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Business management
Higher level
Paper 2

Monday 6 May 2019 (morning)

2 hours 15 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- A clean copy of the **business management formulae sheet** is required for this examination paper.
- Section A: answer one question.
- Section B: answer two questions.
- Section C: answer one question.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[70 marks]**.

Section A

Answer **one** question from this section.

1. Las Migas

Carolina plans to set up a bakery, *Las Migas*, in a small town. Competition from established bakeries is strong. Carolina has asked for a bank loan because her personal savings are insufficient. The bank manager requested the following information:

- a business plan
- a cash flow forecast for the first four months of operations.

Carolina has no experience with financial forecasts but she estimated the figures for *Las Migas* for the first four months of operations. These figures are shown in **Table 1**.

Table 1: Estimated figures for *Las Migas* for the first four months of operations

Estimated sales per month	For the first two months of operations: \$1500 From the third month of operations onwards: \$3500
Monthly rent	\$1000
Interest	\$45 to be paid every two months starting the first month of operation
Opening balance	\$100
Ingredients and supplies	30 % of sales
Electricity per month	1 % of sales
Carolina's monthly salary	\$390

[Source: © International Baccalaureate Organization 2019]

- (a) State **two** elements, **other than** a cash flow forecast, of a business plan. [2]
- (b) Prepare a cash flow forecast for *Las Migas* for the first four months of operations. [6]
- (c) Explain **one** problem that *Las Migas* may experience as a new business. [2]

2. Enjuice

Enjuice produces canned juices. The market for canned juices is very competitive. Each can is sold at \$8. *Enjuice*'s profit margins are falling. The marketing manager has conducted primary market research and suggested increasing advertising to increase sales. In 2018 *Enjuice* sold 360 000 cans.

Table 1: Selected financial information for 2018 (all figures in \$000s)

Administration expenses	226
Cost of goods sold	2440
Current assets	500
Current liabilities	400
Debtors	300
Dividends	120
Interest	40
Marketing expenses	14
Sales revenue	X
Tax 10 %	Y

[Source: © International Baccalaureate Organization 2019]

- (a) State **two** methods of primary market research. [2]
- (b) Using the information provided above and in **Table 1**:
- (i) calculating **X** and **Y**, construct a profit and loss account for *Enjuice*; [5]
- (ii) calculate the gross profit margin (*no working required*). [1]
- (c) Explain **one** strategy that *Enjuice* could use to increase its gross profit margin. [2]

Section B

Answer **two** questions from this section.

3. JP

JP produces electric guitars. It is a cooperative owned by a committed workforce who share in the management and success (or failure) of the company and its profits. Workers enjoy having control over the workplace and are productive. However, *JP*'s continued success is threatened by insufficient finance, which prevents them from spending more on traditional promotional methods.

JP's guitars are expensive relative to the competition but are known for their quality. Its customers are very brand loyal. The use of social media marketing by many famous musicians influences *JP*'s brand loyalty and awareness. Unfortunately for *JP*, one especially famous musician using a *JP* guitar on social media recently received negative publicity about his private life.

JP follows strict quality procedures that include quality circles. *JP*'s management believe that teams of workers employed on the production line know the production process best and are in the best position to make any necessary improvements. Staff turnover at *JP* is very low.

XYZ, a large company known for its kitchen appliances, is considering moving into the musical instrument market as part of a growth strategy – they want the high gross profit margins on guitars (compared to the low profit margins on kitchen appliances). *XYZ* wants to take over *JP*. *XYZ* has a strong balance sheet and large cash reserves and is an expert at marketing.

The cooperative has refused to consider the takeover bid from *XYZ*. The cooperative has argued that the culture of *XYZ* is too different to *JP*'s. *XYZ*'s management are viewed as too controlling. However, increased price competition has led to falling sales, forcing *JP* to make redundancies. Some cooperative members argue that unless *JP* accepts *XYZ*'s bid, additional jobs will be lost.

[Source: © International Baccalaureate Organization 2019]

- (a) Define the term *cooperative*. [2]
- (b) Explain **one** positive **and one** negative impact of social media marketing on *JP*'s promotional strategy. [4]
- (c) Explain **two** benefits to *JP* of using quality circles. [4]
- (d) Discuss whether *JP* should accept *XYZ*'s takeover bid. [10]

4. The Warriors

The Warriors are a soccer* club who perform well but have not won any trophies. Recently, *The Warriors* have had above average turnover of managers, increasing time spent on recruitment. Player turnover has also been higher than that of other clubs.

Dave Atkinson, owner and former player, is an autocratic leader who denies blame for the high manager and player turnover. He publicly criticizes players. However, fans adore Dave. He was a successful player, supports the fans and is committed to corporate social responsibility (CSR). He has:

- reduced ticket prices to the lowest in the league
- provided free, healthy snacks for junior supporters
- donated 20 % of *The Warriors'* profits to local schools to encourage young people to play sport.

After a recent poor performance, Dave demanded that all players donate 50 % of their pay for that match to good causes. Two new players used social media to complain. In response, Dave threatened to cancel their contracts. The other players refused to turn up for training to show solidarity. Dave then locked the players out of the stadium.

This controversy comes at a critical time for *The Warriors*. With a dynamic new manager, they have their first chance to win an important final and with it significant financial gain, which is needed to support corporate social responsibility (CSR) and upgrade spectator facilities. On social media, the fans have asked Dave not to enforce the lock-out.

Dave wants to resolve the conflict and privately regrets the lock-out. He is angry with the team but wants to increase *The Warriors'* corporate social responsibility (CSR). Without wishing to appear as a weak leader, he asked another popular former player for advice.

[Source: © International Baccalaureate Organization 2019]

* soccer: football

- | | |
|---|------|
| (a) Outline two features of autocratic leadership. | [2] |
| (b) Explain one cost and one benefit of a high labour turnover of managers for <i>The Warriors</i> . | [4] |
| (c) Explain one cost and one benefit to <i>The Warriors</i> of committing to corporate social responsibility (CSR). | [4] |
| (d) Discuss two methods to resolve conflict for <i>The Warriors</i> other than a lock-out. | [10] |

5. Copper Health (CH)

Copper Health (CH) was the market leader in the production of anti-venom* vaccines to treat poisonous snake bites. *CH*'s mission – influenced heavily by corporate social responsibility (CSR) – is to put customers first and profits second in the treatment of snake bites.

Despite 100 000 deaths worldwide each year from snake bites and 400 000 serious injuries, *CH* recently announced that it will no longer produce anti-venom vaccines. Several large Mexican, Brazilian and Indian pharmaceutical companies have entered the market selling anti-venom vaccines at a much lower price than *CH*.

A spokesperson for *CH* said: “We will remain a private limited company where corporate social responsibility (CSR) remains an important driving force for our mission. Our medical research is only financed from retained profit. When the lower-priced competition arrived, our sales and profits of anti-venom vaccines decreased significantly. Treating snakebites no longer makes financial sense. Instead, the technology used to produce anti-venom vaccines will be used to research and develop (R&D) other life-saving vaccines”.

A non-governmental organization (NGO) has demanded action. “*CH* is the largest manufacturer of anti-venom vaccines in the world. Although *CH*'s competitors are increasing their production of anti-venom vaccines they will not be able to produce enough to satisfy demand for the next two years. There will be a major shortage. This will result in many life-threatening injuries and deaths.”

The non-governmental organization (NGO) has urged *CH* to seek new sources of finance to continue the production of the anti-venom vaccine.

[Source: © International Baccalaureate Organization 2019]

* anti-venom: a medication made from antibodies that is used to treat venomous bites and stings

- (a) Define the term *retained profit*. [2]
- (b) Explain **one** advantage **and one** disadvantage for *CH* of having a mission statement. [4]
- (c) Explain **two** possible external sources of finance *CH* could use to continue production of anti-venom vaccines. [4]
- (d) Discuss *CH*'s decision to stop producing anti-venom vaccines. [10]

Section C

Answer **one** question from this section. The organizations featured in sections A and B and in the paper 1 case study may not be used as a basis to your answer.

6. With reference to an organization of your choice, discuss the ways in which **ethics** can influence **innovation** in an organization. [20]
 7. With reference to an organization of your choice, examine the impact of **culture** on organizational **strategy**. [20]
 8. With reference to an organization of your choice, discuss the ways in which **globalization** can influence organizational **change**. [20]
-

Markscheme

May 2019

Business management

Higher level

Paper 2

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The markbands and assessment criteria on pages 5–7 should be used where indicated in the markscheme.

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.

Section A

1. (a) State **two** elements, **other than** a cash flow forecast, of a business plan. [2]

- An executive summary
- A business description: accept mission and vision statements as “**one**” element for [1]
- A market analysis
- Other financial forecasts: award [1] for any type of forecasted financial account such as break-even forecast / profit loss / balance sheet if the candidate shows understanding that the financial information is forecasted / expected for the future, otherwise it is not a plan
- Marketing strategies
- Organization strategies

*Award [1] for stating an appropriate example/element of a business plan (application **not** required), up to a maximum of [2]. The two examples/elements need not be articulated well.*

- (b) Prepare a cash flow forecast for *Las Migas* for the first four months of operations. [6]

All figures in \$

Cash flow forecast for *Las Migas*

	Month 1	Month 2	Month 3	Month 4
Cash inflow:				
Sales	1500	1500	3500	3500
Total receipts (inflows)	1500	1500	3500	3500
Cash outflow:				
Rent	1000	1000	1000	1000
Interest	45		45	
Salary	390	390	390	390
Ingredients and supplies	450	450	1050	1050
Electricity	15	15	35	35
Total payments (outflows)	1900	1855	2520	2475
Net cash flow	(400)	(355)	980	1025
Opening balance	100	(300)	(655)	325
Closing balance	(300)	(655)	325	1350

Accept slightly different headings / format such as opening balance at the top or at the bottom.

Do not penalize if there is no overall title as it is not specified in the subject guide, unlike the profit and loss account / balance sheet where a title is expected.

N.B. Allow candidate own figure rule (OFR): if a candidate makes an error in one row and carries it through the remainder of the forecast it is only one error. This provision includes both mathematical errors and conceptual errors (for example, if a

candidate has the interest in the incorrect month then they should only lose [1] for that error).

Allow candidate OFR if they use salary as an inflow deduct [1] for that error, do not double penalize as missing from outflow.

Award [1] if there is some understanding of what a cash flow forecast is, but the forecast is otherwise largely inaccurate, incomplete, or illegible.

Award [2] if the cash flow forecast is in a generally accepted format, or is untidy and/or contains more than four errors.

Award [3] if the cash flow forecast contains three errors.

Errors could include in addition to number placement problems and mathematical errors, conceptual errors (using the word “profit” rather than “net cash flow”) or omissions, such as not having a line like “closing balance” or totals.

Award [4–5] if the cash flow forecast is drawn essentially correctly and neatly in a generally accepted format, but there is one error for [5] or two errors for [4].

*Award [6] if the cash flow forecast is drawn accurately and neatly in a generally accepted format, and is error free. If the candidate provides a heading of total inflow/outflow without using another heading above of inflow or outflow – **do not penalise as an omission.***

*If the candidate omits **both** headings of outflow / inflow = **one error** substituting the term “net profit in the cash flow forecast for “net cash flow” is inaccurate and [1] should be deducted. If there is only one row for all cash outflows, deduct [1] from the total mark awarded.*

Full working is not expected.

(c) Explain **one** problem that *Las Migas* may experience as a new business.

[2]

- Banks and suppliers are sometimes reluctant to give credit to new businesses with no trading records. The local bank may not lend Carolina the money she needs to set up the bakery, especially as the market is already very competitive. Her personal savings, as for many start-up owners, are insufficient.
- Many start-up owners may lack financial / managerial skills, Carolina has no experience with financial records, account and estimates, her estimated forecast might be inaccurate and despite positive closing balances from month 3, *Las Migas* might still experience cash flow problems. Accurate financial planning and documents are vital for business survival. Carolina’s lack of managerial skills can be risky and jeopardize *Las Migas*’ survival.
- *Las Migas* will have to face competition from established bakeries. In a small town, will demand be enough for another bakery? As a start-up, *Las Migas* will have to find a USP to survive and build its own customer base. (More money will have to be spent to establish a USP.)
- Carolina’s monthly salary is expected to be low relative to her rent as she tries to establish her business. She might have a personal cash flow issue which may distract her from managing her business.

N.B. Accept cash flow problems/a need for finance, referring to the cash flow forecast constructed.

*Award **[1]** for a relevant generic problem identified or described and **[1]** for any additional explanation in context.*

***[2]** cannot be awarded for the problem if the response lacks either explanation **and** / **or** application to Las Migas as a new business.*

*For example: for identification or a description of the problem **with or without** application **[1]**.*

*For explanation of the problem with **no** application **[1]**.*

*For explanation of the problem **and** application **[2]**. Such as an explanation of the impact of competition, creation of brand loyalty / USP etc.*

2. (a) State **two** methods of primary market research. [2]

- Surveys
- Interviews
- Focus groups
- Observations

N.B. No application required. Do not credit examples. Sampling is not a method.

Award [1] for each relevant method of primary market research identified. Award a maximum of [2].

- (b) Using the information provided above and in **Table 1**:

- (i) calculating **X** and **Y**, construct a profit and loss account for *Enjuice*; [5]

$$X = (360\,000 \times \$8) = \$2\,880\,000$$

$$Y = 160\,000 \times 10\% = \$16\,000$$

Profit and loss account for *Enjuice* for 2018: (all figures in \$000s)

Sales revenue	2880
Cost of goods sold	2440
Gross profit	440
Administration and marketing expenses	240
Net profit before interest and tax	200
Interest	40
Net profit before tax	160
Tax 10%	16
Net profit after tax	144
Dividends	120
Retained profit	24

Allow candidate own figure rule (OFR).

Award [0] if the profit and loss account does not reach a standard described below.

Award [1] if there is some limited understanding of a profit and loss account. There are **more** than three errors in presentation and calculations.

Award [2] if there are three clear errors. which includes omission of working, formatting error, mathematical error, presentation. There is limited evidence of a general understanding of the format.

Award **[3–4]** if the principal elements of the profit and loss account is constructed, but may not be entirely accurate. The calculations under each heading/component/part are largely correct.

Allow up to two mistakes in calculations **and/or** presentation for **[3]**.

Allow for **either** one error in calculation **or** one error in presentation for **[4]**.

Allow candidate OFR.

For example, if one irrelevant figure that belongs to the profit and loss account is added, the rest will not match.

Award **[5]** if the profit and loss account is accurately constructed in the expected IBO format. All the relevant headings of each component/parts are used and correctly classified. All relevant figures are presented. No extra irrelevant figures are included. The calculations under each part/component are correct and well-presented.

Deduct **[1]** for one omission including the overall heading/title. Accept a partial title.

N.B. If the candidate did not follow the IBO format award up to **[2]**.

- (ii) calculate the gross profit margin (no working required). **[1]**

$$\frac{440}{2880} \times 100 = 15.27\%$$

Accept 15.2 % or 15.3%.

Award **[1]** for the correct answer (working not required). Candidates must show a percentage sign.

Do not accept 15%, or the formulae.

Allow candidate OFR.

(c) Explain **one** strategy that *Enjuice* could use to increase its gross profit margin. [2]

- *Enjuice* could increase its gross profit margin by reducing direct costs/cost of goods sold. It could use cheaper raw materials or instead, find cheaper materials for producing the cans or find cheaper suppliers of cans.
- *Enjuice* can reduce labour costs by reducing the wages / salaries of its labour on the production line, or by increasing automation in the canning process.
- *Enjuice* could decrease the price of its juices. Sales revenue might increase as the market for juices is very competitive and customers are likely to be very responsive / very price elastic.
- JIT – perhaps *Enjuice* can use JIT stock management for aluminum / fruit, or any other metals for the canning process to cut cost of holding stock.
- Technically, if the suggestion of the marketing manager is followed, increasing advertising will reduce net profit before interest and tax, but can increase total revenue with positive impact on gross profit.

N.B. Do not accept increase in price given the information in the stimulus.
Do not credit any suggestion to reduce expenses.

Award [1] for a relevant generic explanation and [1] for application.

[2] cannot be awarded if the response lacks either explanation and/or application.

For an identification or a description of a strategy **with or without** application [1].

For explanation of a strategy with **no** application [1].
For description of a strategy with application [1].

For explanation of a strategy **and** application [2].

Section B

3. (a) Define the term *cooperative*. [2]

A cooperative is a type of 'for profit social organization' that is established owned and managed collectively by members, *each of whom has a financial interest in the business and a say in how the business is run.*

A cooperative operated by its members for their mutual benefit and can be organized by producers, consumers or employees

Award [1] for a partial answer showing some partial knowledge of cooperatives such as that it is an organization which is owned and run by all its members.

Award [2] if there is a further understanding that cooperatives exist for profit but with some social objectives that benefit its members.

Candidates do not have to identify the different types for full marks

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) Explain **one** positive **and one** negative impact of social media marketing on *JP's* promotional strategy. [4]

One **positive** impact of social media (Facebook, Instagram) marketing on *JP's* promotional strategy is cost effectiveness, the use of various types of social media is cheap and often free. This can positively impact on *JP's* finance given the financial difficulties outlined in the stimulus.

A second impact could be to strengthen the brand loyalty of the business, given that social media marketing is being used by famous musicians with a lot of followers which would be important given that *JP's* guitars are more expensive than those of the competition.

One **negative** impact is that celebrities endorsing *JP's* guitars can be unpredictable and beyond *JP's* control. Any poor behaviour or negative publicity can damage *JP's* branding in the eyes of potential customers. Increased competition has meant that *JP* will need to ensure that its social media marketing presents the right image for the business. A negative impact on branding can lead to a fall in demand and further financial difficulties.

Although cost effective, the use of social media marketing may make it difficult for *JP* to accurately measure the impact of its promotional strategy. Given that *JP* only uses social media it is very important for management to assess its effectiveness. Also, if social media marketing is not carried out professionally, it could contribute to a negative image such as a lack of response to customer complaints being viewed publicly.

Accept any other relevant positive impact / negative impact.

The impact has to be applicable to social media marketing not any type of promotion.

Mark as 2 + 2.

For an identification or a description of one benefit / cost with or without application [1]:

- For explanation of one benefit / cost with no application [1].
- For explanation of one benefit / cost and application [2].

Application must refer to the impact of social media marketing on JP's promotional strategy.

- (c) Explain **two** benefits to *JP* of using quality circles. [4]
 Candidates can refer to marketing, operation or Human Resource Management issues.
 It is expected that the candidates demonstrate explicit understanding of the term/ practice of using quality circles.

The benefits to *JP* of using quality circles revolve around the motivational/productivity/teamwork/cooperation/possible empowerment benefits gained from participation. The fact that *JP* is a cooperative also implies that quality circles will align with the culture of the organization (supportive, common goals). Meeting together to find better methods of production/ practices creates high quality products/ guitars. *JP* established a Unique Selling Point based on quality which creates brand loyalty.

Empowered staff are more motivated and therefore staff turnover is also very low which reduces recruitment costs and training as well as increased efficiency when the higher levels of needs/ the motivators of employees are met. There is evidence in the case study that *JP* workers are productive and take pride in their work.

Accept any other relevant benefit.

Mark as 2 + 2.

- For an identification or a description of one benefit with or without application [1].
- For explanation of one benefit with no application [1].
- For explanation of one benefit and application [2].

Application must refer to the benefits to JP of using quality circles.

- (d) Discuss whether *JP* should accept XYZ's takeover bid. [10]

There are a number of compelling reasons as to why *JP* should accept the takeover bid.

Financially, one may argue that JP needs the financial strengths of XYZ. JP's financial future will be guaranteed. Price competition is eroding sales, indicating that financial sustainability is in doubt.

The number of redundancies will probably be reduced and jobs will be saved. The cooperative may be kept intact. However, if the takeover does go ahead then a number of roles may be lost due to duplication.

The stimulus indicates that XYZ has a strong balance sheet, large cash reserves and are also experts at marketing. *JP* is likely to benefit from XYZ's expertise in the latter area given that its brand loyalty and awareness are dependent on social media marketing, which can be difficult to control and measure, as the stimulus indicates. This marketing expertise and finance will allow *JP* to promote its products through more traditional methods by enhancing/growing brand awareness and loyalty further. One may judge this argument as a significant one given the current problems that *JP* is facing

However, the motives for the takeover are narrow. They seem to be driven by financial considerations only. The takeover could change the culture at *JP* and the cooperative has already refused to consider the bid. Staff turnover is very low and the fear is that the takeover may force some staff to consider their position at *JP*. Staff turnover may rise, increasing recruitment and training costs, as it is assumed that quality circles would be kept. Expertise could be lost.

As a large company, the combination of *XYZ*'s financial power and *JP*'s determination to remain as they are will cause conflict. *XYZ* is likely to be a profit maximizing organization with few social objectives. *JP*'s culture will have to change. *JP* will not remain as a for profit social enterprise.

XYZ has experience in kitchen appliances rather than producing musical instruments. Given the competition, *XYZ* might not be successful unless it finds ways of reducing costs as marketing might not be effective. Still, one may argue that marketing and financial expertise are transferable.

XYZ's management tendency for strict control is highly likely to result in abandoning the practice of quality circles that requires empowerment and trust. The interest and motivation of *JP*'s employees is likely to be diminished considerably with further implications for quality and branding.

Perhaps *JP* should reject the offer and find some sources of finance to take the cooperative through this difficult time as it is likely that remaining as a cooperative is very important for the members while *XYZ* has just financial objectives. –as stated in the stimulus.

The members of the cooperative will have to prioritize their objectives- being a social enterprise with some mutual benefits of changing into a for profit corporation.

Ultimately, *JP* may have to revisit its financial forecasts and as a cooperative may have to take a more pragmatic view. If the warnings of additional jobs being lost come to fruition, the cooperative will have to accept the offer. The opportunities for growth in their market are considerable and may allow the business to regain market share. As the cooperative enjoys the successes of the business, the decision to accept the bid is warranted, although some concerns over culture loss and empowerment of the workforce must be taken into account if the transition is to be a smooth one.

A conclusion with judgment is expected.

Accept any substantiated judgment.

A balanced response is one that covers at least two arguments for and at least two arguments against.

It is expected that a substantiated judgment is provided

Candidates cannot reach the top two mark bands if the issue of being a cooperative-for profit social enterprise is not covered.

Marks should be allocated according to the mark bands on page 5 with further guidance below.

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.*

Candidates cannot reach the top marks if there is no relevant reference/application to the stimulus.

4. (a) Outline **two** features of autocratic leadership. [2]

- Decision making is carried out by an individual or select few individuals.
- Communication tends to be one way only- top down.
- Organization is characterized by a role culture.
- Any other suitable feature outlined

Award [1] for each feature identified.

(b) Explain **one** cost **and one** benefit of a high labour turnover of managers for *The Warriors*. [4]

Costs of a high turnover of managers include increased recruitment costs and a management system that may be confusing for the subordinates to follow if managers keep changing. This may have further motivational issues, as the work force may be unsettled and impact on the players' performance.

From the stimulus, there is evidence that *The Warriors* recruitment costs are higher than desirable given the time spent looking for new managers. More costs will result in less funds being available to support *The Warriors* corporate social responsibility practices and risk Dave's achievement- see bullet points in stimulus.

Player turnover has also been high, which may impact on teamwork on and off the pitch and reduces *The Warriors* chances for commercial success. There is also evidence in the stimulus that two new players who presumably have not gelled yet with the team, or *The Warriors* culture, are unhappy and complained on social media. This is bad publicity for *The Warriors*.

The **benefits** are that poorly performing managers are not allowed to make things worse for the club. Underperforming managers can be moved on and fresh thinking and ideas can be introduced. Dave who is actually very popular with the fans, will probably enjoy even further support from the fans if he removes underperforming managers or players quickly. *The Warriors* have not yet won a trophy and the appointment of a dynamic new manager has put them on the verge of winning a final for the first time.

Accept any other relevant benefit/cost.

While managers are technically employees, It is expected that the candidates apply the advantages/ disadvantages to the roles/ behaviour of the managers and/or possible impact on the players due to the changes in management.

Mark as 2 + 2.

- For an identification or a description of one benefit/cost with or without application [1].
- For explanation of one benefit/cost with no application [1].
- For explanation of one benefit/cost and application [2].

Application must refer to the high turnover of managers for The Warriors.

(c) Explain **one** cost **and one** benefit to *The Warriors* of committing to corporate social responsibility (CSR). [4]

The costs to *The Warriors* of committing to CSR involve the opportunity costs. Reduced ticket prices and healthy snacks, etc, divert funds when the funds could be used to purchase improved players, hire more experienced managers or improve

spectator facilities. CSR improves the image of the team off the pitch in the eyes of the stakeholders, but perhaps greater consideration should be given to what is happening on it.

The benefits of the commitment to CSR include brand development and loyalty through the eyes of its junior supporter group – an important group of longer-term stakeholders – that are willing to come and watch the games despite lack of success which ensures some financial sustainability of the club at a time when they are still waiting to win their first trophy.

The benefits/costs should refer/ apply to *The Warriors* and not to different stakeholders.

The impact on different stakeholders may be used as long as the final costs/ benefits refer to *The Warriors*.

Accept any other relevant cost and benefit.

Mark as 2 + 2.

- For an identification or a description of one benefit/cost with or without application [1].
- For explanation of one benefit/cost with no application [1].
- For explanation of one benefit/cost and application [2].

Application must refer to The Warriors committing to CSR.

- (d) Discuss **two** methods to resolve conflict for *The Warriors* **other than** a lock-out. **[10]**

The question asks candidates to examine the stimulus and make reasoned judgements to suggest appropriate methods to resolve the conflict for *The Warriors*. Candidates are expected to be familiar with:

- Conciliation and Arbitration
- Employee participation in industrial democracy
- No strike agreements
- Single union agreement

Given the stimulus, it could be argued that with an important final coming up and *The Warriors* being on the verge of winning their first trophy and given the lock-out, Dave is highly likely to push for **non- strike** agreement as any action such as **strike action** is likely to result in an irreversible negative impact and can easily be used by the players to send a message to Dave : they are serious about Dave's actions but do not wish to jeopardize being in the final. The players have clearly had enough of Dave's autocratic style and wish to see a change.

Dave and the fans are likely to be very worried as short term strike action is possible and could send a very serious message to stakeholders that the players' dissatisfaction is real.

However, the players are unlikely to agree without some form of compromise from Dave and the realization that a strike or not regularly training can reduce the chance of success. Also, loss of earnings, fear of management response etc might facilitate some conflict resolution.

Other methods could include **conciliation and arbitration**, where Dave will ask for an independent adjudicator to rule on the lock-out and other issues and bring both sides together. This, however, will take time and is a medium term solution and the final is approaching. Costs of organizing this could impact on *The Warriors'* CSR.

Dave's habit of impulsive behaviour towards his managers and staff indicate that he would not be able to see the value in this solution. Given the stimulus, this may be difficult, especially if the arbitrator rules against Dave's decision and the decision is binding. The players might support this method but need to ensure that they are able to represent their case or have a representative.

Candidates can use conciliation and arbitration as two different methods provided that there is a clear explanation of the differences.

Industrial democracy

Dave could seek to modify his management style and allow greater employee participation and publicly promise not to be so harsh on players. There is evidence that he is willing to consult with a former player to sort out the lock-out. But we must ask the question of, given Dave's autocratic style, how likely this modification would be given Dave's track record. Dave's management style has to change to be more democratic which might be challenging for him but acceptable for the players.

Dave is clearly a leader with a vision to do the right thing by his community. The conflict is affecting him, as he has admitted in private. He risks undoing some of the CSR that has put him in a favourable position with the supporters and in the absence of any trophy wins, he cannot afford to do this. It would seem that it would be in the best interests of the club and the fans to solve this conflict quickly. Dave will have to change his leadership style and allow greater employee participation. However, this could all change if *The Warriors* win this for the first time.

Students may also evaluate the **single union agreement**

A conclusion with judgment is expected.

The candidates should refer to methods of conflict resolution not actions/industrial relation that can be taken.

Please note that in the question, an example of industrial relation was given- a lock out hence some candidates may follow with other examples.

Candidates that refer only to industrial employee relations and not to methods of conflict resolution can- not reach the top mark bands- see below.

A balanced response is one that covers at least one argument for and at least one argument against each option.

Marks should be allocated according to the mark bands on page 5 with further guidance below.

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].

For one relevant issue/ method that is balanced with sufficient depth award up to [5] Accept methods/suggestions that are related to industrial democracy without naming the methods like- change leadership style, consultation/ discussion.

*If the candidates provided just examples of **industrial relations** and not conflict resolution, but the methods are well covered/ evaluated **award up to [6]***

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.

Candidates cannot reach the top marks if there is no relevant reference/application to The Warriors.

5. (a) Define the term *retained profit*. [2]

Retained profit is the profit remaining after all expenses, taxes and dividends are paid and that is not distributed to shareholders. It is kept as part of shareholder equity which appears on the balance sheet to provide a source of funds for possible future activities.

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.

*Award [2] for a full definition that conveys knowledge and understanding similar to the answer above. A candidate must demonstrate an understanding that retained profit is part of shareholder equity/ or belongs to shareholders **and/or** that it can be used as a source of funds/ reinvestment for possible future business activities.*

- (b) Explain **one** advantage **and one** disadvantage for *CH* of having a mission statement. [4]

Advantages for *CH* of having a mission statement include:

- Informs the stakeholders of the common purpose of *CH*'s existence, -and its core values. *CH* produces vital anti-venom vaccines, but its mission statement demands that *CH* carry out its operations in a socially responsible manner. Mission statements can have an influential role in setting organizational objectives as well as getting support/ acceptance from various stakeholders like customers whom *CH* endeavors to put before profit could have contributed to *CH* being a market leader.
- *CH*'s mission statement may act as a motivating force for employees and managers and could lead to low staff turnover and/or benefits for the recruitment of new highly qualified employees especially if *CH* starts to develop new life-saving vaccines.

Disadvantages include:

- Some mission statements may be written as vague statements of intent. It can be difficult to ascertain exactly what the business stands for in terms of setting sustainable business objectives. This may discourage some investors. *CH* is stating that profitability is secondary after CSR. Yet this profitability is being used to finance future growth and research. Investors may not commit funds given this mission statement.

Accept any other relevant advantage/disadvantage.

Mark as 2 + 2.

- For an identification or a description of one advantage/disadvantage with or without application [1].
- For explanation of one advantage/disadvantage with no application [1].
- For explanation of one advantage/disadvantage and application [2].

*Application must refer to the issues around *CH* having a mission statement.*

- (c) Explain **two** possible external sources of finance *CH* could use to continue production of anti-venom vaccines. [4]

The question is sufficiently broad to allow candidates to explain a range of possible sources of finance, but any candidate who looks at internal organic sources, such as increasing sales/profits, **must be not** given credit.

Possible external sources include:

- As *CH* is a private limited company, the decision could be taken to raise funds through an initial public offering. *CH* could be “floated or listed” on the appropriate local share market to raise funds targeting ethical investors.
- Angel investors who have **strong ethical/CSR** intent could provide funds.
- The NGO has demanded action. Given the number of deaths and injuries from snakebites, the NGO could be approached to provide new finance or governments in those countries predominantly affected. There could be the possibility of a private public partnership.
- Bank loan. If candidates uses this source of finance, it is expected that the candidate either comments on the fact that is likely to come from banks with ethical objectives or from banks which accept the risk associated with *CH*'s mission statement or that the bank is likely to give a loan for a cause such as saving lives.

It is expected that the candidates incorporate the ethical investors/ ethical support issues given the current mission statement of ‘people before profit’ as application.

Candidates do not have to use the exact words as above but to show understanding that whoever provides the finance should believe in/ support *CH*'s mission/able to justify given the finance that might be risky due to *CH*'s mission and the possible impact on the population.

Accept any other relevant possible source. (grant, subsidies)

Donation is not really an applicable source of finance for what has to be done. CH is not a charity

Mark as 2 + 2.

- For an identification or a description of one possible source of external finance with or without application [1].
- For explanation of one source with no application [1].
- For explanation of one source and application [2].

Application must refer to the possible sources of finance for production of anti-venom vaccines.

- (d) Discuss *CH*'s decision to stop producing anti-venom vaccines. [10]

Answers at the top level will look at the ethical arguments of retaining the production of anti-venom vaccines versus the financial implications for doing so.

CH's mission statement alludes to “putting customers first and profits second”. The decision to stop producing the anti-venom vaccines will be viewed as hypocritical by stakeholders and will lead to a loss of its market leader status. There could be a consumer backlash/boycott, and this will hamper marketing attempts for any new life-saving vaccines. The drop in revenue could be considerable and as a result there may be no profits to finance research and development. The comments from the NGO are unhelpful and will bring increased scrutiny and further unwelcome

publicity. Stopping production may damage the economic sustainability of *CH* to the point where they may cease to exist.

However, the increased competition and wave of price reductions cannot be ignored. We must assume that this new competition has a product that competes with *CH* on price because, as the market leader, we would assume *CH* has a certain degree of brand loyalty. Clearly, consumers see the competition from Brazil, Mexico and India as a substitute, and unit sales of *CH*'s vaccine have fallen significantly. Perhaps customers are not as ethical as *CH*'s management assume and are not very supportive of *CH*'s CSR. If *CH* does not stop production and cut its losses now, it may not have time or finance to develop new life-saving vaccines, through which it may be able to recreate its market leader status.

The profit motive is the reward for entrepreneurial initiative and risk. *CH* is quite within its rights to stop production of a loss-making vaccine and switch to a market that may be underdeveloped and gain the first mover advantage, albeit one with considerably more risk. Ironically, if the decision to stop production is made quickly, *CH* may be the beneficiary of some panic buying, boosting short-term revenues before the anti-venom vaccine is withdrawn from the shelves. Also, other segments of people can be helped by *CH* if people are put before profit.

Given the ethical and moral issues in this case, *CH* may be wise to wait and see customers' reaction to new competitors, carry out further market research on the competition and customers attitudes towards CSR. It is indicated that for two years, the new competition will be unable to fill the gap left by *CH* if it decides to leave this market. *CH* is still the market leader. Possibly *CH* could emphasize its product quality and its ethical mission over the competition and see if this acts as a spur.

Accept any other relevant argument.

A conclusion with judgment is expected.

A balanced response is one that covers at least two arguments for and at least two arguments against.

Marks should be allocated according to the mark bands on page 5 with further guidance below.

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.

Candidates cannot reach the top marks if there is no relevant reference/ application to the stimulus.

Section C

Questions 6–8. Please mark the candidate response using the assessment criteria on pages 6–7.

- | | | |
|----|---|------|
| 6. | With reference to an organization of your choice, discuss the ways in which ethics can influence innovation in an organization. | [20] |
| 7. | With reference to an organization of your choice, examine the impact of culture on organizational strategy . | [20] |
| 8. | With reference to an organization of your choice, discuss the ways in which globalization can influence organizational change . | [20] |

N.B. Although the question asks for the application of one concept on another, it is still expected that Business Management content will be aligned with the concepts especially the second concept (the one being acted on).

Please note that candidates can conclude that there was a minimal impact, however it has to be based on balanced arguments and evaluation.

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 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.

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 are 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 to have explicit headings for each structural element.
- A body is the area in which the substance of arguments occurs. 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 cannot be considered with a "group" of consumers or a management team.
- For **[4]**, a balanced response: 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.
- Please do not use the adjective '**inappropriate**' in the descriptor for 2 marks. If inappropriate award 1 mark

Candidates need not explicitly say "stakeholder".

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.

Additional guidance for questions 6,7 and 8

Q6

Accept examples of CSR /environmental issues as being ethical. The question expects application of one concept on another. Candidates are expected to discuss ethics and its impact on innovation and not to discuss these two concepts separately. In other words, each example of ethical behaviour should be applied to a real innovation the company created /adopted and thereafter the impact on various stakeholders. (the impact is really of innovation)

Q7

Accept organizational culture or national culture.

Accept any relevant organizational strategy.

Q8

Please note that the question is about organizational change / some major strategic change rather than a change in product/product adaptation strategy in marketing for example, McDonalds in India. To achieve the highest marks for Criterion E and Criterion B candidates are expected to examine the impact of organisational change due to globalisation on different stakeholders. Candidates may explain how globalisation impacted on a particular individual

(CEO) or a group in a position to create/initiate an organisational change. The question is not about the impact of globalisation directly on stakeholders.

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Business management
Higher level
Paper 2

Friday 15 November 2019 (morning)

2 hours 15 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- A clean copy of the **business management formulae sheet** is required for this examination paper.
- Section A: answer one question.
- Section B: answer two questions.
- Section C: answer one question.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[70 marks]**.

Section A

Answer **one** question from this section.

1. Sassy

Sassy, a partnership between fashion designers, produces clothes for teenagers. Capacity utilization is very high.

The partners are considering some strategic changes. After conducting research, they presented three options and outlined the costs and expected revenue. They also predicted that the economy would either improve or stay the same. The probability of the economy staying the same is 0.3.

The options, costs and expected revenue are given below:

Table 1: Information relating to the three strategic options for change

Options	Costs	Expected revenue
Option 1: Increase production capacity	\$200 000	\$300 000 (economy improves) \$250 000 (economy stays the same)
Option 2: Dissolve the partnership and sell Sassy's brand name to a competitor	Not applicable	\$150 000
Option 3: Become a private limited company and: (a) Stay with the current product range and production level OR (b) Develop a new product range of children's clothes.	\$150 000 (legal costs) No additional costs \$170 000 additional cost	Not applicable \$220 000 (economy improves) \$170 000 (economy stays the same) \$550 000 (economy improves) \$450 000 (economy stays the same)

- (a) Describe **one** disadvantage for an organization of operating at high capacity utilization. [2]
- (b) Construct a fully labelled decision tree and identify the best option for Sassy (*show all your working*). [6]
- (c) Explain **one** limitation for Sassy of using a decision tree as a planning tool. [2]

2. Mutombo Window Fans (MWF)

Mutombo Window Fans (MWF) manufactures and sells window fans to wholesalers across eastern Africa. Although the business began small, it experienced rapid internal growth through aggressive, commission-based sales.

Currently, *MWF* sells 300 window fans per month. Each fan sells at an average price of \$100.

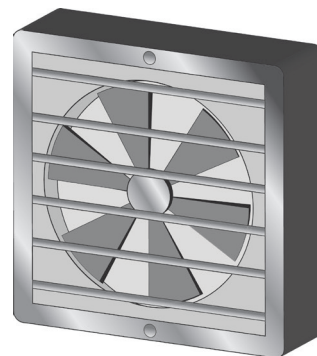


Table 1: Forecasted fixed costs for 2020 (all figures in \$)

Rent	36 000
Insurance	9 000
Salaries	19 000
Lease on equipment	48 000
Cleaning service	18 000

Table 2: Variable costs per fan for 2020 (all figures in \$)

Materials	55
Delivery	5

- (a) Define the term *internal growth*. [2]
- (b) (i) Calculate, for *MWF*, the break-even level of output for 2020. [2]
- (ii) Construct a fully labelled, to scale, break-even chart for *MWF* for 2020. [4]
- (iii) Calculate the profit if *MWF* sells 3600 window fans in 2020. [2]

Section B

Answer **two** questions from this section.

3. Cool Meals (CM)

Cool Meals (CM) produces frozen organic ready-made meals that are sold to food retailers throughout the country.

CM buys large quantities of organic ingredients from local farmers for its just-in-case (JIC) stock control management. It uses a cost-plus (mark-up) pricing strategy.

CM is known for its:

- good-quality organic frozen meals, which are perceived as good value for money
- flexibility with retailers in terms of quantity of meals supplied, credit given and efficient delivery at pre-arranged dates
- corporate social responsibility (CSR) based on a long-term commitment made to farmers to purchase large quantities of organic ingredients every four months and pay a fair price promptly
- CM has an excellent working relationship with farmers, who always prioritize CM's requests in terms of quantity and delivery.

Recently, an economic downturn and increased competition, especially from non-organic frozen meal suppliers, has decreased demand for frozen organic meals.

The finance manager of CM, Kayleigh, provided the following financial information.

Table 1: Selected financial information for CM

	2017	2018
Total revenue	\$6 000 000	\$3 500 000
Gross profit margin	16%	14%
Net profit margin	6%	3%
Creditor days	10	5
Debtor days	50	70
Stock turnover days	20	40
Current ratio	2.1	2.4
Acid test (quick) ratio	0.8	0.6

(This question continues on the following page)

(Question 3 continued)

Kayleigh is worried about the cash flow of *CM* and suggested the company changes the stock control method from just-in-case (JIC) to just-in-time (JIT). She is also looking at other strategies to improve *CM*'s financial position.

- (a) Define the term *corporate social responsibility (CSR)*. [2]
- (b) Explain **one** advantage **and one** disadvantage for *CM* of using a cost-plus (mark-up) pricing strategy. [4]
- (c) Explain **one** advantage **and one** disadvantage for *CM* of changing its stock control method from just-in-case (JIC) to just-in-time (JIT). [4]
- (d) Using the financial information in **Table 1**, evaluate **two** strategies that *CM* could use to improve its financial position **other than** changing to a just-in-time (JIT) stock control method. [10]

4. Top Star (TS)

Top Star (TS) manufactures sports footwear. Its products are sold through retail outlets and online. Sales of *TS*' footwear in retail outlets are falling. However, because e-commerce is growing rapidly, online sales are increasing. In 2018, *TS*' total domestic sales were \$5 000 000 and total domestic market sales for the same time period were \$50 000 000.

TS must consider several challenges:

- Some businesses in the sports footwear industry are finding that selling online leads to many problems and higher costs
- *TS*' website is not user friendly. Customer complaints about the website and ordering problems are increasing
- *TS*' presence in international markets is weak and its product range is limited. The directors of *TS* want to develop a new line of running shoes but the company has insufficient finance for research, development and creating brand awareness.

The directors think that *TS* should follow an external growth strategy. Two options are being considered:

- **Option 1:** Some directors propose a merger with a footwear manufacturer, the multinational company *All Champion*, which would allow *TS* to be more competitive
- **Option 2:** Other directors propose a merger with a footwear retailer that has a strong presence in domestic and international markets.

The finance manager believes that merging with *All Champion* could hurt *TS*' reputation. *TS*' factories may have to close, which the local population may resent.

- | | |
|--|------|
| (a) Describe one feature of a multinational company (MNC). | [2] |
| (b) Calculate <i>TS</i> ' market share in 2018 (<i>show all your working</i>). | [2] |
| (c) Explain two disadvantages and one advantage to <i>TS</i> of selling its products online. | [6] |
| (d) With reference to <i>TS</i> , evaluate the two merger options. | [10] |

5. FrioAire Appliances (FA)

FrioAire Appliances (FA) manufactures medium-priced and medium-quality refrigerators. It is a multinational public limited company. Its factory is located in a less economically developed country that has high unemployment, a tradition of autocratic leadership and labour costs lower than *FA*'s home country. The factory is profitable, and *FA* pays consistently good dividends. Market growth for medium-priced and medium-quality refrigerators is limited.

As part of a strategic objective to increase productivity and to enter a fast-growing market for high-priced and high-quality refrigerators, *FA* is considering building a new factory in and relocating production to Germany. This would require closing the factory in the less economically developed country. The new factory will:

- use innovative technologies, including advanced robotics and 3D processes
- require fewer employees, but those it does require will need to have better skills and qualifications.

Germany has a highly skilled, qualified and productive workforce. The new factory would allow *FA* to reposition its products. However, *FA* would need to raise significant finance to build and equip the new factory.

FA's leadership style at the factory in the less economically developed country is autocratic. Members of *FA*'s board wonder whether this style would be suitable for the new factory in Germany, where workers have more bargaining power because of their high skill level and the labour-friendly cultural traditions. In Germany, *FA* would have to follow more regulations regarding the environment, health and safety, and employee rights.

FA workers in the less economically developed country are very loyal to *FA*, which has continued operation through a civil war at significant cost to itself (for security). If *FA* were to close in the less economically developed country, the workers would not find such good jobs.

- | | |
|--|------|
| (a) Describe one disadvantage of operating as a public limited company. | [2] |
| (b) Explain one benefit and one cost to <i>FA</i> of using an autocratic leadership style. | [4] |
| (c) Explain one positive and one negative impact of <i>FA</i> on the developing country. | [4] |
| (d) Evaluate the option of building a factory in, and relocating to, Germany. | [10] |

Section C

Answer **one** question from this section. The organizations featured in sections A and B and in the paper 1 case study may not be used as a basis to your answer.

6. With reference to an organization of your choice, examine the impact of **globalization** on business **ethics**. [20]
 7. With reference to an organization of your choice, examine the impact of **innovation** on distribution **strategy**. [20]
 8. With reference to an organization of your choice, discuss the ways in which **culture** can promote or inhibit **change**. [20]
-

Markscheme

November 2019

Business management

Higher level

Paper 2

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The markbands and assessment criteria on pages 3–5 should be used where indicated in the markscheme.

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.

Section A

1. (a) Describe **one** disadvantage for an organization of operating at high capacity utilization.

[2]

Some of the disadvantages for an organisation of operating at high capacity:

- Workers might feel the pressure / tiredness / mistakes / demotivation, which can reduce productivity.
- Machinery is more likely to break down, so production may be halted.
- Higher maintenance costs, due to constant use.
- Inability to respond to a sudden increase in demand, so potential customers may be lost.

Accept any other relevant disadvantage.

Award [1] for a relevant disadvantage with appropriate description up to a maximum of [2].

For [2] marks responses must link the disadvantage to an outcome as in the examples above.

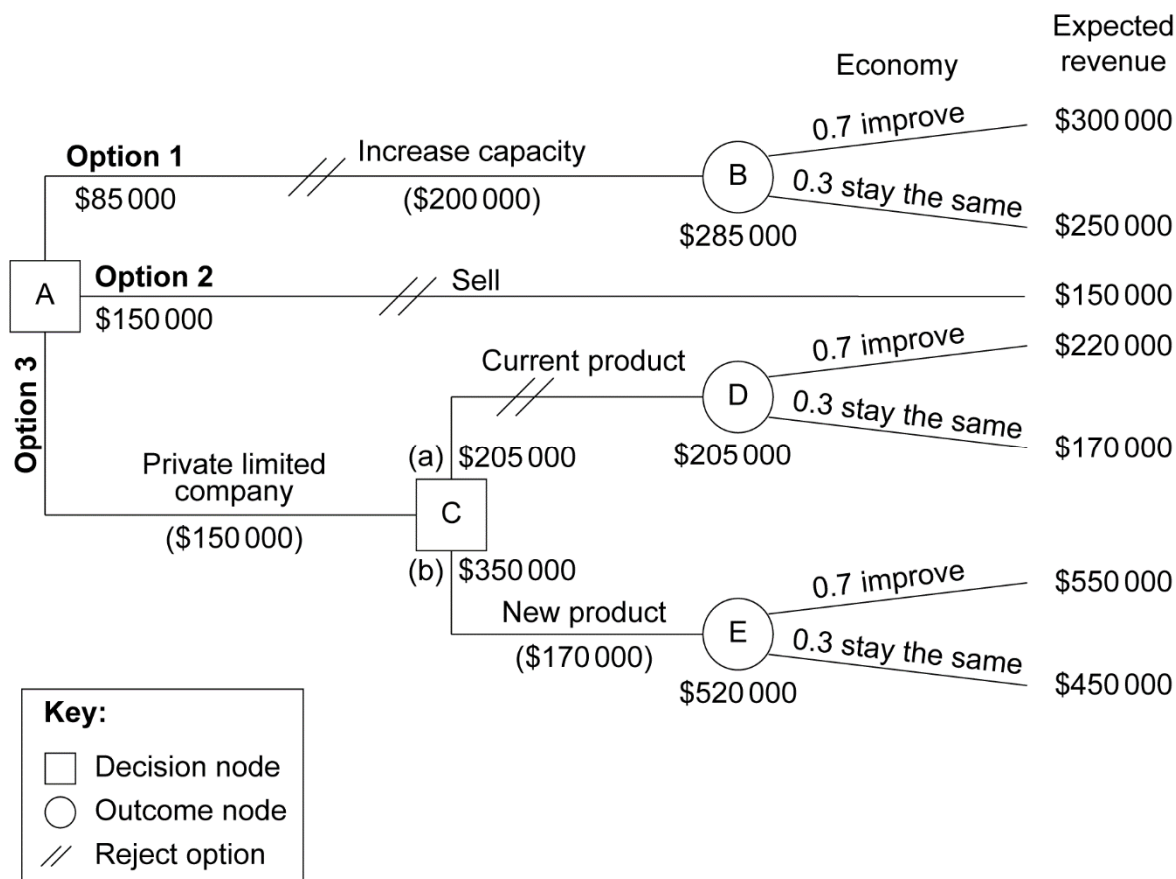
It is not expected that candidates explain the benefits to any stakeholder.

Application to the organization is not required.

Do not credit an example.

- (b) Construct a fully labelled decision tree and identify the best option for Sassy (show all your working).

[6]



Calculations:

$$EMV\ 1 = (300\ 000 \times 0.7 + 250\ 000 \times 0.3) - 200\ 000 = \$85\ 000$$

$$EMV\ 2 = \$150\ 000$$

$$EMV\ 3a = (220\ 000 \times 0.7 + 170\ 000 \times 0.3) - 150\ 000 = \$55\ 000$$

$$EMV\ 3b = (550\ 000 \times 0.7 + 450\ 000 \times 0.3) - (170\ 000 + 150\ 000) = \$200\ 000$$

Best option 3(b) should be followed.

[0]

The decision tree does not reach a standard described below.

[1–2]

The decision tree is not accurately constructed, and / or the calculations of each option are not presented or accurate. However, there is some evidence of a general understanding of the model.

[3–4]

The principal elements of the decision tree are constructed, but may not be entirely accurate. The calculations of each option are largely correct. Allow up to three mistakes in calculations and / or presentation for [3].

Allow for either two errors in calculation or two error in presentation [4].

For an accurately constructed decision tree with incorrect calculations, award up to a maximum of [3].

For an accurately constructed decision tree with EMV calculations, but no working [4].

[5-6]

The decision tree is accurately constructed. The calculations of each option are correct and well presented. A key is provided. Workings are shown. As well as the rejected options [6]. Full marks can be awarded even if the headings of expected return/forecast revenue and probabilities are not explicitly written.

Deduct [1] if a key is not provided.

Deduct [1] if the best option is not identified either on the diagram OR following the EMV calculations.

N.B. for only correct calculations of all options without a decision tree award a maximum of [2].

Essentially treat the lack of key or rejected options as presentation errors as errors. Hence three presentation/calculation errors = [3].

Apply candidate own figure rule (OFR) throughout this response.

- (c) Explain **one** limitation for Sassy of using a decision tree as a planning tool. **[2]**

While a general limitation of the decision tree model is the nature of the predicted outcome, here the use of the model is even more limited as it has been done by the partners who are designers. Due to lack of experience/qualification, they ignored the possibility that the economy might deteriorate. The predicted financial returns for each option might be inaccurate, especially in the volatile, ever-changing fashion industry. Hence, possible bias and different numerical outcomes.

NB. Do not accept “worsening economy” if there is no other reference to the stimulus since this is often cited as a generic limitation.

Accept any other relevant limitation.

Candidates do not have to cover all of the applicable issue above. One is sufficient.

Award [1] for a relevant generic limitation identified or described and [1] for any additional explanation in context.

*[2] cannot be awarded for the limitation if the response lacks either explanation **and** / **or** application.*

For example:

*For an identification or a description of the limitation **with or without** application [1].*

*For explanation of the limitation with **no** application [1].*

*For explanation of the limitation **and** application [2].*

2. (a) Define the term *internal growth*. [2]

Internal growth occurs when a business expands existing operations rather than growing by merging or acquiring other businesses. Typically, internal growth occurs when a business expands its capacity and sells to a wider market.

Candidates do not have to have wording exactly as above.

Award [1] for some understanding of internal growth (such as “expands existing operations”) and [1] for additional wording that gives precision (“rather than growing by merging or acquiring other businesses” or “internal growth occurs when a business expands its capacity and sells to a wider market”).

NB. the question is about internal growth and not about growth generically. Do not award beyond [1] mark if the response does not make this distinction

- (b) (i) Calculate, for MWF, the break-even level of output for 2020. [2]

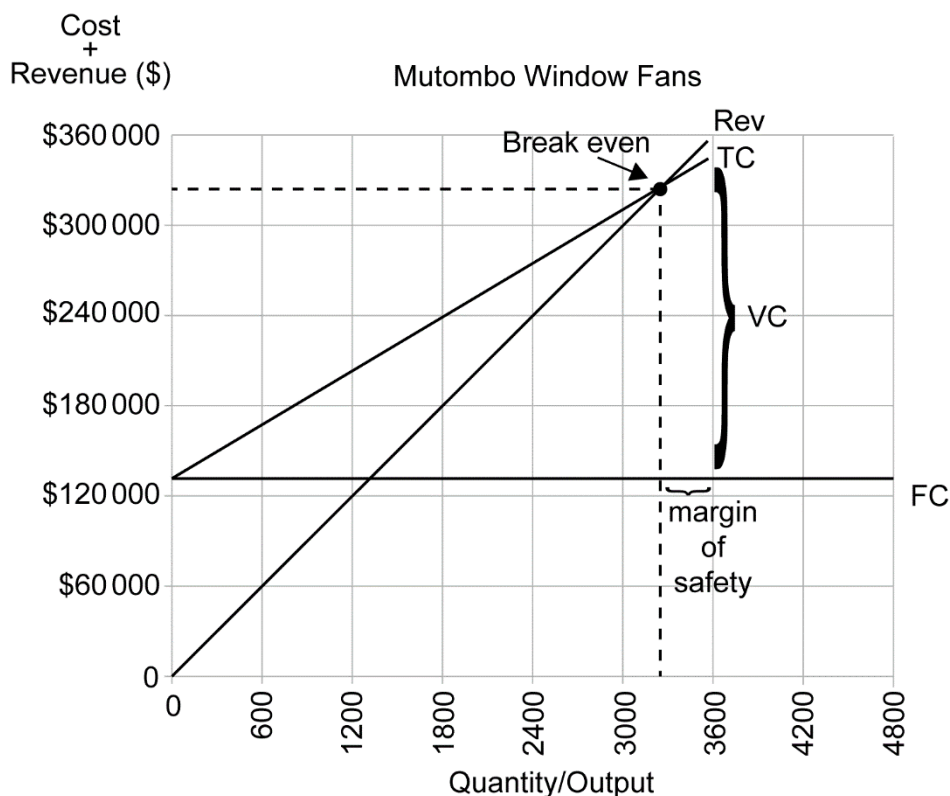
Total fixed costs: \$130 000

Contribution: \$100 – \$60 = 40

Break-even point: $\frac{130\,000}{40} = 3250$ units

Award [2] for correct answer and workings. Award [1] for correct process but with a mathematical error.

- (ii) Construct a fully labelled, to scale, break-even chart for MWF for 2020. [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, fans. Responses should be penalised if using \$ sign in x-axis. If x or y axes show no units or scale is inaccurate then it follows that TR and TC must also be inaccurate

[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). The breakeven value does not need to be stated but the diagram must be consistent with the value in b(i) Do not award lines simply drawn from the BEP to the x and y axes without further annotation.

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]**.

NB. The Fixed Cost (FC), Variable Cost (VC) and Margin of Safety do NOT need to be shown as in diagram.

- (iii) Calculate the profit if MWF sells 3600 window fans in 2020. **[2]**

Total revenue – Total cost = Profit

$$\begin{aligned} (3600 \times 100) - (130\,000 + 3600 \times 60) &= 360\,000 - (130\,000 + 216\,000) \\ &= 360\,000 - 346\,000 = \$14\,000 \text{ Net profit} \end{aligned}$$

Alternatively, profit can be calculated using the total contribution – fixed costs.

$$\text{Total contribution} = 3600 \times 40 = 144\,000$$

$$\text{Profit is } (3600 \times \$40) - \$130\,000 = \$14\,000$$

Or

$$\begin{aligned} \text{Profit} &= \text{Contribution per unit} \times \text{Margin of safety} \\ &= (\$100 - \$60) \times (3600 - 3250) \\ &= \$14\,000 \end{aligned}$$

*Award **[2]** for correct answer and workings. Working does not need to be as extensive as shown above. Award **[1]** for correct process but with a mathematical error.*

Section B

3. (a) Define the term *corporate social responsibility (CSR)*. [2]

CSR is the decision/attempt by a business to take responsibility for their action/activities by considering the interests of and the impact on a wide range of stakeholders in society. The business accepts the moral and legal obligations to society, not just to investors, that result from its operation.

Candidates are not expected to word their definition exactly as above.

Award [1] for a basic definition that conveys partial knowledge and understanding similar to the above answer. The first mark would typically come from awareness that there is some morale guidance.

Award [2] for a full, clear definition that conveys knowledge and understanding similar to the answer above. Individual stakeholders do not need to be named to gain full marks

Do not credit an example.

- (b) Explain **one** advantage **and** **one** disadvantage for *CM* of using a cost-plus (mark-up) pricing strategy. [4]

One **advantage** for *CM* of using a cost-plus pricing strategy is the fact that it will be *CM* that covers all the costs and ensures a certain percentage of profit to be made. It is evident given the figures above that *CM* makes a profit. *CM*'s ability to make a profit ensures long-term survival. *CM*'s meals are perceived as good value for money, hence the strategy is effective.

Given the increase in competition, *CM* can be flexible and reduce the margin set above the costs. Flexibility in pricing is an important factor when there is an economic downturn, as well as increased competition.

A possible **disadvantage** is that *CM*'s costs are likely to be higher than competitors who supply non-organic meals. Together with the customers' unwillingness to pay a premium price during an economic downturn, *CM* might see a further fall in demand as seen in the fall in total revenue in 2018.

Accept any other relevant advantage / disadvantage.

*Award [1] for each role identified and an additional [1] for development with application to CM. Award a maximum of [2] per advantage/disadvantage. [2] cannot be awarded per role 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 relevant advantage/ disadvantage with **no** application [1].*

*For explanation of a relevant advantage/ disadvantage **and** application [2].*

- (c) Explain **one** advantage **and one** disadvantage for *CM* of changing its stock control method from just-in-case (JIC) to just-in-time (JIT).

[4]

A possible **advantage** for *CM* of changing the stock method from JIC to JIT:
As *CM* buys agriculture produce/ stock, these products need to be well stored and possibly refrigerated. Moving to JIT will significantly reduce costs of storage and spoilage. The gross profit margin, which has fallen by 2 %, is likely to increase rather than decrease. The very high current ratio of 2.4 will fall, as *CM* will not stock financially unproductive assets.

A possible **disadvantage** for *CM* of changing production /stock method methods from JIC to JIT:

Given the nature of the industry, the farmers are likely to prefer *CM* buying large quantities seasonally. Ordering lower quantities when needed might create problems/costs for the farmers, who might not prioritize *CM* any longer. *CM* will also lose its reputation for CSR based on long-term commitment to farmers to buy large quantities.

Moreover, given the unpredictable nature of farming, not having buffer stock could result in *CM* being out of stock with the consequences of losing clients/reputation and therefore revenue and profit. *CM* is likely to lose its reputation for flexibility with the retailers in terms of quantity and delivery if not enough agriculture produce is available.

Accept any other relevant/applicable advantage / disadvantage.

Award [1] for each advantage / disadvantage identified and an additional [1] for development with application to CM. Award a maximum of [2] per advantage / disadvantage.

*[2] cannot be awarded per role 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 a relevant advantage/ disadvantage with **no** application [1].*

*For explanation of a relevant advantage/ disadvantage **and** application [2].*

- (d) Using the financial information in **Table 1**, evaluate **two** strategies that *CM* could use to improve its financial position **other than** changing to a just-in-time (JIT) stock control method.

[10]

It is expected that candidates make constant reference to/use of the figures and other relevant information in the stimulus combined with theoretical understanding of the advantages and disadvantages of the possible strategies.

Some of the possible strategies:

Reduce cash outflow. *CM* is facing cash flow crisis as seen by its deteriorating acid test ratio of 0.6. Without stock, which contributed to a high current assets ratio, *CM* cannot meet its long-term liabilities. It is evident that there is a big difference between debtors and creditors days. *CM* paid the farmers within five days in 2018, which is very quick and got significantly quicker – twice as fast – but received money from the retailers after 70 days in 2018, a significant increase from 50 days. *CM* is too generous to retailers with the credit term. Despite the

fact that the relationship with retailers and the suppliers is *CM*'s competitive advantage, it is financially dangerous given the decreasing and very low acid test.

Seek alternative suppliers with cheaper agriculture produce might be seen as an extreme solution, as *CM*'s relationship with the farmers and the quality of the organic ingredients are key to its competitive advantage. It might take a long time to find different suppliers. Perhaps **agreeing a longer credit term would be a better solution**. Currently, *CM* pays after five days. One can assume that the farmers are likely to prefer a request for a longer pay period than a more drastic one.

Cut expenses. Gross profit margin is considerably higher than net profit margin for a manufacturing company and is getting worse over time. *CM* should look at some unnecessary expenses like marketing or administration. However, cutting salaries or staff might impact on the employees' motivation and cutting marketing might create some difficulties in competing with the new competitors. However, going out of business due to lack of cash can be judged as a more significant threat.

Do not accept better stock control due to JIT.

Tighter credit control. Cash payments only for the retailer will clearly reduce/eliminate debtor days. The acid test ratio is worrying and *CM* must take immediate actions to solve this short-term liquidity problem. However, the relationship with the retailers might deteriorate and they might start buying non-organic frozen food from the emerging competitors. It appears that *CM*'s bargaining power with the retailer is weak and this option is unlikely to be successful. One, however, may argue that increasing the creditor days is unlikely to be met with much objection from its suppliers given the very low starting figures and long-established trust. *CM* might also be able to ask its debtors – the retailers – to pay sooner, even after two months, a demand which is likely to be seen as reasonable.

Changing pricing policy. *CM* can possibly reduce the price of its products. While *CM* may be more competitive and this strategy may work well given the economic downturn and the increased competition, *CM* may suffer losses or a reduction in profit. However, customers may perceive the frozen organic meals as even better value for money and increase demand. Moreover, perhaps *CM* can withstand a reduction in profit in the short term and we can see that *CM* is profitable. The liquidity issue ought to be sorted. *CM* should prioritize its cash flow problem first, then deal with a low acid test to generate cash to survive.

Enhance marketing to generate more sales in cash. *CM* might be able to reduce its increasing level of stock and reduce stock turnover in days, which has clearly deteriorated considerably from 20 to 40 days. However, any type of promotion may incur more expenses, especially in cash. The data indicates that the net profit margin is considerably lower than the gross profit margin, which indicates that *CM* does not control its expenses well.

Improved product portfolio. Perhaps *CM* should also consider non-organic meals or other types of products to enhance its portfolio and create more revenue streams. However, cannibalism can be created – *CM* may also have to compete more directly with the increasing number of providers of non-organic frozen meals. Market research has to be done so perhaps this option is not the most appropriate one in the short term.

Seeking alternative short term sources of finance. Accept relevant applicable suggestions like the use of overdraft and short-term loans, to deal with CM's short-term liquidity crisis. However, these options are more of first aid rather than solution to some ongoing problems and are likely to be more theoretical given the lack of information in the stimulus.

It is not expected that the candidates cover all of the above.

Accept any other relevant arguments for and against any relevant suggested strategy.

Accept any other relevant examination.

A conclusion with judgment is expected.

A balanced response covers at least one argument for and one argument against each of two different strategies.

Marks should be allocated according to the mark bands on page 3 with further guidance below.

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.

It is expected that the candidate goes beyond just providing some relevant arguments for or against any suggested strategy and finish off with some conclusions and judgment.

Award a maximum of [4] marks if the answer, regardless of balance and judgment makes no reference to either the figures or headings in Table 1

Candidates, in order to reach to the top markband, should show clear evidence of substantiation/well supported.

For the top markband, candidates must make use of the financial information given in their discussion.

4. (a) Describe **one** feature of a multinational company (MNC). [2]

- MNCs operate in many countries. Their headquarters are located in one country (home country) while operations are carried out in a number of other countries (host countries).
- Because of their global operations, they usually have large physical and financial assets and turnover.
- MNCs are predominantly large-sized and exercise a great degree of economic dominance.
- MNCs may control production activity with large foreign direct investment in more than one developed and developing countries.

Award [1] for each feature stated and award an additional [1] for a description up to a maximum of [2].

- (b) Calculate TS' market share in 2018 (*show all your working*). [2]

$$\text{Market share \%} = \frac{\text{firm's sales}}{\text{total market sales}} \times 100$$

$$\frac{5\,000\,000}{50\,000\,000} \times 100 = 10\%$$

Award [1] for the correct market share number (percentage) [1] for correct working.

If no workings are shown, but the final answer is correct, award a maximum of [1].

Do not credit full marks if the answer is not a percentage.

- (c) Explain **two** disadvantages **and one** advantage to TS of selling its products online. [6]

Like other businesses in the industry, TS may find selling online increasingly problematic due to the associated costs. Customer complaints about TS' website and ordering problems are already increasing. Costs of dealing with customer complaints, technical issues and delivery problems may increase and reduce profit.

TS' brand image may be eroded due to its inefficient way of dealing with online sales. Its unfriendly website and increasing customer complaints are probably eroding its brand image and market share. If TS wants to increase international presence and expand its market, it should improve its current online sales system.

On the other hand, TS' sales and profits can increase by taking advantage of e-commerce's rapid growth. It can also take advantage of a potential market opportunity left by the competing businesses in the industry that are experiencing problems with online sales.

TS' international presence is weak; selling online can help to create brand awareness in international markets and reach a worldwide audience with relatively low costs.

Accept any other relevant explanation.

Mark as 2 + 2 + 2.

Award [1] for each correct advantage/disadvantage identified and [1] for a relevant explanation with application to TS. Award up to a maximum of [2] per advantage/disadvantage explained.

[2] cannot be awarded per advantage/disadvantage if the response lacks either explanation and/or application.

For example: For an identification/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) With reference to TS, evaluate the two merger options.

[10]

Merging with All Champion:

The merger with the footwear manufacturer *All Champion* (AC) will produce gains in economies of scale, and will give TS the possibility of growing.

As a multinational company, AC has access to more and cheaper resources such as finance. Additional finance will allow for research and development of new products. TS will be able to develop the new line of running shoes and expand its product portfolio.

Merging with AC will also allow for rationalization of resources, such as concentrating output on one site and concentrating managerial and technical capacities. For instance, TS will have access to larger IT and marketing departments to improve its website and deal with online sales more efficiently.

A merger with AC eliminates a strong competitor in the market. The two companies might have different strengths and experiences and they, therefore, could fit well together. The new merged company will probably be stronger and could therefore increase its competitive power in the market. AC's market share (only 10 %) will increase.

On the other hand, a merger with AC may have a number of drawbacks. In a merger process, the smaller company, such as TS, could be cannibalized by the larger one. TS' culture may be dissolved within AC's way of doing things. There are also high chances that some of AC's factories will be closed, causing discontent within the local community. The finance manager is right to be suspicious about this merger. TS' reputation may be hurt due to the possibilities of closing factories and sales may fall.

Merging with a footwear retailer:

If TS merges with a footwear retailer with a strong presence in domestic and international markets, it will secure an outlet for its products. TS will be able to increase its domestic market share of 10 % and additionally access the international markets, using the experience, knowledge and expertise of the footwear retailer. TS will keep the manufacturing process and then factories will not close. In addition, the risks of cannibalization of this option are low.

However, this merger may not exclude a strong competitor such as AC. Production economies of scale will not be gained, as the footwear retailer has no experience in the footwear manufacturing process.

Overall, merging with AC will give *Top Star* the competitive edge needed to grow and develop its product portfolio. On the other hand, merging with a footwear retailer also has some evident advantages, but it seems that merging with AC looks like a stronger choice.

It is expected that candidates provide a conclusion with a substantiated judgment.

Marks should be allocated according to the markbands on page 3.

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].

If a candidate evaluates / addresses only one merger option, award a maximum of [5].

A balanced response is one that provides at least one argument for and one argument against each merger option.

Candidates may contrast one option with another for a balance as long as at least two arguments are given for each option.

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 the answer.

5. (a) Describe **one** disadvantage of operating as a public limited company. [2]

Disadvantages of operating as a public limited company include:

- The expense of going public and the ongoing expenses of reporting to the government or shareholders.
- Loss of privacy, as the company must report to the public and to shareholders.
- Strategic decisions can take longer, as management has responsibility to communicate with the board, shareholders, and, often, other stakeholders.
- Possible loss of control since shares are available to the public to buy on a stock exchange

Award [1] for an identification of a disadvantage and another [1] for sufficient description thereof.

- (b) Explain **one** benefit **and** **one** cost to *FA* of having an autocratic leadership style. [4]

In the stimulus it is indicated that *FA* has an autocratic leadership style. This style appears to dovetail with the culture of the less economically developed country. Also, the factory is profitable and has been efficient through lower costs. It is possible that the leadership style fosters loyalty in this country because of the cultural fit. Accept the likelihood that workers are less skilled and less educated and likely to accept poorer working environment due to high unemployment rate

The costs to *FA* include that autocratic leadership may stifle creativity and innovation, which could be available in a more democratic system. Also workers less likely to accept a demotivating work environment as they have a high degree of industrial relations leverage. Productivity in Germany could be higher than in a less economically developed country. The fact that *FA*'s leadership is thinking of

relocating to Germany indicates that they see problems in moving to a new, higher-price segment.

Mark as 2 + 2.

Award [1] for each relevant benefit / cost explained and [1] with application to FA. Award up to a maximum of [2] per benefit/cost explained.

[2] cannot be awarded per benefit / cost if the response lacks either explanation and / or application.

For example: For an identification/description of a benefit / cost with or without application [1]. For explanation of a benefit / cost with no application [1].

- (c) Explain **one positive and one negative** impact of FA on the less economically developed country. **[4]**

Positive impacts of FA on the developing country include:

- Provides employment at wages better than those available in the less economically developed country.
- Was loyal during the civil war.

Theoretically possible other positive impacts include:

- Technology and skill transfers from FA's host country to the less economically developed country.

Negative impacts of FA on the less economically developed country include:

- FA relies on an autocratic leadership style.
- FA does not use the most advanced technology in the less economically developed country.
- FA could leave the country, leaving many people who are currently dependent on the company out of work.
- FA does not provide the same employee rights provisions or health and safety provisions that it would in a less economically developed country.

Theoretically possible other negative impacts include:

FA may pollute to a level in the less economically developed country that it would not in Germany. In addition FA may cause an overdependency of the LDC on its presence in the country

Mark as [2 + 2]. For [2], candidates must identify a positive and a negative impact, explain it, and apply to the less economically developed country.

Award [2] for a positive impact with application to the less economically developed country.

Award [2] for a negative impact with application to the less economically developed country.

If there is no application to the less economically developed country at all then the maximum mark per impact is [1].

- (d) Evaluate the option of building a factory in, and relocating to, Germany.

[10]

The option of building a factory in and relocating to Germany is a major strategic decision. In certain respects, *FA* would be an entirely different company: new products, new processes, new types of workers and new leadership styles, as well as a wholly new cultural context. Going into highly sophisticated high-tech manufacturing with robots has the potential to position *FA* for a future of highly automated manufacturing. Without making these changes, *FA* runs some risk of remaining stuck in much lower value-added processes, which in the long run are less profitable. The risks are very high. The potential rewards are high as well.

Perhaps a strategy for *FA* would be not to sell the older factory but to continue to operate it and rely on those profits to support the new factory as it gets started. Whether *FA*'s balance sheet is strong enough to operate both factories is an open question, as is the question of whether its management has sufficient depth to operate two major plants.

Balance in this context means having two arguments for opening the plant in Germany and two arguments against, which could be partially couched in a discussion of leaving the old plant open.

Accept any other relevant examination.

A conclusion with judgment is expected.

Marks should be allocated according to the mark bands on page 3 with further guidance below.

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.

There is considerable stimulus material. Candidates that largely repeat the stimulus material with little or no analysis award up to a maximum of [4]

It is expected that the candidate goes beyond just providing some relevant arguments for or against any suggested strategy and finish off with some conclusions and judgment.

Candidates, in order to reach to the top markband, should show clear evidence of substantiation/well supported.

Section C

Answer **one** question from this section. The organizations featured in sections A and B and in the paper 1 case study may not be used as a basis to your answer.

6. With reference to an organization of your choice, examine the impact of **globalization** on business **ethics**. [20]
7. With reference to an organization of your choice, examine the impact of **innovation** on distribution **strategy**. [20]
8. With reference to an organization of your choice, discuss the ways in which **culture** can promote or inhibit **change**. [20]

NB. Although the question asks for the application of one concept on another, it is still expected that Business Management content will be aligned with the concepts especially the second concept (the one being acted on).

Please note that candidates can conclude that there was a minimal impact, however it has to be based on balanced arguments and evaluation.

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 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.

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 are 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 to have explicit headings for each structural element.
- A body is the area in which the substance of arguments occurs. 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 cannot be considered with a “group” of consumers or a management team.
- For **[4]**, a balanced response: 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”.

Some reflections on Specific Questions

Q6. Although similar in wording to Q7 – there is no selected business content. Therefore, responses should clearly address some content genre related to, either, HRH, Marketing or Operations Management. Do not credit ‘Globalisation definitions which simply refer to expansion overseas – even though the examples used may utilise this. Many candidates mistake ethical for legal obligations. Many candidates also confuse ethics with culture

Q7. The business content here is quite specific i.e. distribution strategy. Do not credit responses that simply refer to general marketing. It is acceptable for candidates to choose logistics companies such as DHL, FedEx, TNT etc. E-commerce is acceptable as innovation but better responses should put into time/competitive context ie. a high street retailer introducing an online platform in 2002 is more innovative than one doing it in 2018

Q8. Is worded differently to most of the previous sessions. Both organisational culture or country culture are acceptable but candidates must be careful to establish changes related to culture and not some other business factor. Change should be evidenced by examples showing a change from one state to another. Simply stating that a company did something is relatively meaningless unless it is known what took place before. It is not necessary to contrast “promotion” versus “inhibition” – it is promotion OR inhibition. However, for full marks in Criterion C some type of analysis is needed for one state or the other.

Business management
Higher level
Paper 2

Friday 9 November 2018 (morning)

2 hours 15 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- A clean copy of the **business management formulae sheet** is required for this examination paper.
- Section A: answer one question.
- Section B: answer two questions.
- Section C: answer one question.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[70 marks]**.

Section A

Answer **one** question from this section.

1. Designer Dolls (DD)

Designer Dolls (DD) is a start-up business that will create hand-crafted unique dolls using a job/customized production method. As part of their business plan *DD* undertook a break-even analysis.

Table 1: Forecasted figures for *DD* for the first year of operation

Fixed costs	\$10 000
Variable costs per doll	\$30
Price per doll	\$50
Full productive capacity	900 dolls

- (a) Describe **one** limitation of a break-even analysis. [2]
- (b) Calculate:
- (i) the number of dolls that *DD* needs to sell to achieve a profit of \$4000 (*show all your working*); [2]
- (ii) the capacity utilization rate at the break-even quantity for *DD* for the first year of operation (*show all your working*); [2]
- (iii) the profit or loss in the first year if *DD* sells 400 dolls (*show all your working*). [2]
- (c) Assuming that the quantity of dolls to be sold in the second year is 550 and costs remain unchanged, calculate the price per doll that *DD* would need to charge to make a \$6500 profit. [2]

2. Papel

Papel manufactures and sells paper bags. It pays cash for 80 % of its raw materials but, to remain competitive, it must sell on credit to all customers. Many debtors are not paying on time and creditors (suppliers) are increasing. The board of directors is concerned about *Papel*'s liquidity position.

The finance manager has provided information from *Papel*'s accounts.

Table 1: Selected information from *Papel*'s accounts at 31 October 2018

	000s \$
Accumulated retained profit	14
Cash	3
Cost of goods sold	2
Creditors	20
Debtors	12
Expenses	2
Long-term liabilities (debt)	20
Net fixed assets	60
Sales revenue	5
Share capital	26
Stock	5

- (a) Define the term *debtors*. [2]
- (b) Using information from **Table 1**:
- (i) construct a fully labelled balance sheet for *Papel* for the end of October 2018; [5]
- (ii) calculate the current ratio for *Papel* for the end of October 2018. [1]
- (c) Explain **one** possible strategy, **other than** elimination of credit sales, for *Papel* to improve its liquidity position. [2]

Section B

Answer **two** questions from this section.

3. KA

KA is a public limited company that designs, manufactures and sells air conditioners. KA's unionized employees are motivated and efficient despite not being involved in any decision making. However, they are resistant to change.

The market and competition for air conditioners are growing rapidly. KA operates at full capacity but stock turnover has slowed.

Primary market research revealed that:

- consumers do not differentiate KA air conditioners from those of its competitors. All products are perceived as medium price and medium quality
- KA's customer service is rated as poor
- customers demand energy-efficient products using ecologically sustainable production methods.

To exploit opportunities and overcome weaknesses and threats, KA's management has decided to redesign its products so that they are energy efficient. KA is considering two options:

- **Option1:** Implement lean production methods, which includes investing in ecologically sustainable machines that will increase capacity by 10%. Total quality management (TQM) will also be implemented. However, the financial manager is worried about KA's ability to meet high initial costs. The forecasted payback period is three years and average rate of return (ARR) is 4%.
- **Option 2:** Outsource the production to QS, a company known for its reliability and high capacity to produce excellent quality air conditioners using cradle to cradle manufacturing principles. However, QS refuses to sign an exclusive long-term contract with KA, insisting instead on renegotiating the contract every two years. KA will have to close its production facility and will use the cost savings to improve customer service and to reposition and differentiate its air conditioners.

Employees have heard rumours of both options and fear for their jobs. Strike action is being considered.

- | | |
|---|------|
| (a) Define the term <i>public limited company</i> . | [2] |
| (b) With reference to QS, explain two features of cradle to cradle manufacturing. | [4] |
| (c) Explain two possible human resource strategies that KA management could use to reduce employees' resistance to change. | [4] |
| (d) Evaluate the two options that KA is considering. | [10] |

4. La Bonita (LB)

La Bonita (LB) is a beach hotel owned by Felix and Rose Sanchez. Its current target market is families seeking beach holidays. *LB* offers high-quality service. Customers do not pay in advance and pay in full on departure. *LB* is located near a capital city.

As there are no hotel training schools locally, Felix provides on the job training to all new recruits. A recent survey by *LB* to assess brand loyalty found that existing customers remain loyal because:

- they appreciate not having to pay in advance, as required at other local hotels
- employees are polite and helpful and particularly good with children
- the services provided are perceived as very good value for money.

However, many customers have commented that the hotel needs to upgrade its facilities.

In winter, *LB* has a very low capacity utilization and monthly cash flows are negative. *LB* gets through these months using bank overdrafts while continuing to pay its suppliers in cash to get generous discounts. Felix is concerned that the cash-flow situation is unsustainable and could get worse because the hotel facilities need upgrading. He proposes that *LB* raises additional finance and finds ways of reducing cash outflows in the winter (**proposal 1**).

Rose believes that the cash-flow problem is mainly due to low capacity utilization in the winter months. She wants to diversify and attract a new segment for the winter: business customers. However, this would involve significant expenditure, including upgrading and adding new facilities to the hotel (**proposal 2**).

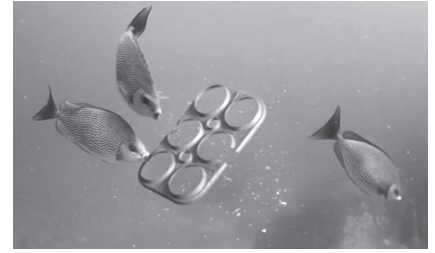
- | | |
|---|------|
| (a) Define the term <i>brand loyalty</i> . | [2] |
| (b) Explain two advantages for <i>LB</i> of using on the job training. | [4] |
| (c) Explain the importance to <i>LB</i> of two elements of the extended marketing mix. | [4] |
| (d) Discuss whether <i>LB</i> should implement proposal 1 or proposal 2 . | [10] |

5. Benno

Benno is a soft drinks manufacturer. Its mission statement is “to produce healthy drinks without damaging the environment”.

Competition in the healthy soft drinks market is fierce.

Benno uses a competitive pricing strategy. However, sales of *Benno*’s drinks have fallen significantly over the last five years, particularly in the 12–18 age group. The business has no accumulated retained profits.



Benno is committed to innovation and corporate social responsibility (CSR). Its research and development division has recently invented a new biodegradable drink pack ring that starts to break down within two hours of contact with sea water. It dissolves fully in 48 hours. Currently, 98 % of pack rings are made of plastic and when dumped in the sea are responsible for the death of many sea creatures.

A focus group of loyal customers used regularly by *Benno*’s marketing department is wholeheartedly in favour of the new drink rings. However, the marketing director has read recent studies that suggest:

- purchases of green products are not increasing, despite the positive attitude of many consumers towards sustainability and biodegradable products
- consumers continue to prioritize price when purchasing soft drinks.

To manufacture the new drink rings, machinery costing \$5 million would be needed. Drink ring production unit costs would rise from 10 cents to 15 cents and prices of a six-pack of *Benno* soft drinks would have to increase by 5%. *Benno*’s net profit margin on a six-pack is 10 %.

Benno’s director of corporate social responsibility favours the change to the new drink rings but is opposed by both the finance director and marketing directors.

[Source: Image provided with permission from E6PR™]

- | | |
|--|------|
| (a) Define the term <i>innovation</i> . | [2] |
| (b) Explain two roles of <i>Benno</i> ’s mission statement. | [4] |
| (c) Explain one advantage and one disadvantage for <i>Benno</i> of using a focus group of loyal customers. | [4] |
| (d) Recommend whether <i>Benno</i> should replace its plastic drink rings with the new biodegradable drink rings. | [10] |

Section C

Answer **one** question from this section. The organizations featured in sections A and B and in the paper 1 case study may not be used as a basis to your answer.

6. With reference to an organization of your choice, examine the impact of **innovation** on promotional **strategy**. [20]
 7. With reference to an organization of your choice, examine the impact of **globalization** on **change** in operations management. [20]
 8. With reference to an organization of your choice, examine the impact of **ethics** and **culture** on human resource management. [20]
-

Markscheme

November 2018

Business management

Higher level

Paper 2

This markscheme is the property of the International Baccalaureate and must **not** be reproduced or distributed to any other person without the authorization of the IB Global Centre, Cardiff.

The markbands and assessment criteria on pages 3–5 should be used where indicated in the markscheme.

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.

Section A

1. (a) Describe **one** limitation of a break-even analysis.

[2]

Some of the limitations may include:

- The break-even model assumes that all units produced are sold, therefore total revenue received if not all of the dolls/quantity is sold can be lower, which will have a negative impact on the break-even point.
- The break-even model assumes a linear relationship between output and total variable cost, whereas in reality the costs per unit can go down due to economies of scale. This will have a negative impact on the break-even point.
- The break-even model assumes that the price stays constant at all levels of output. In reality, price can be reduced or increased with direct impact on the break-even quantity.

Accept any relevant description. There is no need for further explanation of the exact impact on the break-even point.

Application is not expected.

Award [1] for each relevant identification / list of one limitation of the model.

Award [1] for a description up to a maximum of [2].

- (b) Calculate:

- (i) the number of dolls that *DD* needs to sell to reach \$4000 level of profit (*show all your working*);

[2]

$$\text{Fixed costs} + \text{target profit} = \underline{10\,000 + 4\,000} = 14\,000 = 700 \text{ dolls}$$

$$\text{Contribution per unit} = 50 - 30 = 20 \text{ [shows that it's part of given formula]}$$

OR

$$\text{Profit} = \text{total revenue} - \text{total cost}$$

$$4000 = 50X - (10\,000 + 30X)$$

$$20X = 14\,000$$

$$\text{The number of dolls needing to be sold to reach a profit of \$4000} = 700$$

Award [1] for working and [1] for the correct answer.

