BUSINESS MANAGEMENT

ANSWERS

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4th Edition

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Answer Pack

IB Business Management 4th Edition

Message from the author

Dear Colleagues,
Thank you for purchasing my 4th edition textbook and for the encouraging words that many of you have passed on from around the world.

This Answer Pack contains suggested answers and mark schemes to all 225 examination-style case study questions in the textbook, *Business Management 4th Edition*. This Answer Pack is intended for use by teachers to aid their planning and teaching.

I hope you will find these solutions are a useful starting point. As with all IB BM mark schemes, the solutions in this Answer Pack should be used with caution and some degree of flexibility. Students who take an alternative approach to the suggested mark scheme should still be credited where appropriate; teachers should use their professional judgement in such cases.

The Answer Pack is more than 200 pages long, so colleagues may find the use of 'short keys' useful when searching for answers. By pressing the <CTRL> and <F> keys together, you will be prompted by a pop-up menu. Type in the question number or key word(s) you are seeking answers for (e.g. '3.3.7' or 'Airbus A380') and press <Enter> and the suggested answers should appear right in front of you!

I hope that you and your students will find the answers (and they are only suggested answers at best) useful in the teaching and learning of IB Business Management. Please feel free to contact me if you spot errors/omissions or have any other constructive suggestions, and IBID Press and I will try to address these issues.

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With warm wishes,

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Unit 1.1 Introduction to business management

Question 1.1.1 – The business of education

(a) Revenue is the money that a business receives from the sale of its goods and/or services, e.g. private schools can earn revenue from tuition fees and fund-raising events. By contrast, costs are paid by a business for the production costs of goods and/or services, e.g. staff salaries and the costs of running the school.

Award up to *2 marks* for a distinction of the difference between revenue and costs of production.

Award up to *4 marks* for a distinction of the difference between revenue and costs of production with relevant examples of these in the context of schools.

(b) This question requires application of the four main functions of a business organization. For example:

- Human Resources: The recruitment and on-going training of teachers and support staff (non-teaching staff).
- Finance: Allocating budgets for the year's spending on items such as textbooks, equipment, and maintenance (repairs and improvements). Schools might also seek additional sources of funding (revenue) such as grants from the government. There is also a need to account for all costs (expenditure) and revenues of the school.
- Marketing: schools need to attract customers (students and their parents). This might be done through means such as offering a broad and enriching curriculum and providing a wide range of opportunities (such as extra-curricular activities). Public relations and promotion (such as informing parents and the community about exam results) will also be important.
- Operations management: the main output in schools is the provision of lessons (learning). Other operations might include sporting events, music concerts, school fund-raising events and the hiring out of school facilities to outside agencies.

Award *1 – 2 marks* for a vague answer that shows limited understanding of business functions.

Award *3 – 4 marks* for an explanation of the various business functions in a business organization.

Award *5 – 6 marks* for a thorough examination of how business functions work in a business organization. At the top end, there is clear application to the case study material.

Question 1.1.2 – Production Sectors

(a) A = Philippines

B = France

C = Bangladesh

Award *1 mark* for each correctly identified country, up to *3 marks*.

(b)

	Philippines	France	Bangladesh
Agriculture	29	3	41
Manufacturing	18	24	30
Services	53	73	29

This question requires candidates to examine and explain the data in their answers. For example:

- In LEDCs like Bangladesh, agriculture accounts for a larger proportion (41%) of GDP. France (3%) does not, therefore, fit this criterion, and the Philippines to a lesser extent.
- Bangladesh's large pool of low-paid workers (being the eighth most populated nation in the world) means that its primary sector is relatively significant.
- The Philippines is a fast-growing and industrializing country, so it is therefore safe to assume that services accounts for a significant share (53%) of its GDP; although the proportion is much larger in France (73%).
- Many multinationals from the USA and Europe have also invested directly in the Philippines to exploit the relatively cheap but skilled labour.
- The services sector is the most predominant sector in MEDCs, such as France. As an economically developed country, France does not need to rely heavily on its manufacturing base, which accounts for less than a quarter of its national output.

Award *1 – 2 marks* for a vague answer that shows limited understanding.

Award *3 – 4 marks* for an attempt at justifying the answer. There is relevant use of business management terminology in addressing the question. At the top end, the data have been explained.

Award *5 – 6 marks* for a thorough examination of the data in addressing the question. At the top end, there is clear justification to the answer, with good use of business management terminology and application to the case study material.

Unit 1.2 Types of Organization

Question 1.2.1

(a) Most businesses operating in the private sector primarily aim to make a profit, e.g. private health-care clinics or private schools will charge customers more than public hospitals or public sector schools (which provide many or all of their services free of charge due to government funding). Other aims of private sector firms include growth (expansion), to increase market share and to become the market leader.
By contrast, businesses in the public sector tend to provide a service to the general public whilst covering their operational costs. Their goal is to strive for social gain, rather than private benefits.

Award *1 – 2 marks* if the distinction shows some understanding of the different aims of businesses in the public sector and the private sector, although there is a lack of depth and/or use of examples.

Award *3 – 4 marks* for a clear distinction between the aims of businesses in the public sector and the private sector. There is good use of relevant examples.

(b) Cooperatives are for-profit social enterprises owned and run by their members (e.g. employees or customers). The goal is to create value for their members by operating in a socially responsible way. Cooperatives share any profits earned between their members. Hence, housing provided by a housing co-operative will generally cater for households on lower incomes. Price will therefore be relatively low, i.e. highly affordable housing. Thus, the quality of the housing may well be lower than in the private sector. The co-operative owns the property, with a proportion of the profits going back into the business, e.g. maintenance and renovations of housing provided by the housing co-operative.

By contrast, housing provided by the private sector is based on the market forces of demand (for housing) and supply (of housing) in a particular area. The private sector is more likely to provide greater choice, e.g. different styles and sizes of houses to suit a range of preferences and budgets. Hence, the price of the houses tend to be higher. Home buyers will generally take out a mortgage to purchase the private property, which is made available to anyone who is able and willing to purchase the home. The buyer of the (private) property owns it.

Award *1 – 2 marks* for an answer that shows limited understanding.

Award *3 – 4 marks* for an answer that shows a good understanding although the answer lacks sufficient detail and/or lacks relevance to the provision of housing.

Award *5 – 6 marks* for a detailed answer that clearly examines how housing provided by a housing co-operative might differ from that provided by the private sector. There is good use of business management terminology throughout the answer.

Question 1.2.2 – Flowers by Cam

(a) A **sole trader** is someone who owns and runs his/her own business, e.g. Cam Tran owns and operates her own flower store.

Award *1 mark* for a vague definition of sole trader.

Award *2 marks* for a clear definition of sole trader, similar to the one above.

(b) The benefits to Cam Tran operating as a sole trader include:

- It would have been quite simple for the owner to set up *Flowers by Cam* as there are relatively few legalities and procedures involved.
- The profits would be reaped only by Cam as there are no other owners.
- Being her own boss allows Cam to have more flexibility in decision making, e.g. closing the store early so that she can pick up her three children from school or to attend parents' events at the school.
- Being a small business, Cam can keep all business transactions private, i.e. only the tax authorities need to know about her financial accounts.

However, there are also costs for Cam Tran choosing to operate as a sole trader:

- Sole proprietors have unlimited liability so this means that Cam could possibly lose her personal possession to finance any debts that *Flowers by Cam* might incur.
- As a sole trader, Cam would find it difficult to secure various sources of finance, especially as she does not sell a wide range of products.
- There might also be costs related to her private circumstance, e.g. child care or the loss of time with her family due to the busy workload and stress of being a sole trader.
- A lack of continuity can occur with sole traders, especially if the owner becomes ill.

Award *1 – 2 marks* for a vague answer that shows limited understanding.

Award *3 – 4 marks* for an attempt at examining the costs and/or benefits of operating *Flowers by Cam* as a sole trader. Award up to *3 marks* if only costs or benefits have been examined.

Award *5 – 6 marks* for a thorough examination of both costs and benefits of *Flowers by Cam* operating as a sole trader and if there is clear application to the case study material.

Question 1.2.3 – EXP: The Chinese Experience

(a) An **ordinary partnership** exists when there are up to twenty owners in a partnership, including any silent partners. At least one of these partners must have unlimited liability. In this case, Tonina and Keith each own 50% of the business and both are held personally liable for any debts that *EXP* might incur.

Award *1 mark* for a vague definition of ordinary partnership.

Award *2 marks* for a clear definition, similar to the one above.

(b) Advantages to Tonina and Keith running *EXP* as an ordinary partnership include:

- Division of labour can yield cost-saving benefits to the partnership.
- As there are two owners, it is more likely that the restaurant can raise additional finance compared to if it had been set up as a sole proprietorship.
- The financial accounts of *EXP* are private to the two owners, except for the tax authorities.
- It is cheaper to establish than if the restaurant were to be set up as a limited liability company, owned by shareholders.
- As partners, Keith and Tonina are able to split the profits from *EXP*, rather than having to distribute this to other owners (shareholders) if the business was formed as a company.

Mark as 2 +2 : Award *1 mark* for each advantage, and award *1 mark* for each explanation in the context of *EXP.*

(c) Remaining as a small business has disadvantages (costs). *EXP* might find it difficult to compete with larger restaurants for a few reasons, including:

- Limited sources of finance reduce the scale and scope of the firm's operations. This will therefore limit *EXP*'s ability to benefit from economies of scale.
- Smaller businesses are statistically more prone to severe cash flow problems.
- Since they lack human and financial resources, smaller restaurants are not able to benefit from division of labour. This means a greater workload for Keith and Tonina.
- Remaining small means *EXP* has a limited customer base and therefore this restricts its profitability (and hence its ability to survive).
- *EXP* still has restricted finance compared to limited liability companies that can raise finance through the sale of shares to expand the business.
- Disputes between the partners could bring the business to a halt, whereas this is less likely to be the case if *EXP* converted into a limited liability company.
- Remaining small, as an ordinary partnership, means the owners have unlimited liability, i.e. Keith and Tonina stand to lose their personal possessions if the business falls into debt and/or collapses.
- *Award any other reasonable disadvantage, written in the context of EXP.*

Small businesses can remain highly lucrative. Benefits to their owners include:

- The owners remain highly flexible and adaptable to change, so if the business idea or plan does not work out then Keith and Tonina are quite flexible in making the necessary changes, e.g. it is relatively easy to transfer a small restaurant to a nail and beauty salon than for McDonald's to change their complete operations.
- *EXP* operates in a small, niche market so can become highly profitability. These markets may be untouched by larger businesses that are more concerned with mass market operations.

- There is more autonomous decision-making for the owners of small businesses such as *EXP*. By contrast, managers working in large multinational companies are held accountable to their shareholders.
- There are far less legal issues involved in the running of a small business. Large businesses are held accountable to a much wider range of stakeholders and their financial accounts may need to be made public.
- *EXP* is already operating at near capacity, so stretching operations beyond its means (overtrading) might harm the firm's reputation (late deliveries and lower quality food).
- *Award any other reasonable advantage, written in the context of EXP.*

Award *1 – 2 marks* for a vague answer that shows limited understanding of the demands of the question.

Award *3 – 4 marks* for some understanding of the demands of the question. Where applicable, some relevant tools, techniques and theories are explained, with some appropriate terminology used. Application is limited.

Award *5 – 6 marks* for understanding of most of the demands of the question. Relevant tools, techniques and theories are explained and applied to *EXP*, and appropriate BM terminology is used most of the time. There is some reference to the stimulus material. For *6 marks*, there is some evidence of a balanced response.

Award *7 – 8 marks* for a good understanding of the demands of the question. Relevant tools, techniques and theories are explained and applied well, and appropriate terminology is used. There is good reference to the stimulus material and good evidence of a balanced response. Judgments are relevant, but are not always well substantiated.

Award *9 – 10 marks* for a good understanding of the demands of the question. Relevant tools, techniques and theories are explained and applied purposefully, and appropriate terminology is used throughout the response. There is good reference to the stimulus material and good evidence of a balanced response throughout. Judgments are relevant and well substantiated.

Question 1.2.4 – Mars Inc.

(a) The term 'Private Limited Company' means that *Mars Inc.* is owned by shareholders although the shares cannot be openly traded on a stock exchange. All shareholders of the business have limited liability because the company and its owners are treated as separate legal entities.

Award *1 mark* for a vague definition.

Award *2 marks* for a clear definition of private limited company, similar to the one above.

(b) The discussion should consider the (dis)advantages of both private and public limited companies. For example:

- Private limited companies cannot raise share capital from the general public as these are only sold to personal family members and friends. This clearly limits the finance that *Mars Inc.* is able to raise to compete against rivals such as Nestle and Cadbury's (Kraft Foods).
- However, this fact also means that the directors (members of the Mars family) can maintain overall control of the business. For this reason, many private companies are run as family businesses and without the threat of an unwanted takeover (acquisition).
- Although it is unlikely to be a real issue for *Mars Inc.*, there are financial implications of transforming to a public limited company, such as the cost of flotation (e.g. advertisements, prospectuses, auditors and accountants) and the need to make financial accounts available to the (increased number of) shareholders.
- By keeping the company private, it can provide financial security for future generations of the Mars family.

- By contrast, *Mars Inc*. could raise a colossal amount of capital by selling shares on a stock exchange. With its global reputation, an initial public offer (IPO) from *Mars Inc*.is likely to attract major attention of private and institutional investors.
- However, there will be greater pressure from shareholders to receive dividend payments and this can be made more difficult if a non-family member is on the Board of Directors.
- For personal and historical reasons, the Mars family may be very reluctant to float their company, irrespective of any financial benefits that could be reaped.

Award *1 – 2 marks* for a vague answer that shows limited understanding.

Award *3 – 4 marks* for an attempt at examining the costs and benefits to the Mars family of keeping their business as a private limited company. Award up to *4 marks* if there is no application to the case study.

Award *5 – 6 marks* for a good examination of the costs and benefits to the Mars family of keeping their business as a private limited company. There is an attempt at applying the answer to the case study. Award up to *5 marks* if a one-sided argument is provided.

Award *7 – 8 marks* for thorough discussion that considers both the costs and benefits of changing to a PLC, with appropriate application made to *Mars Inc*. There is good reference to the stimulus material and good evidence of a balanced response. Judgments are relevant, but are not always well substantiated.

Award *9 – 10 marks* for thorough discussion that considers both the costs and benefits of changing to a PLC, with appropriate application made to *Mars Inc*. There is good reference to the stimulus material and good evidence of a balanced response throughout the response. Judgments are relevant and well substantiated.

Question 1.2.5 – Hong Kong Disneyland (*HKDL*)

(a)(i) The term 'shareholder' refers to a part-owner of a limited liability company, such as *HKDL*. As part-owners, they have voting rights and are entitled to a share of the dividends if the company is profitable.

Award *1 mark* for a vague definition.

Award *2 marks* for a clear definition of 'shareholder', similar to the one above.

(a)(ii) The term 'net profit' refers to the financial surplus a business earns from its operations, after costs of production and expenses have been accounted for. It is calculated using the formula: Net profit = Gross profit – Expenses.

Award *1 mark* for a vague definition.

Award *2 marks* for a clear definition of 'net profit', similar to the one above.

(b) The benefits of the public-private partnership to the Hong Kong economy include:

- With an estimated 36,000 jobs being created, there would be reduced unemployment in the economy. The benefits of reduced unemployment, such as increased consumer confidence and increased consumer spending, could be further examined.
- The globally-recognised Disneyland brand name would help to make Hong Kong a more attractive tourist destination, especially with the three on-site hotels. This will again stimulate more spending in the economy, thereby leading to the economic growth of Hong Kong (with an estimated net benefit of $19bn over 40 years).
- Had the partnership not taken place, then perhaps the government would have had to raise taxes in order to have sufficient finance to own the Park as a franchise or Disneyland may not have invested in Hong Kong due to the lack of financial incentives and support.

Award *1 – 2 marks* for a vague answer that shows limited understanding of the demands of the question.

Award *3 – 4 marks* for an attempt at examining two benefits of the *HKDL* public-private enterprise. Award up to 4 marks if there is no application to the case study.

Award *5 – 6 marks* for a thorough examination of the *HKDL* public-private enterprise to the Hong Kong economy. There should be a clear examination of any **two** benefits to the domestic economy for maximum marks. Note that there is no need to have prior knowledge of the Hong Kong economy to answer this particular question.

