources of finance suggested must be external and short term – therefore the only four rewardable answers are:

- Trade credit
- Factoring
- Overdraft
- Short-term bank loan

Award [1] per correct source identified up to a maximum of [2]. However, if a candidate outlines overdraft and short-term bank loan, maximum award [1].

Award [1] per correct source identified up to a maximum of [2].

- (b) Using the information above, prepare a fully labelled cash flow forecast from January to March 2018.

[5]

	Jan	Feb	Mar
Opening balance	8000	2000	1000
Inflows:			
Sales	300 000	300 000	300 000
Tax refund		3000	
Total cash inflows	300 000	303 000	300 000
Outflows:			
Rent	2000		
Packaging	15 000	15 000	15 000
Wages	50 000	50 000	50 000
Cost of sales	220 000	220 000	220 000
Heating and lighting	4000	4000	4000
Delivery	15 000	15 000	15 000
Total cash outflows	306 000	304 000	304 000
Net cash flow	<6000>	<1000>	<4000>
Closing balance	2000	1000	<3000>

Award [1] if the candidate has some idea of an annual cash-flow forecast but otherwise has numerous errors. Award [2] if the cash flow has three or more errors or has a largely inaccurate format. Award [3] if it is largely formatted correctly and/or has two errors. Award [4] for a correctly formatted forecast with just one error. Award [5] for a correctly formatted and mathematically correct forecast.

- (c) Comment on the predicted cash flow for *Anubis* for 2018.

[3]

The cash flow forecast is a cause for concern. The forecast covers the first three months of 2018 but the closing balance worsens each month and is forecasted to be negative in March. Thereafter, *Anubis* faces lower gross profit margin because of lower retail prices of phone cases and higher wages costs. Given that the market is increasingly competitive, *Anubis* may not be able to generate sufficient additional sales revenue to offset the lower gross profit margin. Thus, the situation for *Anubis* is not promising.

Award [1] for recognition that the business's cash flow position is predicted to deteriorate.

Award [1] for each additional relevant comment related to the stimulus and specifically referring to it, up to [2]. Maximum award: [3].

N.B. The candidate's commentary should be based upon the cash flow numbers that were produced in 2(b). Examiners should follow a procedure similar to the Own Figure Rule. Even if the candidate's cash flow numbers are extremely inaccurate, the candidate can still comment on them. The comment should be logically dependent on the numbers produced in 2 (b).

Section B

3. (a) Outline **two** common steps taken by a business in recruitment. [2]

Common steps taken by a business in the process of recruitment include:

- identifying position
- evaluating the requirements for the position
- developing a job description
- determining recruitment plan
- determining search committee
- advertising position
- reviewing applicants and developing a list to interview
- conducting interviews
- selecting the candidate that best fits the description
- offering position and negotiating terms.

Accept any other relevant step in the process of recruitment.

Award [1] for each step identified up to a maximum of [2].

- (b) (i) Explain **two** disadvantages for *Wire* of introducing a piece rate system of wages for its cleaning staff. [4]

- Housekeepers may stop worrying as much about the quality of the job they do, instead only worrying about the number of rooms they can clean per hour to achieve greater earnings.
- The piece rate method may also discourage teamwork in the workplace because individual housekeepers simply want to complete more of their own work.
- The increased stress that results from having to clean more rooms may result in increased staff turnover and make it more difficult to recruit housekeepers in the future.
- Staff may become demotivated because they now have to clean more rooms for less pay.
- The piece rate system could damage *Wire*'s relationship with its customers such as *Dales* as the bad press could lead *Wire*'s customers not to renew contracts.

N.B. Piece rates are usually considered a motivator, not a de-motivator. Candidates may be awarded marks for saying piece rates demotivate provided that have a clear and logical explanation based upon the circumstances of the case.

Mark as 2+2.

*Award [1] for stating a disadvantage and an additional [1] for its explanation with reference to *Wire*. Award a maximum of [2].*

- (ii) Calculate the financial impact on cleaners employed by *Wire* from the introduction of the piece rate system in 2016 (*show all your working*). [2]

Wages earned in time-based system = $\$6 \times 8 \times 5 = \240 per week [1].