Award a maximum of [2].

For a correct response that demonstrates understanding and application of the formula, even if no specific headings are presented, award full marks.

Working must be shown for full marks. Accept a graphical calculation of BE if drawn and stated accurately ie sufficient to extract correct data (do not penalize labeling errors).

- (ii) the capacity utilization rate at break-even quantity for *DD* for the first year of operation (*show all your working*);

[2]

$$\begin{aligned}\text{Break-even quantity} &= \frac{\text{Fixed costs}}{\text{Contribution per unit}} \\ &= \frac{10\,000}{(\$50 - \$30) 20} \\ &= 500 \text{ dolls}\end{aligned}$$

$$\text{Capacity utilization rate} = \frac{500 \text{ dolls}}{900 \text{ dolls}} = 0.55 \times 100 = 55.55 \%$$

Accept 55.5% or 55.56 %

An alternative method would be:

Total revenue = total costs, where:

- total revenue = price × quantity sold
- total costs = total fixed cost + total variable costs.

$$\text{Capacity utilization} = \frac{500}{900} \times 100 = 55.55 \%$$

Accept 55.5% or 55.6 %

Do not credit for using the formula as it is given. Do not fully credit if the figure is not expressed in %.

Award [1] for correct working, which includes the calculations of the break-even point and [1] for the correct answer in %. Award up to a maximum of [2].

If only the correct breakeven is present, then award [1] only if working is shown.

For a correct response that demonstrates understanding and application of the formula, even if no specific heading are presented, award full marks.

- (iii) The profit or loss in the first year if *DD* sells 400 dolls (*show all your working*).

[2]

Margin of safety times contribution per unit
 $400 - 500 = (100) \times 20 = \2000

Do not credit for the calculation of the break-even point but allow OFR even if correct. It is application of the MOS-BE formula which gets the mark for workings.

Accept any other relevant method:

Total revenue – total costs

Price \times quantity – (total fixed costs + total variable costs)

$400 \times \$50 - [\$10\,000 + (400 \times \$30)]$

$\$20\,000 - [\$10\,000 + \$12\,000]$

$\$20\,000 - \$22\,000$

$\$(2000) = \text{a loss}$

Award [1] for correct working and [1] for the correct answer. Award up to a maximum of [2].

For a correct response that demonstrates understanding and application of the formula, even if no specific headings are presented, award full marks.

- (c) Assuming that the quantity of dolls to be sold in the second year is 550 and costs remain unchanged, calculate the price per doll that *DD* would need to charge to make a \$6500 profit.

[2]

Target profit = total revenue – total costs

$\$6500 = \$550X - [10\,000 + (\$30 \times 550)]$

$\$6500 = \$550X - [10\,000 + 16\,500]$

$\$6500 = \$550X - \$26\,500$

$\$6500 + \$26\,500 = 550X$

$\$33\,000 = 550X$

$X = \$60$

Price that *DD* has to charge is \$60.

Accept any other method provided that working is shown.

Award [1] for working and [1] for the correct answer.

Award a maximum of [2].

2. (a) Define the term *debtors*. [2]

A debtor is a customer or a firm that has purchased a good or service from a business and has not yet paid. A debtor may be allowed up to one month or more to settle.

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 definition that conveys knowledge and understanding similar to the answer above. – reference to repayment period is not necessary for full marks.

- (b) Using information from **Table 1**:

- (i) construct a fully labelled balance sheet for *Papel* for the end of October 2018; [5]

***Papel* balance sheet as at 31 October 2018**

	000s	000s
Fixed assets		
Net fixed assets		60
Current assets		
Cash	3	
Debtors	12	
Stock	5	
Total current assets	20	
Current liabilities		
Creditors	20	
Total current liabilities	20	
Net current assets (working capital)		0
Total assets less current liabilities		60
Long-term liabilities	20	
Net assets		40
Financed by:		
Share capital	26	
Accumulated retained profit	14	
Equity		40

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 writing “retained profit” omitting the word accumulated.

Allow OFR.

[0]

The B/S does not reach a standard described below.

[1–2]

The B/S is not accurately constructed, and/or the calculations within and between the various components are not presented or largely incorrect. However, there is limited evidence of a general understanding of the format

[3–4]

The principal elements of the B/S are constructed, but may not be entirely accurate. The calculations under each heading/component/part are largely correct.

Allow up to two mistakes in calculations **and/or** presentation for **[3]**.

Allow for **either** one error in calculation **or** one error in presentation **[4]**.

For an accurately constructed B/S with incorrect calculations, award up to a maximum of **[3]**.

Allow OFR.

For example, if one irrelevant figure that belongs to the P/L account is added, obviously the rest will not match.

[5]

The B/S is accurately constructed in the expected IBO format. All the relevant headings of each component/ parts are used and correctly classified. Do not penalise for internal order of classification. All and only the relevant figures are presented. No extra irrelevant figures that belong to the P/L are included. The calculations under each part/ component of the B/S are correct and well presented **[5]**.

Deduct **[1]** for one omission including the overall heading provided the B/S is accurately balanced.

N.B.: If the candidate did not follow the IBO format award up to **[2]** marks

- (ii) calculate the current ratio for *Papel* for the end of October 2018.

[1]

$$\text{Current ratio} = \left(\frac{\text{current assets}}{\text{current liabilities}} \right) \frac{20}{20} = 1$$

Award **[1]** for the correct answer. Award no marks merely for writing the formulae. Award **[1]** mark with OFR but working must be shown

- (c) Explain **one** possible strategy, **other than** elimination of credit sales, for *Papel* to improve its liquidity position.

[2]

Liquidity is the ability to pay short-term debts. *Papel*'s liquidity position is delicate. Working capital is zero and *Papel*'s acid test is 0.75, which means that *Papel* has less than \$1 of liquid assets with which to repay every \$1 of its short-term debts.

Papel could improve its liquidity position by keeping a tight credit control with debtors. Many are not paying on time, which means that *Papel* does not keep a check of customers' accounts.

Papel could use a debt factoring service to recoup some of the debt as a way to boost its liquidity.

Papel should monitor debtors and chase them to pay on time and to respect the credit periods established and agreed.

Creditors are increasing even though 80 % of accounts are settled in cash. To improve the liquidity position, *Papel* could try to negotiate improved credit terms with its suppliers.

Reward candidates who highlight 'surplus' or 'unused' assets to sell but not a generic response of 'sell assets'. Award maximum [1] as no application is possible.

Accept any other relevant strategy.

Award [1] for a relevant generic strategy identified or described and [1] for any additional explanation in context to DD.

*[2] cannot be awarded for the strategy if the response lacks either explanation **and/or** application.*

*For example: For an identification or a description of the strategy either debtors or creditors **with or without** application [1].*

*For explanation of the strategy with **no** application [1].*

*For explanation of the strategy **and** application [2].*

Section B

3. (a) Define the term *public limited company*. [2]

A public limited company is an incorporated organization listed on a Stock exchange with a legal right to sell shares to the general public.

*Candidates are **not** expected to word their definition **exactly** as above. Eg may omit mention of Stock Exchange if another feature of incorporation is present.*

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 QS, explain **two** features of cradle to cradle manufacturing. [4]

Cradle to cradle is a sustainable form of manufacturing. QS seeks to create manufacturing principles that attempt to use production techniques that are efficient but also sustainable and waste free. Two features of using cradle to cradle with reference to QS are as follows:

As its name suggests, QS will design and produce its air conditioners in such a way that most, if not all, of the materials used are **recyclable**. These materials (like glass, metal, plastic) that form parts of the air conditioners will be recyclable and used again for the production of future models. This will minimise waste.

Cradle to cradle manufacturing will also allow QS to reuse some of the ready components of the old air conditions in the new models instead of disposing of those parts. QS might have to offer some financial incentives for the customers to return their old/outdated air conditioners.

The air conditioners will also be built with biodegradable materials if QS cannot recycle the materials: for example, the carton for packaging of the air conditioners. This aspect will allow QS to reduce the environmental impact of its air conditioners.

Accept any other relevant examples and explanation.

Application here is very difficult – all of the stimulus info is about KA and gives no real links to QS – hence I believe to avoid generic responses, candidates should at least make reference to ‘air-conditioners’ ie if responses just refer to QS and this could be replaced with any other company – then this is generic and only [1].

Mark as 2 + 2.

Award [1] for each relevant feature explained and [1] for appropriate application to the organization/type of products to a maximum of [2].

[2] cannot be awarded for the difference if the response lacks either explanation and / or application.

For example:

- *For an identification or a description of a feature with or without application [1].*
- *For explanation of a feature with no application [1].*
- *For explanation of a feature and application [2].*

- (c) Explain **two** possible human resource strategies that *KA* management could use to reduce employees' resistance to change.

[4]

Two possible change management strategies as part of overall HR strategies that can be used by *KA* management to reduce the impact of employees' resistance to change.

The employees are currently not involved in any decision making, so it can be assumed that there is not much communication between employees and management; as such, open and clear communication with the employees can be seen as one possible change strategy. The management should be honest and fully explain the reasons for the change. The management should emphasize the positive outcome of outsourcing as a way to overcome some of the weaknesses of *KA*, like an opportunity to improve customers' perceptions. The possibility of new opportunities for employees in the marketing department should be emphasized as a new and motivating challenge. The management should not lie about some of the negative outcomes, like job losses of those who are not going to be employed in the marketing department.

Before a final decision is taken, *KA* management should change the non-participative way/culture/lack of involvement in decision making and encourage bottom-up participation and consult with the employees and listen to their suggestions and opinion. Some of the more motivated employees might come up with some alternative strategies and/or express their preferences.

Management should acknowledge the fear of the unknown and the possibility of resistance to change due to fear of inability to cope with new challenges. A promise of training should be provided for those who are going to be employed in the marketing department if option 2 is chosen or for all employees if option 1 is chosen.

Another strategy is to appoint a change champion among the employees to encourage those employees who are reluctant to change to see the benefits of both option 1 and 2. Perhaps inviting the Trade Union to put forward solutions to minimizing the negative effects or in fact making the union the change champion.

Do NOT accept – "raising salaries/wages" unless tied to Option 1. Clearly this strategy is not feasible for those laid off in Option 2.

Accept any other relevant change HR strategy.

Award [1] for a relevant generic HR (change management) strategy identified or described and [1] for any additional explanation in context.

*[2] cannot be awarded for the chosen (change management) HR strategy if the response lacks either explanation **and** / **or** application.*

For example:

- *For an identification or a description of an HR strategy **with or without** application [1].*
- *For explanation of an HR strategy with **no** application [1].*
- *For explanation of an HR strategy **and** application [2].*

Do not credit non-HR strategies. Analysis of strategies is not required.

(d) Evaluate the two options that *KA* is considering.

[10]

Given the fact that *KA* redesigned their product, both options will have the same starting point of being more energy efficient.

Some of the possible arguments for **option 1**:

- **Option 1** will **not** result in redundancy and possible negative impact on the motivation of the remaining employees. Moreover, with appropriate training in order to implement the TQM and lean production practices, employees might enjoy the new challenge and motivation might even increase further, resulting in more efficiency and cost saving.
- The implementation of TQM/lean production should result in *KA* becoming considerably more environmentally friendly and by adapting to the market pressure/customers demand. *KA* might be able to capture part of the increase in demand. Moreover, *KA* should further be able to benefit from a growing demand in the market due to increase capacity of 10 %.
- However, the capacity will only increase by 10 %. One may argue that this is a relatively small percentage for a growing market and perhaps suits *KA* well in the short run but it will face a major strategic decision again in the medium term. Still, with increasing competition perhaps a 10 % increase is sufficient.
- The financial return, albeit forecasted, seems reasonable (do not penalise if candidates argue the opposite) although we do not have information on the current interest rate for comparison. Three years of payback also seem reasonable but technology is changing very rapidly and *KA* might have to replace the machine quite soon afterwards.
- The current lack of finance perhaps should be judged as of less significance, as *KA* is a PLC and shares can be issued, especially to ethical and ecologically sustainable minded investors, who may also be encouraged to purchase given the stated market growth.

Some of the possible arguments for **option 2**:

- With outsourcing, *KA* should be able to capture the growing markets and satisfy the growing demand with excellent quality sustainable air conditions and production process. One may judge this argument as highly significant for this option.
- The excellent quality should enable *KA* to differentiate itself in a current undifferentiated market and create a strong USP. The customer service – which is possibly one of the reasons for a fall in demand in a growing market – should also improve significantly. Making the marketing of *KA* its core activity with the money saved should enable *KA* to be successful. *KA* now has the finance to do so.
- However, the shareholders might disagree with such a risky strategic move as *KA* will move away from its current core activity of manufacturing air-conditioners. This move might be perceived as too risky. There might be other ways of improving customer service especially if TQM is to be implemented, as customers are constantly listened to.
- Moreover, closing down the production facility is a significantly risky decision. It will be very difficult to rebuild one. Perhaps *KA* should not rely on QS especially given the fact that every 2 years the contract has to be negotiated. Terms and conditions could be changed in favour of QS when *KA* lost its bargaining power. *KA*'s management needs to pay attention to a potential loss of control.

Overall, both options can potentially enable *KA* to become a more environmentally and ecologically sustainable organization. The second option will enable *KA* to achieve this in the short term, however the possibility of strike action is real and this will require some significant conflict resolution strategies by *KA*'s management. Some of the good will enjoyed by *KA* will be undermined by this move.

Accept any other relevant argument for each option.

Accept any other substantiated judgment.

It is expected that candidates provide a conclusion with a substantiated judgment.

Marks should be allocated according to the markbands on page 3.

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].

If a candidate evaluates / addresses only one option, award a maximum of [5].

*A balanced response is one that provides at least one argument for and one argument against **each option**.*

Candidates may contrast one option with another for a balance as long as at least two arguments are given for each option.

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.

4. (a) Define the term *brand loyalty*. [2]

Consumers' faithfulness to a particular brand, which will allow a business to see repeat purchasing by consumers and/or over the longer term, much more acceptability in raising the price of its products/services.

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.

Award [2] for a full definition that conveys knowledge and understanding similar to the answer above.

- (b) Explain **two** advantages for *LB* of using on the job training. [4]

- On the job training is cheaper than sending recruits on external training. This is particularly advantageous for *LB*, as there are no hotel training schools nearby. External training will mean travelling and hosting costs that *LB* is unlikely to face due to cash-flow problems. Adding on external training costs could worsen *LB*'s cash-flow position.
- On the job training will enable new recruits to familiarize themselves with the hotel's culture and Felix's way of doing things. A recent survey has revealed that guests are pleased with *LB* due to employees' polite and helpful attitude, which means that Felix's on the job training has been effective. It is unlikely that new recruits will acquire this specific know-how with external training.
- With on the job training, trainees will actually serve guests while they receive training. This could help *LB* with its cash-flow problems, as labour costs could be saved.
- Felix will be able to watch the new recruits closely to follow their training. He will be able to screen closely their potentialities and weaknesses and transmit the hotel's culture to them.

Accept any other relevant advantage

Do not credit an explanation of general training

Mark as 2 + 2.

*Award [1] for each correct advantage identified or described and [1] for a relevant explanation with application to *LB*. Award up to a maximum of [2].*

[2] cannot be awarded per advantage if the response lacks either explanation and/or application.

*For example: For an identification or description of an advantage **with or without** application [1]. For explanation of an advantage with **no** application [1]. For explanation of an advantage **and** application [2].*

- (c) Explain the importance to *LB* of **two** elements of the extended marketing mix. **[4]**

Physical evidence is referred to as the environment in which the goods or services are delivered. It is a crucial element for hotels like *LB*, as hotel customers make their choices based on the appearance and state of hotel facilities to a great extent. Guests' judgements will be based on *LB*'s physical evidence, including its location at the beach, to decide whether or not to book a room. There is, however, evidence from the stimulus that *LB*'s facilities need upgrading.

People makes reference to the way employees relate to and communicate with customers. This is another crucial element for a hotel. *LB*'s employees are polite and helpful and particularly good with children. This has proved to be very important for *LB*'s brand loyalty and customers' perceptions of it, and also provides a service that is perceived as very good value for money.

Process could be related to the way *LB* provides a unique way of making payment for guests. *LB* provides a mechanism that allows customers the opportunity to pay on departure and avoid paying in advance.

Accept any other relevant explanation.

Mark as 2 + 2.

*Award [1] for each correct element of the extended marketing mix identified and described and [1] for a relevant explanation of the importance with application to *LB*. Award up to a maximum of [2].*

[2] cannot be awarded per element of the extended marketing mix that has been identified if the response lacks either explanation and/or application.

For example: For an identification or a description of an element of the extended marketing mix with or without application [1].

For an explanation of an element of the extended marketing mix with no application [1].

For an explanation of an element of the extended marketing mix and application [2].

(d) Discuss whether *LB* should implement **proposal 1** or **proposal 2**.

[10]

Proposal 1

- *LB* could follow Felix's proposal to solve its cash-flow problems by reducing cash outflows and raising additional finance. It is probably a lower-risk strategy than Rose's.
- Negative cash outflows could be reduced by delaying payment to suppliers in winter, instead of paying cash. However, *LB* could lose the generous discounts they get, which in turn could lead to increasing direct costs. Eventually, some suppliers may not accept delayed payments and may demand cash on delivery.
- *LB* could also delay hotel maintenance and refurbishments. However, *LB* already needs some upgrades. Deteriorated facilities could negatively affect customer perception and brand loyalty. Sales may eventually fall.
- *LB* can cut other overhead spending such as advertising or promotion costs. These costs will reduce payments without affecting the quality of the service provided. However, future demand may fall if *LB* is not promoted effectively.
- Felix could lay-off some hotel staff or ask them to switch to part-time working. He may even close the hotel completely for the winter season. However this risks losing the services and know-how of key staff, who may not return in the high-season.
- Felix has also proposed to raise additional finance. *LB* could ask for a short-term loan or look for a new business partner. Probably, interest rates will be lower than overdraft rates and *LB* could save on some costs by substituting the overdraft for a less expensive source of finance. A new business partner will probably require some form of managerial control but fresh/innovative thinking can be introduced into *LB*.
- Alternative short-term sources of finance, such as the sale of assets and debts factoring, seem unlikely to work for *LB*. It seems that *LB* does not have assets to sell and there is no evidence that *LB* has many debtors.

Proposal 2

- On the other hand, Rose believes that *LB*'s cash flow problems are due to low capacity utilization in winter. She has proposed to attract a new segment of customers.
- If new business customers come in winter, cash inflows will increase. However, to attract these customers, *LB* will need to build new facilities, such as a convention centre or a gymnasium, to cater for the needs of this particular market segment. This would involve a significant amount of finance that *LB* does not have.
- *LB* could try to find external finance, such as a long-term loan, equity finance or a venture capitalist. However, these alternatives seem unlikely for *LB* in the short term. All of them take time to be found. Bank loans are expensive and *LB* may not have enough assets to present as collateral. Floating the company could be quite expensive for a family-owned business.
- Venture capitalists are not easy to find, particularly if the business is not a promise of extraordinary profits.
- *LB* will need to conduct extensive market research around the new market segment and currently this will increase outflows at a time when monthly cash flows are negative.

It can be concluded that Rose's alternative seems to be more risky and expensive than Felix's. What if business customers are not attracted? *LB* will be indebted with facilities that would remain obsolete for its current market segment. Felix's proposal, on the other hand, seems more plausible and conservative. Some of the alternatives, such as delaying payments, could work without much risk involved. However, *LB* should also find a way to increase inflows by tackling its capacity utilization problem. Diversifying into another market segment (such as elderly tourism?) that may not involve a great investment could help to increase inflows in winter.

Marks should be allocated according to the markbands on page 3 with further guidance below.

A balanced response is one that covers at least one argument for and one against each proposal.

*For one relevant argument that is one-sided, award up to **[3]**. For more than one relevant argument that is one-sided, award up to a maximum of **[4]**.*

*If a candidate evaluates/addresses only one proposal, award a maximum of **[5]**. 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.*

5. (a) Define the term *innovation*. [2]

Innovation is about putting a new idea or approach into action. It can be described as the process of translating an idea/invention into a service/good that creates value. Innovation can be achieved by improving existing goods, processes or services

*Candidates are not expected to word the definition **exactly** as above.*

N.B.: *no application required. Do not credit examples on their own. It is not necessary to highlight different types of innovation although credit where present. Do not credit vague description of ‘change’*

Award [1] for a basic definition that conveys partial knowledge and understanding.

Award [2] for a full definition.

- (b) Explain **two** roles of *Benno*'s mission statement. [4]

The roles of a mission statement include:

- communicating the purpose of the organization to stakeholders
- informing decision making and strategy development
- developing the measurable goals and objectives by which to gauge the success of the organization's strategy.
- Inspiring and motivating both internal and external stakeholders

N.B.: *for full marks roles should be linked to some mention of stakeholders*

For *Benno*, the mission statement has provided a way for the business to differentiate itself from its competitors, especially at a time when competition in the healthy soft drinks market is intense.

The mission statement is also a way to attract new investors who may have empathy with the direction of *Benno*. This is an important role given the need for *Benno* to be committed to innovation and CSR.

Award [1] for a basic answer that identifies a role of a mission statement.

Award [1] for a basic answer that identifies/explains a role of a mission statement

Award [2] for an answer that identifies/explains the roles of a mission statement with application.

Do not reward marks for describing/defining a mission statement.

Mark as 2 + 2

- (c) Explain **one** advantage **and one** disadvantage for *Benno* of using a focus group of loyal customers.

[4]

Advantages of a focus group of loyal customers:

- Can obtain detailed information about your own customers about their feelings, perceptions and opinions.
- Are cheaper than performing individual interviews
- Less time-consuming than individual interviews
- Provide an opportunity to clarify any issues or problems.

Disadvantages of a focus group of loyal customers:

- They can be hard to control and manage.
- You are only getting the views of loyal customers – it tells you nothing about consumers who prefer rival brands and why they prefer them to your soft drink.
- The results are difficult to analyse, especially if the focus group provides qualitative feedback.
- Members may not reveal their own feelings but are swayed by the majority view.
- May not be representative of the target market as a whole.

Possible application:

For *Benno*, an advantage of using a regular focus group is that they will be aware of the company's products and mission. This will reduce the amount of statistical noise and save time in the discussions when looking at new product ideas, such as biodegradable rings. Can help to support or otherwise, secondary research regarding the importance of 'green' credentials and of price in the soft drinks market.

However, having a regular group for *Benno* increases bias and reduces objectivity of the data researched. It might be a useful exercise for *Benno* to ask customers who are not overly familiar with their products to achieve a more balanced qualitative view. Difficult to organize particularly in the target group of 12-18 year olds since they are minors and need consent to participate.

Accept any other relevant advantage / disadvantage.

Accept any other relevant explanation.

Mark as 2 + 2.

Award [1] for a basic answer that identifies an advantage or disadvantage of using a focus group.

Award [1] for an answer that identifies/explains an advantage or disadvantage of using a focus group.

Award [2] for an answer that identifies/explains an advantage or disadvantage of using a focus group and which is suitably applied to Benno

Mark as 2 + 2.

- (d) Recommend whether *Benno* should replace its plastic drink rings with the new biodegradable drink rings.

[10]

For:

- It fits in well with its mission statement “to produce healthy drinks without damaging the environment” and this may be important in maintaining customer loyalty.
- It fits into its belief in corporate social responsibility, as the current drink rings damage the environment and harm creatures in the seas, such fish.
- Competition in this drinks market is very intense – this could act as a strengthening of its USP for *Benno* and retain loyal customers and attract customers from rivals. It will strengthen its image as a business that has “green” credentials.
- Sales of *Benno*’s drinks have fallen significantly over the last five years– so it is important that *Benno* does something to stem this tide.
- Accept any other reasoned arguments.

Against:

- It will cost \$5m to buy the machinery to produce the new rings and the business has no accumulated retained profits – therefore the funds will need to be raised, probably externally via a bank loan, which will lead to interest charges and an increase in operating costs. It may take time to find a suitable angel investor to help finance this project. Will the angel investor wish to exert some control over *Benno*’s operations?
- The unit cost increase is 50 %, a rise from 10 cents to 15 cents per ring, and the business only has a net profit margin of 10 %. As the market is competitive and reports suggest that consumers are price sensitive, a price rise – passing on the cost of the new rings – is probably not going to be possible. The result is that *Benno*’s net profit margin will fall.
- Sales are falling, particularly to the 12–18 age group – are they going to be energized into buying a product that is more environmentally friendly, particularly when reports suggest purchases of green products are not increasing?
- In terms of a new way forward for *Benno*, the introduction of the new rings has a great deal of merit. There are a large number of marketing opportunities available in a competitive market and this idea will strengthen *Benno*’s brand. However, the forecasted financial implications of this idea are not ideal and if sales volumes do not increase significantly then *Benno* may find itself financially worse off if profits do not increase. One solution may be to wait until some more objective market research via a new untested focus group have given their thoughts on the new ring.
- Accept any other reasoned arguments.

Marks should be allocated according to the mark bands 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 judgement/conclusion.*

*Candidates cannot reach the **[7–8]** markband if they give judgement/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, or the year in which a change was implemented) which has no genuine bearing on candidates' understanding of the concepts does not warrant penalty.

- | | | |
|----|---|------|
| 6. | With reference to an organization of your choice, examine the impact of innovation on promotional strategy . | [20] |
| 7. | With reference to an organization of your choice, examine the impact of globalization on change in operations management. | [20] |
| 8. | With reference to an organization of your choice, examine the impact of ethics and culture on human resource management. | [20] |

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 asks 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 to 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 “stakeholders”.*
-

Business management
Higher level
Paper 2

Monday 30 April 2018 (morning)

2 hours 15 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- A clean copy of the **business management formulae sheet** is required for this examination paper.
- Section A: answer one question.
- Section B: answer two questions.
- Section C: answer one question.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[70 marks]**.

Section A

Answer **one** question from this section.

1. Visionary Toys (VT)

Visionary Toys (VT) produces highly innovative toys for children. *VT* began operation in January 2017 and its unique selling point/proposition (USP) is producing toy parts with a 3D printer. *VT* uses the reducing balance method of depreciation. 3D technology changes rapidly and the financial directors are also considering ways of reducing *VT*'s tax liabilities in 2018. The financial director presented financial information for *VT* at the end of 2017.

Table 1: Revenue and expense information for the year 2017 and balance sheet items at 31 December 2017

Cash	\$1000
Net fixed assets	\$27 000
Interest paid	\$250
Creditors	\$4000
Debtors	\$3500
Accumulated retained profit – end of 2017	\$10 000
Costs of goods sold	\$7500
Sales revenue	\$27 250
Short-term loans	\$1500
Overdraft balance	\$2000
Expenses	\$7000
Share capital	\$13 500
Dividends paid	\$2500
Long-term liabilities	\$5000
Stock of toy parts	\$4500

[Source: © International Baccalaureate Organization 2018]

- (a) Define the term *unique selling point/proposition (USP)*. [2]
- (b) (i) Construct a fully labelled balance sheet for *VT* for the end of 2017. [5]
- (ii) Calculate the acid test (quick) ratio for *VT* for 2018. [1]
- (c) Explain **one** reason for *VT* to use the reducing balance method of depreciation. [2]

2. Jill Anderson

Jill Anderson operates a restaurant. Although Jill's meals are viewed as being excellent quality, sales are slowing. Jill is considering replacing existing meals with gluten-free meals. The following financial and forecast information is for the month of May 2018. Jill's restaurant can only produce either existing or gluten-free meals.

Table 1: Existing meals

Average price of existing meals = \$8
Rent = \$2000 per month
Variable cost per unit of existing meals = \$5
Sales of existing meals served = 800 per month
Jill's salary = \$400 per month, which is paid irrespective of the level of sales

Table 2: Estimated costs and price if Jill produces the gluten-free meals

Average estimated price of gluten-free meal = \$14
Variable cost per unit of gluten-free meals = \$10
Sales forecast of gluten-free meals = 1200 per month
Fixed cost increase for new machinery per month = \$400

A local gluten-free manufacturer, which is not part of Jill's existing supply chain, has offered to supply already prepared gluten-free meals at \$8 per meal. Jill is unsure whether to make or buy the gluten-free meals.

[Source: © International Baccalaureate Organization 2018]

- (a) Define the term *supply chain*. [2]
- (b) Calculate:
- (i) the total contribution of existing meals sold per month (*show all your working*); [2]
 - (ii) the total profit or loss on existing meals for May 2018 (*show all your working*); [1]
 - (iii) the forecast profit or loss if Jill decides to **make** and sell gluten-free meals (*show all your working*); [2]
 - (iv) the contribution per unit of a gluten-free meal if Jill decides to **buy-in** the gluten-free meals (*show all your working*). [1]
- (c) Using your answer from (b) (iii) and (iv), explain whether Jill should buy-in or make the gluten-free meals herself. [2]

Section B

Answer **two** questions from this section.

3. Speedy Delivery (SD)

Speedy Delivery (SD) is a private limited company that delivers freshly cooked meals by bicycle. *SD* only delivers. Restaurants subcontract *SD* to deliver meals to customers who place orders online and expect quick and efficient delivery. *SD* has been operating profitably for two years. Currently, it has the highest market share in the city.

SD is now facing two issues:

- It operates at 98 % capacity utilization. Recently, some restaurant owners complained to *SD* that meals arrived late and cold to customers.
- The market for home delivered, freshly cooked meals is growing quickly and some new delivery companies have just entered the market.

The CEO wants to address the delivery quality issues and the threat of competitors, two of whom recently merged. He is considering an internal growth strategy involving investing in new electric scooters and employing more staff to deliver a greater number of meals more efficiently. *SD* must raise a large sum of finance. Major shareholders are in disagreement regarding the internal growth strategy.

The financial manager has provided some financial information.

Table 1: Current information

Gearing ratio	65 %
Current ratio	0.9
Gross profit margin (GPM)	20 %
Net profit margin (NPM)	9 %
Return on capital employed (ROCE)	4 %
Debtor days	90
Creditor days	60

Table 2: Predicted return on the investment

Average rate of return (ARR)	6 %
Payback period	3.2 years

[Source: © International Baccalaureate Organization 2018]

(This question continues on the following page)

(Question 3 continued)

- (a) Define the term *market share*. [2]
- (b) Explain **one** advantage **and one** disadvantage for *SD* of working at almost full capacity utilization. [4]
- (c) Explain **one** advantage **and one** disadvantage for *SD* of using an internal growth strategy. [4]
- (d) Discuss **two** appropriate sources of finance for *SD* to purchase the scooters. [10]

4. Healthy Start (HS)

Tom Donat started *Healthy Start (HS)*, a national chain of stores preparing and selling healthy snacks, which are produced in batches. *HS*'s target market is teenagers and young adults. Tom was concerned about high levels of fast food consumption and youth unemployment. His vision statement for *HS* is: "To encourage life-long healthy eating habits and to train school leavers (drop outs) in acquiring work skills".

HS hires many school leavers without qualifications. Because of the valuable social service that *HS* provides, an independent online media provider will feature *HS* in a new online reality TV show.

All employees, including managers, start at the lowest level of the organizational hierarchy and train on the job. Job enlargement, job enrichment and intrapreneurship opportunities are available. 20 % of all profits earned are put back into *HS* to finance these opportunities. Staff turnover is lower than the industry average.

Competition from global fast food restaurants has intensified. Their economies of scale mean that *HS* struggles to increase its market share. Online reviews indicate that some customers perceive *HS*'s snacks as healthy but overpriced and with small-sized portions.

Tom is considering two options:

- **Option 1:** Implement flow production. *HS* will buy new technology and assign each employee to a specific job on the production line. *HS* will increase portion sizes and keep prices the same.
- **Option 2:** Implement a new social media marketing campaign linked to the new online TV show. The campaign will focus on the health benefits of *HS*'s snacks.

[Source: © International Baccalaureate Organization 2018]

- (a) Describe **one** role of a vision statement for *HS*. [2]
- (b) Explain how the following can benefit *HS*:
 - (i) job enlargement; [2]
 - (ii) intrapreneurship. [2]
- (c) Explain **two** possible economies of scale available to global fast food restaurants but not *HS*. [4]
- (d) Discuss the two options that Tom is considering for *HS* in response to the intense competition. [10]

5. Taxi-M (TM)

Taxi-M (TM) operates 2500 taxis in a developing country. All drivers are full-time employees and have a professional taxi license. Although not compulsory, *TM* regularly conducts safety inspections of the taxis. Though safe, most of *TM*'s taxis are old and *TM* charges high prices. Many customers complain.

However, a multinational company, *RE*, with offices around the world, has started to offer a mobile application (app) called *Best-Taxi (BT)*. Using their mobile phones, passengers can use *BT* to book and pay for a car journey. Any car owner can offer journeys through *BT*. For security reasons, the *BT* app registers passengers' and drivers' personal details.

TM's sales are falling and profits are down. A number of *TM*'s drivers are becoming demotivated. Facing lower incomes, poor management and rumours of redundancies, many loyal drivers have left to offer taxi services using their own cars and the *BT* app. Some of these drivers are earning considerably higher wages than before.

The situation for *TM* appeared critical. However, local media have reported a higher rate of road accidents by *BT* drivers than licensed taxi drivers. Several of its drivers have assaulted and robbed customers. In response, *TM*'s management decided to downsize and differentiate itself from *BT* by positioning its service as a high-price, high-quality traditional taxi service. *TM* will:

- sell older cars and lease new luxury cars
- develop a unique selling point/proposition (USP) emphasizing comfort and safety.

Customers can book taxis by telephone and by stopping them in the street. *TM*'s target market will be business people, higher income families and passengers concerned about safety.

[Source: © International Baccalaureate Organization 2018]

- (a) Define the term *redundancy*. [2]
- (b) Explain **one** positive **and one** negative impact of the multinational company, *RE*, on the developing country. [4]
- (c) With reference to Maslow's motivation theory, explain **two** reasons that some *TM* drivers left to drive for *BT*. [4]
- (d) Discuss the new strategy to differentiate *TM* from *BT*. [10]

Section C

Answer **one** question from this section. The organizations featured in sections A and B and in the paper 1 case study may not be used as a basis to your answer.

6. With reference to an organization of your choice, examine the impact of **globalization** on human resources **strategy**. [20]
 7. With reference to an organization of your choice, examine the impact of **ethics** on organizational **change**. [20]
 8. With reference to an organization of your choice, examine the impact of **innovation** and **culture** on an organization. [20]
-

Markscheme

May 2018

Business management

















Higher level












Paper 2


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The following are the annotations available to use when marking responses.

Annotation	Explanation	Associated shortcut
	AE - Attempts Evaluation	
	BOD - Benefit of the doubt	
	CKS - Clear Knowledge Shown	
	Cross - Incorrect point	
	DES - Descriptive	
	EE - Effective evaluation	
	GA - Good Analysis	
	GD - Good Definition	
	GEXA - Good Example	
	GEXP - Good Explanation	
GP	GP - Good Point	
	H Line - Underline tool	
	Highlight - Highlight tool	
	IR - Irrelevant	
	IU - Inappropriate Use	
	LD - Lacks Depth	
	LLS - Lacks Logical Structure	

	NAQ - Not Answered Question	
	NBOD - No benefit of the doubt	
	NE - Not enough	
	On Page Comment - On page comment tool	
	P - Paragraphing	
	PE - Poorly expressed	
	QuestionMark - Unclear	
	SEEN_Small - Seen	
	Tick Colourable	
	TV - Too vague	
	UR - Unbalanced Response	

You **must** make sure you have looked at all pages. Please put the  annotation on any blank page, to indicate that you have seen it.

The markbands and assessment criteria on pages 5–7 should be used where indicated in the markscheme.

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.

Section A

1. (a) Define the term *unique selling point/proposition (USP)*. [2]

A unique selling point is any aspect of the organization, brand or product that enables differentiation in consumers' minds from competitors.

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 definition that conveys knowledge and understanding similar to the answer above. There should be some reference to differentiation from competition.

Candidates may refer to either the product or brand aspect of the organisation only.

- (b) (i) Construct a fully labelled balance sheet for VT for the end of 2017. [5]

Balance sheet for VT for the end of 2017:

Fixed assets

Less accumulated depreciation:

Net fixed assets **\$27 000**

(Accept 0 next to the above or accept just Net fixed assets)

Current assets:

Stock \$4500

Debtor \$3500

Cash \$1000

Total CA **\$9000**

Current liabilities:

Overdraft \$2000

Creditors \$4000

Short-term loans \$1500

Total CL **\$7500**

Net current assets/working capital \$1500 (9000–7500)

Total assets less current liabilities **\$28 500**

Long-term liabilities **\$5000**

Net assets **\$23 500**

Financed by:

Share capital \$13 500

Retained profit \$10 000

Equity **\$23 500**

Accurate presentation refers to the correct heading, sub-heading and to the inclusion of all and only the relevant figures.

Allow OFR.

The presentation of the B/S can be done in one column.

Award [0] if the B/S does not reach a standard described below.

*Award [1] if the B/S is not accurately constructed, and/or the calculations within and between the various components are not presented or largely incorrect. However, there is **limited evidence** of a general understanding of the format. More than four mistakes/ omissions are evident.*

Deduct 1 mark for each irrelevant addition of figures/irrelevant heading/ omission which includes the overall heading.

Award [5] if the B/S is accurately constructed in the expected IBO format. All the relevant headings of each component/ parts are used and correctly classified. Do not penalise for internal order of classification. All and only the relevant figures are presented. No extra irrelevant figures that belong to the P/L are included. The calculations under each part/ component of the B/S are correct and well presented.

To get full marks the candidate has to present the format in full as presented in the IB programme. For example, the presentation, calculation of working capital, the subtraction of LTL to arrive at Net Assets.

N.B. *If the candidate did not follow the IBO format award up to [2] marks.*

- (ii) Calculate the acid test (quick) ratio for VT for 2018.

[1]

Current assets: \$9000

Stock: \$4500

Current liabilities: 47 500

$$\text{Acid test ratio: } \frac{\$9000 - \$4500}{\$7500} = 0.6$$

Award [1] for a correct answer.

As the formulae is given and the question does not specifically ask for working, do not penalize for a lack of working. However, do not credit 0.6 expressed in percentage or \$.

- (c) Explain **one** reason for VT to use the reducing balance method of depreciation. **[2]**

Using the reducing balance method of depreciation will reflect the reality of depreciation better. The use of percentage will result in higher depreciation figures in the early life of the asset. As a highly innovative 3D printer is used, it is likely, given fast-changing technology, that this asset depreciates more rapidly at a higher rate in the early part of the product life cycle and at a slower rate later on. Hence the B/S figures for each year will be more realistic and be balanced overall.

Therefore, VT's balance sheet net fixed assets will reflect more accurately the real value of its fixed assets.

If the financial manager uses the reducing balance, the allowance will be higher in the early years of 2017/18, hence net profit before interest and tax is lower and therefore VT's tax bill will be lower. In line with the financial manager's objective.

Accept any other relevant explanation.

*Award **[1]** for a relevant generic reason identified or described and **[1]** for any additional explanation in context.*

***[2]** cannot be awarded for the reason if the response lacks either explanation **and/or** application.*

The exact advantage/ impact/ reason to the organisation must be explained. For example, realistic for what? Accuracy of the B/S, payment of lower taxes earlier in the life of the machine before a replacement for example:

- *for an identification or a description of one reason **with or without** application **[1]***
- *for explanation of one reason with **no** application **[1]***
- *for explanation of the limitation **and** application **[2]**.*

2. (a) Define the term *supply chain*. [2]

The term supply chain refers to a system, a process of organising people, activities, information and resources to move a product or service from supplier to customers/end users.

Award [1] if the definition is only partial or considers supply chain as the same as distribution channel.

Award [2] for a definition similar to the one above, which looks at supply chain as the whole mechanism of production from raw material purchase to final delivery.

- (b) Calculate:

For any calculation, do not penalise for the lack of \$ sign.

- (i) the total contribution of existing meals sold per month (*show all your working*); [2]

The contribution per unit of existing meals = \$8 – \$5 = \$3

Number of meals sold = 800

Total contribution of existing meals sold per month = 800 × \$3 = \$2400

Award [2] for a correct final answer of \$2400 with full working.

Award [1] for a correct answer without working.

Do not credit when only contribution per unit is presented as a final answer.

- (ii) the total profit or loss on existing meals for May 2018 (*show all your working*); [1]

TR-TC=profit
 $\$8 \times 800 - [\$2400 + \$5 \times 800]$
 $\$6400 - [\$2400 + 4000]$
 $\$6400 - \$6400 = 0$

Accept any other method of working.

Candidates are not expected to set out their answer in this manner.

Award [1] for a correct answer with working. Candidates do not need to state that Jill is breaking even. (As the question asks for working)

- (iii) the forecast profit or loss if Jill decides to **make** and sell gluten-free meals (*show all your working*);

[2]

Contribution = \$14 – \$10 = \$4 per meal

Total contribution = 1200 x \$4 = \$4800

Total forecast profit = 4800 – (2400 + 400 **extra** fixed cost for gluten meals)

Total forecast profit = \$2000

OR

Profit = TR – TC

Profit = (14 x 1200) – (2800 + (1200 x 10))

Forecast profit = 16 800 – 14 800

Forecast profit = \$2000

Award [1] if there is one error in calculation, eg forgetting to add the extra fixed cost component, or the correct answer is given but there is no working.

Award [2] for both the correct answer and clear and suitable working.

- (iv) the contribution per unit of a gluten-free meal, if Jill decides to **buy-in** gluten-free meals (*show all your working*).

[1]

The contribution per meal if Jill decides to buy-in = \$14 – \$8 = \$6

Award [1] for the correct answer only with working shown.

- (c) Using your answer from (b) (iii) and (iv), explain whether Jill should buy-in or make the gluten-free meals herself.

[2]

Buys in:

1200x\$14 – [2400+1200x\$8]

\$16800- [2400+9600]

\$16800-\$12000

4800 profit

Which is **\$2800** higher than in (iii) - the cost to **make** with profit of **\$2000**

Candidates do not have to repeat all of the working above if presented in the previous answers especially in (b)(iii).

Or:

Buys in:

12000x\$6 - 2400 (using contribution method)

\$16800- [2400+9600]

\$7200-\$2400= **\$4800 profit**

\$16800-\$12000

\$4800 profit

Which is \$2800 higher than the profit of \$2000 if she makes them herself in part (iii).

Accept any other method.

Given the nature of the question regarding reference to (b)(iii) and (iv) it is expected that the candidates incorporate references to the change in contribution and or profit

Award [1] for just using the extra contribution to support but without reference to/ or calculation of profit before and after.

Award [1] for a response that mentions some relevant qualitative issues with reference to or comparison with the option to make.

*Award [2] for a correct numerical answer with some references to the **exact** figures of profit before and after.*

Do not credit a response that just says that Jill should accept the offer without any calculation or reference to profit or contribution when buying.

Please note:

Some candidate just referred to a fall in fixed cost- not to contribution or profit. Do not award.

Do not credit a response that does not demonstrate some attempt to calculate the option of buying or refer to profit after buying.

Allow OFR

Section B

3. (a) Define the term *market share*. [2]

Market share can be defined as a percentage of an organization's total sales revenue in relation to the total market sales revenue within a specific industry.

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.

Award [2] for a full definition that conveys knowledge and understanding similar to the answer above. A candidate must demonstrate an understanding that the market share is measured as a percentage for [2].

Accept the formula as an indication of percentage.

- (b) Explain **one** advantage **and one** disadvantage for *SD* of working at almost full capacity utilization. [4]

Referring to the 98% capacity utilization as mentioned in the stimulus should not be treated as application.

Some of the **advantages** of working at almost full capacity utilization:

- Almost full capacity utilization indicates that there is **sufficient demand** for *SD*. All resources are nearly fully utilized, in this case the delivery people, so it is likely that their financial rewards are higher, especially if paid by meals delivered. Even if a fixed salary is paid, high demand at near full capacity utilization may provide opportunities for working overtime.
- Constant work could also increase the motivation of the delivery people due to job security.
- If a fixed salary is paid, *SD* does not pay its workers for idle time. Better financial management is evident as can be seen by the high 20% GPM.
- Due to satisfying the assumed high demand the profit is likely to increase. See figures presented.

Disadvantages:

- *SD* flexibility might be reduced if a new organization approaches it to act as a subcontractor. *SD* will lose out on potential new clients in the currently growing market and growing competition for home delivered, freshly cooked meals.
- The cyclists/delivery people may be overworked and unmotivated. Accidents are more likely to occur when the cyclists are rushed to deliver.
- Quality compromised and *SD* might lose some contracts, especially as more competitors are entering the markets. There is evidence in the stimulus of some late deliveries, which reduced the quality of the meals delivered.
- The bicycles are more likely to break down, leading to increased costs and further delay of the arrival of the meals to customers. *SD* will lose many contracts, especially as a stronger competitor is entering the market. *SD*'s highest market share/ power will be eroded.

Accept any other relevant and applicable advantage/disadvantage.

Mark as 2 + 2.

Award [1] for identifying or describing the advantage/disadvantage for working at full capacity and a further [1] for a development with respect/ application to SD. Award a maximum of [2].

*[2] cannot 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 *SD* of using an internal growth strategy. [4]

Internal growth strategy is proposed. It is expected that candidates describe the nature/meaning of this type of growth where the company grows from within using their own resources and capabilities to expand and grow in size/market share by investing in scooters and employing more staff to deliver the meals.

Advantages:

- The management of *SD* will have full control of the process of growth in terms of speed, priorities and the amount of capital spent. As the stimulus outlines a large amount of finance is needed and the management could decide on the number of scooters etc. There will be no need for consultation and discussion with another organization be it through merger/takeover, joint venture or strategic alliance. Therefore, *SD* can react quickly to the current problem of late deliveries.
- It appears that *SD* is a successful company given the profit margins and perhaps operating within a successful organizational culture. *SD* will not lose its independence and/or culture. Nor will it experience any cultural clashes with the management and employees of a different organisation. Less change management is required/ less disruption to *SD*.
- Internal growth is likely to be cheaper than the external growth option of takeover. However, the stimulus outlines that a lot of capital has to be raised, so this option is theoretical rather than applicable. Nevertheless, the 6% return on the investment in scooters is relatively high and the investment is profitable.
- The proposed internal growth strategy will make the working life of the staff easier and more efficient. Motivation is likely to increase.

Disadvantages:

- This method of growth is considerably slower compared to external growth. *SD* might not be able to compete with the newly merged competitors who are likely to be stronger. *SD* is likely to struggle against the new competitor and lose its current market leader position. *SD* will not be able to take immediate advantage of the growing market as the CEO plans.
- Some shareholders are against this option perhaps due to a large sum of finance being required. Shareholders tends to expect short term, quick results/dividends and are likely to block the proposal. The proposed option is against the current trend of consolidation. *SD* might not be able to compete with the newly created powerful competitor.

Please note that while some text books may say that internal growth is cheaper, there is an indication in the stimulus that this particular option may pose a financial challenge to SD. Options such as a strategic alliance or franchising could be cheaper.

Accept any other relevant/applicable advantage / disadvantage.

Mark as 2 + 2.

Award [1] for identifying or describing the advantage / disadvantage of internal growth and a further [1] for a development with respect to SD. Award a maximum of [2].

*[2] cannot 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].*

- (d) Discuss **two** appropriate sources of finance for SD to purchase the scooters.

[10]

Some of the possible sources of finance:

Issuing more shares – as a private limited company, SD can definitely issue more shares. Currently, SD is **highly geared = 65 %** so the option of shares might be an appropriate one, especially if the banks will not offer finance. Issuing shares will not require any payback of the loans and will not subject SD to vulnerability of interest rate fluctuations. GPM (20%)/NPM (9 %) are healthy in this industry, so dividends are likely to be paid. The payback is relatively short and the ARR is quite high / reasonable. If the current shareholders buy extra shares, ownership will not be diluted; if other friends and family buy the shares, the current shareholders' control might be diluted and they may raise objections. However, the current shareholders still control who buys the shares. Control will be not lost.

Going public (IPO) – an expensive and very time consuming source of finance that may not be judged as suitable for SD as a quick reaction to the competitors is needed. However, SD can raise a significant amount of finance needed to purchase the scooters which is much needed as stated in the stimulus. Ownership may be diluted with a risk of losing control. However, a very low current ratio of 0.9 indicates liquidity problems which might deter investors.

Long term bank loans – If agreed, the money can be given quickly / quicker than issuing shares, this is a very significant advantage for SD given the urgent need for action. However, the banks will be worried about SD being highly geared with its current obligation to pay interest as well as to pay back the loan. Moreover, given the low current ratio, it is likely that the bank's financial manager will refuse the loan due to liquidity problems. Also, SD does not manage its short term liquidity- see debtors and creditors hence the bank may be worried of insolvency.

Leasing the scooters – could provide a good solution for SD. The scooters can be leased quickly and maintained by the leased company. This fits the managers' objectives of a quick response. SD will pay a relatively small amount every month, which mitigates the problem of raising a large sum of money. However, while, if bought, the scooters will become SD fixed assets after **3.2 years (payback)**, if leased, they will never be SD's. Still, one may judge this issue as less significant as the need for a quick reaction is vital

Venture capitalists/business angel – As SD is highly geared, coupled with the likelihood that the banks refuse a loan, the use of the above might seem highly suitable especially if there is potential to make a quick /significant profit as seen given the GPM 20% and NPM 9 %. However, venture capitalists/business angels might be reluctant to join SD due to the merger between competitors and some discord with shareholders re: the methods of growth. However, a very low current ratio of 0.9 indicates liquidity problems which might deter investors.

Accept different arguments for the above option if fully justified.

Using retained profit - SD is profitable. GPM is 20 % and NPM is 4%. While we do not know the industry norm, one may judge this option as highly suitable as SD will not be subject to fluctuating interest rates and repayments. It is also likely that being Ltd, the shareholders will agree to have less dividends to pursue the strategic option of internal finance. However, some shareholders might object to this option. Despite the percentage given of the profit margin, it might not be sufficient to generate the large sum of finance required and SD might have to opt for external source of finance.

Sell fixed assets – The main assets are bicycles. Selling these assets can generate some finance. However, it might be judged as a limited source /method to raise finance, as the bikes will not generate the cash needed, if any. Another possibility is to sell some fixed assets like the office.

Accept different arguments for the above option if fully justified.

Please note:

- *Long-term or medium-term sources of finance only should be considered.*
- *Do not accept some short-term sources of finance such as an overdraft, short term loan or creditors.*
- *Accept debtors or debt factoring if the candidate comments on their unsuitability given the liquidity problem.*
- *Accept 'loan'*
- *If the candidate wrote 'short term loan' instead of just 'loan' but the arguments for /against are relevant /applicable give some credit.*
- *It is expected that the candidates suggest the suitability or otherwise of two different sources of finance. Within the above categories, candidates can suggest any source of finance, including some, which might not be highly appropriate, as long as they evaluate the appropriateness of their chosen sources. Candidates are expected to use the **financial information provided** as part of their evaluation. Not using **any** quantitative information reduces the quality of application and makes the response rather generic, therefore award up to **5 marks**.*
- *Candidates should not divert into a solution to some cash-flow problem given the debtor and creditors ratios*
- *It is not expected that the candidate incorporate all of the above arguments.*

- *Accept any other relevant issue.*
- *Accept any other relevant discussion.*
- *A conclusion with judgment is expected.*

A balanced response is one that covers at least one issue/argument for and at least one argument against each option.

Marks should be allocated according to the markbands on page 5 with further guidance below.

*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.*

4. (a) Describe **one** role of a vision statement for *HS*. [2]

The role of a vision statement for *HS* is to inform different stakeholders of its preferred ideal future, direction/aspiration regarding life - long healthy eating habits and the recruitment of school leavers.

This will help *HS* to set long-term objectives regarding life - long healthy eating habits/ recruitment of school leavers.

It is likely to act as an important driver for recruitment, selection and motivation of its young, unskilled workforce made up of school leavers.

*Award [1] for describing **one** role of a vision statement. Award an additional [1] when candidates apply their response to the stimulus.
Award [1] if only a definition of vision statement is given rather than the role.*

- (b) Explain how the following can benefit *HS*:

*Please note that the question is about the benefits to an organisation - *HS* not to the employees. Do not credit just the benefits to employees without further explanation as to how any organisation which may be *HS* will benefit.*

- (i) job enlargement; [2]

Job enlargement will increase the range of skills and tasks able to be performed by the school leavers but at the same level in *HS*. The school leavers lack direct experience of working and qualifications for work in a national chain and or batch production. Job enlargement will give the school leavers the chance to acquire new skills before they can experience some job enrichment and become future managers. The employees will become more motivated with all the associated benefits to *HS* such as improved quality of their food, increased output due to being more efficient, costs reduction due to economies of scale and consequently be able to compete with the global fast food providers.

*Award [1] for identification of an appropriate benefit to an **organisation** which may be *HS* and an additional [1] for an explanation of the benefit and application to the stimulus. Application may not be merely nominal.*

- (ii) intrapreneurship. [2]

Intrapreneurship allows for risk taking, creativity and innovation by employees within *HS* without taking their own financial or any other risks. The risk is on *HS*. Given the intense competition from the global fast food restaurants, the opportunity to school leavers to develop new healthy snacks or find ways of reducing the portion will be vital to maintain market share as well as keeping up with/ fulfilling *HS*'s social vision.

*Award [1] for identification of an appropriate benefit to an organisation which may be *HS* and an additional [1] for an explanation of the benefit and application to the stimulus. Application may not be merely nominal.*

For example:

- *for an identification or a description of a benefit to an organisation **with or without** application [1]*
- *for explanation of a benefit to an organisation with **no** application to HS [1]*
- *for explanation of a benefit **and** application to HS [2].*

- (c) Explain **two** possible economies of scale available to global fast food restaurants but not *HS*. [4]

Possible economies of scale available to the global fast food restaurants include:

Marketing economies of scale: the global fast food companies are likely through their global reach to experience significant economies of scale in marketing/selling across a whole range of markets. *HS* is a national chain and will not be able to spread advertising/ promotion costs, for example, across a whole range of markets. Unit costs of marketing will be much lower for the global restaurants.

Bulk-buying economies of scale: to develop and meet global demand and to fill supply chains, global fast food manufacturers are likely to achieve significant economies through the bulk-purchase of raw ingredients (a number of fast food manufacturers have vertically integrated with suppliers to ensure that logistics are in place). Again, unit costs of operations are likely to be lower than *HS*'s.

Financial economies of scale: being present in global markets allows global fast food manufacturers to borrow funds for expansion at much lower rates than a national chain. It is indicated in the stimulus that *HS* finances its training and professional development through retained profits.

Accept any other relevant economy of scale.

Mark as a 2 + 2.

Do not credit just a definition of the term.

*Award [1] for identification/ description of an appropriate economy of scale and an additional [1] for an explanation and application to the stimulus. Application may not be merely nominal. It is expected that the candidates refer to **lower costs** per unit rather than just lower costs.*

Maximum award per economy of scale: [2]

- (d) Discuss the **two** options that Tom is considering for *HS* in response to the intense competition.

[10]

The first option, which is to implement flow production, is likely to lead to an increase in production and productivity because of the new technology and specialized roles. Currently, *HS* uses batch production. With improved productivity, *HS* can increase its portion size without raising prices. This will address the criticism found in the on line review about the portion size. *HS* will be perceived as more customers' focus. As a result, *HS* may be able to compete more effectively with the global fast food manufacturers.

However, the introduction of flow production may result in a reduction in the opportunities for job enlargement, enrichment and intrapreneurship. If the new production process is going to lead to specific jobs on the production, then apart from job rotation, the current employees may become demotivated through a restriction on personal growth and development opportunities. Staff turnover may increase as employees seek more innovative or challenging work. Moreover, the above may contradict the vision statement of *HS*.

It is likely to be expensive to implement flow production both in terms of the financing and inevitable changes in organizational culture at *HS*. Reduced profit to be put back into *HS* to finance job opportunities for the school leavers also contradicts *HS*'s vision statement.

One may judge the erosion of the vision statement as a significant arguments against this option.

The second option may be quicker to organize and much cheaper. The online reality TV show will have established *HS* firmly in the minds of existing and potential customers. A social media campaign will amplify the brand value of *HS* and should increase market share. *HS* will directly communicate with its target market who also express their discontent using social media.

However, measuring the success of social media on market share will be difficult even though the target market should be familiar with this method of promotion. The biggest argument fr against this campaign, however, is that as a competitive tool against the global manufacturers it might not be successful. Emphasising the health benefits of the smack does not address the problem of the portion. It does not mention in the stimulus that there is an issue with *HS*'s perceived health benefits. There will still be this perceived difference in portion size. A social media campaign will not address this aspect. In fact, there is a danger that negative response to the campaign make reduce market share even further.

Both of the responses have some merit, but it would appear that the first option is the most appropriate to tackle the issue of competition with the global fast food manufacturers. The changes in the production process will take some time to bed in and a few staff may leave to work for other snack food manufacturers who have more dynamic or challenging roles. However, the social media campaign will not close the perceived gap between the products offered by *HS* and those offered by their competitors and, thus, could backfire.

Candidates are expected to provide conclusions and judgments (for top marks). Candidates may conclude that either option is better or they may conclude that *HS* should do both, given that Option 2 would not be very expensive.

Marks should be allocated according to the markbands on page 5.

A balanced response is one that covers at least one issue for and at least one argument against each 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.*

5. (a) Define the term *redundancy*. [2]

When the business can no longer afford to employ a worker or the job does no longer exist or is considered necessary hence a person is unemployed. The business is eliminating the role.

N.B. no application required. Do not credit examples.
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 definition that conveys knowledge and understanding similar to the answer above. Redundancy occurs through no fault of the employee.

- (b) Explain **one** positive **and one** negative impact of the multinational company, *RE*, on the developing country. [4]

Positive impacts on the developing country:

- *TM* has new competition; consumers will have access to different taxi services, hence more choice at lower prices for the consumers.
- Tax revenue to the government of the developing country from profits made by *RE* taxi drivers.
- Working opportunities for drivers in the developing country will grow as any person with a car can download the *BT* app and begin his/her employment. Income will increase, standards of living will improve. Also, for drivers at *TM* there will be job creation and job security.
- In the future *RE*, with a possible increase in demand for the *BT* app may increase capital spending/infrastructure to manage operations. The developing country will benefit from an increase in economic activity.
- Technological transfer – the introduction of the *BT* app can be used in other industries to improve efficiency.

Negative impacts on the developing country:

- *BT*'s competition is threatening *TM*'s market position and even forcing it out of business.
- *RE* as a multinational company, is probably a powerful company, which makes *TM*'s survival even more difficult. *TM* as a local business cannot compete and has started to experience a fall in sales and profit. *TM* might end up closing and this would lead to increased unemployment in the country which may result in the government intervening to ensure that the political fallout from such a move is minimized.
- *RE* takes advantage of a lack of compulsory regulation and *BT* drivers have a higher rate of road accidents as well as safety issues- assaults and robbery.
- Profits from *RE* could be repatriated to their home country. The financial benefits may be limited- this argument is not really applicable.
- Award [1] for theoretical possibility.
- Accept any other relevant positive/negative impact.

Mark as 2 + 2.

Award [1] for identifying or describing one positive/negative impact for *TM* and a further [1] for a development with respect to *TM*. Award a maximum of [2].

[2] cannot be awarded per advantage/disadvantage if the response lacks either explanation and/or application.

For example:

- *for an identification or a description of a positive / negative impact **with or without** application [1]*
- *for explanation of a positive / negative impact with **no** application [1]*
- *for explanation of a positive / negative impact **and** application [2].*

- (c) With reference to Maslow's motivation theory, explain **two** reasons that some *TM* drivers left to drive for *BT*.

[4]

- **Maslow's physical needs** refer to the basic physiological requirements of food, water and shelter. As *TM* drivers' incomes are falling they may not be able to earn enough money to meet essential needs. Therefore, even the lowest level of needs is not fulfilled hence the drivers are demotivated. They will leave *TM* for *BT* as it seems that many drivers are making considerably more money.
- **Maslow's safety** needs refer to the needs of security and protection. *TM* drivers may want to meet safety needs such as job security. *TM* is experiencing financial problems and there are rumors of redundancies. Uncertainty at *TM* could force many drivers to quit *TM* to a more stable position.
- *Poor management may lead to a lack of love and belonging on the part of the workers. There is evidence implied by the stimulus of a lack of teamwork and cooperation, as TM's drivers are effectively self-employed. Therefore, it could argued that TM's drivers cannot reach the third level- Love and belonging.*
- *If the candidate does not use Maslow's exact classification of any need Award [0]*
- *The inability to fulfil the higher level of needs are **not relevant/ applicable in this case.***
- *Only credit relevant needs based on the stimulus*
- *Given that only 2 marks are available per need, a full explanation of the Maslow theory/ model is not expected.*

Mark as 2 + 2.

For each need:

- *for an identification or a description of one relevant Maslow need **with or without** application [1]*
- *for explanation of one relevant Maslow need with **no** application [1] for explanation of one relevant of Maslow needs with **and** application [2].Award a maximum of [4] in total.*

- (d) Discuss the new strategy to differentiate *TM* from *BT*. [10]
The focus of this question is on differentiation in the eyes of the customers.

- *TM*'s new strategy is to downsize and reposition the company as a high price and high quality traditional taxi service. Customers that are willing and able to pay for a more exclusive service will probably find the service attractive. This will put *TM* in a different target segment and will enable differentiation from *BT*.
- Current security and safety problems due to customers being assaulted by *BT* drivers and the higher rate of road accidents could help *TM* to develop a unique selling point emphasizing the fact that all *TM* drivers have professional licenses and cars have regular safety inspections.
- Leasing new luxury cars seems to be a good financial and operational alternative for *TM* as they won't need to cash purchase the new vehicles. New luxury cars emphasize *TM*'s USP regarding comfort and differentiation from *BT*. Moreover, the taxi can be upgraded and regularly serviced for extra comfort to the newly targeted segment. Furthermore, customers are unlikely to be concerned whether the taxis are leased or not. This issue can be judged as of minimal / no importance. Leasing is cheaper in the short term and might enable *TM* to stay competitive in terms of quality/ price ratio.
- Technology can be a barrier for many people such as using mobile apps or even smart phones. Many customers, especially the elderly groups will find it simpler to telephone for a taxi instead of using a mobile app.

On the other hand:

- Using a mobile app to book and pay for a taxi service can be difficult for some groups of consumers, the increasing usage of technology and mobile apps shows that *BT* is very practical for most groups of potential consumers.
- *BT* as a multinational company is a strong competitor for *TM*, probably benefitting from managerial and marketing economies of scale. They may also introduce a service offering an exclusive maintenance that will compete with *TM*'s new market positioning. *TM* cannot patent their new service. The idea/service is very easy to copy especially by a MNC.
- Leasing is usually an expensive option in the long term as payments will have to be made over the duration of the agreement. However, this point does not impact on differentiation unless *TM* increases its price and becomes uncompetitive. This is unlikely.
- Accidents could be reduced if *BT* makes professional driving license a compulsory requirement to become a driver. Getting a professional driving license is not an important barrier of entry for *BT*. *TM*'s USP is easy to imitate and could be quickly eroded.

Overall, *TM* is in a very delicate situation. *BT* is a strong competitor and threatens *TM*'s market position. Although the new positioning strategy has several weaknesses it is a viable alternative to try in the short term before *BT* or other competitors move in. *TM* may be able to benefit significantly from first mover advantage. Otherwise, survival of the company is at stake.

Marks should be allocated according to the markbands on page 5.

- *It is not expected that the candidate incorporate all of the above arguments.*
- *Accept any other relevant issue.*
- *Accept any other relevant discussion.*
- *A conclusion with judgment is expected.*

A balanced response is one that covers at least one issue for and at least one argument against each action or the candidates may answer holistically by providing at least two arguments for and two arguments against repositioning

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

Questions 6–8. Please mark the candidate response using the assessment criteria on pages 6–7.

- | | | |
|----|---|------|
| 6. | With reference to an organization of your choice, examine the impact of globalization on human resources strategy . | [20] |
| 7. | With reference to an organization of your choice, examine the impact of ethics on organizational change . | [20] |
| 8. | With reference to an organization of your choice, examine the impact of innovation and culture on an organization. | [20] |

N.B. When the question asks for the application of one concept on another, it is still expected that Business Management content will be aligned with the concepts especially the second concept (the one being acted on).

Please note that candidates can conclude that there was a minimal impact, however it has to be based on balanced arguments and evaluation.

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 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.

Criterion B

For [1]: "...connection is **inappropriate**" – **ignore superficial**.

For [2]: "...connection is **not developed**" should be treated the same as **superficial**.

Criterion C

1 + 1 arguments are expected per concepts.

- Questions 6 and 7 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 are 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 to have explicit headings for each structural element.*
- *A body is the area in which the substance of arguments occurs. 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 cannot be considered with a "group" of consumers or a management team.*
- *For [4], a balanced response: 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".

If a candidate chooses an organization from another part of the exam (for example, an organization in the stimulus of section B), their response should be marked as follows:

Criterion A – Award a maximum of [1], as the candidate might understand the essence of the two concepts but the content selected is irrelevant as the organisation is fictitious but the candidate may display some understanding of the concepts.

Criterion B – Award [0], as there is no connection to a real organization.

Criterion C – Award a maximum of [1]. The arguments cannot be relevant and justified as the organisation is fictitious.

Criterion D – Mark as normal.

Criterion E –Award [0]. The individual and/or group perspective(s) cannot be relevant if the organisation is fictitious.

Specific comments

Q6

Accept application to human resource strategy. Do not accept operations strategy.

Q7

Accept any relevant organizational change including a major change in product strategy. For example, diversification.

Do not accept the simple adaptation of products to different cultures etc as organizational change.

Accept a relevant example that may demonstrate that ethics had minimal or no impact therefore organizational change has not occurred.

Q8

Candidates can choose any aspect of the chosen organization. They should introduce the chosen aspects.

*Candidates can choose organizational **or** national cultures **or** both.*

Business management
Higher level
Paper 2

Monday 1 May 2017 (morning)

2 hour 15 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- A clean copy of the **business management formulae sheet** is required for this examination paper.
- Section A: answer one question.
- Section B: answer two questions.
- Section C: answer one question.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[70 marks]**.

Section A

Answer **one** question from this section.

1. Bart Furniture (BF)

Bart Furniture (BF) is a wholesaler that stocks furniture. In 2015, *BF* purchased more stock than usual in order to take advantage of discounts that several furniture manufacturers were offering. However, much of this new stock did not sell.

Table 1: Financial information, for *BF*, for 2015 and 2016

	2015	2016
Acid-test/quick ratio	2.21	2.84
Cash	\$2000	\$500
Cost of goods sold	\$12 166	\$12 500
Creditors	\$1000	\$1438
Current ratio	A	5.47
Debtor days	30 days	Y
Debtors	\$1973	\$6134
Long-term debt	\$14 000	\$13 700
Sales revenue	\$24 000	\$26 000
Short-term debt	\$800	\$900
Stock	\$4000	\$6164
Stock turnover in days	X	180

- (a) Describe **one** feature of a wholesaler. [2]
- (b) Using information in **Table 1**, calculate for *BF*:
- (i) stock turnover in days for 2015 (**X**) (*show all your working*); [2]
- (ii) current ratio for 2015 (**A**) (*show all your working*); [2]
- (iii) debtor days for 2016 (**Y**) (*show all your working*). [2]
- (c) Referring to information in **Table 1** and your calculations, explain the change in *BF*'s liquidity between 2015 and 2016. [2]

2. Geo Dynamics (GD)

Geo Dynamics (GD) is an engineering company. On 1 January 2016, *GD* purchased new machinery at a cost of \$50 000 rather than leasing it. *GD*'s financial manager researched further information:

- The machinery has a useful life of four years.
- Its residual or scrap value will be \$8000.
- The engineering industry uses a 40 % depreciation rate per annum.
- Technology in this industry is changing rapidly.

GD's financial manager has not yet decided on which depreciation method (such as straight line or reducing/declining balance) to use for the new machinery.

- (a) Describe **one** disadvantage for *GD* of leasing. [2]
- (b) Calculate the value (also known as net book value) of new machinery at 31 December 2017 using the straight line depreciation method (*show all your working*). [2]
- (c) Calculate the value (also known as net book value) of new machinery at 31 December 2017 using the reducing/declining balance method, applying the industry depreciation rate of 40 % per annum (*show all your working*). [4]
- (d) Explain **one** advantage for *GD* of using the straight line balance depreciation method. [2]

Section B

Answer **two** questions from this section.

3. Health Star (HS)

Health Star (HS) is a private limited company providing management consultancy services for public sector organizations like hospitals. *HS* is well known for its creativity and for helping customers achieve budget targets. *HS*'s consultants are all shareholders, receive high salaries and profit-related pay. *HS* also gives its consultants freedom and encouragement to be intrapreneurs. The consultants' work performance is appraised on a monthly basis using formative appraisal.

Recently, several pressure groups have protested against the high fees charged by *HS*. "The high fees are outrageous!" said Elaine Hall in a local news report. "Public sector hospitals need to use their resources for patient care and not for employing expensive consultants."

In response to the pressure groups, *HS* is considering two options proposed by two senior consultants, Dan and Lauren:

- **Option 1:** Dan has suggested that *HS* should set up a charity to create educational services for children with long-term health problems. The charity will be funded partly through donations and partly through *HS*'s own profits. The charity, *Health Star Education (HSE)*, will finance qualified teachers to visit hospitals. *HS*'s consultants are also expected to volunteer to read to sick children.
- **Option 2:** Lauren has suggested that reducing the high fees should be the priority. She suggests that new, untested software could be developed by her project team to significantly reduce the costs of treatment for patients. Consequently, *HS* could charge public sector hospitals a lower fee.

- (a) Describe **one** possible objective of a public health organization. [2]
- (b) Explain **two** characteristics of an intrapreneur at *HS*. [4]
- (c) Explain **one** advantage **and one** disadvantage for *HS* of using formative appraisal. [4]
- (d) Recommend which of **Option 1** and **Option 2** *HS* should implement. [10]

4. Secco Vineyards (SV)

Secco Vineyards (SV) is a family-owned business producing wine in Sonoma, California. In 1947, SV opened using cost-plus (mark-up) pricing. For SV's customers, the wines were medium priced and available in local grocery stores.

In 1977, Joe Secco, grandson of the founder, created a new strategy. He re-branded SV's wine for a niche premium market.

- SV began to sell directly to customers at its winery instead of in local grocery stores.
- SV stopped using cost-plus (mark-up) pricing and began charging much higher prices.
- Regular wine tastings and promotional events were held at its winery. At these events, wine experts would promote SV's wines by creating an elegant experience based on a luxurious culture of wine consumption. SV's physical evidence in its marketing mix became much more important.

However, SV has recently faced intense competition and sales have fallen. Local wine producers and overseas competitors have entered the market with similar market positioning. In order to maintain its brand image, SV has not changed its pricing strategies.

SV conducted secondary market research about other possible markets in the US for its premium wines. The research suggested that other possible markets for high-quality wines, such as those of SV, exist. As a result, SV is considering two new options to increase sales in addition to its current distribution channel:

- **Option 1:** open a business-to-consumer (B2C) e-commerce store
- **Option 2:** sell SV wines to wholesalers serving the whole of the US market for premium wines.

- (a) Describe **one** characteristic of a niche market. [2]
- (b) With reference to SV, explain **one** advantage **and one** disadvantage of using secondary market research. [4]
- (c) Given the intense competition, explain **two** pricing strategies SV might consider. [4]
- (d) Recommend which of **Option 1** and **Option 2** SV should consider in order to increase sales. [10]

5. Gen Y Limited

Gen Y Limited is an internet start-up business owned by Zack Johnson. Zack owns 80 % of the shares and venture capitalists own the other 20 %. *Gen Y* has specialist programmers and coders who create innovative market research data reports for clients. These data reports have revolutionized *Gen Y*'s clients' ability to understand and respond to customers in their markets.

To retain the best programmers, employees are given cognitive training and are empowered to make decisions and take risks. They are also regularly praised for the impact that their reports are having on their clients' decision making. One day a week, employees can work on their own "dream, but risky, projects". Intrapreneurship is strongly encouraged at *Gen Y*. However, *Gen Y* lacks the capital to develop some of these projects into future revenue streams.

Virtually all of *Gen Y*'s costs are fixed – salaries. As of 2017, *Gen Y* has not yet generated a profit. Without more revenue they will have to reduce the number of programmers. Petra, a new investor, is being considered to provide fresh capital to invest in *Gen Y*. Ownership of *Gen Y* will change to:

Zack	40 %
Venture capitalists	20 %
Petra	40 %

Petra believes in intrapreneurship but is concerned that "dream" projects are not generating profits. She has said that if she is going to invest in *Gen Y* two conditions must be met:

- Management at *Gen Y* will change to an autocratic leadership style.
- Programmers will be expected to meet sales targets.

As a result, programmers will have no autonomy.

- Outline **two** features of an autocratic leadership style. [2]
- Apply Daniel Pink's motivation theory to the programmers at *Gen Y*. [6]
- Explain **one** reason, **other than** increased sales revenue, why it is important that *Gen Y* generates new revenue streams. [2]
- Discuss whether Zack should sell Petra half of his shares with her conditions. [10]

Section C

Answer **one** question from this section. The organizations featured in sections A and B and in the paper 1 case study may not be used as a basis to your answer.

6. With reference to an organization of your choice, examine the impact of **globalization** on **innovation**. [20]

 7. With reference to an organization of your choice, examine the impact of **ethics** on organizational **strategy**. [20]

 8. With reference to an organization of your choice, discuss the ways in which **culture** can promote or inhibit **change**. [20]
-

Markscheme

May 2017

Business management

















Higher level












Paper 2


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The following are the annotations available to use when marking responses.

Annotation	Explanation	Associated shortcut
	AE - Attempts Evaluation	Alt+7
	BOD - Benefit of the doubt	Alt+0
	CKS - Clear Knowledge Shown	
	Cross - Incorrect point	
	DES - Descriptive	Alt+2
	EE - Effective evaluation	Alt+4
	GA - Good Analysis	
	GD - Good Definition	
	GEXA - Good Example	
	GEXP - Good Explanation	Alt+9
GP	GP - Good Point	Alt+5
	H Line - Underline tool	
	Highlight - Highlight tool	
	IR - Irrelevant	
	IU - Inappropriate Use	
	LD - Lacks Depth	
	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	

You **must** make sure you have looked at all pages. Please put the  annotation on any blank page, to indicate that you have seen it.

The markbands and assessment criteria on pages 5–7 should be used where indicated in the markscheme.

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.

Section A

1. Describe **one** feature of a wholesaler. [2]

Common features of wholesalers include:

- An intermediary along a distribution channel that breaks large quantities of product into small stock quantities for retail businesses.
- generally offering stock for predominantly one industry (furniture, fruit, electronic parts, auto parts, etc) and building up product knowledge to help retail businesses increase the opportunities for retail success.
- allow retail businesses to purchase on credit or even allowing retail business to purchase stock on a sale or return basis.
- given the large quantities of stock purchases, being able to experience significant purchasing and marketing economies of scale.

Accept any other relevant feature.

Award [1] for a relevant feature with appropriate description up to a maximum of [2]. It is not expected that candidates explain the benefits to any stakeholder Application to the organisation is not required.

Do not credit an example of BF or any other organisation.

- (b) Using information in **Table 1**, calculate for BF:

- (i) stock turnover in days for 2015 (**X**) (*show all your working*); [2]

$$\frac{\text{Stock}}{\text{COGS}} \times 365 = \text{stock turnover in days}$$

$$\frac{4000}{12166} \times 365 = 120.006 \text{ days (assuming 4000 is average stock)}$$

Accept 121 days

Accept 120 days

Do not credit for the use of a correct formula as it is given.

Award [1] for some minimal understanding like at least two figures used are correctly.

Award [1] for a final correct answer without working

Award [2] for correct use of formula with clear working with no mathematical errors and the correct answer is given in days from working shown.

For [2], "days" must be present, as this is the standard unit used.

Do not accept a response that calculates the times it takes the stock to be turned over.

- (ii) current ratio for 2015 (**A**) (*show all your working*); [2]

$$\frac{\text{Cash} + \text{Debtors} + \text{Stock}}{\text{Current liabilities}} = \text{Current ratio}$$

$$\frac{2000 + 1973 + 4000}{800 + 1000} = 4.43$$

Accept 4.4

Award [1] for some minimal understanding like all the figures/total for CA or CL are correct

Award [2] for correct use of formula with no mathematical errors/the calculations are clear and correct.

[2] cannot be awarded if the candidates expresses the figures in times/ units etc.

(iii) debtor days for 2016 (Y) (show all your working).

[2]

$$\frac{\text{Debtors}}{\text{Total sales revenue}} \times 365 = \text{Debtor days}$$

$$\frac{6134}{26000} \times 365 = 86.11 \text{ days}$$

If a leap year figure is used, please accept 86.34 days.

Accept 87 days.

Accept 86 days.

Do not credit for the use of a correct formula as it is given.

Award [1] for some minimal understanding like at least two figures used are correct.

Award [1] for a final correct answer without working

Award [2] for correct use of formula with no mathematical errors. Units (days) are required for full marks.

(c) Referring to information in **Table 1** and your calculations, explain the change in BF's liquidity between 2015 and 2016.

[2]

Given the changes in the current ratio from 4.4 to 5.47, one can say that BF's liquidity has **increased**. Candidates may term this increase as an improvement or deterioration as BF'S ratios are high. The important issue is the increase in liquidity.

The application should refer to the possible reasons/contributors for the changes like:

An increase in stock from \$4000 to \$6164

An increase in debtors from \$1973\$ to \$6134. Possibly due to some difficulties of shifting the stock as evident in 2016 of an increased stock turnover and the level of stock despite a fall in cash from \$2000 to \$500.

Award [1] if the candidate comments that the liquidity of the company has increased.

Award [2] for a clear explanation of one possible reason for the changes with a use of actual figures.

It is expected that the candidates refer to some actual changes like debtors/stock for full marks.

*Candidates need to explain the changes- **why/ the possible contributors** to rather than just **‘what’**.*

It is expected that the candidates comment on the direction of the change not just say it has changes.

Allow for OFR.

2. (a) Describe **one** disadvantage for *GD* of leasing.

[2]

One of the disadvantages for *GD* of leasing rather than buying the machinery is that the machine will not be recorded as part of its fixed assets. Hence, *GD* will show lower fixed assets on its balance sheet with some financial consequences, like fewer assets being available for collateral.

By leasing, *GD* will have to pay for the machines throughout the time used but will never own the machines.

Accept any other relevant description.

Application is not expected.

Do not credit examples

Award [1] for identifying an appropriate disadvantage and [1] for an appropriate description up to a maximum of [2].

- (b) Calculate the value (also known as net book value) of new machinery at 31 December 2017 using the straight line depreciation method (*show all your working*).

[2]

$$\frac{\text{Purchase costs} - \text{Residual value}}{\text{Life span}} = \text{Annual depreciation}$$

All figures are in \$

$$\frac{50\,000 - 8\,000}{4} = 10\,500 \text{ per year}$$

By the end of 2017, the new machinery will have a book value of
 $50\,000 - (10\,500 \times 2 \text{ years}) = \$29\,000$

Candidates do not have to present the formula in words as long as the figures are correct.

Award [1] for a correct use of the formula and clear working.

Award [1] for a correct final figure of net book value.

Award a maximum of [1] if the final figures are correct but no working shown.

- (c) Calculate the value (also known as net book value) of new machinery at 31 December 2017 using the reducing/declining balance method, applying the industry depreciation rate of 40 % per annum (*show all your working*).

[4]

Net book value using reducing balance method:

Original costs – accumulated depreciation

All figures are in \$.

Year	Depreciation allowance	Net book value
At beginning of 2016	0	50 000
At end of 2016	$(50\,000 \times 40\%) = 20\,000$	$(50\,000 - 20\,000) = 30\,000$
At end of 2017	$(30\,000 \times 40\%) = 12\,000$	$(30\,000 - 12\,000) = 18\,000$

It is expected that the candidates produce for each year a clear working of the depreciation allowance as well as the calculation of the net book. Marks to be awarded for the two stages.

For the end of 2016:

Award [1] for a correct working method and a figure of the **depreciation allowance**, and [1] for the correct working and figure of the **net book value**.

Candidates can be awarded the marks even if the terms NBV or depreciation allowance are not explicitly written as long as the calculations are clear
If only a correct figure is presented without working award a maximum of [1].

The exact year or year 1 or year 2 for which the calculations are done should be written for full marks.

For the end of 2017:

Award [1] for a correct working method and a figure of the **depreciation allowance** and [1] for the correct working and figure of the **net book value**. **Candidates can be awarded the marks even if the terms NBV or depreciation allowance are not explicitly written as long as the calculations are clear**
If only a correct figure is presented without working award a maximum of [1].

If the net book value is correct but there is no working/r evidence of the calculation of the depreciation allowance award [1]

Producing a final correct figure of net book value for 2017 using a short cut mathematical formula with a use of graphic calculator is not sufficient for full marks as it is judged as using a one stage approach.

Award [2] If mathematically the candidates arrived at the correct net book value for end of 2017 by using a mathematical formula which is stated/ presented with no interim explicit calculations/ expression of the depreciation allowance or the net book value for 2016.

Allow OFR.

(d) Explain **one** advantage for *GD* of using the straight line depreciation method. **[2]**

- The straight line method is simpler and therefore easier for *GD* to calculate and less time consuming. As *GD* is an engineering company rather than an accounting company as well as new company, perhaps the easier method will be chosen.
- It allows for a constant expense to be accounted for in the profit and loss account. *GD*'s accountant might want to show a higher profit level to attract more investors. The use of a straight line depreciation method will result in lower expenses compared with reducing balance depreciation allowance. For example, 10,500 as opposed to 20,000 using the reducing balance methods.
- The use of a straight line method will result in the same figure \$8000 as estimated as residual value hence make the process easier/ more accurate/ more straightforward for *GD*'s accountant.

Award [1] for an advantage of the straight line method.

*Award [1] for some application to *GD* that goes beyond just mentioning the name *GD*.*

Section B

3. (a) Describe **one** possible objective of a public health organization.

[2]

A possible objective of a public health organization – an organization in the public sector owned and controlled by the government – is to provide essential (medical) services to the community either free of charge or at a low or affordable price at the point of consumption.

Accept any other relevant objective.

Candidates are expected to explicitly mention the provision of health care/services, not just refer to a public organization for [2].

Award [1] for identifying an appropriate objective and [1] for an appropriate description up to a maximum of [2].

Do not credit an example.

- (b) Explain **two** characteristics of an intrapreneur at HS.

[4]

Possible characteristics of an intrapreneur in *HS* may include the following:

The main characteristic of an intrapreneur at *HS* is to work **within** an established organization and to come up with new, creative and innovative ideas or concepts to reduce the costs of operation in order to adhere to budgetary constraints. The intrapreneurs should enable *HS* to create a USP and increase its customer base. *HS* is known for its creativity, hence indication of the success of the consultants as intrapreneurs for *HS*.

A consultant, intrapreneur, **does not risk his/her own capital** in case of failure **but takes** risk for the organization for which he or she works. Nor does he or she come up with a new business venture, but the characteristic is to demonstrate the same traits of an entrepreneur, like being an independent thinker, proactive, flexible, innovative, turning ideas/projects into a profitable medical service for an organization within which he or she works, in this case, *HS* while working for an existing organization.

Accept any other relevant/applicable role.