(c) Some of the arguments for using tax revenues to fund the PPP include:

- Taxpayers could benefit in the long run since the government (which is the majority stakeholder and shareholder of *HKDL*) would have an alternative source of revenue (assuming *HKDL* makes profits, of course).
- The PPP is likely to create many employment opportunities in the economy (36,000 jobs are mentioned in the case study). In the long run, this could more than justify the use of tax revenues.
- Tax revenues are a government's largest source of revenue; any other source (e.g. borrowing or revenue from public sector corporations) is unlikely to be sufficient to finance such a huge investment project. Furthermore, borrowing would mean the government incurs interest charges on its loans.
- It would be easier to justify using tax revenues to finance this expenditure during prosperous economic times, i.e. high employment (which generates greater tax revenues) and when the government has a budget surplus (a situation when tax revenues exceed government expenditure).

However, the disadvantages of using tax revenues to pay for the *HKDL* theme park include:

- The huge investment costs would add to the burden of Hong Kong's taxpayers, some of whom may never want to visit *HKDL* or directly benefit from its development.
- Should the theme park prove to be unsuccessful, then this investment represents a huge waste of government reserves and taxpayers' money.
- Others might question the ethics of a government having such direct involvement in the operation of a for-profit business organization.
- There might also be some environmental concerns over the construction and development of *HKDL*, e.g. the need to build the theme park on reclaimed land.

The viewpoints and power of key stakeholders (e.g. the Hong Kong government, Disneyland, shareholders, employees, the local community, taxpayers and potential customers) should be considered. The extent to which the *HKDL* project should be funded partly with taxpayers' money will depend on the relative importance and power of these various stakeholder groups as well as some of the aforementioned factors (such as the state of public finances).

Award *1 – 2 marks* for a vague answer that shows limited understanding.

Award *3 – 4 marks* for explanation of the advantages or disadvantages of using tax revenues to finance a public-private partnership.

Award *5 – 6 marks* for a good examination of the costs and benefits of using tax revenues to fund public-private partnerships. There is an attempt at applying the answer to the case study. Award up to *6 marks* if a one-sided argument is provided, but in depth.

Award *7 – 8 marks* for a thorough discussion that considers both the costs and benefits of using tax revenues to fund public-private partnerships. There is good reference to the stimulus material and good evidence of a balanced response. Judgments are relevant, but are not always well substantiated.

Award *9 – 10 marks* for a thorough discussion that considers the extent to which tax revenues should be used to fund public-private enterprises such as *HKDL*. There is good reference to the stimulus material and good evidence of a balanced response throughout the response. Judgments are relevant and well substantiated.

Unit 1.3 Organizational objectives

Question 1.3.1 – Vision and Mission Statements

(a) A mission statement refers to the declaration of an organization's overall purpose, such as Walt Disney Company's "To make people happy". It forms the foundation for setting the goals of a business.

Award *1 mark* for a vague definition that shows some understanding of a mission statement.

Award *2 marks* for a definition that shows a clear understanding of mission statements.

(b) The role of vision and mission statements in a business organization includes:

- to have a clear purpose, i.e. what the business is trying to achieve
- stating the underlying goal of the organization's existence
- to unify all people and corporate sub-cultures within the workforce
- outlining the organization's core values.

Examples from the stimulus material should be applied to the above points.

Award *1 – 2 marks* for a vague answer that shows limited understanding of the role of vision and mission statements.

Award *3 – 4* marks for a response that shows some understanding of the role of vision and mission statements in business organizations. Award up to *4 marks* if only vision or mission statements are examined.

Award *5 – 6* marks for a thorough examination of the role of vision and mission statements in business organizations. There is competent use of examples from the stimulus material.

Question 1.3.2 – Lenovo

(a)(i) Strategy can be defined as the long term plan of a business in order to reach its organizational aims. It gives the organization a sense of direction and scope to achieve competitive advantages over the long term.

Award *1 mark* for a vague definition that shows some understanding of strategy.

Award *2 marks* for a clear definition of strategy, similar to the one above.

(a)(ii) Market share is a measure of the degree of power that a business has within the industry in which it operates. It is usually measured by calculating the firm's sales revenue as a percentage of the industry's sales revenue.

(b) It is important for Lenovo to specify its organizational objectives for several reasons, including:

- To provide focus and a sense of purpose for its staff
- To measure the performance of the business
- To inform strategic planning and decision-making
- *Award any other valid reason, written in the context of Lenovo.*

Award up to *2 marks* for each clearly explained reason, up to a maximum of *4 marks*. For full marks, there must be clear application to *Lenovo*.

(c) Reasons (barriers) that might prevent Lenovo from meeting its objectives include:

- Conflict, e.g. "Trust and integrity" might place some limits on *Lenovo's* ability to earn high profits. Alternatively, shareholders might demand high dividends, but management seek to invest profits for the long term.
- Culture clash, e.g. compatibility of Chinese and American cultures, despite *Lenovo's* commitment to "Teamwork across cultures".
- Financial constraints, e.g. sponsorship commitments could harm *Lenovo's* cash outflow in the short term; any benefits are only reaped in the long run. This can cause conflict amongst various stakeholder groups such as employees, managers and shareholders.
- *Accept any other valid reason that is examined in the context of Lenovo.*

Award *1 – 2 marks* for a vague answer that shows limited understanding.

Award *3 – 4 marks* for an attempt at examining why *Lenovo* might not be able to meet its objectives. Award up to *4 marks* if there is no clear application to the case study.

Award *5 – 6 marks* for a thorough examination of why *Lenovo* might not be able to meet its objectives, using examples from the case study.

Question 1.3.3 – McDonald's versus Burger King

(a) Ethical business behaviour means that McDonald's and Burger King operate in a moral (principled) manner, rather than acting purely for commercial gains. Ethical actions, such as improving the wellbeing of children or using humanely-sourced meat, would be considered as being ethical and socially responsible behaviour.

Award *1 mark* for a vague description that shows some understanding, or a description that is not written in context of the case study.

Award *2 marks* for a clear description of ethical business behavior, written in the context of McDonald's and Burger King.

(b) Whether acting ethically can provide McDonald's and Burger King with commercial and competitive advantages will depend on the relative strengths of taking such actions.

Potential advantages of such behaviour include:

- Easier to recruit staff and improved staff retention as employees feel that they work for a socially responsible employer
- Greater employee satisfaction, morale and motivation, which helps to boost productivity and reduce labour turnover
- Improved corporate and brand image; particularly important as the image of fast food chains have been tarnished by health concerns such as child obesity
- Ethical behaviour is a way of differentiating products and services from rival firms, thereby possibly taking market share from competitors and/or encouraging customer loyalty
- Local communities are more likely to welcome the fast food companies and pressure groups are less likely to oppose them
- Ultimately, these factors can, in the long run, lead to improvements in the competitiveness, sales and profits for McDonald's and Burger King.

However, the potential drawbacks of introducing ethical and socially responsible activities include:

- Compliance costs mean that there are additional expenses to both companies, e.g. McDonald's donating funds to help ill children and their families and Burger King having to source their suppliers
- Higher costs mean that profits margins will fall, unless prices are increased (which is perhaps unlikely in highly competitive markets such as fast food where price is a fundamental deciding factor)
- Since Burger King has also decided to act in an ethical way, albeit by alternative actions, McDonald's might lose any initial competitive advantage that it might have had (but the higher costs remain)
- It is not known whether consumers genuinely care about a firm's ethical policies – what is more important to diners: price and taste of the food or whether the restaurants donate money to charitable organizations?
- Ultimately, these factors are likely to increase the costs to McDonald's and Burger King, thereby possibly leading to lower profit margins for both firms
- Some stakeholders, such as shareholders, may therefore oppose these activities if they believe that there will be reduced profits overall.

Award *1 – 2 marks* for a vague answer that shows limited understanding of the demands of the question.

Award *3 – 4 marks* for some understanding of the demands of the question. Where applicable, some relevant tools, techniques and theories are explained, with some appropriate terminology used. Application is limited.

Award *5 – 6 marks* for understanding of most of the demands of the question. Relevant tools, techniques and theories are explained and applied to the case study, and appropriate Business Management terminology is used most of the time. There is some reference to McDonald's and Burger King. For *6 marks*, there is some evidence of a balanced response.

Award *7 – 8 marks* for a good understanding of the demands of the question. Relevant tools, techniques and theories are examined and applied well, and appropriate terminology is used. There is good reference to the stimulus material and good evidence of a balanced response. Judgments are relevant, but are not always well substantiated as to whether acting ethically provides McDonald's and Burger King with commercial and competitive advantages.

Award *9 – 10 marks* for a good understanding of the demands of the question. Relevant tools, techniques and theories are discussed and applied purposefully, and appropriate terminology is used throughout the response. There is clear discussion of both the commercial and competitive advantages that ethical business behaviour could bring to McDonald's and Burger King. There is good evidence of a balanced response throughout. Judgments are relevant and well substantiated.

Question 1.3.4 – Walmart

(a) Possible barriers to socially responsible business behaviour might include:

- Compliance costs, i.e. the costs of implementing ethical and socially responsible practices
- Management ignorance, i.e. there is limited awareness of the issues, costs and potential gains surrounding CSR
- Management attitudes, i.e. reluctance to implement strategies that may not reap financial benefits for the firm or its owners
- Conflicting stakeholder interests, e.g. shareholders are likely to place profits before ethics
- Those firms that do not comply may, by default, gain a price advantage
- The opportunity costs involved, i.e. what else the firm could have done with the money used to implement CSR policies.

Award *1 mark* for each relevant barrier that is stated, up to *2 marks*.

(b) The question requires candidates to discuss whether Walmart's practices are morally acceptable. Thus, a two-sided argument should be provided. On the one hand, some would argue that Walmart make sufficient profits to be able to refrain from damaging the environment and exploiting workers. However, others would argue that it is not the role of a private sector business, owned by shareholders, to protect the environment.

It is also difficult to place a realistic value on the environment and to measure the relative financial benefits of environmental protection versus profits. In particular, shareholders and investors may well question the value of environmental conservation. By placing profit maximization as its key objective, Walmart is more likely to be able to expand and be in a better financial position to look after its employees.

Nevertheless, reasons why Walmart might consider its CSR ahead of its profits include:

- Walmart has already been forced to "pay millions of dollars to the American government" due to its unethical business practices; so perhaps it is worthwhile to take CSR more seriously
- The claim that up to 8% of its customers boycotted the company suggests that Walmart can no longer ignore the claims being made in the media
- A staff turnover rate of 70% is not sustainable in the long run
- Negative publicity might cause major global repercussions for the high-profile multinational corporation.

Ultimately, the moral dilemma is a subjective one. In order to answer the question, it depends on whose point of view we looked at. Employees will most certainly agree that their wellbeing should be the key objective, whereas shareholders and directors may think differently. It is, after all, the case that not acting ethically does not mean that the firm is necessarily being unethical.

Award *1 – 2 marks* for a vague answer that shows limited understanding of the demands of the question.

Award *3 – 4 marks* for some understanding of the demands of the question. Where applicable, some relevant tools, techniques and theories are explained, with some appropriate terminology used. Application of the stimulus material is limited.

Award *5 – 6 marks* for understanding of most of the demands of the question. Relevant tools, techniques and theories are explained and applied to the case study, and appropriate Business Management terminology is used most of the time. There is some reference to Walmart. Award up to *6 marks* if a one-sided (unbalanced) argument is provided, e.g. if only the merits of putting the environment or the welfare of employees are considered.

Award *7 – 8 marks* for a good understanding of the demands of the question. Relevant tools, techniques and theories are examined and applied well, and appropriate terminology is used. There is good reference to the stimulus material and good evidence of a balanced response. Judgments are relevant, but are not always well substantiated.

Award *9 – 10 marks* for a good understanding of the demands of the question. Relevant tools, techniques and theories are discussed and applied purposefully, and appropriate terminology is used throughout the response. The answer considers the perspective of various stakeholder groups and with appropriate application made to Walmart. There is good evidence of a balanced response throughout. Judgments are relevant and well substantiated.

Question 1.3.5 – Kidzplay Bouncy Castles

Note: The answers below are only suggestions; indeed, a factor that might be perceived as a weakness (e.g. lack of business from the company's website) might also be an opportunity if an alternative viewpoint is taken. What is important is that the candidate explains their answers and lines of reasoning.

(a) Limited competition in a niche market – this is likely to be an opportunity for *Kidzplay Bouncy Castles*. This is because competition is an external factor and since the business operates in a niche market, there are opportunities for expansion without the threat of intensive competition.

(b) Limited business on its newly launched website – this might be considered as a weakness as the factor is, to a large extent, within the control of the business. *Kidzplay Bouncy Castles* could take a more proactive approach to the online promotion its business.

(c) Struggling to recruit suitable staff – again this could be seen as a weakness because the firm is unable to hire the right staff. Perhaps there is a need for *Kidzplay Bouncy Castles* to review its workforce planning and remuneration package.

(d) Demand in the winter months is weak – this might be perceived as a threat since seasonal fluctuations in demand caused by the weather is beyond the control of the business. Poor weather during the winter in the UK is likely to dampen the demand for the services provided by *Kidzplay Bouncy Castles*.

(e) Highly profitable earnings could attract competitors – this is a potential threat to the business since competitors are attracted by the high earnings potential. With a greater number of rivals, *Kidzplay Bouncy Castles* is likely to lose some market share.

Award up to *2 marks* for each factor that is clearly identified and outlined as being a strength, weakness, opportunity or threat.

Question 1.3.6 – Ansoff's Matrix

(a) Market penetration (Cadbury's trying to capture a larger share of the market) or product development (new products being launched in existing markets).

(b) Product development (new products by Toyota in an existing market for luxury cars under the Lexus brand name).

(c) Product development (new products to existing Tesco customers) or diversification (as Tesco has expanded to provide petrol and financial services which are not part of its core competencies).

For each question:

Award *1 – 2 marks* for a vague answer that shows limited understanding of the growth strategy, in the context of the Ansoff Matrix.

Award *3 – 4 marks* for a response that shows good understanding of the given growth strategy, clearly explained in the context of the Ansoff Matrix.

Unit 1.4 Stakeholders

Question 1.4.1 – Nokia and Microsoft

(a) Market share is a measure of the relative size of a business, usually by calculating the value of a firm's sales revenue as a percentage of all sales in the industry.

Award *1 mark* for a vague definition that shows some understanding of market share.

Award *2 marks* for a definition that shows a clear understanding of market share, similar to the one above.

(b) A stakeholder is any person or organization with a direct interest in, and is affected by, the operations of a business, e.g. Nokia's employees, managers, directors and its rivals (such as Apple and Samsung).

Shareholders are a type of stakeholder who own a stake in limited liability companies. Nokia's shareholders invest money in the company by purchasing shares in the business. As the owners of the company, they are also entitled to a share of Nokia's profits.

Award *1 – 2 marks* if the distinction is not very clear and there are omissions in explaining the difference between shareholders and stakeholders.

Award *3 – 4 marks* if the answer shows a good understanding of the difference between shareholders and stakeholders, with a clear distinction made. There is accurate use of the stimulus material.

(c) Different stakeholder groups are affected in various ways by Microsoft's takeover of Nokia. For example:

- Shareholders of Nokia will have suffered from the company's market value falling from $150bn to $7.3bn at the time of the takeover (Nokia's share price dropped by 93%)
- Shareholders of Microsoft will have acquired Nokia, with the potential to earn greater dividends in the future as Nokia presents them with an additional revenue stream
- Senior managers and directors of Nokia may have lost their jobs due to the takeover and a subsequent restructuring of the new company
- Employees were transferred to Microsoft in early 2014 (all 32 000 of them), requiring them to adjust to a new corporate culture
- Rivals such as Apple and Samsung would respond accordingly to Nokia being taken over by Microsoft, in order to maintain their market leadership in the mobile phone industry
- Accept any other relevant answer written in the context of the takeover of Nokia.

Award *1 – 2 marks* for a vague answer that shows a limited understanding of the demands of the question.

Award *3 – 4 marks* for an attempt at examining how stakeholders are affected by the takeover, with appropriate use of business management terminology. Award up to *3 marks* if only one stakeholder group is considered.

Award *5 – 6 marks* for a thorough examination of how different stakeholder groups are affected by the takeover of Nokia. There is good application of business management terminology and sufficient detail in the answer.

Question 1.4.2

(a) External stakeholders are individuals and parties not part of the organization but have a direct interest in its activities and performance, such as customers, suppliers, pressure groups and the government.

Award *1 mark* for a vague definition that shows some understanding of external stakeholders.