Wages earned using new piece rate system = $\$2 \times 20 \times 5 = \200 per week [1].

Financial impact on cleaners = \$40 per week. The question does not specify a time frame. Therefore, accept any time frame as long as the candidate is consistent. For example, $\$6 \times 8 = \48 and $\$2 \times 20 = \40 . Financial impact on cleaners = \$8 per day.

- (iii) Calculate the change in cleaning costs per room from the introduction of the piece rate system used by *Wire*. [2]

Cleaning wage cost per room in old system = \$6 × 8 divided by 13 rooms
= \$3.69 per room [1].

New system: \$2 per room, therefore the change in cleaning costs = \$1.69 per room [1].

Own Figure Rule applies.

- (c) Recommend if *Dales* should stop outsourcing the cleaning of hotel rooms. [10]

If *Dales* stops outsourcing its cleaners then costs will rise. Outsourcing did cut costs per room from 5 % of room revenues to 2 % – this is likely to be reversed if they stop outsourcing, unless of course they operate the same system as used by *Wire*: a piece rate system. Costs could, in the short run, increase – *Dales* will now be responsible for training and recruitment costs, which are unavoidable. These costs could be significant, especially since in 2016 *Dales*'s profits decreased from \$24 m to \$4 m. This increase in costs could cause them to make a loss at least in the short term.

However, stopping outsourcing will not deal with *Dales*'s other problems – wage rates at *Dales* are below the average for the hotel industry. Consequently, staff turnover is high. Recruitment is difficult due to the number of hotels in the area and the wages paid.

Cessation of outsourcing of cleaners will have no impact on these issues.

Hotel guests may find that their rooms are cleaned to a higher standard if *Dales* returns to having cleaners only clean 13 rooms per day rather than 20. However, if *Dales* sticks with the piece rate system adopted by *Wire* then nothing will really change and poorly cleaned rooms may continue to be an issue.

Hotel guests are critical not just about room cleanliness but also about food quality and poor customer service across the hotel. Cleaner rooms may help reduce the fall in room bookings but unless other concerns such as food quality and customer service are challenged then insourcing of cleaners may do little to arrest the decline in bookings.

Certainly, it is a step in the right direction, but *Dales's* problems appear deeper than just poorly cleaned rooms and unless these are dealt with the future looks grim.

Dales operates in a highly competitive market and unless it offers wages on par with rival hotels then staff turnover will remain high. Continued high labour turnover will not help it establish better customer care and may be a significant factor in the poor quality of food sold in the hotel. *Dales* is positioned as a high-price and high-quality hotel – guests that pay high prices expect good food, polite staff and a clean room.

In order to reach the top bands of the markscheme candidates must demonstrate that insourcing will only solve one of *Dales's* problems and must discuss the importance of the other factors in contributing to their falling room occupancy rates.

Accept any other relevant evaluation.

The table below should be followed (along with the markbands on page 5).

These mark awards in the table below should be viewed as maximums. That is, just because a candidate has one argument for outsourcing and one argument against does not mean that they will automatically get a 4. One strong argument for one side and merely a weak or nominal argument for the other side might result in a 3.

Maximum Mark award	Should <i>Dales</i> stop outsourcing?	Judgments/conclusion
3	One argument for or against. Not merely an assertion, but an argument	N/A
4	One argument for and one argument against Or, two or more arguments for one side of argument and none for the other	N/A
5	Two arguments for one side, one for the other	N/A
6	Two arguments for, two arguments against	No judgments/conclusions
7–8	Two arguments for, two arguments against plus a conclusion that is more than nominal – actually flows out of the analysis. Largely effective use of business language and the stimulus	Judgments/conclusions based upon analysis and explanation in the body of the response
9–10	Two arguments for, two arguments against plus a conclusion that is more than nominal – actually flows out of the analysis. Rich use of business language, business theory and the stimulus	Two arguments for, two arguments against plus a conclusion that is more than nominal – actually flows out of the analysis.

Marks should be allocated according to the markbands on page 5.

4. (a) Describe **one** characteristic of a niche market. [2]

Characteristics of a niche market include that they:

- are narrow
- are smaller than most markets or a fraction of a market
- often require specialized processes (marketing or operations) to fill the niche
- more specific in terms of features or quality of the product or service
- given the above niche markets or segments may be characterized as having higher final prices to consumers.