Please note: For full marks the candidates should demonstrate an intrapreneur is an employees / works in a business otherwise some of the characteristics like risk taking, could be equally applicable to an entrepreneur.

Mark as 2 + 2.

*Award [1] for each relevant characteristic explained and [1] for appropriate application to *HS* to a maximum of [2].*

*[2] cannot be awarded for each reason used if the response lacks either explanation **and** / **or** application.*

For example:

*For an identification or a description of a characteristic **with or without** application [1].*

*For explanation of a characteristic with **no** application [1].*

*For explanation of a characteristic **and** application [2].*

(c) Explain **one** advantage **and one** disadvantage for *HS* of using formative appraisal.

[4]

Do not penalise candidates for not defining or describing **formative appraisal**.
However, the explanation must show understanding of the nature of this type of appraisal as specified below or the difference between formative and summative.

The possible **advantages** for *HS* of using formative appraisal:

As an ongoing, **continuous** process of appraisal, the management of *HS* provides monthly feedback for consultants regarding their performance. **Constant and regular** feedback can be highly rewarding / motivating when good performance is commented on and some weaknesses can be improved with constructive feedback. As *HS* expects the consultant to be creative and ready to let them take a risk, one may argue that **constant** formative appraisal can be very effective in terms of identification of strengths and weaknesses of individual consultants and adjustment can **often/frequently be made before** major and costly problems occur. *HS* is therefore reducing the risk of failure as well as increasing motivation of its employees.

Accept any other relevant / applicable advantage.

Do not credit a statement on improving performance unless it is connected to the issue of formative/ on- going/ frequent / continuous feedback. Needs a reference to a time frame.

The possible **disadvantages** for *HS* of using formative appraisal:

Consultants may feel stressed, especially as they are likely to be highly skilled and possess the main characteristics of an intrapreneur.

Formative appraisal, especially as it is done monthly, might take unnecessary time/resources/money and interrupt the consultant as well as the management work. Inefficiency and demotivation may emerge as consultants may feel that there is some inconsistency between the expectation to be intrapreneurs and constant monitoring. Projects may take longer than one month to carry out; constant monitoring might reduce the efficiency and quality of the service and stifle the much-needed creativity.

Accept any other relevant / applicable disadvantage.

It is not expected that the response will be as detailed as above but should cover the main issues.

N.B. Candidates should refer to and show understanding of **formative appraisal**, not just appraisal.

Mark as 2 + 2.

Award **[1]** for each relevant advantage/disadvantage explained and **[1]** for appropriate application to *HS* to a maximum of **[2]**.

[2] cannot be awarded for each reason used 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]**.*

(d) Recommend which of **Option 1** and **Option 2** *HS* should implement.

[10]

Possible arguments for *HS* setting up a charity to create educational services to children with long-term health problems:

- Dan's suggestion fits the nature of the work that the consultancy actually does. A synergy can be created between *HS* and HSE.
- *HS* can successfully market their ethical behaviour and their CSR, especially given that their consultants will visit the sick children and get personally involved. Moreover, the creation of the HSE name can further enhance *HS*'s brand image. Despite short-term costs of setting up the charity and the injection of part of the profit into it, in the medium to long term, *HS*'s brand image may be enhanced. Public support, recognition, trust and the demand for its services may rise. Profit may be the reward and opposition to the high fees will be reduced. One may judge this argument as highly significant as currently there is a public outcry about the fees the consultants are paid by a public sector organization.
- HSE should be able to claim some tax exemption, but this argument cannot be judged as a significant one.

Possible arguments against *HS* setting up a charity to create educational services to children with long-term health problems:

- Some hospital managers/potential clients may look at the suggestion as a cynical attempt to raise publicity and increase profit. Setting up a charity might not outweigh the negative perception of *HS* due to the high price it charges public hospitals and the drain on the hospitals' budget that could have been spent on sick patients.
- Internal conflict may arise within *HS*. The employees might feel obliged and perhaps overworked. Their much-needed creativity/intrapreneurial spirit may be damaged as demotivation sets in.
- Some of the shareholders with the short-term view of receiving dividends may object to the use of part of *HS*'s retained profit as funds for the charity.
- Candidates might use other textbook disadvantages like inefficiencies, fraud and disincentive effects due to a lack of profit.

Accept any other relevant argument for or against.

Given the above, perhaps Lauren's suggestion **that reducing the high fees** should be the priority.

HS will still use the talent/skills of its employees/project teams to develop new untested software to significantly reduce the costs of operation; in turn *HS* could charge public sector hospitals a lower fee. Still, the lower fees might still be perceived as high or unjustified by the pressure groups protesting against the high fees charged by *HS*.

However, this solution may be judged as a sustainable one as the use of public money on software to improve the hospital efficiency and keeping the hospital budget on target might be judged as a worthwhile expenditure.

Although the development of the software is likely to incur time and costs for *HS* in the short run, the challenge might further motivate the consultants and complement or even enhance the intrapreneurial spirit that already exists.

Being able to charge the hospital lower fees can be seen as a long-term competitive advantage and will be more likely to pacify the pressure group as it directly addresses the issue the pressure groups complained about. Creating a charity,

while likely to be generally welcome, might not reduce the pressure from the pressure group if fees remain high.

However, the process might be long and very expensive and the software is untested. Is there a contingency plan if the tests do not lead to the benefits claimed?

Accept any other relevant argument for or against.

Conclusions/judgment:

It appears that venturing into the creation of a charity may take *HS* away from its core competency and there are more significant arguments against. Using its core competency and the talent of the consultants to create software will enhance creativity and motivation as well as directly address the concern of the pressure group and hospital manager and it will benefit more stakeholders.

It is expected that candidates provide a conclusion with a substantiated judgment.

Candidates can provide any conclusion and judgment as long as it is substantiated.

Accept any other substantiated judgment.

Examiners' judgment should be based not just on the number of the arguments in terms of balance but on the quality/ clarity /relevance of the argument.

Marks should be allocated according to the markbands on page 5.

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].

If a candidate evaluates / addresses only one option in a balanced manner award a maximum of [5].

*A balanced response is one that provides at least one argument for and one argument against **each option**.*

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.

4. (a) Describe **one** characteristic of a niche market.

[2]

Characteristics of a niche - a segment within a segment - market include:

- Highly differentiated well defined, **small/narrow** market with specific identifiable common needs and characteristics.
- High end, highly differentiated products/ services being sold at a high price for a small/narrow group of consumers.

Candidates must refer to the small size of the niche/ segment otherwise the answer can fit the characteristics of a segment.

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.

Do not credit an example.

(b) With reference to SV, explain **one** advantage **and one** disadvantage of using secondary market research.

[4]

Advantages of using 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. SV needs to react quickly to the increased competition and therefore it is vital that the relevant information is collected quickly.
- Effective in terms of cost – often secondary research is free and, when it is not, is typically less expensive than the process of gathering primary research. As SV is looking for other possible markets, it would be very time consuming and expensive to sample many regions. Often, sample secondary research already exists. It has allowed SV to consider new geographical markets /new segments which it may not have considered before.
- SV researchers can conduct a STEELPE analysis on different regions to evaluate social, economic and legal factors before a decision is made.
- Low cost to gather conflicting information/ opinions.
- Given the question that should be answered- the decision about suitable regions, the scope for primary research is very limited.

Disadvantages of using secondary market research include:

- Lack of precise focus on the issue or problem concerning the business. The stimulus refers to potential markets. SV may have to consider carrying out primary market research in these “potential markets” to get specific responses to specific issues like the perceptions of its premium wines.
- Lack of most up to date information– often secondary research is outdated. If SV is going to target different markets they need to be confident that this secondary research is relevant and up-to-date. What if external factors have changed since the data was collected?

- Uncertainty about the quality of the data collection/research. Some information, perhaps put by the government on the health of the population/ the prosperity of some segment etc may be inaccurate and biased.

Accept any other relevant/ applicable advantage/ disadvantage.

Mark as 2 + 2.

*Award **[1]** for each relevant advantage/disadvantage explained and **[1]** for appropriate application to SV to a maximum of **[2]**.*

***[2]** can- not be awarded for each reason used 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) Given the intense competition, explain **two** pricing strategies SV might consider.

[4]

SV is currently charging a relatively high/ premium price and the competition is increasing.

Pricing strategies that SV might consider include:

- **Cost-plus (mark-up)** – SV may want to return to this pricing strategy, with a lower mark up to remain competitive. This pricing strategy will guarantee that for each bottle of wine it sells the business is covering its per unit costs and making some profit.
- **Promotional** prices
- **Loss leader** – SV could try a loss-leader strategy as a short- term 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, and other such as attracting customers through low prices, could weaken SV's brand identity.
- **Price discrimination** – SV might consider price discrimination. 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 affluent buyers. Nevertheless, prices of virtually all types of goods and services cost less in Charlotte than in New York. But rely on 'separable' markets. Third parties could buy the wine in Charlotte and sell in NY for a profit or for less than SV are selling it.
- **Penetration** – SV could use this pricing strategy only if or when it enters a new market or introduce new types of wines. It is important that the candidates demonstrate understanding of the suitability of this strategy **for new markets or different products** only. Penetration pricing would allow SV to attract first-time customers in new suggested markets with lower than the average market pricing. It is not an innovative product so perhaps this is a suitable strategy. Also, there might be a possibility that once some brand loyalty develops, SV could then raise prices.

Please note: Do not fully credit penetration strategy if the reference to new product/ or entering new markets is not made.

If predatory pricing is used award full marks only if the candidate makes the assumption of a market leadership position and financial strengths of SV 's ability to use this strategy as it is a family business after all.

Premium price/ price skimming are not relevant strategies given the competition and the fact that the wine is not an innovative product.

Accept other relevant pricing strategies if there is a clear indication of why this may be acceptable to SV, given the increased competition and the nature of the premium market.

For full marks If **psychological** pricing is used, the candidates should apply by explaining how the pricing strategy is relevant in relation to the competitors.

Psychological pricing cannot be used as a source of competitive advantage as the competitors are likely to do the same.

Candidates are not expected to provide counter arguments to their chosen pricing strategy as the command word is 'explain'.

Mark as 2 + 2.

*Award **[1]** for each relevant /**appropriate** pricing strategy explained and **[1]** for appropriate application to SV to a maximum of **[2]**.*

***[2]** cannot be awarded for each pricing strategy used if the response lacks either explanation **and** / **or** application.*

For example:

*For an identification or a description of a pricing strategy **with or without** application **[1]**.*

*For explanation of a relevant pricing strategy with **no** application **[1]**.*

*For explanation of a relevant pricing strategy **and** application **[2]**.*

- (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 to guarantee more revenue and reduce the risk on relying on its current local market at a relatively short time and minimal investment.
The set-up is relatively quick and the investment in an e-commerce store is relatively inexpensive. It is important for a company like SV trying to enter new markets to keep costs of entry low so it can compete on price, given the current competition.
- Using e-commerce will enable SV to constantly adjust some of its marketing mix like pricing and promotion in line with the competitors or in more creative ways. Promotion and advertising can easily be extended via social network sites.
- 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 which is important in a premium market.
- Customers find the use of e-commerce easy and convenient. If SV ensures cheap/ free and efficient delivery, SV has a good chance of increasing its geographical or otherwise customer base. It is also utilising more of the ‘process’ aspect of the extended marketing mix.
- It will be easier for SV to withdraw this option compared with signing contracts with different wholesalers.

B2C e-commerce also has **disadvantages**, which include:

- Initially, customers who would have bought directly from the vineyard could go online instead. Overall sales may increase marginally.
- 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.
- Selling small orders to individual throughout the US could increase the administration costs.
- SV has to come up with a suitable and efficient physical distribution strategy How will the wine reach potential customers from all over the world or even just the US?
- New supply chains to reach new customers may have to be created adding to short-term costs. Wholesalers will have to be used to deliver the wine.
- Alcohol is a heavily regulated product, especially in the United States, and it could be complicated and cumbersome for SV making sure that it complies with federal and state laws (laws regarding alcohol vary from state to state) and it might be even more legally complicated if selling abroad.
- By selling online SV will lose its process and physical evidence of the marketing mix created by the interaction between the buyers and SV. A mix that was possibly one of its USPs given the information in the stimulus re: events, luxurious experience and so on.
- 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 is likely to have a well-established network of other intermediaries and retail outlets. SV is likely to be able to penetrate many markets compared to the unknown chance of success using e-commerce.
- The wholesaler stores the product, thereby reducing storage costs of wine 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 from individuals or retailers as is likely to be the case when selling online. This may be important in a premium market.
- SV wants to sell to long distance markets – the entire United States – this approach pushes much of the complicated processes of distribution onto wholesalers.

However, working with wholesalers has disadvantages:

- Wholesalers sell the products of many companies, and their loyalties and highest priorities may be with other established 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. However, research revealed that there are other markets for high quality wine.
- 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. SV cannot be confident that the wholesales will position SV's new wines positively. Delays can seriously affect the quality and hence the reputation of SV which can undermine its current positioning/ brand image. Perhaps not a risk worth taking. Withdrawing some contracts can incur heavy legal costs to SV. Costs that are possibly unaffordable in a very competitive environment.
- Lacks important customer feedback that existing distribution allows.

Accept any other relevant argument for and against each option.

Overall, option 2 is possibly the longer- term option, which involves considerable costs, it is potentially the greater risk, but the profits could be considerable compared to option 1. Perhaps SV should start with the option of e-commerce and if successful use wholesalers to distribute the wine.

It is expected that candidates provide a conclusion with a substantiated judgment regarding the best option.

Candidates can provide any conclusion and judgment if it is substantiated.

Accept any other substantiated judgment.

Examiners' judgment should be based not just on the number of the arguments in terms of balance but on the quality/ clarity /relevance of the argument.

Marks should be allocated according to the markbands on page 5.

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].

*If a candidate evaluates / addresses only one option in a balanced manner award a maximum of **[5]**.*

A balanced response is one that provides at least one argument for and one argument against each option.

*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.*

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.
- No consultation and discussion between management and employees. Employees are told about the decisions which are taken by an 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:

- **Autonomy** – Gen Y allows for employees to work on individual dream projects. They are also empowered to make their own decisions. The autonomy is evident in terms of time especially extra time given to work on dream projects, tasks, techniques to be used as well as trust, empowerment and delegation by the management.
- **Mastery** – there is evidence from the stimulus that Gen Y has used cognitive training. This would presumably build or enhance capacity to develop and refine the programmers' skills. The programmers and the coders are encouraged to be intrapreneurs and to take risks. as stated above, GenY supports employees to eliminate fear and anxiety about failure and boosting motivation according to Pink and allowing them to be more creative. The 'dream' project time also adds to this.
- **Purpose** –the meaning of purpose in the stimulus is connecting to something larger than oneself that drives the highest motivation. The programmers and the coders develop the required sense of purpose that enhances motivation. Their ability to create high-quality reports providing innovative market research for other people. Work for its clients possibly creates purpose maximisation rather than just profit maximization. The employees can clearly see their contribution to the **wider community**, more than just themselves. This would act as a motivator for Gen Y programmers as they are carrying out ground-breaking work.

Mark as 2 + 2 + 2.

Award [1] for each relevant factor/drive explained and [1] for appropriate application to the organization to a maximum of [2].

*[2] cannot be awarded for each factor/drive used if the response lacks either explanation **and** / **or** application.*

For example:

*For an identification or a description of a factor/drive **with or without** application [1].*

*For explanation of a factor/drive with **no** application [1].*

*For explanation of a factor/ drive **and** application [2].*

Just mentioning the name of the business does not constitute application.

- (c) Explain **one** reason, **other than** increased sales revenue, why it is important that Gen Y generates new revenue streams. [2]

The question is about new revenue stream. 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 and provides cognitive training, which are all very expensive

To remain innovative and sustainable Gen Y will need to secure new finance through new revenue streams as the current single revenue stream is **not profitable**. GenY should also find other sources of revenue generators, **diversify** into other markets or products to reduce the **risk** of relying on just one service/ product.

Accept any of the above as one valid reason.

Mark as 2

Award [1] for each relevant reason explained and [1] for appropriate application to Gen Y to a maximum of [2].

[2] cannot be awarded for each reason used if the response lacks either explanation **and / or** application.

For example: For an identification or a description of a reason **with or without** application [1].

For explanation of a reason with **no** application [1].

For explanation of a reason **and** application [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 will weaken Zack's control. Both will have equal power in decision making. However, it will ensure in the short term that *Gen Y* remains viable. *Gen Y* is in urgent need of finance so perhaps Zack does not have much of a choice.

The importance of the venture capitalists' view is also valid as with the sale they would now have the swing votes on important decisions. Does their exit strategy look better with Petra or Zack?

However, to receive this funding, Petra has added conditions that Zack must accept. These conditions will not be popular in an organization that has 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. Given the culture and the level of motivation one may judge this issue as extremely significant. The stimulus states 'To retain the best programmers.....'. Those departing may turn into competitors.

Further, the insistence on specific targets for programmers may impose deadlines/restrictions, which may be too much for the employees to take as they have been empowered to make their own decisions. A change of culture which will impact on creativity, innovation and motivation may have dire consequences in the medium to long term. Autocratic leadership styles and setting targets are opposing factors according to Pink compared to being motivated. *Gen Y* relies on its employees' creativity, innovation and motivation for success.

Accept any other argument for and against.

Overall, 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 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.

Candidates might offer different solutions like not accepting Petra's offer and look for venture capitalists with different views on what motivates employees. Or simply ask

the existing VC's to increase their stake in return for a more gradual focus on strategies emphasising the bottom-line

It is expected that candidates provide a conclusion with a substantiated judgment.

Candidates can provide any conclusion and judgment as long as it is substantiated.

Accept any substantiated judgment.

Marks should be allocated according to the markbands on page 5.

Examiners' judgment should be based not just on the number of the arguments in terms of balance but on the quality/ clarity /relevance of the argument.

*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]**.*

A balanced response is one that provides at least one argument for and one argument against ~~each~~ the option.

*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

Please mark the candidate response using the assessment criteria on pages 4 to 5.

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/ 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 use 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 to 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’.
-

Business management
Higher level
Paper 2

Friday 10 November 2017 (morning)

2 hours 15 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- A clean copy of the **business management formulae sheet** is required for this examination paper.
- Section A: answer one question.
- Section B: answer two questions.
- Section C: answer one question.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[70 marks]**.

Section A

Answer **one** question from this section.

1. Pelican Pies (PP)

Pelican Pies (PP) produces high-quality pies that have limited brand loyalty outside of their local market. The prices of the pies are higher than those of *PP*'s competitors.

Table 1: Selected financial information for *PP* for the year ending 30 April 2017.

Number of pies sold	8000
Price of each pie sold	\$4.00
Cost of goods sold per pie	\$1.75
Expenses	
• Electricity per month	\$200
• Rent of premises per quarter	\$1000
• Promotional expenses per year	\$1000
8 % interest per year paid on a loan of	\$40 000
Tax	25 % of profits

For 2018, *PP*'s owner, Austin, is looking to increase sales beyond the local market by lowering prices and spending a greater proportion of *PP*'s promotional budget on above-the-line methods such as regional newspaper advertisements. To finance this type of promotion, Austin will have to increase his loan amount by \$10 000.

Table 2: Selected financial information for the year ending 30 April 2018.

Number of pies sold	20 % increase on 2017 figure
Price of each pie sold	30 % decrease on 2017 figure
Cost of goods sold per pie	\$1.75
Expenses	
• Electricity per month	\$200
• Rent of premises per quarter	\$1000
• Promotional expenses per year	200 % increase on 2017 figure
8 % interest per year paid on a loan of	\$50 000
Tax	25 % of profits

- (a) Describe **one** reason why brand loyalty would be important to *PP*. [2]
- (b) Construct a profit and loss account for *PP* for the year ending 30 April 2017 based on the figures in **Table 1** (*show all your working*). [4]
- (c) Construct a forecasted profit and loss account for *PP* for the year ending 30 April 2018 based on the figures in **Table 2** (*show all your working*). [4]

2. Tasty Cupcake (TC)

Luis and José have set up a partnership, baking and selling cupcakes directly to consumers and supermarkets. They called the business *Tasty Cupcake (TC)*. They used their savings of \$3000 as starting capital. The partners need an overdraft agreement from the local bank. The bank manager asked for a cash-flow forecast.

Luis has forecasted the following sales and cost figures for the first six months of operation, beginning in January.

Sales

- Average selling price of one cupcake: \$5.
- Sales of cupcakes: 1300 cupcakes in January and 1700 cupcakes per month from February
- 70 % of customers who purchase cupcakes will pay in cash. The supermarkets will buy the remaining 30 % of cupcakes on credit and pay one month later.

Costs

- Rent: \$6500, payable at the start of each quarter.
- Labour costs: \$750 per month.
- Raw materials: 50 % of sales revenue per month, paid in cash.
- Overheads: \$400 per month, paid in cash.

- (a) State **two** features of a partnership. [2]
- (b) Prepare a monthly cash-flow forecast for *TC* for the first six months of operation. [6]
- (c) Calculate *TC*'s forecasted net profit at the end of June (*show all your working*). [2]

Section B

Answer **two** questions from this section.

3. Pedro

Pedro is a farmer who operates as a sole trader in a developing country. Like other farmers in his community, he grows oranges, which are sold to buyers in developed communities and large cities. Working in the primary sector often results in very low income and poverty for some of the farmers. Most children do not go to school, as they are needed in the fields for manual work. Cooperation between the farmers in this community is very limited due to linguistic and cultural differences.

Recently, farmers' incomes have fallen further. Pedro has conducted social, technological, economic, environmental, political, legal and ethical (STEEPLE) analysis and identified two main external threats that are impacting on farmers' incomes:

- competition from orange producers from developed communities and large cities with improved technology and higher productivity rates
- a severe and sustained drought affecting the level of orange production in all developing countries.

Pedro would like to improve productivity as an orange producer. Investing in new technology is risky and would require extensive research and development. The internet is unreliable and Pedro is unable to raise funds for this investment himself to change current production methods.

Pedro has arranged an emergency meeting of local farmers. He proposes that all farmers in his community create an agricultural cooperative and collectively raise funds to invest in new capital-intensive farming methods. The investment in technology could allow them to diversify into the manufacturing of bottled orange juice drinks.

- (a) Define the term *productivity rate*. [2]
- (b) Explain how each of the two external threats arising from the STEEPLE analysis would have impacted on farmers' incomes in the developing world. [4]
- (c) Explain **one** cost **and one** benefit to Pedro of conducting extensive research and development. [4]
- (d) Examine Pedro's proposal to create an agricultural cooperative in his community rather than continuing to operate as a sole trader. [10]

4. Music Mania (*MM*)

Music Mania (MM) is an independent store selling new and used music compact discs (CDs), DVD films and music vinyl records. It is a sole trader business owned by André, who has 25 years of experience in the retail and music business. *MM* has loyal customers but its total revenue is falling. The store currently has a low market share in DVDs and vinyl records.

André decided to conduct some primary and secondary market research, as the entertainment industry is changing rapidly. He discovered that:

- the market for DVDs is in rapid decline
- CD sales are declining slowly but new releases still sell well
- *MM* has had to stock computer games, which are selling out very quickly, and the sales of new vinyl records are growing slowly.

André is accustomed to variations in sales but the current sales forecasts are, in his experience, the most worrying. He has decided to create an e-commerce website to increase his sales of new and used vinyl records and CDs. André is also aware that new free online music streaming and gaming sites are being launched.

André has only limited internal sources of finance to set up the website. Two new tactics to ensure future success for *MM* being considered are:

- to stop selling DVDs
- to increase below-the-line promotional spending on vinyl records.

- (a) Define the term *secondary market research*. [2]
- (b) Explain **one** advantage **and one** disadvantage for *MM* of using sales forecasting. [4]
- (c) Explain **one** cost **and one** benefit for *MM* of setting up an e-commerce website. [4]
- (d) Using the Boston Consulting Group (BCG) matrix, discuss the **two** new tactics André is considering to ensure *MM*'s future success. [10]

5. Green Clean (GC)

Green Clean (GC) is a private limited company. Its unique selling point (USP) is offering high-quality and reliable cleaning services by teams of professional cleaners who clean offices and houses.

GC has strong ethical objectives. They only use eco-friendly cleaning products and pay their employees fair wages. Labour turnover is low and many cleaners have worked for the company for over two decades.

However, the cleaning market has become very competitive. GC has been slow to react. Other cleaning companies are beginning to offer a wider range of services. GC's management has decided to introduce a new gardening service to create new revenue streams. GC will have to recruit professionally trained gardeners from wide geographical areas, as they are difficult to find. GC will have to pay these new gardeners at least 20 % more than cleaners to attract them. GC has limited experience in recruiting employees other than cleaners.

The cleaners are becoming demotivated because they are unhappy about the difference in pay between cleaners and future gardeners. They believe that gardeners are not more skilled than cleaners but just have a different skill set. Human resource managers are concerned about the potential impact of demotivated cleaners and are looking for ways to improve morale. One option they are considering is to offer cleaners an employee-share ownership scheme. Shareholders, however, are opposed to this proposal.

- (a) Define the term *ethical objective*. [2]
- (b) Explain **one** advantage **and one** disadvantage to GC of having low labour turnover. [4]
- (c) Explain **two** possible steps in the recruitment process of gardeners for GC. [4]
- (d) With reference to **two** motivation theories, examine the motivation of cleaners at GC. [10]

Section C

Answer **one** question from this section. The organizations featured in sections A and B and in the paper 1 case study may not be used as a basis to your answer.

6. With reference to an organization of your choice, examine the impact of **innovation** on operations management **strategy**. [20]
 7. With reference to an organization of your choice, discuss the ways in which **globalization** can influence organizational **culture**. [20]
 8. With reference to an organization of your choice, discuss the ways in which **ethics** and **change** can influence human resource management. [20]
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Markscheme

November 2017

Business management

Higher level

Paper 2

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The markbands and assessment criteria on pages 5–7 should be used where indicated in the markscheme.

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.

Section A

1. (a) Describe **one** reason why brand loyalty would be important to *PP*. [2]

Brand loyalty would be important to *PP* given that they operate in a local market with a number of competitors and that the prices they charge are higher. Given this fact, it would be critical for *PP* to have brand loyalty or their sales could fall (although not on the stimulus, sharp-eyed candidates may spot that *PP*'s pies are price inelastic given the additional information for 2018).

Accept any other relevant description.

Award [1] for a theoretical reason of the importance of brand loyalty.

*Award [1] for application to *PP*.*

- (b) Construct a profit and loss account for *PP* for the year ending 30 April 2017 based on the figures in **Table 1** (*show all your working*). [4]

Profit and loss account for *PP* for year ended 30 April 2017:

	\$
Sales (8000 × \$4)	32 000
Cost of goods sold (8000 × 1.75)	<u>14 000</u>
Gross profit	18 000
Expenses	
Electricity (12 × 200)	2400
Rent (4 × 1000)	4000
Promotional	<u>1000</u>
	<u>7400</u>
Net profit before interest and tax	10 600
8 % of \$40 000	<u>3200</u>
Net profit before tax	7400
Tax @25 % on net profit	1850
Net profit after interest and tax	5550 _____

Award [1] if there is some understanding of how to construct a profit and loss account. The figures may be inaccurate and there are a number of errors in presentation and calculations.

Award [2] if there are two or more errors which includes omission of working, formatting error, mathematical error, presentation eg net profit before interest and net loss before tax are not clearly labelled.

*Award a maximum of [3] if the profit and loss account is correct and well-presented but there are no **full** supporting calculations.*

Award [3] if there is one error which includes omission of working, a formatting error or a mathematical error etc. Do not double penalize a candidate if they have made only one error earlier in the profit and loss account.

Award [4] for a completely correct profit and loss account, which conforms to the IB suggested format. Headings are clear, well-presented.

Candidates may not term each item under expenses.

The IBO format does not specify different items therefore, working of electricity, and rent per year are not expected.

*Supporting working is expected with the calculation of **total revenue/costs/interest/tax** are given.*

- (c) Construct a forecasted profit and loss account for *PP* for the year ending **30 April 2018** based on the figures in **Table 2** (show all your working).

[4]

Profit and loss account for *PP* for year ended 30 April 2018:

	\$	
New sales quantity = 8000×1.2	9600	
New price ($\$4 - 30\%$) = $\$4 - 1.2 = \2.8		
Sales ($8000 \times 1.20 \times \2.8)	26 880	
Cost of goods sold (9600×1.75)	<u>16 800</u>	
Gross profit	10 080	
Expenses		
Electricity (12×200)	2400	
Rent (4×1000)	4000	
Promotional	<u>3000</u>	
	<u>9400</u>	
Net profit before interest and tax	680	
Interest of 8 % of \$50 000	4000	_____
Net loss before tax	3320	
Accept Net profit before tax	(3320)	
Accept "retain profit".		

N.B. Do not double penalize candidates if they use the same incorrect format from part (b).

Award [1] if there is some understanding of how to construct a profit and loss account. The figures may be inaccurate and there are a number of errors in presentation.

Award [2] if there are two or more new errors which includes omission of working, formatting error, mathematical error, presentation eg net profit before interest and net loss before tax are not clearly labelled.

*Award a maximum of **[3]** if the profit and loss account is correct and well-presented but there are no **full** supporting calculations.*

*Award **[3]** if there is one error which includes omission of working, a formatting error or a mathematical error etc.*

Please do not double penalize a candidate if they have made only one error earlier in the profit and loss account.

*Award **[4]** for a completely correct profit and loss account, which conforms to the IB suggested format. Headings are clear, well presented and supporting working to calculate figures of **total revenue/costs /interest** are given.*

Please note:

If the candidate was penalised for inappropriate structure or headings/format in part (b) and repeats the same in part (c) provided that the workings are correct and shown, do not double penalise and award full marks.

Generally, do not double penalise again any wrong headings/ omissions presented in part (b) and repeated in part (c). Question (c) is more about the manipulation/ calculation of the old figures.

Working is expected in part (b) and (c) and if there is no working in (c) as well as in (b), it is an omission.

2. (a) State **two** features of a partnership.

[2]

Possible features include:

- more than one partner up to around 20
- share profits/risk
- unlimited liability.

Accept any other relevant feature.

Do not accept shares – they cannot be sold on the stock market as there are no shares.

Accept shares cannot be issued.

Award [1] for each correct feature stated. Award a maximum of [2].

Application is not expected.

- (b) Prepare a monthly cash-flow forecast for TC for the first six months of operation.

[6]

	January	February	March	April	May	June
Opening balance	3000	(3350)	(850)	2250	(1150)	1950
Cash inflows						
Cash sales	4550	5950	5950	5950	5950	5950
Cash in from credit sales		1950	2550	2550	2550	2550
Total inflows	4550	7900	8500	8500	8500	8500
Outflows						
Rent	6500			6500		
Labour	750	750	750	750	750	750
Raw materials	3250	4250	4250	4250	4250	4250
Overheads	400	400	400	400	400	400
Total outflows	10 900	5400	5400	11 900	5400	5400
Net cash flow	(6350)	2500	3100	(3400)	3100	3100
Closing balance	(3350)	(850)	2250	(1150)	1950	5050

N.B. Allow candidate 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. This provision includes both mathematical errors and conceptual errors (for example, if a candidate has the rent in the incorrect month then candidates should only lose [1] for that error.

Award **[1]** if the candidate conveys some understanding of what a cash flow forecast is, but otherwise the forecast is largely inaccurate, incomplete, or illegible.

Award **[2–3]** if a cash flow forecast is drawn, but **either** it is not in a generally accepted format or it is untidy, **and/or** the forecast contains three or more errors, which could include, in addition to number placement problems and mathematical errors, conceptual errors (using the word “profit” rather than “net cash flow”) or omissions, such as not having a line like “closing balance” or totals.

Award **[4–5]** if the cash flow forecast is drawn essentially correctly and neatly in a generally accepted format, but there is one error for **[5]** or two errors for **[4]**.

Award **[6]** if the cash flow forecast is drawn accurately and neatly in a generally accepted format, and is error free.

If the candidate provided a heading of total inflow/outflow without using another heading above of inflow or outflow – do not penalise as an omission.

If the candidate omitted **both** headings of outflow/inflow = one error

Substituting the term “net profit in the cash flow forecast for “net cash flow” is inaccurate and **[1]** should be deducted.

If the candidate has only one row for all cash outflows, subtract **[1]** from the total mark awarded.

Full working is not expected.

- (c) Calculate TC’s forecasted net profit at the end of June (show all your working). **[2]**

Closing balance in June – opening balance in January plus credit sales =
5050 – 3000 + 2550 = \$4600.

2550 are added as there was an additional amount of cash due which was credit before but should be added to the total revenue.

Accept any other relevant working provided the workings are clear and logically presented.

Award **[1]** for working and **[1]** for the correct answer. Award up to a maximum of **[2]**. If the credit sales are not added then this counts as one error and **[1]** should be awarded.

Award **[1]** for working correctly **either** the total revenue **or** the total costs.

Sales rev (\$)		49 000
COGS		24 500
Gross profit		24 500
Less rent	13 000	
Labour	4 500	
Overheads	2 400	19 900
Net profit		4 600

Total Revenue = 1300 × \$5 + 1700 × \$5 × 5months = \$49 000.

Credit candidates who included the labor costs under direct costs.

Section B

3. (a) Define the term *productivity rate*.

[2]

Productivity rate is a relative measure of how efficiently inputs are converted into output/the ratio of outputs to inputs during production in **percentage**. A productivity rate gives an indication of how well resources are used in the production process.

$$\text{eg } \frac{\text{Total out in a given time period}}{\text{Total workers employed}} \times 100 = \frac{\text{Output}}{\text{Capital employed}}$$

Do not credit students who define the term as level of production or capacity utilization.

Formula is given so please do not credit the presentation of the formula

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. Possibly without mentioning the measurement in percentage.

Award [2] for a full definition that conveys knowledge and understanding similar to the answer above. For [2] there should be some indication that the organization converts inputs into outputs effectively or efficiently measured in percentage/ rate.

- (b) Explain how each of the two external threats arising from the STEEPLE analysis would have impacted on farmers' incomes in the developing world.

[4]

The question is about the process of the external factors.

If orange producers from the developed communities employ new **technology** with higher productivity rates, the prices of oranges are likely to fall for the customer. Developing communities will likely experience a decrease in demand for their oranges and thus, even if prices of oranges do not change, will see a reduction in income.

A sustained and severe drought affecting the level of orange production in developing countries will likely lead to a shortage of oranges and thus higher prices for Pedro's stock. Customers are unlikely to purchase from higher price producers and coupled with the falling prices from the developed producers who are **competitors**, the developing farmers' **incomes** are likely to fall further.

Mark as 2 + 2.

- For an identification or a description of an impact / external threat with or without application [1].
- For explanation of the impact of/ one external threat with **no** application [1].
- For explanation of the impact of one external threat **and** application [2].

Explicit reference to the demand and supply of oranges is not expected.

- (c) Explain **one** cost and **one** benefit to Pedro of conducting extensive research and development.

[4]

The question is essentially about researching and developing new technology rather than market research of customers' opinions etc.

Costs

Harvesting in the developing community is labour intensive, children will need supervising and the internet is unreliable. Pedro may not have the time and the resources to carry out research and development into new technology. The time taken to undertake research and development will lead to significant expenses for Pedro. Moreover, the opportunity costs in terms of not working in the field could be considerable for Pedro.

As the technology is untested, the poorer community can ill afford for this technology not to work as they have limited funds. There are significant risks/costs of failure for the developing communities at a time when incomes are falling.

Accept any other relevant/ applicable cost

Benefits

The potential benefits for the community of research and development are the productivity benefits allowing developing communities a more level playing field with respect to competition with the developed farmers. Unit costs could fall, and therefore prices to customers, increasing the demand for oranges. Perhaps it is a risk worth taking in terms of time and resources.

By conducting research and development, Pedro could attract an angel investor/innovator who for marketing or ethical reasons may be willing to allow Pedro to try new, untested technology at a deep discount or even for free as a public relations exercise. This could benefit Pedro and other community members especially if the cooperative is formed.

Accept any other relevant cost/benefit.

Mark as 2 + 2.

- For an identification or a description of one benefit/ cost with or without application [1].
- For explanation of one benefit/ cost with **no** application [1].
- For explanation of one benefit/ cost **and** application [2].

Application must refer to researching technology.

- (d) Examine Pedro's proposal to create an agricultural cooperative in his community rather than continuing to operate as a sole trader.

[10]

There are a few issues that the candidates can cover and evaluate. Issues could include the advantages of being a sole trader in terms of control over decision making, for example, as opposed to operating as a cooperative.

It is expected that the candidates show understanding of, if not explicit explanation as to what a cooperative is/relevant reference to cooperative, not just to the name. Creation of a cooperative is much more than just pooling resources, etc. While a cooperative is a for-profit organization, it will have the much-needed social objective to solve the problem of child labour, lack of education and

poverty. Something that each individual sole trader is clearly unable to do given the information in the case study. One may judge the above as a very strong argument in favour of the creation of cooperative as the issue of poverty and children working in the fields are acute.

It should be noted that creating a cooperative could enable Pedro and the other farmers to raise the much-needed finance as well as diversifying and engaging in secondary sector activity.

Being a sole trader, Pedro (and the other farmers) experience a lack of financial power and engage in a high-risk operation due to the nature of the business and living in a harsh environment. The stimulus indicates that these farmers are experiencing a high level of uncertainty, low income and even poverty, with little or no opportunity to improve. With no support, all can be lost as each farmer is facing unlimited liability.

By creating an agriculture/producers' cooperative, the farmers will pool resources together in order to raise the finance needed for investment in new technology, market their products to compete with international competitors and possibly diversify and produce an orange juice drink. Pedro, and the other farmers in the cooperative, through a division of labour, shared responsibility and mutual support might be able to negotiate better loans, better prices for crops and reduce the reliance on basic primary, unpredictable weather dependent crops if they diversify in the medium to long term. If the option of diversification is pursued it will guarantee a higher and steady income rather than a seasonal income. One may judge this issue as highly significant given the current harsh conditions and external threats.

Moreover, the farmers might be more motivated due to their ability to collaborate and make decisions in a democratic manner. The quality of the decision making may be better.

The financial gain will also be transferred into a social gain, which the community needs. Priority can be given to the children's education instead of the children supporting each sole trader in the fields. One may judge this issue/benefit as highly significant.

While there are theoretical and practical disadvantages of operating as cooperatives, like some disincentives to work due to low wages, slower and dependent decision-making processes compared to independent and fast decision making by Pedro and the other farmers. The main disadvantage is the cultural and linguistic differences among the farmers that might create some misunderstanding and possibly a clash as well as the long decision-making process in the short term. Moreover, the movement into the secondary sector might be too difficult for the farmers. Lots of training will be needed in terms of production and marketing and investment in different technology. This operational shift might be a hindrance but the farmers can decide that short term investment in farming methods is of the highest priority and perhaps in the longer term, when farming methods are more efficient, they can move into the secondary sector.

Some judgment:

Still, in this case, one may judge that the arguments for the proposal are more significant and outweigh the arguments against. Linguistic and cultural differences with training and wider community support can be overcome in the

medium to long term, especially if profit is made and can be further invested into some social projects. Remaining as sole traders will leave the farmers with little or no power at all. Decision making power is highly theoretical here given the level of poverty.

Pedro should seriously consider creating the cooperative.

Accept any other relevant issue.

Accept any other relevant examination.

A conclusion with judgment is expected.

A balanced response is one that covers at least two arguments for and at least two arguments against.

Marks should be allocated according to the mark bands on page 3 with further guidance below.

*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.*

Candidates cannot reach the top marks if there is no relevant reference/application to the nature of a cooperative and its social context/relevance to the current life of the farming community.

4. (a) Define the term *secondary market research*. [2]

Secondary market research or desk research refers to the collection of second hand data by a business for decision-making that is derived from second hand sources /published sources by a third party. It has not been collected first hand by the business themselves.

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. For [2] there should be some indication that the organisation is actually carries out a research/ action.

Some students are likely to define secondary sources while the definition is about research.

No examples are needed

No application is required.

- (b) Explain **one** advantage and **one** disadvantage for *MM* of using sales forecasting. [4]

One advantage of using sales forecasting is that it will allow a firm such as *MM* to look at future sales forecasts of its product portfolio and make changes where necessary. This will save the business considerable expense, stocking costs and influence future cash flow needs. Forecasting allows *MM* to plan ahead and can also impact on human resource planning and finance needs if cash flow forecasts indicate that there may be a shortage. There is evidence form the case study that *MM*'s product portfolio revenue streams are changing. *MM* is experiencing changing sales of all of its stock so is planning by using forecasts, André can avoid over stocking and tying up valuable capital in unsold DVDs or CDs for example or can transfer more resources towards the fast selling computer games. Decision making at *MM* may be more accurate. To be forewarned is to be forearmed.

Disadvantages for *MM* are linked to the inevitable fact that sales forecasts are merely that – future predictions are based on past data, which, given the existence of external factors some of which are mentioned in the stimulus and unexpected events, cannot be fully accurate. There is evidence from the stimulus that André expects sales to be variable (possible cyclical or seasonal variations) and even with all relevant future economic and social data at his disposal, forecasts can still be widely inaccurate. For example, vinyl record sales are expected to rise but what if another musical format is created within the next five years? André also has considerable experience in this industry and is aware that sales are changing rapidly. Sales forecasts may be out of date by the time the data has been collected if they are every month or quarter. Sales forecasts in this context may be of little value to *MM* in such a fast changing industry.

Mark as 2 + 2.

*[2] cannot 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].

Candidates are expected to show some understanding of sales forecasting methods.

- (c) Explain **one** cost and **one** benefit for *MM* of setting up an e-commerce website. [4]

The benefits to *MM* from setting up an e-commerce website will be linked to increasing customer awareness and sales.

- CD and especially vinyl sales should increase, as the e-commerce site may allow for targeting more potential customers in different regions who are interested in vinyl records and possibly CD. There is a greater chance of success as relying on customers for such a retro segment to visit the physical store is rather limited.
More detailed product descriptions, customer feedback/reviews will be possible. The e-commerce website will deepen customer relationships, especially if *MM* can run a social media campaign alongside building brand and customer loyalty to the site.
- The e-commerce platform will also allow *MM* to generate much needed advertising revenue through increased loyalty in the future.

The costs are linked to the inevitable restructuring of the business that e-commerce will demand and could be considered to be both short term and long term.

- The e-commerce site will need to be built, managed and monitored by a new staff member. This will drain *MM*'s cash reserves at a time when total revenue is falling.
- Existing staff will require training or newly employed staff hired such as technology experts to run and update the e-commerce facility and possibly create social media support. Costs are likely to rise in the short term and again, *MM* is facing fall in revenue and finance is limited.

If the e-commerce site is to be fully functional then new distribution channels around delivery of vinyl records and newly released CDs that are both growing in sales to the customer will need to be identified, researched and set up. This will also take time and André will have to find additional resources. The stimulus indicates that finance is limited.

An e-commerce website will add a new layer of complexity to *MM*'s operations and logistics and *MM* has not got the right experience therefore more finance will have to be raised for training, hiring people and so on.

Please note:

Whatever relevant costs that a candidate explains or describe needs to be applied specifically to *MM*'s lack of finance / lack of experience.

Mark as 2 + 2.

Award [1] for identifying or describing the cost / benefit for *MM* of setting up e-commerce and a further [1] for a development with respect to *MM*. Award a maximum of [2].

*[2] cannot be awarded per cost / benefit if the response lacks either explanation **and/or** application.*

For example:

- For an identification or a description of a cost / benefit **with or without** application [1].
- For explanation of a cost / benefit with **no** application [1].
- For explanation of a cost / benefit **and** application [2].

- (d) Using the Boston Consulting Group (BCG) matrix, discuss the two new tactics André is considering to ensure *MM*'s future success.

[10]

Revenue is falling, computer games sales are rising and now André is considering the possibility of setting up an e-commerce business website. Although *MM* and André have been in the business for 25 years, external factors are changing the nature of his business model. The two tactics are to stop selling DVDs and start increasing below-the-line promotional spending on vinyl records.

By applying the BCG matrix, we could argue that:

- DVDs are a **dog** (low market share and growth)
- vinyl records are a **problem child** or **question mark** (low market share but potential growth).

Removing or divesting the dog will free up shelf space in the retail store. DVD sales could be transferred and sold via the e-commerce site so that *MM* is able to make some form of contribution. More space for games is now possible. However, removing a product line from the portfolio is a risk, as some of *MM*'s loyal customers will be unhappy.

Keeping DVDs – although a dog – may block potential new retail rivals if it creates *MM*'s USP. It is also indicated in the stimulus that computer games are not *MM*'s core business.

So perhaps it is worth keeping the core product for a little longer until *MM* is clear whether the new product is doing well. If e-commerce is to be used, *MM* can potentially use a market development strategy and find some segment in less technologically advanced economies that are still interested in DVDs.

Increasing spending on below-the-line promotion seems like an appropriate tactic. Although *MM* has not got sufficient internal sources of finance, the product is in a question mark position with a potential to grow and be profitable. Profit that *MM* needs. One, therefore, may judge this tactic as highly appropriate especially as below-the-line promotional tactics are cheaper than above-the-line promotional tactics. Moreover, external sources of finance can be used. André needs to use below-the-line promotion methods to move the vinyl records to a star and hopefully a cash cow position so in the medium term, he will be able to milk the potential cow. Short term spending versus medium to long term benefits/profit seems like a good tactic.

It is expected that the candidates show a clear understanding/application of below the line methods rather than just promotion generally.

Moreover, below-the-line methods can be considerably cheaper than above the line methods of promotion which are currently very appropriate to *MM*. *MM* can use short-term sales promotion to encourage buying the product. Below-the-line

promotion can complement the decision to use e-commerce. *MM* can generate viral marketing and or/ use social media for promotion.

Candidates should be credited for classification of the vinyl as **a dog** given the low growth of the market share and for suggesting to use below-the-line promotion to extend the life cycle or not to spend money on above-the-line promotion.

Judgment

The BCG provides some clues as to what André should consider but there are some difficult choices to be made. Removing DVDs will allow for a greater stock of vinyl but removing a product line and replacing it with a problem child is risky. It may be sensible in the short term to keep the DVDs, as they will still contribute to growth. Spending more on below-the-line promotion seems more sensible given his loyal customer base and the future potential. If André can't keep both options and has to choose one tactic, perhaps the second tactic is more viable as there is more longer term potential as the market is growing and *MM* will more responsive to changes in the external environment.

Accept any other relevant issue.

Accept any other relevant discussion.

A conclusion with judgment is expected.

Accept any substantiated judgment

A balanced response is one that covers at least two arguments for and at least two arguments against.

As there are two tactics to discuss, a balance response is one that covers one argument for and one argument against each option.

Marks should be allocated according to the markbands on page 3 with further guidance below.

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].

For a lack of balance for both option 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.

If the candidate only considers one tactic then award [5] if the answer is balanced with a judgment.

If the candidate does not use the BCG matrix then award a maximum of [4] even if the response is fully balanced.

5. (a) Define the term *ethical objective*. [2]

Ethical objectives are the goals of a business based on a set of values or moral beliefs and guidance of the environment in which it operates. They should cover all the actions of an organization and guide its decision-making process and strategies/behavior.

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.

Award [2] for a full definition that conveys knowledge and understanding similar to the answer above. Some reference to the fact that ethical objectives are the basis for guidance regarding organisational behaviour, decision making strategies.

- (b) Explain **one** advantage and **one** disadvantage to GC of having low labour turnover. [4]

There is sufficient information in the stimulus for the candidates to apply. See below. The use of GC or a reference to “cleaners” does not constitute an application.

Low labour turnover has created a loyal workforce at GC. Recruitment costs are reduced and induction training will be minimal. Given that some workers have been at GC for nearly two decades. This kind of working environment creates a culture of trust and thus productivity and motivation. Evidence from the stimulus clearly show that GC’s USP is based on the reliability and quality of its employees.

However, low labour turnover may not allow for fresh new thinking or ideas to be introduced. This very advantage may render GC as an organization where some employees and their representatives may have become complacent and clearly there is evidence of inertia as GC was slow to react to the competitive forces. Also, there is the perception of resistance to change perhaps given the current culture of employees who have been working together for two decades. Given the new competition and slow reaction times, GC is in danger of stagnating.

Mark as 2+2

- 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 **two** possible steps in the recruitment process of gardeners for GC. [4]

Establish the nature of the job and create job analysis/job description/person specification – it is very important for GC to carry out a detailed job analysis/description and person specification as this will be the first time that gardeners' jobs have been created. In order to attract the most suitable gardeners such analysis is required. This makes the recruitment process quicker and more efficient and is likely to attract only the most suitable candidates.

Prepare a job advertisement:

As GC is going to recruit gardeners from wide geographical areas, they will have to advertise their new positions in a number of different media locations. Local job centres close to GC will not be suitable. GC should advertise nationally or even internationally through the internet or through gardening associations, as it is looking for professionally trained gardeners.

As GC has limited experience in this area, GC may have to find a recruitment agency external to the business to guide and manage the recruitment process. As GC is paying new gardeners 20 % more than cleaners and possibly spending on a recruitment agency, GC will want to ensure that they hire the most professionally trained gardeners. The agency will be able to screen potential candidates and select the best for GC's management to consider. This will minimize possible recruitment mistakes. Accept this point even if it seems more like a method rather than a step. This is more like subcontracting the process:

- Short list applicants.
- Conduct interviews.
- Conduct testing.
- Issue a contract.

Accept any other possible step in recruitment as long as it is applicable.

Candidates must fully explain and find some relevant application to the nature of the job/ the types of employees/ experience of the organisation of recruiting new types of employees and so on.

The later examples above are more generic so credit candidates who refer to the gardeners or the nature of the job.

For an identification or a description of a step in the recruitment process **with or without** application [1].

- For explanation of a step in the process with **no** application [1].
- For explanation of a step in the recruitment process **and** application [2].

- (d) With reference to **two** motivation theories, examine the motivation of cleaners at GC.

The question is asking to examine the cleaners' motivation NOT how it might be changed. Hence therefore the approach might be to state:

- a) Why were the cleaners motivated or what provides their motivation and what theories support this?
- b) Why the cleaners are becoming de-motivated and what theories support this?

There is plenty to support a) – fair wages, ethical products/practices – feeling of job security as many worked for more than 20 years and implied good working conditions. **Maslow's** theory of needs can support the fulfilment of the lower level of needs. Moreover, having worked for the organisation for such a long time clearly enable the cleaner to achieve the third level of need of love and belonging. One may also argue that as the cleaners are professional, the higher level of needs of self-esteem can be reached when they feel accomplished and proud of their high quality and reliable job performance.

Herzberg's theory can explain how some of the issues above are seen as the provision of the hygiene factors and some as motivators.

Perhaps **Pink's sense of purpose** due to ethical behaviour and contribution to the community can be applied, sense of **mastery** as although cleaning service is provided, nevertheless, the cleaners are professional and proud of their performance. However, there are no direct references/application to **autonomy**. Therefore, Pink's theory is only partly applicable to explain the past motivation of the cleaners.

Adams' theory can be used to explain that until now the cleaners perceived their wages as fair in relation to their contribution and there were no other types of employees to be used as a point of comparison. The equity of equal job/effort/skills = equal payments existed.

However, GC wants to recruit professional gardeners and pay them 20 % higher wages. This decision is causing resentment, insecurity, injustice and hence demotivation among current cleaners at GC. They are afraid of change.

The changes announced by the management have created some uncertainty and conflict with the gardeners. The cleaners feel that the gardeners do not deserve the higher wage and that the employee-share ownership scheme may be treated as a Taylor bribe? This uncertainty may undermine the **security needs** of the cleaners (Maslow) and the new wage structure which is deemed as unfair (Adams). Consequently, the cleaners are becoming demotivated and may reduce their efforts to address the sense of inequity and create a new balance (Adams)

The question of an employee share ownership (ESO) scheme might work as long as the gardeners do not demand the same so the perception of inequity will resurface again. ESO can be seen using Maslow / Herzberg as financial rewards = lower level of needs/ hygiene factors or, if significant as self-esteem/ motivators. Moreover, the shareholders are now opposing to the proposal. They feel a sense of inequity. There could be some consequences to GC.

Some cleaners, however, might find the proposal fair in the long term when GC makes a profit, but currently money has to be invested in recruitment to diversify in an increasingly competitive environment.

If this scheme is not successful, GC will need to look at other ways of motivating the cleaners otherwise conflict will deepen.

A judgement could be made that the demotivation is likely to be short lived once the cleaners get used the gardener's presence. Many firms operate with wide ranges of staff on different pay structures. If the concern was about job insecurity then management could easily allay this fear with face-to-face talks. It could simply be pointed out that GC is paying the going rate for gardeners and that the additional revenue stream is likely make the cleaners' jobs more secure in a competitive market rather than less secure.

Accept any other relevant conclusion and judgment.

Accept any relevant theory that is applied to the information given in the stimulus material.

Theorists and theories should be applied not just mentioned.

Accept any other relevant examination.

A conclusion with judgment is expected.

A balanced response is one that covers two motivation theories.

A balanced response is one that covers some opposing arguments. Candidates may use different theories to present contrasting views

Marks should be allocated according to the markbands on page 3 with further guidance below.

*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 6 to 7 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.

Additional examiner guidance may be added during standardization.

6. With reference to an organization of your choice, examine the impact of **innovation** on operations management **strategy**. [20]

It is expected that the candidates will explain the nature of the innovation they refer to eg adaptive, radical, creative, process and so on.
7. With reference to an organization of your choice, discuss the ways in which **globalization** can influence organizational **culture**. [20]

Do not credit application to/ the use of national culture
8. With reference to an organization of your choice, discuss the ways in which **ethics** and **change** can influence human resource management. [20]

Do not credit application to marketing / operation management etc.

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 asks 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 and 7 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 to have explicit headings for each structural element.
- A body is the area in which the substance of arguments occurs. 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”.
-

Business management
Higher level
Paper 2

Friday 20 May 2016 (morning)

2 hours 15 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- A clean copy of the **business management formulae sheet** is required for this examination paper.
- Section A: answer one question.
- Section B: answer two questions.
- Section C: answer one question.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[70 marks]**.

Section A

Answer **one** question from this section.

1. Fair Coffee (FC)

David is about to open a small coffee shop, *Fair Coffee (FC)*, at a central city location. On opening day *FC* will have a stock level of 500 kg of coffee beans. David estimates that the coffee beans will be used at a constant rate for the first six months of operation.

David's planned stock management figures for the coffee beans are shown below:

Maximum stock level	500 kg
Minimum stock level	200 kg
Re-order quantity level	350 kg
Re-order quantity	300 kg
Quantity used per month	150 kg

Lead time for delivery of the coffee beans: 1 month.

- (a) State **two** elements of the **extended** marketing mix (seven Ps) for *FC*. [2]
- (b) Using the information in the table, construct a fully labelled stock control chart for *FC*, for the first six months of operation. [4]
- (c) A delivery of coffee beans was 1 month late, arriving on the last day of the seventh month rather than the last day of the sixth month. Using figures from the chart you constructed in part (b), explain the effects of:
 - (i) the late delivery on *FC*'s stock level **and**; [2]
 - (ii) the late arrival delivering **only** 75 kg of coffee. [2]

2. Aroma Corporation (AC)

Aroma Corporation (AC) is a mass-market cosmetics company that produces soaps. Concerned about falling market share and profit, AC conducted new market research.

The senior management team is considering two strategic options.

- **Option 1:** research and develop new environmentally friendly soaps
- **Option 2:** buy new machinery to produce more of the current products

The probabilities, forecast costs and revenues of each option are given below:

Option 1	Forecast costs	Forecast revenue if successful Probability: 0.45	Forecast revenue if not successful Probability: 0.55
research and develop new environmentally friendly soaps	\$990 000	\$1 700 000	\$550 000

Option 2	Forecast costs	Forecast revenue if successful Probability: 0.60	Forecast revenue if not successful Probability: 0.40
a) buy new machinery without training	\$450 000	\$1 000 000	\$250 000
b) buy new machinery with training	\$475 000	\$1 250 000	\$200 000

- (a) Describe **one** method (source) of secondary market research that AC could have used. [2]
- (b) Construct a fully labelled decision tree, calculate the predicted outcome for each option and identify the best option for AC (*show all your working*). [6]
- (c) Explain **one** limitation of using a decision tree as a planning tool for AC. [2]

Section B

Answer **two** questions from this section.

3. BVC

BVC manufactures canned energy drinks. It produces the market leading energy drink, Beta+, which is sold directly to, and exclusively in, sports clubs. *BVC* encourages intrapreneurship and innovation within its organization.

To purchase Beta+ legally, the consumer has to be over the age of 18. However, many younger teenagers illegally purchase these drinks. Sales of Beta+ have grown dramatically.

To have legal sales to teenagers aged 17 and below, *BVC* created Beta Lite, which has a much lower caffeine and sugar content than that of Beta+. Beta Lite will be sold using long distribution channels and to a range of retail outlets.

Initial sales of Beta Lite were disappointing. The marketing manager argues that Beta Lite is not innovative and is only adaptively creative. According to market research, consumers were confused between Beta+ and Beta Lite because the packaging is so similar. Many younger consumers were frustrated because they thought they were purchasing Beta+ when buying Beta Lite. Using social media, they launched a “Ban Beta Lite” campaign.

BVC’s management were unprepared for this consumer reaction. To overcome this criticism and to boost sales of Beta Lite, two proposals are being considered:

- **Proposal 1:** launch a guerrilla promotional marketing campaign for Beta Lite.
- **Proposal 2:** completely redesign the packaging of Beta Lite.

- (a) Describe **one** feature of intrapreneurship. [2]
- (b) Explain why the marketing manager considered Beta Lite to be adaptively creative rather than innovatively creative. [4]
- (c) Explain **one** advantage and **one** disadvantage for *BVC* of using long distribution channels for Beta Lite. [4]
- (d) Discuss the two proposals to overcome the criticism of Beta Lite and to boost its sales. [10]

4. Vinn

Vinn is an American public limited company. It mass-produces jeans sold worldwide. Twelve years ago, production was offshored to China and Turkey to reduce manufacturing costs. To benefit from economies of scale, *Vinn* sells standardized regular-fit jeans. *Vinn* uses an identical marketing mix globally.

Despite the global popularity of American jeans, *Vinn* has experienced a significant fall in demand due to:

- customer complaints about poor quality jeans
- economic recessions in *Vinn*'s main markets. However, economic forecasts expect improvements within two years
- increased global competition of mass-produced clothes
- anti-globalization pressure groups. For example, a local pressure group, "B-Local", has criticized *Vinn*'s undifferentiated advertising campaigns as inappropriate for all international markets and cultures.

In addition, *Vinn*'s management is worried about labour costs in China rising faster than the United States (US). It also has communication problems with its offshored employees.

Vinn's management decided to re-shore back to the US and completely change its strategic focus. Recent market research has revealed a niche market: some customers in North America are willing to pay high prices for individually designed and produced jeans. To create a new competitive advantage, *Vinn* will aim for different market positioning by using highly skilled, creative fashion designers located in major American cities. Cost-effective production of individually designed jeans requires specialized technology currently available in the US. *Vinn* will no longer mass-produce jeans.

- | | |
|--|------|
| (a) Define the term <i>offshoring</i> . | [2] |
| (b) Explain one advantage and one disadvantage for <i>Vinn</i> of using an identical marketing mix globally. | [4] |
| (c) Explain one advantage and one disadvantage for <i>Vinn</i> of operating as a public limited company. | [4] |
| (d) Discuss <i>Vinn</i> 's decisions to re-shore back to the US and to produce only individually designed jeans. | [10] |

5. JustJet (JJ)

JustJet (JJ) is a leading European airline. It operates low-price flights across Europe branded as JustJet. Currently it only offers an economy service and charges for on-board meals and drinks. JustJet has strong brand awareness in Europe. The business is very profitable. However, the economy “no frills” market has saturated.

After reviewing the results of focus groups, the *JJ* board of directors proposed launching a second service, called JustJetplus (JJplus). This service will offer first-class-only flights to non-European destinations. Between 2006 and 2008 other airlines offering a first-class-only service failed. *JJ*'s directors believe its brand name and financial strength are strong enough to succeed.

JJ will purchase airplanes with first-class specifications only for the new JJplus service. Passengers will have first-class seats that convert into beds, individual tablet computers, high-quality food and free Wi-Fi. Although JJplus will charge expensive first-class fares for all seats, its prices will nevertheless be lower than the first-class tickets offered by their competitors. Flights will be daily to non-European destinations, such as New York and Brazil, Russia, India and China (BRIC).

The target market consists of two market segments:

- vacationers seeking luxury travel at a lower price than the first-class tickets offered by competitors
- business flyers, such as entrepreneurs from BRIC countries.

To break even, JJplus must sell 90 % of the seats on each flight.

- | | |
|--|------|
| (a) Define the term <i>market segment</i> . | [2] |
| (b) Explain one advantage and one disadvantage for <i>JJ</i> of using focus groups as a method of market research. | [4] |
| (c) Using the Ansoff matrix, explain <i>JJ</i> 's strategy of offering the first-class-only service, JJplus. | [4] |
| (d) Evaluate <i>JJ</i> 's proposal to launch the JJplus service. | [10] |

Section C

Answer **one** question from this section. The organizations featured in sections A and B and in the paper 1 case study may not be used as a basis to your answer.

6. With reference to an organization of your choice, discuss the impact of **innovation** on operations management **strategy**. [20]

 7. With reference to an organization of your choice, examine the impact of **culture** on organizational **ethics**. [20]

 8. With reference to an organization of your choice, examine the impact of **globalization** on organizational **change**. [20]
-

Markscheme

May 2016

Business management

Higher level

Paper 2

This markscheme is the property of the International Baccalaureate and must **not** be reproduced or distributed to any other person without the authorization of the IB Assessment Centre.

The markbands and assessment criteria on pages 3–5 should be used where indicated in the markscheme.

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.

Section A

1. (a) State **two** elements of the **extended** marketing mix (seven Ps) for *FC*. [2]

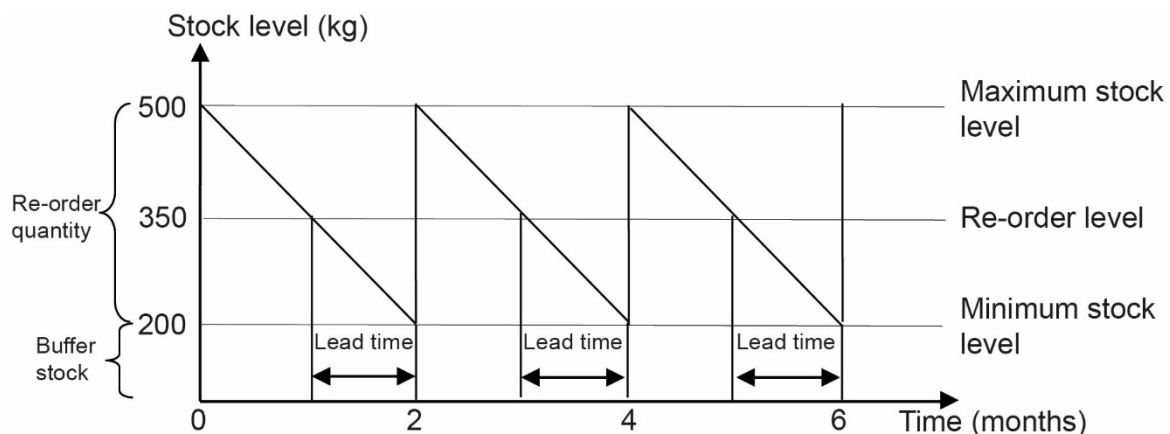
The three possible elements (the **three extra Ps**) that are relevant to a service like *FC* are:

- people-employees (customer's relationship/interaction/ skills/attitude/motivation/appearance)
- process (the way in which the service is paid for by the consumer)
- physical evidence (the tangible aspects of the business). Accept physical environment.

N.B. no description is required. Do not accept any other element of the marketing mix.

Award [1] for each relevant element of the **extended** marketing mix. Award a maximum of [2].

- (b) Using the information in the table, construct a fully labelled stock control chart for *FC*, for the first six months of operation. [4]



Award [1–2] for some understanding of a stock control chart. The stock control chart is drawn, but two or more lines or headings are omitted or incorrect.

Award [3] for a largely correct and labelled stock control chart. Up to one element is missing which does not include labelling buffer stock or re-order quantity.

Award [4] for a fully completed stock control chart that is correctly drawn. All the relevant headings, as appeared in the question, are correctly used and labelled. Candidates may be awarded full marks if the term **buffer stock** is not used and **re-order quantity** is not indicated or labelled.

If a candidate produces a table rather than a chart, award [0].

- (c) A delivery of coffee beans was 1 month late, arriving on the last day of the seventh month rather than the last day of the sixth month. Using figures from the chart you constructed in part (b), explain the effects of:

- (i) the late delivery on *FC*'s stock level **and**; [2]

A late delivery of one month will force *FC* to use its buffer stock [1] therefore,
FC will be left with 50 kg only at the end of the month when the new stock arrives [1].

For [2], figures must be included in the explanation.

Do not penalize candidates that use the correct figures without explicit use of the chart.

N.B. award a maximum of [1] if the answer is added to the chart drawn in part (b) and there is no explanation.

Award a maximum of [1] if there is no figure to support the explanation.

- (ii) the late arrival delivering **only** 75 kg of coffee. [2]

- The late arrival of **only** 75 kg, a lower quantity than normally ordered, on the last day of the seventh month will mean that David's stock of beans will be **50+75=125 kg**, still below the 200 kg of the desired buffer/minimum stock level [1].
- Assuming the same level of consumption, *FC* will run out of stock and will not be able to supply all of its customers next month (the exact day is not required) [1].

Do not penalize candidates that use the correct figures without explicit use of the chart.

N.B. award a maximum of [1] if the answer is added to the chart drawn in part (b) and there is no explanation.

Award a maximum of [1] if there is no figure to support the explanation.

Award a maximum of [1] if the answer does not address the late arrival issue.

2. (a) Describe **one** method (source) of secondary market research that AC could have used.

[2]

Possible methods (sources) of secondary market research include:

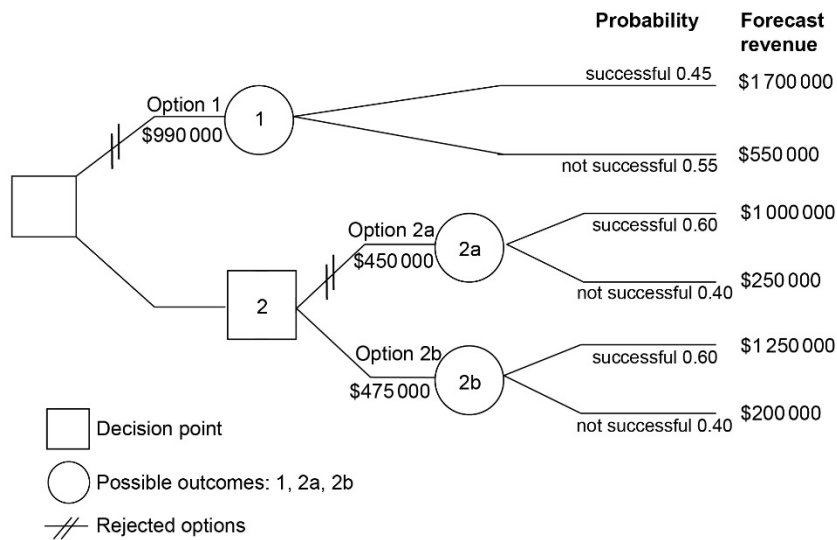
- fashion/health magazines for women
- cosmetics industry reports
- annual reports of competing cosmetics companies
- consumer / social media comments on products (soaps, gels)
- internet to search for companies' information, market trends, government publications on the cosmetic industry and so on.
- *accept any other relevant method.*

N.B. do not accept searching online, or internet use without being specific.

Award [1] for each method (source) of secondary market research stated and award an additional [1] for a description up to a maximum of [2].

- (b) Construct a fully labelled decision tree, calculate the predicted outcome for each option and identify the best option for AC (*show all your working*).

[6]



$$EMV\ 1 = (1700\ 000 \times 0.45 + 550\ 000 \times 0.55) - 990\ 000 = \$77\ 500$$

$$EMV2a = (1000\ 000 \times 0.60 + 250\ 000 \times 0.40) - 450\ 000 = \$250\ 000$$

$$EMV2b = (1250\ 000 \times 0.60 + 200\ 000 \times 0.40) - 475\ 000 = \$355\ 000$$

Best option: 2b buy new machinery with training to produce more of the current products.

[0]

The decision tree does not reach a standard described below.

[1–2]

The decision tree is not accurately constructed, and / or the calculations of each option are not presented or accurate. However, there is some evidence of a general understanding of the model.

[3–4]

The principal elements of the decision tree are constructed, but may not be entirely accurate. The calculations of each option are largely correct.

Allow up to two mistakes in calculations **and / or** presentation for [3].

Allow for **either** one error in calculation **or** one error in presentation [4].

For an accurately constructed decision tree with incorrect calculations, award up to a maximum of [3].

For an accurately constructed decision tree with EMV calculations, but no working [4].

[5–6]

The decision tree is accurately constructed. The calculations of each option are correct and well presented. A key is provided. Workings are shown. As well as the rejected options [6]. Full marks can be awarded even if the headings of expected return/forecast revenue and probabilities are not explicitly written.

N.B. for only correct calculations of all options without a decision tree award a maximum of [2].

Apply candidate own figure rule (OFR) throughout this response.

- (c) Explain **one** limitation of using a decision tree as a planning tool for AC. **[2]**

Despite the fact that AC actually conducted new market research, the figures of revenue and the probabilities of success and failure in a cosmetics market are still estimated. Different figures might have resulted in a different final decision. This quantitative model does not take qualitative issues into consideration like the impact on employees' morale / motivation if the new machinery results in redundancies.

The model does not take into consideration the importance for AC of being an environmentally friendly organization by developing the new soaps.

Accept any other relevant limitation.

*Award **[1]** for a relevant generic limitation identified or described and **[1]** for any additional explanation in context.*

***[2]** can not be awarded for the limitation if the response lacks either explanation **and** / **or** application.*

For example:

*For an identification or a description of the limitation **with or without** application **[1]**.*

*For explanation of the limitation with **no** application **[1]**.*

*For explanation of the limitation **and** application **[2]**.*

Section B

3. (a) Describe **one** feature of intrapreneurship. [2]

One feature of intrapreneurship is that employees and managers rather than an external party improve productivity and efficiency, through risk-taking and innovation within an organization.

N.B. for [2] candidates need to show understanding that all is done within the company.

Award [1] for a relevant and correct feature of intrapreneurship stated and an additional [1] for an appropriate description up to a maximum of [2].

- (b) Explain why the marketing manager considered Beta Lite to be adaptively creative rather than innovatively creative. [4]

Adaptively creative products demonstrate an incremental, non-radical type of innovation that adjusts / adapt something that is already existing within the existing paradigm. Beta Lite is a modified version of Beta+.

Innovatively creative products demonstrate a concept that creates something new and radical that challenge the current way of thinking/the paradigm and changes consumers' behaviours significantly/completely. The new concept of energy drinks such as Beta+ were seen as innovatively creative (*Red Bull* for example), it has created a new market in soft / health drinks intended for athletes. Beta+ is now being consumed by a much bigger (although illegal) market.

There is evidence from the stimulus that Beta Lite is a modification of Beta+ with a lower caffeine and sugar content. It is not a new innovation. Similarities in the packaging also confirm that Beta Lite is adaptively creative.

Accept any other relevant explanation.

Award [1] for only a partial/unclear distinction between adaptively and innovatively creative.

Award [2] for a clear explanation of the difference between adaptively and innovatively creative.

*Award an **additional [2]** for sound and thorough application to BVC illustrating how Beta+ and Beta Lite could be regarded as innovatively and adaptively creative.*

N.B. award a maximum of [2] if there is no distinction with / actual coverage of innovatively creative.

Award a maximum of [4] in total.

- (c) Explain **one** advantage and **one** disadvantage for *BVC* of using long distribution channels for Beta Lite.

[4]

Beta Lite is to be targeted at teenagers aged 17 and below who will be able to legally purchase this energy drink for the first time.

Currently, the sale of Beta+ is restricted, therefore *BVC* needs to find more intermediaries to reach the new market segment.

Long distribution channels could be advantageous for Beta Lite given that for the new market, control of sales of its products will not be needed. With a use of wholesalers that buy in bulk rather than just distribute through its current retailers, *BVC* can benefit from being able to satisfy its target segment of teenagers, who are located everywhere.

Essentially, the advantages to Beta Lite and *BVC* are linked to its ability to shift a large quantity of the drinks and allows the wholesalers, physical distributors / agents break the bulk. *BVC* should also benefit from Beta+ being the market leader, which will mean that brand awareness is already there for Beta Lite to take advantage of. Consequently, finding new agents/intermediaries as part of its new distribution channel should not be too difficult a task given the previous success of Beta+.

However, long distribution channels are potentially risky for a new product. Given that the packaging of Beta Lite is similar to Beta+, the more diverse and geographically remote the distribution outlets, the more likely that *BVC* will not be able to control marketing messages such as point of sale material and as the stimulus indicates consumer confusion is evident. The brand loyalty and market leadership status of Beta+ could be put in jeopardy. The lower level of control could affect *BVC*'s brand image. *BVC* will need to spend time and resources finding local agents/intermediaries who will be willing to sell this new product even though Beta+ is the market leader.

Longer distribution channels can increase the price of the product to the targeted teenager. Higher prices may impact on the success of the new drink especially as it targets teenagers who might be price sensitive. As a semi perishable good, there may be quality issues in extending the length of distribution.

Accept any other relevant advantage / disadvantage.

Mark as 2 + 2.

Award [1] for identifying or describing the advantage / disadvantage for using long distribution channels and a further [1] for a development with respect to Beta Lite/BVC. Award 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].*

- (d) Discuss the two proposals to overcome the criticism of Beta Lite and to boost its sales.

[10]

Clearly, the decision to launch Beta Lite with packaging similar to Beta+ has created some consumer confusion and was the cause for frustration and complaints. Some younger consumers have been “misled” thinking that they have purchased Beta+. This group has predictably taken to social media to vent their frustration. It is of high importance for *BVC* to address this issue of misleading packaging and perhaps look at other elements of the marketing mix. Part of the benefits of similar packaging is to do with family branding / brand recognition / brand awareness and hopefully brand loyalty. Therefore *BVC* would not want to completely abandon the package appearance. The question is can it change the packaging so that it still retains features of the Beta brand without the confusion mentioned. Changing packaging could be costly and could, if very different, involve a wholly different promotional approach.

However, changing the packaging of Beta Lite to remove the similarities with Beta+ will involve additional costs for *BVC*. Still given the commercial success of Beta+, it is unlikely that *BVC* will not have the financial resources. These costs are only short-term costs with potentially many legal and commercial benefits. Such strategy will directly address discontent.

Still, presumably *BVC* are hoping that Beta Lite drinkers will become Beta+ drinkers, but this would mean that Beta+ would also need to be mass marketed with obvious legal implications. Nevertheless completely new packaging could distance *BVC* from the accusation that it was trying to trick consumers. Those that were fooled were presumably only interested in buying Beta+, so perhaps *BVC* has not created sufficient awareness amongst its genuine target market.

If we assume that a social media response by *BVC* via a guerrilla marketing promotional campaign is warranted (given that the younger target market is likely to respond positively to this rather than serious athletes who consume Beta+ and are therefore not affected by the campaign) then it is likely to be effective.

The guerrilla marketing campaign could successfully position Beta Lite away from Beta+ and reach under 18s who might be excited by this method. It is also likely to be cheaper to organize and implement. If *BVC* admits that there was a mistake in similar packaging and acknowledges this to its target market then the damage from the consumer backlash would be short-lived and the guerrilla campaign would be looked at favourably.

However, admitting a mistake is not correcting a mistake. The guerrilla campaign might be effective in the short run only. Frustration and confusion will rise again if nothing is being done to the actual packaging. It might be unwise for *BVC* to use a short term gimmick rather than solve the problem, especially when there are legal consequences to the retailers and possibly the drinker as well as *BVC*.

Guerrilla marketing by its nature is provocative or ill-conceived and will need to be handled carefully and time to rectify this is limited. Provocative promotion through a guerrilla campaign or attempts by *BVC* to look “cool” may backfire if the target market chooses to ignore, or is offended by the content of the promotional message. The social media backlash may intensify more than *BVC* would like.

It would be tempting for *BVC* to launch a competing viral or guerrilla promotional campaign quickly to counter the social media criticism. However, a note of caution must be taken. It is likely that the target market may forgive a company once for misleading packaging and by definition marketing, but twice would be very damaging. *BVC* may be forced to scrap Beta Lite if the guerrilla campaign becomes ineffective and irritating to existing Beta+ consumers. This would be a costly exercise for *BVC* given the inevitable need for market research and product research and development involved in creating Beta Lite.

Guerrilla marketing has only a short term impact which might not solve the real problem. Changing the packaging might.

It is not expected that the candidate incorporates all of the above arguments.

Accept any other relevant issue.

Accept any other relevant discussion.

A conclusion with judgment is expected.

A balanced response is one that covers at least one issue for and at least one argument against each option.

Marks should be allocated according to the markbands on page 3 with further guidance below.

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.

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.

Award [2] for a full definition that conveys knowledge and understanding similar to the answer above. It is expected that candidates demonstrate understanding of a move / relocation anything to do with an action.

- (b) Explain **one** advantage and **one** disadvantage for *Vinn* of using an identical marketing mix globally.

[4]

Possible advantages include:

- *Vinn* could develop a global brand identity which in turn could improve *Vinn*'s customer, brand recognition and loyalty. Given also the identical market positioning around the world. Customers' decision making in favour of *Vinn* could be enhanced.
- *Vinn* is likely to experience a promotion / advertising economies of scale. In a world of increasing international travel by consumers and the widespread use of satellite television channels, the advantages of international advertising could be substantial.
- 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 globally may not recognize cultural and language differences. For instance, *Vinn*'s 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 in all countries. *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 globally.
- 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 re-shore is appropriate, especially if coupled by the repositioning strategy. With a change / re-shoring, brand reputation may be gained and communication problems with offshored 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 is one that covers at least one argument for and one against each decision (re-shoring and producing individually designed jeans).

*For one relevant argument that is one-sided, award up to **[3]**. For more than one relevant argument that is one-sided, award up to a maximum of **[4]**.*

*If a candidate evaluates / addresses only one decision, award a maximum of **[5]**.*

*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.*

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 *JJ*plus 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 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].*

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

- | | |
|---|--------------------|
| <p>6. With reference to an organization of your choice, discuss the impact of innovation on operations management strategy.</p> <p><i>Accept any content from operations management linked to strategy.</i></p> | <p>[20]</p> |
| <p>7. With reference to an organization of your choice, examine the impact of culture on organizational ethics.</p> <p><i>Accept any discussion that is focused on internal or external culture.</i></p> | <p>[20]</p> |
| <p>8. With reference to an organization of your choice, examine the impact of globalization on organizational change.</p> <p><i>Accept any type of change to any part of an organization.</i></p> | <p>[20]</p> |

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 to 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”.
-

Business management
Higher level
Paper 2

Tuesday 22 November 2016 (morning)

2 hours 15 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- A clean copy of the **business management formulae sheet** is required for this examination paper.
- Section A: answer one question.
- Section B: answer two questions.
- Section C: answer one question.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[70 marks]**.

Section A

Answer **one** question from this section.

1. S4U

S4U is a private limited company that provides a storage facility to households and small businesses. *S4U* is considering constructing an additional new warehouse.

S4U's management has forecasted the following annual net cash flows for the new warehouse:

Year	Net cash flows (\$)
0	–150 000
1	25 000
2	30 000
3	35 500
4	37 000
5	39 800
6	41 200

(a) Describe **one** feature of a private limited company. [2]

(b) For the new warehouse:

(i) using information from the table above, calculate the average rate of return (ARR) (*show all your working*); [2]

(ii) using information from the table above, calculate the payback period (*show all your working*); [2]

(iii) using information from the table below, calculate the net present value (NPV) at a discount rate of 6 % (*show all your working*). [2]

Years	Discount rate
	6 %
1	0.9434
2	0.8900
3	0.8396
4	0.7921
5	0.7473
6	0.7050
7	0.6651
8	0.6271
9	0.5919
10	0.5584

(c) Explain **one** disadvantage for *S4U* of using the NPV method of investment appraisal. [2]

2. Café Lucchini (CL)

Fabi Lucchini will open the only café, selling hot and cold drinks only, in her small village. The economy is weak so the local government will pay 50 % of the rent for the premises in which CL will operate.

Fabi has forecasted the following figures for the first six months of operation, beginning on 1 July 2016:

Rent per month	\$2000	
Government payment toward rent per month	\$1000	
Salary per month	\$1600	
Electricity (payable every second month starting in August)	\$200	
Cleaning supplies per month	\$100	
Sales revenue per month	July	\$4000
	August	\$4000
	September	\$3500
	October	\$3500
	November	\$4000
	December	\$4500
Purchases per month	40 % of sales	

An option is to install cooking facilities and serve meals to increase CL's sales revenue. Fabi estimates that she could sell 40 meals per day at an average variable cost of \$5 and at an average sales price of \$10. Serving meals would increase her fixed costs by \$3000 per month.

- (a) Define the term *fixed cost*. [2]
- (b) Calculate the break-even quantity of meals that CL must sell to pay for the increase in fixed costs of \$3000 to provide these meals (*show all your working*). [2]
- (c) Using the information in the table **only**, prepare a monthly cash flow forecast, for CL, for the first six months of operation. [6]

Section B

Answer **two** questions from this section.

3. Chan Manufacturing (CM)

20 years ago, Chi Chan set up *Chan Manufacturing (CM)* to produce electrical components on a just-in-time (JIT) basis for car manufacturers.

High quality and quick delivery have increased *CM*'s market share and profit. *CM*'s manual-skilled employees are loyal, productive, motivated and feel secure in their jobs. Employees admire Chi as a leader. Labour turnover at *CM* is low. Chi is paternalistic. He believes in a top-down approach to management. He cares for the financial welfare of his employees. Employees are paid a basic wage and receive additional financial rewards for working overtime. Proud of *CM*, employees regularly work harder than expected so that *CM* always meets client demand, which changes often. Chi and union representatives successfully negotiate pay and work conditions through collective bargaining.

Mei, Chi's daughter, joined *CM* as Chief Operations Manager. She relies on new business theory to guide her management decisions. Many current workers are approaching retirement age. She wants to restructure *CM* and use job enlargement, job enrichment and empowerment. Individual employment contracts are to be determined annually based on individual performance appraisal. Some employees do not like the proposal and speed of the change and are becoming demotivated. For the first time, they are considering industrial action (industrial/employee relations methods).

Mei insists that these changes are required, but wants to avoid conflict. She is considering approaches to conflict resolution.

- (a) Define the term *market share*. [2]
- (b) With reference to Mei and Chi, explain **two** differences between a manager and a leader. [4]
- (c) Applying Maslow's theory of needs, explain **two** reasons why the workers at *CM* are becoming demotivated. [4]
- (d) Examine **two** industrial/employee relations methods **other than** strike action that workers could use at *CM*. [10]

4. Adventures for All (A4A)

Tama Toki founded *Adventures for All (A4A)*, which owns four adventure parks employing 342 people. The parks offer adventure activities such as high wire and mountain biking. A4A's target market is teenagers and adults. A4A's mission statement is "safety and affordability at A4A are the most important reasons for a great time for all".



A4A uses predatory pricing. Its competitors are theme parks and adventure centres. However, social trends are changing. Many teenagers prefer social networking rather than adventure activities. A4A's sales revenue and profits are falling.