Award *2 marks* for a clear definition of external stakeholders, with relevant examples used.

(b) The question requires candidates to examine any two relevant stakeholder groups and how they are affected by the performance of a school or college, such as:

- Employees - the morale of teaching and non-teaching staff is likely to fall, especially if there are negative impacts on pay, job security, productivity and labour turnover.
- Customers - the parents (and students) might become dissatisfied with the quality of teaching and learning, and perhaps look at alternative schools for their children.
- Local community - schools and colleges play a vital role in influencing house prices and the reputation of the local area, which are likely to suffer in this case.
- Competitors - other schools in the area are likely to benefit from their rival suffering from poor performance.
- Government - there may be some government intervention and funding implications due to the poor performance. In extreme cases of poor performance, the government might even close down the school or college.

Therefore, the (poor) performance of the school will normally have negative impacts on its stakeholders, at least in the short run. Rival schools and colleges are perhaps the only exception.

Award *1 – 2 marks* for a vague answer that shows a limited understanding of the demands of the question.

Award *3 – 4 marks* for an attempt at examining how the poor performance of a school or college might impact on two of its stakeholder groups. Award up to *3 marks* if only one stakeholder group is considered.

Award *5 – 6 marks* for a thorough examination of how the poor performance of a school or college might impact on any two stakeholder groups. There is good application of business management terminology athroughout the response, and use of relevant examples.

Question 1.4.3 - The Royal Bank of Scotland Group

(a) *RBS Group* has a "stake" in Bank of China. This means the former has a direct interest, financial or otherwise, in the operations of the latter. In this case, *RBS Group* held 4.26% of the shares in Bank of China, i.e. it was a shareholder of the Chinese bank.

Award *1 mark* for a vague definition that shows some understanding of the demands of the question.

Award *2 marks* for a definition that shows a clear understanding of the demands of the question.

(b) RBS Group's share price dropped from £3.54 to just £0.11. Hence, the percentage fall in its share price was:

[(£0.11 – £3.54) / £3.54] ×100 = -96.89%

Award *1 mark* for the correct answer, and 1 mark for showing appropriate working out.

(c) Shareholders of *RBS Group* might be concerned about its performance because:

- *RBS Group* was one of the largest banks in the world, but struggled to survive without the government bailing it out from the global financial crisis.
- The share price of *RBS Group* drop from £3.54 to just £0.11, so shareholders would have lost almost 97% of their investment.

- Due to the financial turmoil, *RBS Group* had to sell its stake in Bank of China, yet did not make any profit from doing so.
- *RBS Group's* record £24.1bn ($39.1bn) loss in 2008 would concern shareholders about the company's ability to recover and to survive.
- Ultimately, the performance of *RBS Group* has been poor, suggesting that the bank had not been hugely successful and failed to survive the financial crisis. The company's record losses would clearly have been a concern for shareholders whose return on investment would have plummeted based on its poor performance.

Award *1 – 2 marks* for an answer with one reason clearly explained, or if there is no application made to *RBS Group*.

Award *3 – 4 marks* for an answer with two clearly explained reasons why the shareholders of RBS Group might be concerned about its performance. There is good application of the stimulus material in the case study.

(d) The extent to which a business like *RBS Group* should listen to the views of its various stakeholder groups depends on the relative degree of interest and influence of these different stakeholder groups. It is likely that stakeholder conflict will arise. The company will need to take decisions that will address the interests of some stakeholder groups but at the expense of not being able to meet the needs of other groups. For example, selling its stake in Bank of China would please senior managers as *RBS Group* was facing a liquidity issue, but not being able to make a profit on the sale of the shares would displease the shareholders.

The extent to which *RBS Group* should listen to the view of its stakeholders will depend on several factors, including:

- The level of power (influence) and interest that the various stakeholder groups have in the organization
- The costs of complying with what the various stakeholder groups demand
- The costs of resolving any conflict that might exist
- The management style and corporate culture will influence decision making at *RBS Group*
- The situation currently faced by the organization, e.g. it is less tolerant of various conflicting stakeholder priorities during a time of crisis such as a global financial crisis.

Award *1 – 2 marks* for a vague answer that shows limited understanding of the demands of the question. The answer is generalized, and/or lacks detail or is presented in a list-like manner with undeveloped points.

Award *3 – 4 marks* for some understanding of the demands of the question. Where applicable, some relevant tools, techniques and theories are explained, with some appropriate business management terminology used. Application to *RBS Group* is limited.

Award *5 – 6 marks* for understanding of most of the demands of the question. Relevant tools, techniques and theories are explained and applied to the case study, and appropriate Business Management terminology is used most of the time. There is some reference to *RBS Group*. For *6 marks*, there is some evidence of a balanced response.

Award *7 – 8 marks* for a good understanding of the demands of the question. Relevant tools, techniques and theories are examined and applied well, and appropriate terminology is used. There is good reference to the stimulus material and good evidence of a balanced response. Judgments are relevant, but are not always well substantiated as to whether acting *RBS Group* should listen to the view of its stakeholders.

Award *9 – 10 marks* for a good understanding of the demands of the question. Relevant tools, techniques and theories are discussed and applied purposefully, and appropriate terminology is used throughout the response. There is a clear and balanced discussion of the extent to which *RBS Group* should listen to the view of its various stakeholders. Judgments are relevant and well substantiated.

Question 1.4.4 – Skoda Auto

(a) External stakeholder groups include:

- Customers of Škoda Auto
- Suppliers of Škoda Auto's parts and components
- Competitors of Škoda Auto
- The Czech and Chinese governments
- Distributors for Škoda Auto's exports

Award *1 mark* for each correctly identified **external** stakeholder, up to the maximum of *2 marks*.

Do not award any marks for examples of internal stakeholders (such as employees or Volkswagen).

(b) Industrial action refers to the collective actions taken by workers or labour unions due to conflicts with employers. Such measures include slowdowns, work-to-rule, and strike action.

Award *1 mark* for a vague definition that shows some understanding of industrial action.

Award *2 marks* for a definition that shows a clear understanding of industrial action, similar to the above.

(c) Conflict refers to situations where different stakeholder groups have disagreements about certain matters due to discrepancy in their opinions. Examples of conflict at Škoda Auto include:

- Škoda Auto (employer) and its employees over pay and benefits
- Employees strike action and the consequences on the Czech government and domestic economy (loss of output)
- Employees securing improved pay and benefits but at the expense of inflationary pressures on the domestic economy, i.e. the repercussions for the Czech government
- Employees (higher pay and benefits) and shareholders (who demand greater levels of profitability).

Award *1 – 2 marks* for a response that shows some understanding of the demands of the question, although the source of conflict between stakeholders may not be clearly identified or explained sufficiently. Application is limited.

Award *3 – 4 marks* if the answer shows a good understanding of the demands of the question. The source of conflict between Škoda Auto's various stakeholders is clearly identified and explained well. There is good use of the stimulus material.

(d) It is highly unlikely that Škoda Auto can fulfil the aims of all its stakeholders simultaneously. Therefore, it is likely that Škoda Auto will seek a best fit compromise so that the various stakeholder groups are all reasonably pleased with the outcome of the pay dispute.

Stakeholder mapping can be used to assess the relative interest of Škoda Auto's stakeholders and their relative influence (or power) on the company's behaviour. For Škoda Auto, the map might look something like the following:

		Level of Interest	
		Low	High
Level of influence	Low	Local community	Rival car manufacturers Government
	High	Volkswagen (since Škoda Auto is run independently of VW)	Employees Shareholders

Stakeholder mapping allows the managers at Škoda Auto to assess how to deal with conflicting stakeholder objectives and to prioritise their actions to resolve the conflict. Using this model, it is unlikely that the local community will receive much attention from the decision-makers at Škoda Auto. Conversely, employees will receive the most attention as they are essential to the smooth operation of the business and they have threatened industrial action (i.e. they have a high degree of influence). Pay deals are likely to go through a process of negotiations which aims for a win-win outcome (or a mutually acceptable result) for both employees and the employer. Škoda Auto, for example, might warn that soaring wage claims would be harmful to the company's ability to compete in growing markets such as China, resulting in mass redundancies. The outcome of the negotiations will, of course, depend on the relative bargaining powers of the two parties.

The conflict outlined in Question 1.4.4.c is likely to be developed using a decision-making framework, a CUEGIS framework or a stakeholder mapping tool (as above).

Award *1 – 2 marks* for a vague answer that shows limited understanding of the demands of the question.

Award *3 – 4 marks* for an answer that shows some demands of the question, but the answer may be unbalanced or if there is no application to Škoda Auto.

Award *5 – 6 marks* for a thorough examination of how the conflict could be minimised. There is good application of the stimulus material. For maximum marks, the answer should address how the conflict could be minimised.

Question 1.4.5 – Royal Dutch Shell

(a) Stakeholders are individuals and organizations that have a direct interest in the conduct and performance of a business. The **internal stakeholders** are those parties who own or work in the organization, e.g. shareholders, employees, managers and directors of *Royal Dutch Shell*.

Award *1 mark* for an imprecise definition of internal stakeholders. Do not award any marks for a definition or example of external stakeholders.

Award *2 marks* for a clear definition of internal stakeholders, similar to the one above.

(b) There are arguments for and against *Royal Dutch Shell* allowing environmental and pressure groups to influence its decision making. Arguments for doing so can include:

- *Royal Dutch Shell* operates in an industry that is heavily monitored by external stakeholder groups such as environmental action groups. Powerful pressure groups such as Greenpeace can exert major influences on the media and internal stakeholders so *Royal Dutch Shell* might need to consider the interests of these stakeholders in its decision-making process.

- If there is supporting evidence to suggest that environmental and pressure groups can have an unfavourable impact on *Royal Dutch Shell's* business, then it is more likely to take decisions that comply with the wishes of such stakeholders. For example, rival BP was exposed for its complacency and neglect in the Deepwater Horizon disaster (see pages 48 and 599 in textbook).
- From a corporate social responsibility perspective, there might be net benefits to *Royal Dutch Shell* being perceived as a firm that is socially and environmentally responsible, i.e. higher market share and/or improved labour morale.

However, there are arguments as to why large global companies such as *Royal Dutch Shell* can/should act independently of pressure and environmental groups:

- *Royal Dutch Shell's* main priorities are to deal with the interests of their internal stakeholders, rather than those of environmentalists and pressure groups.
- *Royal Dutch Shell* is a private sector organization that operates to satisfy the demands of its owners (the shareholders) and to achieve its organizational objectives. So, it can be argued that it is not the role of *Royal Dutch Shell* to protect the environment; instead this is the role of the public sector, i.e. the government.
- Adhering to the interest of environmental and pressure groups might ultimately raise the costs (and hence reduce the profits) of *Royal Dutch Shell*; much to the detriment of its shareholders.

Overall, the extent to which large organizations such as *Royal Dutch Shell* will consider the interests of environmental and pressure groups will depend on a host of factors, such as: the issue/problem at hand, the resources available to tackle the issue/problem, management preferences/intuition, and the degree of public awareness/concern over the activities of the business in question.

Some candidates may use a CUEGIS framework to address this question and to formulate their evaluation, so should be awarded accordingly.

Award *1 – 2 marks* for a vague answer that shows limited understanding of the demands of the question. The answer is generalized, and/or lacks detail or is presented in a list-like manner with undeveloped points.

Award *3 – 4 marks* for some understanding of the demands of the question. Where applicable, some relevant tools, techniques and theories are explained, with some appropriate business management terminology used. Application to Royal Dutch Shell is limited.

Award *5 – 6 marks* for understanding of most of the demands of the question. Relevant tools, techniques and theories are explained and applied to the case study, and appropriate Business Management terminology is used most of the time. There is some reference to Royal Dutch Shell. For *6 marks,* there is some evidence of a balanced response.

Award *7 – 8 marks* for a good understanding of the demands of the question. Relevant tools, techniques and theories are examined and applied well, and appropriate terminology is used. There is good reference to the stimulus material and good evidence of a balanced response. Judgments are relevant, but are not always well substantiated as to whether global companies such as Shell should allow environmental and human rights groups to exert influence on their decision-making.

Award *9 – 10 marks* for a good understanding of the demands of the question. Relevant tools, techniques and theories are discussed and applied purposefully, and appropriate terminology is used throughout the response. There is a clear and balanced discussion of the extent to which global companies such as Royal Dutch Shell should allow environmental and human rights groups to exert influence on their decision-making.

Unit 1.5 External Environment

Question 1.5.1

The 'answer' to this question will clearly depend on which option the candidate chooses to tackle. Essentially, the concepts and skills being tested are the same, i.e. candidates should consider both internal and external constraints on the chosen business issue.
An example, for Option iii (Disney's expansion into Shanghai), is illustrated below. The suggested mark scheme applies to all options in this question.

(iii) An examination of internal constraints might include:

- Internal funds, e.g. a lack of retained profits to finance the expansion plans
- Resistance from senior staff to relocate to China
- Lack of marketing knowledge to cater for a foreign (Chinese) target market
- Inaccurate or imprecise marketing research data.

An examination of external constraints might include:

- A lack of cultural awareness (diversity)
- Language and communication problems
- Unfamiliarity with Chinese legislation, including employment laws
- Less affluent people, in general, in China compared to USA or Europe
- Existing competition from well-established theme parks in Shanghai.

Award *1 – 2 marks* for an answer that lacks understanding of the demands of the question. The response is vague and may be presented in a list without any detail.

Award *3 – 4 marks* if the response shows some understanding of the demands of the question but lacks detail or substance in certain areas. There is adequate use of business management terminology. Award up to *4 marks* if only internal or external constraints are considered.

Award *5 – 6 marks* if there is a balanced examination of both the internal and external constraints on the business activity in question. The response is probing, and there is effective use of business management terminology, with appropriate application.

Question 1.5.2

Examples of possible issues are shown in the grid below:

	Demographic change	Opportunities	Threats
(a)	Growing number of self-employed people	• Consultation, advisory and supply chain opportunities • Financial services providers are likely to benefit from patronage, e.g. banks and insurance firms • Franchising opportunities as more people wish to become their own boss	• Smaller pool of potential employees / recruits, i.e. labour shortages, thus leading to higher wages having to be paid • An increase in competition from those who have set up their own businesses

(b)	Increasing number of single-parent families	• Prospects for child-care and related products • Impact on workforce planning, e.g. labour flexibility	• Labour immobility • Relatively low income earners (or lower disposable incomes) • Possible reduction in size of potential labour force
(c)	Parents choosing to have fewer children and at a later stage in their lives	• Career development of female workers • More females opting for full-time employment • Perhaps a greater labour supply in the short term • Higher disposable incomes	• Long term impacts on related industries, e.g. schools and toy manufacturers • Smaller workforce in the future
(d)	More people graduating with University degrees	• Increased potential pool of skilled and qualified workers • Increased productivity Innovation and creativity can generate new commercial ideas • Higher earners lead to greater spending in the economy	• Higher salaries as firms compete to attract the best workers • Reduced workforce as more people enter higher education (postponed entry to the workforce) • Possibly higher staff turnover as skilled employees tend to be more mobile / headhunted

For each answer:

Award *1 – 2 marks* for an answer that shows limited understanding or that considers only opportunities or threats.

Award *3 – 4 marks* for consideration of both opportunities and threats. There is appropriate application of business management terminology and relevant use of examples.

Question 1.5.3 - Nintendo and Apple

(a) Market segment refers to a distinct consumer group or part of the market for a particular product, e.g. children, women, adults, teenagers, the eldery or high income earners.

Award *1 mark* if the answer shows some understanding of 'market segment', although the definition might lack some clarity.

Award *2 marks* if 'market segment' is clearly defined, possibly with the use of an example relevant to the case study.

(b) The technological environment can present a range of opportunities for hi-tech firms (such as Nintendo and Apple), which include:

- Product-oriented firms, such as Apple and Nintendo, can create hi-tech products that they intuitively know they can sell
- The ability to produce more sophisticated consoles (such as the Wii U), games and other gadgets (such as the iPhone) to appeal to a larger and wider market
- Quicker product development times; essentially in fast-paced industries where products may have a short product life cycle
- Marketing opportunities are enhanced with the use of improved technology, e.g. purchasing music online through iTunes
- *Accept any other relevant factor that is explained in context.*

Award *1 – 2 marks* for an answer that shows limited understanding. There may be little, if any, application. The answer may simply be a list of factors without any explanations.

Award *3 – 4 marks* if the response shows some understanding of the demands of the question but lacks detail or substance in certain areas. There is adequate use of business management terminology. Award up to *3 marks* if only one opportunity is considered.