Accept other relevant characteristics of a niche market. Candidates are not expected to word their responses exactly as above.

Award [1] for identification of a characteristic of a niche market.

Award [2] for a full, clear description of the characteristic. Meaningful exemplification would qualify as a description deserving two marks.

- (b) With reference to SV, explain **one** advantage **and one** disadvantage of using secondary market research. [4]

Advantages of secondary market research include:

- Efficient in terms of time – the data on wine consumption patterns, for example, has already been collected by someone else and is available.
- Effective in terms of cost – often, secondary research is free and, when not, is typically less expensive than the process of gathering primary research.
- Often, ample secondary research exists. On certain topics or related to certain markets, secondary research can be extensive. It has allowed SV to consider new geographical markets which it may not have considered before.
- Others have often thought through many of the core issues and a business can benefit from the insights of experts of collated data and written about them.

Disadvantages of secondary research include:

- Lack of precise focus on the issue or problem concerning a business
- Lack of timeliness – often secondary research is outdated
- Uncertainty about the quality of the data collection/research.

Mark as 2+2.

Award [1] for each advantage and disadvantage identified and award an additional [1] each if explained with application to SV.

(c) Given the intense competition, explain **two** pricing strategies SV might consider.

[4]

Pricing strategies that SV might consider include:

- Cost-plus (mark-up) – SV may want to return to this pricing strategy, which guarantees that for each bottle of wine it sells the business is covering its per unit costs. However, SV's brand identity might suffer if it lowered prices.
- Penetration – SV could use this pricing strategy as it enters new markets. Penetration pricing would allow SV to attract first-time customers in new markets with lower-than-normal pricing. Once some brand loyalty develops, SV could then raise prices.
- Psychological – Whereas psychological pricing sometimes refers to pricing below certain thresholds (\$9.99 rather than \$10.00) for a psychological effect, another form of psychological pricing is pricing a product high as a way of suggesting that the product is of high quality or value. SV might try to strengthen its brand identity with psychological pricing along this line, especially as the competition is intense.
- Loss leader – SV could try a loss-leader strategy, whereby it sells one of its wines at very low prices in an attempt to get consumers to buy SV wines. Other varieties of SV wines, however, would be priced in a fashion to compensate for the losses on the one type. This strategy, like others involving attracting customers through low prices, could weaken SV's brand identity.
- Price discrimination – SV might consider price discrimination, where SV sets the prices based upon the market that it is entering. For example, SV might charge more for wines in New York City than in Charlotte, NC. Both cities (major banking centres in the United States) have upscale buyers. Nevertheless, prices of virtually all types of goods and services cost less in Charlotte than in New York.
- Premium pricing – Though premium pricing is not in the guide, candidates are free to use it if they wish. Premium pricing occurs when a business inflates its prices precisely to enhance brand value. Consumers think that, by paying more, they are getting a better product.
- Promotional pricing – setting pricing very low for a short period to get customers to buy your product, often for the first time.
- Value-based pricing – setting a price based upon what consumers perceive the value of the product to be rather than on the actual cost to produce.

Accept other pricing strategies as long as there is a clear indication of why this may be acceptable to SV. *Do not accept predatory pricing.*

N.B. Candidates must actually name pricing strategies. "Lowering prices" and "Increasing prices" are not pricing strategies.

Mark as 2+2.

Award [1] for each appropriate pricing strategy explained and [1] for application to the stimulus.

- (d) Recommend which of **Option 1** and **Option 2** SV should consider in order to increase sales.

[10]

SV is considering two options:

Option 1: open a business-to-consumer (B2C) e-commerce “store”.

This option would involve selling wines online to consumers. They currently sell directly to customers at the vineyard.

Benefits of this approach include:

- SV can reach a wide market area.
- The website and consumer traffic on the website is relatively inexpensive advertising. It is important for a new company trying to enter new markets to keep costs of entry low.
- Promotion and advertising can easily be extended via social network sites.
- Online offers can reach much wider target markets.
- From a consumer perspective, B2C e-commerce also has benefits, especially the convenience and ability to compare prices and explain the differences between wines sold to make an informed decision. Important in a premium market.