Tama discussed with senior managers two possible growth strategies:

- Option 1.** Through extensive promotion, attract children and adults with disabilities and access requirements to the parks. This approach would require specialized training for existing staff. No modifications to the parks would be required.
- Option 2.** Offer corporate team-building activities. A4A would develop specially designed programmes for senior leadership teams to spend three days in newly built conference centres located at the parks. Corporate teams would engage in adventure activities together and then discuss strategic options for their organizations.

Option 2 could be highly profitable. A4A could charge high prices for these programmes. However, some of Tama's senior managers argued that A4A should continue to provide "adventures for all" and not just to a group of highly paid senior leadership teams.

The two options created major disagreements. Two senior managers, working with Tama since the creation of A4A, threatened to resign if Option 2 was implemented. Two other senior managers argued that without Option 2 many jobs at A4A were under threat.

- (a) Define the term *target market*. [2]
- (b) Explain **two** roles of A4A's mission statement. [4]
- (c) Explain **one** advantage and **one** disadvantage for A4A of using a predatory pricing strategy. [4]
- (d) Using the Ansoff matrix, evaluate the **two** possible growth strategies for A4A. [10]

5. Thorns Hill (TH)

Thorns Hill (TH) is a hotel. Its mission statement is “to provide the highest standard of customer service and to be the best employer”. *TH* has three profit centres, each with its own manager:

- sleeping accommodation
- restaurant
- function room for weddings, conferences and other events.

The function room offers entertainment facilities and purchases catering from the hotel restaurant. The function room employees are mostly students working in their spare time. They have flexible contracts that do not guarantee hours of work nor provide benefits such as paid sick leave or holidays.

The use of flexible contracts has reduced the function room’s annual wage cost by 40 % over the last five years. The de-layering of supervisory posts (positions) has further reduced the cost of wages. With these cost savings, the profits of the function room have increased significantly. Recently, issues with punctuality, absenteeism and labour turnover increased.

30 % of the restaurant’s sales revenue comes from catering for the function room. The restaurant recently won an award and, in the summer season, is always full of diners. In summer the restaurant has difficulty meeting the catering demands of the function room. Meals ordered often arrive late from the restaurant.

Competition in the market for function rooms is high. The owners are considering a proposal to improve the reputation of the function room by outsourcing all the services of the function room to a private contractor. The private contractor will charge *TH* more than the direct cost of the function room.

- | | |
|---|------|
| (a) Define the term <i>de-layering</i> . | [2] |
| (b) Explain two advantages for <i>TH</i> of having three separate profit centres. | [4] |
| (c) Explain one benefit and one negative consequence for <i>TH</i> of an increase in labour turnover. | [4] |
| (d) Discuss the proposal to outsource all function room services to a private contractor. | [10] |

Section C

Answer **one** question from this section. The organizations featured in sections A and B and in the paper 1 case study may not be used as a basis to your answer.

6. With reference to an organization of your choice, discuss the ways in which **culture** can influence international marketing **strategy**. [20]
 7. With reference to an organization of your choice, examine the impact of **globalization** on business **ethics**. [20]
 8. With reference to an organization of your choice, discuss the ways in which **innovation** can influence organizational **change**. [20]
-

Markscheme

November 2016

Business management

Higher level

Paper 2

This markscheme is **confidential** and for the exclusive use of examiners in this examination session.

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The markbands and assessment criteria on pages 3–5 should be used where indicated in the markscheme.

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.

Section A

1. (a) Describe **one** feature of a private limited company. [2]

Features of a private limited company may include:

- The company is incorporated. There is a separate legal entity between the shareholders.
- The shareholders have limited liability. The shareholders can only lose up to what they invested. Their private assets will not be affected in the event of any financial problems.
- The current owners, cannot sell shares publically on the stock exchange in order to raise more money.
- *Accept any other relevant feature.*

Award **[1]** for stating an appropriate feature and **[1]** for an appropriate description (application **not** required), up to a maximum of **[2]**.

- (b) For the new warehouse:

- (i) using information from the table above, calculate the average rate of return (ARR) (*show all your working*); [2]

$$\text{ARR} = \frac{(\text{total returns} - \text{capital cost}) / \text{years of use}}{\text{capital cost}} \times 100$$

Total return over 6 years= \$208500

Total returns over 6 years: \$58 500

$$\text{Average annual profit: } \frac{58500}{6} = \$9750$$

$$\text{ARR} = \frac{9750}{150000} \times 100 = 6.5\%$$

Do not credit the formula

Award **[1]** for working and **[1]** for the correct answer.

Award a maximum of **[2]**.

Do not credit candidates for just presenting the formula as it is given.

Do not fully credit a figure that is not expressed as a percentage.

- (ii) using information from the table above, calculate the payback period (*show all your working*); [2]

Capital/investment cost: \$150 000

$$25\,000 + 30\,000 + 35\,500 + 37\,000 + (22\,500 / 39\,800) \times 12$$

Payback period = **4 years, 6 months and 24.18 days** / 4 years and 7 months or **4.56 years** or 4 years and 6.78 months.

There is no need to calculate the number of days for full marks.

Award **[1]** for working and **[1]** for the correct answer.

Award a maximum of **[2]**.

- (iii) using information from the table below, calculate the net present value (NPV) at a discount rate of 6 % (*show all your working*). [2]

Using discount tables:

Year 1	$25\,000 \times 0.9434 = 23\,585$
Year 2	$30\,000 \times 0.8900 = 26\,700$
Year 3	$35\,500 \times 0.8396 = 29\,805.8$
Year 4	$37\,000 \times 0.7921 = 29\,307.7$
Year 5	$39\,800 \times 0.7473 = 29\,742.54$
Year 6	$41\,200 \times 0.7050 = 29\,046$

Total present value = \$168 187.04

NPV = TPV – capital cost

NPV = \$18 187.04

Accept \$18 188 Accept \$18 187

Given that only [2] are available, on this occasion, full headings and full calculation for each year are not expected.

Full marks can be awarded if there is some evidence of calculation especially the movement from the total DCF to NPV, if the DCF for each year is not shown but it is clear that the candidate understands the method.

N.B. Allow candidate own figure rule (OFR)

Award [1] for working and [1] for the correct answer.

Award a maximum of [2].

Do not credit candidates for just presenting the formula as it is given.

- (c) Explain **one** disadvantage for S4U of using the NPV method of investment appraisal. [2]

A disadvantage for S4U of using the NPV method of investment appraisal is that the method relies on the use of a realistic discount factor. S4U has chosen 6% but could have chosen a higher or lower discount rate depending on the current level of interest rates present in the country in which S4U is located. It might be difficult for S4U's management to decide on the most accurate discount factor for a project that last for at least six years and the interest rate and inflation rate is likely to change. The interest rate is likely to change the longer the project takes, making a selection of a single discount rate of 6% very difficult. An accurate rate is crucial for S4U as a low discount factor will overestimate the return and a high discount factor will underestimate the return. The net cash flows are forecasted and they may be inaccurate.

Accept any other relevant disadvantage and explanation.

Do not credit a response that says that the all figures are forecasted as this limitation is relevant for all. The question is about a limitation for the NPV method.

Do not credit a response that says that the method does not take non- financial issue into consideration as this limitation is relevant for all. The question is about a limitation for the NPV method. Award [1] for a relevant and correct disadvantage identified and [1] for a relevant and correct explanation with application to S4U, up to a maximum of [2].

2. (a) Define the term *fixed cost*. [2]

A fixed cost is a cost that does not change with the level of production/output.

Candidates are not expected to word their definition exactly as above.

Award [1] for a basic definition that conveys partial knowledge and understanding similar to the above answer. The first mark would typically come from awareness that the payment does not change.

Award [2] for a full, clear definition that conveys knowledge and understanding similar to the answer above. Candidates should receive a second mark if they convey the idea that it does not change according to the level of production/output. Do not credit an example.

- (b) Calculate the break-even quantity of meals that CL must sell to pay for the increase in fixed costs of \$3000 to provide these meals (*show all your working*). [2]

Just to pay for the increase in fixed costs of \$3000, CL must sell 600 meals per month, calculated as follows:

Average sales price per meal – average variable costs per meal = contribution

\$10 – \$5 = \$5 contribution

$$\frac{3000}{5} = 600 \text{ meals per month/units}$$

For full marks all stages of the calculation – the two stages – are expected.

An alternative method would be:

Total revenue (TR) = total costs (TC), where total revenue = Price × quantity sold and TC = Total fixed cost + total variable costs

$$10 [\text{price}] \times Q [\text{quantity sold}] = \text{Total fixed cost} + (\$5 [\text{variable cost per unit}] \times Q)$$

$$10Q = 3000 + 5Q$$

$$5Q = 3000$$

$$\frac{3000}{5} = 600 \text{ meals per month/units}$$

Award [1] for correct working and [1] for the correct answer. Award up to a maximum of [2].

For a correct response that demonstrates understanding and application of the formula, even if no specific headings are presented, award full marks.

- (c) Using the information in the table **only**, prepare a monthly cash flow forecast, for CL, for the first six months of operation.

[6]

All figures in \$

	July	August	September	October	November	December
Sales revenue	4000	4000	3500	3500	4000	4500
Government payment toward rent	1000	1000	1000	1000	1000	1000
Total receipts	5000	5000	4500	4500	5000	5500
Rent	2000	2000	2000	2000	2000	2000
Purchases	1600	1600	1400	1400	1600	1800
Salary	1600	1600	1600	1600	1600	1600
Electricity		200		200		200
Cleaning supplies	100	100	100	100	100	100
Total payments	5300	5500	5100	5300	5300	5700
Net cash flow	<300>	<500>	<600>	<800>	<300>	<200>
Opening balance	0	<300>	<800>	<1400>	<2200>	<2500>
Closing balance	<300>	<800>	<1400>	<2200>	<2500>	<2700>

N.B. Allow candidate 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. This provision includes both **mathematical** errors and **conceptual** errors (for example, if a candidate has the electricity fee monthly rather than every other month, it is one error) and candidates should only lose **[1]** for that error. Candidates who only show net rent payment should be penalised as one error as they have omitted the inflow.

[1] if the candidate has some idea of the structure of a cash flow forecast.

[2] for a cash flow forecast that has **more than** three mistakes or omissions in layout/ heading/ calculations (apply OFR).

[3] for a largely correct cash flow forecast that has three mistakes or omissions in layout/headings and/or calculation (apply OFR).

[4] for a largely correct cash flow forecast that has some minor mistakes with layout and /or headings and which has one mistake (apply OFR) **or** the candidate does not produce a mathematically correct cash flow.

[5] for a largely mathematically correct cash flow forecast that has one omission of one category **or** one mistake in calculations or headings.

[6] for a fully correct cash-flow forecast with a generally accepted format and lines/headings for total inflows/receipts, total outflows/payments (or some other acceptable wording), a line/ headings for net cash flow / inflow, etc and lines/ headings for opening and closing balance.

Section B

3. (a) Define the term *market share*.

[2]

Market share is the measurement of one organization's sales (total revenue) in relation to the total industry sales (total revenue). The market share is presented as a percentage.

$$\text{Market share} = \frac{\text{organization's sales revenue}}{\text{industry's sales revenue}} \times 100$$

Candidates are **not** expected to word their definition **exactly** as above.

Award **[1]** for a basic definition that conveys partial knowledge and understanding. For example, only the formula is given.

Award **[2]** for a full, clear definition that conveys knowledge and understanding similar to the answer above. The candidate must demonstrate understanding that the market share is measured as a percentage or portion.

Do not credit an example.

- (b) With reference to Mei and Chi, explain **two** differences between a manager and a leader.

[4]

A leader of an organization will probably be the overall strategic and goal setter. Based on experience, a leader will determine the vision for a business and if required, changes which will need to be made if the vision is in danger of not being realized. The leader therefore establishes direction, aligning employees, motivating, mentoring, inspiring as well as producing change. A leader inspires employees.

The main role of a manager is achieving specific organisational goals. A manager will attempt to put the vision of the business into daily practice looking more at short-term goals and day to day tactics. Managers will inevitably be involved with planning and budgeting and monitoring financial and individual performance more closely. Managers may micro-manage works including organizing resources and staffing to ensure that individual job performance is being maintained consistent with the goals of the organization. A manager also creates predictability and order.

From the stimulus it appears that Chi normally sets the vision of the business. He set up *CM*; he had the right business idea and has contributed considerably to the growth and success of *CM*. It also appears that Chi inspires and motivates many employees to follow a shared vision and indeed they are very loyal. His span of control is seemingly quite large. Implicit in the case is that his paternalistic leadership style is in contrast to Mei's more 'autocratic' approach and results-focused approach.

A leader normally emerges while managers are appointed. Mei as the manager has the official skills to manage while Chi has natural leadership ability.

Mei was appointed by Chi and seems intent on modernizing the organisation and therefore has the power to make some changes, but has not yet earned the trust of employees. Chi who was the founder of *CM* naturally emerged as a leader and inspired and motivated employees.

Leaders build trust using their charisma. At the moment, Chi is the one who is trusted and admired and followed and has control over the strategic direction while Mei is responsible for implementing changes although change is inevitable.

Managers follow rules and expectations. Mei is a manager who uses her theoretical knowledge to manage and set new objectives. With her use of new business theory and desire to restructure the organisation, Mei is probably looking to bring the organization up to date to boost efficiency. There is evidence that Mei is micro-managing employees through her desire to introduce job enlargement and enrichment schemes – real sources of tension leading to potential conflict. It is very likely that Mei is monitoring individual performance very closely in contrast to Chi's paternal approach.

As a manager, Mei is listened to due to her official title not her personality. While Chi is listened to due to his charisma, personal qualities and paternalistic attitude towards employees.

Mei also plans to implement an official performance appraisal system and thinks systematically but it alienates the employees.

Accept any other relevant difference between a manager and a leader and if that difference is supported by the stimulus.

A role / characteristic can be applied to both roles but must be explained from different perspectives to be seen as two differences.

Mark as 2 + 2.

Award [1] for each relevant difference between a manager and a leader explained and [1] for appropriate application to the organization to a maximum of [2].

- (c) Applying Maslow's theory of needs, explain **two** reasons why the workers at CM are becoming demotivated. [4]

It is expected that the candidates describe the Maslow theory of needs in terms of the hierarchy and the progression from the lower level of needs to the higher ones.

It is not expected that the response is divided into two explicit parts. The candidates can introduce theory while applying / linking / explaining an argument from the stimulus.

The application may include the following:

The proposed annual individual contracts based on annual appraisal may stop the employee from even reaching the lower level of needs like safety / job security. Not being able to satisfy such a need will definitely create demotivation and stop the employee from reaching higher levels of needs.

(Candidates may apply this issue to the lowest level of needs.)

Due to the proposed changes like the introduction of job enlargement, job enrichment and empowerment, employees might not even be able to reach the higher levels of needs, more specifically esteem and possibly self-actualization as they are not used to such practices and challenging tasks as well as a general fear of the unknown, hence may be demotivated. They are manual-skilled employees who have never been appraised before.

The retirement of many of their peers, may negatively affect the motivation level of the remaining employees. They may no longer be able to fulfil love or belonging needs as the social structure and group support may have disappeared.

Accept any other relevant application.

N.B.: do not penalize if the pyramid of needs is not drawn, provided that the theory is explained.

Mark as 2+2 (Theory and Application)

The theory

Award [1] for a brief/partial description of Maslow's theory. Some levels of needs may be missing or only the pyramid may be presented/drawn with no explanation.

Award [2] for a clear explanation of the theory.

The application to the case

Award [1] for application to the case, which is superficial for both reasons **OR** only one reason is clearly explained and applied.

Award [2] for a relevant, clearly explained application of both reasons why workers are becoming demotivated.

Up to [2] can be awarded for a good explanation as to why workers are demotivated even if the Maslow theory is not used.

- (d) Examine **two** industrial/employee relations methods **other than** strike action that workers could use at *CM*.

[10]

It is expected that the candidate incorporates theoretical knowledge of two industrial/employee relations methods with direct application and judgment that is relevant to *CM*.

One of the possible options is to use **negotiation** through the process of collective bargaining. It is the least disruptive form of industrial action both to the employees and to the *CM*. Moreover, the employees are already members of a trade union. Hence, the infrastructure for negotiation has already been established. Given the successful outcome of past collective pay negotiations, it appears that some trust has been established between the management of *CM* and the employee representatives. The manual-skilled employees probably need the support of a trade union representative and for no extra cost to the employees, negotiation can be started.

However, Mei is not paternalistic like her father and she may resist the involvement of a union representative especially her proposed movement towards individual contracts based on individual performance appraisal. Collective bargaining might be of little use given the proposed change. She might prefer individual bargaining. Still a door for communication can be opened with the use of a representative which also reduces the time and resources for *CM* if individual bargaining is used.

The negotiation process may be long and time consuming. Mei seems to want the change to happen soon. One may see this option as a very significant / good option.

Other options are:

Go slow/slowdowns: the employees at *CM* will work at the minimum speed allowed under their contract.

Work-to-rule: the employees of *CM* follow their contract / rules and regulations without giving any goodwill to *CM*.

Overtime bans: refuse to work overtime when asked to by management.

Clearly, all of the above will reduce the current well established goodwill of employees; create a very negative and unproductive atmosphere / working relationship especially between Chi and his employees.

CM may lose the high quality of the product and quick delivery to customers. Both seem to be *CM*'s USP. Flexibility and hard work clearly enable *CM* to meet fluctuating demand. *CM* may lose its customers if demand is not met on time and the products are not delivered punctually.

Clearly, JIT manufacturing will be severely affected given the short time from order to delivery expected by the car manufacturers.

One may judge the consequences of the above on *CM* as severe given the past success and the nature of production.

However, given the severe negative effects on CM's productivity and quality, Mei might be willing to speed up negotiations as well as to compromise. The employees are likely to be successful as they actually do not break any rules or the law and work according to their contract. Counter action on behalf of CM is unlikely to happen.

Moreover, employees might be negatively affected as well. Currently, they rely on and receive additional payments for overtime. Many employees might suffer a considerable loss of earnings especially when fluctuating demand is very high. Employees might experience financial difficulties given the nature of their employment — manual skilled.

Although the three options above (apart from negotiation) are similar in the nature of the action taken and the effects both on the employees and CM, accept any response that incorporates two methods, provided the discussion is not identical.

Overall, given the possible and the more significant consequences of the last three options, for both the employees and CM (especially overtime bans among the last three), perhaps it is recommended that CM's management especially Mei accept the collective negotiation / bargaining option that proved successful in the past, even if her strategic direction is towards individualism.

The negative effects on CM and the employees are minimal. The employees can intensify their action if the negotiation fails, but it is worth a try to start with the most moderated action and to see if Mei is willing to compromise once the benefits of the proposed changes are explained to the employees.

Accept any other substantiated judgment.

N.B. *do not credit strike action.*

It is expected that candidates provide a conclusion with a substantiated judgment.

Marks should be allocated according to the markbands on page 3.

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].

If a candidate evaluates / addresses only one method, award a maximum of [5].

A balanced response is one that provides at least one argument for and one argument against each option.

Candidates may contrast one option with another for a balance as long as at least two arguments are given for each option.

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.

4. (a) Define the term *target market*. [2]

A target market is defined as a group of consumers with similar needs and wants/characteristics (demographic) that a business decides to focus on in terms of its operations and/or marketing. A4A's target market for its adventure parks has been families.

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 [0] if the candidate writes “target market is when an organization targets a particular part of a market”. Or a similar answer where the candidate repeats the question using the same terminology in the answer.

Do not credit an example.

- (b) Explain **two** roles of A4A's mission statement. [4]

A mission statement is a way of communicating to its stakeholders the current purpose of a business, what the organisation is for. It is clear from the mission statement that A4A exists to provide great adventures for teenagers and adults which are safe and affordable.

It can be used to guide current objectives. For A4A, the mission is to provide fun, safe and affordable adventures hence predatory pricing is being used.

A mission statement can provide a sense of purpose and direction and act as a motivational force for employees. It is stated that many of the managers are long serving ones who have been at A4A with Tama since its creation. Moreover, employees' motivation is important for any provision of any service especially when teenagers are the recipient of the service.

The mission statement could also act as an incentive to encourage ethical external sources of finance by investors who are motivated by A4A's objective (or mission) to provide adventures for all. A4A may be able to raise finance for the implementation of its chosen option particularly option 2 which has a capital spending requirement.

Accept any other relevant explanation.

Mark as a 2+2.

Award [1] for each role identified and an additional [1] for development with application to A4A. Award a maximum of [2] per role.

[2] cannot be awarded per role if the response lacks either explanation **and** / or application.

For example:

For an identification or a description of a role **with or without** application [1].

For explanation of role with **no** application [1].

For explanation of a role **and** application [2].

- (c) Explain **one** advantage and **one** disadvantage for A4A of using a predatory pricing strategy.

[4]

Predatory pricing (also undercutting. Some textbooks may refer to destroyer pricing which is illegal and anticompetitive) is a pricing method where a product or service is set at a very low price, intending to drive competitors out of the market, or create barriers to entry for potential new competitors.

Predatory pricing has the advantage for A4A as a competitive tool given that its target market is teenagers and adults who we assume would be price sensitive given that there are other competing forms of adventure activity entertainment. Therefore A4A is trying to get rid of the competitors by using this pricing strategy.

“Affordable” pricing is enshrined in its current mission statement and predatory pricing thus also deemed to be appropriate and ethical. A reference to **competitors** should be accepted as application as there is not much more info in the case about the competitors.

However for disadvantages:

- A4A has already started to experience a fall in profit. Predatory pricing can only be used in a short term especially now given the fall in revenue and profit A4A might start to experience a loss. Therefore this pricing strategy does not fit the changes in the external environment as stated in the stimulus that caused a fall in profit.
- predatory pricing has been considered in some countries as illegal or anti-competitive (but there is no evidence from the stimulus that this has occurred for A4A).
- there could be “quality concerns” by some stakeholders that much lower than competitor prices may imply a poor quality service and safety concerns. This could be significant given that in the stimulus a new service aimed at special needs children and adults is to be introduced.
- if costs rise, then A4A could lose its competitive advantage if it is forced to change its pricing method to be more market based.
- the stimulus suggests that profits and revenues are falling. Predatory pricing limits the possibility of reducing prices further to fuel sales growth.

Accept any other relevant explanation.

Mark as a 2+2.

Award [1] for an appropriate advantage/disadvantage identified and an additional [1] for development of the explanation illustrating the appropriateness of predatory pricing with respect to A4A. Award a maximum of [2].

*[2] cannot be awarded per advantage/disadvantage if the response lacks either explanation **and** / **or** application.*

For example:

*For an identification/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) Using the Ansoff matrix, evaluate the **two** possible growth strategies for A4A. [10]

The two possible growth strategies are linked to two cells of the Ansoff matrix.

Catering for children and adults with disabilities and access requirements could be considered as **market development** as there is a new market to be catered for with an existing product (A4A's current facilities).

The corporate team building market, which would require A4A creating a new product to cater for a new target market could be referred to as **diversification**.

The Ansoff matrix would highlight that the latter diversification option would be the riskiest given the lack of familiarity and experience in servicing the corporate senior leadership team market.

The first growth strategy is likely to be cheaper and quicker for A4A to organize. It is assumed that no modification will be required as opposed to the diversification strategy. There will possibly be additional health and safety concerns given that the market development strategy is focusing on children and adults with disabilities and access requirements. A4A might have to adapt the facilities after all hence more costs than currently are expected. Moreover, additional training costs will be necessary but one may judge this extra cost as short term only and relatively minor. This option is classified as a medium-risk strategy on the Ansoff matrix, as A4A is not familiar with the market only but very familiar and experienced with the product. This risk can be reduced by training and accumulated experience hence this argument can be judged as of lower significance.

The mission of A4A need not be damaged and might even be improved. A4A will be able to dispose of its predatory pricing strategy, which is risky as there will be none or fewer competitors. One may argue that A4A cannot continue with its predatory pricing for long due to losses if sold below production costs or due to government intervention. Still, a different higher pricing strategy might deter the clients.

However, staff training across all four centres will be an important consideration in both options but especially in this **market development** given that safety is part of A4A's mission. Tama will need to ensure that he has clear guidelines in place to run this service for children and adults with disabilities and access requirements. As said above, this is likely to increase costs.

Profit growth may be small and there are issues of sustainability for the whole of A4A's workforce if this **market development** strategy is not successful as highlighted by two of the senior managers.

The second growth strategy, **diversification**, is riskier, as A4A will not be familiar with the product/service and the market. The expected profitability of the second option will protect all 342 jobs across the 4 centres and therefore assumes greater significance than the market development option. Set up costs are likely to be higher given that A4A is moving into a higher valued/priced niche market, but higher prices and thus revenues should compensate. The new pricing method is likely to be more sustainable in the long run than predatory pricing that might end soon when A4A starts to make a loss or is sued by competitors/attracts government intervention. This new pricing method may confuse some potential customers given A4A's mission and knowledge of A4A's predatory pricing strategy. Still, organisations that pay for corporate team building activities are unlikely to expect predatory prices. Hence, this argument can be judged as rather insignificant.

The significant costs of building the centre should also not be overlooked. This can put enormous financial strain on A4A especially in the short term. However, given the pricing strategy above and the new positioning, A4A can become profitable in the medium to longer term.

The second option, **diversification**, also damages A4A's mission statement, as some senior managers think so. Resentment is already growing and Tama can ill afford conflict at a difficult financial time especially as long serving managers with experience are the ones who seem to be the most concerned. Tama's loyalty to his senior staff will be tested and he may have to make some managerial changes if this resentment grows and if the **diversification** option is selected.

It is expected that candidates provide a conclusion and a final judgment that is substantiated.

For example: on balance, the second growth strategy is recommended despite the higher level of risk.

Accept any other relevant evaluation.

For the top markband, candidates must apply the Ansoff matrix correctly to their discussion.

Do not penalize if the matrix is not drawn provided it is well explained/ used.

If the Ansoff strategic options are not used or not used correctly but the response covers some relevant and balanced arguments for each option award up to [4] even if evaluation is evident.

Marks should be allocated according to the markbands on page 3.

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].

If a candidate evaluates / addresses only one growth strategy, award a maximum of [5].

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.

5. (a) Define the term *de-layering*. [2]

Delaying is the action of removing a level in a business hierarchy in order to reduce the size of a business hierarchy, especially in terms of a reduction in management. This creates a flatter (less layered) organizational structure.

*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. Candidates need to refer to the action/decision of... not necessarily mentioning the word action but “removing”, or “moving”.

Do not credit an example.

- (b) Explain **two** advantages for *TH* of having three separate profit centres. [4]

A profit centre is run as a separate business centre within a business which generates revenue and costs that can be attributed to the activities of the centre hence profit can be calculated. For example, in this case, the function room buys meals from the hotel restaurant. The capacity of the function room may be limited in terms of revenue hence the management can concentrate on costs reduction to increase profit. It gives the function room the flexibility to make a decision and outsource their costs somewhere else which in turn, is likely to encourage the restaurant to stay more competitive.

The real advantage is that senior management, the centre managers and employees know which segments/centres/ activity/ parts of *TH* are profitable and which are not. In addition, the directors are able to evaluate which centre contributes most to the business's profits and this helps to inform decision-making.

By using profit centres it makes the managers of each profit centre more responsible and accountable for the costs they incur and the sales they make – their positions in the business may be dependent on making a profit. Changes in the profits made by each centre may be used to judge the efficiency of each part of the hotel. Also, the efficiency of all parts of the hotel can be monitored and compared. Creative competition may increase efficiency and act as a driver to generate more revenue which may act as a motivator.

Senior management could easily realize that a decision in the past to delay and offer flexible contracts clearly reduced costs and improved profitability of the function rooms. Hence, financially an effective decision. Moreover, the impact of the recent problems of demotivation are likely to become more evident in the near future when profitability is likely to decrease.

TH's mission is to be the best employer and offer the highest quality of customer service. By utilizing profit centres, incentives could be created for managers striving to offer the highest levels of customer service.

Do not accept “spreading the risk”, as the risk is spread by having a larger portfolio not by operating as profit centre.

Accept any other relevant advantage and explanation.

Mark as 2+2.

*Award [1] for each correct advantage identified and [1] for a relevant explanation with application to TH. Award up to a maximum of [2] per advantage explained. [2] cannot be awarded per advantage/disadvantage if the response lacks either explanation **and** / **or** application.*

For example:

*For an identification/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** benefit and **one** negative consequence for *TH* of an increase in labour turnover.

[4]

Positive benefits include:

- Some level of labour turnover is important to bring new ideas, skills and enthusiasm to the workforce especially when competition is increasing for the function rooms.
- Wages are kept low due to new staff starting on the lowest rates. It is expected that companies which employ a high number of students will have a high staff turnover as students are likely to move away when they graduate. Hence, high staff turnover in the service industry that relies on students can be seen as inevitable.

Accept any other relevant benefit.

Negative consequences include:

- High staff turnover might have a demotivating effect on remaining staff in addition to absenteeism and poor punctuality.
- Extra costs:
- There will be an increase in recruitment costs as vacant posts will need to be advertised and staff interviewed.
- There will be an increase in training costs as new staff will need induction training and may need additional training for their posts in the function room.
- There will be an increase in recruitment costs as vacant posts will need to be advertised and staff interviewed.

All of the extra costs mentioned above will reduce the effects of other cost-cutting measures, such as delayering and the use of flexible contracts.

- There is likely to be an impact on the quality of customer service at least in the short term whilst new staff are trained and get used to the function room's systems. In addition to the late delivery of the meals this may result in more customer complaints and a poor image. Due to the increase in competition, *TH*, and especially the function room, cannot afford an increase in complaints.
- High staff turnover suggests a possible problem with and resentment towards the new flexible contract.

Accept any other relevant consequence.

Mark as 2+2.

Award **[1]** for a correct benefit / negative consequence identified and **[1]** for a relevant explanation with application to *TH*. Award up to a maximum of **[2]** per benefit / negative consequence explained.

[2] cannot be awarded per benefit /negative consequence if the response lacks either explanation **and** / **or** application.

For example:

For an identification/description of a benefit /negative consequence **with or without** application **[1]**.

For explanation of a benefit /negative consequence with **no** application **[1]**.

For explanation of benefit /negative consequence **and** application **[2]**.

- (d) Discuss the proposal to outsource all function room services to a private contractor. [10]

Outsourcing is when a business ceases to run a functional area of its business and instead contracts this out to a third party. This third party provides the staff to run these functional areas of the business. They are responsible for recruitment, training and disciplinary matters.

One assumes that *TH* management will conduct thorough market research in order to find the most suitable outsourcer /subcontractor with a good reputation. The quality of the service can be significantly improved which will outweigh the increase in the direct cost due to the relatively high price that the outsourcer/subcontractor charges. *TH* is in critical need to improve efficiency and quality.

The function room has been suffering from absenteeism and punctuality problems and this is likely to have reduced the standards of customer care at weddings and conferences. The outsourcer/subcontractor company will ensure it has sufficient staff to provide the correct levels of customer care and the contract between the hotel and the outsourcer would outline the staffing levels that are needed.

TH will no longer need to recruit; train or discipline function room workers and this will cut its indirect costs.

The problems with food being delivered late from the hotel restaurant may be solved as the outsourcer is likely to use its own food supplier.

However the outsourcer /subcontractor will charge more than the direct costs. Still a slight increase in costs might be worthwhile if it results in improved customer care.

The outsourcer's/subcontractor's employees might not share the hotel's mission statement? Will customer care improve? Will the outsourced/subcontracted staff embrace the hotel's philosophy?

The hotel will have to draw up a contract with the outsourcer/subcontractor and it is likely that service standards will be written into this – if the outsourcer/subcontractor fails to meet the standards then the hotel will be able to terminate the contract at short notice. However this would result in even further upheaval for the business with consequences for customer care.

Furthermore, there will be another impact on restaurant sales – currently 30 % of restaurant sales are to the function room – the outsourcer/subcontractor may use its own supplier of meals and if so restaurant sales and profits will fall. Also, if the outsourcer/subcontractor does not provide a good service, it may negatively impact on the two other profit centres.

The reduced problems with absenteeism and punctuality should improve customer care, but the doubt remains as to whether these staff will feel part of the business and be committed to the hotel's mission statement. It may lead to an improvement in basic customer care but not to the level that the hotel's mission statement aspires.

However, there is no guarantee that the current managers will either get jobs with the outsourcer or will want to work for them. This may lead to a period of transition and their knowledge of how the business runs will be lost. The owners might consider that other solutions might be more effective and less risky, such as

operating a rewards system that improves attendance and punctuality amongst the lower paid staff.

In conclusion, outsourcing should lead to fewer problems with absenteeism and punctuality as the outsourcer/subcontractor should have sufficient staff to deploy on any given day. It will relieve the hotel of the need to recruit and train staff and this will cut the hotel's costs. However outsourcing is more expensive than providing the function room "in-house" – whether it is cheaper depends on how much is saved in recruitment and training of function room staff.

Accept any other relevant discussion.

It is expected that candidates provide a conclusion with a substantiated judgment.

Marks should be allocated according to the markbands on page 3.

*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]**.*

*If a candidate evaluates / addresses only one issue, award a maximum of **[5]**.*

A balanced response is one that provides at least two arguments for and two arguments against the option.

Candidates may contrast one option with another for a balance as long as at least two arguments are given for each option.

*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

Questions 6 to 8. Please mark the candidate response using the assessment criteria on pages 4 to 5.

6. With reference to an organization of your choice, discuss the ways in which **culture** can influence international marketing **strategy**. [20]

7. With reference to an organization of your choice, examine the impact of **globalization** on business **ethics**. [20]

N.B. Although the question asks for the application of one concept on another, it is still expected that Business Management content will be aligned with the concepts especially ethics. For example, what types of business ethics? What strategies were changed or not due to globalization which impacted on business ethics.

Please note that candidates can conclude that there was a minimal impact, however it has to be based on balanced arguments and evaluation.

8. With reference to an organization of your choice, discuss the ways in which **innovation** can influence organizational **change**. [20]

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.

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 are 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 to 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 cannot be considered with a "group" of consumers or a management team.*
 - *For [4], a balanced response: 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".*
-

Business and management
Higher level
Paper 2

Thursday 21 May 2015 (morning)

2 hours 15 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer two questions.
- A calculator is required for this examination paper.
- Clean copies of the **business and management formulae sheet and discount tables** are required for this examination paper.
- The maximum mark for this examination paper is **[75 marks]**.

Section A

Answer **one** question from this section.

1. Creative Toys (CT)

Creative Toys (CT) manufactures toys and markets them business-to-customers (B2C) online only. The business operates in a leased industrial site and relies on word-of-mouth promotion only. To make customers believe that *CT*'s toys are better than its competitors, *CT* sets prices slightly higher than the competition. Production and sales are mostly between 1 October and 24 December. Most of the employees work on temporary contracts during this busy period. For the remainder of the year, *CT* operates well below capacity utilization.

Table 1 contains selected data for *CT*, for 2014:

Table 1

Sales revenue	€300 000
Number of toys sold	12 500
Fixed costs	€121 800
Variable cost per toy	€10

In 2014, the management of *CT* considered a change of the marketing mix to include above the line promotion, lower prices, and an additional sales method called “toy parties”. Toy parties would be hosted by newly recruited *CT* sales representatives and attended by parents and their children. At the parties parents could see the toys and children could play with them. Sales would be made at the parties by the new sales representatives, who would be paid on a commission-only basis.

Toy parties could be held throughout the year and make *CT*'s total sales less seasonal. Based on market research, management has estimated that the parents' demand for toys is price elastic and is planning to set lower prices for all toys sold online and at toy parties. The management has prepared forecasted financial data for *CT*, for 2015, based upon the proposed change to the marketing mix, shown in Table 2 below.

Table 2

Cash sales revenue	€352 000
Closing cash balance at year-end 2014	€37 000
Fixed assets	€40 000
Fixed costs	€180 000
Raw materials	€128 000
Sales commissions	€32 000
Other variable costs	€32 000

The Finance Manager will carry out a variance analysis in order to determine whether the proposed change to the marketing mix has been successful.

(This question continues on the following page)

(Question 1 continued)

- (a) Identify **two** possible types of above the line promotion that *CT* could use. [2]
- (b) Define the term *variance analysis*. [2]
- (c) Explain **two** possible human resource implications for *CT*'s management given the proposed change to introduce “toy parties” as an additional sales method. [4]
- (d) Using information from **Table 1**:
 - (i) calculate the break-even level of output for *CT*, for 2014 (*show all your working*); [2]
 - (ii) construct to scale a fully labelled break-even chart for *CT*, for 2014. [5]
- (e) Using information from **Table 2**, prepare an **annual** cash-flow forecast for *CT*, for 2015. [4]
- (f) Analyse *CT*'s management plan to reduce the price of *CT*'s toys. [6]

2. Sleep Well Limited

Sleep Well Limited is a family-run private limited company. They own a luxurious and prestigious hotel, *Sleep Well* (SW), which is located in an expensive city-centre location in New York, United States (US). Its customers are international travellers who expect comfort and excellent service and are willing to pay a high price. Capacity utilization of the hotel rooms is 95% on most days. However, loyal customers are frustrated that sometimes they cannot reserve a room because the hotel is full.

The hotel management is considering extending the hotel with a new building with larger rooms and the most luxurious facilities. The prices of the larger rooms in the new building will be 50% higher than the rooms in the current building.

Market research commissioned by SW highlighted the following:

- In the short term, the economic environment in many of the home countries of SW's customers will deteriorate. However, the economic environment should improve after two years.
- The US dollar is likely to increase in value in relation to other currencies.
- SW customers' demand is price inelastic and is income elastic.
- Severe shortage of qualified labour is forecasted in the service industry.

The table below shows the Operation Manager's planned activities for legal procedures and the construction of the new building.

Activity	Order/Dependency	Duration
A		4 months
B		5 months
C	Must follow A	3 months
D	Must follow B	4 months
E	Must follow C and D	6 months
F	Must follow E	11 months
G	Must follow E	3 months
H	Must follow G	4 months
I	Must follow F and H	2 months

However, the Finance Manager is concerned that strict planning regulations imposed on construction in the city centre could create extra costs and cause delays in the completion of the new building. Selling shares is considered as one option for financing the project. The Marketing Manager is worried about the impact on the customer experience during the construction process.

(This question continues on the following page)

(Question 2 continued)

- (a) Identify **two** advantages of *Sleep Well Limited* being a private limited company. [2]
- (b) Define the term *capacity utilization*. [2]
- (c) Explain **one** advantage and **one** disadvantage of using the critical path analysis model as a project management tool, for the construction of *SW*'s new building. [4]
- (d) Construct a fully labelled network diagram to represent the sequence of activities in the table. Show the earliest starting time (EST) and the latest finishing time (LFT) for each activity **and** identify the critical path. [6]
- (e) (i) Identify any total float from the diagram constructed in part (d) (*no working required*). [1]
- (ii) Using the total float you identified in part (i), calculate any free float (*show all your working*). [2]
- (iii) Comment on how *SW* could use any free float as calculated in part (ii). [2]
- (f) Examine the option of the construction of the new building for *SW*. [6]

Section B

Answer **two** questions from this section.

3. Fujifilm

Throughout its history, *Fujifilm* has innovated. It invented many products such as the first high-speed colour photographic film and the first disposable camera. *Fujifilm* was one of the most trusted brand names in the photographic industry.

Fujifilm adapted to changes in the external environment. Digital photography and smartphones were causing a significant reduction in sales of photographic film. Researchers at *Fujifilm* discovered that patented chemicals used in *Fujifilm*'s photographic film products are antioxidants* that could be used in cosmetic products. In 2007, *Fujifilm* invented a skincare product line and branded it *Astalift*. *Fujifilm* spent a large amount of money developing the new brand name and building awareness and loyalty. *Astalift* quickly became one of the best-selling brands in Japan's skincare product market.

In response to the success of *Astalift*, *Fujifilm*:

- acquired complementary pharmaceutical companies and built research and development (R&D) facilities to develop additional cosmetic products under the *Astalift* brand
- set up a new division that develops medical equipment based on photographic film and imaging technologies (such as digital X-rays) marketed under the *Fujifilm* brand name.

Fujifilm understood changes in societal norms, such as lifestyle and income of women in many Asian and European countries. At present 20% of sales are generated outside of Japan. In Europe, *Fujifilm* adapts its marketing mix for consumer preferences in each country. Ultimately, *Fujifilm* wants to transform *Astalift* into a global brand.

Today, only 1% of *Fujifilm*'s revenue comes from photographic film, while 99% of revenue comes from the sales of cosmetics and medical equipment. Now, *Fujifilm* has been so successful that other companies are trying to imitate its success on a global scale. Japan's beverage company *Suntory* has developed its own range of natural skincare products to be marketed under its well-known brand name *Suntory*.

[Source: adapted from: <http://www.economist.com/>
<http://www.nippon.com/>
<http://www.brandchannel.com/>]

* antioxidants: molecules that prevent the oxidation of other molecules, which can maintain the health of cells; they are often used as preservatives in cosmetics

(This question continues on the following page)

(Question 3 continued)

- (a) Describe **one** internal factor and **one** external factor possibly affecting innovation at *Fujifilm*. [4]
- (b) Explain **one** benefit of a patent for *Fujifilm*. [2]
- (c) Explain **one** benefit and **one** cost of research and development (R&D) for *Fujifilm*. [4]
- (d) Using the Ansoff matrix, examine *Fujifilm*'s decision to diversify. [6]
- (e) Discuss the decision of *Fujifilm* to create the **new brand**, *Astalift*. [9]

4. BDM

BDM manufactures motors used in small kitchen appliances. It operates in its original factory built in 1977, which is located near the centre of a large and growing city. Since 1977, property values have risen significantly and are forecasted to increase further. Most of *BDM*'s workers purchased their homes decades ago and live near the factory. Younger workers, however, complain that accommodation near the city centre costs too much for them to live nearby. Older workers are loyal to the company and in many cases have specialized skills.

Recently, *BDM*'s sales have rapidly increased through internal growth, and the factory should reach full capacity within several years. *BDM*'s loyal customers value its unique selling proposition (USP): lower prices than competitors of comparable quality. Customers are small businesses located in the city which use *BDM*'s motors to help with the manufacture of inexpensive appliances for local markets. 5% of *BDM*'s sales are made through business-to-business (B2B) e-commerce. Sales are increasing.

BDM is profitable. Stock turns over in 35 days and creditor accounts are settled in 30 days. Last year, *BDM*'s sales revenue was \$24 000 000 and its debtor's accounts balance was \$2 176 000 at the end of its financial year. The industry standard of credit terms is for customers (debtors) to pay in 30 to 35 days. Because of the poor management of sales growth and use of just-in-case stock control, *BDM* has a liquidity problem.

To resolve its liquidity problem, *BDM* is considering two options:

- (Option 1) sell the factory and relocate to a much larger one located 27 kilometres from the city centre. The new factory (for *BDM*) would cost significantly less.
- (Option 2) sell the factory and lease it back from the purchaser. Change to just-in-time stock control management and shorten the credit terms given to customers from 30 to 15 days.

- (a) Define the term *internal growth*. [2]
- (b) Identify **two** features of e-commerce. [2]
- (c) Calculate the debtor days ratio (*show all your working*). [2]
- (d) Explain **two** problems, **other than** liquidity, for *BDM*, of rapid sales growth. [4]
- (e) Analyse the possible impact on pricing and place in the marketing mix, if *BDM* moves from its current location (**Option 1**). [6]
- (f) Discuss *BDM*'s **Option 2** to resolve its liquidity problem. [9]

5. Chips to Go (C2G)

Chips to Go (C2G) produce potato chips for the British market. C2G's Chief Executive Officer (CEO) is Charles Chip who is a dynamic entrepreneur famous for taking risks with chip flavours such as "banana and sour cream" and "chocolate fudge" and promoting them with humour especially appealing to British culture. C2G has created a number of successful snack products under the C2G family brand. Charles uses intuitive rather than scientific decision-making. He rarely consults with senior managers or considers financial data.

C2G's value as a company in terms of goodwill, brand value and other intangible assets is tied very closely to the personality and lifestyle of Charles. He is the company's most valuable intangible asset and is very popular among the younger generation. He is constantly in the news trying to travel around the world in a canoe, or taking risks by parachuting off high buildings to gain free publicity and word-of-mouth promotion. Current and potential investors have contacted the finance department as to what may happen to the value of these intangible assets if Charles were to have a serious accident.

C2G is looking for ways to increase market share in an increasingly competitive domestic snack market. One long-time aim for Charles has been the creation of a potato chip with all the taste of regular chips but without any fat. The marketing department of C2G is very excited with this idea but the Production Manager has indicated to Charles that it cannot be produced. Charles has been told and was furious.

A second strategic option could be to launch the potato chips into a new international market. One of Charles's closest advisers has argued that C2G would need to be careful with its product and promotion, as overseas customers may not share British tastes in potato chips, or British humour in promotion. He urges Charles to take time to carry out extensive market research of the new international market.

- (a) Describe **two** stakeholder conflicts at C2G. [4]
 - (b) Explain **two** reasons why it may be difficult to value C2G's intangible assets. [6]
 - (c) With reference to C2G, compare and contrast intuitive and scientific decision-making. [6]
 - (d) Evaluate the strategic decision to launch C2G's potato chips into a new international market. [9]
-

Markscheme

May 2015

Business and management

Higher level

Paper 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
Q1 (f)	Q2 (f)	Q3 (d)	Q4 (e)	Q5 (c)	
Marks 0–6					
0					
1–2					
3–4					
5–6					

Section B			Level descriptors
Q3 (e)	Q4 (f)	Q5 (d)	
Marks 0–9			
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, concepts and theories.• 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.
5–7			<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.
8–9			<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) Identify **two** possible types of above the line promotion that *CT* could use. [2]

Two possible types of above the line promotion that *CT* could use include:

- paid for internet promotion on toy websites
- print (newspapers, magazines, trade journals, *etc* linked to the toy/games industry)
- advertisements during radio programmes aimed at children
- advertisements during television programmes aimed at children.

Accept any other relevant type of above the line promotion.

Accept the use of Facebook / Twitter as forms of mass media.

N.B. *specific application is not expected.*

Award [1] for each correct and relevant form of above the line promotion identified that CT could use. Award a maximum of [2].

- (b) Define the term *variance analysis*. [2]

Variance analysis refers to an analysis of differences between expected or budgeted outcome / amounts / figures (prices, costs, quantities, profit, revenue) and actual outcome / amounts. The analysis examines if the outcome is adverse (A) or favourable (F) and investigates why the differences occurred from the forecasted or budgeted amounts.

Award [1] for the basic understanding that a variance analysis examines differences between actual and budgeted costs or any other figure.

Award a maximum of [2] for a thorough definition that goes beyond just a subtraction of figures. The response may demonstrate understanding of the process / rationale for carrying out a variance analysis, for example to enable management decision-making / identify adverse (A), favourable (F) and the possible reasons why.

N.B. *it is not expected that the candidate uses the exact term of adverse (A) and/or favourable (F), but they should show understanding of the need of the analysis in order to make a decision / take corrective action etc.*

- (c) Explain **two** possible human resource implications for CT's management given the proposed change to introduce "toy parties" as an additional sales method.

[4]

Possible implications for CT's management given the proposed changes to introduce "toy parties" as an additional sales method include:

- CT will have to recruit, train, and induct sales representatives. These processes will take time. CT will have to develop procedures to find people willing to sell at the toy parties.
- CT will now have to reorganize/restructure its business as the number of employees will increase. Human resource planning monitoring/rosters/schedules may become more complex, possibly requiring additional supervisors/managers.
- Given the above point, CT's management may have to review employee contracts. Full-time workers may be entitled by law to certain types of benefits (health, sick pay and pension for example) that they did not receive as temporary contract workers. Even if not required by law, full-time workers may want/need/demand these kinds of benefits. CT's management will have to react.
- It can possibly lead to unhealthy competition / conflicts between existing employees / sales representatives and newer ones that are paid by commission. This can reduce efficiency and can result in a fall in motivation for the management to deal with. It takes time and resources to solve conflicts.

*Accept a fall or increase in motivation, **only** if a full and relevant explanation is given as to why it is a possible HR implication and its effect on management.*

Accept any other relevant human resource implication.

Mark as 2+2.

*Award **[1]** for a relevant human resource implication of the proposed changes to introduce "toy parties" as an additional sales method identified and **[1]** for an explanation of this implication for CT up to a maximum of **[2]**.*

N.B. *if the explanation is generic and not applied to CT award **[1]** per implication.*

(d) Using information from **Table 1**:

- (i) calculate the break-even level of output for *CT*, for 2014 (*show all your working*);

[2]

All figures in Euros

$$\text{Price} = \frac{300\,000}{12\,500Q} = \text{€}24$$

$$\text{Break-even point} = \frac{\text{fixed cost}}{\text{contribution}}$$

$$= \frac{121\,800}{(24 - 10)} = 8700 \text{ toys}$$

Allow candidate own figure rule (OFR) if the price is incorrect.

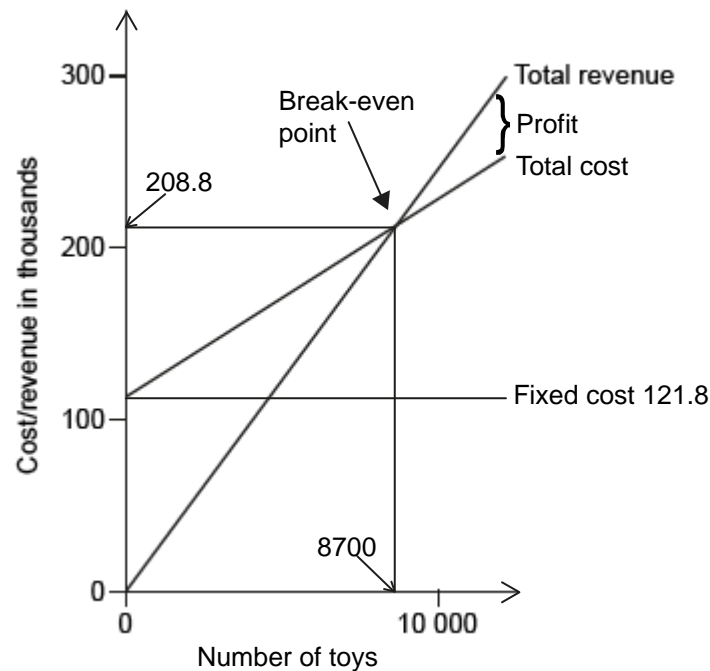
*Award **[1]** for a response that includes an error in calculation, but the method is correct and working is provided.*

*Award **[1]** for a response that includes the correct calculation of the price.*

*Award a maximum of **[2]** for the correct answer with full working.*

- (ii) construct to scale a fully labelled break-even chart for CT, for 2014.

[5]



Award up to a maximum of [5] for any of the following:

[1] for appropriate labelling of **both** axes including clear reference to number of toys/units on the x-axis and cost/revenue on the y-axis.

[1] for an accurately drawn and labelled total revenue (TR) curve.

[1] for an accurately drawn and labelled total cost (TC) curve.

N.B. the exact figures for the break-even cost/revenue of 208.8 to be indicated clearly on the y-axis as evidence of accuracy of scale, or the scale has to be clear, neatly drawn and accurate so that the figures even if not stated on the axes can be seen. Just labelling TR and TC is not sufficient.

[1] for the identification of the break-even point or quantity (allow candidate own figure rule [OFR]).

[1] for a correctly drawn fixed cost (FC) curve with the relevant number / costs **or** a very clear / neat scale where the exact figure can be identified / understood.

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.

N.B. marks can be awarded for TR/TC if candidates show appropriate calculations and not indicate these figures on the graph which is drawn to scale.

If the candidate only shows accurate knowledge of a break-even chart with no values and application to CT award no more than [1].

- (e) Using information from **Table 2**, prepare an **annual** cash-flow forecast for CT, 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
Variable costs	€32 000
Total payments	€372 000
Net cash flow	<€20 000>
Opening balance	€37 000
Closing balance	€17 000

N.B. allow for alternative headings for receipts and payments, such as inflows and outflows.

Award **[1]** for a response that demonstrates some basic understanding of an annual cash-flow forecast but otherwise has numerous errors.

Award **[2]** if the cash-flow forecast has two, or up to three errors, or omissions either in structure or headings or calculations.

Award **[3]** for a largely correct format. Allow for one error or omission in structure / headings.

Award a maximum of **[4]** for a correctly formatted and mathematically accurate cash-flow forecast similar to above.

- (f) Analyse CT's management plan to reduce the price of CT's toys.

[6]

The management of CT "has estimated that the parent's demand for toys is price elastic", which means that for every percentage change in price the quantity demanded for toys will increase by a larger percentage. If this assessment of demand is accurate, CT's plan to lower prices will increase sales volume and total revenue (TR) quite significantly to make up for the fall in price per toy / unit. Presumably management believes that the increase in volume will make up for the lower gross margin.

Profit should increase as TR will be higher and the sales representatives in the toy parties are to be paid on a commission-only basis anyway.

The discovery of the market research that the customers are price elastic indicates that CT's current pricing decision is inappropriate as customers do not really see the toys as highly differentiated / better than the competitors. Otherwise, one would expect the price elasticity of demand to be lower. Therefore, the decision to reduce the price from a marketing point of view is also correct.

However, one negative impact of lowering prices is that it could change market perception about CT. Right now, CT charges more than its competitors with the intention of creating the perception that CT's toys are better. Lowering prices could alter that quality perception of some of the customers who might see the toys as differentiated with a USP of being creative and CT could lose some of its existing customers.

A lower price might mitigate the brand name of CT.

By increasing volume, CT will have to find a new location / extra storage space, the former requiring more finance and the latter requiring extra costs. For much of the year, capacity utilization at CT is low.

CT may have the capacity to produce and hold enough toys for the new, higher-sales-volume holiday months, but CT will either have to make the toys earlier in the year and/or have to increase capacity – requiring more space and possibly more manufacturing equipment, which will increase costs.

Of course, with an increase in the scale of production, CT may be able to gain economies of scale, increase profit and this could possibly allow prices of its toys to fall further.

Accept any other relevant analysis.

It is not expected that the candidates covers all of the above issues.

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].

For one relevant argument for and one relevant argument against award up to [4].

For [5] it is expected that the analysis is relevant and detailed, but it may lack some balance. For example, it includes only two detailed arguments for and one detailed argument against.

For [6] it is expected that the analysis will contain at least two detailed arguments for and at least two detailed arguments against the notion of CT reducing the price of its toys.

Marks should be allocated according to the markbands on page 3.

2. (a) Identify **two** advantages of *Sleep Well Limited* being a private limited company. [2]

Two possible advantages of *Sleep Well Limited* being a private limited company could include:

- The owners, the family members, have limited liability.
- Selling shares to friends and family can raise funds for the expansion. This may be less costly and quicker to organize with a higher chance of being successful than fully subscribed share issue.
- The family members will not lose control of the business as shares are sold among friends and family members only, ensuring continuity of ownership.

Award [1] for each relevant advantage correctly identified, up to a maximum of [2].

N.B. *it is not expected that the candidate applies to Sleep Well Limited.*

- (b) Define the term *capacity utilization*. [2]

Capacity utilization is the extent to which the maximum capacity of the firm is being used. It measure that actual output as a **percentage** of potential output.

Candidates are **not** expected to word their definition **exactly** as above.

Award [1] for a basic definition that conveys partial knowledge and understanding. Award [1] if only the formula is stated with no definition.

Award [2] for a full, clear definition that conveys knowledge and understanding similar to the answer above. An understanding of a percentage should be demonstrated for full marks.

For only a relevant example to the stimulus award [1]. However, do not award [1] if the candidate has only copied a sentence from the stimulus “95%” without showing understanding.

- (c) Explain **one** advantage and **one** disadvantage of using the critical path analysis model as a project management tool, for the construction of SW's new building.

[4]

The possible **advantages** of using the model for SW:

- It enables the managers of SW better planning and coordination of the building project, which is a relatively large project for the hotel. The model will enable the Operation and possibly the Finance Manager to identify linkage, sequential and dependent relationships between activities. Resources can be allocated in a better way. Costs can be saved by better resources and more timely allocation.
- The critical activities can be identified and resources can be prioritized and allocated accordingly to ensure a timely completion – an important factor in the whole decision-making process for the managers as severe shortage of qualified labour is anticipated.
- Moreover, identifying the critical activities and finding ways of cutting its duration can minimize the disturbances to current guests. Something that the Marketing Manager is worried about.
- The floats can be calculated to anticipate delays if any of the activities are likely to overrun given the strict planning regulations.
- *Accept any other relevant advantage.*

The possible **disadvantages** of using the model for SW:

- The reliability of the data – especially task duration – given by the Operation Manager can affect the accuracy of the time taken to complete the project. Given the disruptions indicated in the stimulus it is important that the new building is completed on time. The model may not be useful if the data used is inaccurate.
- The managers of the new building construction might not have identified some activities in the construction process. This could lead to unanticipated delays and/or mistakes when completing the new building.
- Many unexpected internal and perhaps more relevant external variables/factors such as weather may affect the duration of individual tasks and of course the duration of the project. The new building could open much later than expected and this would put pressure on SW's cash flow.
- The model ignores many qualitative issues/factors like the effect on customer experience and the quality of service during the construction time despite reassurances from the management.
- *Accept any other relevant disadvantage.*

Mark as 2+2.

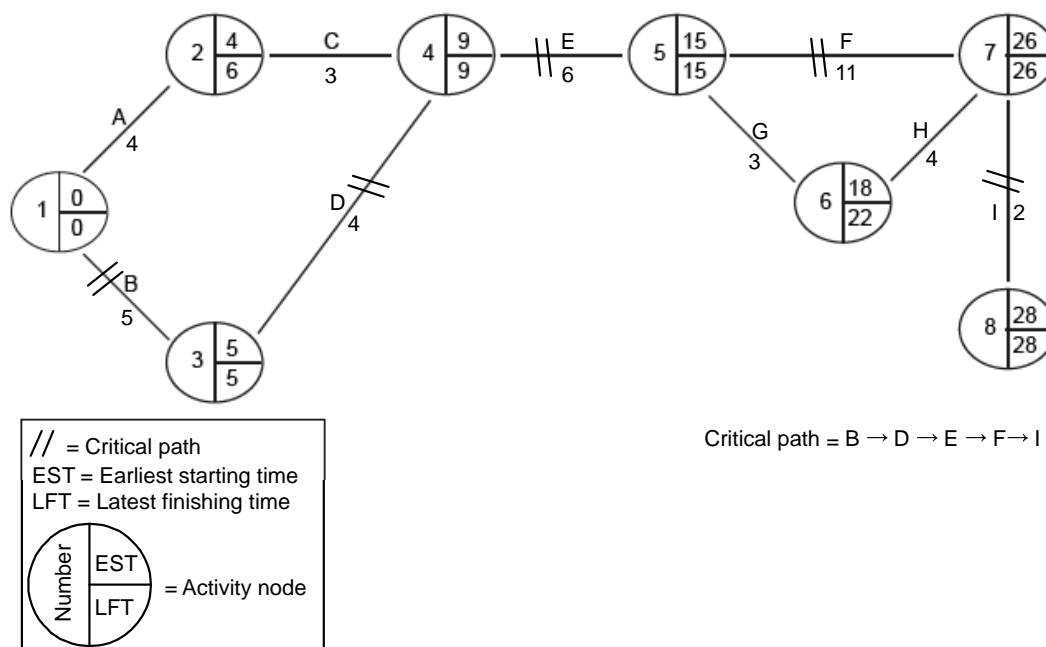
Award [1] for each relevant and correct advantage / disadvantage identified.

Award [1] for explaining the advantage / disadvantage with reference to SW up to a maximum of [2].

Award a maximum of [1] if there is no application to SW even if there is some explanation for each advantage / disadvantage.

- (d) Construct a fully labelled network diagram to represent the sequence of activities in the table. Show the earliest starting time (EST) and the latest finishing time (LFT) for each activity **and** identify the critical path.

[6]



For [1] there is some little evidence of understanding of the model and some attempt at construction with some ESTs and LFTs shown.

Allow candidate own figure rule (OFR).

For [6] the network is accurately constructed and well presented. The critical path is identified. A key is provided. The ESTs and LFTs are accurate.

Deduct [1] if the key is missing.

Deduct [1] if the critical path is not identified by **either** crossing the activities **or** writing the letters separately.

Deduct [1] for each error in either construction or calculation. Allow OFR.

N.B. any unnecessary dummy used for the construction of the network is to be judged as one error each.

- (e) (i) Identify any total float from the diagram constructed in part (d) (no working required).

[1]

LFT of the activity – Duration – EST of the activity

For example: C = 9 – 3 – 4 = 2

A = 6 – 4 – 0 = 2

Any activity that is not on the critical path will have a float. For example, activities A, C, G and H have a float.

N.B. working are not expected.

Award [1] for a correct answer (no working required).

- (ii) Using the total float you identified in part (i), calculate any free float (show all your working).

[2]

Free float for an activity is calculated by:

The EST (next activity) – Duration – EST (of that activity)

Activity H has a free float of $26 - 4 - 18 = 4$ months

Activity C has a free float of $9 - 3 - 4 = 2$ months

Activity A has a free float of $4 - 4 - 0 = 0$ months

Activity G has a float of $18 - 3 - 15 = 0$ months

*Award a maximum of [2] for a correct answer with working shown for **any** of the activities above.*

Award only [1] if a free float is indicated at any activity that is not on the critical path (A, C, G and H), but no working is given.

N.B. only apply candidate own figure rule (OFR) if calculations are consistent with the diagram they constructed in part (d).

- (iii) Comment on how SW could use any free float as calculated in part (ii).

[2]

When calculating the free float SW can see how long the activity can be delayed before affecting the next activity. If an activity like H has a free float of 4 months, it means that it can be delayed by such a duration without affecting the start of activity I. Otherwise, a larger delay than the free float will affect the duration of the project as I is on the critical path.

SW can therefore allow a slack of up to the duration of the free float and possible move some resources towards the critical activities if the aim is to reduce duration to minimize disturbances and reduce costs.

Similarly activity C can be delayed by up to 2 months without affecting the start of activity E which is on the critical path and therefore the overall duration of the project.

*Award [1] for a brief comment, such as a response that just describes what a **free float** is and its possible effect on the next activity.*

Award [1] for application either in terms of figures / relationship between particular activities or to SW's particular issues / needs.

N.B. candidates must specifically refer to **free** float and not simply generic "float" for full marks.

It is not expected that the candidate provides such a detailed response.

- (f) Examine the option of the construction of the new building for SW.

[6]

Arguments for the construction of the new building:

- An economic recovery predicted after two years also supports the proposed strategy as the project is estimated to be completed in 28 months. As consumers' income grows with an income elasticity of demand over 1 for services / luxury products, SW is likely to see a significant increase in demand. SW will be ready with extra capacity and the most luxurious amenities and services to satisfy their customers' needs. Profits are likely to grow and the costs of the new building can be quickly recouped.
- Moreover, the need to increase the price for the new rooms is likely to be tolerated by customers given their price inelastic demand. Total revenue is likely to increase even if SW loses some customers to cover some of the investment costs and the running costs.

Arguments against the construction of the new building:

- The construction time as currently planned will last for over two years if everything goes to plan. SW's managers may put up with some noise and difficulties for such a time period, but will existing customers?
- The strong \$ might make the price of the new hotel even higher and possibly unaffordable for its international travellers. SW might not be able to fill the extra capacity built.
- The current lack of capacity during busy periods, combined with an increase in demand is likely to harm the reputable brand image with more customers turned away.
- Before the recovery a recession (deterioration in the economic environment) is forecasted. Although demand is price inelastic. A significant fall in customers' demand is likely for a luxury product given the income elasticity. Can SW sustain these potential losses and be able to finance the new building?
- The Finance Manager is concerned that time and money will be spent on legal processes to ensure building permission and or in the worst-case scenario, the actual building will not take place.

N.B. it is not expected that the candidate develops a full examination of the issues regarding the legal status and the source of funds used.

- The severe shortage of skilled labour is likely to reduce the profitability of the new building, as more staff will be needed to operate the extra capacity. Staff training may be required for the new level of service and wages will have to increase given the staff shortages.

Accept any other relevant arguments for and against.

It is not expected that the candidate covers all of the above issues.

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].

For one relevant argument for and one relevant argument against award up to [4].

For [5] it is expected that the analysis is relevant and detailed, but it may lack some balance. For example, it includes only two detailed arguments for and one detailed argument against.

For [6] it is expected that the analysis will contain at least two detailed arguments for and at least two detailed arguments against.

Marks should be allocated according to the markbands on page 3.

Section B

Note to examiners for question 3: do not penalize candidates for the use of “skincare” or “cosmetics” interchangeably in their responses.

3. (a) Describe **one** internal factor and **one** external factor possibly affecting innovation at *Fujifilm*.

[4]

Possible **internal factors** affecting innovation at *Fujifilm*:

- Availability of finance needed to spend on the process of innovation, which is the successful commercial use of an invention. It is said that a large amount of money was spent on developing new product(s).
- Technological know-how and clearly an innovative culture, which allowed this to be applied to the creation of new products such as high-speed, colour photographic film.
- *Fujifilm*'s management might have been encouraged by past success. *Fujifilm* pioneered many products.
- Attitude to risk, clearly *Fujifilm* was historically a risk taker. A company who spent money on inventions to bring these products to the market.

Possible **external factors** affecting innovation at *Fujifilm*:

- The technological changes in the external environment have created new competitive forces/pressures. Digital photography and smart phones were causing a significant drop in sales of film, which was one of *Fujifilm*'s core competencies. *Fujifilm* had to react and innovate.
- *Fujifilm* understood changes in societal norms outside of its control like lifestyle and change in income, which allowed it to create new needs/products to meet changes in social trends.

Accept any other relevant issue.

Mark as 2+2.

*Award [1] for each relevant and correct internal / external factor identified and [1] for describing the factor in relation to *Fujifilm*, up to a maximum of [2].*

*Do not credit candidates twice for describing either two possible internal or two external factors affecting innovation at *Fujifilm*.*

- (b) Explain **one** benefit of a patent for *Fujifilm*.

[2]

A patent is a legal right granted to an organization / a person to be the exclusive user of an invention for a specified period of time. *Fujifilm* was granted patents on the chemicals used in its traditional photographic film products. These are antioxidants that were used in the creation of new cosmetic/skincare products.

The possible benefits of patents for *Fujifilm*:

- For the duration of the patent given, *Fujifilm* can create a USP / competitive advantage that can also act as a barrier to entry for other competitors. In this case the use of the patented antioxidants enables *Fujifilm* to develop new, and be rewarded for, an innovative cosmetic/skincare product that competitors legally cannot copy.
- Given the high costs and the long duration of research and development (R&D) when no income was generated for *Fujifilm*, a patent can encourage *Fujifilm* to create future products.
- The patent may allow *Fujifilm* to charge a premium price to recover the R&D costs and to have funds available for further future research.

Accept any other relevant benefit for *Fujifilm* with an explanation.

N.B. a definition of patent is not required for full marks.

Award [1] for a relevant benefit, with an additional [1] for application to *Fujifilm*.
Award a maximum of [2].

- (c) Explain **one** benefit and **one** cost of using research and development (R&D) for *Fujifilm*.

[4]

Given the changes in the external environment mentioned in the stimulus, research and development (R&D) enabled *Fujifilm* to develop highly innovative and differentiated products and to have a first mover advantage in many segments and markets. There is evidence that *Astalift*, as an example became one of the best selling brands in Japan.

R&D allowed *Fujifilm* to explore these options before bringing them to the market place as new innovations. Hence the risk of failure was much reduced.

R&D would also be helpful with the appropriate decision on the marketing mix of the new innovations.

Moreover, the process of granting a patent after R&D has been carried out also involves costs for the organization. The granting of a patent can possibly enable *Fujifilm* to charge a premium price that is likely to satisfy the shareholders if they are concerned about increasing costs of R&D.

However, the process of R&D, as well as ensuring a patent for *Fujifilm* and other pharmaceutical or high technology industries is particularly expensive and time consuming. Without granting a patent, these costs may not be recouped.

Apart from the direct costs of R&D we must also note the opportunity costs to *Fujifilm*. Research in itself is no guarantee of commercial success. Would these funds for R&D be better spent on supporting other products in the *Fujifilm* portfolio? We must also note the time costs / delays involved in researching and developing a new product and bringing this to market. Working capital could be tied up in a product's R&D idea, which might only remain an invention and therefore not generate any future sales or profits.

Fujifilm's success can be short lived as competitors can eventually imitate its innovation.

Accept any other relevant issue.

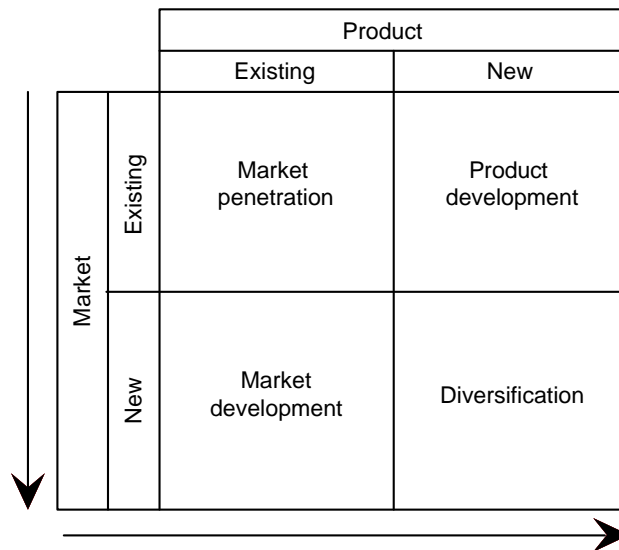
Mark as 2+2.

Award **[1]** for a relevant and correct benefit / cost and **[1]** for an explanation of this benefit / cost in relation to *Fujifilm*, up to a maximum of **[2]**.

N.B. if the explanation is generic and not applied to *Fujifilm* award **[1]** per benefit / cost, up to a maximum of **[2]**. Despite the fact that the examples of costs are rather generic, some attempt at application must be evident.

- (d) Using the Ansoff matrix, examine *Fujifilm*'s decision to diversify.

[6]



One may argue that **diversification**, as one of the four strategic growth options suggested by Ansoff is the most risky one. *Fujifilm* ventured into unknown new markets – cosmetics and new targeted customers/segments, which they had no experience of targeting before. *Fujifilm* had no security of knowing the industry as well as knowing customers, hence a very risky strategy, the most risky one among the four. Similarly, the diversification into medical equipment can also be seen as diversification albeit perhaps a more related one.

However, by pursuing unrelated diversification (or diversification) into the cosmetic industry and the creation of the brand *Astalift*, one may argue that *Fujifilm* actually reduces the risk of relying on their film / core product that gradually became obsolete. The researchers at *Fujifilm* were competent enough to see the possible synergy, the common “know how” and were able to build on its existing knowledge in the film industry and transfer patents to a new industry - the skincare industry. Hence the risk of using diversification as a growth strategy has been much reduced. An appropriate strategy especially in the short run until the patent expires.

Moreover, *Fujifilm* acquired pharmaceutical companies and developed R&D facilities to support this high risk strategy with successful results.

Diversification can also be seen as the most expensive option as new markets have to be researched, product to be created and marketed. Nevertheless, it looks as if *Astalift* was successful as a diversification strategy.

Accept any other relevant examination.

It is not expected that the candidates covers all of the above issues

If the candidate merely states the Ansoff matrix with no application to Fujifilm award a maximum of [1].

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].

*For one relevant argument for and one relevant argument against award up to **[4]**.*

*For **[5]** it is expected that the analysis is relevant and detailed, but it may lack some balance. For example, it includes only two detailed arguments for and one detailed argument against.*

*For **[6]** candidates must give a balanced examination of two possible arguments for and two possible arguments against the decision to diversify. The model is drawn accurately **or** the explanation of diversification in terms of new product / new market is clear.*

Marks should be allocated according to the markbands on page 3.

- (e) Discuss the decision of *Fujifilm* to create the **new brand**, *Astalift*.

[9]

It is expected that candidates will discuss the decision of *Fujifilm* to create the **new brand** as opposed to just discussing the creation of a new product.

Consumers view a brand as an important part of the product and branding can add value to the product and can help with the positioning of the product.

The company brand name *Fujifilm* was not used for the cosmetic/skincare product. One may argue that *Fujifilm* management took a chance, as the *Fujifilm* brand has been very reputable, highly recognizable and successful. Throughout its history, *Fujifilm* kept on enhancing the company brand.

We assume that the management at *Fujifilm* were aware of the possibility that if *Fujifilm* operates under the same brand name and used a family branding strategy for the new cosmetic/skincare products, current customers and the targeted potential customers may be confused.

Despite creating a strong technical synergy between the new cosmetic line and the current product – by using its patented antioxidants chemicals from *Fujifilm*'s traditional film products – the management understood that the targeted customers might be reluctant to buy a new cosmetic/skincare line branded by the same name as other unrelated products. Hence a new brand name and a new and separate identity was created.

Product / individual branding was used. *Fujifilm*'s management invested heavily in creating the new, separated and distinctive brand name *Astalift*. Clearly this choice is much more expensive for an organization rather than just extending a successful brand name. Hence, it can be argued that *Fujifilm* took unnecessary risk given the reputation of their brand. It definitely spent a considerable amount of money on creating and developing the brand. **However**, given the success of the new skincare/cosmetic product, this argument cannot be judged as a significant one. The risk paid off. *Astalift* became one of the bestselling in Japan's skincare product market.

Figures suggest that the strategy of entering the Japanese market first to establish brand awareness and test the new brand was a successful strategy. The positioning, market share in Japan and the increase in revenue as stated in the stimulus, provides the evidence.

The above are very significant arguments with strong evidence of a great strategic response and success of creating a separate brand.

Moreover, brand erosion of *Fujifilm* might have occurred if the cosmetic / skincare line was not successful and branded under *Fujifilm*. (The medical equipment is traded under the original brand name).

However, the medical equipment created by *Fujifilm* was successful. Perhaps there was no need to invest heavily on creating a new brand and identity and save on marketing costs. **However**, these products were closer to *Fujifilm*'s past core products.

Still *Fujifilm* evidently made a commercial success of the new product line given their global ambition and the current market development strategy used. Perhaps the challenge of using the *Astalift* brand name will be more of a challenge in Europe.

One has to remember that while diversifying into the skincare/cosmetics market, *Fujifilm* competes in Asia and in Europe with many well-established companies. Perhaps in Europe a strong and well-established brand name of *Fujifilm* and not *Astalift* might be more appropriate? Perhaps, regardless of the chosen name, *Fujifilm*'s success is going to be reduced given the intensive competition in the European markets.

Moreover, it looks like other companies such as *Suntory* are also diversifying into cosmetic/skincare products. Hence the competitive advantage and the USP created by *Fujifilm* may be short lived. *Fujifilm* has been very successful in the short run but its long-term success might be less certain with the new brand.

Possible judgment/substantiated conclusion:

As well as understanding the needs and aspiration of women, *Fujifilm* after undisputed success in Japan, is well on its way to creating a global cosmetic brand, that supports well the strategic option of diversification. 20% of its sales come from abroad. However, some of the patents are likely to expire and other companies can copy some of the ingredients and the technology used when producing the cosmetic/skincare products. Perhaps it can be an advantage if customers associate the product line with *Fujifilm* – sort of family branding.

However, financially, the new brand was a commercial success and *Fujifilm* has the infrastructure, the financial ability and the impetuous to continue to develop innovative products.

Accept any other substantiated discussion and conclusions.

It is not expected that the candidates incorporate all of the above arguments.

A balanced analysis incorporates at least two arguments for and two arguments against.

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].

*If the candidate covers the issue of new product **only** rather than brand award a maximum of [5].*

Award a maximum of [5] 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 [5–7] markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

Marks should be allocated according to the markbands on page 4.

4. (a) Define the term *internal growth*. [2]

Internal growth occurs when a business expands without merging, acquiring, partnering or otherwise being involved with other businesses. Sometimes referred to as organic growth, internal growth involves increasing sales or investment in capacity. It is a growth from within.

Candidates are **not** expected to word their definition **exactly** as above.

Candidates are not expected to provide an example.

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. A comparison to external growth or an explanation of what internal growth is not required for full marks.

For **only** a relevant example **or** application to the stimulus award [1].

- (b) Identify **two** features of e-commerce. [2]

Two features of e-commerce are that it allows for:

- the business, goods and services it sells are available electronically eg via the internet, 24 hours per day
- national or global reach of customers beyond local borders
- instant / quick / cheap two-way communication between businesses and customers without the need for face-to-face meetings
- targeting of marketing messages to personal customer requirements
- *accept any other relevant feature.*

Award [1] for each feature of e-commerce identified up to a maximum of [2].

- (c) Calculate the debtor days ratio (*show all your working*). [2]

$$\frac{\text{Debtors}}{\text{Total sales revenue}} \times 365 = \text{Debtor days ratio}$$

$$\frac{\$2176000}{\$24000000} \times 365 = 33.09 \text{ days (Accept 33 days or 34 days)}$$

Award [1] for correct working and [1] for the correct answer. Award up to a maximum of [2]. There must be some indication in the answer that **days** are calculated for full marks.

- (d) Explain **two** problems, **other than** liquidity, for *BDM*, of rapid sales growth. **[4]**

When sales grow rapidly; the demand on a firm's stock inventory increases. There are risks of "overtrading" (although this term is not expected).

The demand on firms stock (inventory) increases and unless *BDM* is able to re-stock quickly, it may find that it does not have enough goods to sell to meet demand and customers may become dissatisfied and may choose competitors if deliveries fail to keep up. Customers' patience will be tested and even though *BDM*'s USP keeps customers loyal, this "lack of stock" aspect may make customers move to competitors.

BDM is to reach full capacity within a few years. Working at full or near full capacity can exert extra pressure on employees and managers, higher costs for the maintenance as well as depreciation of the machines. Moreover, extra pressure can result in a fall in quality. Its USP may be eroded.

Rapid sales growth must also be accompanied with increased managerial efficiency and improved customer service to maintain their loyalty in the latter.

There will also be pressure on their supply chains and distribution channels to ensure that deliveries are on time. *BDM* may have to find new channels especially as B2B e-commerce grows further.

Mark as 2+2.

Award [1] for an appropriate identification of a problem from rapid sales growth and an additional [1] for explanation and application to BDM. Award a maximum of [2]. If there is no application, award a maximum of [1].

- (e) Analyse the possible impact on pricing and place in the marketing mix, if *BDM* moves from its current location (**Option 1**).

[6]

Location has importance to *BDM*'s pricing element in the marketing mix. At present *BDM*'s unique selling point (USP) is lower price than producers of similar products of comparable quality. Thus, at present, many of *BDM*'s customers get the product they want at a better price than other similar manufacturers' offerings and at a convenient location.

Some possible issues regarding place:

Currently, **the location** is very convenient to most of its customers who are located nearby in the city centre location. If *BDM* moves 27 kilometres away as Option 1 suggests, its location will be less convenient for its customers who may move to competitors.

5% of *BDM*'s sales are online – **a place** and that percentage is growing. To these customers, where *BDM* is located is less important. At present, the percentage of customers who purchase online is low enough not to be a significant factor in the analysis of place in *BDM*'s marketing mix. Over time, however, that will change.

Some possible issues regarding pricing:

Additional costs might occur that might be passed on to its customers for more expensive product delivery. *BDM* may have to find new supply chain partners. The **prices** for delivered products may rise which conflicts with *BDM*'s USP. Especially if one of *BDM*'s competitors is located in the city centre.

However, the new factory will result in significantly lower costs. Hence *BDM* will be able to maintain **the price** / its competitiveness or even enhance its competitiveness by reducing the price.

If Option 1 leads to an increase in growth, further economies of scale are likely and price reductions could be possible. **However**, if the additional delivery costs increase prices and outweigh these economies of scale, the price differential that *BDM* currently enjoys over competitors, would be reduced. The move could hurt *BDM*'s USP and lead to a reduction in sales volume and revenue.

Also older skilled workers may rather retire than commute. New workers could be hired which may affect motivation, productivity and staff turnover resulting in increased costs which consequently might increase the price or reduce profit.

It is not expected that the candidate covers all of the above issues.

It is not expected that the candidate divides the answer into the two separate issues as above.

N.B. HR issues are not part of the marketing mix. Award only if there is a direct link made to the effect on price, or the methods of distribution (less people are needed when using e-commerce).

A reference to costs or profit, without a link to the effect on the price should not be regarded as complete coverage and application.

*For one relevant issue that refers to **either** price **or** place but is one-sided, award up to [3].*

*For one relevant argument for and one relevant argument against **either** price **or** place award up to **[4]**.*

*If the response is a one-sided relevant approach with no analysis / balance but refers to **both** price **and** place award a maximum of **[4]**.*

*To achieve **[6]** candidates must give a balanced examination of **both** price **and** place with one argument for and one argument against each.*

Marks should be allocated according to the markbands on page 3.

- (f) Discuss *BDM*'s **Option 2** to solve its liquidity problem.

[9]

Option 2 includes three strategies / actions. Sell the factory and lease it back from the purchaser, change to a just-in-time stock control management and shorten the credit terms given to customers from 30 to 15 days.

Option 2, especially **selling the factory** provides a one-off short-term windfall / cash injection to the company, but leasing costs will need to be considered over the longer term and there is no information in the stimulus to say how significant this could be.

The liquidity problem may be solved when the first aspect of Option 2 is completed, but *BDM* loses its most valuable asset in a prime city centre location. One may judge this point as a very significant argument as *BDM* will have an uncertain expense in the future when and if the lease costs increases.

Other aspects / strategies of Option 2 could help *BDM* solve its liquidity problem as both **just in time** and **shorter credit terms** for customers would reduce cash outflow and increase cash inflow. **However**, just-in-time stock control can be difficult and expensive to set up and manage. It makes *BDM* more dependent on reliable and timely delivery of raw materials. Cash may be needed to implement the new system including training.

If suppliers are not timely and reliable, *BDM* could end up not meeting its schedules and irritating customers – reducing cash inflows and making the liquidity problem worse.

However, with reduced funds tied-up in stock, compared to the current just-in-case method, cash outflows would be better managed and *BDM* will not have unproductive assets / money tied up in stock. The cash outflow could be smaller, although more frequent, depending on the nature of the new supplier relationships to create just-in-time. Still, *BDM* can negotiate better credit with its suppliers instead of changing the stock management system.

As for **shorter credit terms**, *BDM*'s customers may object to the shorter credit terms, which would not align with industry standards. Changing credit terms at short notice may not be possible given that *BDM*'s customers may also have to renegotiate with their own customers. (Goodwill in the whole industry may be reduced given the interdependence of cash flow.)

With a considerably shorter credit terms of 15 days only which is below the industry average, *BDM*'s customers' may not have the finance to pay. Customers might go to *BDM*'s competitors just for the more favourable credit terms despite *BDM*'s USP. Again customer loyalty for *BDM* will be tested given rise to future liquidity issues. **However**, if customers are willing and able to pay, especially if the quality is perceived higher than the competitors, a reduction from 30 days to 15 days is a significant one and would enable *BDM* to have the cash quicker, hence the liquidity problem might be reduced.

In conclusion, it is expected that the candidate will come up with a substantiated conclusion. The candidate may suggest that further negotiation and discussion of credit terms will be needed as well as investigating and forming new supply chain relationships for just-in-time to operate. This will take time for *BDM* to achieve.

Accept any other relevant discussion and arguments.

It is not expected that the candidate incorporates all of the above arguments.