Award *5 – 6 marks* if there is a balanced examination of both the internal and external constraints on the business activity in question. The response is probing, and there is effective use of business management terminology, with appropriate application.

Question 1.5.4 - Zimbabwe's inflation problems

(a) Inflation refers to the continual rise in the general level of prices in an economy over a period of time.

Award *1 mark* if the answer shows some understanding of inflation, although the definition might lack some clarity.

Award *2 marks* if inflation is clearly defined, similar to the above.

(b) Possible factors that could have causes inflation in Zimbabwe include:

- Cost-push inflation , e.g. caused by soaring fuel and food prices
- Demand-pull inflation, e.g. Zimbabwean citizens getting large pay rises (due to the increasing cost of living), thereby fuelling even higher prices.
- The Zimbabwean government printing more money, thus raising the money supply and reducing the value of its money.

Award *1 mark* for each relevant factor, up to *2 marks*.

(c) Uncontrollable inflation can harm businesses in Zimbabwe in several ways, such as:

- Reduces the international competitiveness of the economy – this will make it more difficult for Zimbabwean businesses to sell their exports, thereby hindering their success.
- The level of national output is likely to decline due to soaring costs of production; this will have detrimental effects on businesses in the country.
- Investment (including foreign direct investment) is likely to decline as business confidence falls. This hampers future business activity in Zimbabwe.

- Standards of living is this likely to fall, causing further social and economic problems for the poverty-ridden country, again negatively affecting businesses.
- *Accept any other reasoned response, written in the context of the case study.*

Award *1 – 2 marks* if the answer is rather vague / unexplained, i.e. shows little understanding of the effects of uncontrollable inflation on businesses.

Award *3 – 4 marks* if the effects of uncontrollable inflation are examined, but the answer lacks detail and/or is rather generalized. There is some use of relevant business management terminology.

Award *5 – 6 marks* if there is a detailed discussion of the effects of uncontrollable inflation on businesses in Zimbabwe. There is effective use of relevant business management terminology, with application of the stimulus material.

Question 1.5.5 - JKL Jeans

(a) The exchange rate refers to the price of one currency (such as UK pound sterling) against other currencies (such as the US dollar).

Award *1 mark* if the answer shows some understanding of exchange rate, although the definition might lack some clarity.

Award *2 marks* if exchange rate is clearly defined, similar to the above.

(b) Deduct *1 mark* for each error, up to the maximum of *4 marks*, but apply the Own Figure Rule (error carried forward) as appropriate.

Exchange Rate	Purchase cost ($)	Purchase cost (£)	Sales revenue (£)	Profit or Loss (£)
£1 = $0.75	300,000	400,000	300,000	(100,000)
£1 = $1.00	300,000	300,000	300,000	0
£1 = $1.50	300,000	200,000	300,000	100,000
£1 = $2.00	300,000	150,000	300,000	150,000
£1 = $2.50	300,000	120,000	300,000	180,000

(c) There is a positive relationship between the exchange rate and the level of profits for *JKL Jeans*. This means that there it is favourable for *JKL Jeans* when the exchange rate (of the £) increases. For example, when the exchange rate for pounds sterling rises from $1.30 to $1.45 (11.5%), the firm's profit rises from £236,538 to £266,379 (12.6%) because *JKL Jeans* is able to purchase from its US supplier at a lower rate.

Award *1 – 2 marks* for a brief commentary that shows a vague idea about the relationship between changes in the exchange rate and the level of profits, or if there is limited use of the data.

Award *3 – 4 marks* for an answer that shows an understanding of the relationship between changes in the exchange rate and the level of profits and there is good use of the data.

(d) Costs of engaging in international trade for *JKL Jeans* include:

- Tariffs imposed on the import of American jeans
- Transportation costs for the jeans being shipped in from the USA
- Insurance for the stock being transported from overseas.
- *Award any other relevant cost that is written in the context of the case study.*

Award up to *2 marks* for explaining each relevant cost of engaging in international trade, up to the maximum of *4 marks*. For full marks, there must be appropriate application to *JKL Jeans*.

(e) A high exchange can create an opportunity for *JKL Jeans* because the costs of importing its stocks of jeans will fall. As the £ strengthens against the $, *JKL Jeans* will be able to purchase the same quantity of stock for a lower cost, e.g. as the £ strengthens from $1.2 to $1.8, the purchase costs in terms of sterling will drop by 50%. This means that the profit margins of *JKL Jeans* should increase. This creates growth and employment opportunities.

However, a stronger currency can also present threats if the business exports its products. A stronger currency means that the price of jeans sold by *JKL Jeans* overseas will automatically increase. Again, if the £ strengthens from $1.2 to $1.8, overseas customers need to spend 50% more to buy products from *JKL Jeans*. This makes its exports less price competitive (through no fault of its own).

Award *1 – 2 marks* for a generalized answer that is descriptive or lacks substance. There is some understanding that a high exchange rate can present an opportunity or a threat to businesses.

Award *3 – 4 marks* for an examination of how *JKL Jeans* is affected by changes in the exchange rate. At the lower end, there is an unbalanced answer that lacks details.

Award *5 – 6 marks* for a thorough examination of both an opportunity and a threat of higher exchange rates for *JKL Jeans.* Appropriate business management terminology is used with reference to the case study.

Question 1.5.6 – Findus horsemeat scandal

(a)(i) The term 'product recall' refers to the practice of a firm getting customers to return a product they have purchased due to the discovery of a health and safety issue, such as product defects that might endanger the customer. Product recalls are also used to prevent or minimize the risks of legal action taken against the firm due to the defect.

Award *1 mark* if the answer shows some understanding of 'product recall', although the definition might lack some clarity.

Award *2 marks* if 'product recall' is clearly defined, similar to the above.

(a)(ii) The term 'brand' refers to the use of an exclusive name, symbol or design to identify a specific product or organization, such as '*Findus*'. It is used to differentiate a product or organization from rival products and firms.

Award *1 mark* if the answer shows some understanding of 'brand', although the definition might lack some clarity.

Award *2 marks* if 'brand' is clearly defined, similar to the above.

(b) Unethical behaviour is not necessarily illegal, although it is often difficult to separate the two. *Findus* acted unethically by misleading customers into believing that its products were made using beef, rather than horsemeat, i.e. by making false advertising claims.
It would be somewhat difficult to argue that this was not deliberate, given the findings (100% horsemeat), although this could raise issues about quality assurance from its own suppliers of meat ingredients. *Findus* also acted illegally because of its "failure to comply with product description laws", even though there were no reports or evidence of the potential health issues arising from the consumption of horsemeat.

Award *1 – 2 marks* for a generalized answer that is descriptive or lacks substance.

Award *3 – 4 marks* for an explanation of how *Findus* acted unethically and unlawfully, although the distinction is not made clear at the bottom end. Some examples are given or there is some reference to Findus.

Award *5 – 6 marks* for a clear explanation of how *Findus* might have acted both unethically and unlawfully. Relevant examples are used in the context of *Findus*, with reference to the stimulus material.

Question 1.5.7 – Walmat

(a)(i) Discrimination refers to the negative prejudice against, or intolerance with, a particular trait. Examples include discriminating against because of their race, religion, sexual orientation, physical appearance or gender (as in the case of *Walmart*).

Award *1 mark* for a vague or partial understanding of 'discrimination'.

Award *2 marks* if 'discrimination' is clearly defined, with appropriate use of business management terminology, similar to the above.

(a)(ii) National minimum wage refers to the legal requirement for all employers, such as *Walmart*, to pay their workers at least the (minimum) amount stipulated by the law, e.g. $7.25 per hour.

Award *1 mark* for a vague or limited understanding of 'national minimum wage'.

Award *2 marks* if 'national minimum wage' is clearly defined, with appropriate use of business management terminology, similar to the above.

(b) It is important to observe and adhere to labour laws such as rest breaks. Not only does this directly affect the productivity of the workforce, there will also be a knock-on effect on staff morale if sufficient breaks (a hygiene factor) are not given. As a minimum compensation, workers who are asked to work overtime, perhaps during their usual rest breaks, should be paid a premium rate. In the case of *Walmart*, the discriminatory employment practices led to lawsuits that amounted to $78 million.

The case study also points out the importance of adhering to equal opportunities legislation, i.e. paying men and women the same rate of pay for equal work. Male workers should not be offered promotion over women simply because of their gender. If a woman is better suited for the job, then it makes business sense to offer the position to her. Not only is this 'fair' but it also suggests that business-decision making is more rational and a decision that may be more acceptable to society.

Finally, with all the negative publicity it is likely that the corporate image of *Walmart*, both as an employer and as a retailer, would have been somewhat damaged. Complying with the legal framework enables Walmart to improve his corporate image as a business and employer.

Despite the potential to save money by 'cutting corners' (i.e. not complying with labour laws), in the long run the financial penalties and detrimental impacts on the organization means that it is perhaps best for large companies such as *Walmart* to be aware of and comply with the legal environment.

Award *1 – 2 marks* for a vague and generalized answer that lacks substance and/or development.

Award *3 – 4 marks* if a descriptive answer is provided with little or no application shown. At the lower end, answers may appear in a list-like form with limited development.

Award *5 – 6 marks* if there is good understanding of the demands of the question, with appropriate use of business management terminology although responses may lack substance or justification in areas.

Award *7 – 8 marks* if the response includes justifications for the reasons why *Walmart* needs to be aware of the legal environment. There is appropriate use of business management terminology, with clear application to

Walmart. However, there is no evaluation or justification in the answer.

Award *9 – 10 marks* if there is a good understanding of the demands of the question, with justification of the need for Walmart to be aware of the legal environment. There is effective use of business management terminology throughout the response, with clear application to *Walmart*, and evidence of critical thinking

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Unit 1.6 Growth and Evolution

Question 1.6.1 – Small versus Large

(a) Economies of scale might benefit customers, such as in the following cases:

- Economies of scale enable firms to cut prices as their unit costs of production fall with increasing levels of output. Consumers therefore benefit from lower prices.
- To achieve economies of scale, firms must remain highly competitive. Hence, businesses must strive to meet the needs and wants of their customers.
- Economies of scale enable larger firms to have the funds to spend on research and development (R&D), which can result in innovative and better quality products sold to customers.
- *Award any other valid explanation.*

Award *1 mark* for a vague answer but shows some understanding of the demands of the question.

Award *2 marks* for a clear answer that shows good understanding of why customers might benefit from economies of scale.

(b) Economies of scale might be inappropriate, undesirable or inaccessible for certain businesses because:

- Some businesses, especially sole traders, might wish to keep tight control and ownership of their business. Hence, large scale operations may prove to be inappropriate and/or undesirable.
- Similarly, some firms do not participate in large scale production (e.g. those that operate in niche markets or those that require job production) so economies of scale become inaccessible to them. Instead they may focus on specialization and the uniqueness of the product.
- Some firms might choose to limit their output in order to avoid cash flow crises or over-trading, and hence there is limited access to economies of scale.
- Some businesses, such as Ferrari and Rolex, will focus primarily on the quality, rather than the quantity, of the product. This therefore limits the economies of scale that the firm can access. It is also undesirable for such firms to produce more simply to have lower costs (such luxury products are perceived to be of extremely high quality).
- *Award any other valid explanation.*

Award *1 – 2 marks* for a vague answer that lacks detail, depth or relevance. The answer may be presented in a bullet-point list without sufficient depth of explanation.

Award *3 – 4 marks* if there are good explanations of the circumstances surrounding the inappropriateness, undesirability and inaccessibility of economies of scale for some businesses.

(c) Small firms might continue to survive, despite their limited access to economies of scale, because:

- Small firms may operate in niche markets that do not tend to be of interest to larger businesses, so they are able to survive.
- They offer a local, flexible and personal service to their customers.

- There are low barriers to entry (e.g. set-up costs), thereby reducing the risks for setting up and running such small businesses.
- They may have better cost control due to their smaller-scale operations (large firms can experience diseconomies of scale).
- *Award any other valid explanation.*

Award *1 – 2 marks* for a generalized answer that lacks detail of why small firms continue to survive despite their limited ability to access economies of scale. The answer may lack substance.

Award *3 – 4 marks* for a thorough explanation of why small firms continue to survive despite their limited ability to access economies of scale. There is effective use of business management terminology throughout the response.

(d) It is debatable whether large firms (always) act in the best interest of the general public. Large firms can exploit the public in several ways, including:

- The creation of barriers to entry in order to protect themselves from potential competition, thereby making the industry less competitive. This would result in less price and non-price competition, which can be detrimental to the public. By contrast, rivalry tends to lead to more competitive prices whilst increasing the quality and availability of a variety of products.
- Taking advantage of their monopoly power, for example by using price discrimination to charge one market segment a higher price in order to maximize their own profits.
- Exploiting suppliers in order to keep costs low, but not necessarily passing these cost savings onto their own customers.

On the other hand, large firms can benefit the public in other ways, such as:

- Large firms being able to exploit economies of scale which protects domestic firms from foreign competition (and hence protects domestic employment).
- They may be the only firms that have the necessary financial and human resources to undertake research and development. Smaller firms tend not to have the required resources to invest in R&D and innovation.
- Competition can be wasteful in some industries, such as excess packaging and confusing pricing policies to sell mobile phone packages. Hence, it makes sense for these large firms to strive to provide a better product, with greater value for money.

The extent to which these large firms operate in the best interest of the public will depend on many factors, including:

- The nature and scope of barriers to entry, and hence the potential for competition.
- The values and visions of the organization.
- The extent to which the government plays an active role in controlling the power of large firms (monopoly power).
- *Award any other relevant discussion that is substantiated.*

Award *1 – 2 marks* for a generalized answer that lacks detail or is presented in a list-like form with undeveloped points.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question being demonstrated. There is little or no application shown.

Award *5 – 6 marks* if there is good understanding of the demands of the question, with appropriate use of

business management terminology, although the response may lack substance or justification in areas.

Award *7 – 8 marks* if the discussion includes justifications for the reasons why large businesses might/not operate in the best interest of the general public. There is appropriate use of business management terminology, with appropriate application. However, synthesis and evaluation are limited.

Award *9 – 10 marks* if there is a good understanding of the demands of the question, with good justification for the reasons why large businesses might/not operate in the best interest of the general public. There is effective use of business management terminology throughout the response, with clear application and evidence of critical thinking.

Question 1.6.2 – Hoang Ngan

(a) Growth refers to the expansion of an organization and the scale of its operations. Growth can occur organically, using the firm's own capabilities and resources or inorganically through dealings with outside organizations, such as the formation of strategic alliances, takeovers or mergers.

Award *1 mark* for a vague answer that shows some understanding of growth.

Award *2 marks* for a clear definition that shows good understanding of growth, similar to the answer above.

(b) Reasons why banks might be reluctant to fund the expansion plans of *Hoang Ngan* include:

- The market for cultural art and craft products is relatively small, so represents a large risk for financiers
- The business was founded in 2012, so could lack brand recognition and may not have any form of brand loyalty
- Unfamiliarity with doing business in overseas countries such as Laos and Cambodia
- Banks would need a lot more information than is provided in the case study about Hoang Ngan, e.g. its sales figures, market share, size of the workforce, profit and value of its collateral
- Ultimately, banks may not find it financially worthwhile to lend to small firms such as Hoang Ngan due to the level of risk involved.

Award *1 mark* for each reason, up to the maximum of *2 marks*.

(c) Reasons why banks might be reluctant to fund the expansion plans of *Hoang Ngan* include:

- The market for cultural art and craft products is relatively small, so represents a large risk for financiers
- The business was founded in 2016, so could lacks brand recognition and may not have any form of brand loyalty
- *Hoang Ngan* is unfamiliar with doing business in overseas countries such as Laos and Cambodia
- Banks would need a lot more information than is provided in the case study about *Hoang Ngan*, e.g. its sales figures, market share, size of the workforce, profit and value of its collateral
- Ultimately, banks may not find it financially worthwhile to lend to small firms such as *Hoang Ngan* due to the high level of risk involved.

Award *1 mark* for each reason identified, up to the maximum of *2 marks*.

(d) Problems that *Hoang Ngan* might encounter when operating in new overseas markets include:

- A lack of local knowledge about customer tastes, habits and business etiquette in Laos and Cambodia
- Cultural issues (such as ethics and language) also need to be considered when operating in overseas markets, from a range of perspectives including customers, employees and governments
- Legal issues need to be considered as Laos and Cambodia operate different legal systems from Vietnam
- *Award any other relevant explanation, written in the context of the case study.*

Candidates may use a STEEPLE or CUEGIS framework to tackle this question (although only two elements/ problems are required), so should be awarded accordingly.