B2C e-commerce also has disadvantages, which include:

- SV would have to address consumer concerns that its site is secure.
- SV would have to incur costs making sure that the site is secure.
- Competitors can easily track what SV is doing to promote and sell its products
- Setting up the website and establishing the procedures for fulfilling orders could be expensive. New supply chains to reach new customers may have to be created adding to short-term costs.
- Alcohol is a heavily regulated product, especially in the United States, and it could be complicated and cumbersome for SV making sure that it is in compliance with federal and state laws (and laws regarding alcohol vary from state to state).
- SV would also have to make sure that selling wines online did not conflict with the premium brand identity that SV otherwise tries to maintain.

Option 2: sell SV wines to wholesalers serving the whole of the US market for premium wines.

Advantages of this approach include:

- The wholesaler stores the product, thereby reducing storage costs for SV.
- The wholesaler purchases in bulk and then breaks the bulk purchases into smaller batches for the retailers. This process means that SV does not have to concern itself with small orders by individual retailers. This may be important in a premium market.
- Because SV wants to sell over long distances – the entire United States – this approach pushes much of the complicated processes of distribution to wholesalers.

However, working with wholesalers has disadvantages:

- Wholesalers sell the products of many companies, and their loyalties and highest priorities may be with other brands.
- Working with wholesalers adds another intermediary and mark-up, which can lead to higher prices to consumers (who may respond by purchasing other products) or to thinner margins for SV.

- Working through wholesalers and distributing across the United States, SV may not be able to afford national promotion. If it cannot, it will have to rely on the wholesalers and retailers for much of its promotion. Can SV be confident that the wholesales will position SV's new wines positively? How will they check?

Overall, option 2 is possibly the longer term option, involves considerable costs, is potentially the greater risk, but the profits could be considerable over option 1. Option 1 is a market penetration strategy effectively trying to sell the same product in the same market via an online channel. Initially, customers who would have bought directly from the vineyard could go online instead. Overall sales may increase marginally. This will change over time as the e-commerce store becomes more sustainable but from the information given in the stimulus, option 2 would seem to have the greater market potential for growth. (Market development to use the Ansoff terminology but direct application to the matrix is not expected.)

Balance in the context of this question means having at least one advantage and one disadvantage for each option (and, thus, addressing both options).

Accept any other relevant evaluation.

These mark awards in the table below should be viewed as maximums.

Maximum Mark award	Option 1	Option 2	Judgments/conclusion
3	One option unbalanced		N/A
4	One option balanced (one argument for and one argument against) or both options in an unbalanced fashion		N/A
5	One balanced and one unbalanced		N/A
6	Both balanced		No judgments/conclusions
7-8	Balanced Largely effective use of business language and the stimulus		Judgments/conclusions based upon analysis and explanation in the body of the response
9-10	Balanced Rich use of business language, business theory, and the stimulus		Judgments/conclusions based upon analysis and explanation in the body of the response

Marks should be allocated according to the markbands on page 5.

5. (a) Outline **two** features of an autocratic leadership style. [2]

- Decision making in an organization is restricted to a very small group of select individuals.
- Limited consultation and discussion in an organization given by autocratic leadership.
- Communication tends to be downward and one-way only.

Award [1] for each correct feature identified.

(b) Apply Daniel Pink's motivation theory to the programmers at Gen Y. [6]

Daniel Pink's motivation theory identifies that there are three key drivers, or factors, that influence motivation for cognitive or thinking tasks leading to improved performance for a business. The three key drivers are:

- mastery
- autonomy
- purpose.

From the stimulus we can argue that, before Petra's potential involvement, Gen Y allows for:

- Purpose – high-quality reports providing innovative market research. The business is providing revolutionary work for its clients. This would act as a motivator for Gen Y programmers as they are carrying out ground-breaking work.
- Autonomy – Gen Y allows for employees to work on individual dream projects. They are also empowered to make their own decisions.
- Mastery – there is evidence from the stimulus that Gen Y has used cognitive training. This would presumably build capacity to develop and refine skills of the programmers, again boosting motivation according to Pink and allowing them to be more creative.

Award [1] if there is some or partial understanding shown of Pink's motivation theory, the answer is not complete and not applied to Gen Y.