N.B. *it is expected that the candidate refers to **all of the strategies / actions**: sell and lease back, reduce credit terms/time and change to just in time, with one argument for and one argument against **each strategy / action** for a balanced response.*

N.B. *for one relevant argument for one **strategy / action** that is one-sided, award up to [2]. For more than one relevant argument for one **strategy / action** that is one-sided, award up to a maximum of [3].*

*For two balanced **strategies / actions** with a judgment award up to [6].*

*Award a maximum of [5] 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 [5–7] markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

*For the top markband it is expected that the candidate provides a balanced analysis of the three **strategies / actions** with a substantiated judgment.*

Marks should be allocated according to the markbands on page 4.

5. (a) Describe **two** stakeholder conflicts at C2G.

[4]

- One conflict is between the current and potential investors and Charles due to his risky outside activities that he presumably believes attracts positive attention / publicity. Investors welcome Charles's attempts at free publicity through his adventures, but are concerned about the impact on the company if he was to have a serious accident. Shareholder value would be affected with no natural leader in waiting and minimal consultation from Charles.
- The second conflict exists between the marketing department (and/or Marketing Manager) and the Production Manager over the creation of a zero-fat chip. From a marketing point of view, they are very excited about the idea of creating a new zero-fat chip as being further evidence of C2G's innovation. Clearly, though the practical applications of creating this chip have been overlooked as the Production Manager has indicated that this cannot be achieved.
- There is a further implied conflict between Charles's intuitive decisions and his senior managers given that Charles rarely consults. The senior managers also seem very wary of bringing Charles difficult news such as the technology does not exist to create the zero-fat chip.

Accept any other relevant description.

Mark as 2+2.

Award [1] for an appropriate identification of two stakeholders, award an additional [1] for a description of the conflict with reference to C2G up to a maximum of [2].

- (b) Explain **two** reasons why it may be difficult to value C2G's intangible assets. [6]

From the stimulus, it appears that the intangible value of C2G as a company in the form of goodwill, brand value, reputation and so on is tied to the personality and lifestyle of Charles, as he is very popular with the younger generation. It appears that Charles is responsible for creating some of the innovative flavours, which have made the company so successful.

The difficulties of this for C2G's intangible assets is that it can be hard to objectively value the contribution of Charles's personality and lifestyle as well as his innovative attitude while the company is still operating. This can have a true positive impact on the brand value and effectively brand loyalty of customers, but the value can either be estimated or proven when the company is sold for a price above its tangible assets. Until then, the intangible assets can only be estimated if at all. Perhaps C2G can research the value of family branding more easily measured in terms of research on brand recognition, but the effects on personality factors can be very difficult to accurately measure.

Moreover, the success of the brand (and hence intangible asset) could also be down to very good promotion or targeting. Other companies without personality cults also have successful brands.

Innovation as a contributor to C2G's tangible assets can also be very difficult to measure due to the fact that one factor can be difficult to isolate in terms of its contribution to the intangibles.

Moreover inconsistencies of reporting systems between companies exist. Current financial statements provide very little information about these assets and there is not a standardized / unified method of valuation of the intangible assets. Therefore, the Financial Manager is unlikely to insert a figure that is no more than estimated.

Accept any other relevant explanation.

Mark as a 3+3.

N.B. the question is about the difficulties of the measurement – the difficulties of the process and methods of measuring. The question is not about if and how Charles is an intangible asset.

Award **[1]** for identifying a relevant difficulty in valuing intangible assets. Award an additional **[1]** for development of this point. Award an additional **[1]** for the application of the difficulty directly to C2G. Award up to a maximum of **[3]**.

For **[6]** two difficulties of valuing intangible assets must be linked and explained with reference to C2G.

N.B. it is expected that apart from the personality / lifestyle of the CEO, one more issue is identified, explained and applied.

- (c) With reference to C2G, compare and contrast intuitive and scientific decision-making.

[6]

Features of **intuitive decision-making** include:

- the use of “gut feeling”/emotion based on life, or work experiences to make a decision for a business
- a reluctance to use market research or financial data, (which would be used by a more scientific style of management). For example, to decide whether to launch a new product or service into a new market.

There is evidence from the stimulus that Charles relies on his own “natural abilities” to make decisions and he rarely consults. This has led to a number of very successful and innovative snack products appealing to British culture.

Given his success, it is fair to argue that intuitive decision-making has been instrumental in C2G’s financial performance and given that Charles is very much in control of the organization, scientific methods may be inappropriate as it will hinder its creativity / innovation and free spirit. His intuitive decision-making enables C2G to create a competitive advantage in the British market in an industry that is probably saturated. There are many potato chip producers.

However, his lack of consultation with senior managers (such as the Finance, Marketing and Production Managers) may result in less than effective decisions in the future.

Scientific management however, requires a much more analytical and considered approach to decision-making based not only on financial and market research data, but also the application of tools and techniques such as decision-trees, networks or force-field analysis. The stimulus indicates that for C2G to successfully penetrate a new international market with a different cultural makeup considered market research (or sometimes referred to as cultural intelligence [CQ]) is required. The contrast with Charles’s own thinking could not be more marked. **However**, for the successful entry into this new unknown market he will have to consider adopting more scientific methods as his closest adviser admits given the fact that his strengths are in and for the British market.

It appears that Charles’s intuitive decision-making might frustrate the Marketing department / Manager as well as the Production Manager. Conflicts between internal stakeholders can reduce the efficiency of the organization as well as its reputation.

Both are relevant approaches to decision-making, but in this example it would be foolish of Charles to ignore scientific and rely just on his intuition given that he is thinking of taking C2G into a completely new untried market.

The similarities between the methods can be explained as both methods result in a decision and both methods can be effective or otherwise. One may also argue that for each decision making, especially the scientific one, some degree of intuition and especially experience is being used as the decision is made by humans. It might be unrealistic to assume that senior managers such as the Finance or the Marketing Manager do not rely on their interpretation, experience, background and so on when using a more scientific decision-making method.

Accept any other relevant analysis.

It is not expected that the candidates covers all of the above issues

It is expected that the candidate provides, even briefly, the main characteristics / features of the different decision making methods with reference to some advantages and disadvantages of each with application.

Candidates may refer to the similarities, however do not penalize if they do not do this in their response.

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].

For one relevant argument for and one relevant argument against one decision-making method award up to [4].

For [5] it is expected that the analysis is relevant and detailed, but it may lack some balance. For example, one argument is missing.

*For [6] it is expected that the analysis will contain at least one detailed argument for and at least one detailed argument against **each** decision-making method with application to C2G.*

Accept mirror image arguments.

Marks should be allocated according to the markbands on page 3.

- (d) Evaluate the strategic decision to launch C2G's potato chips into a new international market.

[9]

The decision to launch C2G's potato chips into a new international market would seem suitable given the increasingly competitive snack market at home. The Production Manager rejected the first and possibly the more favourable decision to launch a new type of potato chip, Charles would appear confident that his current products, yet unique chip flavours would provide C2G with a market gap to be exploited.

Assuming that suitable resources would be made available to finance the strategic move, the decision could be viewed as a market development opportunity in the Ansoff matrix as a growth strategy and as an internal growth strategy. Using well received concept products and taking it to a new market is a medium risk strategy which the candidate may judge as an advantage or a disadvantage.

However, internal growth is a slower method of growth, but in this case may be more suitable than any other form of external growth like takeover / mergers where Charles might have to modify his leadership style.

Both current and potential investors should be content with this decision.

N.B. *an application of Ansoff matrix is not required and is given as an illustration of a strategic tool a candidate may wish to use in their response.*

To ensure the success of the decision, additional finance will be required to adapt some if not all of C2G's marketing mix as suggested by Charles's closest advisers. Especially the promotion and the product to ensure that there are no misunderstandings about their products or Charles's personality and lifestyle choices.

A carefully considered public relations campaign will need to be created so that the brand value of C2G is not diluted. Translators / marketing consultants at the new overseas market will need to be employed so that potential consumers are not confused by “banana and sour cream” and other flavours which may not translate well into local media or other above-the-line promotional methods. Finance will also need to be found to fund further “cultural intelligence” information and of course further market research to see if the growth strategy is on track, once C2G enters the market. Clearly, given that knowledge of this new market may be developing, on top of the extra costs of the suggested need for marketing mix adaptation, Charles will need to review his intuitive decision-making style in a market in which he is unfamiliar.

Moving into a new international market will take time. Initial sales may be small and with further promotional support, it is hoped that the product life cycle will enter the growth phase. Given that C2G’s success is linked to the personality of Charles, patience will be critical and it is indicated in the stimulus that Charles may lack this.

The decision to move into a new international market is justified from the stimulus given competitive pressures in domestic markets. The creation of a zero-fat chip (although currently not possible) given increasing concerns about obesity could prove to be a potential “cash cow” for C2G.

However, given the conflicts outlined in the stimulus and the associated challenges of entry into a new international market, the decision to move into a new market will still be risky unless Charles is willing to modify his leadership style and communication between departments within C2G improves.

It is expected that the candidate will provide some conclusions and judgment. It appears that the arguments for, based on some of the above arguments / reasons, especially C2G’s past success and the current market conditions are stronger than the arguments against. Provided some attention is paid to the market research and product adaptation, C2G should launch the chips into a new international market.

Accept any other relevant evaluation with substantiated judgment.

It is not expected that the candidate incorporates all of the above arguments.

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 [5] 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 [5–7] markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

Marks should be allocated according to the markbands on page 4.

Business and management
Higher level
Paper 2

Friday 20 November 2015 (morning)

2 hours 15 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer two questions.
- A calculator is required for this examination paper.
- Clean copies of the **business and management formulae sheet and discount tables** are required for this examination paper.
- The maximum mark for this examination paper is **[75 marks]**.

Section A

Answer **one** question from this section.

1. EcoCycle

Dan Perdue is a sole trader who sells bicycles. His unique selling point (USP) is bicycles that are made from recycled materials using environmentally friendly processes. Dan's customers are willing to pay high prices for these types of bicycles, and they have a price inelastic demand. Currently Dan purchases the bicycles from *GreenRide*, a local manufacturer. *GreenRide* bicycles are well made, rarely have defects, and are well known to environmentally conscious cyclists. The income elasticity of demand for Dan's bicycles is greater than one.

Table 1: financial data for Dan's bicycles, for 2015:

Number of bicycles sold	130
Sales price per bicycle	\$1000
Variable costs per bicycle	\$650
Fixed costs per year	\$42 000

The economy is forecasted to grow in the upcoming years. To take advantage of the growth potential, Dan is considering forming a partnership with David Brown, a skilled mechanic who knows how to manufacture bicycles. Both Dan and David would be equal partners and split the profits. The partnership will begin on 1 January 2016 and would trade under a newly created brand, *EcoCycle*. Recycled materials and environmentally friendly processes would be used to manufacture all the *EcoCycle* bicycles.

Table 2: forecasted financial data, for *EcoCycle* bicycles, for 2016:

Number of <i>EcoCycle</i> bicycles sold	200
Variable costs per <i>EcoCycle</i> bicycle	\$300
Fixed costs per year	\$65 000

Dan, however, conducted primary market research which indicated that respondents were only willing to pay a much lower price for the untested, unknown brand *EcoCycle*.

(This question continues on the following page)

(Question 1 continued)

- (a) Describe **one** advantage **and one** disadvantage, for Dan, of using primary market research. [4]
- (b) Using **Table 1**, calculate for Dan, for **2015**:
- (i) the break-even number of bicycles (*show all your working*); [2]
- (ii) the total profit (*show all your working*). [2]
- (c) Explain **one** benefit for Dan of the income elasticity of demand for his bicycles being greater than one. [2]
- (d) Using **Table 2**, for the new *EcoCycle* bicycles, for **2016**:
- (i) calculate the price that Dan must charge to earn a target profit of \$20 000 (with sales of 200 *EcoCycle* bicycles) (*show all your working*); [2]
- (ii) using your answer to part (i), and assuming that Dan reduces this price by 5 %, calculate the number of bicycles *EcoCycle* must sell to still have a target profit of \$20 000. [3]
- (e) Explain **two** reasons why branding of the new *EcoCycle* bicycles will be important. [4]
- (f) Examine Dan's decision to create a partnership with David to manufacture and sell *EcoCycle* bicycles. [6]

2. Bip Bip (BB)

Nicolás and Loura want to start up a vehicle rental business in Punta del Este, a seaside resort in the Southern Hemisphere. The business will operate as a partnership and be called *Bip Bip (BB)*. Tourist numbers are very high during the summer (December to February months in the Southern Hemisphere); the beach and water sports attract many tourists. *BB* will rent out convertible cars, electric cars and minivans. *BB* will purchase these vehicles through a leasing scheme.

“Because most rental income will occur in a few months of the year, we must forecast our cash position during the slow months and we must follow a budget,” says Loura. She has forecasted the following figures for the first six months of operation, beginning in December 2015. All revenues received and costs paid will be in cash. All cash sales are paid at the time of the vehicle rental.

	\$
Monthly revenue from rentals: December 2015 to February 2016	11 000
Monthly revenue from rentals: March to May 2016	1000
Monthly overheads starting in December 2015	2000
Leasing fee for all vehicles, payable by <i>BB</i> every other month starting in December 2015	5000
Monthly variable costs: December 2015 to February 2016	1500
Monthly variable costs: March to May 2016	300
Opening balance in December 2015	1000

Due to the increasing importance of e-commerce, *BB* would like to offer an online booking service in addition to their website. Nicolás believes that an online booking service will allow *BB* to reach a wider national and international market, and will also reduce marketing costs. However, Loura argued that e-commerce also has some limitations.

After further discussion, Nicolás and Loura decided not to set up an online booking service. However, after May 2016, they will examine the budget and variances with care to determine if *BB* should offer an online booking service the following year.

(This question continues on the following page)

(Question 2 continued)

- (a) Describe **one** reason why customers might be reluctant to use an online booking service (e-commerce). [2]
- (b) Identify **two** features of a partnership. [2]
- (c) (i) Prepare a monthly cash-flow forecast, for *BB*, for the first six months of operation. [6]
- (ii) Explain *BB*'s forecasted cash-flow position. [3]
- (iii) Calculate the forecasted net profit, **without any depreciation**, for the first six months of operation (*show all your working*). [2]
- (d) In June 2016 *BB* discovered that some of their forecasts had been inaccurate.

For December 2015, and January and February 2016, variable costs had been 10 % lower than forecasted.
- (i) Calculate the impact of lower variable costs on *BB*'s closing cash balance, at the end of February 2016 (*show all your working*). [2]
- (ii) For March, April and May 2016, revenue was 10 % higher.

Calculate the impact of lower variable costs **and** higher revenue on *BB*'s closing cash balance, at the end of May 2016 (*show all your working*). [2]
- (e) Analyse the role of budgets and variances, in strategic planning, for businesses such as *BB*. [6]

Section B

Answer **two** questions from this section.

3. Transfer

Transfer is a publicly traded shipping business. Its success has been built on its ambitious mission statement:

“Our shipping business will always be about providing a first class service to our customers and making it last. Whatever it takes.”

Managers at individual regional profit centres were empowered to make their own decisions in response to local market conditions. *Transfer’s* financial reward package allowed employees to share in their regional profit centre’s performance through an employee share-ownership scheme. *Transfer* had consistently won awards for its excellent customer service. Management and staff turnover was very low.

However, after years of profits that were low by industry standards, *Transfer* suffered a significant financial loss. The current chief executive officer (CEO) claimed it was due to increased global competition and rising direct costs. *Transfer’s* non-employee shareholders, who owned 60 % of *Transfer*, demanded that immediate action be taken. At the most recent annual general meeting (AGM) the CEO was forced to resign. A new CEO, Heather Davies, was appointed.

Heather had a reputation as an autocratic leader. She had a successful record of returning loss making companies to high profits, but only after making significant changes. At her first press conference, Heather announced her plan to:

- reduce two-way communication and create a much higher degree of centralization within *Transfer*
- remove all profit centres.

Immediately, Heather dismissed many managers who were, in her opinion, unproductive.

She defended her actions by arguing that *Transfer* had become inefficient, with poor decision making at regional levels. Heather argued that regional profit centre managers were setting their own objectives which did not follow the mission statement.

At the same time, an unknown manager gave a national newspaper interview which was highly critical of Heather’s leadership style, with examples of workplace unrest. When Heather found out, she threatened to dismiss any manager who questioned her authority or the new plan. Six months later, *Transfer’s* share price had grown by 15 % and profits had begun to significantly increase.

(This question continues on the following page)

(Question 3 continued)

- (a) Identify **two** characteristics of a company with a high degree of centralization. [2]
- (b) Describe **one** benefit of an employee share-ownership scheme. [2]
- (c) Explain **one** benefit **and one** cost of *Transfer's* mission statement. [6]
- (d) Examine the decision to remove all profit centres. [6]
- (e) Discuss the effectiveness of Heather's leadership style at *Transfer*. [9]

4. Mergers in the airline industry

Recently, *British Airways* merged with *Iberia*, and *Air France* merged with *KLM*. Both mergers resulted in some significant benefits.

Ryanair plans a £560 million takeover of the Irish airline, *Aer Lingus*, which has failed to deliver shareholder dividends. One shareholder, the Irish government, owns 25 % of the shares of *Aer Lingus*.

Ryanair's chief executive officer (CEO) said that the proposed takeover could:

- create revenue and a positive return for the Irish government by selling its shares
- create a strong Irish airline capable of competing with major European airlines.

This form of external growth is also occurring in the United States (US). *American Airlines* and *US Airways* will merge, forming the nation's biggest airline, to be called *American*.

Airline analysts argue that mergers are necessary to reduce financial uncertainty and restore stability to a business that lost about \$60 billion in 10 years. Large airlines with big networks can invest in new airplanes, new routes and better facilities, and provide passengers with more travel options. Mergers are likely to increase operational and financial efficiencies and create economies of scale. Airline analysts, favouring airline mergers, emphasize that each merger must be approved by appropriate national and international regulatory agencies to ensure that the competitive nature of the industry is maintained.

Other analysts, however, argue that:

- large airlines make it difficult for smaller rivals to compete, and in the long run reduce competition. This situation may lead to higher fares and a poorer service.
- being larger may not make airlines globally competitive. Some national governments restrict operation of foreign airlines within their countries, which allows a local airline monopoly* to exist.
- strategic decisions are difficult to implement as companies grow in size.
- larger is not always better.

[Source: adapted from <http://dealbook.nytimes.com>;
<http://www.guardian.co.uk>;
<http://www.nytimes.com>]

* monopoly: an industry where there may be only one seller/producer of a particular good or service

(This question continues on the following page)

(Question 4 continued)

- (a) Describe **one** difference between a merger and a takeover. [2]
- (b) Define the term *economies of scale*. [2]
- (c) With reference to the airline industry, explain **two** differences between external growth and internal growth. [6]
- (d) Examine the Irish government's decision to own 25 % of the shares of *Aer Lingus*. [6]
- (e) With reference to **one** internal stakeholder **and one** external stakeholder, discuss the statement that "larger is not always better" from the perspective of the airline industry. [9]

5. Sigma Productions (SP)

Sigma Productions (SP), a market leader with a strong family brand name, develops and sells online computer games. The social, technological and competitive environment is changing rapidly. Product life cycles for online games are becoming much shorter. *SP* must keep innovating, but this process is costly and time consuming. It can take at least three years to develop and introduce a new computer game to the market.

One online game, *Sigma Starfighter 1*, was a major financial success. Now *SP* is developing a new version, *Sigma Starfighter 2*, which will be released in 2016. Its release is causing great excitement. *Sigma Starfighter 2* will be priced using penetration pricing. *SP*'s main source of finance has been retained profits.

SP is developing an application (app) for mobile phones. The app will allow users to access information about the company and try new online games through limited free trials. The app will also add value to the family brand. The app is expected to be launched before *Sigma Starfighter 2* is released and will be given away for free.

However, *SP*'s current cash flow position is weak. With high research and development (R&D) costs, *SP* needs additional capital to complete the development of the app and *Sigma Starfighter 2*. Four different banks have refused to provide finance. *SP* must urgently attract new investors.

- (a) Describe **one** reason for the importance of innovation for *SP*. [2]
 - (b) Identify the first **two** stages of the product life cycle. [2]
 - (c) Explain **one** benefit and **one** cost of family branding for *SP*. [6]
 - (d) Analyse the appropriateness of penetration pricing for *SP* when they launch *Sigma Starfighter 2*. [6]
 - (e) Discuss **two** problems of financing research and development (R&D) for a business such as *SP*. [9]
-

Markscheme

November 2015

Business and management

Higher level

Paper 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
Q1 (f)	Q2 (e)	Q3 (d)	Q4 (d)	Q5 (d)	
Marks 0–6					
0					
1–2					
3–4					
5–6					

Section B			Level descriptors
Q3 (e)	Q4 (e)	Q5 (e)	
Marks 0–9			
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, concepts and theories.• 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.
5–7			<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.
8–9			<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 **one** advantage **and one** disadvantage, for Dan, of using primary market research.

[4]

Possible advantages for Dan of using primary market research include:

- Dan can collect first-hand responses based on tailor-made questions by distributing questionnaires or interviewing some of his customers, in order to discover their opinion on the various marketing mix especially the possible pricing strategies. Dan found valuable information that the customers were not willing to pay as high a price as before.
- Moreover, given the small size of the organization, the customers chosen are likely to be a representative sample.
- The information collected is only available for Dan / *EcoCycle*. Competitors have no access.

Accept any other relevant advantage.

Possible disadvantages for Dan of using primary market research include:

- Using / targeting his current customers as a sample, he might overlook potential different, viable segments that might be interested in the different bicycles he might be selling.
- Primary market research is likely to be more expensive and time consuming for Dan as a sole trader than the use of secondary market research.
- Dan might not have the knowledge and the experience to design a good, unbiased questionnaire or interview.

Accept any other relevant disadvantage.

Mark as 2+2.

Award [1] for identifying each appropriate advantage / disadvantage and [1] for an appropriate and applicable description up to a maximum of [2].

- (b) Using **Table 1**, calculate for Dan, for **2015**:

- (i) the break-even number of bicycles (*show all your working*);

[2]

$$\text{Break-even point} = \frac{\text{Fixed cost}}{\text{Contribution}}$$

$$= \frac{\$42\,000}{\$1\,000 - \$650} = \$350$$

$$= 120 \text{ bicycles}$$

N.B. *Candidates may use a different method.*

Award [1] for a correct answer and [1] for correct working. Award up to a maximum of [2].

- (ii) the total profit (*show all your working*). [2]

$$\begin{aligned}\text{Profit} &= \text{Total revenue} - \text{Total cost} \\ &= 130 \times \$1000 - (\$42000 + \$650 \times 130) \\ &= \$130000 - \$126500 \\ &= \$3500\end{aligned}$$

N.B. Candidates may use a different method, eg contribution per unit x margin of safety.

Award [1] for a correct answer and [1] for correct working. Award up to a maximum of [2]. Award full marks even if the \$ sign is not presented.

- (c) Explain **one** benefit for Dan of the income elasticity of demand for his bicycles being greater than one. [2]

If the income elasticity of demand for his bicycles is greater than one, it means for Dan's business that for every 1 % change in customers' income, their response in terms of spending on purchasing the bicycles is going to be larger than 1 %. Practically, given that the economy is forecasted to grow and therefore people will experience an increase in their income, for every 1 % increase in income, there is going to be a more significant higher spending on Dan's bicycles. Dan is likely to benefit significantly through increased revenue and if costs remain the same then also through increased profits.

Award [1] for a relevant and correct benefit for Dan of the consumer demand for bicycles being income elastic identified and [1] for an explanation of this benefit up to a maximum of [2]. Accept application of names – the correct explanation should show understanding of the concept.

N.B. If the explanation is generic and not applied to Dan / the product bicycles / EcoCycles award [1].

(d) Using **Table 2**, for the new *EcoCycle* bicycles, for **2016**:

- (i) Calculate the price that Dan must charge to earn a target profit of \$20 000 (with sales of 200 *EcoCycle* bicycles) (*show all your working*);

[2]

$$\begin{aligned} \text{Price needed to reach a target rate of profit} &= \frac{\text{target profit} + \text{total cost}}{200 \text{ units}} \\ &= \frac{\$20\,000 + (\$65\,000 + 200 \text{ units} \times \$300)}{200 \text{ units}} \\ &= \$725 \text{ per } EcoCycle \text{ bicycle} \end{aligned}$$

Award [1] for a correct answer and [1] for correct working. Award up to a maximum of [2].

- (ii) using your answer to part (i), and assuming that Dan reduces this price by 5 %, calculate the number of bicycles *EcoCycle* must sell to still have a target profit of \$20 000.

[3]

A 5 % reduction of the price of \$725 is \$36.25

The new price is therefore: \$725 – \$36.25 = \$688.75

The number of bicycles that must be sold to achieve the same level of profit:

$$\begin{aligned} \text{Total revenue} - \text{Total cost} &= \$20\,000 \\ \$688.75X - (\$65\,000 + \$300X) &= \$20\,000 \\ \$688.75X - \$65\,000 - \$300X &= \$20\,000 \\ \$388.75X &= \$85\,000 \\ X &= 218.65 \text{ to } 2\text{d.p} \end{aligned}$$

219 *EcoCycle* bicycles need to be sold to reach a target profit of \$20 000.

N.B. Do **not** accept 218 bicycles as EC will not reach the target profit.

Award credit for a logical / clear method that results in a correct answer even if there are no headings.

If the candidate rounded up the new price but the working is correct, award a maximum of [2].

Accept any other method.

Allow candidate own figure rule (OFR).

Award [1] for the correct calculation of the reduced price.

Award [1] for the correct number of bicycles and [1] for correct working.

If no workings are shown, but the final answers are correct, award a maximum of [2].

- (e) Explain **two** reasons why branding of the new *EcoCycle* bicycles will be important.

[4]

Moving away from *GreenRide*, and not really having much of a new USP, Dan needs to brand *EcoCycle*. The market research clearly indicates that currently the customers' perception of the brand is somewhat different to what Dan expected. Branding has a vital role in creating awareness of the *EcoCycle* bicycles as well as the right positioning and perceptions supported by a USP / some sort of differentiation. Successful branding could lead to more customer loyalty. Hence, the availability of substitutes, like *GreenRide*, is reduced in their minds. *EcoCycle* bicycle's demand will increase, market share should also increase and more revenue / profit is likely to be generated.

Strong branding will create barriers to entry for other bicycle producers. Some potential competitors may be reluctant to enter the market. *EcoCycle*'s market power may increase / increase in demand.

If Dan and David are able to create a strong brand image with the desired positioning, the more price inelastic they will be to *EcoCycle*, hence less responsive to possible increases in the price of the bicycles and be able to tolerate a high (premium) price. The market research clearly indicates that currently the customers' perception of the brand is somewhat different to what Dan perhaps expected and customers expect a reduction in the price of the *EcoCycle* bicycles due to its untested nature. Correct and successful branding should address this issue, hence more flexibility in setting a high price possibly in the future to cover the costs and increase profit.

It is not expected that candidates will refer to **price elasticity** in their answers, but they do have to show understanding of the current reluctance of the customers to pay a high price.

N.B. Reward candidates that cover other relevant but different issues not just an extension of the above points / issues.

*Award [1–2] for a response that lacks some depth. For [1] the response may only refer to **one** reason why branding is important to the new EcoCycle bicycles. For [2], one reason is given in depth only and may refer to either only loyalty or market power and or pricing implications.*

Award [3–4] for a response that clearly explains the importance of branding for the new EcoCycle bicycles. For [4], two reasons are explained and may refer to building loyalty and the ability of Dan to charge in the future, higher than currently expected prices / or increased market power. For [3], the explanation includes two aspects, but it is unequal.

- (f) Examine Dan's decision to create a partnership with David to manufacture and sell *EcoCycle* bicycles.

[6]

Currently, as a sole trader Dan makes a very small amount of profit: \$3500. This amount is probably not sustainable hence; a solution has to be found.

Through a partnership with David, perhaps Dan can specialize in marketing while David's specialization clearly lies in the operation function of the business. Both have complementary skills. One of the advantages of forming a partnership is specialization of the partners and sharing the burden and responsibilities of running the organization. Decision-making in this new business will be improved due to shared skills / experience.

The increased capacity of the new business will enable Dan / *EcoCycle* to create a strategic fit between internal strengths like good manufacturing of the bicycles and the growth opportunities in the external environment.

It implies, that David will bring a considerable amount of assets and funds to increase the capacity from 130 to 200 bicycles.

The increased capacity and different costs due to the partnership will indeed enable Dan to charge a lower price of \$725 or less which is around 25 % reduction in price, which Dan discovered that he must do given the results of the market research. A price reduction will make the business more customer focused.

Profit will have to be shared but given quantitative results, the profit for Dan will increase considerably in 2016, after the partnership has been established. Even after dividing the \$20 000 between the two partners, Dan will have \$10 000 profit, much more than \$3500.

The procedures of forming a partnership are minimal, short and not very expensive. The partnership does not have to be approved by any legal body. Financial documents of the business will not have to be published.

However, if the price is reduced due to the lower product positioning and current customers' brand perception, the business will not have the capacity to manufacture and sell the 219 bicycles required to achieve the target profit of \$20 000.

Forming a partnership with David will not enable Dan to have limited liability. The risk of losing his personal assets which will be larger than before, still exists.

Some disagreement between David and Dan might occur and the partnership may have to be dissolved if they cannot reach an agreement. It will take some time to see how well Dan and David can operate together before we can make a judgment over whether the partnership will be a success.

Accept any other relevant and applicable argument for or against.

Allow candidate own figure rule (OFR).

It is expected that the candidate goes beyond just a theoretical coverage of the advantages and disadvantages of forming a partnership and incorporate / apply perhaps some relevant financial information and other information / issues from the stimulus material such as the issue of increased capacity and so on.

Candidates might not use specific figures, but relevant application to the issue of forming a partnership for manufacturing the EcoCycle bicycles is expected. Application should go beyond just mentioning the names.

It is not expected that the candidates covers all of the above issues.

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].

For one relevant argument for and one relevant argument against award up to [4].

For [5] it is expected that the examination is relevant and detailed, but it may lack some balance. For example, it includes only two detailed arguments for and one detailed argument against.

For [6] it is expected that the examination will contain at least two detailed arguments for and at least two detailed arguments against Dan's decision to create a partnership with David to manufacture and sell EcoCycle bicycles.

Marks should be allocated according to the markbands on page 3.

2. (a) Describe **one** reason why customers might be reluctant to use an online booking service (e-commerce).

[2]

Possible reasons why customers might be reluctant to use an online booking service (e-commerce) include:

- Security reasons: sometimes e-commerce is “hacked” and thieves steal credit card numbers or money.
- Impersonal service: many customers find online booking services impersonal or intimidating because they are not interacting with a human being.
- Lack of access: though this is less of a problem today, not everyone has easy access to computers, or the internet, or has a computer and internet access that can handle the most up-to-date software or applications, thus making e-commerce difficult.

Accept any other relevant reason.

Award [1] for a correct identification of a reason and [1] for a relevant description. Award up to a maximum of [2]. Application is not expected.

- (b) Identify **two** features of a partnership.

[2]

Possible features include:

- it's an association between 2 to 20 partners
- partners do not have limited liability
- it is an unincorporated business.

Accept any other relevant feature.

Award [1] for each appropriate feature identified up to a maximum of [2].

- (c) (i) Prepare a monthly cash-flow forecast, for *BB*, for the first six months of operation.

[6]

All figures are in \$.

	December 2015	January 2016	February 2016	March 2016	April 2016	May 2016
Sales revenue	11 000	11 000	11 000	1000	1000	1000
Total receipts	11 000	11 000	11 000	1000	1000	1000
Overheads	2000	2000	2000	2000	2000	2000
Leasing fee	5000		5000		5000	
Variable costs	1500	1500	1500	300	300	300
Total payments	8500	3500	8500	2300	7300	2300
Net cash flow	2500	7500	2500	–1300	–6300	–1300
Opening balance	1000	3500	11 000	13 500	12 200	5900
Closing cash balance	3500	11000	13500	12200	5900	4600

Accept slightly different headings / format.

N.B. Allow candidate 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. This provision includes both mathematical errors and conceptual errors (for example, if a candidate has the leasing fee monthly rather than every other month, it is one error) and candidates should only lose [1] for that error.

Award [1] if the candidate conveys some understanding of what a cash-flow forecast is, but otherwise the forecast is largely inaccurate, incomplete, or illegible.

Award [2–3] if 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, which could include, in addition to number placement problems and mathematical errors, conceptual errors (using the word “profit” rather than “net cash flow”) or omissions, such as not having a line like “closing balance”.

Award [4–5] if the cash-flow forecast is drawn essentially correctly and neatly in a generally accepted format, but there is one error for [5] or two errors for [4].

Award [6] if the cash-flow forecast is drawn accurately and neatly in a generally accepted format, 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] from the total mark awarded.

- (ii) Explain *BB*'s forecasted cash-flow position.

[3]

Although the cash balance is positive at the end of six months, the monthly net cash flows are only positive in the first 3 months. If the figures for remaining low-season months (June through November) continue, *BB*'s cash balance would be negative by the end of month 7 (June) and, by the opening of high season next summer, the cash balance would be –\$18 200, far greater than the cumulative positive balances for the 3 peak months. The cash-flow forecast shows that the current business model is not sustainable.

Allow candidate own figure rule (OFR).

Award [1] for an accurate basic description.

Award an additional [1] for an explanation that incorporates some reference to specific figures, which could be actual numbers or references to a specific row in specific time periods ("net cash flows in December, January, and February") is a specific reference to actual numbers, even if numbers are not present in the text, whereas "In the seasons that they do not rent as much, the cash inflows do not sustain their cash outflows" is not a specific reference to specific numbers).

Award [1] if the candidate recognizes that the business will have a deficit or cash-flow problems in the months to come.

N.B. *A candidate could produce a response that earns [1] for a basic description and [1] for recognizing a deficit in months to come for a total of [2], even though the candidate did not have specific reference to numbers.*

- (iii) Calculate the forecasted net profit, **without any depreciation**, for the first six months of operation (*show all your working*).

[2]

Method 1

Profit = sales revenue – total costs

Sales revenue = $11\,000 \times 3 + 1\,000 \times 3 = \$36\,000$

Total costs = overheads + variable costs + leasing fee

Total costs = $2\,000 \times 6 + 1\,500 \times 3 + 300 \times 3 + 5\,000 \times 3$

$= 12\,000 + 4\,500 + 900 + 15\,000 = \$32\,400$

Forecasted net profit = $36\,000 - 32\,400 = \$3\,600$

Method 2 (allow OFR)

Closing balance in May – opening balance in December

$= 4\,600 - 1\,000 = \$3\,600$

Award [1] for correct working and [1] for the correct answer. Award up to a maximum of [2].

A candidate may calculate monthly profit for all six months such as:

All figures in \$

	December	January	February	March	April	May
Revenue	11 000	11 000	11 000	1000	1000	1000
Expenses	8500	3500	8500	2300	7300	2300
Net profit	2500	7500	2500	–1300	–6300	–1300

This approach is acceptable, even if a total for all six months is not produced. Award [1] for working and [1] for the correct answer (all six months correct, though OFR does apply). Award up to a maximum of [2].

- (d) In June 2016, *BB* discovered that some of their forecasts had been inaccurate.

For December 2015, and January and February 2016, variable costs had been 10 % lower than forecasted.

- (i) Calculate the impact of lower variable costs on *BB*'s closing cash balance, at the end of February 2016 (*show all your working*). **[2]**

Variable cost (VC) = 1500

10% lower VC = $1500 \times 0.9 = 1350$ per month

VC should be \$150 **lower** per month

$150 \times 3 = 450$ saving from December 2015 to February 2016

\$13 500 closing balance at end of February + 450 = \$13 950

Allow candidate own figure rule (OFR).

*Award **[1]** for correct working and **[1]** for a correct answer. Award up to a maximum of **[2]**.*

- (ii) For March, April and May 2016, revenue was 10 % higher.

Calculate the impact of lower variable costs **and** higher revenue on *BB's* closing cash balance, at the end of May 2016 (*show all your working*).

[2]

Method 1

10% = \$100 increase in total revenue per month x 3 = \$300 in total

The closing balance in May 2016 has an improvement of \$5350:
4600 + 450 (lower VC Dec to Feb) + 300 (higher revenue Mar to May)
= \$5350 closing balance for May

Method 2

Calculating the new variable costs based on 10% reduction = 100: the first calculation.

Multiply by 3 to arrive to the total reduction of 300: second calculation.

Add to the closing balance at the end of May: third calculation.

Transfer the 450 reduction to the closing balance at the end of May, or use closing balance of 13 950 at the end of February.

Add the figures together / the saving together of 750 to arrive at the final closing figure of \$5350 at the end of May: (4600 + 750 = 5350).

Accept any other correct working.

Allow candidate own figure rule (OFR).

*Award **[1]** for correct working and **[1]** for a correct answer. Award up to a maximum of **[2]**.*

- (e) Analyse the role of budgets and variances, in strategic planning, for businesses such as *BB*.

[6]

Budgets are an important planning tool for businesses, as they are based upon forecasted revenues and costs, thus providing a business such as *BB* a framework as part of its strategic planning. It translates objectives and strategies / financial discipline.

A budget is essentially a tool for resource allocation as part of a strategic planning.

Budgets provides financial direction / discipline for a business / *BB*. Managers such as Nicolás and Loura know to limit expenditures to remain within their allocated resources and to ensure that the forecasted revenue are also met.

However, the process of budgeting is time consuming especially for Nicolás and Loura as both are inexperienced. Still, given the small size of the business, one may argue that the process can be quick and relatively efficient.

Budgets, especially if negotiated rather than imposed, can create a sense of clarity / direction, unity, and if adhered to / achieved, sense of achievement to *BB*'s employees.

However, budgets are a form of forecast. Actual revenue or expenditure can differ due to internal and external circumstances.

For this reason, analysing variances, or instances when revenue or expenditures differed from the budget can be helpful. If a business can understand why particular expenses or revenues were higher or lower than budgets, in subsequent periods, budgets can be adjusted depending on the reasons why a variance occurred, allowing for better decision-making about allocation of resources.

Budgets can create resentment and demotivation among *BB* employees, especially if unrealistic high targets for revenue and low targets for expenditure are set. There may also be some disagreement between Nicolás and Loura especially as they lack experience. Unhealthy competition may occur.

Moreover, analysing variances can also take up time and resources. The partners of *BB*, who are essentially the decision makers, can be biased in their interpretation of the variances. They may have to employ an accountant or outside person to give them a more objective view of the performance of the business.

Accept any other relevant analysis.

It is not expected that the candidates covers all of the above issues.

Do not credit an answer that refers to different sources of finance to deal with the forecasted / budgeted cash flow problems.

It is expected that candidates refer to: the issue of strategic planning; budgets and not just cash flow.

Since there are two issues / concepts to analyse, one argument for and one argument against each (budgets and variances) should be judged as a balance response.

*Accept generic application as there is not much specified in the stimulus. A balance response of one concept / issue, award up to **[4]**.*

*For **[5]** it is expected that the analysis is relevant and detailed, but it may lack some balance. For example, it includes only two detailed arguments for and one detailed argument against.*

*For **[6]** it is expected that the analysis will contain at least two detailed arguments for and at least two detailed arguments against budgets and variances, in strategic planning, for businesses such as BB.*

Marks should be allocated according to the markbands on page 3.

Section B

3. (a) Identify **two** characteristics of a company with a high degree of centralization. [2]

Characteristics include:

- decision-making being made by a small number of directors/managers/owners
- limited, if any, two-way communication between levels of hierarchy.

Accept any other relevant characteristic.

Award [1] for each characteristic correctly identified. Up to a maximum of [2].

- (b) Describe **one** benefit of an employee share-ownership scheme. [2]

Possible benefits to employees of an employee share-ownership scheme include:

- financial gain in the form of dividends or capital gain
- as shareholders, they will have the right to vote at the AGM and approve, or otherwise, the strategic decision of the board of directors.

Possible benefits to *Transfer* of an employee share-ownership scheme include:

- increased motivation of staff and hence productivity improvements
- a reduction in waste and an acceptance of the mission statement
- staff turnover will be lower, if motivated, leading to reduced induction, training and recruitment costs.

N.B. *The benefit of an employee share-ownership scheme could be in the context of the employee and/or the employer.*

Award [1] for a relevant benefit identified and [1] for a description of this benefit. Up to a maximum of [2].

- (c) Explain **one benefit and one cost** of *Transfer*'s mission statement.

[6]

A mission statement is designed to guide the current objectives and operations of *Transfer*. Managers, customers, will be attracted to *Transfer* for its excellent customer service and commitment to satisfying needs whatever the cost. This could be a possible USP within the shipping industry, in an era of increased global competition.

Maintaining their quality benchmark of a first class business, in a first class way, through the mission statement can provide a sense of direction and can be motivating for the workers. There is evidence in the stimulus that the workers are motivated and the staff turnover is very low.

However, the mission statement can be a problem for *Transfer* given that the firm has experienced a significant financial loss. "First class service" may have an expensive cost aspect as the stimulus reveals. "Whatever it takes", implies further that *Transfer* will carry out its service regardless of the impact on profitability and this may be unwise. The mission statement may be seen as unrealistic and too ambitious for different stakeholders to believe in it.

The mission statement represents a noble if costly exercise, which it would appear that *Transfer* does not have the financial resources to honour.

Accept any other relevant issue.

N.B. Candidates may refer to some benefits to different stakeholders.

N.B. Application could relate not just to repeating the statement, but to the consequences.

Mark as 3+3.

Award **[1]** for identification of the relevant benefit / cost, **[1]** for a clear explanation and **[1]** for full application to *Transfer* and not just the name of the business. Award a maximum of **[3]**.

- (d) Examine the decision to remove all profit centres.

[6]

Possible arguments against:

Transfer's success has been built on regional profit centres with empowerment for local managers. By removing profit centres the accountability of each centre in different regions will be removed. Staff will be less motivated as decision-making power that goes with profit centres will disappear. Constructive competition between the regions may also be eroded. Overall, *Transfer's* quality may be reduced as the link to profit sharing has gone and the mission statement and the consequent objectives may not be fulfilled. It might be harder for Heather to monitor performance of individual parts of *Transfer*. Removing profit centres is risky given that employees own 40% of the organization. The link to profit sharing has gone which could be demotivating.

However, there is evidence from the stimulus that profit centres are not providing the competitive edge that *Transfer's* mission statement would suggest. Costs are rising and increasing global competition will drive down revenues.

Moreover, the managers did not follow the mission statement and set their own objectives. Hence centralization will align all regions with *Transfer's* objectives. Consistency will be created. *Transfer* could avoid duplication of resources by removing the profit centres and perhaps reach purchasing / promotion / managerial economies of scale which is very essential now that a loss is being made. Cost cutting is a must.

The move to centralization will increase efficiency and improve communication. Moreover, monitoring and compiling profit centre data can be time consuming and expensive for *Transfer*. The move to remove all profit centres and increase centralization would fit more closely with Heather's leadership style and may have pleased the other shareholders.

Accept any other relevant examination.

N.B. It is **not** expected that candidates incorporate all of the above points/issues.

Do not highly credit candidates that show no evidence of understanding of the meaning / the nature of profit centres, but refer to a decision to remove regional production. The assumption, based on the stimulus, is that the regional centres remain.

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].

For one relevant argument for and one relevant argument against award up to [4].

For [5] it is expected that the examination is relevant and detailed, but it may lack some balance. For example, it includes only two detailed arguments for and one detailed argument against.

For [6] candidates must give a balanced examination of two possible arguments for and two possible arguments against the decision to remove all profit centres.

Marks should be allocated according to the markbands on page 3.

- (e) Discuss the effectiveness of Heather's leadership style at *Transfer*.

[9]

From a financial point of view, given the increase in profits and share price, Heather's leadership style could be considered to be a success. Non-employee shareholders who voted for the changes at the AGM will clearly be very pleased. The stimulus indicates that the previous organizational structure was too bureaucratic with empowerment and a resistance to change despite the poor industry performance leading to the dramatic financial loss. The empowerment factor may have led to some managers underestimating the extent of *Transfer's* financial difficulties and to set new objectives without considering the financial implications. Too much emphasis was put on customer service, but with a decrease in productivity.

The turnaround in *Transfer's* performance occurred within six months. This is a very rapid and significant improvement given the performance of previous years.

However, one may argue that the short-term success is indeed impressive but may not last in the medium and long term when employees and managers will fear her and resent the new culture of *Transfer*. Low level of motivation, potential high staff turnover may create a real problem for *Transfer*. An autocratic leader who will do "whatever it takes" to return *Transfer* to profitability may severely affect motivation.

Recruitment of new employees may be difficult when *Transfer* expand and need more staff. Customers may also choose competitors due to rumours of the threats to the employees and Heather's leadership style. Negative publicity from a newspaper article is already evident.

Heather's leadership style may conflict with the mission statement of the company (although this may be what she intends to happen) and may lead to industrial action and further unrest, but more importantly to the loss of its USP. However, the stimulus refers to Heather's past in turning other companies around. This might suggest that her tenure is only likely to be short term anyway, perhaps to be followed by a more paternalistic leadership style.

Possible judgment:

The stimulus indicates that *Transfer* needed to change after a number of years of less than satisfactory performance. Centralization and a reduction in communication may speed up decision making at *Transfer* and there seems to be a need for increased productivity. Heather's changes has quickened the recovery and was financially successful.

However, effectiveness cannot be judged on quantitative issues only. Given the change, it could lead to long term qualitative problems, perhaps the change has been too dramatic and perhaps a paternalistic leadership style should have been adopted, or perhaps not all of her suggestions should have been implemented at once, but introduced more incrementally.

Heather's changes may have been successful financially in the short run, but we must question whether they will continue to be so over the longer term.

Accept any substantiated discussion.

N.B. It is **not** expected that the candidates incorporate all of the above points/issues.

*A balanced response is one that covers at least **two** issues for and at least **two** issues against.*

*For one relevant issue that is one-sided, award up to **[3]**. If the response is a one-sided relevant approach with no discussion award a maximum of **[4]**.*

*Award a maximum of **[5]** 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 **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.*

Marks should be allocated according to the markbands on page 4.

4. (a) Describe **one** difference between a merger and a takeover. [2]

The difference between a merger and a takeover is that a merger is largely done in a friendly or voluntary manner. The managements and the shareholders of both companies agree to bring both firms together under a common board of directors and create one new legal entity.

In contrast a takeover is commonly hostile or involuntary.

For one company to takeover / take control of another company, the majority of shares has to be bought by the bidder, usually 51 %. (It can be less.)

***N.B.** The difference does not have to be based on being hostile or not as a takeover can also be friendly. The candidates need to show understanding of the need to buy shares to gain control for a takeover for full marks.*

Candidates are **not** expected to word their description **exactly** as above.

Award [1] for a basic description that conveys partial knowledge and understanding of either a merger or a takeover.

Award [2] for a full, clear description that conveys knowledge and understanding similar to the answer above.

- (b) Define the term *economies of scale*. [2]

Economies of scale are the factors that cause a reduction in average costs / cost per unit as the organization increases the scale of production.

Award [1] if the candidate refers just to the growth of an organization rather than to the scale 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.

*For **only** a relevant: example **or** application to the stimulus award [1].*

- (c) With reference to the airline industry, explain **two** differences between external growth and internal growth.

[6]

Internal growth within the airline industry occurs when the airline itself grows organically by using its own resources to increase its scale of operation / increasing revenue and market share. Typically through investment in more aircrafts, new routes/destinations (or as stated in the stimulus more travel options), by targeting new passenger segments / different classes, heavy promotion, changes and its pricing strategies – to name some examples.

Internal growth will allow each individual airline to maintain full ownership / control of the process in terms of expenditure and speed. Internal growth is often a cheaper strategic option than external.

External growth within the airline industry occurs with interaction / involvement of other airline(s) typically through mergers, acquisition, joint ventures or a strategic alliance. The stimulus provides examples of friendly mergers between American airlines as well as between two European airlines on top of the current proposed takeover (hostile) of *Aer Lingus* by *Ryanair*.

External growth will give an airline a faster growth option while reducing competition in the market. *American* is now the biggest carrier in the US.

External growth is an expensive option. The proposed takeover of *Aer Lingus* will cost *Ryanair* £560 million.

Accept any other relevant and applicable difference.

Mark as 3+3.

Award [1] for identifying each appropriate difference between the two methods of growth, [1] for an appropriate explanation and [1] for a further development of this explanation with reference to the airline industry. Award a maximum of [3].

Award a maximum of [2] for each difference explained if no relevant reference is made to the stimulus material / airline industry.

- (d) Examine the Irish government's decision to own 25 % of the shares of *Aer Lingus*.

[6]

One **possible** reason for the Irish government's decision to own 25 % of shares in *Aer Lingus* is to raise revenue in the form of dividends from the profit of a commercial airline. Owning 25 % of a commercial airline that can generate profit can give the Irish government a substantial sum of money. The Irish government needs revenue to pursue its economic objectives. Dividends shared among all shareholders is one source of revenue. In short, a profit / commercial motive.

However, it is implied in the stimulus that such an expected profit motive / commercial interest was perhaps not a good decision as profit / dividends has not been materialized as yet for the Irish government. Only by selling its shares will the Irish government get its first commercial return.

Another **possible** reason / positive benefit is to make a capital gain by selling its shares when the government sees fit. It is stated in the stimulus that the Irish government will make a positive return by selling its shares in *Aer Lingus*. Hence, a commercial success.

However, some citizens and competitors may argue that the decision to buy shares in an airline and waiting for some positive return for such a long time is a waste of tax payers' money. The money could have been spent on perhaps more worthwhile provisions by the government.

Furthermore, some critics may argue that this decision reduced the incentive for *Aer Lingus* to be a commercial success.

Still, national pride of being part owner of a national airline can be seen as another possible reason. The Irish government might have a strong national interest of enabling an Irish airline to compete with other airlines by providing the funds for investment. There may be significant longer term benefits and future dividends and returns from having an interest in an airline which is able to generate longer term growth through being more competitive.

Candidates may mention security / political reasons and any other relevant reason.

Accept any relevant arguments for and against.

N.B. It is **not** expected that the candidates incorporate all of the above points/issues.

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].

For one relevant argument for and one relevant argument against award up to [4].

For [5] it is expected that the analysis is relevant and detailed, but it may lack some balance. For example, it includes only two detailed arguments for and one detailed argument against.

For [6] candidates must give a balanced examination of two possible arguments for and two possible arguments against the Irish government's decision to own 25% of the shares of Aer Lingus.

Marks should be allocated according to the markbands on page 3.

- (e) With reference to **one** internal stakeholder **and one** external stakeholder, discuss the statement that “larger is not always better” from the perspective of the airline industry.

[9]

Candidates should look at the issue from two perspectives: Internal, such as from the employees / managers, or any relevant internal stakeholders’ point of view. They should also look at the issues from an external stakeholders’ point of view such as passengers / customers (see below).

From the customers / passengers point of view:

On the positive side, as indicated in the stimulus, a larger company like *American* can experience different economies of scale that can benefit the passengers:

- financial economies of scale – a larger airline could raise more finance cheaply to buy new and more comfortable aircraft(s)
- technical economies of scale will enable a larger airline to become more efficient by reducing operating costs per flight, hence the price of a ticket can be reduced.

Analysts suggest that a merger in order to grow will enable the new airline to rationalize and create a possible small monopoly/domination on some routes as well as create some economies of scales, such as operation and purchasing. The new airline is likely to be more cost efficient which is a significant argument especially in the short run given the amount of current losses.

Consequently, customers may experience some price reduction as well as a more comfortable and possibly safer aircraft.

However, given the large size and the larger market share (combined) and the suggested small monopoly/domination, it is unlikely that the prices will be reduced, especially if the bargaining power of the airline is likely to increase. Customers may end up with less choice, a poorer service and higher prices imposed by a large airline that monopolizes the market. The stimulus makes a reference to such a possibility.

Other possible internal stakeholders:

Larger airlines such as the newly created *American*, is likely to be more cost efficient which is a significant benefit for the operation manager / employees as well as the finance manager. Efficiency due to size with subsequent lower costs and increased profit can significantly increase the motivation of managers and employees. Moreover, a rewards system might be based on such performance.

Managers’ objectives for increased power / self-satisfaction of managing a large number of employees may also increase.

On the other hand, one may argue that working for a large airline like the creation of *American*, the US biggest airline, will reduce employees' motivation given some possible lack of contact with managers and from feeling like a small and insignificant part of a very large group of employees. Customer service, which is an extremely significant issue in a service industry (people, process) might be negatively affected.

Communication barriers may be erected in a large organization which may affect each and every employee negatively.

Internal diseconomies of scale may be created due to the large size which can negatively affect all employees and managers' morale and competencies.

External stakeholders such as competitors and or regulatory bodies.

Competitors:

Being a large airline might be seen by the organization strategists as a necessary action to an increase in global competitiveness of other airline groups like *A/G*, *KLM* / *Air France* etc and many others yet to be faced in the growing global market place.

However, being large might not be sufficient / appropriate to create customer values and global competitiveness which is currently the main problem of the large airlines. Cost efficiency will not solve these deficiencies, hence, a larger airline is unlikely to be successful especially if competitors follow suit. It will become increasingly difficult to create a USP apart from perhaps location or destinations. There is evidence from the stimulus that there are a number of mergers / takeovers.

Regulatory bodies:

Also larger airlines are more likely to catch the attention of the *American MMC* or any national regulatory body. A reference to such a possibility is also mentioned in the stimulus. These bodies are likely to put some restrictions on the operation of the newly created large airline or any other established large airline. Restrictions may be put on the top management team and decision making in terms of routes, landing slots, pricing etc. Management freedom may be reduced. Moreover, finance managers may spend a large sum of money on legal battles / procedures.

Accept any other relevant and applicable argument for or against the notion of being large is not always better from the perspective of any relevant internal or external stakeholder.

In conclusion, one should not undermine the benefits of being a large airline and the possibilities of reducing costs, increasing prices and hence increasing profit and cash flow. The profit can potentially be invested in improving customer service in the medium to longer term, done from a stronger financial position. However, management at large airlines should be aware of possible inefficiencies in the extra 3Ps as well as other diseconomies of scale and the inevitable interest which being large will develop from competitors. Nevertheless, it appears that merger and acquisitions are the prevailing trend in the airline industry and many airlines use these strategy even as a defensive measure. The evidence in the stimulus clearly demonstrate this point whereas the notion that larger may not always be better perhaps more theoretical / suggested by analysts and hence of lesser weight.

However, one cannot accept the notion that larger is not **always** better.

Candidates are expected to use the airline industry as an example and to comment on the merit or otherwise of their arguments. Other stakeholders could be considered.

Accept any substantiated discussion.

N.B. It is **not** expected that the candidate incorporates all of the above points/issues.

*A balanced response is one that covers at least **two** issues for and at least **two** issues against.*

In this case, as discussion in relation to two stakeholders is expected, one argument for and one argument against for each stakeholder is sufficient. Candidates can provide a balance response comparing and contrasting the effects on different stakeholders, eg, positive effects on customers but negative effects on employees, but at least two arguments for and two arguments against for balance.

*If there is no classification of the stakeholders in term of internal / external award up to a maximum of **[7]**.*

*For one relevant issue that is one-sided, award up to **[3]**. If the response is a one-sided relevant approach with no discussion award a maximum of **[4]**.*

*Award a maximum of **[5]** 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, or the there is only reference to either one internal stakeholder (balanced analysis) or one external stakeholders (balanced analysis with a judgment).*

*Candidates cannot reach the **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.*

Marks should be allocated according to the markbands on page 4.

5. (a) Describe **one** reason for the importance of innovation for *SP*. [2]

The stimulus indicates that the combination of shorter product life cycles for online games due to a rapidly changing technological and competitive environment implies that in order to remain viable and retain its market leader status, *SP* will need to keep innovating. It also takes at least three years for a computer game to be introduced to the market so this innovation should be ongoing.

N.B. Direct application to *SP* is not required, but some understanding of the nature of the industry is.

Award [1] for identification of the importance of innovation with an additional [1] for a description. Award a maximum of [2].

- (b) Identify the first **two** stages of the product life cycle. [2]

The first two stages of the product life cycle (PLC) are traditionally:

- introduction
- growth.

N.B. Accept “development then introduction” as some textbooks refer to the former as the starting point of the PLC.
Accept “launch”.

Award [1] per stage identified up to a maximum of [2].

- (c) Explain **one** benefit and **one** cost of family branding for *SP*.

[6]

Family or umbrella branding occurs when a business uses the same brand name for a range of products. *SP* as it is the market leader, will brand new games with the same established family name and perhaps with a *SP* logo to reassure customers that they belong and are associated to *SP*.

Family branding allows for *SP* to save funds with brand development of new products and allow for some marketing economies of scale – unit costs of advertising, as *SP*'s advertising expenditure such as above the line could be spread over a number of products/games.

The use of family branding for the new products in the same industry will create immediate recognition. Brand loyalty can be transferred from *Sigma Starfighter 1* to the new products of *Sigma Starfighter 2* as well as to the new app.

However, the major cost of family branding is that with a brand stretched over a number of products in this case the new app as well as *Sigma Starfighter 2*, the possibility arises that if one product/game that *SP* produces for some reasons fails to live up to expectations, or has an even shorter product life cycle than rival product/game(s), the whole *SP* family brand could be tarnished affecting current and future brand development in the minds of customers. The new mobile phone app is something that *SP* has not tried before, hence the increased level of risk of brand erosion / extended negative brand image.

It is expected that a specific reference is made either to the app and/or *Sigma Starfighter 1* and/or 2, not just to “the games”.

Mark as 3+3.

Award [1] for identifying / describing each appropriate benefit/cost of family branding, [1] for an appropriate / further explanation and [1] for application to SP. Award a maximum of [3].

If the answer makes reference only to branding and not family branding, but is in context to SP then award a maximum of [4], [2+2].

- (d) Analyse the appropriateness of penetration pricing for *SP* when they launch *Sigma Starfighter 2*.

[6]

Penetration pricing may be appropriate for *SP* because:

Given the competitive nature of the online market, penetration pricing may allow *SP* to capture and increase its market share. *SP* may not have a choice but to use a competition-based pricing strategy regardless of the nature of the innovative product. Given the short-term cash flow difficulties, *SP*'s current cash flow is weak therefore, it may be possible that *SP* decided to use price penetration to attract customers and generate immediate cash, even if it does not cover the R&D.

But

Innovative products normally command price skimming, in order to cover the high costs of R&D of *Sigma Starfighter 2*, especially when the product life cycle tends to be short due to improved technology as well as a strong chance that the competition will come up with a new and possibly more exciting / innovating game(s). It does say in the stimulus that the technological and competitive environment is changing rapidly, hence *SP* should ensure that profit is generated at the early stage of its innovative product.

SP's decision will anger some of their investors from putting its future innovation and longer-term projects in jeopardy as there are no guarantees that penetration pricing will lead to an increase in profits. This is an important source of finance for *SP*.

Penetration pricing may lead to a "race to the bottom" if competitors follow suit and this may again impact on the future cash flows / profits for *SP*, further threatening their opportunities for innovation.

There may be quality concerns if the market perceives that the price of the new game is "too low".

Accept any other relevant analysis.

N.B. It is **not** expected that candidates incorporate all of the above points/issues.

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].

For one relevant argument for and one relevant argument against award up to [4].

For [5] it is expected that the analysis is relevant and detailed, but it may lack some balance. For example, it includes only two detailed arguments for and one detailed argument against.

*For [6] candidates must give a balanced analysis of two possible arguments for and two possible arguments against the use of penetration pricing for *SP* when they launch *Sigma Starfighter 2*.*

Marks should be allocated according to the markbands on page 3.

- (e) Discuss **two** problems of financing research and development (R&D) for a business such as *SP*.

[9]

One has to assume that R&D in such an innovative industry is **frequent / continual** and **expansive**. Hence a significant and frequent amount of finance is needed for *SP* to develop its products.

One also has to bear in mind that due to some cash-flow problems *SP* might not have enough cash to inject, which also indicates the need to raise large funds.

The stimulus clearly demonstrates that *SP* is operating within a competitive marketplace. There will be other businesses in the same industry who will also be looking for investment finance, hence competition.

However, due to its market leader position / brand image *etc*, some external sources of finance like business angels / venture capitalist *etc* might be willing to invest.

The other problem is that the time taken – three years – to bring creative innovative ideas to the market may mean that investors become impatient. There is a considerable amount of risk which will need to be experienced by investors. There is also the issue that within a rapidly changing technological market, the three-year time lag may be too long. A game may be out of date before it is released. Investors may have to accept lower returns.

Also, *SP* is looking to give away an app for free. Some potential investors may be concerned with this idea. Payback periods (if at all) will be much longer. *SP* will need to spend time and resources convincing potential investors that short-term losses will be offset by longer-term profits when the app begins to add value. Risk averse investors who are not aware of “freemium” type services may be further reluctant to invest.

However, there might be risk-taking investors, again, like venture capitalists, who might be attracted by the new app and the general direction taken by *SP* despite some short-term difficulties. These investors might be willing to accept long-term returns on innovative products of the current market leader.

Moreover, as *SP* operates online, the search for a global investor is possible.

On a more general issue, *SP* appears to be unincorporated and this severely limits access to most forms of finance for R&D and many game firms can operate with a very small asset base and hence they will have very little security for loans for R&D.

Despite a weak cash flow, some potential investors may see this new app as a way for *SP* to confirm themselves as the market leader. *Sigma Starfighter 2* has the potential to be very popular financially and this could have significant benefits for *Sigma Starfighter 1* and other products under the family brand which is very strong. Profits could grow reducing the reliance on external sources of finance allowing greater creativity and innovation in the future.

Possible judgment:

Perhaps one may judge the current problem of raising finance as a short-term problem only, hence not a very significant one. Given the successful past and the possible future success of the new app and *Sigma Starfighter 2*, in the medium-term, if the two products are successful, more cash and profit will be generated to finance future R&D. Moreover, many other potential sources of finance can be available as well, possibly through the use of price skimming rather than penetration in the short run.

Accept any other relevant discussion.

N.B. *Accept any relevant argument for and against the problems of financing R&D for SP and other similar businesses in this industry.*

N.B. *It is not expected that the candidate evaluates different sources of finance available for SP.*

*A balance response covers at least **two** arguments for and at least **two** arguments against.*

*For one relevant issue that is one-sided, award up to **[3]**. If the response is a one-sided relevant approach with no discussion award a maximum of **[4]**.*

*Award a maximum of **[5]** 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.*

Or if the candidate only discusses one problem in financing R&D for businesses such as SP. The one problem for example may only refer to attitudes to risk.

*Candidates cannot reach the **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.*

Marks should be allocated according to the markbands on page 4.



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**BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 2**

Thursday 22 May 2014 (morning)

2 hours 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer two questions.
- A calculator is required for this examination paper.
- Clean copies of the ***Business and Management*** formulae sheet and discount tables are required for this examination paper.
- The maximum mark for this examination paper is [75 marks].

SECTION A

Answer **one** question from this section.

1. AH Ltd

Jose owns *AH Ltd*, a private limited company, that provides climbing and adventure tourism opportunities for children in Ecuador. *AH Ltd* is partly financed by a non-governmental organization (NGO), which promotes outdoor and other healthy activities in Ecuador. An increase in tourism has meant that *AH Ltd* has been working at full capacity. However, some issues have begun to emerge.

In a meeting with Jose, an NGO representative expressed concern over the quality of the climbing equipment being used. Several minor accidents involving children had occurred. In addition, the NGO representative had not been kept up-to-date on the financial position of *AH Ltd*. After the meeting, Jose showed the following financial figures to his accountant, Marco.

Selected financial information from *AH Ltd*'s accounts as at 31 March 2014 (all figures in US\$m).

Cash	0.1
Creditors	0.8
Debtors	0.2
Fixed assets – equipment	1.5
Fixed assets – land and building	9
Loan capital	4
Retained profit	2
Share capital	4

Marco is concerned that the information from *AH Ltd*'s accounts does not show a true reflection of *AH Ltd*'s financial position. For example, Jose has not made any provisions for depreciating the value of the equipment since purchasing it three years ago. Marco has informed Jose that the equipment should be depreciated using the reducing balance method at a rate of 40 % per year.

Jose wishes to expand the business to offer more climbing opportunities. Marco, however, warns that the current equipment needs to be replaced to meet international quality standards. Additional funding from the NGO is not possible, and banks in Ecuador give few loans to small businesses such as *AH Ltd*.

(This question continues on the following page)

(Question 1 continued)

- (a) Define the following terms:
- (i) *debtors* [2 marks]
 - (ii) *fixed assets*. [2 marks]
- (b) Explain **one** advantage **and one** disadvantage for *AH Ltd* of working at full capacity. [4 marks]
- (c) (i) Using the information provided from *AH Ltd*'s accounts, prepare a balance sheet for *AH Ltd* as at 31 March 2014. [3 marks]
- (ii) Using the reducing balance method of depreciation, calculate the total depreciation charge on the equipment purchased three years ago (*show all your working*). [3 marks]
- (iii) Prepare *AH Ltd*'s new balance sheet as at 31 March 2014 taking into account the depreciation charge calculated in part (ii). [3 marks]
- (d) Explain **one** advantage for *AH Ltd* of using a straight line method of depreciation instead of a reducing balance method of depreciation. [2 marks]
- (e) Examine **two** appropriate sources of finance for *AH Ltd* to fund the replacement of the old equipment. [6 marks]

2. Himalayan Trekking

Himalayan Trekking (HT) is a trekking (mountain walking) agency based in Nepal. It has been operating guided treks for tourists in Nepal, Tibet and Bhutan for over 20 years. With a duration of between one and three weeks, *HT* offerings include treks to the Everest Base Camp, tours to Buddhist sites in Tibet, and treks even to the inaccessible Kingdom of Bhutan. Brand loyalty is very strong, with repeat bookings from many clients (trekkers).

The market for trekking has been growing very rapidly with many new businesses setting up to meet the increased demand for “adventure” holidays. In this competitive market, *HT*’s unique selling proposition (USP) is to provide an unforgettable wilderness experience in a socially and ethically responsible manner. It only uses locally produced food and local guides and trekkers camp without wasting too many resources. All clients have to sign a contract to agree that they will act in a socially responsible manner throughout the trek. Though it always had a strong sense of social responsibility, *HT* had not promoted this aspect of the business until the management realized that changes in attitudes towards social responsibility could be used to gain competitive advantage.

HT’s brochure states that:

- It is a market leader in adventure tourism for Nepal, Tibet and Bhutan. It caters to a wide range of clients from experienced to inexperienced trekkers.
- In recognition of protecting the fragile environment, economic systems and cultures it treks in, *HT* has been awarded a global quality standard.
- By employing local guides and using locally produced food, *HT* adds much value to the local region.
- It only employs staff that have previous social and environmental experience.
- It financially supports a non-governmental organization (NGO) for Nepali orphans by giving 5 % of its turnover to *Child Environment Nepal (CEN)*.

Selected financial information for *HT* for 2013:

Annual fixed costs (trekking permits set by governments in Nepal, Tibet and Bhutan)	\$800 000
Average variable cost per trekker (food, local guides, transport costs)	\$5000
Average price charged per trekker	\$10 000
Number of clients (trekkers)	300

(This question continues on the following page)

(Question 2 continued)

- (a) (i) Define the term *unique selling proposition (USP)*. [2 marks]
- (ii) Identify **two** external stakeholders of *HT*. [2 marks]
- (b) (i) Calculate how many clients (trekkers) *HT* would need to meet its target profit figure of \$400 000 per year (*show all your working*). [3 marks]
- (ii) Using the financial information provided, prepare a fully labelled break-even chart for *HT* for 2013. [6 marks]
- (c) In 2014, the following changes occurred:
- annual fixed costs increased by 20 %
 - rising fuel costs of flights increased average variable costs by 40 % per trekker.
- The average price charged per trekker remained the same (\$10 000) as did the number of clients (300).
- (i) Taking these changes into account, calculate the new break-even quantity **and** margin of safety for *HT* in 2014 (*show all your working*). [4 marks]
- (ii) Explain **one** possible response from *HT* to the change in the break-even quantity **and** margin of safety calculated in part (i). [2 marks]
- (d) Examine why changing attitudes to social responsibility might be important for *HT*. [6 marks]

SECTION B

Answer **two** questions from this section.

3. Turners

Turners is a famous hotel located in a large city. It is positioned as having the highest quality of customer service and most of the employees have worked for *Turners* for over ten years. Regular customers like knowing the employees at reception and other areas of the hotel. Many customers have commented on the unique style of customer service at *Turners*. They like the fact that the people in the photographs used in promotional materials are actually the people they interact with when staying at *Turners*.

Turners has an expensive, award-winning restaurant. *Turners* had used a price skimming strategy with room rates at over \$1000 per night. However, new competition from three other recently opened hotels and other changes in the external environment have resulted in revenue becoming more cyclical. Profits are falling.

Surprisingly, the General Manager, Shane Peterson, also received some negative customer feedback from a random sample of customers. Firstly, they claim that *Turners*' online booking system is slow and unreliable. Customers complain of an overbooked restaurant and untidy leisure facilities. Business customers argue that the newer competing hotels offer better customer service, high-speed internet and other business services for no extra charge. As a result, Shane is reviewing *Turners*' marketing mix.

Shane has to focus on improving customer service as well as reducing costs. He is considering two options:

- Reducing labour costs by implementing Handy's shamrock organization.
- Outsourcing *Turners*' staff training programme. Currently, it uses an internal, on-the-job staff training programme where experienced staff train new employees.

The cost savings from using Handy's shamrock organization would reduce salaries and wages by 7%. Outsourcing *Turners*' staff training programme would reduce training costs by 9%. These combined savings could allow *Turners* to offer high-speed internet and other business services for no extra charge to customers.

- (a) Define the term *price skimming*. [2 marks]
- (b) Identify **two** key features of random sampling. [2 marks]
- (c) Explain the importance of people, process and physical evidence for *Turners*. [6 marks]
- (d) Examine the usefulness for *Turners* of using Handy's shamrock organization. [6 marks]
- (e) Evaluate whether *Turners* should outsource its staff training programme. [9 marks]

4. Walgreens–Alliance Boots

Walgreens, a public limited company, is the biggest chain of drug stores in the United States (US). It has made an offer for a 45% stake in *Alliance Boots*, the biggest chain of drug stores in the United Kingdom (UK). *Walgreens* has 8000 stores in the US, *Alliance Boots* has more than 3000 stores in Europe and beyond. The combined sales of both companies is US\$112 billion. A proposed merger between the two companies would create the world’s largest chain of drug stores.

Walgreens’ market share has fallen due to increased competition from online drug retailers and supermarkets that can provide similar products at a lower price. There have also been some concerns over customer service in *Walgreens’* stores.

In contrast, *Alliance Boots* has a strong brand image, based on its quality own-brand products and excellent customer service with trained staff, who can provide medical advice for some illnesses.

The merger would have the following positive outcomes:

- increased internal economies of scale
- a world-leading chain of drug stores would be created
- there would be enough finance for an *Alliance Boots* expansion into China and South America
- *Alliance Boots* would be provided with immediate access to the US market
- *Walgreens* would be given access to *Alliance Boots’* research and manufacturing expertise
- a strategic move would be provided for both companies to survive economic problems.

The new combined *Walgreens–Alliance Boots* may also raise issues over control, strategic direction and decision making.

Walgreens’ shareholders were not happy about the proposed merger. *Walgreens* shares fell by 6%. Analysts believed that this strategy was not right for *Walgreens*, whose sales fell by 10% in the last year. *Walgreens* would be merging with a business that is exposed to the economic downturn in Europe. *Alliance Boots’* shareholders were also worried. They feared that its reputable brand image could be eroded, especially if stores were created all over the world.

[Source: © International Baccalaureate Organization 2014]

- (a) Define the term *public limited company*. [2 marks]
- (b) Describe the method of growth used by the proposed merger. [2 marks]
- (c) Explain the changes to **two** of Porter’s five forces resulting from the proposed merger. [6 marks]
- (d) Examine the claim that the merger would result in “increased internal economies of scale”. [6 marks]
- (e) Discuss whether the proposed merger of *Walgreens* with *Alliance Boots* will result in the positive outcomes stated (apart from economies of scale). [9 marks]

5. Matchpoint Tennis Club (MTC)

Matchpoint Tennis Club (MTC) is a famous members-only club. *MTC* owns tennis courts, changing rooms and a restaurant. The majority of members are between 30 and 50 years old. Most members have high incomes and successful careers. However, *MTC* faces increasing competition from *Best Sports*, a multinational provider of sports centres. An economic downturn has also reduced *MTC*'s profits. Until recently, the restaurant made a valuable contribution to fixed costs but this has fallen significantly in the last 12 months.

Last year, Seb, a former successful tennis player, became the new Managing Director of *MTC*. With the objective to increase revenue, he wrote a five-year plan with the following strategies:

- double membership of *MTC*
- open the restaurant to the general public
- open a sports equipment and clothes shop under the family brand “Matchpoint”
- employ professional tennis coaches (teachers).

Tina, the Marketing Director, agreed with Seb about the strategies. In order to achieve the first strategic objective (double membership), she prepared a marketing budget and proposed the following tactics:

- overall reduction in membership fees of 10 %
- discounts for people aged below 18 and over 60 years old
- advertisements in local newspapers and on social networking sites
- a new range of club branded merchandise such as T-shirts and coffee mugs.

Alex, the Human Resources (HR) Manager is concerned about the impact the five-year plan will have on employees. Employees already argue that they work too hard for low pay. An increase in the number of members would increase their workload and responsibilities further. Alex tried to convince Seb that membership of *MTC* was already at saturation point on the product life cycle and that existing members would not like some of the proposed changes to the club.

Alex also stated that since Seb joined the business last year, the friendly atmosphere at the tennis club has disappeared. That atmosphere has been replaced with a focus solely on profit making. Alex would prefer a focus on providing a good quality service for existing members.

(This question continues on the following page)

(Question 5 continued)

- (a) Define the following terms:
- (i) *family branding* [2 marks]
 - (ii) *contribution to fixed costs.* [2 marks]
- (b) With reference to *MTC*, explain the difference between objectives, strategies and tactics. [6 marks]
- (c) With reference to *MTC*, examine the dynamic nature of organizations and the relative importance of driving and restraining forces. [6 marks]
- (d) Discuss the likely success of Seb's five-year plan to achieve an increase in revenue for *MTC*. [9 marks]
-



MARKSCHEME

May 2014

BUSINESS AND MANAGEMENT

Higher Level

Paper 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
Q1 (e)	Q2 (d)	Q3 (d)	Q4 (d)	Q5 (c)	
Marks 0–6					
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.
5–6					<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 (e)	Q4 (e)	Q5 (d)	
Marks 0–9			
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, concepts and theories.• 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.
5–7			<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.
8–9			<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) *debtors*

[2 marks]

Debtors are customers that have received goods or services, but have not yet paid for them. Debtors appear as a current / short-term asset on the balance sheet as it is expected that the accounts will be settled within 30 days, or within whatever is the agreed credit period.

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) *fixed assets.*

[2 marks]

Fixed assets are long-term assets owned by a business, last more than 1 year, and are used to produce the products, or services the business sells. Fixed assets are usually made up of premises, land and equipment.

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 *AH Ltd* of working at full capacity. [4 marks]

It would be expected that if *AH Ltd* is working at full capacity, then unit costs are likely to be at their lowest and the business will be more efficient. Lower costs per unit will result in higher profit. Working at full capacity will also ensure the possibility to generate more total revenue and possibly needed cash to maintain short-term liquidity.

One disadvantage to work to full capacity is likely to be that with no spare capacity, *AH Ltd* will not be able to take advantage of sudden increases in demand. *AH Ltd* may find that its equipment, the climbing gear, which is integral to its operation and success, is worn out and is of a lesser quality, as stated in the stimulus and has to be replaced or attended to a lot quicker and more often to ensure customer safety. This may impact on costs and brand image.

Faulty climbing gear while working at full capacity may result in *AH Ltd* turning away customers - a loss of potential income and much needed profit. Employees may become stressed.

Accept any other relevant advantage / disadvantage with an explanation.

Mark as 2+2.

Award [1 mark] for each relevant and correct advantage / disadvantage for *AH Ltd* working at full capacity identified and [1 mark] for an appropriate explanation that directly refers to *AH Ltd* up to a maximum of [2 marks].

- (c) (i) Using the information provided from *AH Ltd's* accounts, prepare a balance sheet for *AH Ltd* as at 31 March 2014. [3 marks]

Balance Sheet of *AH Ltd* as at 30 June 2014 (all figures in US\$m)

Fixed assets		
Premises	9	
Equipment	<u>1.5</u>	
		10.5
Current assets		
Debtors	0.2	
Cash	<u>0.1</u>	
		0.3
Current liabilities		
Creditors	<u>0.8</u>	
		<u>0.8</u>
		(0.5)
Total net assets		<u>10</u>
Represented by:		
Loan capital		4
Share capital		4
Retained profit		<u>2</u>
Capital employed		10

N.B. It is expected that the candidates use the IB format.

For [1 mark], there are two or more errors in calculation. However, the candidate must demonstrate some understanding of how to construct a balance sheet.

For [2 marks] there is **one** error in calculation, **or** they are inappropriate or missing one of the classifications.

For [3 marks], the balance sheet is clear and accurately presented with matching calculations of total net assets and capital employed. There is no omission of the heading classifications and any figures.

N.B. Given that only [3 marks] are awarded for this question, do not penalize if **only** the title is missing.

- (ii) Using the reducing balance method of depreciation, calculate the total depreciation charge on the equipment purchased three years ago (*show all your working*). *[3 marks]*

Equipment is valued at US\$1.5m and will need to be depreciated over 3 years at 40 % using the reducing balance method

Value (\$)	Year	Amount of depreciation (\$)	Book value (\$)
1.5m	1	$1.5\text{m} \times 0.40 = 600\,000$	$1.5\text{m} - 600\,000 = 900\,000$
0.9m	2	$0.9\text{m} \times 0.40 = 360\,000$	$900\,000 - 360\,000 = 540\,000$
0.54m	3	$0.54\text{m} \times 0.40 = 216\,000$	$540\,000 - 216\,000 = 324\,000$

Total \$1.176m

Award *[1 mark]* for each correct step in calculation per year up to a maximum of *[3 marks]*.

Allow candidate own figure rule (OFR). If the correct final figures are presented for each year without working, award *[1 mark]* for the amount of depreciation.

N.B. Do **not** penalize candidates who do not provide the total sum of the depreciation as they have to arrive at this figure in (c) (iii).

- (iii) Prepare *AH Ltd's* new balance sheet as at 31 March 2014 taking into account the depreciation charge calculated in part (ii). [3 marks]

Amended Balance Sheet of *AH Ltd* as at 30 June 2014 (all figures in US\$m)

Fixed assets

Premises		9	
Equipment	1.5 – 1.176	0.324	
		Total fixed assets:	9.324

Current assets

Debtors		0.2	
Cash		<u>0.1</u>	
		0.3	
Current liabilities			
Creditors		<u>0.8</u>	
		<u>0.8</u>	
			<u>(0.5)</u>

Total net assets **8.824**

Represented by:

Share capital	4
Loan capital	4
Retained profit – accumulated depreciation for equipment	
2 – 1.176	0.824

Capital Employed **8.824**

It is assumed that the accumulated depreciation will be subtracted from retained profits as there is no profit and loss account present.

N.B. Given that the candidates have to rewrite the balance sheet as in the previous question, do not give credit for correct format, relevant headings and title. Attention should be paid to the adjustment of the figures.

At the same time do not double penalize for inappropriate format, missing title/heading *etc.*

Award [1 mark] where there is some indication of an adjustment made, but it is not clearly identified. The balance sheet is not correct, but there is some attempt to include a change. Only one side of the balance sheet may have been adjusted.

Award [2 marks] where the adjustment for depreciation is included **and** the adjustment in profitability is noted but they are not correct. The balance sheet does not balance, but there is an attempt to recognize that two items are affected.

Award [3 marks] where both adjustments have been included and incorporated correctly into the new balance sheet. There are no errors.

- (d) **Explain *one* advantage for *AH Ltd* of using a straight line method of depreciation instead of a reducing balance method of depreciation.** [2 marks]

Using a straight line method is simpler and relatively quicker, especially for *AH Ltd* who has not used any method before, due to unawareness of the need and possibly the methods needed to depreciate its assets. The depreciation allowance will be identical for the three years = \$500 000.

Choosing the correct and the most realistic percentage for the reducing balance is crucial. Perhaps, Jose does not have to worry too much about choosing the correct percentage with which to depreciate the assets. Inaccurate choice can lead to highly inaccurate book value and depreciation allowance that affects the recorded profit.

Using the straight line method, the depreciation allowance will be lower for the first and the second years hence, *AH Ltd* is likely to show in the early stages of operation, higher net book value and higher retained profit perhaps to attract funds.

Accept any other relevant advantage with an explanation.

Award [1 mark] for a relevant and correct advantage of *AH Ltd* for using the straight line method of depreciation identified and [1 mark] for how this would benefit *AH Ltd* over using the reducing balance method up to a maximum of [2 marks].

If, however, a candidate explains that one advantage is that the straight line method is easy to calculate without further elaboration, award [1 mark].

- (e) **Examine *two* appropriate sources of finance for *AH Ltd* to fund the replacement of the old equipment.** [6 marks]

The current liquidity situation of *AH Ltd* is worrying with working capital being negative. The business is effectively insolvent and funds from the NGO have been exhausted.

Given this context, sources of finance are going to be limited. However, a quick look at the balance sheet reveals that *AH Ltd's* fixed assets are healthy compared to current assets. *AH Ltd* could sell some of these premises and land / fixed assets and lease them back from the purchaser. The buildings are not essential parts of the operation of *AH Ltd* and this would release much needed funds.

These fixed assets may have to be re-purchased at a higher cost and the business loses a valuable source of collateral against future loans.

Moreover, given the location of the outdoor activity, it might be difficult for *AH Ltd* to find buyers. Also, unless the capital release is successfully used to raise additional revenue, the lease payments, monthly, or every 6 months for example, may put short-term financial strain on *AH Ltd*.

A second source could be a longer term loan guaranteed against the current value of the fixed assets (excluding equipment). However, banks may be wary of lending to *AH Ltd* if the funds are principally going to be used only to pay off debts and replace existing equipment. High interest rate is likely to be charged which can put further financial constraints on the short-term position of *AH Ltd* as short-term liability increases.

AH Ltd can further issue private shares to some friends and family who are interested in the existence and success of the company. Jose can control the number of shares so he does not lose control. However, the funds may not be sufficient if only a small amount of shares are sold, or, Jose may have to give up some control of the business with possible interference in the decision-making process. Perhaps this is an expensive and risky source of fund to finance the equipment.

Given the nature of *AH Ltd's* business, it might be possible for the business to source funds through venture capitalists or social entrepreneurs such as online micro-finance banks. However, the sums involved may be small and venture capitalist may exert unwelcome pressure, to force *AH Ltd* to offer services which are more profit driven in contrast with the objectives of the NGO.

Similarly, although *AH Ltd* is a limited company and hence assumes to be profit focused, its NGO funding suggests more of a social objective. Raising additional investment from private investors may not sit well with its NGO funder.

Accept the option of hire purchase and/or sponsorship from an equipment manufacturer provided the answer is balanced.

A **subsidy** from the government and the use of **retained profit** are not really appropriate source of finance given the nature of an NGO and the liquidity crisis unless the candidate argues these issues in a balanced manner.

*Accept inappropriate sources of finance **only** if a balanced analysis is provided.*

A balanced analysis is one that incorporates one relevant argument for and one relevant argument against each option

For one relevant issue that is one-sided, with no analysis award up to a maximum of **[3 marks]**. For more than one relevant issue that is one-sided, with no analysis award up to a maximum of **[4 marks]**.