Award *1 – 2 marks* for a generalized or vague answer that lacks detail or is presented in bullet point list without sufficient explanation.

Award *3 – 4 marks* if there is some understanding of the demands of the question regarding the likely problems encountered when operating in new overseas markets, but the response may lack clarity or detail on areas. Award up to *3 marks* if only one problem is explained.

Award *5 – 6 marks* if there is a good understanding of the demands of the question regarding the likely problems encountered when operating in new overseas markets. The answer contains clear explanations of two different problems, written in the context of *Hoang Ngan*. There is appropriate use of business management terminology. ***Note:*** there is no requirement for candidates to know about doing business in Laos and Cambodia.

Question 1.6.3. – Poundland

(a) Market share is a measure of the size of an organization relative to the overall market (industry) in which it operates. It is usually measured by calculating the sales revenues of a business as a percentage of the industry's total sales revenue.

Award *1 mark* for a vague answer but shows some understanding of market share.

Award *2 marks* for a clear definition that shows a good understanding of market share, similar to the answer above.

(b) Methods of organic growth that *Poundland* might have used include:

- Effective pricing strategy – selling every product for £1 or less has attracted 7 million customers to its stores each week
- Effective promotion and marketing strategies used to entice customer in Ireland, the Netherlands and the UK to *Poundland*
- Selling a wider range of products helps to attract more customers away from more established retailers such as supermarkets
- Capital expenditure used to improve the physical environment and customer experience at *Poundland* stores
- Offering better perceived value for money to customers, including improved customer service
- *Accept any valid method of organic growth, described in the context of Poundland.*

Award *1 mark* for each valid reason, and *1 mark* for a clear description, up to the maximum of *4 marks*. For full marks, relevant business management terminology and application must be demonstrated.

(c) Whether organic growth is desirable for a business such as *Poundland* depends on several factors, including:

- Consideration of the advantages of organic growth, such as:
  - Better control and coordination, e.g. *Poundland* focuses on organic growth in Ireland, the Netherlands and the UK enabling it to have better command and control
  - Relatively inexpensive, which is part of the reason for *Poundland's* annual growth in profits of up to 29%
  - It maintains the corporate culture of *Poundland*
  - It is less risky than external growth methods.

- However, there are also potential drawbacks of organic growth, such as:
  - Diseconomies of scale caused by inefficiencies as *Poundland* grows
  - Organic growth is slower than external growth
  - Difficulties in maintaining control and coordination as *Poundland* grows
  - Difficulties in raising the necessary finance to fund internal growth.

- *Candidates who consider the relative benefits of inorganic (external) growth should be credited accordingly.*

Award *1 – 2 marks* for a generalized answer that lacks detail or is presented in a list-like form with undeveloped points.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question being demonstrated, but without sufficient explanation.

Award *5 – 6 marks* if there is good understanding of the demands of the question, with appropriate use of business management terminology, although the response may lack substance or justification in areas. At the top end, there is relevant application to the case study.

Award *7 – 8 marks* if the discussion includes justifications for the reasons why large businesses might/not operate in the best interest of the general public. There is appropriate use of business management terminology, with appropriate application. However, synthesis and evaluation are limited.

Award *9 – 10 marks* if there is a good understanding of the demands of the question, with a balanced discussion that considers the extent to which organic growth is desirable for a business such as *Poundland*. There is effective use of business management terminology throughout the response, with clear application and evidence of critical thinking.

Question 1.6.4 – A.S. Watson Group

(a) Product portfolio refers to the range or collection of goods and services sold by a business organization, e.g. *A.S. Watson Group's* compilation of health, beauty and lifestyle products sold in its 14,100 stores around the world.

Award *1 mark* for a vague answer but shows some understanding of product portfolio.

Award *2 marks* for a clear definition that shows a good understanding of product portfolio, similar to the answer above.

(b) *A.S. Watson Group* is likely to be classified as a conglomerate. This is because the firm has a diversified portfolio of businesses that operates in dissimilar industries, e.g. health and beauty, electrical appliances, supermarkets and beverages.

Note: accept alternative answers, such as accurately suggesting *A.S. Watson Group* as a multinational corporation (e.g. with operations in 24 markets worldwide).

Award *1 mark* for a vague answer that displays some understanding of the type of business organization operated by *A.S. Watson Group*.

Award *2 marks* for an answer that shows a clear understanding of the type of business organization operated by *A.S. Watson Group*, with evidence from the case study.

(c) Synergy is defined as the whole being greater than the sum of the parts when two or more operations are combined. Synergy brings about both greater output and efficiency. By operating under the *A.S. Watson Group* name, all subsidiaries can benefit from improved corporate planning, communication, marketing, distribution and production processes. Hence, the Group can benefit from huge economies of scale across the whole of its diversified operations.

Award *1 – 2 marks* if some understanding of synergy is shown, although the answer might lack detail or application to *A.S. Watson Group*.

Award *3 – 4 marks* for a clear understanding of synergy with an explanation of how *A.S. Watson Group* might benefit from it. There is appropriate application of business management terminology and relevant use of examples, written in the context of the case study.

(d) *A.S. Watson Group* may continue to strive for growth, despite its already enormous size, for several reasons, including:

- Greater economies of scale to further reduce unit costs, thus improving its competitiveness and profitability
- To gain greater monopoly/market power and to be in a better position to compete against its closest rivals
- Expanding into non-Asian economies to benefit from an even larger customer base, and to spread its risks
- *Award any other relevant reason that is examined in the context of A.S. Watson Group.*

Award *1 – 2 marks* for a generalized answer that is descriptive or lacks detail. There is some understanding shown.

Award *3 – 4 marks* if there is an examination of the reasons for *A.S. Watson Group's* long term growth strategy, but the answer lacks sufficient detail or substance.

Award *5 – 6 marks* if there is a thorough examination of the reasons for *A.S. Watson Group's* pursuit of growth as part of its long term strategy. Appropriate business management terminology is used effectively, with reference to the case study.

Question 1.6.5 – Sale of London Taxi International

(a) An acquisition, or takeover, occurs when a company buys a controlling interest in another firm, i.e. it buys enough shares in a target business to hold a majority and controlling stake.

Award *1 mark* for a vague definition that shows some understanding of the meaning of the term acquisition.

Award *2 marks* for a clear definition that shows a good understanding of the meaning of term acquisition, similar to the above.

(b) Winner from *Geely's* takeover of LTI include:

- *Geely* itself for being able to buy an iconic and global brand for just £11.4m ($18.6m)
- LTI itself as the business had already gone into administration after 5 years without making any profits, so the takeover offered the company a lifeline
- Employees whose jobs were safeguarded as production remained in the UK and those rehired following job losses imposed by LTI
- *Geely* employees in Shanghai who build taxis for the left-hand drive market.

Losers from *Geely's* takeover of LTI include:

- Owners and shareholders of LTI who were forced to sell their business following 5 years without making any profits
- Senior managers at LTI are likely to lose their jobs or have less input/control following the takeover and an organizational restructure
- Employees during the takeover would have faced huge uncertainties and experienced anxiety, stress and perhaps health problems.

Award *1 – 2 marks* for a vague answer that lacks depth/detail. The answer might be presented as a list of unexplained points.

Award *3 – 4 marks* if both winners and losers are examined, although the answer might lack depth in some areas. There is appropriate use of business management terminology but limited use of examples from the case study.

Award *5 – 6 marks* if both winners and losers are examined in thoroughly. There is effective use of examples from the case study and proficient use of business management terminology throughout the answer.

(c) The driving forces behind *Geely's* strategic move to acquire LTI include:

- An opportunity to purchase a globally recognized and iconic brand (the London black taxi)
- A bargain price of "just £11.4m ($18.6m)" for acquiring the LTI company
- *Geely* could be seen as a 'white knight' in taking over a company that had gone into administration with huge job losses
- The opportunity to grow the business in Shanghai and possibly other areas of China
- To gain access to a market that was not previously exploited by *Geely*
- To grow and diversify *Geely's* product portfolio of motor vehicles
- Accept any other reasonable driving force, discussed in the context of *Geely*.

Award *1 – 2 marks* for a generalized answer that lacks detail or is presented in a list-like form with undeveloped points.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question being demonstrated, but without sufficient explanation.

Award *5 – 6 marks* if there is good understanding of the demands of the question, with appropriate use of business management terminology, although the response may lack substance or justification in areas. At the top end, there is relevant application to the case study.

Award *7 – 8 marks* if the discussion considers the driving forces behind Geely's strategic acquisition of LTI. There is appropriate use of business management terminology, with appropriate application. However, synthesis and evaluation are limited.

Award *9 – 10 marks* if there is a good understanding of the demands of the question, with a thorough discussion that considers the driving forces behind Geely's strategic decision to acquire LTI. There is effective use of

business management terminology throughout the response, with clear application and evidence of critical thinking.

Question 1.6.6 – Disney's takeover of Pixar

(a) The term integration is the collective term for mergers and acquisitions (M&As), where there is an amalgamation of two or more firms to form a new larger organization, such as the integration of Pixar and Disney.

Award *1 mark* for a vague definition that shows some understanding of the meaning of integration.

Award *2 marks* for a clear definition that shows a good understanding of the meaning of integration, similar to the one above.

(b) Potential problems experienced by businesses during an acquisition include:

- Loss of control – there may be some conflict surrounding the loss of control, e.g. Pixar executives having a less of a say than Disney executives.
- Culture clash – the way that Pixar and Disney employees work and the different cultural norms within the organizations may create some tension and therefore barriers to the acquisition.
- Takeovers can be hostile in nature and this further presents problems for any acquisition.
- Redundancies – there will need to be effective change management (and perhaps crisis management) in dealing with potential redundancies caused by the takeover.
- *Award any other appropriate problem that is accurately examined in the context of Pixar and Disney.*

Award *1 – 2 marks* for a vague answer that lacks depth/detail. There might only be consideration of one potential problem.

Award *3 – 4 marks* if two potential problems are explained, although the answer might lack some depth at the lower end. There is limited use of business management terminology and/or poor use of examples. Award up to *3 marks* if only one problem is examined.

Award 5 – 6 marks if two potential problems are examined in depth. There is good use of examples (perhaps from the case study) and there is proficient use of relevant business management terminology.

(c) Disney might choose to acquire other firms, such as Pixar, in order to benefit from external growth and to gain a competitive advantage. These benefits could include:

- Increased sales revenue and more revenue streams
- Increased market share
- Greater customer base
- Economies of scale
- Synergies
- Diversification (exploiting Pixar's core competencies)
- Defensive/survival strategy
- Diversification / the spreading of risks
- Reduced competition / improved competitiveness.

However, for a balanced and coherent discussion, there should be consideration of the potential drawbacks of Disney's takeover strategy.

Award *1 – 2 marks* for a generalized answer that lacks detail or is presented in a list-like format without developed points.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question being demonstrated, but without sufficient explanation.

Award *5 – 6 marks* if there is some understanding of the demands of the question, with appropriate use of business management terminology, although the response may lack substance or justification in areas. The answer might not be written in the context of Disney or if there is a one-sided (unbalanced) argument provided.

Award *7 – 8 marks* if the discussion considers the decision of The Walt Disney Company to acquire other firms such as Pixar and Lucasfilm. There is appropriate use of business management terminology, with appropriate application. However, synthesis and evaluation are limited.

Award *9 – 10 marks* if there is a good understanding of the demands of the question, with a thorough discussion that considers the decision of The Walt Disney Company to acquire other firms such as Pixar and Lucasfilm. There is effective use of business management terminology throughout the response, with clear application and evidence of critical thinking.

Question 1.6.7 – Sony Ericsson

(a)(i) A joint venture is a method of external growth that involves two or more businesses agreeing to split the costs, risks, control and rewards of a business project by setting up a new (separate) legal entity. For example, Sony and Ericsson came together in 2001 to establish *Sony Ericsson* as a new business.

Award *1 mark* for a vague definition that shows some understanding of the meaning of joint venture.

Award *2 marks* for a clear definition that shows a good understanding of the meaning of joint venture, similar to the one above.

(a)(ii) Synergy is defined as the whole being greater than the sum of the parts when two or more operations are combined. Synergy brings about both greater output and efficiency. By operating as *Sony Ericsson,* the newly formed company can benefit from improved corporate planning, communication, marketing, distribution and production processes. In particular, Sony benefits from its partner's technological knowledge in the communications industry whilst Ericsson benefits from Sony's consumer electronics expertise.

Award *1 mark* for a vague definition that shows some understanding of the meaning of synergy.

Award *2 marks* for a clear definition that shows a good understanding of the meaning of synergy, similar to the one above.

(b) A merger between the two companies might not have been appropriate because:

- Sony and Ericsson would have to lose their (separate) corporate identities; something that neither organization was prepared to do. Sony, for example, produces a broad range of consumer products and not just mobile phones. By merging with Ericsson, Sony might lose its status as a leading manufacturer of consumer electronics products – something the company was not willing to do.
- Mergers are far more expensive and cumbersome (in an administrative sense) than joint ventures.
- Joint ventures have a very high success rate. By contrast, mergers of firms in completely different sectors can create huge problems for the restructured organization.
- *Award any other relevant reason why a merger between Sony and Ericsson (rather than a joint venture) might not have been appropriate.*

Award *1 – 2 marks* if there is a generalized answer, which might lack depth and/or substance or if only one

reason is explained. There is no or little application shown. Award up to *2 marks* if only one reason is explained.

Award *3 – 4 marks* for a detailed explanation of why a merger between Sony and Ericsson would probably have been inappropriate. For maximum marks, there is good reference made to the case study and appropriate use of business management terminology.

(c) Benefits of a joint venture to Sony and Ericsson include:

- The joint venture allows both companies to retain their separate corporate identities (consumer electronics for Sony and telecommunications for Ericsson).
- Synergies – for example, Sony can benefit from Ericsson's expertise in tele- and data communications systems, whilst Ericsson can benefit from the marketing power of Sony.
- Risks are reduced – for instance, Sony does not need to invest in an industry that it has no expertise in because the investment costs and risks are shared with Ericsson.
- Increased market power – the joint venture provides both firms with a presence in the market, thereby allowing Sony Ericsson to establish itself in an industry with intense competition and high entry barriers.
- High probability of success – the joint venture is built on a philosophy of trust and cooperation and the desire for both firms to succeed in establishing the new organization. By contrast, a merger or acquisition may have easily failed due to management conflict and culture clashes.

Costs of the joint venture to Sony and Ericsson include:

- Contrasting and conflicting cultures and/or corporate strategies of Sony and Ericsson, thus making a long-term partnership difficult to manage. Cultural clashes and misalignment of management styles result in poor integration and limited synergies from the JV.
- Difficulties arise if there is an imbalance in expertise and investment (financial commitment) to the JV.
- It takes time, resources and much effort to make the relationship work.
- There is always the temptation to 'go it alone' when the two firms gain enough experience, expertise and market presence if the JV is highly successful.

Award *1 – 2 marks* for a generalized answer that lacks detail or is presented in a list-like format without sufficient explanation.

Award *3 – 4 marks* if there is sufficient explanation of some benefits and costs of a joint venture but the answer might not be written in the context of Sony Ericsson. The answer might also lack depth and/or appropriate use of business management terminology. Award up to *4 marks* if only benefits or costs are examined.

Award *5 – 6 marks* if there is a good examination that examines the benefits and costs of the joint venture to both Sony and Ericsson. Appropriate examples are used, with effective application and clear use of business management terminology.

Question 1.6.8 – Pizza Hut

(a) Franchise is an external growth strategy involving an agreement between a franchisor selling its rights to other businesses (franchisees) to sell products under its name. In return, the franchisor receives a fee and regular royalty payments from the franchisee.

Award *1 mark* for a vague definition that shows some understanding of the meaning of franchise.

Award *2 marks* for a clear definition that shows a good understanding of the meaning of franchise, similar to the one above.

(b) *Pizza Hut* may have decided to use franchising as its main growth strategy due to the benefits of franchising, which include:

- Franchising is a quick method of external growth, allowing *Pizza Hut* to become the world's largest pizza chain.
- It allows *Pizza Hut* to reap financial benefits (franchise fee and royalty payments) without directly risking their own capital in the expansion plans.
- Franchising tends to be less risky than organic growth.
- It is also a relatively cheap method of external growth.
- Franchisees are screened and carefully selected (they should have a proven record of success) so there is minimal risk for *Pizza Hut*.
- Since the franchisee has the incentive to be successful, this is more likely to facilitate Pizza Hut's expansion plans.
- *Award any other reason correctly explained in the context of Pizza Hut.*

Award *1 mark* for each valid reason, and *1 mark* for a clear description, up to the maximum of *4 marks*. For full marks, relevant business management terminology and application must be demonstrated.