Award [2] if there is a much better understanding of Daniel Pink's theory. All three drivers of motivation are identified. There is no application to Pink with the answer being merely theoretical. Just mentioning the name of the business does not constitute application.

Award [3] when three drivers are identified and one is applied to the stimulus or two drivers identified and both applied to the stimulus.

Award [4] when three drivers are identified and two applied to the stimulus.

Award [5] when three drivers are identified and three applied to the stimulus.

N.B. For mark awards in the [3-5] range, the application does not have to be exactly as above. For example, some candidates may argue that the ability to work on their dream projects may provide purpose and/or also means autonomy.

Award [6] when three drivers are identified and three are applied to the stimulus largely as outlined above. Each application must be to a different element of the stimulus.

- (c) Explain **one** reason, **other than** increased sales revenue, why it is important that Gen Y generates new revenue streams.

[2]

Gen Y's core business is the creation of innovative market research data reports. The business also allows employees to work on "dream projects" during the working week. In order to remain innovative and sustainable, Gen Y will need to secure new finance through new revenue streams to ensure that the creative and innovative energy continues to flow. New revenue streams will also allow Gen Y to continue to motivate workers through their Pink motivational model, which could be expensive to finance given the cognitive training required. The company has not yet made a profit, so generating alternative revenue streams would be essential, especially if salary costs need to rise to attract new talent in the future.

Award [1] if a reason other than increasing sales revenue is given and explained, with reference to Gen Y for [2].

- (d) Discuss whether Zack should sell Petra half of his shares with her conditions.

[10]

By selling his shares to Petra, Zack faces concerns not only of ownership but also that the culture of Gen Y – which by assumption has led to the success and motivation of employees – will have to be systematically changed. It is uncertain at this stage whether this change in culture will bring forward any improvements.

In common with many other start-ups, profit for Gen Y remains elusive despite the considerable sums invested. Zack has tried to finance "dream projects" to turn inventions into innovation but without success. The harsh reality is that without funding coming into the business, the long-term sustainability of Gen Y is in doubt. If he does not take some action now and invite Petra into the business, then all jobs and intellectual property at Gen Y are under threat. Some programmers may leave the company if they sense that for some reason the opportunity to work on dream projects is cut back. Taking on Petra as a partner may weaken Zack's control but will ensure in the short term that Gen Y remains viable.

However, to receive this funding, Petra has added conditions that Zack must accept. These conditions will not be popular in an organization where there are strong links to Daniel Pink's motivational theory. A leadership style change to autocratic will impact on the autonomy currently enjoyed by the employees. The purpose may also be affected, as Petra will wish to have a strong influence in the type of vision or direction, she wishes to see Gen Y move to. The ending of innovative and revolutionary "dream projects" may be the first casualty. Motivation could be destroyed.

Further, the insistence on specific targets for programmers may impose deadlines/restrictions, which may be too much for the employees to take who have been empowered to make their own decisions.

The short-term situation is difficult for Zack. He has to balance the financial issues present in the case study with the idealism and motivation of his workforce. Petra's conditions, whilst restrictive, may save Gen Y. Zack may be forced to sell this idea of Petra receiving half his shares to his employees. Some employees may quit and be hired by competitors but perhaps they may not have been committed to Gen Y and Zack's purpose. Either way, Zack will find it difficult to turn down Petra's offer.

Maximum Mark award	Discuss whether Zack should sell Petra half of his shares with her conditions.	Judgments/conclusion
3	One argument for or against. Not merely an assertion, but an argument	N/A
4	One argument for and One argument against Or, two or more arguments for one side of argument and none for the other	N/A
5	Two arguments for one side, one for the other	N/A
6	Two arguments for, two arguments against	No judgments/conclusions
7–8	Two arguments for, two arguments against plus a conclusion that is more than nominal – actually flows out of the analysis. Largely effective use of business language and the stimulus	Judgments/conclusions based upon analysis and explanation in the body of the response
9–10	Two arguments for, two arguments against plus a conclusion that is more than nominal – actually flows out of the analysis. Rich use of business language, business theory and the stimulus	Two arguments for, two arguments against plus a conclusion that is more than nominal – actually flows out of the analysis.