Marks should be allocated according to the markbands on page 3.

2. (a) (i) **Define the term *unique selling proposition (USP)*.** [2 marks]

The unique selling proposition (point) is the attribute, or characteristic that makes a business special and differentiates it from the competition in the minds of customers.

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 statement above.

N.B. It is expected that candidates comment on the differentiation created by the USP.

For **only** a relevant: example **or** application to the stimulus award [1 mark].

(ii) **Identify *two* external stakeholders of HT.** [2 marks]

External stakeholders might include the following:

- clients – *eg* the trekkers
- suppliers – *eg* the local guides, yak providers and porters
- local entrepreneurs – *eg* lodge owners, food and drink sellers and equipment hirers
- special interest groups – *eg* save the environment groups, political groups
- local community – *eg* local farmers, herders and villagers
- government – *eg* central and regional
- *accept any other relevant external stakeholder.*

Award [1 mark] for each relevant and correct external stakeholder identified, up to a maximum of [2 marks].

- (b) (i) Calculate how many clients (trekkers) *HT* would need to meet its target profit figure of \$400 000 per year (*show all your working*). [3 marks]

The target profit formula is:

$$\text{Target Profit Quantity} = \frac{\text{Fixed Cost} + \text{Target Profit}}{\text{Price} - \text{Variable cost (per unit)}}$$

$$\text{And so: } \frac{800\,000 + 400\,000}{10\,000 - 5\,000} = 240 \text{ trekkers}$$

Accept any other relevant method.

Award [1 mark] for an incorrect answer but with clear working shown.

Award [1 mark] for a correct answer and no working.

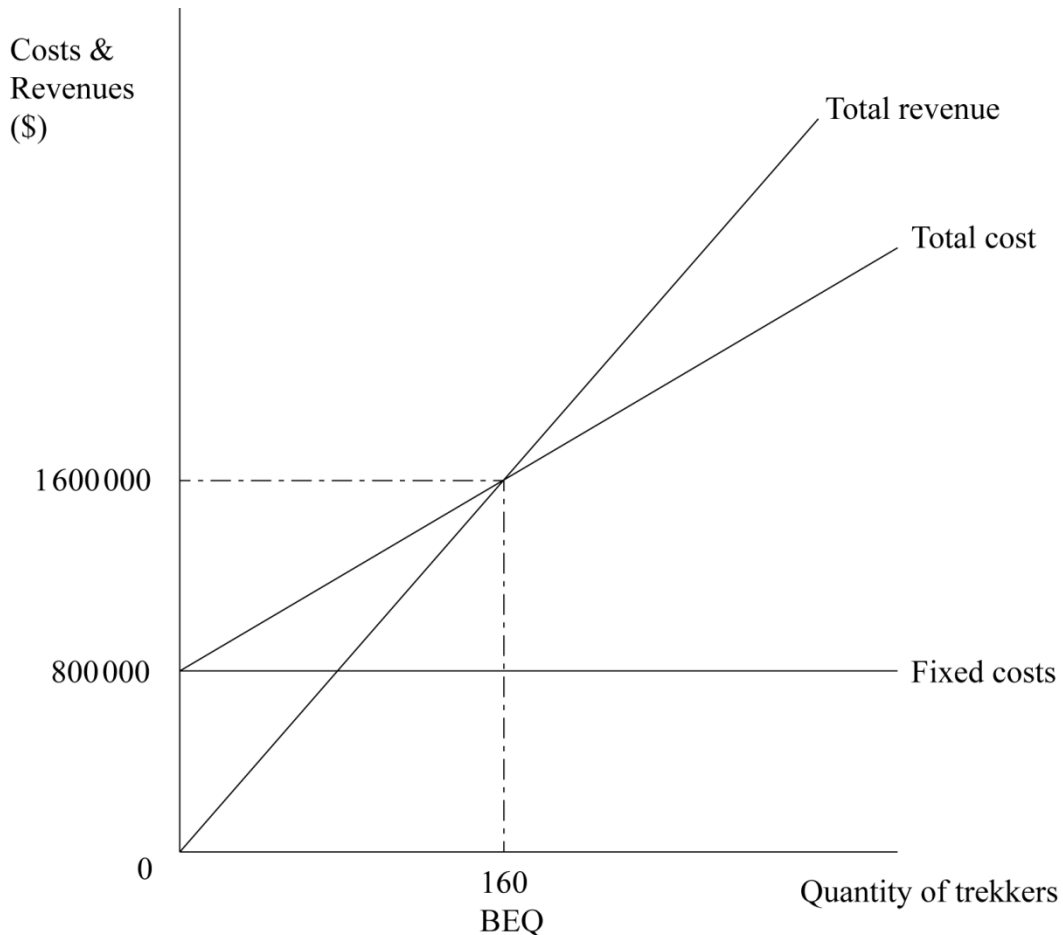
Award [2 marks] for the correct answer but some of the working may be unclear or missing.

Award [3 marks] for the correct answer with clear working. The figures are identified with relevant classifications / headings.

- (ii) Using the financial information provided, prepare a fully labelled break-even chart for *HT* for 2013.

[6 marks]

$$\text{Break even quantity} = \frac{\text{fixed cost}}{\text{Price} - \text{Variable cost (per unit)}} = 160 \text{ trekkers}$$



Do not double penalize candidates.

Award up to a maximum of [6 marks] for any of the following:

- [1 mark] for appropriate labelling of **both** axes.
- [1 mark] for an accurately drawn and labelled fixed costs curve.
- [1 mark] for an accurately drawn and labelled total revenue curve.
- [1 mark] for an accurately drawn and labelled total costs curve.
- [2 mark] for identification of the break-even point with the corresponding level of output and total revenue on the diagram.

$\$10\,000 \times 160 = \$1\,600\,000$. Candidates can calculate total costs at the break-even point. The results should be the same.

If the candidate produces a table rather than a chart, award [0 marks].

Award a maximum of [3 marks] if the chart is not neat, not drawn with a straight-edge, or is not to scale, but real figures for calculations are used.

(c) In 2014, the following changes occurred:

- annual fixed costs increased by 20 %
- rising fuel costs of flights increased average variable costs by 40 % per trekker.

The average price charged per trekker remained the same (\$10 000) as did the number of clients (300).

(i) Taking these changes into account, calculate the new break-even quantity *and* margin of safety for HT in 2014 (*show all your working*). [4 marks]

The increase in fixed cost (FC) is \$160 000.

The increase in variable cost (VC) is \$2000.

$$\begin{aligned} \text{Break even quantity} &= \frac{\text{Fixed cost}}{\text{Price} - \text{Variable cost (per unit)}} = \frac{960\,000}{10\,000 - 7\,000} \\ &= \mathbf{320 \text{ trekkers}} \end{aligned}$$

Margin of safety = actual (sales) quantity – break-even quantity

$$= 300 - 320 = \mathbf{-20 \text{ trekkers}}$$

Mark as 2 + 2.

Award [1 mark] for the correct answer of the new break-even quantity / margin of safety and [1 mark] for working for each calculation, up to a maximum of [2 marks].

N.B. Do not penalize the candidates that showed clear working of the new break-even quantity without showing how the new FC and VC is arrived at as long as the figures are correct.

If the new VC and/or FC are/is incorrect, without working, do not allow candidate own figure rule (OFR).

- (ii) Explain *one* possible response from *HT* to the change in the break-even quantity *and* margin of safety calculated in part (i). [2 marks]

Possible responses by *HT* include:

- Increase prices – the total revenue curve will increase and *HT* will reduce the break-even point – brand loyalty is very strong so customers are likely to be price inelastic.
- Reduce variable costs, such as shorter itineraries to save on fuel, less food, or lower quality food. The reduction in variable cost will reduce the total cost linear line and *HT* will break even at an earlier point.

Award [1 mark] for the identification of a relevant possible response by *HT* and [1 mark] for the explanation of the response.

N.B. For full marks, candidates must explain why an increase in price will result in an increase in total revenue. An assertion is not sufficient.

N.B. Changing fixed costs is **not** possible; candidates should not be rewarded for choosing this option as trekking permits are set by the government and are outside the control of the trekking business – they are fixed.

- (d) **Examine why changing attitudes to social responsibility might be important for *HT*.** [6 marks]

Changing attitudes may be important for *HT* because it could lead to the following benefits:

- *HT* may be able to further exploit its USP to reduce the bargaining power of consumers and competition. Furthermore, a brand image that is based on being socially responsible may enable *HT* to increase the price, as socially responsible customers are likely to be more price inelastic. More clients who appreciate *HT*'s approach will create more repeat clients and enhance brand loyalty.
- Stronger relationships with the local community which might ensure excellent local guides, better and possibly cheaper supply of food and so on.
- Stronger relationships with regional and central governments which might increase the bargaining power of *HT* for obtaining licences/permits possibly at a reduce cost in the future.
- Help motivate all internal stakeholders especially employees. As *HT* provides a service, employee performance is very important and can further add to *HT*'s competitive edge.

Accept any other relevant factor.

However,

- The competitive advantage based on the current USP of being socially responsible may be short lived. Any competitor can do the same.
- Some of the practices used such as sourcing local food, employing only experienced staff with social responsibility practices, employing local guides may actually increase costs and reduce profits.
- Attitudes can change further over time, if *HT* relies on high prices in order to remain socially responsible, the demand may fall. Moreover, the niche, or segment might not be big enough despite the positive changing attitudes toward being socially responsible.
- There could be the possibility of *HT* becoming too popular and this may create issues with capacity utilization, or even create a negative effect on its USP / positioning / branding image to become a mass market operator.

Accept any other relevant factor.

Accept any other relevant issue.

A balanced response is one that covers at least **two** relevant issues for and at least **two** relevant issues against.

For one relevant issue that is one-sided, with no analysis award up to a maximum of [3 marks]. For more than one relevant issue that is one-sided, with no analysis award up to a maximum of [4 marks].

Marks should be allocated according to the markband on page 3.

SECTION B

3. (a) **Define the term *price skimming*.** [2 marks]

Price skimming is a pricing method where a business charges a high price for a highly differentiated, unique and often innovative new good, or service, at the early stage of the product life cycle.

N.B. Do **not** award marks for a response that refers to premium or prestige pricing.

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* key features of random sampling.** [2 marks]

Key features of random sampling are:

- respondents are equally likely to be chosen by the researcher to participate in a survey hence, there is no bias in the selection of consumers for a market research
- the outcome of the research is likely to be more accurate
- the research is simpler, possibly quicker and cheaper.

Accept any other relevant feature

Award [1 mark] for each relevant and correct feature of random sampling identified up to a maximum of [2 marks].

(c) **Explain the importance of people, process and physical evidence for *Turners*. [6 marks]**

For *Turners*, the people element of the marketing mix is critical, given the **intangibility and the unique nature of the service**. As the hotel is perceived as having the highest quality of customer service and the staff / people enabled *Turners* to create a USP. It would appear that until recently, this aspect had allowed *Turners* to differentiate itself away from the competition.

Process involves the ability of *Turners* to successfully allow customers to book and pay for services offered. Currently, the online booking system is slow and unreliable and this will impact on the process element of the mix and impact on customer service, which from the point above is also under threat. The interaction between the customers and the staff can also be explained as process. It is clear from the stimulus that guests judge their experience based on the interaction with the staff, hence this element of the marketing mix is also very important.

Again, given the intangible nature of a service, a high quality hotel with price skimming such as *Turners* will also depend on the physical evidence (surroundings) to reinforce its positioning. Untidy leisure facilities and an overbooked restaurant will hardly help the positioning/perception of the hotel. Importantly, business customers are indicating that the competition is offering improved services for no extra charge. Shane will have to address this issue quickly.

Mark as 2+2+2.

Award [**1 mark**] for the importance of each P described, award an additional [**1 mark**] for the development of the response and application to *Turners* up to a maximum of [**2 marks**] for each P.

(d) **Examine the usefulness for *Turners* of using Handy's shamrock organization. [6 marks]**

Handy's shamrock organizational structure could be applied and examined in the following way:

- **Core Staff** – Shane retains a group of experienced managers as well as employees to perform the core important tasks at *Turners*, to ensure that the positioning and traditions of *Turners* remain intact. The core employees will benefit from job security and a career path which is highly motivating. It is hoped that the increase in motivation will result in the much needed improvement in the quality of the service and should enable *Turners* to retain older customers who may have become frustrated with the declining levels of customer service. However, the core employees are likely to be paid a relatively higher wage which might mitigate the original reason for the change in structure.
- **Part-time / peripheral** staff may allow *Turners* to introduce greater flexible working opportunities, allowing *Turners* to offer additional business services 24/7 to compete with the newer hotels in the area. Moreover, the flexible worker with only a short-term contract without many other benefits and rights are definitely cheaper for *Turners*. Shane will be able to cut costs as well as improve the flexibility needed for the cyclical nature of the hotel business.

However, the lack of job security can severely impact on employee motivation. A sense of injustice may arise. The possible lack of motivation may affect the quality of the service provided by those employees, which can cause a further deterioration of the service quality.

Culture clashes may occur between the permanent staff and the temporary ones who might not be able to grasp the USP and the unique way of operating / customer service at *Turners* with negative consequences on the service provided.

- **Contractors / subcontractors** could be employed to fix the Internet booking issues and any other IT issues in order to catch up with the competition. The subcontractors are not part of *Turners* and they are employed to carry out a particular project. Similarly, the training could be subcontracted as well, as suggested by Shane.

As the employees are paid by project, Shane might be able to negotiate a reasonable price and save a lot on costs. Even if a high price is paid for the expertise, it is only temporary as these employees are not on the payroll of *Turners*. Still, these external employees might not be familiar with the culture of *Turners*.

The short-term disruption to *Turners'* and Shane's routines in addition to costs of re-organizing and monitoring the new working patterns will be considerable. Profits at *Turners* may fall in the short term due to the introduction of the shamrock. Job descriptions will need to be redrawn and there will be inevitable redundancies of some key established workers. This may impact on the goodwill of the business and could have some de-motivating influences on the remaining staff.

Accept any other relevant argument.

N.B. It is **not** expected that the candidates incorporate all of the above points/issues.

If the candidate incorporates/describes the three elements/“leaves” of the shamrock organization, but, does not attempt to examine and apply any advantages or disadvantages award **[1 mark]**.

If the candidate incorporates the three elements/“leaves” of the shamrock organization and attempts to give some generic examination with no linkage to the “leaves”, award up to a maximum of **[2 marks]**.

If one part of the shamrock organization is overlooked, award up to **[4 marks]** even if the response is balanced.

For a full explanation of each of the “leaves” with relevant application, but the response is one sided, award up to **[4 marks]**.

For **[6 marks]** it is expected that the candidate incorporate the three parts of the shamrock organization and provide any, but at least two arguments for and any, but at least two arguments against.

To achieve the top markband, candidates need to refer to the three elements/“leaves” of the shamrock organization.

Marks should be allocated according to the markbands on page 3.

(e) Evaluate whether *Turners* should outsource its staff training programme. [9 marks]

Outsourcing *Turners*' training programme, which is currently on-the-job, will allow Shane Peterson to focus on the key competitive issues, such as marketing/strategic planning and the state of its IT provision facing the hotel. Currently, *Turners* is facing increased competition and other changes in the external environment that are negatively affecting the established hotel.

The issues against outsourcing the training programme revolve around finding a suitable agency to run the programme that will be able to meet the high standards demanded by Shane. Shane should be able to find a reputable company that provide an excellent training programme.

Business customers who have complained about the level of customer service may be reassured that by outsourcing the training of future employees Shane is serious about providing the latest and possibly most effective level of customer service. By communicating with its stakeholders that the training programme will better the level of customer service will protect *Turners*' current positioning.

The above can be seen as a very significant argument in favour of this option.

Moreover, the training provider that *Turners* outsources to is likely to experience economies of scale and hence be cheaper than in-house training. It is said in the stimulus that *Turners* will see a 9 % cut in training costs while improving quality. It is evident that the current on-the-job training method is no longer effective.

The employee might be exposed to new and even higher standards of customer service by an outsider to improve on their current deficiencies and further enhance future USP.

However,

Would *Turners* wish to risk handing over customer service to a third party. How will the quality be monitored? With the number of complaints rising about overbooking and the business services, outsourcing the training function may add to employee anxiety. What other services will be outsourced in future?

Moreover, some employees who were trusted with the training may feel demoted, or feel that the job enlargement has been taken away from them, with some consequences on their motivation that can further deteriorate the quality of customer service at the hotel. Perhaps this argument is of less significance as there are clear deficiencies with the current training.

Conclusions/judgment

It appears as if the arguments for the option of outsourcing are of more significance than the arguments against, given the current problem that the hotel is facing. Shane needs to take action now, in the short run, to turn the fortunes of the hotel around. By reducing costs and improving customer service, some of the issues will be addressed, but there is a significant risk of uncertainty and further de-motivation given the number of changes Shane is proposing. Clear communication around the intentions of the move to outsourcing will be needed.

Despite possible resentment from some employees in the short run, in the long run the quality of the service will increase and other opportunities can be given to employees to further develop their skills and interest.

Moreover, the outsourcing of the training programme fits very well with the structural strategic changes proposed. Shane should outsource.

Accept a different recommendation / evaluation as long it is applicable and substantiated.

N.B. accept the use of the term subcontracting in the candidate's response.

Given the command term, a judgment is expected.

A balanced response is one that covers at least **two** relevant issues for and at least **two** relevant issues against.

For one relevant issue that is one-sided, award up to a maximum of **[3 marks]**.
For more than one relevant issue that is one-sided, award up to a maximum of **[4 marks]**.

Award a maximum of **[5 marks]** 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 **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

Marks should be allocated according to the markbands on page 4.

4. (a) **Define the term *public limited company*.** [2 marks]

A public limited company (plc) is an incorporated organization in the private sector, which is allowed to be quoted / listed on the stock exchange. A plc has a widespread of owners all with limited liability.

N.B. It is expected that the candidate mentions more than just sells shares in the stock exchange, see some suggestions above.

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 the method of growth used by the proposed merger.** [2 marks]

The method of growth suggested in the stimulus is external / inorganic growth. Such growth comes from outside the business by **acquiring** a stake in, **or merging** with another firm. (In the stimulus *Walgreens* has made an offer to acquire a 45% stake in *Alliance Boots*).

It is not expected that the candidates cover the benefits or otherwise of such a method.

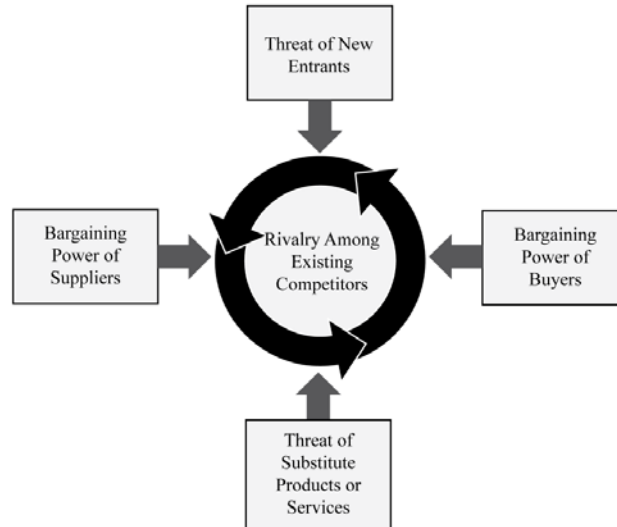
N.B. If a candidate describes, but does not use the term “external growth” or “inorganic”, award [1 mark] for a different description, for example of horizontal growth / integration.

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.

- (c) Explain the changes to *two* of Porter’s five forces resulting from the proposed merger. [6 marks]

The Five Forces That Shape Industry Competition



[source: “The Five Competitive Forces that Shape Strategy” by Michael E. Porter, Harvard Business review, January 2008]

It is not expected that the candidate draws the model to answer this question, but a short explanation of the essence of the model is expected. Candidates can choose **any** two of the five forces, provided they explain the changes in relevant and applicable ways.

The creation of the world-leading pharmaceutical chain of more than 11 000 stores could potentially reduce the bargaining power of the buyer, especially in the UK and perhaps in the US. The reason why is the newly formed organization’s ability to determine / affect price in the market to a large extent.

The combined resources and specific knowledge in R&D, distribution and retailing might erect barriers to entry to other pharmacies / drug store companies hence the ease of entry will become lower. The threat of new entry which is relatively low anyway due to significant start-up costs in this industry will be further reduced.

If *Alliance Boots*’ own brand products are introduced to the US market and are well respected by the customers, one may argue that the availability of substitutes in the eyes of *Walgreens*’ customers may reduce by the creation of the USP and differentiation.

The bargaining power of various suppliers may be reduced. The newly formed company is likely to purchase a large amount of ingredients and be able to negotiate a very good price. The ability to distribute medicine in 11000 stores may allow irresistible opportunities for the suppliers of ingredients. Hence lower prices for the new company.

The integration of the two large organizations will reduce the competitive intensity in the market.

Accept any other relevant explanation with application.

N.B. Do not penalize candidates that use other terms apart from merger, such as acquisition of 45 % of the company.

Accept different arguments / explanation regarding the competitive nature of the industry. For example, competitors may be able to maintain the bargaining power of suppliers, buyers, threat of substitutes. One may argue that the ability of each company to put its own products in each other stores may actually increase the availability of substitutes for consumers.

Mark as 3 + 3.

Award [**1 mark**] for identifying each appropriate change to the relevant force, [**1 mark**] for an appropriate explanation and [**1 mark**] for a further development of this explanation with reference to the organization. Award a maximum of [**3 marks**].

Award up to a maximum of [**2 marks**] for each change to the force explained if no relevant reference is made to the stimulus material.

- (d) **Examine the claim that the merger would result in “increased internal economies of scale”.**

[6 marks]

On one hand, one can argue that the merger will indeed result in increased internal economies of scale and the average cost per unit of the combined organization will fall as scale of production increases. A joint marketing/advertising strategy can lead to marketing economies of scale. A jointly implemented promotion strategy can significantly reduce costs per unit given the global reach / larger number of customers; as well as purchasing economies of scale created due to very strong bargaining power of the combined large organization. Together they will be able to secure cheaper prices from the suppliers of the medicines, or any other product sold in both chains. Moreover, financial economies of scale can be created as the bigger organization should be able to secure, if needed, more loans in more favourable terms for the planned expansion strategies into China and other countries.

Accept any other type of economies of scale provided each type is relevant and applied to the newly formed organization and the specific industry.

However, diseconomies of scale can be created due to the large size of the new organization. Managerial diseconomies in particular due to break of communication and coordination between the various administration offices, distribution centres *etc*, located in at least two continents and stores in different countries, the issue of control which are raised by the opponents.

Motivation of employees may also be reduced due to the fact that they will be working for a large organization with less direct relationship between management and employees and with other employees. Inefficiency will contribute to higher average costs

Some cultural clashes between the American and the British way of running a business can be created between the managers as well as between the employees which could cause miscommunication, inefficiency and possibly diseconomies of scale.

Accept any other relevant and applied argument.

To achieve the top markband candidates must give a balanced analysis of **two** relevant internal economies of scale and **two** relevant internal diseconomies of scale.

It is expected that the candidates explain, not just assert, how unit costs are reduced for their chosen types of economies and diseconomies of scale.

A specific classification for **internal economies of scale** is expected. For diseconomies of scale, accept relevant issues and examples – specific categorization might not be given

For one relevant issue that is one-sided, award up to a maximum of **[3 marks]**. For more than one relevant issue that is one-sided, award up to a maximum of **[4 marks]**.

For one relevant internal economy of scale and one relevant internal diseconomy of scale award **up to** a maximum of **[4 marks]**.

For a relevant generic/theoretical response with no application at all, award up to **[4 marks]**.

Marks should be allocated according to the markbands on page 3.

- (e) **Discuss whether the proposed merger of *Walgreens* with *Alliance Boots* will result in the positive outcomes stated (apart from economies of scale).** [9 marks]

It is expected that the candidates will use the information provided to base their applicable response, but then go beyond just the information provided. Candidates should not just reproduce some points mentioned in their previous answer as there may be a slight overlap, but this should be minimal. It is also expected that the candidate looks at the two companies for their discussion/evaluation.

Possible arguments in favour:

For *Walgreens*:

A synergy can be created between the two organizations. There are examples provided for the candidates to use. *Walgreens* can benefit from product development due to the R&D as well as the introduction of *Alliance Boots*, a reputable brand in the UK, into the US. One can also judge the move as possible related diversification. *Alliance Boots* can also provide enhanced manufacturing capability and improved customer service, for example, the 3 extra Ps – people, process and physical evidence which are relevant for retailers.

Alliance Boots has considerably higher number of ready-made outlets for *Walgreens* to use. This is a quick and relatively cheaper option to expand globally. *Walgreens* can benefit from quick entry to Europe and beyond – market development strategy.

For *Alliance Boots*:

It is a friendly merger. There should not be much if any resistance to change / to the merger / acquisition as the decision had to be approved by all of the private shareholders anyway.

Alliance Boots can benefit from immediate market development strategy to the US market which can enhance future profit. The shareholders of *Alliance Boots* clearly sees many benefits, especially less reliance on the stagnated European markets and possible future marketing expansion into other continents with the finance provided by *Walgreens*.

However, regarding *Walgreens*:

Will *Walgreens* be able to purchase part of *Alliance Boots* given the 10% fall in its sales? Analysts believe that the friendly merger is not the right strategy for the organization. They suggest that *Walgreens* need to pursue a different strategic move.

With a 45 % stake, *Walgreens* may not be able to push through any changes not acceptable to *Alliance Boots*.

Why are the shareholders not satisfied? Being a plc, *Walgreens'* CEO and its executives must pay attention to the investors' opinion. Dissatisfaction may lead to further sale of shares and a further fall in market value. The new group may be subject to takeover by a different company, pharmaceutical or retailer. Cultural clashes or rather misunderstandings between the management and possibly staff in the UK and the US. Stakeholders are strong, significant and powerful and the management need to listen to their opinion about this strategic move.

Regarding *Alliance Boots*:

The organization may lose its brand image / positioning as a reputable British drug store. A fall in the share price and possibly a further decline in *Walgreens* revenue may result in *Alliance Boots* not being able to pursue its **market development** strategy into China and South America. Diseconomies of scale can occur but it is not expected that the candidate will elaborate on this issue given the previous question.

Conclusions / evaluation

Candidates can provide any judgment provided it is well supported and hence substantiated. It is crucial however, that candidates provide substantiated judgment not just some repetition of previous arguments.

A candidate may judge that one organization is likely to benefit overall and another candidate may judge otherwise not. The exact nature of judgment is not really important. What is important is the strengths of the arguments and the candidates' ability to incorporate relevant issues, their significance, from which stakeholders' point of view and so on. Provided the above is done, credit any judgment.

N.B. It is **not** expected that the candidates incorporate all of the above points/issues.

A balanced response is one that covers at least **two** relevant issues for and at least **two** relevant issues against.

For one relevant issue that is one-sided, award up to a maximum of **[3 marks]**.
For more than one relevant issue that is one-sided, award up to a maximum of **[4 marks]**.

Award a maximum of **[5 marks]** 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 **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

Marks should be allocated according to the markbands on page 4.

5. (a) Define the following terms:

(i) *family branding*

[2 marks]

Family branding can be formed as part of a marketing strategy that involves selling several related products under one brand name. (Family branding is also known as umbrella branding).

Candidates are **not** expected to word their definitions **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 material award [1 mark].

(ii) *contribution to fixed costs.*

[2 marks]

Contribution to fixed costs refers to the difference between the sales price of one unit of production and the variable costs needed to make that unit of production. The difference between the two is “how much” each sale (per unit) contributes to the payment of fixed costs.

If a candidate writes the formula for calculating contribution, but does not define the term, award [1 mark].

Candidates are **not** expected to word their definitions **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 material award [1 mark].

- (b) With reference to *MTC*, explain the difference between objectives, strategies and tactics. [6 marks]

An objective is where the business wants to be in the future, its goals. Objectives can be strategic – long term, tactical – medium term and operational – short term and are often SMART. The objective for *MTC* is to increase revenue.

A strategy is how the organization *MTC* is going to get there. A strategy is a broad plan of action used by an organization as to how to achieve its aims and strategic objectives. It usually involves long-term, overall corporate decisions.

Accept any strategy mentioned in the stimulus.

Tactics are concerned with **smaller-scale and/or short-term** decisions, or actions, aimed at reaching more limited and measurable goals. Tactics are set to facilitate strategies.

Accept any tactic mentioned in the stimulus.

Given the nature of the question, please do not penalize information directly quoted from the stimulus material.

Accept any other relevant explanation.

Mark as 2+2+2.

Award [1 mark] for identifying/defining each element and [1 mark] for an appropriate explanation with reference to *MTC*. Award a maximum of [2 marks].

- (c) **With reference to *MTC*, examine the dynamic nature of organizations and the relative importance of driving and restraining forces.** [6 marks]

MTC, like any other organization that is facing new challenges, both internally and externally, suggests the needs for change. Indeed the Managing Director, Seb and the Marketing Director Tina, identified the need to change and to respond to the challenges in the external environment. One can therefore say, given the stimulus, that *MTC* is operating in a very dynamic environment.

Factors for change (driving forces):

- Increasing competition: if nothing is done, it represents a threat to the business.
- Falling contribution from restaurant may have impact on profits.
- Overworked / stressed workforce may reduce quality of service and hence the number of members.

Factors causing resistance to change (restraining forces):

- The objection of Alex as well as the employees who are already overworked. Stressed employees will be unmotivated with further deterioration in service quality.
- Membership is already at saturation point – *MTC*'s management should be worried about the negative impact on the atmosphere of the club. Current members might leave if more members are to join as the atmosphere of the club and the exclusivity of the service might be eroded.

Accept any other driving force for change and restraining forces causing resistance to change with relevant explanation and application.

It is expected that the candidates go beyond the regeneration of the stimulus material and fully explain each driving and restraining forces.

Candidates are not expected to draw the Lewin model.

For one relevant force (either driving or restraining) explained, award up to a maximum of [3 marks]. For more than one relevant force with no examination (either driving or restraining), award up to a maximum of [4 marks].

For full marks, a minimum of **two** well-explained relevant driving forces and **two** well-explained relevant restraining forces are expected.

N.B. This question asks for examination, hence evaluation / substantiation is not required as perhaps the wording of the question might imply when asking for the relative importance. Award a maximum of [5 marks] if there is no reference at all to the importance of the forces.

If only the Lewin model is presented as a list with some arrows and possibly figures without explanation, award a maximum of [2 marks].

Marks should be allocated according to the markbands on page 3.

- (d) **Discuss the likely success of Seb's five-year plan to achieve an increase in revenue for *MTC*.** **[9 marks]**

Arguments suggesting that Seb's five-year plan might be successful:

- Five years is quite a long time to make changes. The employees, managers and possibly members will have time to adjust. The plan could be adapted throughout the years if needed. Tina's tactics look achievable over a long time period.
- Some of the changes are relatively easy to make, *eg* opening the restaurant to the general public, opening a shop. These changes are unlikely to affect *MTC*'s culture and corporate image.
- Seb seems to be a person with drive. He has Tina on his side. Management unity to start with, is likely to result in a smoother implementation of any strategic plans. Moreover, collaboration and consultation between the two managers is likely to result in: a better understanding of the situation, better and possibly more varied strategies and better implementation.
- With a clear plan, *MTC* might be able to raise funds more easily from investors or financial institutions.

Arguments against:

- The competitor, *Best Sport*, being a MNC with probably better and more funds, can easily react to the strategies and tactics used by *MTC*, especially in terms of promotion and price reduction. A price war with a MNC could destroy *MTC*.
- Employees and the HR Manager are worried about stress level and low wages. A lack of motivation can seriously affect the performance of the employees who are vitally important in this kind of business / service.
- How successful will the tactics be? For example would decreasing membership fees increase revenues? Depends on elasticity.
- How effective is social networking and advertising?
- Has *MTC*'s management, researched if there is a market for over 60s and young people? The market might not be sufficient.
- The idea of family branding might not be viable. How effective is the branding? Could the brand image be negatively affected if any of the new ventures are a failure.
- Given the fall in contribution and higher break-even point before profit is made, will *MTC* have sufficient funds? Borrowing might result in further financial difficulties.
- Alex's resistance to change might impact on the implementation of the strategies. He is the HR Manager and people/employees hold key roles in running a tennis club.

Accept any other relevant argument with an appropriate discussion.

Conclusions/ judgment:

It appears that the strategies and tactics suggested, despite some acceptable objection on behalf of the HR Manager, seem achievable and realistic. They are not extremely drastic, hence likely to be overall successful especially if implemented incrementally over the designated 5 years. Tactics especially are easy to change and the overall objectives of *MTC* do not seem to be objected by any. The HR Manager is worried about the employees being overworked, overstressed and underpaid. These issues can be resolved rather easily with negotiation, recruitment, flexible working *etc.* Hence the 5 year plan is likely to be a success albeit perhaps not brave and risky enough.

Accept any other relevant and substantiated conclusion.

Candidates are not expected to include in their response all of the issues above.

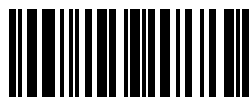
A balanced response is one that covers at least **two** relevant issues for and at least **two** relevant issues against.

For one relevant issue that is one-sided, award up to a maximum of **[3 marks]**.
For more than one relevant issue that is one-sided, award up to a maximum of **[4 marks]**.

Award a maximum of **[5 marks]** 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 **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

Marks should be allocated according to the markbands on page 4.



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**BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 2**

Thursday 20 November 2014 (morning)

2 hours 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer two questions.
- A calculator is required for this examination paper.
- Clean copies of the ***Business and Management*** formulae sheet and discount tables are required for this examination paper.
- The maximum mark for this examination paper is [75 marks].

SECTION A

Answer **one** question from this section.

1. Deep Sea Catch (DSC)

Deep Sea Catch (DSC) operates as a sole trader on an island popular with tourists. *DSC* specializes in supplying fresh fish to local hotels on a daily basis.

The local government has given *DSC* a permit to catch a maximum of 70 kilograms of fish per day. However, there has been an increase in illegal fishing (without permits), in addition to overfishing by *DSC*'s other competitors (with permits), which has reduced fish stocks in the area. Given the increasing competition among fish suppliers on the island, hotels will only pay a fixed price of \$10 per kilogram of fish.

DSC's cost of operation and the quantity of fish caught varies depending on factors such as weather conditions, the availability of fish, and the number of competitors.

Local hotels demand that:

- the fish they buy meet strict national health and safety standards, to ensure the quality of the fish for tourists
- fish are caught ethically without endangering other sea creatures, such as sea turtles or dolphins.

An environmental pressure group is also pressuring the government for:

- more strict regulations on the fishing industries, targeting suppliers without permits
- a reduction in the quantity of fish that each supplier can sell
- new legislation for a compulsory installation of new and sophisticated technological equipment for ethical fishing.

DSC is well known for fishing responsibly and within government legislation. However, the owner is worried about the possible high costs of some of the new legislation.

Unsold fish is stored and kept in a refrigerator for up to two days. After two days, the stored fish is sold to a processing factory for \$4 per kilogram. For example, fish caught on Monday, but still not supplied to the hotels by Tuesday evening, will be sold on Wednesday to the processing factory.

(This question continues on the following page)

(Question 1 continued)

DSC uses the system of last-in-first-out (LIFO) for the stock valuation. The table below shows a typical week's supply of fish at *DSC*:

Day of the week	Kilograms of fish caught by <i>DSC</i> and the cost of fishing	Kilograms of fish supplied by <i>DSC</i>
Monday	20 @ \$5	10
Tuesday	30 @ \$8	20
Wednesday	20 @ \$6	20
Thursday	40 @ \$5	30
Friday	20 @ \$8	20
Saturday	40 @ \$8	30
Sunday	40 @ \$5	30

- (a) Describe **two** features of a sole trader. [4 marks]
- (b) (i) Using the table above and the last-in-first-out (LIFO) method of stock valuation, calculate the value of the closing stock of fish on Sunday (*present all your working in table format*). [8 marks]
- (ii) Using the information provided, calculate *DSC*'s typical weekly gross profit after taking into account the number of fish sold to the processing factory (*show all your working*). [3 marks]
- (iii) Calculate *DSC*'s typical weekly gross profit margin (*show all your working*). [2 marks]
- (c) Explain **one** advantage for *DSC* if they provide fish meeting national quality standards. [2 marks]
- (d) Using the PEST model, examine the impact of the external environment on *DSC*. [6 marks]

2. Stay Float (SF)

Stay Float (SF) is a family-owned private limited company that produces rowing boats. Dan is the Marketing Director and Ori, his brother, is the Finance Director. Together they own 75% of *SF*'s shares. The main target market is university boat clubs that require custom-made rowing boats. *SF* produces two models of boat, "The Single" and "The Quad", using a job production method. Each model of boat is treated as separate profit centres.

SF is market-orientated and highly responsive to customer needs. Customers are willing to wait a long time for the completion of a boat because of its high quality and flexible design. Employees are highly skilled and motivated. *SF* uses a price skimming strategy.

Increasing overseas competition of cheaper mass-produced rowing boats and a cut in university activity budgets has caused a fall in demand for *SF*'s boats. As a result, *SF* is experiencing cash flow difficulties. Dan and Ori are considering two different strategic options to reduce costs and find new market segments for both boats:

- (Option 1) change the production method to flow production to improve the working capital cycle. However, Ori is concerned about how this will be financed.
- (Option 2) subcontract the production of the "The Quad" overseas and continue producing "The Single" at the current location.

Sales price for "The Single": \$15 000.

Sales price for "The Quad": \$25 000.

Current financial data for 2014:

Total fixed costs for <i>SF</i>	\$50 000
Variable cost per boat	"The Single": \$12 000 "The Quad": \$18 000
Actual number of boats produced and sold	"The Single": 6 boats "The Quad": 4 boats
Production capacity	20 boats in total

Financial data if *SF* subcontracts "The Quad" overseas (Option 2):

- production capacity for the subcontractor: 40 boats.
- the total fixed cost will be reduced by \$14 000.
- *SF* will pay a variable cost of \$14 000 per boat to the subcontractor.
- *SF* will reduce the price of the mass-produced "The Quad" by 20% and double the quantity sold in the first year.
- the quantity of "The Single" (6 boats) sold will remain unchanged.

(This question continues on the following page)

(Question 2 continued)

- (a) Describe **two** features of *SF* operating as a private limited company. *[4 marks]*

- (b) Explain **two** advantages and **one** disadvantage for *SF* of operating “The Single” and “The Quad” as separate profit centres. *[6 marks]*

- (c) Calculate for *SF* (*show all your working*):
 - (i) the current capacity utilization in 2014. *[2 marks]*

 - (ii) the break-even quantity for “The Single” if the subcontracting option (Option 2) is chosen. *[2 marks]*

 - (iii) whether the production of “The Quad” should be subcontracted overseas (Option 2), assuming that the sales of “The Single” stay the same as in 2014. *[5 marks]*

- (d) Analyse the suggestion that *SF* should change from job production to flow production (Option 1). *[6 marks]*

SECTION B

Answer **two** questions from this section.

3. Cheap4U (C4U)

Cheap4U (C4U), a public limited company (plc), operates a successful low-price airline service. *C4U* offers a basic service targeting low-income families and students. It is positioned as offering the lowest price for a flight. Staff training for flights is on-the-job and *C4U* uses non-financial motivation such as job enlargement. *C4U* has recently experienced difficulty in recruiting enough flight staff. As a result, flight staff are overworked and there have been complaints by some passengers about poor service.

In 2013, *C4U* suffered its first loss in 11 years. *C4U* carried out a review and the following three issues were identified:

- given the staff shortages, *C4U* flights are often delayed or cancelled.
- some advertising for popular flights is considered to be unethical. For example, cheap one-way flights are promoted without stating that the return flight is twice as expensive.
- new low-price competitors are emerging, using newer and more fuel-efficient aircrafts.

C4U is considering offering a new international flight service, *Quality4U (Q4U)*. This service will only be offered at certain times. *Q4U* will target higher-income consumers by offering excellent aircraft facilities, free internet access and more comfortable seats. Four new fully equipped aircrafts will need to be purchased. *C4U's* gearing ratio is rising at over 80%. New sources of finance will be required.

C4U is also considering new methods of staff training for the new *Q4U* service:

- One new method of off-the-job training could be conducted by a hotel which is famous for its high quality of customer service. This new training method will increase *C4U's* costs at a time when its working capital is limited.
- Secondly, all flight staff will have to study for and pass an examination to meet international quality standards of customer service. *C4U's* senior management is insisting that staff study in their own free time. Flight staff have complained and have consulted their representatives about possible industrial action, as they feel that they are already overworked.

(This question continues on the following page)

(Question 3 continued)

- (a) Describe **one** feature of:
- (i) job enlargement. *[2 marks]*
 - (ii) international quality standards. *[2 marks]*
- (b) Explain how each of the three issues identified, could have impacted on *C4U*'s revenue, leading to its first loss in 11 years. *[6 marks]*
- (c) Analyse **two** appropriate sources of finance that *C4U* could use to purchase the new aircrafts for the new *Q4U* service. *[6 marks]*
- (d) Evaluate the two new methods of training and examination that *C4U* are considering to prepare flight staff for the new *Q4U* service. *[9 marks]*

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4. Creative Bleu (CB)

Creative Bleu (CB) is an Australian media private limited company which has produced many innovative television (TV) commercials. Jennifer Joyce, the Chief Executive Officer (CEO), set up the company with three college friends. *CB* now employs 24 people.

The organizational culture is technological, collaborative, innovative and task-orientated. Flexible project teams of four are created and rotated to generate new and creative ideas. On occasions, decisions are made intuitively. All employees have equal input into the decision-making process. *CB* has an employee share-ownership scheme, and profits are shared among all of the shareholders. Jennifer has a democratic leadership style. Staff turnover at *CB* has been very low.

CB has received a substantial contract to produce a TV commercial. The commercial will be for a new product. The commercial will also help *CB* gain entry into a new international market: South Korea. The long-term financial benefits for *CB* could be significant, but Jennifer is worried that *CB* will use all its working capital on this operation. Moreover, *CB* does not have a Korean speaker amongst its staff.

Jennifer and the staff see the production of the TV commercial as an opportunity for *CB* to enter a new market and grow. Jennifer has two strategic options for *CB*:

- grow internally by producing the TV commercial in Australia. *CB* would finance the whole operation and employ additional staff: translators, local Korean actors, and technical support staff.
- form a joint venture with a Korean media company. *CB* would share the costs of the operation with them. The TV commercial would be produced in Seoul, South Korea. Given the size of the operation, *CB* would relocate one of their teams to Seoul.

- (a) Define the term *organizational culture*. [2 marks]
- (b) Identify **two** key features of intuitive decision-making. [2 marks]
- (c) Explain **two** benefits and **one** cost to *CB* of using an employee share-ownership scheme. [6 marks]
- (d) Analyse the effectiveness of using flexible project teams for *CB*. [6 marks]
- (e) Recommend which of the two strategic options *CB* should pursue. [9 marks]

5. Moving back to the US

Reducing costs has been a significant driving force in pushing multinational companies to offshore manufacturing. However, as emerging economies develop, labour costs are rising.

Between 2005 and 2010, wages of factory workers in China rose by 69%. An analyst for *Boston Consulting Group* said that “the cost advantages from offshoring are falling to such an extent that some American multinationals with manufacturing offshore are returning home to supply their American customers”. By 2015, the cost advantage of offshoring manufacturing for the United States (US) market will disappear. The analyst has forecasted, based on the same time series technique as sales forecasting, that wages will continue to grow at around 17% a year in China, but remain stable in the US.

Gary Pisano, of Harvard Business School, said that some American companies that had considered offshoring parts of their business are choosing to expand within the US. *General Motors*, for example, will invest US\$2 billion to create 4000 jobs at 17 manufacturing plants in the US.

A growing number of multinational companies, especially from high-income countries, are starting to see the benefits of keeping their manufacturing “at home”. For many producers, labour costs are a small proportion of the total cost. Also, long and complex supply chains have become unreliable due to changes in external factors such as the increase of oil prices, political instability and natural disasters such as earthquakes.

However, Gary Pisano also argues that:

- in some industries, such as consumer electronics, the US no longer has the necessary supply chain
- some multinational companies will continue to build most of their new factories in emerging economies, where the demand is growing fastest
- some of the new factories in the US have been financed by government subsidies, which will soon stop
- in India, despite rising wages, its innovative software development and call-centre offshoring industries are likely to retain its cost advantages because of increasing productivity.

[Source: adapted from “Moving back to America”, *The Economist*, 14 May 2011]

(This question continues on the following page)

(Question 5 continued)

- (a) (i) Identify **one** possible variable cost of production, **other than wages**, that a manufacturing company may face. [1 mark]
- (ii) Identify **one** possible fixed cost of production that a manufacturing company may face. [1 mark]
- (iii) Define the term *offshoring*. [2 marks]
- (b) The *Boston Consulting Group* analyst used the same technique as sales forecasting to predict changes in wages. Explain **one** advantage and **one** disadvantage of using this technique. [6 marks]
- (c) Examine the possible impacts on China of the US multinational companies offshoring manufacturing to China. [6 marks]
- (d) Discuss the suggestion that US multinational companies are likely to increase the scale of manufacturing at home. [9 marks]
-



MARKSCHEME

November 2014

BUSINESS AND MANAGEMENT

Higher Level

Paper 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
Q1 (d)	Q2 (d)	Q3 (c)	Q4 (d)	Q5 (c)	
Marks 0–6					
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.
5–6					<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 (c)	Q4 (e)	Q5 (d)	
Marks 0–9			
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, concepts and theories.• 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.
5–7			<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.
8–9			<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* features of a sole trader. *[4 marks]*

A sole trader runs an unincorporated business. There is therefore no legal separation between the owner and the business. A sole trader has unlimited liability and is responsible/liable for the debt of the business that may be paid with the sole trader's personal assets.

A sole trader will not face long and expensive setting up procedures. A sole trader/sole owner has complete control and is free to make decisions about the business without any consultation.

Accept any other relevant feature.

N.B. credit candidates that mention an **advantage** resulting from being a sole trader.

Mark as 2 + 2.

Award *[1 mark]* for each relevant and correct feature of a sole trader identified and *[1 mark]* for an appropriate description up to a maximum of *[2 marks]*.

- (b) (i) Using the table above and the last-in-first-out (LIFO) method of stock valuation, calculate the value of the closing stock of fish on Sunday (present all your working in table format). [8 marks]

Day of the week	Kilograms of fish caught by DSC and the cost of fishing	Kilograms of fish supplied by DSC to the hotels	Value of fish in stock	Fish sold to processing factory
Monday	20 @ \$5	10 @\$10	10 @ \$5	
Tuesday	30 @ \$8	20@\$10	10 @ \$5 10 @ \$8	
Wednesday	20 @ \$6	20@\$10	10 @ \$8	10 @ \$4
Thursday	40 @ \$5	30 @\$10	10 @ \$5	10 @ \$4
Friday	20 @ \$8	20@\$10	10 @ \$5	
Saturday	40 @ \$8	30@\$10	10 @ \$8	10 @ \$4
Sunday	40 @ \$5	30 @\$10	10 @ \$8 = \$80 10 @ \$5= \$50	
Total	\$1340	\$1600	\$130	\$120

N.B. do not penalize errors which are carried through.

N.B. candidates can reach the top markband **without** presenting the column “Kilograms of fish supplied by DSC to the hotels”.

[1 to 2 marks]

For [1 mark] there must be some understanding shown. There are many inaccuracies/mistakes and the layout and working are poor. Or the layout is clear despite inaccuracies for [2 marks].

[3 to 4 marks]

The calculations contain two to three errors. The layout and/or the working is unclear/untidy.

[5 to 6 marks]

The layout and the working are largely clear and the calculations are essentially accurate. If the candidate does not incorporate the sale of the fish after two days, award a maximum of [5 marks].

[7 to 8 marks]

The layout and all working are clear and all the calculations are accurate. The last column may not be presented, but the closing stock is correct, hence the sale to processing factory was essentially incorporated. For [8 marks] all the relevant calculation for both processing stock and for stock held are present, the closing stock figure should also be correct.

- (ii) Using the information provided, calculate *DSC*'s typical weekly gross profit after taking into account the number of fish sold to the processing factory (*show all your working*). [3 marks]

A typical weekly gross profit for *DSC*:

Total revenue – Total cost = profit

Total revenue from selling the fish to the hotels = \$1600 (160kg × \$10)

N.B. the candidates are not expected to repeat all of the calculations from the question above.

Total revenue from selling the fish to the processing factory = \$120 (30kg @ \$4)

Total revenue = \$1600 + \$120 = \$1720

Less cost of goods sold

Opening stock = 0

Purchases = \$1340

Less closing stock \$130

= \$1210

Total revenue – Total costs = \$1720 – \$1210 = \$510

Award [1 mark] for limited understanding of how to calculate the gross profit, working may not be shown, or may be inaccurate.

Award [2 marks] for some understanding of the method/process of calculating gross profit, but with an error in the calculation that might affect the final figure.

If the candidate does not incorporate the sale to the processing factory, but the remaining calculations are correct, award up to [2 marks].

Award [3 marks] for a correct method/process, clear and correct working and correct final answer.

If the candidate produces the correct final answer but does not show working, award [1 mark].

Allow candidate own figure rule (OFR).

- (iii) Calculate *DSC*'s typical weekly gross profit margin (*show all your working*). [2 marks]

$$\frac{510}{1720} \times 100 = 29.65\% \text{ Accept } 29.6\% \text{ or } 29.7\%$$

Award [2 marks] for a correct figure in percentage with working.

Award [1 mark] for a correct answer which is not in percentage.

Award [1 mark] for the correct answer in percentage without working, or for some implied understanding (candidate own figure rule [OFR] applies).

Award [0 mark] if OFR applied, but the answer is not in percentage.

- (c) **Explain *one* advantage for *DSC* if they provide fish meeting national quality standards.** **[2 marks]**

Fish is a highly perishable product that can affect human health / well-being. Meeting national quality standards should provide the following advantages for *DSC*:

Given the information in the stimulus, *DSC* avoids possible litigation about the food quality as well as avoids facing a threat of closure by the government.

Other issues may include:

- it should gain recognition for providing quality fish which can lead to a competitive advantage from doing so (a marketing advantage)
 - it may attract higher quality workers
 - it can lead to increased motivation for *DSC*'s workers
- Candidates can explain that the above two human resource issues can lead to improvements in the service provided.

Accept any other relevant advantage with an explanation.

Award **[1 mark]** for a relevant and correct advantage for *DSC* of providing fish that meet national quality standards identified and **[1 mark]** for an explanation of this advantage up to a maximum of **[2 marks]**.

N.B. if the explanation is generic and not applied to *DSC* award **[1 mark]**.

- (d) **Using the PEST model, examine the impact of the external environment on DSC.** [6 marks]

It is expected that the candidate shows clear understanding that the question refers to the **external environment** only.

N.B. do not credit any relevant internal issues.

It is also expected that the candidate **applies** the external forces identified to *DSC* rather than producing a theoretical / potential examination of some of the PEST factors. It is also expected that as part of the examination, candidates identify/refer to opportunities and threats (similar terminology may be used).

Below are some suggestions as to the structure and content of the answer.

N.B. accept pressure groups as either a political, or a social factor.

Political/legal

The government has a restriction on *DSC* regarding the amount of daily fishing. Potentially one can argue it is a **threat** as the given permit limits the flexibility of *DSC* to respond to a possible increase in demand. However, from the figures given, it is clear that *DSC* is not near the 70 kg limit, hence it is an opportunity for *DSC* to adhere to the limit while the competitors may be more restricted and possibly use this as a USP: **an opportunity** to increase its competitive position.

The suggested legislation for a compulsory installation of new and sophisticated technological equipment for fishing may be seen as a **threat** for *DSC* given the current financial position.

Economics

The competition is intensifying; this is a big **threat** to *DSC* who adheres to all of the regulations. Due to the competition, the bargaining power of the buyers (the hotels) is increasing, which has resulted in a fixed price of \$10 per kilogram of fish.

Social

The local hotels have demanded the fishermen to be socially responsible. This is an **opportunity** for *DSC*, as the organization adheres to the strict demand. As a result, *DSC*'s competitive position can be stronger.

The environmental pressure group that is pressurizing the government can be seen as an **opportunity** as *DSC* adheres strictly to the regulations and would see a less severe competitive environment if some of the illegal competitors stop operating.

Technological

The stimulus implies an availability of advanced technology for ethical fishing. This can be seen as an **opportunity** for *DSC* who is truly committed to ethical fishing if they are able to purchase the new equipment. However, *DSC* might find it difficult to purchase the new technology given its financial position; hence an imposed change of technology can be seen as a **threat** (**this point cannot be repeated twice under two different PEST headings**).

Weather conditions, the physical environment also impacts on the operation of *DSC*, on occasions it can be judged as an opportunity in others a threat.

It is expected that the external factors are identified and clearly indicated.
Do not credit a response that does not mention a specific factor, but only makes some reference to “competition” or “pressure groups” *etc.*

Accept ethics or environment as external factors.

Accept any other relevant / applicable examination of opportunities or threats classified under the relevant PEST factors.

Accept similar terminology such as advantage / disadvantage, positive and negative impact / pressure on / beneficial / non-beneficial.

N.B. it is **not** expected that candidates will include all of the above points in their answer.

A balanced response is one that covers at least **two** of the PEST factors as well as **two** opportunities and **two** threats.

N.B. Candidates can create a balanced response by using different factors / forces, one as an opportunity and the other as a threat. In other words do not expect a coverage of opportunity and a threat for each factor(s)/force(s).

For a list and/or a superficial description of up to 4 relevant external factors award up to **[2 marks]**.

For one relevant issue/factor that is one-sided, with no examination, award up to a maximum of **[3 marks]**.

For more than one relevant factor, even up to four, that are one-sided award up to **[4 marks]**.

For one relevant PEST factor that is balanced, with examination of an opportunity and a threat, award up to a maximum of **[4 marks]**.

For more than one relevant PEST factor that is one-sided, with no examination, award up to a maximum of **[4 marks]**.

Marks should be allocated according to the markbands on page 3.

2. (a) Describe *two* features of *SF* operating as a private limited company. [4 marks]

Two features of *SF* operating as a private limited company may include:

- The company is incorporated. There is a separate legal entity between the shareholders namely Ori and Dan and other members of the family and the company itself.
- The shareholders have limited liability. Dan, Ori and the remaining shareholders can only lose up to what they invested in *SF*. Their private assets will not be affected in the event of any financial problems.
- The current owners, Dan and Ori cannot sell shares publically on the stock exchange in order to raise more money to solve the current cash-flow problem. Shares can only be sold privately with the agreement of the other shareholders of 25%. This is usually to people known to the current shareholders.
- *Accept any other relevant feature.*

Mark as 2+2.

Award [**1 mark**] for identifying each appropriate feature and [**1 mark**] for an appropriate description (application **not** required), up to a maximum of [**2 marks**].

- (b) Explain *two* advantages and *one* disadvantage for *SF* of operating “The Single” and “The Quad” as separate profit centres. [6 marks]

The possible advantages for *SF* are:

By not managing *SF* as single entity, possible diseconomies of scale can be avoided. Dan and Ori might find it increasingly difficult to control every aspect of the organization if *SF* grows. The decentralization of power through delegation of power and authority from each brother to employees in each profit centre can improve the speed and the quality of decision making, as well as the motivation of employees. Dan and Ori will be able to monitor performance more accurately, including variance analysis of each centre. Different strategies can be devised and implemented for each. Healthy competition between each profit centre in the production of each model can also improve quality and efficiency.

*Accept any other relevant benefit for *SF*.*

The possible disadvantages for *SF* are:

Unhealthy competition between the workers of “The Single” and “The Quad” may reduce morale. The focus of the employees in the different profit centres may become too narrow and the overall aims / objective and strategy of *SF* may be lost / ignored. Some decision taken by the employees in one centre / one type of boat may not be in the best interest of *SF*. Some duplication of resources may occur, such as design, marketing and so on. Resulting in possible loss of opportunities of economies of scale. The employees might concentrate on profit rather than the quality of the boats. *SF* can lose its competitive advantage / brand image if any of the models are not built to the expected high standard.

It might be difficult to allocate the fixed costs of *SF* accurately; hence costs might be allocated in an arbitrary way which may impact negatively, or positively, on the assessment of the performance of each profit centre.

*Accept other relevant disadvantage for *SF*.*

Mark as 4 + 2.

Award [1 mark] for identifying **each** appropriate advantage for *SF* of operating each model as a separate profit centre up to a maximum of [2 marks] and [1 mark] for an appropriate explanation of **each** advantage with relevant application to *SF* up to a maximum of [2 marks].

[4 marks] in total for **two** advantages.

Award [1 mark] for identifying **one** appropriate disadvantage for *SF* of operating each model as a profit centre and award an additional [1 mark] for an appropriate explanation of the disadvantage with relevant application to *SF* up to a maximum of [2 marks].

(c) Calculate for *SF* (show all your working):

(i) the current capacity utilization in 2014.

[2 marks]

The current capacity utilization:

$$\frac{10}{20} \times 100 = 50\%$$

Award [2 marks] for a correct answer in percentage with working.

Award [1 mark] for a correct answer in percentage without working.

Award [0 marks] if only the figure 50 is given without percentage, or working.

(ii) the break-even quantity for “The Single” if the subcontracting option (Option 2) is chosen.

[2 marks]

The break-even quantity for “The Single” if the subcontracting option is chosen:

$$\text{New fixed cost} = \$50\,000 - \$14\,000 = \$36\,000$$

$$\text{Contribution per boat} = \$15\,000 - \$12\,000 = \$3\,000$$

$$\frac{\$36\,000}{\$3\,000} = 12 \text{ boats}$$

Break-even quantity = 12 “The Single” boats.

Award [2 marks] for a correct answer with working.

Award [1 mark] for a correct answer without working.

Award [1 mark] if either the new fixed cost or the contribution is correct — implied knowledge.

- (iii) whether the production of “The Quad” should be subcontracted overseas, assuming that the sales of “The Single” stay the same as in 2014. [5 marks]

All figures in US\$.

Current profit without subcontracting the production of “The Quad”:

Total revenue = $(15\,000 \times 6) + (25\,000 \times 4) = 190\,000$

Total cost = $50\,000 + (6 \times 12\,000 + 4 \times 18\,000) = 194\,000$

A loss of $-4\,000$

Profit if the production of “The Quad” is subcontracted:

SF still to produce “The Single”:

Total revenue = $6 \times 15\,000 = 90\,000$ (assuming the same production level)

Total cost = $36\,000 + (12\,000 \times 6) = 108\,000$

A loss of $-18\,000$

“The Quad” produced at new location:

20% sales price reduction = 5000

The new price is 20 000

Total revenue = $20\,000 \times 8 = 160\,000$

Total cost = $0 + (8 \times 14\,000) = 112\,000$

A profit of 48 000

Overall profit for SF = $-18\,000 + 48\,000 = 30\,000$

Which is 34 000 better than not subcontracting “The Quad”.

Accept any other logical method of working.

Award [0 mark] if the response just say that SF should subcontract without any evidence.

Award [1 mark] if only the **final answer/figure** regarding profit is presented and the answer is correct.

Award [1 to 2 marks] for some relevant calculations which may include three or more mistakes. The calculations may be unclear.

Award [3 to 4 marks] for mostly correct calculations and clear presentation of the profit before and after subcontracting “The Quad”. Allow for two mistakes for [3 marks] and one mistake for [4 marks].

Award a maximum of [3 marks] for an incomplete response that either incorporates the profit before or after subcontracting “The Quad”. The calculations for one option is shown and correct.

Award [5 marks] for correct calculations of the profit before and after subcontracting “The Quad”. All of the relevant figures are incorporated and the calculations / working are shown and are clearly presented.

- (d) **Analyse the suggestion that *SF* should change from job production to flow production (Option 1).** [6 marks]

It is expected that the candidates provide a short description, or explanation of the change / the main differences between the production methods.

The possible benefits to *SF* if it changes the production method from job to flow might be:

Lower production costs due to an increase in scale of production / economies of scales, less-skilled employees – especially in the medium to long run will also alleviate the cash-flow problems.

If sophisticated automated machines are bought, some mass customization may be possible, hence, *SF* will still be able to be somewhat flexible and customer focused.

The lower cost per unit due to large scale production will enable *SF* to reduce the price per boat and hence to compete with the mass producers of rowing boats.

Accept any other relevant, applicable issue.

However,

Changing to flow production method will significantly reduce *SF*'s ability to offer custom-made rowing boats and remain a market-orientated organization as in the case when a job production method is being used. *SF*'s USP is likely to disappear as the quality is likely to be reduced. A quick production method will not create a USP as the customers are willing to wait.

SF will not be able to use a price skimming strategy for its new rowing boats. The motivation of the highly-skilled employees is likely to fall given the new production method. With automated machinery, they will not be able to use their specialized skills.

Ori, the Finance Director, is worried about the initial cost of buying the new technology resulting from the move to job production. More borrowing might increase *SF*'s cash-flow problems.

Accept any other relevant, applicable issue.

To achieve the top markband candidates must give a balanced analysis of **two** relevant positives and **two** relevant negatives of the impacts of changing the production method.

To achieve full marks, [6 marks], candidates must give a balanced analysis of **two** relevant positives and **two** relevant negatives of the impacts of changing the production method with explicit description, albeit short one of the nature / characteristics of the two methods.

For one relevant impact that is one-sided, with no analysis award up to a maximum of [3 marks]. For two relevant impacts that are one-sided, with no analysis award up to a maximum of [4 marks].

For one relevant impact for and one relevant impact against award up to a maximum of [4 marks].

Marks should be allocated according to the markbands on page 3.

SECTION B

3. (a) Describe *one* feature of:

(i) job enlargement.

[2 marks]

One feature of job enlargement is when a business increases the number of tasks/roles to be carried out by an individual along the **same level** of hierarchy/difficulties/parallel tasks/roles without changing the challenge. Job enlargement occurs horizontally in an organization increasing the range but not the depth of tasks. Job enlargement is a non-financial motivator.

Accept any other relevant description.

Candidates do not have to implicitly refer to **horizontal loading**, but to show some understanding that the job is to be carried out at the same level/roles/responsibility.

N.B. specific application is not expected.

Credit relevant / applicable examples for **[1 mark]**.

Award **[1 mark]** for the relevant feature identified and **[1 mark]** for the description of that feature. Award up to a maximum of **[2 marks]**.

(ii) international quality standards.

[2 marks]

One feature of international quality standards is that it is an **international benchmark**, or an agreed predetermined level of quality which a good or service must meet, in order for this good or service to be awarded an accepted standard which is recognized by many countries throughout the world.

Accept any other relevant description.

Award **[1 mark]** for the relevant feature identified and **[1 mark]** for the description of that feature with reference to a **wider than own country** recognition. Award up to a maximum of **[2 marks]**.

N.B. just repeating the word international is not sufficient for **[2 marks]**.

N.B. credit an example, only if it is described; otherwise award **[0 marks]**. A repetition of the term / word such as ISO cannot be accepted as an example.

- (b) **Explain how each of the three issues identified, could have impacted on C4U's revenue leading to its first loss in 11 years.** [6 marks]

The first issue might have irritated and frustrated customers who through word-of-mouth promotion and social media raised complaints, leading to a loss of goodwill. The delays and cancellation were perceived as poor customer service, it resulted in a fall in demand of existing customers as well as lower demand from new customers and hence revenue – informed through social media of the unreliability on the part of C4U.

The second issue is an ethical one. If the advertising is misleading and flight prices for return fares are deemed unfair, existing and new customers would have possibly transferred to competitors, leading to a fall in demand for C4U services and thus lower revenue for its flight services.

The third issue is the increase choice availability of substitutes / bargaining power of consumers. A larger number of competitors with higher efficiency levels are likely to result in customers being taken away from C4U, hence a fall in total revenue and profit.

Mark as 2+2+2 for each issue.

Award [1 mark] for application to C4U, award an additional [1 mark] for a developed explanation of how the **fall in** revenue / demand / sales could have occurred up to a maximum of [2 marks] per issue.

N.B. given the fact that this question is very easy, it is very important that the candidate actually explains how / why the total revenue falls / fall in demand / sales. It is also expected that for full marks, the candidates go beyond just copying the information from the stimulus.

Do **not** credit explanation of “increase in cost”.

- (c) **Analyse two appropriate sources of finance that C4U could use to purchase the new aircrafts for the new Q4U service.** [6 marks]

As C4U is a plc, an obvious source of finance for the new aircrafts would be to issue new shares to existing shareholders and/or to the public. The existing shareholders would be confident in buying these shares given that C4U is attempting to reverse the first loss in 11 years by introducing this new Q4U service. Other investors might be interested in buying shares in an organization that was profitable for many years apart from the last one. The gearing ratio will also improve, as extra shares reduce the relative percentage of current loans.

However, C4U will have to spend funds preparing for organizing and raising the awareness of the share issue and it will take time to receive the fresh capital. Of course, the other problem is that the share issue may not be fully taken up, *ie* successful, given the emerging financial difficulties (first loss) and the industrial unrest, and there will not be funds for the new aircrafts. This “embarrassment” may also jeopardize future share issues and create a further loss of goodwill in the eyes of the share markets.

A second source of finance, given the risk involved, is to lease the new aircrafts. By leasing, *C4U* is not committing significant funds (at a time of a rising gearing ratio) and periodically will be able to take advantage of any new technological developments, which may arise in the airline industry as newly leased aircrafts will be updated by the manufacturer. Leasing will also give *Q4U* more flexibility regarding the number of aircrafts to be used given the future demand.

However, working capital remains limited and the leasing costs will lead to an additional outflow expense from the profit and loss account. If the launch of *Q4U* does not go well then sales revenues may not rise enough to pay for the leasing costs of the new aircrafts. *C4U*'s losses will be sustained and could worsen.

Given the increasing gearing ratio, it is not expected that *C4U* will take on any additional loan finance to finance the purchase of the new aircrafts. However, if the candidates use this option, they must provide a counter argument why this option is not really viable for *Q4U*.

Accept the option of selling fixed assets like current aircrafts as long as the candidate provides a counter argument for this option as the capacity to keep operating the low cost service will be seriously affected.

Accept government grants as long as the rationale as to why the government might give grants to a public limited company / private ownership organization is well explained.

Accept any other relevant analysis.

For one appropriate source of finance that is one-sided, with no analysis, award up to a maximum of **[3 marks]**. For one relevant issue that is balanced, with analysis, award up to a maximum of **[4 marks]**. For more than one relevant issue that is one-sided, with no analysis award up to a maximum of **[4 marks]**.

Please do not accept additional loan financing as an answer unless there is a clear balanced analysis given the rising gearing ratio.

Marks should be allocated according to the markbands on page 3.

- (d) **Evaluate the two new methods of training and examination that *C4U* are considering to prepare flight staff for the new *Q4U* service.** [9 marks]

The two new methods of training are **off-the-job** training by the hotel with experience of offering high quality service and more self study with staff expected to reach international quality standards by studying for and sitting an examination in their own time.

C4U lacks experience in the high income “luxury market”. The training by the hotel, although not exactly in the same industry, the vital issue of customer service can be easily transferred. For example, the people and the process mix of the service industry will be enhanced and will provide *C4U* with up to date successful training methods in a market which tries to provide a high quality customer service.

As *C4U* relies on non-financial motivation for its staff through job enlargement, this training will increase the skill set of flight staff (leading to perhaps greater job enrichment as well) and further non-financial motivation. Productivity at *C4U* may increase. The training will hopefully lead to improved customer service, lifting the reputation of *C4U* as an airline and quantity demanded of all flights may increase.

Moreover, compared with the second option, staff will have to be released from their daily task to be trained externally in the hotel. Not during their own free time hence the training will be less stressful.

However, the cost of this training will need to be borne by *C4U* and the working capital is limited. *Q4U* may have to borrow/raise finance to finance its human assets as well as its fixed assets. One may argue that given the new type of business, and the market positioning as well as the nature of the industry/service, it is worth investing in the quality of the staff even by borrowing.

Still the training is to be conducted in a different industry. How relevant will it be? There will also be some disruption to workforce productivity given that the training is off-the-job and away from *C4U*'s headquarters, *C4U* is already experiencing staff shortages.

Moreover, the organization culture of this particular hotel may not fit the organizational culture of *Q4U*.

The introduction of exam training to allow flight staff to become internationally recognized in customer service will be a powerful motivator for those staff who study and pass in their own time. It is likely that the staff will appreciate the advantages of being internationally recognized in terms of their qualification and the great opportunity of international mobility, or even just job mobility in the industry. Wages for qualified staff may rise in order to encourage success (although this is a form of financial motivation), *C4U* has staff shortages and the creation of a new flight service, *Q4U* and international accreditation may help to reduce current recruitment issues.

However, the process of studying while working can be extremely stressful as the workload is too great. The current staff are complaining that they are already overworked and are threatening to take industrial action. *C4U* cannot afford this conflict and the inevitable poor publicity that industrial action brings. Revenue could fall further. The situation is made worse by new competitors whom it is assumed would gladly take over *C4U*'s market share for both flight services in the event of a work-to-rule or industrial stoppage such as strike action. These customers may not return to *C4U* at all.

It will be difficult to monitor the learning process throughout, but passing the examination will ensure the management at *C4U* that internationally accepted standards have been reached. The same cannot be said of off-the-job training by the hotel. No objective criteria is currently available to assess the quality of the training and the employees' achievement.

Accept any other relevant and applicable arguments for, or against, the two options.

Given the two difficult human resource situations, it is likely that *C4U* will accept the off-the-job training from the hotel rather than ask all overworked flight staff to study for and pass an additional examination. The off-the-job training by the hotel will lead to improvements in *C4U*'s current customer service and if marketed accurately lead to increases in revenue given that *C4U*, although entering a new higher income market will wish to preserve their positioning as the lowest priced airline. *C4U* given its first loss in 11 years and growing competition, cannot afford a prolonged bout of further human resource conflict and the examination will only breed more discontent especially among staff who seem to be struggling with a work-life balance and job enlargement.

Accept any other relevant and substantiated conclusions.

It is not expected that the candidates contrast "off-the-job" and "on-the-job" training.

N.B. accept the classification of the second training option as either off or on the job or no classification at all, as long as the answer is applicable and relevant and not merely theoretical. There is enough information in the stimulus to evaluate the two options without using the classification of the training as a base for the evaluation.

N.B. it is not expected that all of the above issues are incorporated.

It is not expected that the candidates evaluate or even refer to different types of examination, but look at the second option as "one package". For example, study in their own free time in order to take the required exam.

For one relevant issue that is one-sided, award up to **[3 marks]**. If the response is a one-sided relevant approach with no analysis award a maximum of **[4 marks]**.

Award a maximum of **[5 marks]** 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.

For a fully balanced answer candidates are expected to provide 2 + 2 arguments for and against for both the possibility of off-the-job training and the preparation for the examination in order to reach the top markband.

Candidates cannot reach the **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

Marks should be allocated according to the markbands on page 4.

4. (a) Define the term *organizational culture*. [2 marks]

Organizational culture is defined as the values, beliefs and norms which exist in a workplace underpinning working relationships, ways of communicating, reward systems, workforce planning, *etc* between both internal and external stakeholders.

Candidates are **not** expected to word their definition **exactly** as above.

Award [1 mark] for a definition like “the way we do things around here”.

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.

N.B. do not credit as an example, or a definition, candidates that just copy the sentence from the stimulus describing *CB*’s culture.

(b) Identify *two* key features of intuitive decision-making. [2 marks]

Key features of intuitive decision making could include the following:

- relies on the “gut feeling” or natural instinct of the leadership team when making decisions
- relies on experience of previous decisions which have been made and reflects on how the decision making could be improved
- contradicts scientific decision-making which relies more on numerical, or statistical, data, or the analysis of past data trends
- *accept any other relevant feature.*

Award [1 mark] for each correct feature of intuitive decision-making identified, up to a maximum of [2 marks].

- (c) **Explain *two* benefits and *one* cost to *CB* of using an employee share-ownership scheme.** **[6 marks]**

A share-ownership scheme at *CB* is likely to be seen as a financial incentive as well as gratitude and trust of employees from management. Better performance of *CB* employees will likely to result in more profit and hence more dividends, as well as potential for capital gain if the price of shares increases due to a sound organizational performance. Hence, a clear stake for the employees in the company, creates greater likelihood for the employees to be motivated, creative, fit the organizational culture, and contribute to a better performance of *CB*. There is evidence in the stimulus that the employees are creative, loyal and as a result, *CB* has been awarded a substantial contract.

An employee share-ownership scheme will enhance the current culture and complements the democratic leadership style of Jennifer. The financial and other rewards from share ownership create the much needed self-motivated and creative employees.

There is evidence in the stimulus that this is indeed the case at *CB* with three of Jennifer's college friends still at the company. Higher staff retention / low staff turnover reduce costs of recruitment for *CB*, enhances its reputation, which will further reduce the costs of future recruitment due to its reputation.

Profit sharing via share ownership might be also perceived as fair by employees further increasing motivation. If profit is not made, *CB*'s management may not be obliged to provide extra financial incentive. Such a decision is unlikely to create resentment among the employees.

Accept any other relevant and applicable argument.

However,

Jennifer wants *CB* to grow and expand even internationally. The possible cost to *CB* is that as the company grows and more employees are added, each individual share-ownership reward is potentially diluted. This situation may cause some resentment between current employees. The former may feel that it is unfair that the latter may receive the same share-ownership reward.

More shareholders will prolong the strategic decision-making process and with more people some disagreements are likely to emerge, which may reduce the current flexibility and responsiveness of the creative teams.

If the share-ownership scheme is related to *CB*'s share price and this falls, then morale within *CB* could decrease. Employees' motivation may be negatively affected.

Accept any other relevant and applicable issue.

Application should extend beyond just stating the issue to be credited.

Mark as 4+2.

Award *[1 mark]* for identifying **each** appropriate benefit for *CB* of using an employee share-ownership scheme up to a maximum of *[2 marks]* and *[1 mark]* for an appropriate explanation of **each** benefit with relevant application to *CB* up to a maximum of *[2 marks]*.

[4 marks] in total for **two** benefits.

Award *[1 mark]* for identifying **one** appropriate cost for *CB* of using an employee share-ownership scheme and award an additional *[1 mark]* for an appropriate explanation of the cost with relevant application to *CB* up to a maximum of *[2 marks]*.

(d) Analyse the effectiveness of using flexible project teams for *CB*.

[6 marks]

The structure of *CB* is essentially the matrix structure. Using flexible project teams implies temporary use of different project groups that incorporates the most suitable employees for particular projects. A project team is an example of a flexible structure that fits the creative, technological and task-orientated culture of *CB*. There is clear evidence in the stimulus that the project teams have clearly worked well.

CB has produced many innovative television commercials and is a sustainable business employing 24 people. Project teams would be conducive to the democratic leadership style employed by Jennifer and would allow greater generation of new and creative ideas. An effective strategic fit was created between culture, leadership style and structure at *CB*.

On an individual level, the matrix structure also benefits the employees through more freedom to use ones own skills and talents. The rotation of team leadership provides employees with opportunity to acquire new skills. This structure creates job enlargement and enrichment. For certain types of employees it is highly rewarding and motivating.

There is plenty of evidence in the stimulus that so far the matrix structure was highly successful.

Accept any other relevant and applied argument in favour of flexible / project team structure.

However, project teams may suffer from “paralysis by analysis” if the democratic process becomes too long as the team tries to include all voices and ideas of highly qualified and experienced employees in the decision-making process. Each project team will require fresh leadership. There is no evidence in the stimulus that such negative consequences occurred so far, but as *CB* is facing strategic options to agree upon, the above issues might materialize especially in the long run when *CB* keeps on growing.

Moreover, the project team's leadership objectives may be based more on short termism and might conflict with *CB*'s overall strategic objectives. Resources will also need to be allocated to ensure the smooth running and cooperation of all the team members and this could lead to an increase in administration costs. Potential managerial economies of scale could be lost, as project teams are dissolved after the problem-solving exercise has taken place and new teams are created to solve future problems.

While this type of structure was very suitable for *CB* as a small organization, the structure may bring about new challenges in terms of coordination and control especially if integration with overseas employees will occur – cultural and linguistic problems may be created which will reduce the efficiency of *CB*.

Accept any other relevant and applied argument against flexible / project team structure.

For one relevant issue that is one-sided, with no analysis award up to a maximum of **[3 marks]**. For more than one relevant issue that is one-sided, with no analysis award up to a maximum of **[4 marks]**.

For a fully balanced answer, candidates are expected to provide 2 + 2 arguments for and against.

If the candidate does not make a reference to the temporary / flexible / rotating nature of the group, but only refers to the advantages and the disadvantages of working in groups/teams award up to a maximum of **[4 marks]**.

Marks should be allocated according to the markbands on page 3.

(e) **Recommend which of the *two* strategic options *CB* should pursue.** [9 marks]

The **internal growth** by producing the TV commercial presents a very important strategic move for *CB*. Growing internally may seem like the easier option given the current success resulting from a strategic fit between the culture and the democratic leadership style of Jennifer.

By choosing the first option, *CB* capitalizes on their strengths and possibly their unique selling point to take advantage of some opportunities. The effective / important culture, structure and the leadership will be maintained.

The above can be judged as very significant arguments for this option as due to their creativity, employees' motivation, and flexibility, *CB* was given the contract.

However, it represents a significant short-term financial risk given the need to solely finance the TV commercial and the current short-term working capital issues. Many organizations go into liquidation due to short-term liquidity problems and Jennifer has to be very careful that she finds ways of raising short-term finance.

Perhaps internal growth limits the long-term potential for growth for *CB*.

Moreover, South Korea is an unknown market with *CB* having to employ additional staff of whom they may not know. In addition, they will need inducting into *CB*'s organizational culture. There will be a period of transition required – true in fact if either option is chosen. This argument may be judged as less significant compared to the issues above, as the above issue is really just applicable for both options, but less for option 1.

N.B. accept any relevant, applicable argument for option 1.

The **joint venture** allows *CB* to share the risk and cost. *CB* will be able to gain local knowledge to produce an innovative commercial. Sharing costs and risk can reduce, or even eliminate the current worries about the working capital of *CB*. A significant short-term argument in favour of the joint venture option.

However, the scale of operation for *CB* will increase dramatically and Jennifer may have to modify her democratic leadership style as inevitably spans of control will widen. The current very effective structure of flexible project teams might be stopped, or Korean employees will have to participate as well. Large size and possible cross-cultural issues may negatively affect *CB*'s USP / creativity. The relocation of one of her teams may impact on some of the long standing relationships Jennifer has created. The current low staff turnover at *CB* and relocating trusted and valued colleagues may create some short-term tensions.

However, a success in South Korea can open many a new opportunity for *CB*. If the option is successful, Jennifer can look for other joint venture opportunities in different countries. Opportunities that Jennifer may desire.

Conclusion/judgment

The decision will depend on the degree to which Jennifer wishes to change her business to take up this new opportunity. Assuming that revenues from the TV commercial will be the same if either *CB* grows internally or externally, the deciding factor may be initial costs, Jennifer's concern about using up all her working capital and the degree to which *CB*'s culture will change if she works alongside a new partner. If these restrainers can be minimized, *CB* should look to the joint venture as the financial opportunities from creating this TV commercial in a new market are considerable.

It is expected that one option is recommended and that candidates produce a substantiated recommendation / judgment.

Accept any other relevant issues with a substantiated recommendation / judgment.

For one relevant issue that is one-sided, award up to **[3 marks]**. If the response is a one-sided relevant approach with no discussion award a maximum of **[4 marks]**.

For a fully balanced answer, candidates are expected to provide 2 + 2 arguments.

Award a maximum of **[5 marks]** 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 **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

Marks should be allocated according to the markbands on page 4.

5. (a) (i) **Identify *one* possible variable cost of production, *other than wages*, that a manufacturing company may face.** [1 mark]

Examples of variable costs include:

- raw materials
- utilities
- overtime payments
- *accept any other relevant variable cost.*

Award [1 mark] for the relevant cost identified. Candidates are not expected to provide a definition or directly apply.

- (ii) **Identify *one* possible fixed cost of production that a manufacturing company may face.** [1 mark]

Examples of fixed costs include:

- rent/leasing costs
- salaries
- fixed-price contracted services (for maintenance, or cleaning, *etc*)
- *accept any other relevant fixed cost.*

Award [1 mark] for the relevant cost identified. Candidates are not expected to provide a definition or directly apply.

- (iii) **Define the term *offshoring*.** [2 marks]

Offshoring is the relocation by a company of a business process from one country to another – typically an operational process, such as manufacturing, or supporting processes, such as accounting.

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.

N.B. do not credit candidates that give the definition of subcontracting/outsourcing only.

N.B. accept a reference to the possibility of outsourcing as well as offshoring together for [1 mark].

- (b) **The *Boston Consulting Group* analyst used the same technique as sales forecasting to predict changes in wages. Explain one advantage and one disadvantage of using this technique.** [6 marks]

By using the same technique as the *Boston Consulting Group* analyst used — **time-series analysis and moving averages** for forecasting future wages.

One possible advantage is that such a technique will enable the identification of a trend and will provide a basic and initial extrapolation / prediction / indication of future costs of production and hence provide a good basis for managers of these companies in terms of planning or budgeting.

The forecasting is based on past-known data and hence provides the initial step for forecasting. Moreover, the forecast was done for a rather short period into the future (2015) (yearly) and hence a forecast for a short period is likely to be more accurate.

However,

The assumption of this technique is that what happened in the past is likely to continue. When identifying a trend it can be seen as unrealistic and possibly misleading. It is stated in the stimulus that wages of factory workers in China rose by 69% which is a considerably higher figure than the likely moving average and the forecasted figure based on moving averages.

The forecasting might have also been made based on unreliable information and data, as the examples are given by government sources in these emerging economies.

The unstable external environment with some examples in **the stimulus** may also considerably reduce the accuracy of the forecasting.

Accept any other relevant advantage and disadvantage.

Mark as 3 + 3.

N.B. accept responses that generally refer to sales forecasting as a technique / planning tool rather than the specific technique of using **time-series analysis and moving averages**.

Award [1 mark] for identifying an appropriate advantage / disadvantage, [1 mark] for an appropriate explanation and [1 mark] for a further development of this explanation with reference to any relevant decision maker, and/or to the issue of changes in the wages in China, and/or any other relevant application. Award a maximum of [3 marks].

N.B. accept any relevant application from the stimulus – not necessarily just wages (especially for the disadvantages).

Award up to a maximum of [2 marks] for each disadvantage or advantage if no relevant reference is made to the stimulus material.

- (c) **Examine the possible impacts on China of the US multinational companies offshoring manufacturing to China.** [6 marks]

Although the question may seem rather theoretical, it is expected that candidates make some reference to some specific effects of a **manufacturing company**.

Some of the positive impacts may include the following:

- A manufacturing company big enough to locate around the world / possibly an MNC, is likely to provide a significant number of jobs / employment and possibly training in its plants. The quality of the labour force can increase.
- Local customers do not have to rely only on local providers. Hence more choice is provided for the citizens / better standards of living.
- Global competition in the Chinese market can lead to improvement in efficiency, quality and a reduction in price of these manufactured products. Transfer of technical knowledge/know-how can also be seen as a positive impact on economies like China.
- A manufacturing MNC is likely to source local raw material and local labour – more revenue in terms of expenditure and wages is injected into the economy. Wider economic benefits can be gained in countries like China (the multiplier effect).
- A manufacturing MNC is likely to provide further employment to some supporting industries such as distribution, packaging and other industries in the supply chain as stated in the stimulus.
- These manufacturing companies are likely to be profitable and are taxed by the host governments. Revenue is generated for host governments providing further positive consequences for the host economies.
- *Accept any other relevant positive impact.*

However,

- Offshoring in emerging / developing economies like China, may destroy local competitors as they cannot compete in terms of size, resources, economies of scale / efficiency and so on.
- A well-established American MNC can actually monopolize a market rather than encourage healthy competition and choice.
- A manufacturing MNC is likely to deplete the national resources such as raw materials.
- A manufacturing MNC may ignore environmental and ethical concerns.
- A manufacturing MNC might also create an external diseconomy of scale – the location may become congested. It is possible that the wage increase in China is the result of high demand for labour.
- Due to some practices of transfer pricing and/or local government support, not much taxes on profit are paid to the host government.
- *Accept any other relevant negative impact.*

Accept any other relevant examination.