(c) Franchising as a growth strategy has its potential problems:

- There is risk in relying only on franchising; with such a large network of franchised restaurants, coordination and oversight of these (independently owned) stores becomes increasingly difficult. The organization may subsequently suffer from diseconomies of scale.
- Independent franchisees can potentially harm the image and reputation of *Pizza Hut* as a whole company.
- Mergers and acquisitions, although more expensive, can be a faster method of growth for *Pizza Hut*.
- Rival businesses, such as Pizza Box and Pizza Express, also use franchising as a method of growth; so Pizza Hut will need to pursue other growth strategies to maintain its status as the leading chain of pizza restaurants.
- *Award any other problem correctly examined in the context of Pizza Hut.*

Award *1 – 2 marks* for an answer that lacks understanding of the demands of the question. The response is generalized, descriptive or lacks substance.

Award *3 – 4 marks* if there is an examination of potential problems of franchising, but the answer might lack detail and/or clear application to *Pizza Hut*.

Award *5 – 6 marks* if there is a thorough examination of the potential problems of franchising (as a method of growth) for *Pizza Hut*. There is appropriate use of business management terminology, with effective reference to the case study.

Question 1.6.9 – McDonald's

(a) Sales revenue can be defined as the proceeds from selling goods and/or services, per time period. For example, McDonald's restaurants receive money from customers who purchase fast food. This money is used to pay for the running of McDonald's, and any funds left over is classed as profit.

Award *1 mark* for a vague definition that shows some understanding of the meaning of sales revenue.

Award *2 marks* for a clear definition that shows good understanding of sales revenue, similar to the one above.

(b) Possible problems created by the critics of *McDonald's* include:

- McDonald's being blamed for fuelling or causing child obesity
- The negative publicity could damage its corporate image
- There could be a decline in the global sales revenue of *McDonald's,* especially from concerned parents
- Possible negative impacts on human resources (staff recruitment, staff morale and staff retention)
- *Award any other possible problem outlined in the context of McDonald's.*

Award *1 mark* for each valid reason, and *1 mark* for a clear description, up to the maximum of *4 marks*. For full marks, relevant business management terminology and application must be demonstrated.

(c) Possible reasons for the growth in *McDonald's* global sales include:

- A favourable economic climate in USA, Russia, Japan and Europe thereby boosting its global sales.
- A revamped menu (salads and other healthier options) thereby helping to attract a broader range of customers.
- Changing customer perceptions of the food at *McDonald's* by publishing and publicizing nutritional information about its products.
- Continued growth through its franchise expansion strategy means that *McDonald*'s continues to have a greater global presence, thus helping to raise its sales revenues.
- *Award any other relevant reason that is explained in the context of McDonald's.*

Award *1 – 2 marks* marks if two plausible reasons are explained, although the answer lacks depth. There is little, if any, application or the use of relevant examples. Award *1 mark* if there is consideration of only one possible reason.

Award *3 – 4 marks* if two likely problems are examined in depth. There is good use of examples, written in the context of *McDonald's* and there is proficient use of business management terminology.

(d) The extent to which the fast food industry might be considered as being globalized depends on the relative strengths of the arguments put forward. On the one hand, fast food could be considered to be highly globalized as an industry because:

- The rapid expansion and presence of restaurant chains throughout the world, such as *McDonald's*, *Burger King, Pizza Hut* and *KFC,* have meant that fast food is available in almost every country
- *McDonald's* record global sales and revamped menus around the world also suggest that fast food is a globalized industry
- As a cultural export, the American burger and fast food meal is a huge earner for multinational companies from the USA
- The most well-known fast-growing multinational companies all use franchising as a method of growth, meaning that such organizations can produce and sell the same foods and drinks simultaneously in different countries.

On the other hand, the fact that even the most 'globalized' fast food chain has to adapt its menus to local tastes suggests that the fast food industry not so globalized. In addition, growing public concerns over the nutritional value of fast food meals also suggests that firms such as *McDonald's* have yet to fully exploit the benefits of globalization.

Award *1 – 2 marks* for a generalized answer that lacks detail or is presented in a list-like format without developed points.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question being demonstrated, but without sufficient explanation.

Award *5 – 6 marks* if there is some understanding of the demands of the question, with appropriate use of business management terminology, although the response may lack substance or justification in areas. The answer might not be written in the context of *McDonald's* or if there is a one-sided (unbalanced) argument provided.

Award *7 – 8 marks* if the discussion considers whether the fast food industry is a globalized one. There is appropriate use of business management terminology, with appropriate application. However, synthesis and evaluation are limited.

Award *9 – 10 marks* if there is a good understanding of the demands of the question, with a thorough discussion that considers the extent to which the fast food industry is a globalized one. There is effective use of business management terminology throughout the response, with clear application, synthesis and evidence of critical thinking.

Question 1.6.10 – Bollywood

(a) Globalization can be defined as the growing integration and interdependence of the world's economies. It has led national economies to integrate towards a single global economy, where consumers have ever-increasingly similar habits and tastes, and a blurring of traditional national cultures.

Award *1 mark* for a vague definition that shows some understanding of the meaning of globalization.

Award *2 marks* for a clear definition that shows a good understanding of the meaning of globalization, possibly including relevant examples.

(b) Knowledge and awareness of local cultures can be argued to be important aspects of successful global businesses because:

- They can prevent inappropriate, offensive and embarrassing strategies being adopted in overseas markets
- A lack of awareness and understanding could mean firms fail to secure deals or contracts with overseas clients
- It can help to communicate the correct messages to different customers in different regions of the world.

However, other issues are also important for global businesses to be successful, such as knowledge and awareness of local business laws (not just cultures). In reality, local cultures are influenced by such factors, and vice versa. Nevertheless, in essence, an awareness and understanding of the business context, the people involved and the ethical norms in different parts of the world should facilitate more successful deals for global businesses. Such an awareness and understanding can ultimately give an organization a competitive advantage in an ever-competitive business world.

Award *1 – 2 marks* for a generalized answer that lacks detail or is presented in a list-like format without developed points.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question being demonstrated, but without sufficient explanation.

Award *5 – 6 marks* if there is some understanding of the demands of the question, with some appropriate use of business management terminology, although the response may lack substance or justification in areas.

Award *6 – 7 marks* for a discussion of the view that knowledge and awareness of local cultures are an important feature of successful global businesses. There is appropriate use of business management terminology and application of relevant examples. At the lower end, a one-sided (unbalanced) argument is provided.

Award *7 – 8 marks* if the discussion is balanced. There is appropriate use of business management terminology

throughout the answer, with appropriate application. However, synthesis and evaluation are limited.

Award *9 – 10 marks* if there is a good understanding of the demands of the question, with a thorough and balanced discussion that considers the view that knowledge and awareness of local cultures are an important feature of successful global businesses. There is effective use of business management terminology throughout the answer, with clear application, synthesis and evidence of critical thinking.

Question 1.6.11 – Carlsberg

(a) A multinational business is an organization such as *Carlsberg* that operates in two or more countries, usually with its Head Office based in the home country (Denmark in this case). As *Carlsberg* has operations in Russia and Eastern European countries, it is a multinational business.

Award *1 mark* if the answer outlines the meaning of a multinational business.

Award *2 marks* if the answer uses evidence from the case study to suggest why *Carlsberg* is a multinational business.

(b) **Brand awareness** refers how well known a brand name to existing and potential customers. Brand leaders in a particular market, such as *Carlsberg* in the beer industry, have high brand awareness (recognition), whereas less well known brands have low brand awareness.

Brand awareness can help to improved **brand loyalty**, which measures the extent to which customers stick to buying a particular brand (such as *Carlsberg*) over rival products (such as *Heineken* or *Budweiser*). Products with strong brand loyalty enjoy repeat purchases from their (loyal) customers.

Award *1 – 2 marks* if the answer shows some understanding of brand awareness or brand loyalty, although the response might lack of depth and clarity. Appropriate examples might be missing.

Award *3 – 4 marks* if there is a good understanding of both brand awareness and brand loyalty. At the top end, there is effective application of business management terminology.

(c) The market for beer may have become globalized due to driving forces such as:

- Sponsorship deals from beer producers such as *Carlsberg* have marketed beer on an international scale
- Beer as a Western European cultural export has made inroads across Russia, Eastern Europe and beyond
- MNCs such as *Carlsberg* expanding into overseas markets have introduced beer in these new markets, such as Myanmar
- In their strive to achieve growth, multinational companies such as *Carlsberg* have expanded operations in overseas markets thereby helping to make beer a globalized product
- Intensive competition in the beer industry may also have fueled *Carlsberg's* presence in international markets
- The liberalization of trade around the world may have led to beer exports being made available across the globe
- Increased travel and tourism leading to beer being made available on air flights and in hotels, bars and restaurants around the world
- Media exposure, e.g. football and the wide publicity of alcohol in movies/TV/music videos/internet
- Any other relevant reason explained in the context of *Carlsberg* and/or the beer industry.

Award *1 – 2 marks* if the answer outlines one factor that may have led to the globalization of the beer market, or if the answer is given as an unexplained list of factors. Appropriate examples/application might be missing.

Award *3 – 4 marks* if two reasons that may have led to the globalization of the beer market are clearly explained. Relevant examples related to the case study are used, with appropriate application of business management terminology.

(d) Possible opportunities to *Carlsberg* operating in overseas markets include the following points:

- Increased customer base – *Carlsberg's* traditional Western European markets are stagnant and therefore the company could gain from seeking to expand in new (and possibly larger) markets such as Asia
- Economies of scale – A larger degree of beer production is likely to reduce the average costs for *Carlsberg* as it benefits from marketing, financial and technological economies of scale, as well as opportunities to exploit external economies of scale in overseas markets (such as lower distribution costs)
- Asia and Eastern Europe may present opportunities for *Carlsberg* to employ a cheaper labour force, further cutting its overall production costs
- Avoid protectionist measures – *Carlsberg* could get around protectionist measures such as tariffs, quotas and administrative trade barriers by locating directly in countries imposing such obstacles; Eastern European and Asian countries belong to different regional trading blocs from Denmark, so expanding its operations in these markets enables *Carlsberg* to resolve these potential trade barriers and conflicts
- To spread risks – *Carlsberg* might wish to expand overseas to reduce the financial risks of their established markets facing decline, perhaps due to a regional economic decline, stagnant markets or changing habits and trends, whereas operating in new markets could present many opportunities for the Danish beer company
- Any other relevant/potential opportunity that is examined in the context of *Carlsberg*.

There are also potential threats to *Carlsberg* operating in overseas markets, which include:

- A lack of local knowledge and local culture can create problems, e.g. religious views on drinking, or using sexual innuendos to promote drink/alcohol
- Diseconomies of scale may arise for *Carlsberg* if it is unable to control its costs of overseas expansion
- Regulatory issues and problems in setting up *Carlsberg's* overseas operations
- Varying political and economic conditions in foreign countries can limit the extent to which *Carlsberg* can prosper overseas, e.g. the need to have a local partner (joint venture) agreements in certain countries such as India, China and Myanmar
- Competing with a well-established local producers (e.g. China's *Tsingtao Beer*) can also limit the success of *Carlsberg's* overseas operations
- Greater demands on and scrutiny of *Carlsberg's* corporate social responsibilities, especially in less economically developed countries or countries that have a more reserved approach to alcohol/drink
- Greater uncertainties and risks due to overseas expansion, e.g. the impact of exchange rates on costs, prices and profits
- Issues regarding human resources, e.g. national cultures, varying expectations, and language and communication issues
- Any other relevant/potential threat that is examined in the context of *Carlsberg*.

Award *1 – 2 marks* for a generalized answer that lacks detail or is presented in a list-like format without developed points.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question

being demonstrated, but without sufficient explanation or application of the case study material.

Award *5 – 6 marks* if there is some understanding of the demands of the question, with some appropriate use of business management terminology, although the response may lack substance or justification in areas. At the top end, there is some application shown.

Award *6 – 7 marks* for a discussion of the opportunities and threats of *Carlsberg* operating in overseas markets. There is appropriate use of business management terminology and application of relevant examples. At the lower end, a one-sided (unbalanced) argument is provided.

Award *7 – 8 marks* if the discussion is balanced, with reference to both opportunities and threats of *Carlsberg* operating in overseas markets. There is appropriate use of business management terminology throughout the answer, with appropriate application. However, synthesis and evaluation are limited.

Award *9 – 10 marks* if there is a good understanding of the demands of the question, with a thorough and balanced discussion that considers both the opportunities and threats of *Carlsberg* operating in overseas markets. There is effective use of business management terminology throughout the answer, with clear application, synthesis and evidence of critical thinking.

Question 1.6.12 - MNCs in the UAE

(a) Multinational companies are business organizations that operate in two or more countries. For example, Microsoft (USA), Marriott Group (USA), DHL (Germany) and Ericsson (Sweden) all operate within the UAE.

Award *1 mark* if the definition shows some understanding of the term multinational company.

Award *2 marks* if the definition shows a good understanding of the term multinational company, with the appropriate use of an example.

(b) Globalization might affect the location of multinational companies in a number of ways, including:

- Globalization of trade and exchange enables greater choice of land, e.g. the UAE attract MNCs due to its low taxes, political stability and high gross domestic product per capita.
- By contrast, higher rents in popular locations might drive some MNCs to relocate to less expensive towns, cities or countries with globalization presenting such opportunities.
- Globalization brings about an increase in tourism in places like Dubai, further attracting MNCs to locate in such locations.
- A key driving force behind globalization is the potential to benefit from a much larger customer base. The correct location decisions of MNCs is critical to the success of their growth strategy.

Award *1 – 2 marks* for a vague answer that lacks detail and/or depth. The answer may be presented in a bullet point list without sufficient explanation.

Award *3 – 4 marks* if there is a good explanation of how globalization might affect the location of multinational companies. Relevant examples are used with appropriate use of business management terminology.

(c) The benefits to MNCs operating in foreign countries such as the UAE include:

- Foreign countries often provide significantly cheaper labour and other factors of production.
- Some countries such as the UAE offer low taxes, political stability and high gross domestic product per capita to attract foreign direct investment.

- MNCs such as Microsoft, Marriott Group, DHL and Ericsson have existing operations in foreign countries, so this boosts the confidence for other businesses yet to invest in these places.
- Places like Dubai attract a large number of tourists, which can lead to more customers buying the firm's products.
- MNCs can spread their risks by locating in overseas markets. Declining sales in the domestic economy could be offset by rising sales in other parts of the world.
- By operating within a specific country, MNCs are able to avoid protectionist measures imposed on foreign firms.
- By operating on a much larger scale across the world, MNCs are able to exploit the variance kinds of economies of scale.

Award *1 – 2 marks* for a generalized answer that lacks detail or is presented in a list-like manner without sufficient explanation.

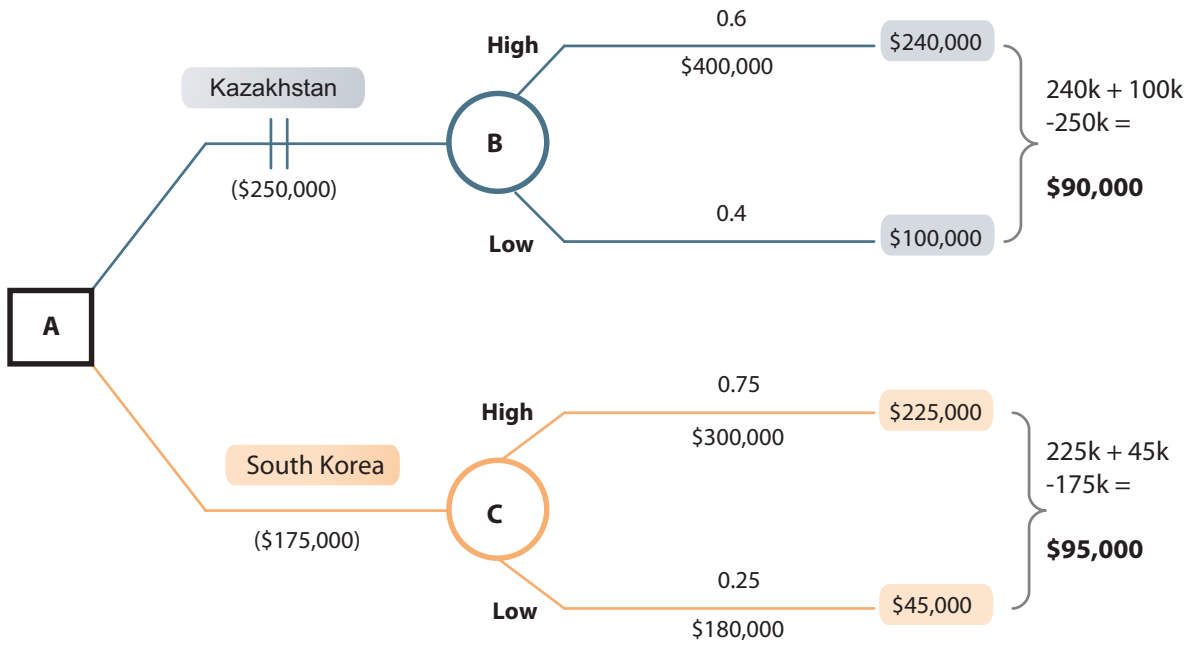
Award *3 – 4 marks* if there is sufficient examination of some of the benefits to MNCs that operate in foreign countries. The answer might lack depth and appropriate use of business management terminology.