Marks should be allocated according to the markbands on page 5.

Section C

Please mark the candidate response using the assessment criteria on pages 6 to 7.

Additional examiner guidance may be added during standardization.

6. With reference to an organization of your choice, examine the impact of **globalization** on **innovation**.
7. With reference to an organization of your choice, examine the impact of **ethics** on organizational **strategy**.
8. With reference to an organization of your choice, discuss the ways in which **culture** can promote or inhibit **change**.

Candidates can use any change in the organization provided the nature of the change is well explained and applied.

It is important that the candidate explain what existed before the change rather than just assert that change has occurred.

In Q7 and Q8, the exact content is not specified. It is expected that the candidates select their content like their chosen strategy or the exact change and fully and clearly explain and apply the relevant theoretical terms and content throughout.

Additional guidance in relation to the assessment criteria

For each criterion, the aim is to find the descriptor that conveys most accurately the level attained by the candidate, using the best-fit model. It is not necessary for every single aspect of a level descriptor to be met for that mark to be awarded.

- The highest level descriptors do not imply faultless performance and should be achievable by a candidate.
- A candidate who attains a high level of achievement for one criterion will not necessarily reach high levels of achievement for the other criteria and vice versa.

If only **one** concept is addressed:

Criteria A, B, C and E: award up to a maximum **[3]**.

Criterion D: full marks can be awarded.

Where the question asks for the impact of **two concepts on content**, examiners must allow for unbalanced treatment of the two concepts throughout a candidate's response. One concept may be more significant than the other.

It is expected that under the **introduction**, the candidates introduce the chosen organisation, explain nature of the relevant concepts to be used when discussing the impact.

Criterion A

It is expected that the candidate use the relevant concepts throughout the response to demonstrate the understanding of the concept. It is not sufficient just to define/ describe the concept in the introduction.

Criterion B

For **[2]**: "...connection is not developed" should be treated the same as superficial.

Criterion C**1+1 arguments are expected per concepts.**

- Questions 6 to 8 require consideration of the impact of one concept **on** a second concept – therefore accept 2+2 arguments for a balanced response.
- Justification is through logic or data.
- For **[2]** there is no balance as there are no counter arguments at all, or the arguments are all one-sided then this would be unjustified.
- For **[3]** there is some balanced arguments – some of which are justified.

The arguments and the counter arguments **must be relevant/ appropriate for the question**. Do not accept any counter argument which does not address the question.

Criterion D

- Introductions need to be concise and related to the question.
- The candidate's response does not have explicit headings for each structural element.
- A body is the area in which the substance of arguments occur. It is usually located between the introduction and the conclusion.
- Fit-for-purpose paragraph means that ideas are presented in a clear academic way. For example, one idea per paragraph.

Criterion E

- One example of an "individual" could be an individual consumer or an individual manager. However this could not be considered with a "group" of consumers or a management team.
- For **[4]**, a balanced response: need to look at the perspectives of **both** individual **and** group(s). The chosen individual, group needs to be **applicable** and **relevant** to the question with specific explanation.
- Candidates need to go beyond stating the stakeholder.
- Candidates need not explicitly say "stakeholder".
- Candidates should support their assertions on the impact **on** or the impact **of** their chosen stakeholders. The support does not have to come in real figures but with some evidence of impact for example, 'the market share increased' 'staff turnover decreased', 'fewer defects were evident'.

In the event that, when answering paper 2, section C, a candidate chooses an organization from some other part of the exam (for example, an organization in the stimulus of section B), their response should be marked as follows:

A – 1 mark maximum, as the candidate might understand the essence of the two concepts but the content selected is irrelevant

B – 0 marks, as there is no connection to a real organization.

C – 0 marks, as statements cannot be even superficial as the statements are not about a real organization.

D – 2 marks maximum. Even with technically perfect presentation, the ideas are not about a real organization. Award [2] if the response is well written with an introduction, fit-for-purpose paragraphs, and a conclusion. Award [1] mark if the essay is missing one of those elements, provided that the response is otherwise of a reasonable standard of writing and organization.

E – 1 mark, for inappropriate consideration of stakeholders. Award [1] if a candidate demonstrates some understanding of what a stakeholder is through either definition or exemplification.