To achieve the top markband candidates must give a balanced analysis of **two** relevant positives and **two** relevant negatives of the impacts of manufacturing in the host country.

For one relevant impact that is one-sided, with no analysis award up to a maximum of **[3 marks]**. For two relevant impacts that are one-sided, with no analysis award up to a maximum of **[4 marks]**.

For a fully balanced answer, candidates are expected to provide 2 + 2 arguments for and against.

For one relevant impact for and one relevant impact against award up to a maximum of **[4 marks]**.

N.B. if the response is based on the benefits to a MNC, award up to **[2 marks]**.

Marks should be allocated according to the markbands on page 3.

- (d) **Discuss the suggestion that US multinational companies are likely to increase the scale of manufacturing at home.** **[9 marks]**

Some of the arguments for the above may include the following:

The labour cost of offshoring is likely to increase even more as the countries become more developed. The cost advantage will be further eroded or disappear. If the main market is indeed the US, American MNCs/companies, they will benefit from being close to their customers and address their needs. Not only will the flexibility of the American MNCs/companies increase in terms of being more customers' focus and responding to their customers' needs quickly and more accurately, savings can be made on transportation of the goods back to their US customers.

If the main suppliers are in the US, or relatively close by, the supply chain will be more reliable and efficient. It is stated in the stimulus that the cost of labour is increasingly less significant and other issues like the supply chain and other relevant external factors are becoming more significant for strategic decision making. It is stated that many American companies had issues with less than effective supply chains and with some significant threats in the external environment like oil prices, natural disasters and so on. If serving American customers **is their focus** and the stimulus indicates that for some it is, it is likely that many American companies will return to manufacture their products at home.

The stimulus has provided evidence that some well-known manufacturing MNCs, have already made the decision to stay at home and invest in a manufacturing facility in the US.

On a more theoretical note, being located in the US will reduce the possibility of cultural clashes and language barriers and also the possible loss of management control. Coordination and communication between the American head office and the other plants are likely to improve.

Given the fact that some companies are returning and some made a decision not to leave the US the scale of manufacturing in the US will increase.

Accept any other relevant argument for.

However,

The prediction of the growth in the wage rate may not be accurate especially given the technique used.

Staying or returning home is more appropriate, as stated in the stimulus, for MNCs that essentially serve the local market, however, many MNCs serve the global market. Perhaps this argument can be judged as a significant one.

The fast growing demand in developing countries, may intensify the need to be located close to the new / emerging markets. The labour cost is indeed not the main issue, but being close to customers is a highly significant argument against the notion of coming home. MNCs could be able to assess the customers' needs more closely and serve the market better. The number of American customers is likely to be of less significance for these companies in the near future. The current financial incentive given to the US MNCs is likely to stop as stated by Mr Pisano. A lack of government support might hinder a future returning home and may be a driving force for seeking cheaper locations with other advantages apart from labour costs. MNCs may be given some financial incentive from emerging economies. Transport costs may also be reduced.

The US may lack the infrastructure, or as stated in the stimulus, the supply chain for other production apart from basic manufacturing.

One of the most significant argument against this notion is that the *Boston Consulting Group's* comments/predictions are most relevant to the manufacturing industry and when the main market is the US / American customers.

As stated in the stimulus, in India, despite rising wages, its innovative software development and call centre offshoring industries are likely to retain its cost advantages because of increasing productivity – MNCs may be looking for **innovation and flexibility**, not just cost savings. Moreover, despite a rising wage rate, the workers abroad can still be more productive, hence overall cost of production will fall due to efficiency and productivity.

Overall judgment/conclusion it appears that even the analyst (Mr Pisano) who highlighted the new trend of staying, or returning to the US, is aware that the examples are not sufficient to draw a full conclusion and that there might be other more significant reasons why many MNCs especially the American ones will continue to offshore, especially if their main competitors do and the new markets are to be found in emerging economies. We are quite likely to see the movement of many MNCs including American ones throughout the world as there will be more emerging countries rather than China. For example, India where different and more sophisticated skills are required.

N.B. it is not expected that the judgment is the same as the above. It is essential however, that the candidate provides a substantiated judgment. Not just repetition of previous arguments.

Accept any other relevant judgment/conclusions.

For one relevant issue that is one-sided, award up to **[3 marks]**. If the response is a one-sided relevant approach with no discussion award a maximum of **[4 marks]**.

For a fully balanced answer, candidates are expected to provide 2 + 2 arguments for and against.

Award a maximum of **[5 marks]** 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 **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

Marks should be allocated according to the markbands on page 4.



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**BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 2**

Tuesday 21 May 2013 (morning)

2 hours 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer two questions.
- A calculator is required for this examination paper.
- Clean copies of the ***Business and Management*** formulae sheet and discount tables are required for this examination paper.
- The maximum mark for this examination paper is [75 marks].

SECTION A

Answer **one** question from this section.

1. Las Rosas (LR)

Las Rosas (LR) is a large commercial dairy farm owned and managed by the D'Aremberg family since 1986. It has 3800 cows. *LR* sells milk, cheese and yoghurts. In 1996, *LR* started to export some of its dairy products. Profits and cash flow have been improving year on year. *LR* has no outstanding loans and therefore its current gearing ratio is zero.

LR's unique selling proposition (USP) comes from the organic quality of its products as they are made without chemical additives. The cows' diet does not include hormones and other supplements. The farm's products also meet national and international quality standards.

LR's corporate culture encourages innovation and the use of cell production. To stay ahead of the competition *LR* has increased its spending on research and development (R&D) and workers are given the opportunity to create new products, or to add value to existing ones. *LR's* financial manager, however, believes that the R&D budget is too high and needs to be cut. He also argues that there are too many legal constraints limiting the development of new products.

LR's management is considering buying *El Remanzo*, a large sheep farm located nearby. This acquisition will cost \$24 million and *LR* will need to cut its R&D budget to zero and organize a new loan to finance the takeover. A significant restructuring would need to occur at both *LR* and *El Remanzo* to allow both companies to combine resources and knowledge. However, the potential economies of scale experienced by *LR* could be substantial.

Total capital employed at *LR* is \$45 million.

Year	Expected net cash flows (\$m)
1	2
2	5
3	9
4	12
5	17

[Source: © International Baccalaureate Organization 2013]

(This question continues on the following page)

(Question 1 continued)

- (a) Describe **two** benefits for *LR* of using cell production. [4 marks]
- (b) Explain **two** benefits for *LR* of meeting quality standards. [4 marks]
- (c) Calculate the following for *LR* (*show all your working*):
 - (i) the payback period. [2 marks]
 - (ii) the average rate of return (ARR). [2 marks]
 - (iii) the net present value (NPV) using a discount rate of 8%. [2 marks]
 - (iv) the gearing ratio if the acquisition of *El Remanzo* by *LR* is financed by a loan. [2 marks]
- (d) Comment on your results to parts (c)(iii) and (c)(iv). [3 marks]
- (e) Analyse **two** costs to *LR* resulting from the acquisition of *El Remanzo*. [6 marks]

2. Icarus

Icarus is an adventure tourism company. It has developed a family brand of innovative tourism products, such as the World's first underwater theme park. Its next objective is to build the first hotel in outer space by 2016. *Icarus* conducted market research using stratified samples of businessmen/businesswomen and families with incomes over \$10 000 000. Most said that they would pay the proposed price of \$140 000 per room per night. Although the hotel should create significant profits, *Icarus*' Board of Directors is concerned about both safety and financial risks.



[Source: <http://en.wikipedia.org/wiki/File:Aurora-SpaceShuttle-EO.jpg>]

Icarus has invested significant funds to develop safety procedures and to train the employees of the future hotel. *Icarus* wants to protect its brand image as the most trusted adventure tourism company in the world.

The hotel will have a capacity of 500 rooms. Originally (in 2012) *Icarus* forecasted the following (in \$):

- price per room per night (room rate): 140 000
- fixed costs: 10 000 000
- variable cost per room per night: 100 000.

Now (in 2013) the costs of construction, fuel and insurance have increased and affected the forecast. To ensure a 2016 opening, *Icarus* has identified a potential investor. The problem is that he expects a \$2 000 000 guaranteed (target) profit in the first year, but *Icarus* has promised not to increase its room prices. The following shows the revised forecasted figures (in \$):

- price per room per night (room rate): 140 000
- target profit required by investor: 2 000 000
- fixed costs: 12 000 000
- variable cost per room per night: 108 000.

The Board of Directors are concerned that:

- keeping room prices the same will reduce profits
- other adventure tourism companies are considering entering the outer space tourism market
- withdrawing from the project would damage *Icarus*' brand image and would cost millions of dollars.

- (a) Describe **two** advantages to *Icarus* of having a family brand. [4 marks]
- (b) Explain **one** advantage and **one** disadvantage to *Icarus* of using stratified samples in its market research. [4 marks]
- (c) (i) Using the **original** forecasted figures (in 2012), calculate *Icarus*' break-even point (*show all your working*). [2 marks]
- (ii) Using the **revised** forecasted figures (in 2013), calculate *Icarus*' break-even point (*show all your working*). [2 marks]
- (d) (i) Using the **revised** forecasted figures, construct a fully labelled break-even chart for 2013. [4 marks]
- (ii) Explain the limitations of the 2013 break-even chart from part (i) as a decision-making tool for *Icarus*. [3 marks]
- (e) Analyse *Icarus*' decision to open the first hotel in outer space. [6 marks]

SECTION B

Answer **two** questions from this section.

3. Construir

Construir is a large construction company that uses empowerment, job enrichment and teamwork to motivate its workers. Commitment to quality is strong, and productivity is high.

The company makes substantial investment in the training and professional development of its workers, who may receive both external and internal training:

- External training takes place at a local university. However, university training fees are rising.
- Internal training is led by managers within each department. However, some managers do not feel comfortable in this role.

Managers also conduct worker appraisals in order to monitor performance and reward success. However, some managers feel that it takes too long to appraise workers appropriately; they also say that for some workers the appraisal process can be very stressful.

The government is considering the construction of a bridge, which would take three years to complete. This would be through a public-private partnership with *Construir*. The government would pay half of the cost of construction and would give *Construir* the right to charge a fee to drivers who use the bridge. Building the bridge, however, would represent financial and operational risks for *Construir*.

The company will not be able to accept other construction projects in order to build the bridge. Moreover, a general election is due next year and the current government is unpopular and not expected to win. If a new government is elected, *Construir* believes that the project may be cancelled. Some local environmental pressure groups are currently campaigning against the bridge project, arguing that government funds should be spent on health and education.

(a) Define the following terms:

(i) *productivity* [2 marks]

(ii) *pressure groups*. [2 marks]

(b) Explain **two** non-financial rewards used at *Construir* to motivate workers. [6 marks]

(c) Analyse **two** benefits for *Construir* of a public-private partnership with the government. [6 marks]

(d) Evaluate *Construir's* training and appraisal methods. [9 marks]

4. Oktopus Air (OA)

Oktopus Air (OA) is an airline targeting both business and economy class passengers. Customers have praised *OA* for its ethical objectives, its commitment to below market prices for both market segments and its mission statement: “In the air, we care for everyone!”.

Employees have praised *OA*’s Chief Executive Officer (CEO), Eythor Karlsson, for his situational leadership style. *OA*’s flights are usually full and customer feedback is excellent.

Two social changes are affecting *OA*:

- Obesity is increasing. Very obese passengers are finding difficulty fitting into seats. On full flights, some passengers sitting next to a very obese passenger have complained about a lack of space. *OA* has decided to charge very obese passengers for two seats. A refund of one seat will be given if the flight is not full. Pressure groups representing very obese people have argued that *OA* is acting unethically. Eythor defended the decision, arguing that competitors were already carrying out the same practices. He added that very obese passengers can create safety problems during an emergency evacuation of the airplane.
- The second change is the increasing number of families with young children travelling in business class. Business passengers are complaining that young children are too noisy and are threatening to fly with competitor airlines. Eythor has suggested to *OA*’s Board of Directors that a market gap could be filled if *OA* offered a family-only service, once a day, with additional play areas for young children and hence fewer passenger seats. Eythor has indicated that *OA* will need to raise prices for this service, change its promotional method for this service and create a new marketing mix. Some consumer groups recognize the good intentions of a family-only service; however they fear it could actually increase the hostility towards families with young children on other flights that *OA* offers.

- (a) Describe **one** possible above the line and **one** possible below the line promotional method for *OA*. [4 marks]
- (b) Explain **three** stakeholder conflicts at *OA*. [6 marks]
- (c) Analyse how the **two** social changes could affect *OA*’s ability to fulfil its mission statement: “In the air, we care for everyone!”. [6 marks]
- (d) Discuss an appropriate marketing mix for *OA*’s proposed new “family-only service”. [9 marks]

5. Metro Town (MT)

Metro Town (MT) is a football (soccer) club that has exceeded all expectations by winning a national football cup competition. *MT* is managed by Dave Mater and the football team is captained by his son Wayne. *MT* had faced closure in 2012 due to cash-flow problems. However, the cup win has provided much needed revenue to pay players' wages and also profit to finance working capital. *MT's* stadium is old and needs repair. The club had faced bankruptcy because Dave had not followed budgets. For example, as part of its commitment to corporate social responsibility, *MT* spent too much on social marketing to encourage healthy eating and youth sport participation in the local area.

Dave had created an open informal organizational culture at *MT*. He had introduced a matrix structure with Wayne conducting most of the training sessions. Player turnover at the club was very low. However, a few high profile players, disliking Dave's management approach, have threatened to leave *MT*. However, the cup success and the possibility of a joint venture with another club has encouraged them to stay.

MT's cup success has attracted the interest of a larger club *Dynamo*. Last year *Dynamo* lost many games and as a result ticket sales fell. *Dynamo's* Chief Executive Officer (CEO), Gary Driver, has proposed to Dave a joint venture. *Dynamo* and *MT* would share a new stadium financed by *Dynamo*. It would provide both clubs with modern training facilities, which would help all players to become more skilled. Dave was interested and at a team meeting at his home he proposed the idea. However, he argued that the *Dynamo* culture, which is more centralized and autocratic, could lead to cultural clashes. Then unexpectedly, without consulting Dave, his son Wayne decided to sign a two-year contract to play (work) for *Dynamo's* football team.

- (a) (i) Define the term *social marketing*. [2 marks]
 - (ii) Identify **two** characteristics of a matrix structure. [2 marks]
 - (b) Explain the role that budgets could play in solving the cash-flow problems at *MT*. [6 marks]
 - (c) Using **two** appropriate motivation theories, analyse player motivation at *MT*. [6 marks]
 - (d) Advise Dave on the proposal for a joint venture with *Dynamo*. [9 marks]
-



MARKSCHEME

May 2013

BUSINESS AND MANAGEMENT

Higher Level

Paper 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
Q1 (e)	Q2 (e)	Q3 (c)	Q4 (c)	Q5 (c)	
Marks 0–6					
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.
5–6					<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 0–9			
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, concepts and theories.• 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.
5–7			<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.
8–9			<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* benefits for *LR* of using cell production. [4 marks]

Benefits of using cell production could include:

- Employees see the product and participate in the production process from beginning till the end thereby creating a sense of ownership, interest, creativity and motivation. That could allow *LR* to create new innovative farm/dairy products.
- Creates empowerment for *LR* workers, hence increasing motivation further in *LR*. Low staff turnover can decrease costs for *LR* hence more money will be available for the much needed fund for R&D in *LR*.
- Improved communication, avoiding confusion arising from misunderstood or non-received messages.
- Workers become multi-skilled and more adaptable to the future needs of *RL*.

Accept any other relevant benefit with a description.

*While the points above are rather generic, it is expected that candidates will make some reference to *LR*.*

Mark as 2+2.

Award [1 mark] for each relevant and correct benefit identified and [1 mark] for describing the benefit in context up to a maximum of [2 marks].

- (b) Explain *two* benefits for *LR* of meeting quality standards. [4 marks]

By meeting quality standards *LR* could benefit from:

- A wider acceptance of its products both nationally and possibly internationally. The compliance with quality standards shows that *LR* produces internationally recognized / approved quality products. Customers regards quality of food as important as damage can be done to the body. The farm will be able to enhance its export and compete in many more markets, increase customer retention and attract new customers through an international presence. *LR* can use this as a USP.
- Higher prices. *LR* will be able to enter into demanding markets that are ready to pay higher prices for quality products.
- Enhanced marketing. *LR* will be able to advertise its compliance with quality standards to create business opportunities and attract new customers.
- An improvement in employee motivation and morale. A successful implementation of quality standards at *LR* will probably entail the inclusion and involvement of workers into the process, which could lead in turn to an increase in motivation and commitment among employees.

Accept any other relevant benefit.

N.B. Given that the question does not ask for international standards, do not penalize candidates who do not refer to international issues.

Mark as 2+2.

Award **[1 mark]** for each relevant and correct benefit identified and **[1 mark]** for explaining the benefit in context up to a maximum of **[2 marks]**.

(c) **Calculate the following for LR (show all your working):**

(i) **the payback period.**

[2 marks]

Investment cost \$24m

$$2 + 5 + 9 + \left(\frac{8}{12} \right) \times 12 \text{ months}$$

Payback = 3 years and 8 months or 3.66 years

N.B. Do not penalize the absence of units (BOD).

Award **[1 mark]** for correct working and **[1 mark]** for the correct answer up to a maximum of **[2 marks]**.

(ii) **the average rate of return (ARR).**

[2 marks]

Total net profit over 5 years: $45 - 24 = \$21\text{m}$

Average annual profit: $\frac{21}{5} = \$4.2 \text{ m per year}$

Average rate of return: $\left(\frac{4.2}{24} \right) \times 100 = 17.5 \%$

N.B. Do not penalize the absence of % sign (BOD).

Award **[1 mark]** for correct working and **[1 mark]** for the correct answer up to a maximum of **[2 marks]**.

(iii) the net present value (NPV) using a discount value of 8%.

[2 marks]

Year 1	2×0.93	= \$1.86m
Year 2	5×0.86	= \$4.3m
Year 3	9×0.79	= \$7.11m
Year 4	12×0.73	= \$8.76m
Year 5	17×0.68	= \$11.56m

Total present value \$33.59m

NPV = TPV – initial costs

NPV = 33.59 – 24 = **\$9.59m**

Or

Using figures from discount table:

Year 1	2×0.9259	= 1.8518m
Year 2	5×0.8573	= 4.2865m
Year 3	9×0.7938	= 7.1442m
Year 4	12×0.7350	= 8.82m
Year 5	17×0.6806	= 11.5702m

Total present value = **\$33.67m** (to 2 d.p.)

NPV = 33.67 – 24 = **\$9.67m** (to 2 d.p.)

N.B. Do not penalize the absence of \$ sign (BOD).

Award [1 mark] for correct working and [1 mark] for the correct answer up to a maximum of [2 marks].

(iv) the gearing ratio if the acquisition of *El Remanzo* by *LR* is financed by a loan.

[2 marks]

$$\begin{aligned} \text{Gearing ratio} &= \left(\frac{\text{loan capital}}{\text{total capital employed}} \right) \times 100 \\ &= \left(\frac{24}{45} \right) \times 100 = 53.33 \% \end{aligned}$$

N.B. Do not penalize the absence of % sign (BOD). Candidates can give their response to 1 or 2 decimal places.

Award [1 mark] for correct working and [1 mark] for the correct answer up to a maximum of [2 marks].

(d) **Comment on your results to parts (c)(iii) and (c)(iv).**

[3 marks]

If *LR* acquires *El Remanzo*, the NPV over the five years would be of \$9.59m (or \$9.67m). This means that the acquisition of *El Remanzo* is a viable project and produces a positive return on the investment. On the other hand, the gearing ratio will increase to 53.33%. With a gearing ratio higher than 50%, *LR* will be highly geared as most of the capital will be borrowed. As the farm will have to pay interest on the loan, the acquisition will imply higher risks for *LR*.

Accept any other relevant comment.

Award **[1 mark]** for a relevant brief comment on **either** the NPV **or** on the gearing ratio.

Award **[2 marks]** for one relevant well-developed comment on **either** the NPV **or** on the gearing ratio.

Award a maximum of **[3 marks]** for a relevant comment on the NPV **and** on the gearing ratio.

If the candidate only repeats the figures award **[0 marks]**.

(e) Analyse *two* costs to *LR* resulting from the acquisition of *El Remanzo*. [6 marks]

The financial costs of the takeover will be \$24m. This financial cost will also lead to cuts of *LR*'s R&D budget to zero. Given that the company (*LR*) has a culture of innovation, *LR* may find that their current competitive advantage is eroded and that demotivation of workers occurs. If new markets are not developed, then redundancies may occur.

However, the benefits in terms of economies of scale are considerable and may allow *LK* to experience risk-bearing economies of scale – an essential ingredient for a company wishing to innovate. Other types of economies of scale may be experienced as well. The reduction in costs of production may enable *LR* to channel some funds for R&D and remain competitive.

Linked to the culture idea is that currently *LR* uses cell production. The acquisition of *El Remanzo* may lead to a company which is much larger and difficult to organize. Cells will need to be created from a much larger pool of workers and it may take time for *El Remanzo* to adjust to this new environment. There may be diseconomies of scale within the enlarged company.

However, a synergy may be created between the employees and the management of both organizations which could lead to efficient production and a supportive culture. More cells can be created to concentrate further on developing and producing new products.

Moreover, the much larger company may be able to lobby the government to overturn some of the legal constraints hampering innovation in the eyes of the Financial Manager. The new larger company will become a much larger presence in the market and will increase market share allowing the company to exercise much greater control over pricing.

Accept any other relevant analysis.

For one relevant cost that is one-sided, with no analysis, award **up to** a maximum of [3 marks]. For one relevant cost that is balanced, with analysis, award up to a maximum of [4 marks]. For two relevant costs that are one-sided, with no analysis award **up to** a maximum of [4 marks].

Marks should be allocated according to the markbands on page 3.

2. (a) Describe *two* advantages to *Icarus* of having a family brand. [4 marks]

Advantages of a family brand could include:

- It allows *Icarus* to offer new and or related products/services to customers under one family brand name, which is established and **positioned** in the minds of stakeholders, especially consumers, as innovative and most trusted. Thereby reducing promotional/advertising costs on creating brand awareness especially for such an innovative concept such as outer space hotel. Hence, it may allow *Icarus* to experience marketing economies of scale, as they need only to advertise the family brand, which is associated to their portfolio of products.
- Enable brand extension with low level of risk and costs and higher chance of success. *Icarus* might find it easier to attract investors for their new hotel venture to be built under the family brand.

Accept any other relevant advantage with a description.

For full marks candidates should describe the advantages of a **family** brand rather than just branding in general.

Mark as 2+2.

Award [1 mark] for each relevant and correct advantage of a family brand described and [1 mark] for application to *Icarus* (beyond the name) up to a maximum of [2 marks].

(b) Explain *one* advantage and *one* disadvantage to *Icarus* of using stratified samples in its market research. [4 marks]

The population is divided into segments that have some common characteristics; a number of respondents from each segment are chosen that is proportional to the population. The selection within the segment is done randomly.

Since *Icarus* caters to a niche segment, stratified sampling may reveal interesting and specific data which can then be used to focus and streamline marketing efforts.

As the sample is more representative, stratified sampling is likely to improve the accuracy of market research for potential guests interested in staying at the new outer space hotel given the very high cost.

Sampling (standard) errors are likely to be reduced. For *Icarus*, they will allow very accurate figures for forecasting potential revenues given the high risks of this project and a potential first-mover advantage can be gained.

Stratified samples can be difficult to identify appropriate strata for a study. It is more complex to organize and the cost of conducting this type of research is likely to be very high. It also takes time to identify suitable market research respondents.

Accept any other relevant advantage / disadvantage with an explanation.

Mark as 2+2.

Award **[1 mark]** for each relevant and correct advantage / disadvantage to *Icarus* of using stratified samples identified and **[1 mark]** for an appropriate explanation that directly refers to *Icarus* up to a maximum of **[2 marks]**.

- (c) (i) Using the *original* forecasted figures (in 2012), calculate *Icarus*' break-even point (*show all your working*). **[2 marks]**

Fixed costs = 10 000 000

Contribution = 140 000 – 100 000 = \$40 000

$$\text{Break-even point} = \frac{10\,000\,000}{40\,000} = 250 \text{ rooms}$$

N.B. Do not penalize the absence of quantity/rooms (BOD).

Award **[1 mark]** for the correct workings and **[1 mark]** for the correct answer up to a maximum of **[2 marks]**.

- (ii) Using the *revised* forecasted figures (in 2013), calculate *Icarus*' break-even point (*show all your working*). **[2 marks]**

Fixed costs + target profit = 12 000 000 + 2 000 000 = \$14 000 000

Contribution = 140 000 – 108 000 = \$32 000

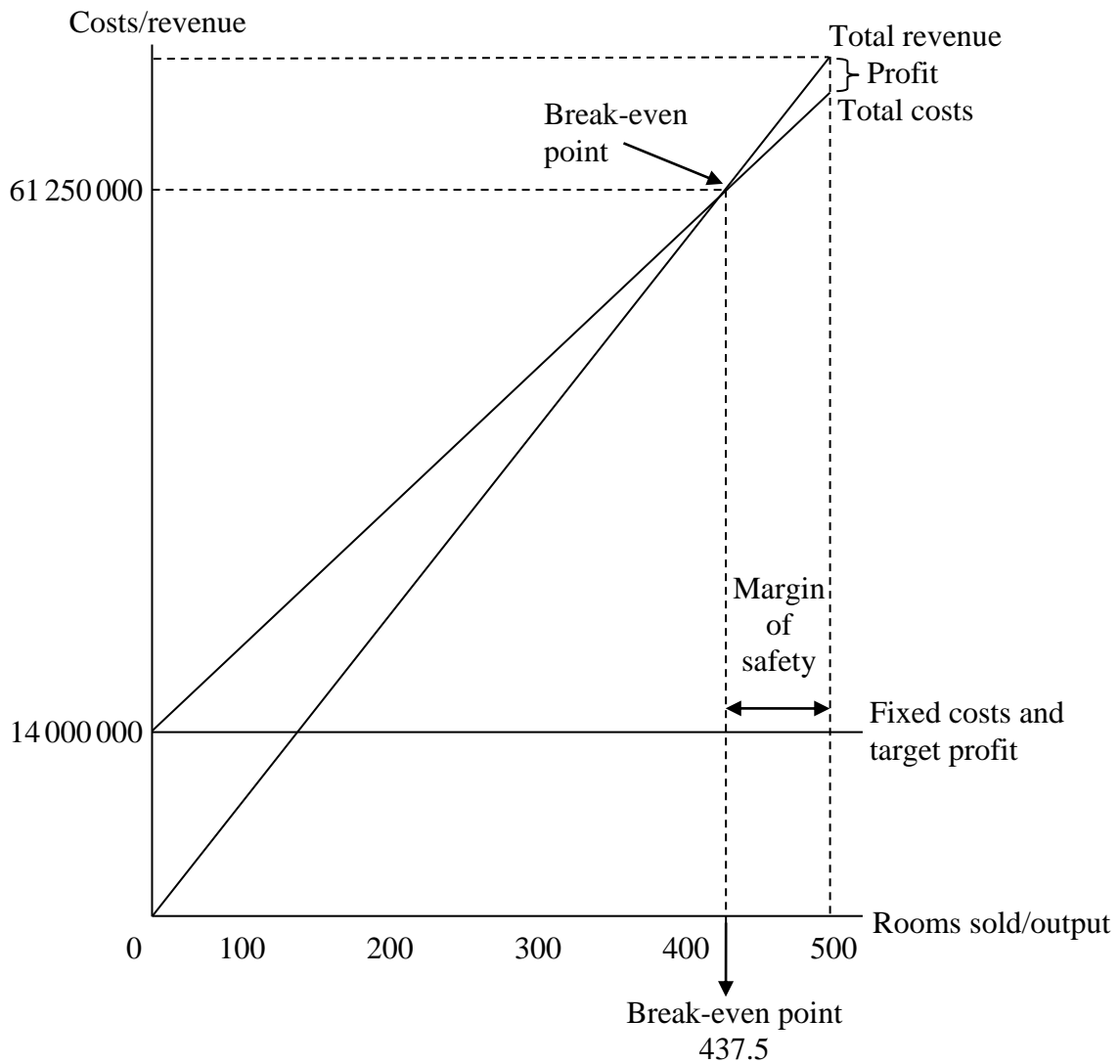
$$\text{Break-even point} = \frac{14\,000\,000}{32\,000} = 437.5 = 438 \text{ rooms}$$

N.B. Do not penalize the absence of quantity/rooms (BOD).

Award **[1 mark]** for the correct workings and **[1 mark]** for the correct answer up to a maximum of **[2 marks]**.

Award **[1 mark]** if either the new contribution is calculated correctly, or the fixed cost + target profit is calculated correctly.

- (d) (i) Using the *revised* forecasted figures, construct a fully labelled break-even chart for 2013. [4 marks]



Award up to a maximum of [4 marks] in total for any of the following:

[1 mark] for appropriately labelled axes.

[1 mark] for an accurately drawn and labelled total revenue curve.

[1 mark] for an accurately drawn and labelled total costs curve.

Own Figure Rule (OFR) applies.

[1 mark] for the identification of the break-even **level of output** (whatever the value).

- (ii) **Explain the limitations of the 2013 break-even chart from part (i) as a decision-making tool for *Icarus*.** [3 marks]

Given the nature of this project being perceived as extremely risky and unique, break-even alone cannot provide enough information as a decision-making tool.

There are weaknesses in a break-even analysis model: the linear nature of the cost and revenue diagrams based on the assumption that costs and price are constant. New competition may reduce *Icarus*' ability to increase prices. We have limited information about how costs could further change, for example, due to economies of scale. There is the assumption that all rooms are sold-which might not be a realistic assumption given the potential risk/danger that consumers may perceive.

No probabilities or qualitative and quantitative risk are attached to the model as it might be difficult to predict some external influences that might impact on a trip to outer space.

The model ignores any qualitative issues like the reaction of the employees who need training, or new and future competition in this market. It would be wise for *Icarus* to examine other models and to use other marketing and business tools such as investment appraisal, before reaching its final decision.

Award [1 mark] for each relevant limitation explained.

Award [1 mark] for explaining each limitation in context / application to *Icarus* up to [2 marks] per limitation.

Award a maximum of [3 marks].

(e) **Analyse *Icarus*' decision to open the first hotel in outer space.** **[6 marks]**

The decision to open the first hotel in outer space will allow *Icarus* to exploit a new niche market. Given the stratified samples of families with incomes over \$10 000 000, it would appear that a price skimming method is being used. With price-skimming, the high market research costs and development will be recouped. *Icarus* has already invested significant funds into this project and would be unable to realize profits if they withdrew from the project or if it was incomplete. It will also allow *Icarus* to beat competitors as it will guarantee *Icarus* a first-mover advantage and cement in the minds of the consumers that *Icarus* is still being innovative.

Moreover, given the well established and reputable brand image combined with the use of family branding, *Icarus* is likely to be successful.

However, there are unexpected costs with the project, with three years until completion, these costs will impact on future profits.

Given the customer service and perception of *Icarus*, the issue on training becomes paramount. Intensive training will add to the costs considerably. Are there any other aspects of preparing for customer service in outer space, which have yet to be considered?

If the product/service fails, there is a great risk of negative effect on the other products under the family brand.

With future revenues and costs uncertain, the degree of risk in the project is considerable. Perhaps they could form a joint venture to share these? Moreover, other adventure tourism companies are considering entering this innovative and unique market. *Icarus*' potential USP may be eroded very quickly.

Accept any other relevant analysis.

It is **not** expected that candidates will include all of the above points in their answer.

A balanced response is one that covers at least **two** issues for and at least **two** issues against.

For one relevant issue that is one-sided, with no analysis, award up to a maximum of **[3 marks]**. For one relevant issue that is balanced, with analysis, award up to a maximum of **[4 marks]**. For more than one relevant issue that is one-sided, with no analysis award up to a maximum of **[4 marks]**.

Marks should be allocated according to the markbands on page 3.

SECTION B

3. (a) Define the following terms:

(i) *productivity* [2 marks]

Productivity is a measure of the efficiency of production. It makes reference to the amount of output per unit of input.

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) *pressure groups.* [2 marks]

A pressure group is an organized group of stakeholders who believe in the same cause and decide to join forces to act together by putting pressure on businesses. For example, lobbying governments to change laws and appealing directly to public opinion to advance the pressure group's interest. (for instance about pollution or about the ecological impacts of the new bridge).

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 used at *Construir* to motivate workers. [6 marks]

Empowerment: is the process of enabling or authorizing an individual to think, behave, take action, and control work and decision-making in autonomous ways. It entails more freedom, autonomy and the power to make own decision. One may argue that empowerment shows respect, trust and level of delegation from the management and hence enable employees to feel competent, respected and trusted. This may in turn increase motivation and employee satisfaction.

Teamwork: means organizing the labour force into teams. It usually implies workers planning their own work or projects, and making their own decisions. Teams usually set targets to achieve and may receive rewards for doing so. Teamwork has proved to be a successful motivator at *Construir* as “commitment to quality is strong, and productivity is high”. Working in teams facilitate more social interaction and possibly support and friendship from team members

Job enrichment: implies increasing the depth of the job to include responsibilities that have traditionally been carried out at higher levels of the organization. As training is a crucial element to job enrichment, *Construir* is making substantial investment in the training and professional development of its workers to encourage it. Employees feel appreciated, supported and more confident

Accept any other relevant explanation.

N.B. the answer should focus on job enrichment not enlargement/or rotation.

Accept training and/or appraisal as non-financial rewards.

Mark as 3+3.

Award [1 mark] for identifying an appropriate non-financial reward, [1 mark] for an appropriate explanation and [1 mark] for a further development of this explanation with **some application** to *Construir* up to a maximum of [3 marks].

- (c) Analyse *two* benefits for *Construir* of a public-private partnership with the government. [6 marks]

A public-private partnership (PPP) is an agreement between the public sector and the private sector for the purpose of designing, planning, financing, constructing and/or operating projects which would traditionally be done by the public sector. The current government is considering the construction of a bridge through a PPP with *Construir*.

Construir could benefit from the PPP:

- *Construir* will share the construction costs with the government as the latter will pay half. *Construir* will then transfer some of its financial risks to the public sector.
- A source of income will be generated for *Construir* as the company will be given the right to charge drivers a fee for using the bridge. In addition, profits will possibly be higher.
- Due to the gains on experience and economies of scale, *Construir* may be offered new construction projects and hence more business opportunities may be created for the company on successful completion.
- Accept any other relevant benefit.

However, *Construir* will have to face several costs if the PPP with the government takes place:

- Opportunity cost: In order to build the bridge, *Construir* will have to turn down other construction projects and thus lose business opportunities.
- The project also entails important **risks** for *Construir*. As the current government is unpopular, there are chances that the project will be cancelled if another government is elected. In addition, operational and financial risks are also involved.
- *Construir*'s corporate image could be damaged due to the local environmental pressure groups campaigning against the bridge project. These groups would rather have government funds allocated to alternative social projects.
- Accept any other relevant cost.

Accept any other relevant analysis.

For one relevant benefit that is one-sided, with no analysis, award **up to** a maximum of [3 marks]. For one relevant benefit that is balanced, with analysis, award up to a maximum of [4 marks]. For two relevant benefits that are one-sided, with no analysis award **up to** a maximum of [4 marks].

Marks should be allocated according to the markbands on page 3.

(d) Evaluate *Construir*'s training and appraisal methods.

[9 marks]

Training makes reference to the activity of imparting knowledge or skills to improve worker's performance. *Construir* makes substantial investment in the training and professional development of its workers who receive both external and internal training.

Workers at *Construir* are externally trained at a local university. *Construir* may then benefit from increased motivation and commitment among its workers as they would probably acknowledge the value of being trained externally, which is usually costly. External training could also bring fresh new ideas into *Construir*, as workers mix with people from outside the company; ideas could be exchanged and relationships developed. Concentration may also be enhanced as workers are sent out of their usual working environment. It could also be argued that external training at a university can be of a better quality as is provided by professional educators in facilities that were specially built for training purposes. On the other hand, university fees are increasing for *Construir*. Travelling to and from the university can increase costs for *Construir* in terms of lost productivity time. If staff training takes place during the day then there may be some disruption of the working day. This would not be the case if staff training was undertaken outside working hours.

Construir also conducts in-house or internal training which is led by the managers within each department. Internal training may be less expensive as fees are not paid. In addition, new skills could be applied quickly in the real working environment. On the other hand, it may narrow worker's perspectives as external contact and sharing experiences are not possible. In addition, it seems that managers conducting training at *Construir* do not feel comfortable doing this activity; this situation may lead to demotivation and generate conflict among managerial staff.

Construir also conducts appraisals. Benefits include the possibility of identifying worker's strengths and weaknesses to improve their performance, setting professional development targets to motivate them, rewarding success and enhancing communication. However, some of the managers have expressed their concerns about the appraisal process at *Construir*. They believe that it takes too much time and that it is very stressful for some workers. The impact on *Construir*'s productivity and worker's motivation could then be negative. Alternatively, managers could be further trained on how to conduct appraisals efficiently; time may be saved and managers may feel more comfortable with appraising their subordinates. Workers in turn, should be told of the "constructive" intention of appraisal; anxiety about criticism could then be reduced and worker's productivity and motivation improved.

Training and appraisal are crucial components of human resources planning and hence the arguments for are very significant. It is not a question should they be stopped, but how to improve the process. The arguments against, while relevant are of less significance. Nevertheless, *Construir* should assess and adjust, when necessary, its current training and appraisal methods to reach the ultimate goal of remaining competitive in the construction market.

For one relevant issue that is one-sided, award up to **[3 marks]**. If the response is a one-sided relevant approach with no analysis, award a maximum of **[4 marks]**.

If the candidate analyses **either** training **or** appraisal award up to a maximum of **[4 marks]**.

Award a maximum of **[5 marks]** if the answer is of a standard that shows balanced analysis and understanding throughout the response, which includes appraisal **and** training with reference to the stimulus material, but there is no judgment/conclusion.

Candidates cannot reach the **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

Marks should be allocated according to the markbands on page 4.

4. (a) **Describe *one* possible above the line and *one* possible below the line promotional method for OA.** **[4 marks]**

OA could use the following tools.

Above the line:

- an advert of charging below market prices compared to competitor airlines could be included on the company web site
- TV commercials or radio advertising
- advertising in magazines targeted to business passengers, *eg* journals.

The above is only a list, application to OA is expected.

Below the line:

- point-of-sale material: such as a toy aircraft, T-shirts with the logo on *etc* to possibly include the mission statement, or excerpts from customer feedback indicating the level of customer service
- sales promotions could be used, although many of OA's flights are full
- public relations exercises where there is direct contact with customers
- public relation in the form of positive newspaper articles about an excellent experience of a guest
- coupons with direct mail to be redeemed when flights are booked.

Accept any other relevant promotional method with a description.

Mark as 2+2.

Award **[1 mark]** for each relevant above the line/below the line promotional method identified and **[1 mark]** for describing the characteristics of the method identified with application up to a maximum of **[2 marks]**.

If a candidate includes two types of above the line promotional methods such as advertise on TV and/or the cinema award a maximum of **[1 mark]**.

(b) Explain *three* stakeholder conflicts at OA.

[6 marks]

There are a number of stakeholder conflicts present at OA:

- Obese passengers versus other passengers. The issue is a lack of space impacting on emergency evacuation procedures if the very obese passenger does not purchase an additional seat.
- Business passengers versus families travelling in business class (from the stimulus).
- Pressure groups and OA's Board of Directors or Eythor (directly), over the issue of the credibility of OA's ethical objectives.

Accept any other relevant stakeholder conflict with an explanation.

Mark as 2+2+2.

Award **[1 mark]** for correctly identifying a relevant stakeholder conflict and **[1 mark]** for an explanation of the nature of that conflict with application to OA.

(c) Analyse how the *two* social changes could affect OA's ability to fulfil its mission statement: "In the air, we care for everyone!".

[6 marks]

OA's mission statement reads "In the air, we care for everyone!". The business aims to cater for both business and economy class passengers. However the two social changes will impact on the airlines ability to deliver on its mission.

The degree of obesity is increasing, some passengers complain about the lack of space. The business is trying to satisfy passengers who are not obese by charging those that are very obese for two seats. With OA flights mostly full, it is likely that obese passengers will have to pay twice. On the one hand one may argue that by doing so OA does not care for the obese passengers, OA is going to have to define what an obese passenger is. This could be regarded as culturally insensitive and unethical.

However, not only do the obese passengers affect the comfort of other passengers, they also create some safety issues that must be addressed by the airline as safety is the most important factor in the aviation industry.

To fulfill its mission, OA is going to have to spend time and resources determining appropriate criteria to indicate who has to pay twice. There may be some significant public relation issues here.

The issue is equally difficult for families travelling in business class. The mission is created to cater to both segments. It can be argued that families with children who can afford the service should not be discriminated against and that is what OA is trying to do. However, loyal business customers that do not like the children in the cabin may seek other airlines. The new proposed daily family-only service caters for this need. To separate the two markets is potentially a good solution. However, we must note the potential hostility from families who cannot afford the new "higher" prices for this service and may feel discriminated against by OA.

One is tempted to suggest that *OA* may need to alter its mission to “In the air, we care for everyone ... at the right price!”. It will be difficult to satisfy all stakeholders and the mission given the two social changes.

Accept any other relevant analysis.

For one relevant social change that is one-sided, with no analysis award **up to** a maximum of **[3 marks]**. For one social change that is balanced, with analysis award up to a maximum of **[4 marks]**. For two relevant social changes that are one-sided, with no analysis award **up to** a maximum of **[4 marks]**.

Marks should be allocated according to the markbands on page 3.

- (d) **Discuss an appropriate marketing mix for *OA*’s proposed new “family-only service”.** **[9 marks]**

Although this is a service, the 7Ps marketing mix in its entirety is not expected. Candidates’ answers should be in context and specific reference to the family-only service is expected to achieve the top two markbands. A judgment is expected at the top of the markband.

A discussion of pricing and promotion should be at the centre of the analysis as these are indicated in the stimulus, but answers should include reference to at least **two more** Ps to be allocated marks in the top markband under detailed analysis.

Candidates should refer to at least **one** advantage and **one** disadvantage of each of the recommended / proposed marketing mix.

Suggested responses with balance include:

Product/service – the proposed family-only service could lead to the creation of a new competitive strategy for *OA* if family friendly, through facilities such as a playing area, trained staff for children entertainment and special children menu. This augmented service is likely to attract the families who are likely to approve the segregation and the more bespoke service. With the right price, *OA* could increase demand significantly.

However, *OA* needs to ensure the availability of spare capacity otherwise the business passengers will feel alienated and *OA* may danger the loyalty and custom of the business passengers.

The cost in terms of the provision of the service might be very expensive.

Price – *OA* is well known for its below market pricing method. Eythor expects that the new service will need to be priced above current market levels given a reduced number of seats and more space. Families travelling in business class will be able to pay, but the danger of price skimming is that they may raise the ire of pressure groups. What if families cannot afford this new service? Overcrowding may result on *OA*’s other flights, exacerbating the problems highlighted in the stimulus material.

Promotion – the new service will need a new promotional mix. Perhaps this could be through direct marketing to families through a loyalty scheme, or public demonstration of the new service? Or even open days at *OA* headquarters. Answers should be creative and in context.

The costs of promotion should be carefully looked at but given the fact that *OA* is likely to use promotion now, perhaps it is not a major issue. However, *OA*'s Marketing Manager has to take care not to neglect and alienate the business passengers and keep or even enhance the promotion for this segment. Costs may increase as *OA* is unlikely to enjoy advertising economies of scale.

People – appropriately trained staff will be required to staff the new service. This will raise costs, although it appears that *OA* has been successful and this may add value to the product and be used in future promotional activities.

Physical evidence – The costs of refitting the plane could be considerable but given the fact that *OA* is providing a service, the physical evidence is of paramount importance. Moreover, the tangibility of the service can be used in the promotion especially advertising.

Place – the distribution channels for the service include not only the flight, but the booking systems and the airport facilities. *OA* may be best advised to separate the family-only flights from the regular operations, possibly in specific waiting areas. Ticket sales may be offered in some more imaginative locations such as toy outlets. However, there may be cost implications and possible erosion of brand image if too much attention is given to children.

Process – may refer to waiting times, and customer services beyond the flight. For example, *OA* will need to consider activities during waiting periods and also redesign their customer satisfaction surveys. Again, there is the issue of costs, availability and training of staff *etc.*

Conclusion/Judgement:

The marketing mix should strategically fit / support each other. There is a danger that given the enhanced service, the price has to be increased significantly. This will erode *OA*'s current USP and reputation.

However, a market gap has been identified by Eythor so the assumption is that there will be a demand and that the needs for such a service exists.

By providing such a service *OA* can enjoy a first-mover advantage and create a **new USP** especially in the short run.

If successful, more competitors are likely to enter the market with similar services. This type of service cannot be patented. Hence the airlines might find themselves trying to fill the same gap with possibly lower price and better services hence less profit. Such a new service is unlikely to be sustainable in the long run.

One has to remember that the new service being offered is for one flight a day. In the short run *OA* is likely to manage and schedule the flight for the convenience of children and parents which is likely to be different from the requirements of the business passengers. Both segments are likely to be satisfied. *OA* is likely to create a win win situation.

In the long run, if the demand increases for any of the services and profit is made, *OA* can increase capacity.

It might be worthwhile for *OA* to try the new service.

Accept any other substantiated judgment/conclusions.

Accept any other relevant discussion.

It is not expected that the candidate writes about all the points above.

For one relevant issue that is one-sided, award up to **[3 marks]**. If the response is a one-sided relevant approach with no analysis award a maximum of **[4 marks]**.

Award a maximum of **[5 marks]** 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 **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

Marks should be allocated according to the markbands on page 4.

5. (a) (i) **Define the term *social marketing*.** [2 marks]

Activities that seek to influence social behavior in order to maintain or improve the consumers and society's well being through promoting activities that are regarded as being beneficial to a stakeholder community. In this stimulus material, *MT* is promoting healthy eating and youth sport participation.

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* characteristics of a matrix structure.** [2 marks]

Characteristics of a matrix structure (project teams) could include:

- project team will come from various departments/functions and will last for the duration of the project to be carried out and then workers return to their original teams
- flexible and high quality decision-making due to workers being qualified and high level of delegation and empowerment.

Accept any other appropriate characteristic, which is related to organizations that are not organized along functional lines.

Award [1 mark] for each relevant and correct characteristic identified up to a maximum of [2 marks].

- (b) Explain the role that budgets could play in solving the cash-flow problems at *MT*. [6 marks]

MT nearly faced bankruptcy in 2012 as the management did not adhere to the budget and overspent on social marketing.

Had the management of *MT* followed the budget, it would allow *MT* to exercise some financial discipline and avoid the financial crisis.

Moreover, a variance analysis could have been carried out to identify specific issues / lack of inflow and higher outflow. Corrective action should have been taken to avoid the crisis. In short, the management of *MT* should have created and followed the whole budgetary process.

The Financial Manager should now pay very close attention to creation and execution of the budget especially to the issue of cash flow. Attention should be made to forecast as accurately as possible the possible inflow and outflow of cash as well as other revenue, income and expenditure. The cup success is not certain for next year so additional cash coming into *MT* is not guaranteed. Therefore having tighter budgets in place is useful to discipline Dave to not repeat mistakes of the past.

The club now has funds in which to repair the stadium which may reduce cash outflows in the future. A budget could be set for spending less on social marketing activities, which could bring in additional cash in the future through increased attendances and therefore improving the cash flow of *MT*.

It is expected that two roles will be explained. Hence **mark as 3+3**.

Award [1 mark] for a relevant role with an additional [1 mark] for application to *MT*. Award an additional [1 mark] for a developed explanation up to a maximum of [3 marks] per role.

Credit the candidate that explains more than two relevant roles and therefore the explanation of each role may lack some depth and detail.

(c) Using *two* appropriate motivation theories, analyse player motivation at *MT*. [6 marks]

Herzberg two factor theory / Maslow's hierarchy of needs and some influence of Taylorism are appropriate theories, but please be aware that candidates may use others.

Assuming salaries are paid and sufficient, one can assume that the lower level needs is being satisfied.

Being part of a team can be used to explain love and belonging.

Hygiene needs are being satisfied to an extent at *MT*. The cup win has paid salaries and with fresh working capital, *MT* may be able to invest some funds in making the club run smoother after they were threatened with bankruptcy. *MT*'s open culture may also leave workers feeling satisfied giving them a chance to have a positive working environment. According to Herzberg, the above will not motivate, but prevent the players from being dissatisfied.

The possible joint venture with *Dynamo* may provide the opportunity for all *MT*'s players to improve their skills through job enrichment. Moreover, the tournaments, games / cup games itself clearly challenge the players. Job enrichment and challenging tasks according to Herzberg motivate employees.

The cup win may be regarded as a self-actualization point (Maslow) for some of the players at *MT*, but more information is required before it could be extended to all. There is evidence that love and belonging is a strong driver for motivation as player turnover at the club has been very low.

Before the cup win, the club has faced the possibility of bankruptcy and some players have threatened to leave until a possible "joint venture with another club (has) encouraged them to stay". This has links to Taylorism as financial motivation seems to be paramount.

There is evidence that the matrix structure and open culture is not motivating some players who may be more inclined toward a Taylorist approach of financial motivation.

If Maslow's hierarchy of needs theory is in operation, then again the theory is not a perfect fit for player motivation at *MT*. The financial difficulties could undermine psychological or security needs.

The issues around motivation become more complex if the proposed joint venture with *Dynamo* takes place. Culture clashes may impact on the love and belonging needs but the new bigger club may allow personal growth and other yet to be defined "job enrichment" activities. However, we must note that the centralized and authoritarian culture at *Dynamo* may be more Taylorist than some of the *MT* players would be used to.

Accept any other relevant analysis.

For one relevant issue that is one-sided, with no analysis, award up to a maximum of **[3 marks]**. For one relevant issue that is balanced, with analysis, award up to a maximum of **[4 marks]**. For more than one relevant issue that is one-sided, with no analysis award up to a maximum of **[4 marks]**.

Marks should be allocated according to the markbands on page 3.

(d) Advise Dave on the proposal for a joint venture with *Dynamo*. [9 marks]

Dave has a dilemma.

By joining with *Dynamo* his players will have access to modern training facilities that should improve performance and keep *MT* financially sustainable. The chance of further cup success will mean that he can keep this group of players together. A synergy can be created between the players and the managers and performance will be further improved. The loss of his son Wayne will be felt, but it does provide an opportunity for Dave to promote one of his high profile players to the captaincy thus possibly defusing any dissatisfaction.

Dynamo however has had an unsuccessful season and attendances are falling. The *Dynamo* culture is in direct contrast to *MT*'s. Although they will be sharing the new stadium which will take time to build, it will not solve the short-term financial difficulties. Inevitably both sets of managers will need to work with each other, and conflict could undermine the goodwill generated from the social marketing work that *MT* has already undertaken. (Will Gary Driver be interested?) The contrasting management styles could be judged as a very significant argument against the joint venture as it is highly unlikely that any of the managers will be able to change their style. Perhaps a decision should be made as to who is going to manage overall. However, what will the other manager do?

Accept any other relevant arguments.

In conclusion:

From reading the stimulus material it appears that after their cup success, *MT* do not need *Dynamo*, but *Dynamo* needs *MT*. The joint venture may not be an equal partnership. Wayne's transfer may also cause problems and Dave may need to not take up the joint venture to show supporters that his interest lies solely with *MT*. Falling attendances at both clubs would do little to improve motivation at either. Perhaps Dave should wait to see how the football season develops.

Accept any other relevant advice.

For one relevant issue that is one-sided, award up to **[3 marks]**. If the response is a one-sided relevant approach with no analysis award a maximum of **[4 marks]**.

Award a maximum of **[5 marks]** 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 **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

Marks should be allocated according to the markbands on page 4.



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**BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 2**

Thursday 21 November 2013 (morning)

2 hours 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer two questions.
- A calculator is required for this examination paper.
- Clean copies of the ***Business and Management*** formulae sheet and discount tables are required for this examination paper.
- The maximum mark for this examination paper is [75 marks].

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SECTION A

Answer **one** question from this section.

1. Scoot Fun (SF)

Scoot Fun (SF) is a family-owned private limited company specializing in scooter rentals to a student market segment. Most of the scooters will need replacement in January 2014. *SF* will purchase 20 new scooters at a total cost of \$80 000. They are expected to have a useful life of four years and the total residual value (scrap value) of the 20 scooters is estimated at \$4000.

SF's Finance Manager currently uses a straight line method of depreciation, but she has now decided to adopt a reducing balance method of depreciation. However, she is still considering the percentage rate at which the assets (scooters) should be depreciated. The Finance Manager is also looking for various sources of finance for the purchase of the new scooters.

SF's shareholders would like to receive higher dividends in the coming year. One way to do this is to find a legal way to reduce *SF's* tax expense in the coming year.

- (a) Describe **one** advantage and **one** disadvantage of a private limited company. [4 marks]
- (b) Explain **two** appropriate sources of finance that *SF* could use to purchase the 20 new scooters. [4 marks]
- (c) (i) Using the **straight line** method of depreciation, calculate the depreciation for each year **and** the book value (value of scooters less depreciation) of the 20 new scooters at the end of each year of their expected useful life (four years) (*show all your working*). [4 marks]
- (ii) Using the **reducing balance** method of depreciation, calculate the depreciation for each year **and** the book value (value of scooters less depreciation) of the 20 new scooters at the end of each year of their expected useful life (four years). Use a 40% depreciation rate (*show all your working*). [4 marks]
- (iii) Explain **one** consequence of the Finance Manager's decision regarding the percentage rate at which the assets should be depreciated. [3 marks]
- (d) Examine the decision of *SF's* Finance Manager to change the depreciation method from straight line to reducing balance. [6 marks]

2. Crisis management and Mapa

Image removed for copyright reasons

The Portuguese company *Mapa* manufactures a handheld global positioning system (GPS)* device. In the winter of 2012, *Mapa* received reports that its GPS devices often failed in extremely cold weather. According to the media, the problem first appeared in 2011, when mountain climbers with the *Mapa* GPS devices discovered inaccuracies in the coordinates the devices provided. Rumours of the GPS failure began to circulate in the climbing community. Then, after several accidents in the mountains, including fatalities, television news programmes began to report the problem. Only then did *Mapa* begin to take action.

Engineers concluded that the problem resulted from where and when the quality testing was being performed. The production of a component part outsourced to a company in Iceland was being quality tested in Portugal in the summer. There was also poor communication between the producer of the component part and *Mapa* because of differences in language and culture.

Mapa's tall organizational structure, bureaucracy (and bureaucratic corporate culture) and centralized decision making meant that no manager acted until the Chief Executive Officer (CEO) formally apologized. As a result, *Mapa* had taken too long to admit that there was a problem and so consumer confidence fell and *Mapa's* reputation suffered.

The production process of the GPS device is shown in the table below:

	Task	Order/Dependency	Time (days)
A	Design device layout	Can start at the same time as B and C	30
B	Create electronics	Can start at the same time as A and C	60
C	Create software	Can start at the same time as A and B	90
D	Build body	Must follow A	20
E	Combine parts	Must follow D	20
F	Activate electronics	Must follow B and E	5
G	Activate software	Must follow C and F	5
H	Insert special features	Must follow G	6
I	Test	Must follow H	3

* global positioning system (GPS): provides location, including geographic coordinates and time information to users anywhere on earth as long as their receivers (commonly a handheld device such as a smartphone with a GPS application) have unobstructed lines of wireless transmission to various GPS satellites

(This question continues on the following page)

(Question 2 continued)

- (a) (i) Define the term *outsourcing*. [2 marks]
- (ii) Identify **two** features of a quality control system. [2 marks]
- (b) (i) Construct a fully labelled network diagram to represent the sequence of tasks in the table. Show the earliest starting time (EST) and the latest finishing time (LFT) for each task **and** identify the critical path. [6 marks]
- (ii) Calculate the total float and the free float for Task B and describe the impact of delaying Task B by 20 days. [3 marks]
- (c) Using a (cause-and-effect) fishbone diagram, explain why *Mapa* was slow to respond to the problem with its GPS devices. [6 marks]
- (d) Examine the importance of communication for *Mapa* in its management of the crisis. [6 marks]

SECTION B

Answer **two** questions from this section.

3. Recruiting a new CEO

A company can spend a large amount of money to recruit a well-known and successful Chief Executive Officer (CEO) from outside the organization. However, recently published research suggests that recruiting externally is not only costly, but it is also risky, disruptive and demotivating.

Two long-term studies of 36 large public limited American companies found the following:

- The companies that promoted CEOs internally performed better than those that recruited externally.
- “Outsider” CEOs (recruited externally) have a significantly higher failure rate than “insider” CEOs (recruited internally). 40 % of “outsider” CEOs stayed for two years or less.
- The average financial reward package for “outsider” CEOs, including salary, bonuses and profit-related incentives, was 65 % higher than for those appointed internally.
- “Outsider” CEOs feel empowered to impose rapid change and to assert their authority on the company, even before they really understand the organizational culture. The arrival of an “outsider” CEO is often quickly followed by the departure of senior managers.
- “Outsider” CEOs are very good at rapid cost-cutting and eliminating unprofitable products/activities, a skill that is very valuable when a competitive advantage needs to be gained or restored in a competitive environment.

Apple, Dell™, Microsoft®, Intel®, McDonalds® and Nike® are successful American companies that appointed CEOs internally between 1998 and 2007.

A comparison of average performance indicators between 1998 and 2007 is shown below:

	Companies led by an “insider” CEO	Companies led by an “outsider” CEO
Return on capital employed (ROCE)	20.3 %	15.8 %
Revenue growth	11.9 %	4.4 %
Earnings per share	13.9 %	4.6 %
Net profit margin	7.9 %	6.0 %

Some critics of the two American studies argue that companies promoting CEOs internally usually have a strong corporate culture and are already efficient and profitable. These critics also argue that the performance indicators in the table do not measure the exact contribution of individual CEOs.

[Source: adapted from Alexandra Frean, “The value of hiring chief executives on the inside track”, *The Times*, 4 April 2011.
© The Times 04 2013]

(This question continues on the following page)

(Question 3 continued)

- (a) Describe **two** possible influences on organizational culture. *[4 marks]*
- (b)
 - (i) Explain the importance of earnings per share to a shareholder. *[2 marks]*
 - (ii) Distinguish between **two** external methods of recruitment that an organization could use to recruit a new CEO. *[4 marks]*
- (c) Examine the usefulness to an organization of rapid change management imposed by a new “outsider” CEO. *[6 marks]*
- (d) Discuss whether organizations that promote CEOs internally are more likely to be successful. *[9 marks]*

4. Predicting the future

Traditional secondary research to identify trends, to forecast and to provide data about seasonal and cyclical variation is increasingly outdated, particularly as many products are sold through e-commerce.

Today online forecasting is becoming popular. *Google*TM's chief economist has found a correlation between sales of products (such as cars and holidays) and levels of online *Google*TM searches for information about those products.

To make market predictions, market researchers are increasingly using social media* to collect online messages in order to understand consumers' moods. They use web-based data to build a "real time" measure of consumer emotions and preferences and then use the results for predicting consumers' behaviour. Some companies such as *Coca Cola*®, *Starbucks*® and *Disney* already use social media for online market research.

Dr Bollen of Indiana University, United States, found that:

- *Twitter* users' collective mood changes coincide with national events.
- A correlation exists between trends in national mood (expressed in millions of *Twitter* messages) and changes in share prices. Three days after an increase in anxiety levels, share prices tend to fall (although it is unclear why this happens).
- Investors use social media to guide their decisions.

Users of social media share information online about feelings and purchasing intentions. They are unconcerned by market researchers using software such as "Wise Window" to follow them constantly in order to forecast demand.

Technologically advanced software can recognize sarcasm, double meanings and cultural references. However, interpreting slang expressions remains a challenge.

Mr Watts, an Internet researcher at *Yahoo!*®, said that to be useful, a forecasting technique must add something new to what is already known. The use of social media will only add value to forecasting if other sources of information are limited. He warned that sophisticated methods based on the analysis of *Twitter* messages, blog postings or *Facebook*® pages have limitations.

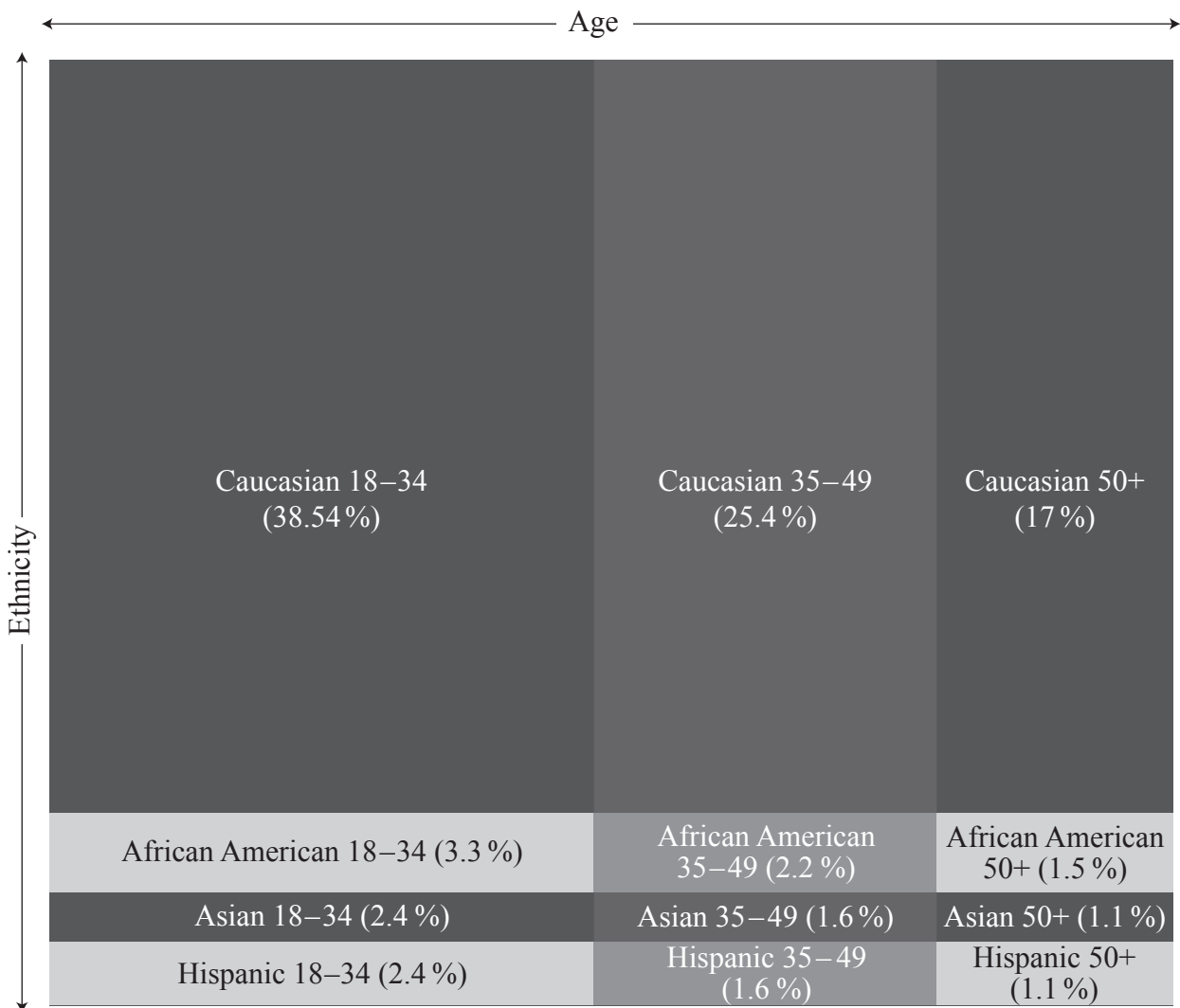
[Source: © International Baccalaureate Organization 2014]

* social media: refers to various forms of relatively new electronic technologies that allow individuals, groups and organizations to communicate with one another. The communication is "virtual" (across the world wide web and through electronic transmission) and is typically interactive. One frequent feature is the ability of a participant to pass on a communication it has received to other persons, groups, or organizations.

(This question continues on the following page)

(Question 4 continued)

Twitter Demographics (Infographic)



[Source: <http://heidiallen.id.au/?s=twitter+demographics>]

- (a) Describe **one** advantage and **one** disadvantage to an organization of using e-commerce. [4 marks]
- (b) (i) Explain **one** benefit of sales forecasting for an organization. [2 marks]
- (ii) Distinguish between seasonal **and** cyclical variations to predict sales trends. [4 marks]
- (c) Examine the usefulness of traditional secondary research to identify market trends and for forecasting. [6 marks]
- (d) Evaluate the use of “social media to collect online messages in order to understand consumers’ moods” for making market predictions. [9 marks]

5. Kodak

Kodak, after decades as the leading American camera and photography company, went bankrupt in 2012. Despite its large research and development (R&D) budget, *Kodak* concentrated on products related to its film-processing business, a market that *Kodak* had long dominated. However, digital technology had changed photography dramatically, and *Kodak*, unlike its competitors, failed to innovate.

At least three times, *Kodak* misunderstood consumer desire to interact with photos and the external environment:

- Digital cameras – In 1975, *Kodak* invented the first digital camera but did not sufficiently develop this technology. Its cameras were always perceived as satisfactory products, but “nothing special”. Competitors innovated with features such as face-and-smile detection. *Kodak* only followed trends, never led them.
- Photo viewing – In 2002, *Kodak* entered the market of low growth, small margin products, such as digital photo frames. *Kodak*’s products did not have a unique selling point (USP) and were unsuccessful.
- Photo sharing – In 2005, *Kodak* developed the first WiFi camera, but sales were disappointing. Shortly thereafter, a new business opened, *Eye-Fi*, which proved *Kodak* wrong about WiFi. *Eye-Fi* created a successful business based on WiFi memory cards for cameras – the concept that *Kodak* had abandoned and not patented.

The conclusions from *Kodak*’s bankruptcy are clear:

- “Cannibalism” – do not be afraid to develop a new technologically advanced product even if it causes the decline of your existing products.
- Innovation – do not be afraid to take risks. *Kodak*’s inability to give any of its digital products a USP shows its failure to take advantage of inventions. Innovation also requires strategic vision.
- New product design – do not be afraid if sales do not happen immediately. *Kodak* withdrew its WiFi cameras simply because the first model sold poorly.

As the evidence shows, not taking risks in new inventions will reduce profit margins in the long run. Small, innovative business start-ups such as *Canon* can often successfully penetrate markets dominated by big companies unless those companies use their resources to keep up-to-date.

[Source: © International Baccalaureate Organization 2014]

(This question continues on the following page)

(Question 5 continued)

- (a) Define the term *patent*. [2 marks]
 - (b) Describe **one** problem faced by a new business start-up. [2 marks]
 - (c) Explain the role and importance of research and development (R&D) for *Kodak*. [6 marks]
 - (d) Using the Boston consulting group (BCG) matrix, examine the reasons for *Kodak's* bankruptcy. [6 marks]
 - (e) With reference to *Kodak* **and one** other organization of your choice, evaluate the merits of small versus large organizations. [9 marks]
-



MARKSCHEME

November 2013

BUSINESS AND MANAGEMENT

Higher Level

Paper 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
Q1 (d)	Q2 (d)	Q3 (c)	Q4 (c)	Q5 (d)	
Marks 0–6					
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.
5–6					<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 (e)	
Marks 0–9			
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, concepts and theories.• 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.
5–7			<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.
8–9			<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 *one* advantage and *one* disadvantage of a private limited company. [4 marks]

The advantages of a private limited company may include the following:

- the owners have a limited liability
- control of the company cannot be lost to outsiders without the agreement of current shareholders
- there may be some tax advantages
- more capital can be raised compared with a sole trader, or a partnership.

The disadvantages of a private limited company may include the following:

- the legal requirement takes time and costs money
- members of the public have access to financial information
- dividends should be given to shareholders which may reduce the retained profit.

Accept any other relevant advantage/disadvantage with a description.

N.B. Given that the question does not ask for application to *SF*, do not penalize candidates who do not refer to *SF*.

Mark as 2 + 2.

Award [1 mark] for each relevant and correct advantage/disadvantage of a private limited company identified and [1 mark] for an appropriate description up to a maximum of [2 marks].

- (b) Explain *two* appropriate sources of finance that *SF* could use to purchase the 20 new scooters. [4 marks]

Appropriate sources of finance that *SF* could use to purchase the new scooters may include the following:

- given the large amount of funds required (\$80 000) and the relatively medium-term life span of the fixed assets, *SF*'s Finance Manager may consider issuing more shares privately. A relatively large amount, or at least the required amount, of funds can be raised without interest payment, provided that the other shareholders agree.
- a bank loan can also be an option. The bank manager is likely to agree to the request as no information is given on any liquidity problem and it appears that *SF* is profitable and the current ownership will not be diluted and will stay within the family.
- hire purchase can be used which allows *SF*'s manager to not need to pay immediately for the scooters. This can be used to avoid depreciation.
- retained profit can also be used. It is said that the shareholders want more dividends so the assumption is that *SF* has been profitable. This option is an internal source of finance.
- through a leasing system *SF* will have the required fixed asset and will be able to use the scooters for a specific period of time without the responsibility of owning them. However, leasing, strictly speaking, is not purchasing. *SF* will have to make monthly leasing payments and at the end of the leasing period *SF* could decide to purchase the scooters. An initial deposit is not required.

Accept any other relevant source of finance with an explanation.

N.B. Although scooters are medium-term assets, do not penalise for a long-term source of finance. Do not accept short-term source of finance.

Mark as 2 + 2.

Award [1 mark] for each relevant and correct source of finance identified and [1 mark] for a relevant and correct explanation with application to *SF* or to its product (scooters) up to a maximum of [2 marks].

N.B. Just mentioning the name of the organization cannot be considered as application.

If there is no relevant application to the stimulus material award up to a maximum of [2 marks].

- (c) (i) Using the *straight line* method of depreciation, calculate the depreciation for each year *and* the book value (value of scooters less depreciation) of the 20 new scooters at the end of each year of their expected useful life (four years) (*show all your working*). **[4 marks]**

Using the straight line depreciation method the same value of depreciation is used every year $\frac{\$80\,000 - \$4\,000}{4} = \frac{\$76\,000}{4} = \$19\,000$ per year.

Year	Depreciation in \$	Book value (fixed assets less depreciation) in \$
1 (2014)	19 000	80 000 – 19 000 = 61 000
2 (2015)	19 000	61 000 – 19 000 = 42 000
3 (2016)	19 000	42 000 – 19 000 = 23 000
4 (2017)	19 000	23 000 – 19 000 = 4 000

[1 to 2 marks]

The answers are largely inaccurate. The candidate shows only a superficial understanding of the notion of a straight line method of depreciation for **[1 mark]**. Award **[2 marks]** if there are two mistakes and/or the workings are not shown.

[3 to 4 marks]

Allow for up to one mistake for **[3 marks]** where the workings are fully shown and/or a table is well presented. For a correct answer which shows full working of the depreciation and end-of-year book value of the scooters for each of the four years, award **[4 marks]**.

Apply Own Figure Rule (OFR).

N.B. Do not penalize the absence of units (BOD).

- (ii) Using the *reducing balance* method of depreciation, calculate the depreciation for each year *and* the book value (value of scooters less depreciation) of the 20 new scooters at the end of each year of their expected useful life (four years). Use a 40% depreciation rate (*show all your working*). **[4 marks]**

Using the reducing balance method, assets are depreciated by a fixed percentage of 40% each year.

Year	Depreciation in \$	Book value (net fixed assets less depreciation) in \$
1 (2014)	$80\,000 \times \frac{40}{100} = 32\,000$	$80\,000 - 32\,000 = 48\,000$
2 (2015)	$48\,000 \times \frac{40}{100} = 19\,200$	$48\,000 - 19\,200 = 28\,800$
3 (2016)	$28\,800 \times \frac{40}{100} = 11\,520$	$28\,800 - 11\,520 = 17\,280$
4 (2017)	$17\,280 \times \frac{40}{100} = 6\,912$	$17\,280 - 6\,912 = 10\,368$

[1 to 2 marks]

The answers are largely inaccurate. The candidate shows only a superficial understanding of the notion of the reducing balance method for **[1 mark]**. Award **[2 marks]** if there are two mistakes and/or the workings are not shown.

[3 to 4 marks]

Allow for up to one mistake for **[3 marks]** where the workings are fully shown and/or a table is well presented. For a correct answer which shows full working of the depreciation and end-of-year book value of the scooters, for each of the four years, award **[4 marks]**.

Apply Own Figure Rule (OFR).

N.B. Do not penalize the absence of units (BOD).

- (iii) Explain *one* consequence of the Finance Manager's decision regarding the percentage rate at which the assets should be depreciated. [3 marks]

The depreciation rate should really be as accurate and realistic as possible.

A lower depreciation rate than the chosen 40% will result in a lower depreciation amount for each year, including 2014 and hence a lower depreciation amount under expenses in the profit and loss account; and hence creates a higher level of net profit before interest and tax. *SF* will have to pay a higher level of tax and will be left with less profit to be distributed as dividends.

Also, a lower depreciation amount for 2014 and the other years will result in higher net fixed assets on the balance sheet. Higher net fixed assets can further affect some of the ratios such as ROCE. This efficiency ratio utilises capital employed (net assets) and operating profit, both of which are affected by depreciation. A lower depreciation figure increases CE as the book value of assets is higher. Lower depreciation will also increase EBIT due to lower expense deductions. These effects can raise ROCE, which is often seen as a key or Primary Ratio in comparing the performance of potential of investments.

A higher depreciation rate chosen will create opposite consequences.

Accept any other relevant consequence with an explanation.

N.B. Candidates are not expected for [3 marks] to provide the exact detailed comments as above.

Candidates are not expected to refer to both higher and lower depreciation rates for the marks available.

Candidates are not expected to use figures to support their explanation of the effects of different depreciation rate.

Award [1 mark] for some implied but very limited knowledge of one consequence.

Award [2 marks] for one effect/consequence that is only described.

Award [3 marks] for one clear explanation of one possible consequence. For example, one effect on the balance sheet, or one effect on the profit and loss account.

- (d) **Examine the decision of *SF*'s Finance Manager to change the depreciation method from straight line to reducing balance.** **[6 marks]**

SF's Finance Manager's decision to change the depreciation method from straight line to reducing balance will result in the following:

The manager will give up the advantages of the straight line method – it is simple and might be useful when the residual value is precisely known. The reducing balance method may also be more useful/realistic for *SF* as assets like scooters depreciate a lot/lose more value during the early years/months of usage. The value of the net fixed assets on the balance sheet will be more accurately reflected throughout.

Moreover, the repair and the maintenance costs for aging scooters are likely to increase as time goes by. Hence, if *SF*'s Finance Manager uses the reducing balance method, the total expenses on the profit and loss account will be more equal and accurate over time. As the depreciation amount decreases from \$32 000 in 2014 to \$6 912 in 2017 the maintenance costs are highly likely to increase.

However, the Finance Manager is not sure of the depreciation percentage. 40% might be either too low or too high and hence the figures will be inaccurate.

The Finance Manager is also considering various legal ways of reducing *SF*'s tax liabilities / expenses in the coming year (2014). A high depreciation amount using the reducing balance method during the early years of the scooters under this method will enable the manager to show low net profit and hence low tax liability. The movement to the reducing balance method will also support the wishes of the family members who might be given more dividends if there are less tax liabilities. The above are relevant for the first two years.

Accept any other relevant examination.

N.B. It is **not** expected that candidates will include all of the above points in their answer.

A balanced response is one that covers at least **two** issues for and at least **two** issues against.

For one relevant issue that is one-sided, with no examination, award up to a maximum of **[3 marks]**.

For one relevant issue that is balanced, with examination, award up to a maximum of **[4 marks]**.

For more than one relevant issue that is one-sided, with no examination award up to a maximum of **[4 marks]**.

Marks should be allocated according to the mark-bands on page 3.

2. (a) (i) **Define the term *outsourcing*.** **[2 marks]**

Outsourcing is the act of transferring internal business activities that are largely deemed peripheral to an external provider and provide some benefits to the organization like costs cutting.

Candidates are **not** expected to word their definition **exactly** as above. Examples are not expected.

N.B. Do not credit a definition of outsourcing.

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* features of a quality control system.** **[2 marks]**

The features may include the following:

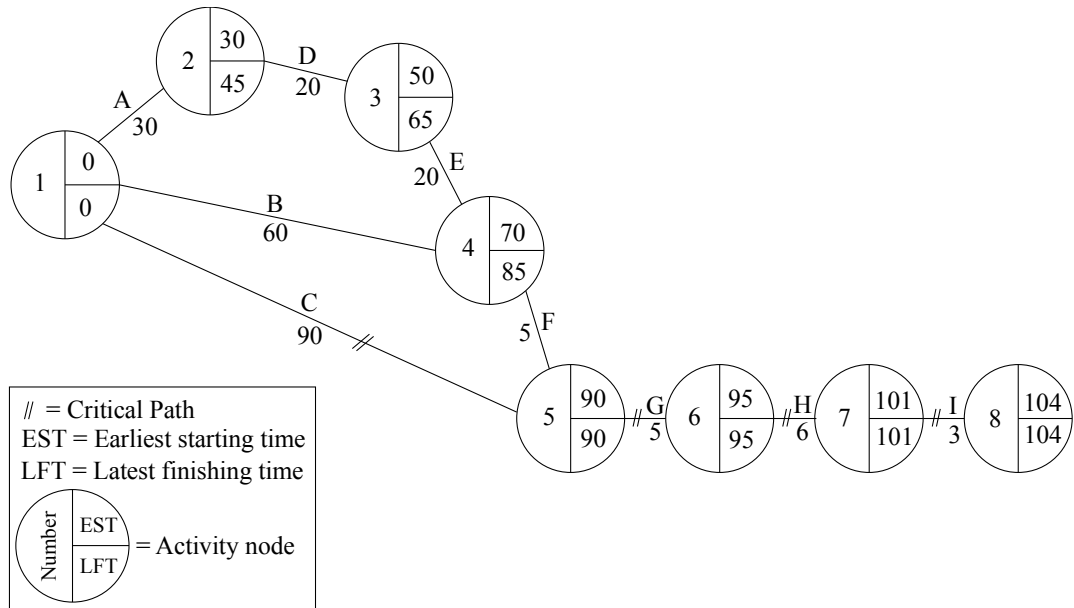
- quality is “controlled” by one person or department
- a percentage reject/wastage rate is accepted
- quality checks are made after production – it is retrospective
- if a fault is found then production is halted until the problem is resolved
- quality checks are per job and not for the whole process
- *accept any other relevant feature.*

N.B. Based on the assumption that quality control system is different to quality assurance/culture, a description of a feature of quality assurance is not relevant.

An identification of features is expected rather than a definition of what the system is.

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

- (b) (i) Construct a fully labelled network diagram to represent the sequence of tasks in the table. Show the earliest starting time (EST) and the latest finishing time (LFT) for each task *and* identify the critical path. **[6 marks]**



[1 to 3 marks]

There is some evidence of understanding of the model and some attempt at construction and ESTs and LFTs are shown.

[4 to 5 marks]

The network is constructed and drawn but may not be well and entirely accurately presented. The ESTs and LFTs are largely correct but there are up to two mistakes. The critical path may not be identified and a key may not be provided at the lower end of the band. If the network is well constructed but **either** the key **or** the critical path (one only) is not presented award **[5 marks]**.

[6 marks]

The network is accurately constructed, drawn and well presented. The critical path is identified. A key is provided. The ESTs and LFTs are accurate.

Do not double penalize candidates.

- (ii) Calculate the total float and the free float for Task B and describe the impact of delaying Task B by 20 days. *[3 marks]*

$$\begin{aligned}\text{For Task B the total float} &= \text{LFT (task F)} - \text{Duration} - \text{EST (task B)} \\ &= 85 - 60 - 0 \\ &= 25 \text{ days}\end{aligned}$$

$$\begin{aligned}\text{For Task B the free float} &= \text{EST (task F)} - \text{Duration} - \text{EST (task B)} \\ &= 70 - 60 - 0 \\ &= 10 \text{ days}\end{aligned}$$

Therefore a delay of Task B by 20 days will delay Task F by 10 days but the whole production process is not delayed at all.

N.B. Apply Own Figure Rule (OFR) to calculations made in the previous question.

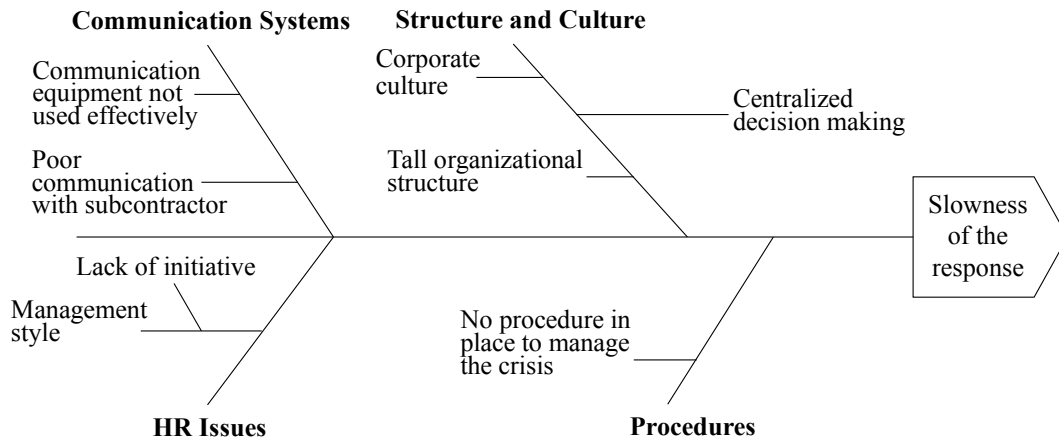
Award *[1 mark]* for the correct total float.

Award *[1 mark]* for the correct free float.

Award *[1 mark]* for the correct description of the impact of the delay.

If calculations are not shown, award up to *[2 marks]*.

- (c) Using a (cause-and-effect) fishbone diagram, explain why *Mapa* was slow to respond to the problem with its GPS devices. [6 marks]



A fishbone diagram similar to above may be drawn. The cause of the problem can be any of those identified.

Explanation of how the issues identified caused the problem should follow.

N.B. The above headings are used as examples. Accept any other relevant headings (based on the information in the stimulus).

Award [1 to 2 marks] if the fishbone diagram is incomplete, or inaccurate and the description is limited.

Award [3 to 4 marks] if the fishbone diagram is incomplete, or does not include at least one applicable comment in each “bone”. The response may be descriptive or the explanation lacks depth.

Award [5 to 6 marks] if the fishbone diagram is complete (four bones) and includes at least one applicable comment in each “bone”. At least two issues are fully explained and are used effectively to explain the cause of the problem.