Award *5 – 6 marks* if there is a good examination of the benefits to MNCs operating in foreign countries such as the UAE. There is suitable use of business management terminology and application of relevant examples.

Unit 1.7 Organizational Planning Tools

Question 1.7.1 – Drisner Traders Ltd.

(a)



Award *1 – 3 marks* for using a decision tree framework which shows some attempt at calculating the expected values, but the answer is incomplete and/or inaccurate.

Award *4 – 5 marks* for a complete decision tree although there are one or two minor errors.

Award the maximum *6 marks* if the candidate shows a fully labelled, complete and accurate decision tree, including a key for decision and chance nodes, and the working out to calculate the expected values. There is clear identification of which of the two options is the best choice, i.e. South Korea.

(b) The benefits of using decision trees include the following points:

- *Drisner Traders Ltd.* gains a broad idea of possible outcomes of the project/decision, i.e. in this case the choice of two locations
- Easy interpretation of the decision, thereby preventing misunderstandings or confusion
- Easy and straightforward calculations help decision-making
- Enables managers to make rational/scientific decisions
- Provide a quantitative and objective tool to aid decision-making
- Requires consideration of the financial costs and outcomes of the decisions, allowing decision makers to assess the level of financial risk of each outcome.

However, limitations of decision trees include the following points:

- The figures are based on estimated figures only and the actual outcomes may well be very different
- Decision Trees can be inaccurate unless all costs, benefits and possibilities are considered
- They only consider quantitative issues in decision-making, so might be considered too simplistic a model
- The outcome and values are only as good as the quality of the data used by *Drisner Traders Ltd.* to produce the decision tree
- Qualitative factors could be examined, e.g. familiarity with the two different locations, availability of skilled labour, recruitment and training concerns, cultural issues, legal considerations, local tax systems or even management preferences
- Similarly, local knowledge, e.g. business contacts, availability of local labour, access to local suppliers, financiers, and knowledge of local business etiquette
- Other quantitative methods could be considered, e.g. investment appraisal to see which location would generate the greatest financial return
- Other decision-making tools might also be useful to *Drisner Traders Ltd.* such as force field analysis (in order to minimize any resistance to change) and/or STEEPLE analysis.

Award *1 – 2 marks* a vague and generalized answer. The answers may appear in bullet-point form with no or little development.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation.

Award *5 - 6 marks* if only advantages or disadvantages of decision trees are examined.

Award *7 - 8 marks* if both the advantages and disadvantages of decision trees are considered. At the top end, there is an attempt at application using the case study.

Award *9 - 10 marks* if both the advantages and disadvantages of decision trees are considered, with clear application and evidence of evaluation of the usefulness of decision trees for *Drisner Traders Ltd.*

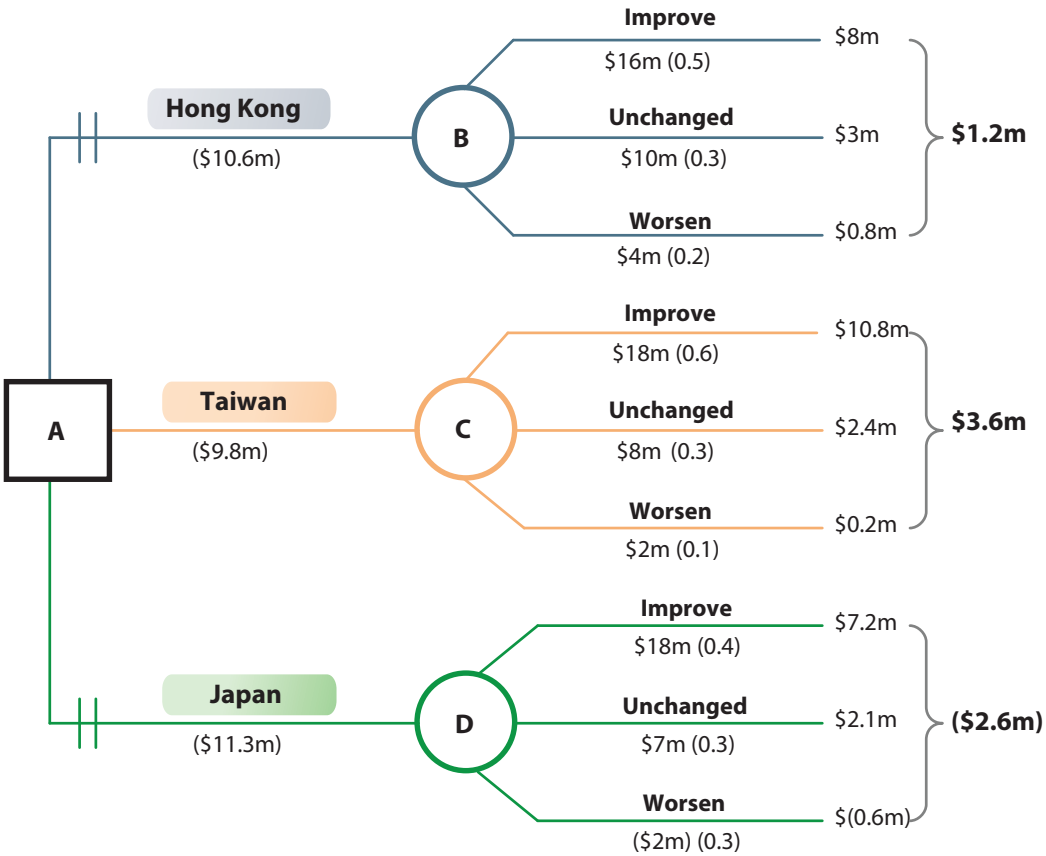
Question 1.7.2 – Ah-Tieng Beverages

(a) Also known as desk research, secondary market research refers to information collected from second-hand sources which already exist, such as government publications and reports and news media sources.

Award *1 mark* for a definition that shows some understanding of secondary market research.

Award *2 marks* for a definition that demonstrates good understanding of secondary market research, similar to the one above.

(b) Decision tree for *Ah-Tieng Beverages*:



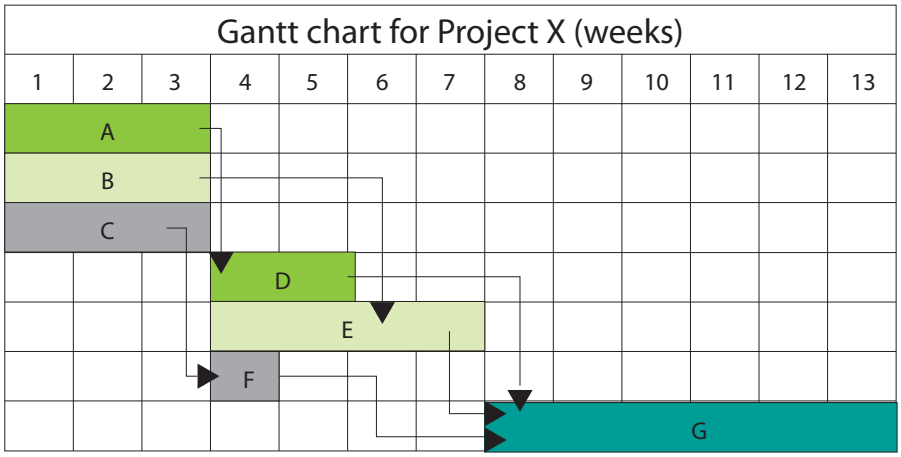
Award *1 – 2 marks* for using a decision tree framework which shows some attempt at calculating the expected values, but the answer is incomplete and/or inaccurate.

Award *3 – 4 marks* for a complete decision tree although there are one or two minor errors.

Award the maximum *5 marks* if the candidate shows a fully labelled, complete and accurate decision tree, including a key for decision and chance nodes, and the working out to calculate the expected values. There is clear identification of which of the three options is the best choice, i.e. Taiwan.

Question 1.7.3

Gantt chart for Project X:



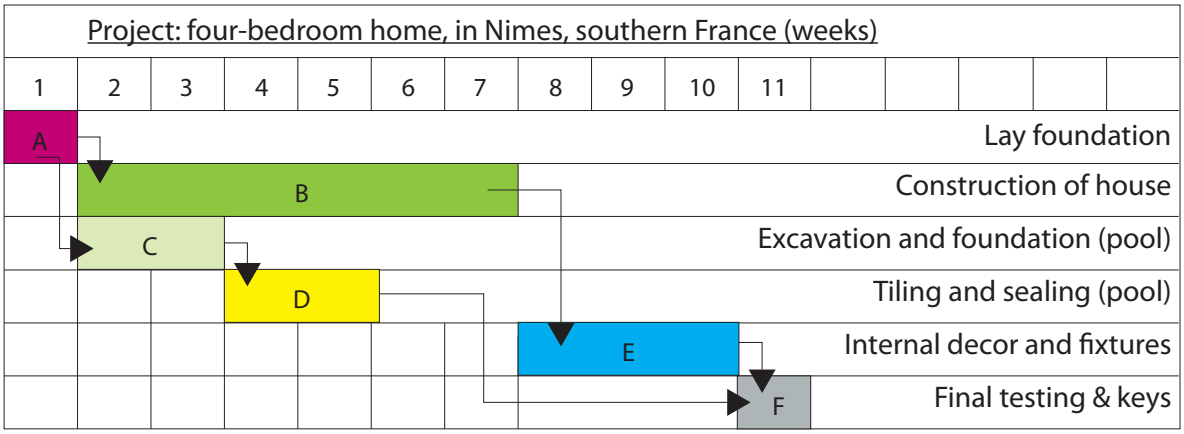
Award *1 – 2 marks* for constructing a Gantt chart that shows some understanding, but the answer is incomplete and/or inaccurate.

Award *3 – 4 marks* for a complete Gantt chart although there are one or two minor errors.

Award the maximum *5 marks* if the candidate shows a fully labelled, complete and accurate Gantt chart. There is clear identification of the shortest duration in order to complete the project, i.e. 13 weeks.

Question 1.7.4 – Kekerovic Contractors

(a) Gantt chart for *Kekerovic Contractors:*



The project can be completed in 11 weeks.

Award *1 mark* for constructing a Gantt chart that shows some understanding, but the answer is incomplete and/or inaccurate.

Award *2 – 3 marks* for a complete Gantt chart although there are one or two minor errors.

Award the maximum *4 marks* if the candidate shows a fully labelled, complete and accurate Gantt chart. There is clear identification of shortest duration in order to complete the project, i.e. 11 weeks.

(b) The use of a Gantt chart can be important for businesses such as *Kekerovic Contractors* for several reasons, such as:

- It encourages forward planning at *Kekerovic Contractors*, i.e. managers need to consider the different aspects of the construction project in order to complete it in minimal time.
- Since a Gantt chart provides a visual stimulus, it is easier to interpret the logistics of the development in order for the construction project to run more smoothly.
- It identifies the shortest time in which the construction project can be completed so that the buyer will have the house completed on time.
- Gantt charts can help *Kekerovic Contractors* to control costs more effectively by identifying when certain activities can start and how long certain tasks within a project should last.
- It helps to keep project managers accountable in case there are delays. This is important for the efficient running of the business.
- Ultimately, the tool allows managers at *Kekerovic Contractors* to complete the project successfully in the quickest time available by overseeing all the various activities and ensuring that each task is completed on schedule.

Award *1 – 2 marks* if the explanation is incomplete and/or vague. It might be presented as a list that is unexplained.

Award *3 – 4 marks* for a complete Gantt chart although there are two or more errors. Apply the Own Figure Rule (error carried forward) as appropriate.

Award *5 – 6 marks* if the explanation is thorough and written in the context of the case study. There is no need to include more than two reasons for maximum marks.

Unit 2.1 Functions and evolution of human resource management

Question 2.1.1 – Trump Organization's Golf Link

(a) Labour turnover is a measure of personnel effectiveness and refers to the percentage of a firm workforce that leaves the organization per time period, usually one year. A relatively low labour turnover rate is generally desirable as this reduces the time and money needed to recruit new staff.

Award *1 mark* for an answer that shows a limited understanding of labour turnover.

Award *2 marks* if labour turnover is clearly defined, with appropriate business terminology used effectively.

(b) **Two** reasons why a business such as the *Trump Organization* may need to hire new workers include:

- Expansion – as an organization grows, so does the need to hire more workers, e.g. such as the 6,000 jobs created by Trump's golf development in Scotland.
- Labour turnover – to replace staff who have left the organization, perhaps due to opportunities elsewhere, external promotional posts, being unhappy at the *Trump Organization*, or due to retirement.
- Restructuring – new job opportunities may exist within the organization due to a restructuring to staff roles and responsibilities.

Award *1 – 2 marks* for a limited answer that shows some understanding, but lacks detail and/or depth. Only one reason might be provided.

Award *3 – 4 marks* if there are good explanations of two reasons why a business such as the *Trump Organization* might need to hire new/more workers. Appropriate examples are used.

(c) It is important for a business such as the *Trump Organization* to be aware of and understand the labour turnover within its organization for several reasons, including the following:

- A high labour turnover rate will add to the costs of recruiting, inducting and training new staff.
- Knowledge of turnover rates will inform managers a the *Trump Organization* about trends and aid their workforce planning.
- High labour turnover can affect the corporate image of the *Trump Organization* in a negative way, e.g. potential recruits will wonder why so many people have left the business.
- Controlling labour turnover is essential as it ensures the *Trump Organization* can continue to run smoothly, thereby helping to maintain its competitiveness.

Award *1 – 2 marks* if the answer lacks detail and/or substance. The answer might be presented in a list or as bullet points with no or minimal explanation.

Award *3 – 4 marks* if there is a good commentary on the importance of understanding labour turnover in business organizations. At the upper end, appropriate examples are used to substantiate the answer.

Question 2.1.2 – 327 million Americans

(a) An ageing population occurs when the average age of the workforce in a country rises. This could be due to a combination of:

- A lower birth rate (largely due to the opportunity cost of raising children)
- Longer life expectancy (linked to improved health technology)
- Flexible working practices that enable people to work beyond retirement age.

Award *1 mark* for a limited understanding of the term ageing population.

Award *2 marks* if the answer shows a good understanding of the term ageing population, with appropriate use of business management terminology.

(b) Threats (or constraints) created by the demographic changes in the USA include:

- The sustainability of America's high population (and population growth), e.g. quicker depletion of the world's scarce resources
- Impacts of an increased dependent population, e.g. higher taxes
- Problems of overpopulation (e.g. congestion, housing shortages and environmental pollution) and the negative impacts on businesses
- Inflationary pressures caused by rising levels of demand / spending in the economy.
- *Accept any other relevant threat caused by the demographic changes in the USA.*

(c) Opportunities created by the demographic changes in the USA include:

- A larger population means a greater potential customer base for businesses operating in and exporting to the USA
- The demographic changes create opportunities for workforce planning, e.g. a greater pool of workers to choose from
- As the only industrialized country with significant population growth, the USA could attract a huge amount of foreign direct investment
- Much of the population growth is attributed to migrants; thus there might be business opportunities to cater for these various ethnic groups
- Greater opportunities for flexible working practices with a growing and ageing workforce.