N.B. Award a maximum of [2 marks] for an explanation without the fishbone diagram.

Award a maximum of [2 marks] for fishbone diagram without any explanation.

- (d) **Examine the importance of communication for *Mapa* in its management of the crisis.** **[6 marks]**

On one hand it can be argued that a lack of communication was central to the creation of the problems / crisis and possibly also contributed to (mis)management of the crisis for the following reasons:

The poor external communication between *Mapa* and the Icelandic company due to language problems and different cultures created the poor quality of the GPS. It also weakened the ability of *Mapa* to respond to the crisis. However, *Mapa*'s slow response (internal) to the negative news reports escalated the crisis and caused a drop in confidence (external). Rumours, a form of unofficial communication channel, further undermined the credibility of *Mapa*'s GPS devices. Moreover, Poor internal communication hindered *Mapa*'s ability to respond to the crisis. Crisis management is all about being seen to respond swiftly and competently to an issue. *Mapa* clearly failed to do this.

On the other hand, the media picked up the news, which also acted as a catalyst for *Mapa* to respond and take action hence it can be argued that some forms of external communication channel and the message actually forced *Mapa* to handle the crisis.

Moreover, communication is not the only problem here. It could be argued that the root cause of the problem was the poor quality testing / control in Portugal in the summer that failed to pick up the defect. One can also argue that the tall structure and more importantly the bureaucratic corporate culture intensified the quality problems and made the management of the crisis less effective.

Accept any other relevant examination.

N.B. It is **not** expected that candidates will include all of the above points in their answer.

A balanced response is one that covers at least **two** issues for and at least **two** issues against.

For one relevant issue that is one-sided, with no examination, award up to a maximum of **[3 marks]**.

For one relevant issue that is balanced, with examination, award up to a maximum of **[4 marks]**.

Marks should be allocated according to the mark-bands on page 3.

SECTION B

3. (a) Describe *two* possible influences on organizational culture. [4 marks]

Two possible influences on organizational culture may include the following:

- the management style of the organization, the organization structure as well as the decision-making process, a tall structure and possible autocratic style will result in a different culture than a small, flat organization
- people behaviour, attitudes, the nature of the tasks that employees face, shared history, the owners' background, or personality
- the national culture may also influence an organizational structure
- *accept any other influence.*

Accept any other relevant description.

Mark as 2 + 2.

Award [1 mark] for each relevant and correct influence on organizational culture identified and [1 mark] for an appropriate description up to a maximum of [2 marks].

(b) (i) Explain the importance of earnings per share to a shareholder. [2 marks]

Earnings per share (EPS) is one of the shareholders ratios. It shows theoretically, the amount of dividends that a company could have paid to its shareholders if all of the net profit after interest and tax was paid in dividends and none was kept as retained profit. The higher the (EPS) figure the higher the dividends that could have been received per share.

Although it is unrealistic to expect such a management decision, it enables the shareholders to compare the actual dividends per share given with a potential sum. The ratio provides a useful indicator of the value of the company's shares.

Accept any other relevant explanation.

Award [1 mark] for identifying one issue of importance identified or for describing what the ratio **actually measures** and [1 mark] for an appropriate explanation of the importance of EPS up to a maximum of [2 marks].

N.B. Do not credit candidates that just present the formula as it is given.

Do not credit candidates that refer only to the importance of profit and/or dividends. Candidates need to show understanding of the meaning of the ratio, especially as the ratio is given.

- (ii) **Distinguish between *two* external methods of recruitment that an organization could use to recruit a new CEO.** **[4 marks]**

Some of the external methods of recruitment that an organization could use to recruit a new CEO include:

- word of mouth – the owners might have heard of a successful person or a current CEO in a different organization and approach this person
- headhunting – possibly through a specialized agency that has a list of potentially suitable candidates
- advertising in national or global newspapers / magazines, internet, websites and so on
- *accept any other relevant external method of recruitment.*

Award **[1 mark]** for each relevant external method of recruitment identified and **[2 marks]** for an appropriate distinction between the two methods, up to a maximum of **[4 marks]**.

The suggested methods must be appropriate to the recruitment of a highly professional CEO. Do not credit candidates who just list some general methods that are not really appropriate such as job centres and local advertisements. Do not credit candidates that refer to internal recruitment.

(c) **Examine the usefulness to an organization of rapid change management imposed by a new “outsider” CEO.** **[6 marks]**

Rapid change management imposed on an organization by a new “outsider” CEO can be necessary and hence useful for the following reasons:

During crisis, financial or otherwise, rapid action and decision making is needed. It is often better for a CEO with (possibly) other senior managers to react quickly to make an imposed strategic or tactical decision. A slow, negotiated change management strategy will delay the process of change. Some dire consequences to an organization may occur in the meantime. The newly appointed CEO is likely to have the right industry knowledge, the confidence, shareholders’ support and experience to pursue the change.

An imposed and rapid change may also be suitable when the employees are not ready yet in terms of skills and experiences and/or unwilling to get involved in strategic change. Some argue that change management in this situation is better left to the CEO with his/her experience/skills. A short process that leads to a rapid change is less costly.

The structure, culture and nature of the organization (military, dangerous product, confidential information, nuclear reactor) also affect the nature of change management.

However, a rapid and imposed change is likely to create resentment and resistance if the employees do not perceive the situation as some sort of crisis and/or if they believe that they have the skills, experience and willingness to be consulted and believe they should be allowed to participate in the change management process.

As stated in the stimulus, the new “outsider” CEO may be over confident regarding the support he/she might have as well as inside knowledge and experience. Not being familiar with the culture of an organization especially if the employees are willing and able to participate in the required change management could lead to industrial unrest / dispute / de-motivation and even the loss of skilled employees. Moreover, rapid change will not allow time for training and development, communication and so on.

A non negotiated/imposed change can create fear and seriously affect the motivation of the employees who may feel unappreciated or unimportant. A slow change and possibly a negotiated one is likely to be more accepted and more easily implemented. For these reasons it can be argued that negotiated and possibly incremental change management should be more useful.

Accept any other relevant examination.

It is **not** expected that candidates will include all of the above points in their answer.

A balanced response is one that covers at least **two** issues for and at least **two** issues against.

For one relevant issue that is one-sided, with no examination, award up to a maximum of **[3 marks]**. For one relevant issue that is balanced, with examination, award up to a maximum of **[4 marks]**.

Marks should be allocated according to the markbands on page 3.

- (d) Discuss whether organizations that promote CEOs internally are more likely to be successful.** **[9 marks]**

By promoting internally there is a cost cutting advantage and the potential to create competitiveness. This, however, is likely to be offset by the 65% higher financial rewards and the shorter length in service. Also, recruiting a new CEO is a very expensive and time consuming process. Having to recruit a new CEO relatively frequently may erode the cost cutting merit.

The research presented in the table indeed found that those companies who routinely promoted CEOs from within (internally) significantly outperformed those that were recruited externally. However, there are some issues regarding the validity of the research:

- these findings are not the most up to date (ends 2007). Perhaps more up to date information should have been consulted.
- only certain types of organizations were researched – 36 large public limited companies. Perhaps different types of organizations require different types of CEOs, possibly “outsiders” with fresh ideas and those who are not possibly constricted by the current organizational culture.
- also, the research has been done on American companies. In different parts of the world with different national and organizational culture the results may have been different – in favour of “outsiders”.
- the sample size of 36 might not be fully representative.
- *accept any other arguments in terms of possible limitations of the market research.*

Candidates may also refer to some motivational theory.

Content motivation theories like Maslow and Herzberg, and process theories like Adams identify the benefits of promoting from within to such a desirable position of CEOs. The motivation of the promoted person as well as that of his/her peers can significantly improve the chance of promotion, the availability of a very challenging job can be seen as a “motivator” according to Herzberg as well as a chance for the employees to achieve self esteem / self actualization needs according to Maslow. A valued outcome and sense of fairness may also increase motivation. (It is not expected that a long discussion is presented about the motivation theories.)

Nevertheless, given the fact that only one person is likely to be promoted within a period of time, this might somewhat reduce the significance of the above arguments.

However, it can be argued that rapid and drastic change if needed in emergency situations may require a competent CEO who feels he/she got the mandate to impose the change. It states in the stimulus that “outsiders” feel more empowered to implement changes. Outsiders may also be better at crisis management with fresh ideas / strategy and the power/mandate to implement them.

On the other hand, employees might be more willing to follow change if carried out / led by a person who knows and understands the organization. Less resistance to change is likely to occur.

However, those who were not promoted might feel resentment and become demotivated (the opposite use of the different motivation theories as above) and might actively resist changes.

The culture may be negatively affected and the organizations' accumulated knowledge / know-how could be lost especially if other senior managers leave.

The financial performance indicators are significantly higher in companies led by “insiders”.

Overall, based on the information given in the stimulus, one may conclude that the benefits of using “insiders” are greater than the arguments against. The figures and the examples of successful companies (well known worldwide) clearly support that notion. Nevertheless, one has to be aware of a possible bias and the concentration of the research on 36 large public limited American companies.

N.B Given question (c) the issue of change management is of less significance in this response.

It is not expected that all the points/issues above are covered.

Accept any other relevant arguments for or against promoting internally.

Accept any other substantiated conclusion/judgment.

It is not expected that the answer includes specific motivation theories or theorists for the candidates to reach the top markband.

A balanced response is one that covers at least **two** arguments in favour and at least **two** arguments against.

For one relevant issue that is one-sided, award up to **[3 marks]**. If the response is a one-sided relevant approach with no analysis/examination award a maximum of **[4 marks]**.

Award a maximum of **[5 marks]** 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 **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

Marks should be allocated according to the markbands on page 4.

4. (a) Describe *one* advantage and *one* disadvantage to an organization of using e-commerce. [4 marks]

Some of the advantages may include the following:

- an organization can reach a wider customer base
- low set up cost – money can be saved on rent and sales assistants if only e-commerce is used
- alternatively, if e-commerce is to be added to an already functioning organization, the cost of buying the technology is usually not very high
- transaction costs are relatively low.

Some of the arguments against:

- security issues – credit/debit card numbers may be stolen; personal information may be taken by hackers
- some people do not feel confident in using electronic devices when shopping
- some customers are put off by the intangibility of the process and hence reduce their demand.

Accept any other relevant advantage or disadvantage with a description, provided it refers to the seller not to the customer.

Mark as 2 + 2.

Award [1 mark] for each relevant advantage/disadvantage identified and [1 mark] for an appropriate description up to a maximum of [2 marks].

- (b) (i) Explain *one* benefit of sales forecasting for an organization. [2 marks]

Sales forecasting uses past and current data which can be seen as a useful planning tool to reduce future uncertainties. Researchers identify the trend based on a method of moving average to forecast the sales figures in the future. Sales forecasting enables various budgets to be prepared for different functions in the organization and objectives and strategies to be set at various levels.

Accept any other relevant explanation.

Award [1 mark] for a relevant benefit identified and [1 mark] for an appropriate explanation up to a maximum of [2 marks].

- (ii) **Distinguish between seasonal *and* cyclical variations to predict sales trends.** **[4 marks]**

Seasonal variations are used to adjust the predicted sales from the trend within one year to make a more accurate prediction for a specific quarter (season). The forecaster adjusts the predicted seasonal trend by the average fluctuation in the previous season.

Over time, **cyclical fluctuations** occur in the sales figures due to the variation in the business / economic cycles. The changes are the result of recessions and booms in the economic cycle. To make the forecasted figures from the trend more accurate, a forecaster adjusts the predicted sales figures by the average of the cyclical variations.

[1 to 2 marks]

Award **[1 mark]** for an answer that shows some basic knowledge of the concepts *eg* brief definitions of seasonal and cyclical variations. Award **[2 marks]** for a theoretical answer that shows some clear, basic knowledge of the difference between seasonal and cyclical variations.

[3 to 4 marks]

For **[3 marks]** the candidate links either seasonal or cyclical variations to sales trends. For **[4 marks]** there is distinction between seasonal and cyclical variations and how they are used to **adjust** the originally predicted/forecasted sales which was based on the trends.

- (c) **Examine the usefulness of traditional secondary research to identify market trends and for forecasting.** **[6 marks]**

The traditional method of collecting past secondary data and to make forecasts can be seen as useful/relevant/reliable tool when the market is stable or slow changing and when the forecast is done for a very short period. Moreover, the traditional method of collecting secondary sources and forecasting could also be seen as reliable if the sources are known as reliable and unbiased. Collecting data that already exists can save time and effort for the researchers.

However, the main assumption that what happened in the past will likely happen in the future is overly simplistic and often inaccurate, given the fast moving and often unstable both internal and external environment. The figures used may be outdated and to some extent also unreliable – it depends on who collected the figures; and how. Long-term forecasts from the trend are likely to be less reliable.

Accept any other relevant points for and/or against.

Accept any other relevant examination.

N.B. Candidates may emphasize more the issue of forecasting, or the issue of secondary sources, give credit for both.

If the response does not address the issue of forecasting award up to **[4 marks]**.

For a text book response that covers the advantages and/or disadvantages of secondary research as oppose to primary research, award **[2 marks]**.

It is **not** expected that candidates will include all of the above points in their answer.

A balanced response is one that covers at least **two** issues for and at least **two** issues against.

For one relevant issue that is one-sided, with no examination, award up to a maximum of **[3 marks]**.

For one relevant issue that is balanced, with examination, award up to a maximum of **[4 marks]**.

Marks should be allocated according to the mark-bands on page 3.

- (d) Evaluate the use of “social media to collect online messages in order to understand consumers’ moods” for making market predictions. [9 marks]**

One may argue that the use of social media to discover consumers’ moods and to make market predictions is the most up to date advanced way to do so. It gives real-time information rather than relying on the use of old data.

More people are now using the various types of social media, so the size of the market is big enough for meaningful results. The statistics clearly demonstrate a significant growth of users.

Many customers are unfazed by researchers and moreover, are willing to constantly share information and opinions with anybody who might be interested.

The technological advancement also makes the process more accurate and definitely cheaper and quicker.

Increasingly, better known companies use social media to communicate with their current and potential customers. The use of social media for market research can be seen as a natural progression. Many customers are very willing to share their opinion, thoughts, habits, *etc.*

Accept any other relevant issue.

However, Mr Watts, an Internet researcher at *Yahoo!* said that “to be useful, a forecasting technique must add something new to what is already known. The use of social media will only add value to forecasting if other sources of information are limited”. Researchers might just get some obvious information that is open for all to see.

Sophisticated methods based on natural language analysis of tweets, blogs or *Facebook* pages currently use / hold “disruptive potential”. Information might be gathered only from the people who are more technologically savvy, or are more open to share information at all times. Some possible misleading information or

at least unrepresentative information might be gathered. See the statistics of the user of *Twitter*. The information gathered might enable various companies to target Caucasians well who are young. Other age groups and other ethnic groups might be ignored or not well served. While it might be useful for some organizations, it might not be useful for others like those who want to research the older segments of the population, or mainly non-Caucasian groups. Also, some issue of censorship in some countries may still exist.

Accept any other relevant argument.

On balance / in conclusion:

Given the fact that more and more people and commercial companies use some sort of social media, it looks as if such research can be very useful for some organizations. For others, it is clearly not. Researchers need to be aware of the targeted sample and the fact that others might also have the same information and may possibly deliberately misinform. Provided that the market research is not solely carried out through the use of social media, one might conclude that the use of social media for market research and further predictions can be judged as useful and efficient provided that the researchers are aware of the limitations and use other methods as well. Moreover, the availability of technology that can recognize sarcasm, cultural differences and so on is a major positive argument in favour of the use or possibly the growing use of social media.

Accept any other substantiated judgment.

A balanced response is one that covers at least **two** arguments in favour and at least **two** arguments against.

For one relevant issue that is one-sided, award up to **[3 marks]**. If the response is a one-sided relevant approach with no analysis/examination award a maximum of **[4 marks]**.

Award a maximum of **[5 marks]** 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 **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

Marks should be allocated according to the markbands on page 4.

5. (a) Define the term *patent*. [2 marks]

A patent is the exclusive right, granted by a government, to make use of an invention or process for a specific period of time. It gives the inventor the intellectual property rights to the invention.

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* problem faced by a new business start-up. [2 marks]

The problems may include finding the following:

- the funds
- the lack of the product differentiation / USP
- difficulties in recruiting suitable and experienced employees
- the lack of an established relationship with suppliers
- the costly and time-consuming legal aspects
- a lack of experience in strategic decision making
- *accept any other relevant problem.*

Accept any other relevant description.

Award [1 mark] for a relevant problem identified and [1 mark] for a full, clear description that conveys knowledge and understanding, up to a maximum of [2 marks].

(c) **Explain the role and importance of research and development (R&D) for Kodak.** [6 marks]

The **role** of R&D is to conduct extensive research into features, designs, testing of prototypes and so on in order to develop a new / unique, innovative product. By doing so:

- More value being added over and above the cost of resources – R&D plays an important role in lowering the costs of resources or their processing
- Rapid and successful R&D provided a competitive advantage to *Kodak* in the film processing business. *Kodak* enjoyed, and could have enjoyed with subsequent products, a first mover advantage by product differentiation. Its R&D did result in new products, as stated in the stimulus, digital cameras, photo viewing and photo sharing products, R&D was very important for *Kodak* earlier on.
- R&D can improve brand perception (as an innovator) and acts as a barrier to entry for other competitors.

The above can result in an improved new and large product range, greater appeal to a broader range of market segments and better performance in terms of lower costs, higher revenue.

Kodak understood the role and the importance of R&D. The above should have led to a long- (as well as short-) term success. *Kodak* dominated the film processing industry for a long while.

Accept any other relevant explanation.

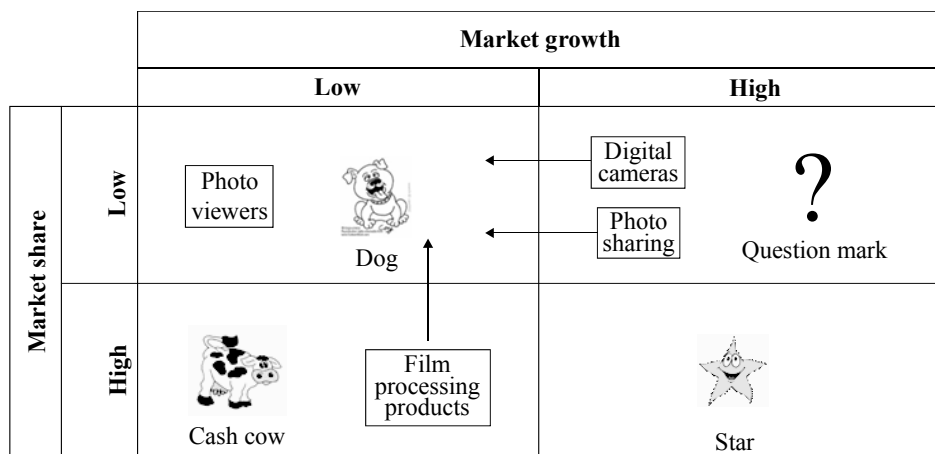
N.B. A clear distinction between the role and importance is not expected.

Award [1 to 2 marks] if the response is limited and descriptive. There is no or limited reference to the stimulus material (name only) and the response is mainly theoretical.

Award [3 to 4 marks] if the explanation lacks some depth and less than two issues are covered. The candidate has referred directly to the stimulus material. A response that is based on the issue of market research without covering the issue of development, award up to [3 marks].

Award [5 to 6 marks] if the explanation is detailed **and** covers at least two issues. The candidate has referred directly to the stimulus material. For [6 marks] a clear distinction between research and development should have been made.

- (d) Using the Boston consulting group (BCG) matrix, examine the reasons for *Kodak's* bankruptcy. [6 marks]



The BCG matrix may look like the one above.

On one hand, the **film processing cameras** were clearly different from the others. These products went through the full product life cycle, became cash cows and eventually, went into decline and became dogs. It is stated in the stimulus that *Kodak* had long dominated the market. *Kodak* quite likely used/milked the cash from these products to develop and promote the other products mentioned in the stimulus. It appeared that the **film processing cameras had a long maturity and saturation stages eventually** moved from being a cash cow to becoming a dog so one may argue that the issue of developing, introducing and managing new products was not a contributor to the bankruptcy.

On the other hand, the **photo viewer market** was the wrong market for *Kodak* as the market had low growth and they were not the leader; clearly the *Kodak* photo viewers became dogs soon after being a question mark. Hence the management of this product can be seen as a contributor to the bankruptcy.

Moreover, the **digital and photo sharing cameras** had potential that was realized to a small extent only / never realized. For the **digital cameras**, *Kodak* did not sufficiently develop the technology. *Kodak* also failed to patent some of its innovation (photo sharing). Better innovation by other firms pushed these products to the dog position very rapidly.

While *Kodak* did attempt to develop various new products – a process that was very expensive given the technological and competitive nature of the market – and introduced these products into the market, it appears that *Kodak* managers did not manage to keep a balanced portfolio of products. Not enough revenue and profit was generated when the cash cow started to become a dog. Hence, despite innovation and product development, the type of the new products as well as the management of the profile can be seen as the reason for *Kodak's* bankruptcy.

N.B. The candidate may draw a different BCG matrix where the market share and the market growth axis are reversed. It is expected that the BCG matrix shows some movement of the products. It is not sufficient to only place all the products in the dog quadrant without an explanation of how they might have arrived there.

N.B. If the candidate does not make use the BCG matrix either by drawing or describing then they can only achieve a maximum of **[2 marks]**.

Award **[1 to 2 marks]** if the response is limited and descriptive and covers less than **three** products and the answer does not look at the movement of the products. Award **[0 marks]** if the matrix only is presented. Award up to **[2 marks]** if the matrix only is accurately drawn and there is an attempt to place some of the product.

Award **[3 to 4 marks]** if the examination is limited and lacks some balance but covers **either** less than the **four** products **or** the answer does not look at the movement of the products. For one relevant issue that is one-sided, with no examination, award up to a maximum of **[3 marks]**. For one relevant issue that is balanced, with examination, award up to a maximum of **[4 marks]**. For a balanced and accurate examination without drawing the BCG matrix, award up to **[4 marks]**.

Award **[5 to 6 marks]** if the examination is detailed and balanced by covering some positive comments on *Kodak's* product portfolio. The answer covers all **four** products. The answer looks at the movement of the products. A balanced response is one that covers at least **two** issues for and at least **two** issues against.

- (e) **With reference to *Kodak* and one other organization of your choice, evaluate the merits of small versus large organizations.** **[9 marks]**

It appears that *Kodak* as a relatively large organization has sufficient finance for R&D as *Kodak* introduced a number of new products throughout the years. Therefore, greater product range can be seen as an advantage of a large organization. The risk of relying on one or very few market segments is much reduced. Large organizations can benefit from global brand recognition as *Kodak* did and enjoy different types of economies of scale; purchasing, marketing, managerial and so on. However, it may be argued that *Kodak* was overly confident perhaps due to its size and its success with the film processing business and did not pay attention to other competitors' new product and marketing strategies until it eventually went bankrupt.

Perhaps being a large organization did not enable *Kodak* to operate in a niche market like small competitors might do. Small organizations can channel their more limited resources to satisfy the needs of a niche market or a small segment and become extremely customer focused. Customers' needs are likely to be satisfied with perhaps more personalized service and close contact. Perhaps *Kodak* as a large organization was not aware of the changing needs of the customers.

Kodak lacked the flexibility like a small organization to respond to the changing need of customers and to become innovative like some small startup companies did with their innovative products.

A small start-up company may be more reluctant to take risks with its product as it has to create a USP and compete against large companies like *Kodak*. The increasing number of start-ups especially in this highly technological industry is evident.

Conclusions/judgment:

It is not expected that a definite verdict is given. It is evident that even larger organization like Apple performed very well, however, there are some current issues with innovation. Many start-up companies become successful after being small but many aim to grow – *Facebook, Twitter, Google*.

There is no explicit evidence that *Kodak* failed due to its size. The conclusions in the last part of the stimulus do not refer to size but to strategic vision, to the failure due to new products that were taken off the market too quickly, a failure to patent innovation and being afraid of cannibalism. Perhaps size does not matter but management vision/ attitude to risk and so on does.

Accept any other relevant point for or against a large organization. These points may be theoretical.

Accept any relevant evaluation incorporating any benefits such as those above.

N.B. Flexibility in marking is very important in this case given the different nature of the question. Expect more reference to *Kodak* rather than specific application to another organization.

Do not penalize if a specific name of a small organization is not given. Expect some comparison between large and small organizations.

A balanced response is one that covers at least **two** arguments in favour and at least **two** arguments against.

For one relevant issue that is one-sided, award up to **[3 marks]**. If the response is a one-sided relevant approach with no analysis/evaluation award a maximum of **[4 marks]**.

Award a maximum of **[5 marks]** 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 **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

Marks should be allocated according to the markbands on page 4.



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**BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 2**

Monday 21 May 2012 (morning)

2 hours 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer two questions.
- A calculator is required for this examination paper.
- Clean copies of the ***Business and Management*** formulae sheet and discount tables are required for this examination paper.
- The maximum mark for this examination paper is [75 marks].

SECTION A

Answer **one** question from this section.

1. Safe Passage (SP)

Trent Peters is one of seven partners at *Safe Passage (SP)*. It provides bodyguard* services to film stars, politicians and other important people in Europe and the Americas. Trent would like to satisfy a growing demand from Asia but has to choose from two options for the recruitment and training of bodyguards. These are:

- offshoring by setting up it's own overseas branch in Asian country X or Y or Z
- subcontracting by using an external agency in Asian country X or Y or Z.

The forecast costs and revenues of offshoring are given below (all figures in US\$ millions):

Option	Forecast costs	Forecast revenue if successful	Forecast revenue if not successful
		Probability: 0.3	Probability: 0.7
1. Offshore to country X: has a history of earthquakes, good infrastructure	4	19	2
2. Offshore to country Y: has no history of earthquakes, poor infrastructure	5	16	4
3. Offshore to country Z: under reconstruction after a recent earthquake	6.4	21	4.2

The forecast costs of subcontracting to the same Asian countries are given below:

Country X: US\$1.5 million.

Country Y: US\$2.8 million.

Country Z: US\$4.2 million.

* bodyguard: a person who is responsible for protecting a person from harm

(This question continues on the following page)

(Question 1 continued)

The three suitable Asian countries are located in earthquake zones. An earthquake expert assured Trent that all three areas are safe. Trent is concerned and decides to prepare a contingency plan for each possible location in Asia.

Control over recruitment and training of bodyguards is vital to *SP*. Customer service and trust are their unique selling propositions (USP). Clients will pay high fees to ensure their safe transport to concerts, meetings and important events. However, Trent is refusing valuable contracts in Asia due to a lack of suitably trained bodyguards. As a result *SP* is missing out on large profits.

Trent has mentioned to a previous customer of his plans to subcontract the recruitment and training of bodyguards. She has threatened not to use *SP* again and would tell her friends if the plans went ahead. Trent is concerned as word-of-mouth promotion is crucial to *SP*.

He calls a meeting of all the partners. Three partners prefer subcontracting the recruitment and training as it is cheaper, quicker and less risky. The three other partners prefer offshoring. They believe that subcontracting will damage *SP*'s USP. They argue that the higher costs of offshoring will be covered by the forecast high revenue.

- (a) Describe **two** features of a partnership. *[4 marks]*

- (b) Explain **two** benefits and **one** cost to *SP* of preparing a contingency plan of the three possible locations in Asia. *[6 marks]*

- (c) (i) Construct a fully labelled decision tree and calculate the predicted outcome of each offshoring option (*show all your working*). *[6 marks]*

(ii) Comment on the value for *SP* of using a decision tree as a decision-making tool. *[3 marks]*

- (d) Examine **two** disadvantages for *SP* of subcontracting its recruitment and training of bodyguards. *[6 marks]*

2. GF

Barbara Johnson manages a small business (*GF*) that produces and sells gluten-free* bread. *GF* has been recognized for meeting national quality standards for gluten-free bread which has helped increase sales. Local supermarkets sell their own label brands of gluten-free bread which do not meet national quality standards at a price 20% cheaper than *GF*. Barbara aims to make national quality standard gluten-free bread more affordable and in larger batches.

GF has 21 employees. Four are gluten-sensitive (intolerant) testers who check the quality of the final bread. This traditional method of quality control is important, but takes significant time and resources.

Several hospitals have asked if *GF* can provide them with an additional 1200 loaves of gluten-free bread every day for the next year. Barbara is keen, however in a small market like this, becoming larger does not automatically result in economies of scale. *GF*'s suppliers cannot provide larger quantities of gluten-free flour without increasing their prices and consequently *GF*'s costs.

Barbara has two options:

- Option 1: Increase *GF*'s production of gluten-free bread and maintain national quality standards by introducing total quality management (TQM) control at a one-off cost of \$4000. This should also speed up the batch production process.
- Option 2: Buy-in the additional 1200 loaves from the company that supplies the local supermarkets and then sell this bread to the hospitals. However this supplier uses flow production and does not meet national quality standards.

The sales price per loaf of *GF* bread is \$6.80 regardless of the option chosen.

Barbara prepared the following figures for each option (in \$):

Option 1: Increase *GF*'s production to make the additional 1200 loaves.

Fixed costs: one-off cost from introducing TQM	4000
Semi-variable costs: additional electricity costs	2000 + an additional 0.20 per loaf baked
Variable costs: additional gluten-free flour overtime pay for staff	0.80 per loaf 0.40 per loaf

Option 2: Buy-in the additional 1200 loaves.

Total variable cost of buying in 1200 loaves from local supermarkets' supplier	7200
--	------

* gluten: a protein found in wheat (flour) which causes health problems for those who are sensitive (intolerant) to it

(This question continues on the following page)

(Question 2 continued)

- (a) Identify **two** features of an own label brand. *[2 marks]*

- (b) Define the term *economies of scale*. *[2 marks]*

- (c) Explain **two** benefits and **one** cost to *GF* of meeting national quality standards for its bread. *[6 marks]*

- (d) (i) Calculate the variable cost per loaf to *GF* if they buy-in the additional 1200 loaves from the local supermarkets' supplier. *[1 mark]*

- (ii) Using relevant information given, calculate whether *GF* should either buy-in the additional 1200 loaves from the local supermarkets' supplier, or make the loaves themselves (*show all your working and state any assumptions you make*). *[5 marks]*

- (iii) Comment on whether *GF* should make or buy-in the additional 1200 loaves. *[3 marks]*

- (e) Analyse **two** reasons why *GF* should move from traditional quality control methods to a TQM approach. *[6 marks]*

SECTION B

Answer **two** questions from this section.

3. The \$1.99 toy shop

James Lai's toy shop is popular with no toy priced above \$1.99. The toy shop uses psychological pricing at a level much lower than its competitors. James imports 90% of his stock from China. It is located in a poor part of the city centre. Its target market is low-income families. The shop is very busy at weekends with a long queue (line) at the one cash register. Most employees are teenagers, who are very low paid.

Several stakeholder groups have complained:

- parents are concerned about the quality and safety of the toys and have set up an online social networking web site urging people to stop purchasing from the shop
- older customers have complained about the long queue at the one cash register
- one employee representative (union official) contacted James about employing teenagers on very low wages
- local toy manufacturers have questioned James' use of Chinese suppliers.

Competitors have argued that the \$1.99 toy shop's psychological pricing method is unethical. James replied to stakeholder concerns, in a letter to a local newspaper, by stating that his shop allows young children to purchase affordable toys and provides job opportunities for teenagers. James has decided to create a social networking web site to respond to critics and to manage customers' perceptions.

James admits that the rate of stock turnover could be improved. He admits that the long queue is causing many customers to leave without buying anything. James is considering opening a second, larger toy shop called \$4.99. He announced the opening on his social networking web site, informing stakeholders that he would stock higher quality products and have more cash registers. However, he immediately received negative online feedback from customers who saw the \$4.99 toy shop as just a \$3 price increase for the same toys.

(a) Define the following terms:

(i) *target market* [2 marks]

(ii) *stock turnover.* [2 marks]

(b) Explain **two** disadvantages of James using psychological pricing. [6 marks]

(c) Analyse **two** possible conflicts between stakeholders of the \$1.99 toy shop. [6 marks]

(d) Discuss whether the introduction of the \$4.99 toy shop as a new strategy will change customer perceptions of James' two shops. [9 marks]

4. Motuoro High School (MHS)

Motuoro High School (MHS) is a new residential (boarding) school for 16–18 year olds. It is a public-private partnership funded 60 % by the state and 40 % by the private sector.

The school has two managers:

- Charles Ledger, a government official, who is responsible for finance.
- Julian Santiago, a successful businessman, who manages the daily operations.

Julian was asked to help set up *MHS* as a new innovative and flexible school. He interviews all new students. They can choose to attend classes or telework from their rooms. *MHS* has an up-to-date Internet system to provide communication and educational resources. It has a flat organizational structure. Teachers and students are at the same level of hierarchy, but below Charles and Julian.

The teachers were selected by Julian and did not sign contracts. Julian and the students meet to decide together on the appraisal process for teachers. The teachers themselves are not present at these meetings.

MHS provides teachers with free accommodation, food and a generous salary. 12 months ago a television series about the opening of the school gave it enormous publicity. This led to many applications from potential students and teachers.

However, a number of problems have now emerged. New student applications are decreasing. Government funding has been reduced. A number of students are missing classes or not submitting work. Teachers are insisting that *MHS* provide contracts. They are also concerned that the informal organization within the school is having too much influence on Julian's decision making. One frustrated teacher complained to Charles without Julian knowing. This caused an issue between Charles and Julian. Julian wanted to dismiss the teacher, but Charles was concerned that dismissing the teacher would have led to strike action. This would have created unwelcome publicity at a time when student numbers were falling. Julian suggested that a no-strike agreement should be put in place and that teachers should consider working at *MHS* as a privilege. The meeting finished without a resolution.

(a) Define the following terms:

(i) *appraisal* [2 marks]

(ii) *strike action*. [2 marks]

(b) Explain **one** advantage and **one** disadvantage to the two managers of *MHS* being a public-private partnership. [6 marks]

(c) Analyse the importance of the informal organization to *MHS*. [6 marks]

(d) Discuss **two** approaches to conflict resolution at *MHS*. [9 marks]

5. Columbo Coffee (CC)

Columbo Coffee (CC) is a family business that produces four espresso coffee machines. *CC*'s objective is to provide the highest quality machines, but it is currently unprofitable.

Espresso coffee machine model	Price in \$	Existing market share	Future market growth
The Ventura	3000	Low	Low
The Crema	5000	High	High
The Rocket	1000	High	Low
The Fortuna	2000	Low	High

A marketing audit of the four espresso machines had the following results:

- The Ventura was *CC*'s best selling espresso coffee machine. It has the strongest brand loyalty of all four machines, but has been suffering from overseas competition. Many customers of The Ventura want a new, improved version. However, because of its weak financial position, the company has not been able to develop it.
- The Crema is *CC*'s exclusive luxury espresso coffee machine. Considerable publicity for *CC* was gained when it featured in a recent popular television series. Sales of The Crema are forecasted to grow further despite its high price.
- The Rocket has been very successful. However, technical problems have resulted in many customers returning their machines. Reduced brand loyalty and quality control are significant concerns.
- The Fortuna is the company's newest model. It was developed to replace The Ventura but consumer resistance has forced *CC* to keep The Ventura in production. The Chief Executive Officer (CEO) of *CC* sees The Fortuna as a potential market leader, but to achieve brand awareness this would require most of *CC*'s limited marketing budget.

The CEO of *CC* is considering reorganizing the four espresso coffee machines into separate cost centres.

However, before any decision is made the CEO receives an offer from its main competitor to work together. As part of a strategic alliance, the competitor will provide funds to allow *CC* to finance extension strategies or enter new international markets. The only condition is that The Ventura is discontinued. The family is divided. Some family members are worried about the impact of the business losing its most recognizable brand. Others think the competitor's offer will allow *CC*'s other three machines to achieve their full market potential.

(This question continues on the following page)

(Question 5 continued)

- (a) Define the following terms:
- (i) *market share* [2 marks]
 - (ii) *extension strategy*. [2 marks]
- (b) Explain **two** values of a marketing audit as a business tool for *CC*. [6 marks]
- (c) Analyse the implications for the CEO of converting *CC* into four cost centres. [6 marks]
- (d) Discuss whether the family should accept the offer of a strategic alliance with its competitor. [9 marks]
-



MARKSCHEME

May 2012

BUSINESS AND MANAGEMENT

Higher Level

Paper 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
Q1 (d)	Q2 (e)	Q3 (c)	Q4 (c)	Q5 (c)	
Marks 0–6					
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.
5–6					<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 0–9			
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, concepts and theories.• 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.
5–7			<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.
8–9			<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* features of a partnership.

[4 marks]

Features could include the following:

- up to 20 partners depending on the country of operation
- limited or no requirement for published accounts depending on country of operation
- unlimited liability for partners
- a written agreement / deed of partnership to be drawn to decide on responsibilities / profit and loss sharing / conflict resolution
- responsibilities are shared as well as risk and profit
- *accept any other relevant feature and description.*

N.B.

- Features are attributes and are **not** advantages or disadvantages of this organizational form.
- Do **not** accept “that partners may disagree with each other”.
- Do **not** credit separately “the share of responsibility, profit and risk” (*count as one answer*).

Mark as 2+2.

Award [1 mark] for identifying each appropriate feature and [1 mark] for an appropriate description up to a maximum of [2 marks].

- (b) Explain *two* benefits and *one* cost to *SP* of preparing a contingency plan of the three possible locations in Asia. [6 marks]

Possible benefits could include:

- A contingency plan enables *SP* to be proactive with regards to possible changes in the environment and to avoid crisis management. This planning enables Trent to cope with some negative effects in various countries and to reduce the risk of the unknown especially given the concern with regards to the earthquake / natural problem.
- It allows *SP* to reassure clients that their safety is crucial and that the company is planning ahead as far as possible to cover any possible problem.
- The contingency plan could be used in *SP*'s marketing materials to illustrate to new clients that *SP* provides the best service available to protect their USP.
- The contingency plan will allow *SP* to continue to charge high fees given the added value the contingency plan would add to the service the company offers.
- *Accept any other relevant benefit.*

Possible costs could include:

- Opportunity costs of researching and preparing the contingency plan, in addition to any other financial costs such as hiring suitable consultants to advise *SP*.
- *Accept any other relevant cost.*

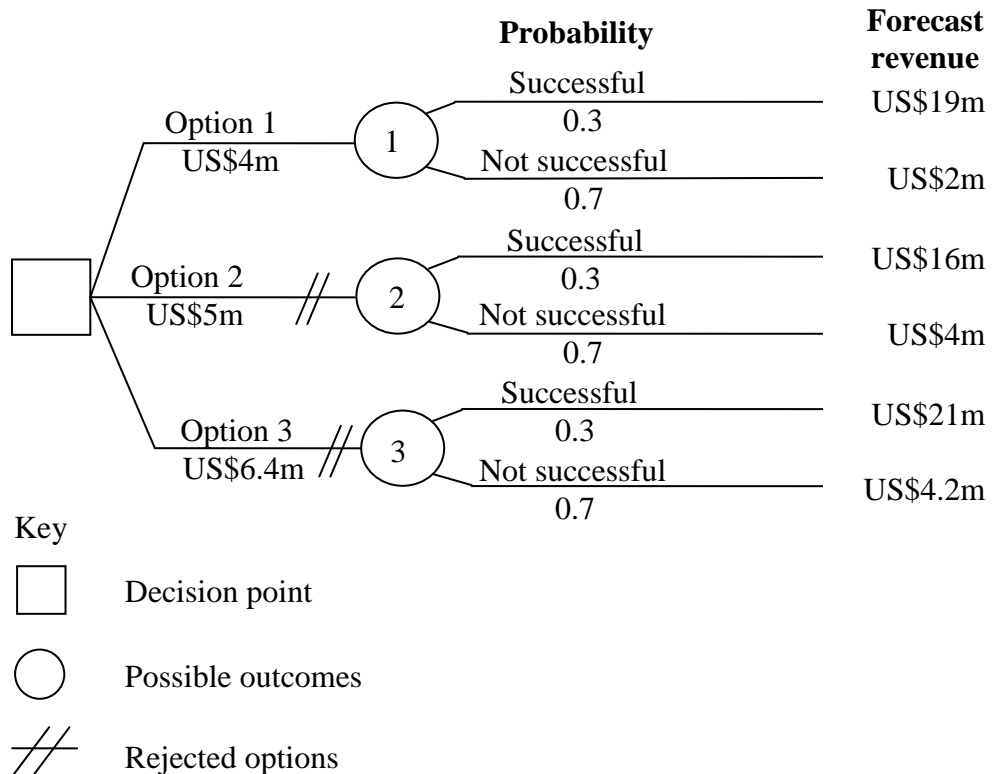
Accept any other relevant explanation.

Mark as 4 + 2.

Award [1 mark] for identifying **each** appropriate benefit to *SP* of preparing a contingency plan up to a maximum of [2 marks] and [1 mark] for an appropriate explanation of **each** benefit that directly refers to *SP* up to a maximum of [2 marks]. [4 marks] in total for two benefits.

Award [1 mark] for identifying **one** appropriate cost to *SP* of preparing a contingency plan and [1 mark] for an appropriate explanation that directly refers to *SP* up to a maximum of [2 marks].

- (c) (i) Construct a fully labelled decision tree and calculate the predicted outcome of each offshoring option (*show all your working*). [6 marks]



EMV of Option 1 = $(19 \times 0.3) + (2 \times 0.7) = 5.7 + 1.4 = 7.1\text{m} - 4\text{m} = \text{US\$}3.1\text{m}$
 EMV of Option 2 = $(16 \times 0.3) + (4 \times 0.7) = 4.8 + 2.8 = 7.6\text{m} - 5\text{m} = \text{US\$}2.6\text{m}$
 EMV of Option 3 = $(21 \times 0.3) + (4.2 \times 0.7) = 6.3 + 2.94 = 9.24\text{m} - 6.4\text{m} = \text{US\$}2.84\text{m}$

[1 to 2 marks]

The decision tree is not accurately constructed, the calculations of each option are not all presented or accurate, but there is some evidence of a general knowledge of the model.

[3 to 4 marks]

The principal elements of the decision tree are constructed, but may not be entirely accurate. The calculations of each option are largely correct and clearly presented at the top end of the markband. Working may not be shown.

[5 to 6 marks]

The decision tree is accurately constructed. The calculations of each option are correct and well presented. For [6 marks] a key is provided. Workings are shown.

N.B. For an accurately constructed decision tree with incorrect calculations, award up to a maximum of [5 marks].

- (ii) **Comment on the value for *SP* of using a decision tree as a decision-making tool.** **[3 marks]**

The decision tree will allow *SP* to:

- visually represent all possible offshoring options
- quantify the outcomes of each option in terms of expected values compared to cost
- incorporate the probabilities of the outcomes
- decide on an appropriate course of action based on quantitative factors only.

Given the substantial non-financial factors in the stimulus (such as the level of earthquake risk) surrounding the contingency plan, the lack of non-financial considerations of the decision tree calculations reduces the value of the decision tree to *SP* as a decision-making tool.

Accept any other relevant comment.

N.B. It is **not** expected that the candidate produce a balanced response.

Apply candidate Own Figure Rule (OFR).

Award up to a maximum of **[3 marks]** for at least **two** relevant comments.

Award up to a maximum of **[2 marks]** if there is no relevant application to *SP*.

- (d) **Examine *two* disadvantages for *SP* of subcontracting its recruitment and training of bodyguards.** [6 marks]

The subcontracting of the recruitment and training to an external agency will create disadvantages for *SP*.

Possible disadvantages could include:

- Direct financial costs like setting up the contract/relationship.
- There might be issues of quality and hence the delivery of the service. *SP*'s USP may be seriously eroded. *SP* may lose control of the whole quality of the bodyguard and the delivery of the service. It is mentioned in the stimulus material that quality of the service is vital to *SP*. One may say that *SP* outsources its core activity.
- Uncertainty about how the new external agency could impact on *SP*'s perception in the eyes of their customers. This is important given the importance of word-of-mouth promotion and the need to maintain the quality of customer service. One customer has already threatened not to use the service of *SP*.
- Costs of monitoring and maintaining the new subcontracting relationship.
- There could be considerable cultural issues to take into account when trusting and transferring these key functions to an external agency as it would appear that *SP* have limited experience of working within Asia.
- There will be time delays in establishing a new working relationship.
- *Accept any other relevant disadvantage.*

However / possible balance:

- *SP* need to move quickly as the business is missing out on potential profits. Subcontracting to a specialist might enable *SP* to respond more quickly.
- It is stated that this option is cheaper (set-up cost) than offshoring.
- Perceived as “less risky” compared to offshoring as the decision can be more easily reversed in case the expected new level of demand in Asia is not sustained and thus is a much cheaper option than setting up an overseas branch.

Accept any other relevant examination.

N.B. It is **not** expected that the candidates incorporate all of the above points/issues.

For one relevant disadvantage that is one-sided, with no examination award **up to** a maximum of [3 marks]. For two relevant disadvantages that are one-sided, with no examination award **up to** a maximum of [4 marks].

Marks should be allocated according to the markbands on page 3.

2. (a) **Identify *two* features of an own label brand.** [2 marks]

Features could include:

- A product created for a retailer by a supplier/manufacturer to be sold under the retailers own name or label.
- The own label branded product is commonly sold at a price by the retailer which is below the suppliers/manufacturers own branded price. For example, the supermarkets own brand of gluten-free bread may be cheaper than that of the suppliers' brand.
- *Accept any other relevant feature.*

Award [1 mark] for each correct and relevant feature identified up to a maximum of [2 marks].

(b) **Define the term *economies of scale*.** [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. They can include managerial, financial and marketing.

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 similar to the answer above.

For **only** a relevant: example **or** application to the stimulus award [1 mark].

- (c) **Explain *two* benefits and *one* cost to *GF* of meeting national quality standards for its bread.** **[6 marks]**

Possible benefits could include:

- Marketing / USP especially.
- A point of difference from a major competitor like local supermarkets that do not meet the national quality standards, with an opportunity to build substantial brand loyalty and to charge higher price (by 20 %).
- Motivation for existing workers as they are working for a business recognized for its quality. Motivated employees may further increase efficiency and quality of the products.
- Recruitment of future workers may be quicker and hence cheaper especially if *GF* wishes to expand. Similarly, staff turnover may be low.
- *Accept any other relevant benefit.*

Possible costs could include:

- Costs will revolve around complying with the requirements of the national quality standards such as buying technology, training, maintaining quality of ingredients *etc.*
- Costs of certification or obtaining a license or certificate.
- Inspection costs by outside agencies.
- *Accept any other relevant cost.*

Accept any other relevant explanation.

Mark as 4 + 2.

Award **[1 mark]** for identifying **each** appropriate benefit to *GF* of meeting national quality standards up to a maximum of **[2 marks]** and **[1 mark]** for an appropriate explanation of **each** benefit that directly refers to *GF* up to a maximum of **[2 marks]**. **[4 marks]** in total for two benefits.

Award **[1 mark]** for identifying one appropriate cost to *GF* of meeting national quality standards and **[1 mark]** for an appropriate explanation that directly refers to *GF*.

- (d) (i) **Calculate the variable cost per loaf to GF if they buy-in the additional 1200 loaves from the local supermarkets' supplier.** [1 mark]

Variable cost to GF per loaf from buying-in the additional 1200 loaves

$$= \frac{7200}{1200} = \$6$$

Award [1 mark] for the correct answer.

- (ii) **Using relevant information given, calculate whether GF should either buy-in the additional 1200 loaves from the local supermarkets' supplier, or make the loaves themselves (show all your working and state any assumptions you make).** [5 marks]

Any relevant methods used by the candidate should be rewarded provided the method used is accurate and full workings and any assumptions (if any) are shown. Candidates may calculate the contribution from each option or compare total costs in order to reach the answer. **However**, allow for any other relevant method of calculation provided workings are shown and stages are explained.

Candidates are also expected to clearly present their calculations / findings. Some examples of calculations that could be included are shown below (all figures are in \$):

Method 1 (contribution costing):

To buy-in 1200 loaves

Contribution from buying-in is $6.8 - 6 = 0.8$ per loaf.

Additional contribution from buying in is $0.8 \times 1200 = \$960$.

Apply candidate Own Figure Rule (OFR).

To make 1200 loaves

If candidates assume that the semi-variable component is added at the contribution stage:

Contribution from making $= 6.8 - 1.2 - 0.2 = 5.4$.

Total contribution increase $= 5.4 \times 1200 = 6480$.

But increase in fixed cost 4000 (one-off cost) + 2000 (semi-variable component) $= 6000$.

Hence net contribution increase is $\$480$ ($6480 - 6000$).

If candidate assumes that the semi-variable 0.2 per loaf is absorbed into the fixed costs:

Contribution from making $= 6.8 - 1.2 = 5.6$.

Total contribution increase $= 5.6 \times 1200 = 6720$.

But increase in fixed costs $4000 + 2000 + (1200 \times 0.2) = 6240$.

Increase in contribution from making themselves is still \$480 (6720 – 6240).

GF should buy-in the 1200 loaves as the contribution is higher at \$480 (960 – 480).

However the 4000 fixed cost is a one-off payment and subsequent additional loaves for the hospitals will not have to incur this cost and contribution from making will be higher than buying-in:

For the following year:

Contribution from making = $6.8 - 1.2 - 0.2 = 5.4$

Total contribution increase = $5.4 \times 1200 = 6480$

Fixed cost = 2000 (semi-variable component)

Hence contribution increase is \$4480 (6480 – 2000) compared to \$960 from buying-in the 1200 loaves.

Method 2 (total cost approach):

Cost to buy = 7200 (from stimulus)

Cost to make = $FC + (VC \times Q)$

$$= (4000 + 2000) + ((0.2 + 1.2) \times 1200)$$

$$= 6000 + 1680$$

$$= 7680$$

GF should buy-in to make a cost saving of: $7680 - 7200 = \$480$.

Accept any relevant method used.

Apply Own Figure Rule (OFR) if the original calculations are not accurate. Do not double penalize.

[1 to 2 marks]

The calculations for making the 1200 loaves and buying-in the 1200 loaves are inaccurate and/or not well presented. If the final figures are presented without any working, award a maximum of **[2 marks]**.

[3 to 4 marks]

The calculations for making the 1200 loaves and buying-in the 1200 loaves are largely accurate, but may be incomplete and/or not well presented. Workings are not clearly shown.

[5 marks]

The calculations for making the 1200 loaves and buying-in the 1200 loaves are accurate and well presented. Workings are clearly shown.

(iii) **Comment on whether *GF* should make or buy-in the additional 1200 loaves.** **[3 marks]**

- The 1200 loaves from the local supermarket supplier is cheaper than *GF*. For Barbara to fulfil the order she should buy-in.
- A major non-financial concern however, is that the local supermarkets' supplier does not meet national quality standards and Barbara will be forced to check this bread carefully. This "checking cost" may also lead to an increase in *GF*'s costs.
- Producing the loaves themselves incurs a one-off cost of \$4000. If *GF* produces more loaves in the future, Barbara will not incur additional future costs making the unit cost of making more loaves lower.

Accept any other relevant answer.

Apply candidate Own Figure Rule (OFR).

Award up to a maximum of **[3 marks]** for at least **two** relevant comments.

Award up to a maximum of **[2 marks]** if there is no relevant application to *GF*.

- (e) Analyse *two* reasons why *GF* should move from traditional quality control methods to a TQM approach. [6 marks]

Possible reasons could include:

- It may lead to productivity improvements as it is suggested that the current traditional quality control methods are time consuming. *GF* may be able to reduce future prices despite the current increase in cost of gluten-free flour making *GF* bread even more affordable.
- Long-run benefits once the new TQM system becomes established and workers are familiar with the new system and culture.
- The move to TQM may generate further orders if feedback from the hospitals is positive, allowing perhaps for flow production in the future. This could potentially reduce costs even further for *GF*.
- The practices of TQM like zero defects, quality chains, quality circles and so on will improve motivation given the empowerment, efficiency and productivity of *GF* employees. The benefits in terms of total revenue, costs and profit are obvious.

However / possible balance:

- TQM will require a change of culture within *GF*. Changing spans of control and job descriptions via job enlargement. Some employees may resist the extra responsibilities and the changes.
- There will be short-run transitional issues. Costs such as training will increase. There may need to be changes in appraisal and rewards packages.
- Short-run disruption to production at a critical time when a large order is anticipated.
- Some resistance to change may be evident with the redeployment of the existing four quality control employees. Quality will be now every employee's responsibility.

Accept any other relevant analysis.

N.B. It is **not** expected that the candidates incorporate all of the above points/issues.

For one relevant reason that is one-sided, with no analysis award **up to** a maximum of [3 marks]. For two relevant reasons that are one-sided, with no analysis award **up to** a maximum of [4 marks].

Marks should be allocated according to the markbands on page 3.

SECTION B

3. (a) Define the following terms:

(i) *target market*

[2 marks]

A target market is a chosen market by a business after carrying out market research to identify a particular segment of a total population (classified by age, gender, income level, lifestyle) and focus its marketing effort on that segment. In the stimulus the \$1.99 toy shop is aiming its products at the lower income segment.

Candidates are **not** expected to word their definition **exactly** as above.

Award [0 marks] if the candidate writes “a target market is when a business targets its products at a particular market”.

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) *stock turnover.*

[2 marks]

Stock turnover is the measurement of the speed with which a business sells out its stock. A ratio can be used to measure the above. Stock turnover is an efficiency ratio which measures how many times the current level of stock in a store is “sold” or turned over. It is usually measured in the number of trading days it takes to sell stock.

Candidates are **not** expected to word their definition **exactly** as above.

N.B. Do **not** credit the candidate who repeats the formula from the formulae sheet.

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* disadvantages of James using psychological pricing. [6 marks]

Disadvantages could include the following:

- Quality concerns of the low priced toys by customers. James may lose some quality conscientious parent customers.
- It will be difficult for James to be flexible around future pricing if the psychological price remains fixed at such low price in the minds of the customers. James' flexibility in terms of pricing decisions may be reduced.
- Some customers may perceive this pricing strategy as unethical especially when children are targeted with the toys. Consumer groups might spread bad publicity about James. James might lose customers, sales and hence profit.

Accept any other relevant explanation.

N.B. Award candidates that refer explicitly and/or implicitly to predatory / discount / competitive pricing and produce some relevant points with regards to these pricing strategies.

Mark as 3 + 3.

Award [**1 mark**] for identifying each appropriate disadvantage, [**1 mark**] for an appropriate explanation and [**1 mark**] for a further development of this explanation with reference to James or the \$1.99 toy shop up to a maximum of [**3 marks**].

Award up to a maximum of [**2 marks**] for each disadvantage if no relevant reference is made to the stimulus material.

(c) Analyse *two* possible conflicts between stakeholders of the \$1.99 toy shop. [6 marks]

A correct answer should analyse two conflicts to highlight both stakeholder positions. The potential conflicts from the stimulus are:

Conflict between the \$1.99 toy shop and	Nature of conflict
Local toy manufacturers	Use of Chinese suppliers
Parents	Quality concerns and safety of toys
Employee representative (union official)	Employing teenagers on very low wages
Competitors	Psychological pricing of the \$1.99 toy shop seen as unethical
Older customers	Queuing and customer service

Possible conflicts which could be applied:

- James is trying to provide employment opportunities for teenagers and toys for low-income families. James could argue that this is “ethical”. This stance may conflict with the demand of the employees’ representative who wants more money. A possible increase in wages may result in higher prices which can upset the loyal customers. They may feel that their interest is negatively affected. The \$1.99 toy shop may lose its customers and its competitive advantage. However, fewer customers may serve the interest of the older customers who are currently complaining about long queues and poor service. The service is likely to improve so a demand might increase on the older customers’ behalf. However, a possible higher price due to higher wages will serve the interest of the competitors but not the customers.
- Regarding the possible conflict between the competitors and James, there is no information in the stimulus material that the local authorities regard the toy’s pricing strategy as unethical, or an example of predatory pricing which is illegal in some countries. Perhaps the competitor prices are too high? James is not to blame for the \$1.99 toy shop being too popular.
- An interesting conflict is between the interests of the parents. On the one hand they would like cheap and affordable toys. On the other hand they are concerned about the quality of the imported toys from China.
- The creation of the social networking web site is a move by James to try and reduce the conflict by offering customers a chance to put forward their views, although this may not satisfy the older customers who may not feel comfortable in using social networking web sites.

Accept any other relevant analysis.

N.B. It is **not** expected that the candidates incorporate all of the above points/issues.

For one relevant conflict that is one-sided, with no analysis award **up to** a maximum of [3 marks]. For two relevant conflicts that are one-sided, with no analysis award **up to** a maximum of [4 marks].

Marks should be allocated according to the markbands on page 3.

- (d) **Discuss whether the introduction of the \$4.99 toy shop as a new strategy will change customer perceptions of James' two shops.** *[9 marks]*

There is considerable evidence from the stimulus that the new shop will address some of the current concerns which James faces. James has clearly taken on board many of the comments from the stakeholders. The major issue is whether customer perceptions will change accordingly to allow the \$4.99 shop to be viewed as a separate shop rather than the same shop as the \$1.99 toy shop selling the same products for \$3 more.

Possible analysis could include the following:

- It would appear that the \$1.99 toy shop has reached saturation and has become overcrowded. The new \$4.99 shop might allow James to increase stock turnover and provide better customer service. It is hoped that the new shop will change customer perceptions to be more favourable. However, James will have to promote the shop differently and explain the reasons for the increase in price.
- If some customers are willing to pay higher price for a less crowded shop and better service, the new shop will boost turnover and increase profitability assuming that direct costs remain the same. The new shop should also ease crowding in the \$1.99 toy shop. Hence, some customers might not see the point of opening a more expensive shop.
- The new \$4.99 shop may create confusion and hence will not change consumer perceptions. Although the price is twice as expensive it is still relatively cheap. The positioning of the new toys might not have changed considerably, or not at all. Customers may refuse to pay the extra price especially if imported from the same suppliers in China. James may lose his competitive advantage.
- If James is to move out of a poor area, will the new price, which is still rather low, be sustainable?
- James may have to spend a considerable amount of money on marketing in order to reposition his toys. This is quite unlikely to be successful given the fact that there is limited information in the stimulus material that the quality has increased and that James has found a different supplier. Many people might want evidence rather than an announcement on the social networking web site that the quality has improved. The current targeted market might not buy into the announced change.
- Or will the \$4.99 shop cannibalize the \$1.99 toy shop's market? Or will the \$1.99 toy shop become even more overcrowded as consumers ignore the new shop?
- There is no evidence in the stimulus material that James has carried out research into the market for its new targeting strategy.

Judgment:

It appears that the new strategy is unlikely to be successful as the arguments against seem to be more significant especially in the short run. Moreover, the interest of some customers may still not be fulfilled. Will James be able to offer higher wages?

Some customers are already sceptical and cannot see justification for a \$3 increase in price possibly just for a better service.

Perhaps James should carry out further market research about the option.

Accept any other relevant discussion.

N.B. It is **not** expected that the candidates incorporate all of the above points/issues.

A balanced response is one that covers at least **two** issues for and at least **two** issues against.

For one relevant issue that is one-sided, award **up to [3 marks]**. If the response is a one-sided relevant approach with no discussion award a maximum of **[4 marks]**.

Award a maximum of **[5 marks]** 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 **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

Marks should be allocated according to the markbands on page 4.

4. (a) Define the following terms:

(i) *appraisal*

[2 marks]

Is the process of evaluating the effectiveness / performance of a process or as in this case, the employees. In the process the goals and outcome are compared.

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) *strike action.*

[2 marks]

Strike action is considered to be a “weapon of last resort” when negotiations between employee representatives and employers fail to come up with a solution to conflict resolution. It involves employees collectively walking out of the job and refusing to continue working until a new offer in the negotiation process has been made. In many countries, employees have to vote for strike action.

Candidates are **not** expected to word their definition **exactly** as above. A shorter definition is acceptable.

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 to the two managers of *MHS* being a public-private partnership. [6 marks]

Possible advantages could include:

- Clearly as a new innovative school with a flexible approach to teaching/learning the public-private partnership will ensure that sufficient finance will be available to get the school up and running. The private sector investors can supplement the state funding to ensure that up-to-date technology is purchased. This will enable Julian to implement the innovative teaching method.
- The private sector alone may be unwilling to fully fund the development of the school given the degree of risk involved with this project.
- A synergy can be created between the business knowledge of the managers and the government educational aims. A highly innovative school can be led by Julian with educational objectives set by the government.
- *Accept any other relevant advantage.*

Possible disadvantages could include:

- There might be some conflict of interest between the managers who might see themselves as representing the interest of the private sector and the government.
- Although an agreement has been made and there are two appointed managers, it might be difficult for some stakeholders to know exactly who is in charge and whose objectives should be pursued, the public or the private sectors. Should *MHS* be a non-profit organization, or should profit be the main objective?
- Who is responsible if the school begins to fail?
- Given cuts in public spending, Charles, the finance director may have to seek new sources of finance to maintain the partnership given that 60% of the funding for *MHS* comes from the public sector. The uncertainty of the flow of future finance might somewhat reduce the effectiveness of both managers in terms of future planning.
- *Accept any other relevant disadvantage.*

Accept any other relevant explanation.

Mark as 3 + 3.

Award [1 mark] for identifying **one** appropriate advantage/disadvantage, [1 mark] for an appropriate explanation that directly refers to *MHS* and [1 mark] for a further development of this explanation up to a maximum of [3 marks].

(c) **Analyse the importance of the informal organization to MHS.**

[6 marks]

The informal organization could refer to a number of different aspects highlighted in the stimulus:

- communication
- decision-making
- leadership and management.

The importance of the informal organization:

- It allows Julian to be flexible and work closely with the students who have been specifically chosen to make this school innovative and flexible. The informal organization may speed up the process of change or the decision itself in a new school environment. A flexible and innovative decision-making environment would require a culture to match which would probably be informal.
- Some students may feel empowered by this informal communication and by being part of the decision-making system and this may lead to increased motivation. However, the stimulus material gives indication that this was not the case given the falling number of applicants.
- The informal meeting with the student may enable Julian to tap on the creativity and the enthusiasm of some students. The decision-making process is likely to improve and be in line with the essence of the schools' flexibility and innovation.

However / possible balance:

- The staff are clearly excluded from the informal communication process and ironically has to resort to speaking to Charles informally without Julian knowing. The informal organization lies at the heart of the conflict.
- Evidence that the informal system is undermining teaching staff confidence especially with respect to appraisal and the lack of contracts even though rewards packages are generous.
- There is evidence that some students may not be turning up for class or handing in work hence the organization may be seen as possibly too informal.

Accept any other relevant analysis.

It is **not** expected that candidates will include all of the above points in their answer.

A balanced response is one that covers at least **two** issues for and at least **two** issues against.

For one relevant issue that is one-sided, with no analysis award **up to** a maximum of **[3 marks]**. For more than one relevant issue that is one-sided, with no analysis award **up to** a maximum of **[4 marks]**.

Marks should be allocated according to the markbands on page 3.

(d) Discuss *two* approaches to conflict resolution at *MHS*.

[9 marks]

- One resolution could be a discussion and negotiation / consultation within *MHS*. Some employees' representatives may attempt to negotiate contracts based on job analysis, job description, personal specification as well as possibly 360 degree appraisal system. The process may take time and some payments will have to be made to some expert in the short run, however, in the long run the boundaries will be set and human resource management (HRM) will be transparent.
- Another resolution could include going to arbitration and conciliation as there does seem to be a significant disagreement between the staff and Julian. This will take time and resources. How much negotiation will be possible given Julian's current strong position? Given the facts that there are no official contracts and no official appraisal system, it might be difficult for the teachers and their representatives to argue of injustice. The lack of transparency may prove the management of *MHS* to be strong. However, it might be in the interest of the management to solve the conflict especially given the fall in applications and to act upon the advice given.
- The no-strike agreement may be popular with Julian, but how will this be enforced if there are no legal employment contracts? The teachers are likely to reject this option. Julian may be forced to draw up contracts for the teaching staff taking additional time and resources as well as further negotiation.
- Another solution is to restructure the organization, changing the hierarchy of the school to include some members of the teaching staff in the future decision-making and direction of the school. The school will also have to review its current systems around recruitment and appraisal to bring about a resolution but this may cede control away from Julian who may not be pleased. Communication networks can be formalized within *MHS* with less reliance on the informal network which seems to be a key driver in the schools development. This will of course impact on Julian's ability to be flexible and innovative.
- Perhaps the current culture is unsustainable? The public-private partnership may need to be reviewed with all stakeholders present. However, this will take additional time.

Given the nature of the problem, it appears that negotiation / consultation with the employees is the best method especially in the long run. Transparent HRM practices will reduce current and future disputes. Given the interest of the two opposing groups to solve the current problems, it is likely to be successful. Having established the foundation for HRM, perhaps other methods can be used. Moreover, a willingness of the management to involve the teachers and to establish a transparent system might increase motivation, consequently, student satisfaction rate may increase and more students may be willing to apply.

Accept any other substantiated judgment.

N.B. It is **not** expected that the candidates incorporate all of the above points/issues.

If the conflict refers to the students rather than the teachers/employees award a maximum of **[3–4 marks]**.

For one approach to conflict resolution with discussion, award a maximum of **[5 marks]**.

Award a maximum of **[5 marks]** 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 **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

Marks should be allocated according to the markbands on page 4.

5. (a) Define the following terms:

(i) *market share*

[2 marks]

Market share is defined as the sales of an individual business expressed as a percentage of total industry sales.

$$\text{Market share} = \frac{\text{total revenue the business generates}}{\text{total revenue the whole industry generates}} \times 100$$

Candidates are **not** expected to word their definition **exactly** as above.

Award [0 marks] if the response by the candidate is that market share is defined as a company's share of the market.

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) *extension strategy.*

[2 marks]

An extension strategy is used by businesses to try and inject new life (in terms of increased sales revenue thereby prolonging the product life cycle) into products when they have reached the saturation point. Extension strategies may include product enhancements or upgrades, new pricing methods or new short-term promotions.

Candidates are **not** expected to word their definition **exactly** as above.

Award [1 mark] for a basic definition that conveys partial knowledge and understanding. Or if the candidate assumes that extension strategies can be applied at any stage of the product life cycle.

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* values of a marketing audit as a business tool for CC. [6 marks]

Values of a marketing audit for CC could include:

- Given that CC is currently unprofitable, it would seem appropriate to conduct a marketing audit to assess where the organization is. A marketing audit enables CC to identify its strengths and weaknesses in terms of the 7Ps. It looks like CC was able to identify customers' perceptions with regard to their 4 products.
- Moreover, with the information found as well as information about market growth and existing market share, CC management can have a thorough product portfolio analysis (BCG matrix). The answer to the first question, can give CC a sound bases for objectives and strategies.
- It will determine whether the current promotional mix is appropriate (see below) and allow CC to adapt any of their marketing mix accordingly in light of their limited marketing budget.
- It may give more insight into customers' opinion and perceptions about whether to continue production of The Ventura.

Accept any other relevant value and explanation.

N.B. Do **not** credit twice for an explanation that refers to any of the 7Ps, such as the value regarding the price and promotion and so on.

Mark as 3 + 3.

Award [1 mark] for identifying each appropriate value, [1 mark] for an appropriate explanation that directly refers to CC and [1 mark] for a further development of this explanation up to a maximum of [3 marks].

(c) **Analyse the implications for the CEO of converting CC into four cost centres. [6 marks]**

The possible arguments for converting CC into four cost centres could include:

- In an unprofitable business the idea of turning each espresso coffee machine into a cost centre is sensible. In an attempt to reduce costs CC will find it easier to identify the product(s) that incurred most of the costs and the reasons why.
- Action can be taken where the problem / inefficiency is created. It would appear that this is the area which is needed most for The Ventura and The Fortuna espresso machines.
- The setting up of cost centres and the market audit could then determine which espresso coffee machine needs the greater share of the limited marketing budget possibly in terms of training, capital investment *etc.*
- More direct accountability decision making / empowerment and control for managers in these centres with accompanying motivational benefits.
- Constructive competition between the various cost centres can further improve efficiency.
- It allows the implementation of cell production so as to improve efficiency and motivation.

However:

- This new change to cost centres will require a new culture and organizational structure at CC which will take time and resources to embed and prepare.
- Destructive and unnecessary competition may be created. Employees might lose sight of the interest of the whole organization and concentrate only on their product. The CEO will have to ensure that individual cost centres do not set individual objectives which may contradict with the overall CC objective.
- Cost centres may encourage short-term outlook. For example, The Crema which is the most expensive machine to produce but is showing the highest potential for growth may be currently unfairly judged. Would profit centres be a more equitable approach?
- Coordination and communication of activities will need to be reviewed as the four brands will now be effectively stand alone businesses.
- A “fair” allocation of the indirect costs of CC will need to be considered if the cost centre idea is to have value. How will this be decided?

Accept any other relevant analysis.

N.B. It is **not** expected that the candidates incorporate all of the above points/issues.

A balanced response is one that covers at least **two** issues for and at least **two** issues against.

For one relevant issue that is one-sided, with no analysis award **up to** a maximum of **[3 marks]**. For more than one relevant issue that is one-sided, with no analysis award **up to** a maximum of **[4 marks]**.

Marks should be allocated according to the markbands on page 3.

(d) **Discuss whether the family should accept the offer of a strategic alliance with its competitor.** *[9 marks]*

- The offer will allow *CC* to continue trading as it would appear that three of the four espresso coffee machines are struggling and the company is currently unprofitable.
- Vital funds will be available to support The Rocket and The Fortuna which it is argued from the stimulus requires the greatest marketing support.
- The strategic alliance could also support The Crema which looks like the product with the greatest market growth potential.
- The strategic alliance will fund the possibility of *CC* moving into international markets which will allow for greater growth of market share especially of The Rocket which is currently a cash cow.
- Forming a strategic alliance with its main competitor can be seen as a significant argument as *CC* can easily eliminate competition and together have more power in the market.
- A strategic alliance is a very loose form of cooperation. It is cheap and can easily be reversed.

However:

- Family member concern around the loss of The Ventura is considerable and a significant argument. If the Ventura is discontinued, there may be other some brand erosion implications, unless the customers are aware of the *CC* overall name and espresso coffee machines names. There may be consumer backlash against *CC*. It is after all the most recognizable brand name. The Ventura has considerable brand loyalty compared to The Fortuna and The Rocket.
- Will any proposed brand awareness and extension strategies for these two machines be funded by the alliance be cost effective?
- It will be hard to measure exactly how much *CC* will need to spend in order to generate brand loyalty to The Fortuna and The Rocket. The Rocket's issues are also quality control driven and not just marketing.
- If the financial position does not improve, *CC* could be subject to a takeover and lose all of its espresso coffee machines.

Judgment:

Ultimately, the decision rests with the family. Survive and possibly expand into new international markets, but drop their most recognizable machine from their portfolio. There could be considerable consumer resistance but with the marketing support especially promotion, *CC* can explain the commercial reasons for such action and assure the customers.

However, by refusing the offer *CC* may be jeopardizing the other three of its machines from fulfilling their market potential through a lack of finance. The company is currently unprofitable. It could become the target of a takeover if the financial situation deteriorates.

Accept any other relevant discussion.

N.B. This question is about strategic alliance. Do **not** credit candidates that present the benefits or otherwise of a takeover and/or merger.

N.B. It is **not** expected that the candidates incorporate all of the above points/issues.

A balanced response is one that covers at least **two** issues for and at least **two** issues against.

For one relevant issue that is one-sided, award **up to [3 marks]**. If the response is a one-sided relevant approach with no discussion award a maximum of **[4 marks]**.

Award a maximum of **[5 marks]** 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 **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

Marks should be allocated according to the markbands on page 4.



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**BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 2**

Friday 9 November 2012 (morning)

2 hours 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer two questions.
- A calculator is required for this examination paper.
- Clean copies of the ***Business and Management*** formulae sheet and discount tables are required for this examination paper.
- The maximum mark for this examination paper is [75 marks].

SECTION A

Answer **one** question from this section.

1. Easy E Booking (EEB)

Easy E Booking (EEB) is a small, well-known, reputable and financially stable online hotel reservation service. *EEB* employees are highly motivated and take great pride in their work. *EEB* has received recognition for their high quality customer service. Due to an increase in global demand, greater competition and changes in technology, the finance director, Maia, has decided to upgrade *EEB*'s computers and/or software.

Maia has two options:

Option A: purchase only a new software called “Book-Fast” from a local software designer.

Option B: purchase new computers with installed software called “Global Reach” from a manufacturer abroad.

	Option A	Option B
Cost	\$20 000	\$40 000
Technical support	24 hours onsite at <i>EEB</i>	24 hours online
Further payments payable:		
Employees	No change	At the end of their contract 15 % of employees to be made redundant, cost: \$15 000 in year 2
Training cost	On-the-job: free	Intensive: \$12 000 in year 1
Maintenance cost	Free	\$1000 per year
Insurance cost	\$500 per year	\$1000 per year

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The estimated return/total revenue in \$ per year is shown below:

	Option A	Option B
Year 1	10 000	14 000
Year 2	12 000	16 800
Year 3	17 000	23 800
Year 4	20 000	28 000

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The average rate of return (ARR) of Option A is 46.25 %.

Maia is considering using a straight line method of depreciation.

EEB employees favour Option A, even though some of their competitors using “Book-Fast” have reported problems with the software, including security issues. However, Maia has chosen Option B, which will provide more up-to-date, sophisticated and secure reservation system software. It will also give *EEB* a competitive advantage and an ability to handle a large global volume of hotel reservations.

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(This question continues on the following page)

(Question 1 continued)

- (a) Describe **one** strength and **one** weakness of *EEB* using a straight line method of depreciation. *[4 marks]*
- (b) Calculate the payback period for Option A (*show all your working*). *[2 marks]*
- (c) Calculate the average rate of return (ARR) for Option B (*show all your working*). *[4 marks]*
- (d) For **both** Option A **and** Option B, calculate the net present value (NPV) using a discount rate of 4 % (*show all your working*). *[5 marks]*
- (e) Explain **one** advantage and **one** disadvantage for *EEB* of using the NPV method of investment appraisal. *[4 marks]*
- (f) Examine Maia's choice of Option B. *[6 marks]*

2. BP and the Gulf of Mexico

In May 2010, the oil company *BP* suffered a major disaster while drilling for oil off the coast of Louisiana, United States (US) in the Gulf of Mexico. The drilling platform exploded and was destroyed, killing 11 workers. Millions of tonnes of oil spilled out into the sea. This was the worst industrial accident *BP* had ever faced. Subsequently the price of *BP* shares fell by 30 %.

It took *BP* three months to stop the leak in the oil well. The oil spill had a major negative impact on fish, birds and the whole ecosystem. Regional fishermen, seafood restaurants and the tourist industry were the first to suffer from the impact of the pollution and demanded compensation.

This was a public relations (PR) crisis for *BP*. The US media attacked the company on a daily basis. Environmental pressure groups called for a ban on deep water oil drilling and even the US president got involved, announcing on television that *BP* would be “made to pay heavily”. The perception was that *BP*’s crisis management was slow, uncaring and inefficient. For example, Tony Hayward, the Chief Executive Officer (CEO) of *BP* was reported to have said that the oil spill “was tiny” and on another occasion he complained of stress and said he “would like his life back”. However, to solve the problem in deep water was a very technical exercise, which had never been attempted before. As a result of this PR crisis, *BP* decided not to give dividends to its shareholders in 2010.

BP has identified the following as causes of the decline in financial performance:

- the loss of the oil drilling platform
- the cost of stopping the leak 250 metres below the sea
- the cost of the clean-up operations
- the fall in share price
- the loss of brand image and goodwill
- compensation paid to regional businesses
- compensation paid to the families of the workers killed.

Selected items from *BP*’s balance sheet as at 31 December 2009 (US\$ millions) (before the disaster).

Cash	5000
Creditors	30 000
Debtors	35 000
Depreciation	40 000
Fixed assets	250 000
Loan capital	X
Retained profit	72 000
Share capital	100 000
Short-term borrowing	29 000
Stock	25 000

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(This question continues on the following page)

(Question 2 continued)

- (a) Outline the importance of the balance sheet to **two** stakeholder groups of *BP*. [4 marks]
- (b) (i) Using the information in the selected items from *BP*'s balance sheet, calculate the loan capital (figure X) and construct a balance sheet for *BP* as at 31 December 2009. [5 marks]
- (ii) Explain how **two** of the financial consequences of the disaster will appear on *BP*'s balance sheet as at 31 December **2010**. [4 marks]
- (c) Explain **three** possible ways in which *BP*'s marketing department could have better managed the public relations (PR) crisis, to limit the damage to *BP*'s reputation. [6 marks]
- (d) The table below shows selected ratios for *BP* for 2008 to 2010:

Ratio	2008	2009	2010
Liquidity:			
Acid test (quick) ratio	0.7	0.8	0.4
Gearing (%)	19	20	35
Shareholder:			
Dividend yield (%)	5	5	0
Profitability:			
Net profit margin (%)	11.4	12.3	4.5

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Using relevant information and the ratios above, analyse the likely impacts of the disaster on *BP*'s future financial performance.

[6 marks]

SECTION B

Answer **two** questions from this section.

3. Toyota

Toyota is one of the biggest car manufacturers in the world. For decades it was known for production efficiency and car quality. Its Kaizen approach to manufacturing transformed car-making worldwide resulting in years of growth in sales and profits. With rapid global growth, *Toyota* began outsourcing production activities of some car parts to overseas manufacturers, with whom it had not worked before, resulting in a loss of quality control. In addition to this, it ignored employees' concerns about car safety and quality and was also slow in responding to customers' complaints.

In 2009, *Toyota* recalled 11 million cars worldwide due to various defects in car parts. The financial loss to *Toyota* from the recall and lost sales was US\$2 billion. The total market value of *Toyota*'s shares fell by US\$20 billion.

Following the recall, company President Akio Toyoda said that in expanding too rapidly *Toyota*:

- Lost sight of its long-established customer focus.
- No longer stopped to study every defect, or problem to determine the causes.
- Forgot its core values of safety first, quality second and volume third. Its main strategic objectives became “world biggest” and profit.

He added that the situation is urgent and to recover its reputation and core values:

- New quality control standards will be put in place.
- New procedures will pay closer attention to customers' feedback.
- A team will be set up to investigate every defect reported within 24 hours.
- Change will be implemented more rapidly than normal.

Other famous car brands have also experienced product recalls. Regarding *Toyota*, analysts commented that Akio Toyoda understands the problems and has personal interest in *Toyota*, his name is on every car. Financially, *Toyota* created a US\$1.4 billion provision for the recall and it has US\$23 billion in reserve. In America, *Toyota*'s sales were up 6% in 2010 over the previous year.

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- (a) Describe **two** practices of a Kaizen approach to manufacturing. [4 marks]
- (b) Explain **two** methods of research that *Toyota*'s marketing department could use to improve its relationship with customers. [6 marks]
- (c) Examine *Toyota*'s decision to outsource “production activities of some car parts to overseas manufacturers”. [6 marks]
- (d) To what extent will *Toyota* be able to recover its reputation, core values and brand image? [9 marks]

4. “Think locally, grow globally”

To avoid negatively affecting sales, *McDonald's*[®] senior managers in the United States (US) headquarters realized that they should not apply identical American standards worldwide. *McDonald's*[®] must now think locally to grow globally.

British-born Steve Easterbrook, head of *McDonald's*[®] in the United Kingdom (UK), understood the need for strategic change and prepared tactics with two objectives:

- to attract new and different customers
- to enhance the good value of products to appeal to customers during economic recession.

One of the first tactics in the UK was the introduction of “Little Tasters[®]”, which offered new products, in small portions, at low prices. Steve understood that young mothers, when taking their children to *McDonald's*[®], would not buy meals for themselves because they felt the portions were too large. Other tactical changes, in response to customer demand, included the introduction of more chicken-based products for health-conscious customers. Moreover, an improved breakfast menu and better quality coffee attracted more price-conscious people on their way to work.

These adaptations to local conditions proved successful in the UK and beyond. *McDonald's*[®] UK had 13 million more customers in 2010 compared to 2009, resulting in an increase in market share (during the economic recession). In other host countries *McDonald's*[®] also successfully implemented its “think locally, grow globally” strategy. For example, it successfully launched products made from local produce and suited to local tastes such as the “Maharaja Mac[™]” in India, the “McLobster[®]” in Canada and the “Ebi Filet-O” (a shrimp burger) in Japan.

At the same time *McDonald's*[®] launched a “global uniform initiative” to redecorate its restaurants with uniform appearance. *McDonald's*[®] still tries to maintain the global recognition and the quality of its global brand. Local construction material and local labour are used, as well as different colours, comfortable armchairs and free Internet access. Other multinational food and drink companies, such as *KFC*[®] and *Starbucks*[®], are also using a similar strategy to the “think locally, grow globally” strategy used by *McDonald's*[®].

[Source: Adapted from: Ian King, ‘Who is loving it this time?’ *The Times*, 9 February 2010.]

- (a) Describe **two** possible factors that have contributed to the growth of globalization. [4 marks]
- (b) Draw the Ansoff matrix and use it to explain **two** of the growth strategies used by *McDonald's*[®]. [6 marks]
- (c) Analyse the possible impacts of multinational companies like *McDonald's*[®] on the host countries. [6 marks]
- (d) Discuss the effectiveness of the “think locally, grow globally” strategy used by *McDonald's*[®]. [9 marks]

5. Rox and Inclusive Music (IM)

Rox was a music band managed by Michel Mbappe. The band enjoyed considerable commercial success thanks to Michel’s autocratic leadership style. He personally made all decisions. Rox had given generously to local schools and other non-profit organizations. The band received many awards for their acts of corporate social responsibility. Their last CD “Action Not Words” had brought them considerable fame.

In June 2010, Michel was asked to help finance the start-up of a new non-profit music school called “Inclusive Music” (*IM*). *IM*’s aim was to support young musicians from low income families. At first, Michel was very enthusiastic and prepared a business plan. Unfortunately, he realized that Rox could not afford to finance *IM* fully. External sources of finance other than contributions from Rox would be needed for *IM* to grow. Until then *IM* would only have a limited budget for marketing and market research.

In June 2011, *IM* opened with the mission statement “Action not words”. To support its mission, it offered free lessons and allowed students to borrow musical instruments. Michel asked a popular former singer, Louis Marsaud, to be the school’s director. Louis adopted a laissez-faire leadership style, hoping it would allow creativity among students. Initial student attendance was lower than expected and quickly worsened. Within three months, many instruments had gone missing and many students were no longer attending music lessons.

IM’s finances were deteriorating, and Louis could not attract external sources of finance. Michel took action and organized a concert by Rox to promote *IM*. He also examined *IM*’s accounts and discovered a significant liquidity problem. Without consulting anyone, he dismissed Louis. In the music media, Michel received much criticism for dismissing Louis. Journalists argued that the two main problems were, *IM*’s vague mission statement and poor marketing. However, Michel aimed to ensure that *IM* became sustainable in the long term.

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- (a) Define the term *corporate social responsibility*. [2 marks]
- (b) Identify **two** possible causes of a liquidity problem. [2 marks]
- (c) Explain how the following may have contributed to *IM*’s financial problems:
 - (i) its mission statement. [3 marks]
 - (ii) its limited marketing budget. [3 marks]
- (d) Analyse the appropriateness of Michel’s autocratic leadership style, for the running of an organization such as *IM*. [6 marks]
- (e) Discuss **two** possible medium- to long-term external sources of finance that *IM* could use to help solve its financial problems. [9 marks]