Award *1 – 2 marks* for a limited answer that lacks detail and/or depth. Award up to *2 marks* if only opportunities or constraints are outlined. Award 1 mark for a list-like answer that lacks clarity.

Award *3 – 4 marks* if there is a good outline of both constraints and opportunities of the demographic changes mentioned in the case study. Relevant examples are used with appropriate use of business management terminology.

Question 2.1.3 – Fonthill Primary School

(a) It is important for an organization such as *Fonthill Primary School* to produce effective job descriptions because well-defined job descriptions help attract the right potential applicants, e.g. an educational assistant who is patient, shows initiative and works collaboratively. By contrast, poorly defined job descriptions can lead to inappropriate candidates applying for jobs and/or lead to conflict about what the job actually entails.

In addition, an effectively produced job description can prevent (too many) people calling or emailing for more information, thereby allowing current staff not to be distracted from their work. Effective job descriptions will therefore provide sufficient detail to inform the targeted group of recruits, e.g. a qualified educational assistant to work in the Learning Support Department.

Job descriptions are often used in appraisal meetings with the Head of Department. Well-defined job descriptions therefore provide useful documentation to assess the extent to which a worker has fulfilled the duties they were hired for.

Award *1 – 2 marks* if there is some understanding of the reasons why job descriptions are of importance to a business, although these points may not be appropriately developed or explained.

Award *3 – 4 marks* for a thorough explanation of why effective (well-defined) job descriptions are of importance to businesses, such as *Fonthill Primary School*. There is appropriate use of examples and business management terminology throughout the answer.

(b) The given job advert provides a good amount of detail about the job, such as the job title and working hours. There is also a brief outline of the person specification, e.g. patience, initiative and experience. A broad overview of what the job entails is also provided, with details of the closing deadline. There is also mention of a contact name (the school principal). This should provide sufficient information for potential candidates.

However, the advert does not really stand out and there is a lot of text all squeezed together (making it difficult to read). It would also be useful to include the school website address, an email address or telephone contact number for the school (there is no mention of how to get an application form). Finally, to prevent unsuitable candidates from applying, it may also be helpful to state any professional qualifications that are needed for the job.

Award *1 – 2 marks* if the answer lacks detail, i.e. it is vague and may be presented as a list or in bullet points, with minimal relevance to the issue in question.

Award *3 – 4 marks* if the answer is sound but lacks detail or substance in certain areas. There is adequate use of business management terminology, although the answer may be one-sided, i.e. it lacks balance.

Award *5 – 6 marks* if there is a balanced examination of the job advertisement. The answer is detailed and probing, with good use of relevant business management terminology throughout.

Question 2.1.4 – Northern Ireland's hotel industry

(a) Training refers to the human resource management process of accumulating and developing the knowledge, skills and productivity of the workforce. Examples include induction (training for new staff to acquaint themselves with the organization), on-the-job (training at the workplace) and off-the-job (training that occurs away from the workplace).

Award *1 mark* for an answer that shows a limited understanding of the term training.

Award *2 marks* if training is clearly defined, with appropriate and effective use of business terminology.

(b) The existence of few opportunities for career prospects, including promotion, may create problems for hoteliers because:

- Low wages and few opportunities can prevent a sufficient pool of workers being attracted to the industry
- They can reduce morale and motivation in the workplace, thus creating problems for the hotels, e.g. poor customer service
- Existing workers might be attracted by higher wages being offered in other industries
- Existing workers may choose to leave due to the lack of promotional opportunities
- Accept any other relevant and valid reason why problems for hoteliers might occur due to the limited opportunities for career progression.

Award *1 – 2 marks* if some potential problems are identified, although the answer lacks detail/depth. The answer might be no more than a bullet point list of reasons, without any explanation.

Award *3 – 4 marks* if relevant potential problems are adequately explained (with reference to the few opportunities for promotion and other career prospects). There is good use of examples and effective application of these problems to the hotel industry.

(c) The view that training and development are a burden, so should be minimized, can be substantiated to some extent because:

- The costs of training and continuous professional development can be very expensive
- Planning and delivering training can also be very time consuming
- There is no guarantee that staff who are trained and professionally developed will remain with the organization
- It might be difficult to justify the costs of ongoing training for low-skilled hotel staff
- Not all training programmes, or aspects of the training, may be suitable or relevant.

However, there are counter-arguments because:

- Without adequate training, staff may be unable to perform their jobs in an effective way
- Continuous professional development is required in order for workers to be equipped with new skills to cope with changes in the external business environment and to maintain their level of motivation in the workplace
- A firm that does not train and develop its staff will tend to experience relatively high rates of labour turnover
- A more productive workforce (through training and development) can bring competitive advantages to the business
- It can also be harder to attract employees to an industry (such as the hotel trade) without adequate training.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation.

Award *5 – 6 marks* if only advantages or disadvantages of training and development are examined. There is appropriate use of business management terminology. At the top end, there is an attempt at application using the case study.

Award *7 – 8 marks* if both the advantages and disadvantages of training and development are considered, with appropriate examples and application made to the hotel industry. There is good use of business management terminology. However, the answer lacks synthesis and evaluation.

Award *9 – 10 marks* if both the advantages and disadvantages of training and development are considered, in a detailed and balanced way. There is effective use of business management terminology. There is clear application and evidence of synthesis and evaluation.

Question 2.1.5 – MySpace

(a) Redundancy exists when a business, such as *MySpace*, retrenches workers because they are no longer needed as the firm can no longer afford to employ them. The job losses at *MySpace* were largely due to the growing popularity of Facebook, its main rival.

By contrast, dismissal occurs when a worker has been removed (sacked or fired) from his/her position, usually because of misconduct and/or underperformance in the job.

Award *1 – 2 marks* if the key terms are defined but lack detail/clarity. Examples might also be missing. There may be no attempt at distinguishing the two terms.

Award *3 – 4 marks* if both key terms are clearly defined and a distinction is evident. There is good use of examples and proficient use of business management terminology.

(b) Workforce planning will require *MySpace* to prepare its human resource needs by looking at the current and future staffing requirements. Given the situation facing *MySpace*, retrenchment of half its workforce in the USA would allow the online firm to better meet its human resource planning targets, especially due to the huge and growing popularity of *Facebook*. In addition, personnel needs will probably have to change following *MySpace's* diversification to "allow unsigned musicians to post and sell music on their website". This could involve *MySpace* having to hire, train and develop appropriate staff to facilitate the new service.

Since *MySpace* faced reduced demand for its services, there is clearly a need to cut costs. Retrenching staff means that the firm lets go of staff who are surplus to needs, especially those at the lower end of the hierarchy. They are usually the easiest (and cheapest) target group to make redundant. If the situation improves for *MySpace*, following its diversification strategy, it would also be relatively easier to recruit low-paid staff to meet its future workforce needs.

In addition, rival social network sites, such as Facebook and Twitter, had reduced *MySpace's* market share. The hiring of excess staff would simply add to its costs without any corresponding increase in revenues. Hence, with declining demand for its services, it would not be rational for *MySpace* to retain its current workforce.

Award *1 – 2 marks* for a generalized answer that is descriptive, or lacks substance/relevance to *MySpace*. The answer might appear in a list-like format.

Award *3 – 4 marks* if there is an examination of the reasons for retrenchment, but the answer might lack detail and/or application to the case study.

Award *5 – 6 marks* if there is a thorough analysis of the reasons why retrenchment would be suitable for *MySpace*, with reference to its workforce planning targets. Appropriate business and management terminology is used in the context of the case study.

Question 2.1.6 – McDonald's

(a)(i) Flexible work structure refers to the use of a more flexible workforce, i.e. staff with the ability to multitask (carry out a range of different tasks or jobs) and to adapt to changes in the business. For example, Charles Handy's theory of the shamrock organization suggests that businesses such as *McDonald's* will increasingly use fewer core staff in order to improve their flexibility by employing more part-time workers.

Award *1 mark* for a limited understanding of flexible work structures.

Award *2 marks* if flexible work structures is clearly understood with appropriate development and examples used.

(a)(ii) Part-time employment refers to a flexible working practice that involves workers being hired to work less than a full-time member of staff. Part-time employees work in shifts, often on a rotational basis to enable the employer to operate for longer hours. It also enables the part-time works, such as "students and women", to pursue other priorities.

Award *1 mark* for a limited understanding of part-time employment.

Award *2 marks* if part-time employment is clearly understood with appropriate development and examples used.

(b) The costs and benefits of flexible work structures to *McDonald's* and its employees include the following:

- Higher staff turnover as there tends to be less employee loyalty among the non-core staff
- Lower remuneration packages for part-timers (a cost to the employee but a potential benefit to employers)
- Relatively easier to employ part-time staff
- Job creation opportunities, mainly for university students and women, who can choose their own hours of work to suit their lifestyles, i.e. university studies and childcare
- Flexibility has allowed *McDonald's* to open for extended hours, and even 24-7 in some of their restaurants
- There is often less job security and less trade union representation for part-time workers
- With part-time employment, especially with students working at *McDonald's,* labour turnover is high, so there are ongoing recruitment, induction and training costs for the company.
- With more flexible work structures, management control is made more difficult as the number of peripheral staff increases whilst the core staff are reduced.
- *Accept any other cost or benefit of flexible work structures, written in the context of McDonald's.*

Award *1 – 2 marks* for a generalized answer that is descriptive or lacks substance. There is limited understanding of the demands of the question.

Award *3 – 4 marks* if there is an examination of both the costs and benefits of flexible work structures, although the response lacks depth/clarity. Award up to *3 marks* for a one-sided answer.

Award *5 – 6 marks* if there is a thorough examination of both the costs and benefits of flexible work structures to *McDonald's* and its employees. Appropriate business management terminology is used, and there is effective reference made to the case study.

(c) The likely consequences for *McDonald's* of flexible work patterns on workforce planning, recruitment and training include:

- attracting women and students as part-time employees, by offering flexible working hours to suit their lifestyle choices
- cutting the number of core staff at *McDonald's* and hiring more part-time and peripheral workers (Handy's Shamrock organization)

- organizational restructuring resulting from a reduced core staff and more part-time staff at *McDonald's*, working in shifts thereby allowing some restaurants to operate 24/7
- offering training opportunities to allow some employees to work from remote locations, e.g. their own homes
- appointing and/or retaining more mature workers who have the necessary skills
- offering training opportunities to develop the skills of existing employees, and to boost their morale in the workplace
- offering training opportunities to internally promote certain members of staff (important for motivation and staff retention)
- outsourcing non-essential activities
- *Accept any other consequence of flexible work patterns, written in the context of McDonald's.*

Given the need for more flexible working structures, businesses need to adjust their staffing needs and alter the way in which they recruit and train their workers. Due to labour shortages in many economically developed countries, staff retention becomes more crucial, so the recruitment, training and continuous professional development of staff need to be managed effectively.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation.

Award *5 – 6 marks* if only advantages or disadvantages of training and development are examined. There is appropriate use of business management terminology. At the top end, there is an attempt at application using the case study.

Award *7 – 8 marks* if both the advantages and disadvantages of training and development are considered, with appropriate examples and application made to *McDonald's*. There is good use of business management terminology. However, the answer lacks synthesis and evaluation.

Award *9 – 10 marks* if both the advantages and disadvantages of training and development are considered, in a detailed and balanced way. There is effective use of business management terminology. There is clear application and evidence of synthesis and evaluation.

Question 2.1.7 – British school outsources teaching to India

(a) To outsource (or outsourcing) is the practice of subcontracting non-core activities to external firms or agencies as a method of reducing costs and improving efficiency. In this case, *Ashmount Primary School* is outsourcing aspects of its teaching to *BrightSpark Education*.

Award *1 mark* if the answer shows some understanding of outsourcing, although the answer might lack clarity.

Award *2 marks* if outsourcing is clearly defined, with the use of an example related to the case study likely to be used.

(b) Arguments in favour of *Ashmount Primary School* outsourcing some of its teaching to tutors in India include:

- It is far cheaper to use tutors from *BrightSpark Education* in India, costing £12 an hour for each student compared to hiring private tutors at a cost of £40 an hour (over three times more expensive).
- Online education also helps to cut costs for *Ashmount Primary School* as there is no need to pay for / rent a physical building and the associated running costs (e.g. lighting and heating).

- The corresponding increase in the quality of teaching (of mathematics) provides further justification.
- The Maths graduates are fluent in English and have the correct expertise / experience to tutor the students of *Ashmount Primary School*.

However, the disadvantages of outsourcing for the school include:

- There is controversy about whether outsourcing the school's core activities (teaching) is in the best interest of the organization and its students.
- There will naturally be concerns about quality assurance issues at *BrightSpark Education*, given the cultural gap between tutors (and students) in the UK and India.
- Outsourced tutors in India need to be monitored to ensure that deadlines and quality standards are met. This will increase administrative costs to *Ashmount Primary School*.
- The benefits of outsourcing are subject to changes in the external environment, e.g. rising labour costs in India will reduce the financial benefits of outsourcing to *BrightSpark Education*.
- Lack of local knowledge - can the graduate tutors in India really address 'local' educational issues of students in North London?

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but lacks substance or sufficient explanation.

Award *5 – 6 marks* if only advantages or disadvantages of outsourcing are examined. There is appropriate use of business management terminology. At the top end, there is an attempt at application using the case study.

Award *7 – 8 marks* if both the advantages and disadvantages of outsourcing are considered, in the context of *Ashmount Primary School* using a subcontractor. There is good use of business management terminology. However, the answer lacks synthesis and evaluation.

Award *9 – 10 marks* for a thorough discussion of the arguments for and against outsourcing, written in the context of *Ashmount Primary School*, in a detailed and balanced way. There is effective use of business management terminology. There is clear evidence of synthesis and evaluation (i.e. a justified conclusion about the decision to outsource some of the teaching to tutors in India).

Unit 2.2 Organizational Structure

Question 2.2.1 – Restructuring at Southmead College

(a) Training is a process involving the development of knowledge and skills of employees to enhance their ability to do their jobs better. This can include induction training for new staff, on-the-job training in the workplace, or off-the-job training that takes place away from the workplace.

Award *1 mark* for a vague answer that displays some understanding of the term 'training'.

Award *2 marks* for an answer that shows a clear understanding of the term 'training', similar to the example above.

(b) Students are likely to use a range of different approaches to answering this question, including different human resource management theories such as motivation theory. Students who take a different approach, e.g. the theory of investment appraisal, should also be credited appropriately.

The decision to restructure the College could be justified for various reasons, such as:

- Huge cost savings which can be used to improve the teaching and learning facilities at the College.
- A flatter organizational structure should also mean that communication is improved.
- The freed up finance used to fund staff training and development would benefit both the College and staff in the future.
- Redundancies are minimal, and indeed there may be some voluntary redundancies (due to the restructuring of jobs and the pay cuts for some middle managers).

However, the decision could be argued to have negative implications for the organization:

- Demoted middle managers (back to the classroom and earning up to $11,200 less a year) may decide to leave the organization to pursue their careers elsewhere. This creates problems for recruitment. In addition, the loss of highly skilled and experienced middle managers may cause major disruptions to labour productivity.
- The lack of career and promotional opportunities may reduce the attractiveness of the College as an employer.
- Resistance to change and industrial action from the teaching staff would need to be managed very carefully; including any negative publicity in the media.

The extent to which the decision is a justified one will depend on various factors, such as the College's mission statement and organizational objectives. The power (influence) and interest of various stakeholders (e.g. teaching staff and parents) would also have a major impact on the outcome of the decision to restructure the College staff.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation.

Award *5 – 6 marks* if an unbalanced (one-sided) answer is provided regarding the decision to restructure Southmead College. There is appropriate use of business management terminology. At the top end, there is an attempt at application using the case study.

Award *7 – 8 marks* if a balanced response is provided regarding the decision made by the senior management team at *Southmead College*, with appropriate examples and application made to the case study. There is good use of business management terminology. However, the answer lacks synthesis and evaluation.

Award *9 – 10 marks* if a balanced and thorough response is provided regarding the decision made by the senior management team at *Southmead College*. There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking.

Question 2.2.2 – Ferrari

(a) Decentralization occurs when decision-making authority and responsibility are shared out with others in the organization. At *Ferrari,* for example, the highly skilled workers have some decision-making power, not only the senior management team.

Award *1 mark* for a vague answer that displays some understanding of the term decentralization.

Award *2 marks* for an answer that shows a clear understanding of the term decentralization, with appropriate use of business management terminology and/or relevant examples.

(b) 'Skills training' refers to the professional training and development of staff. This is deemed important to firms such as *Ferrari* for a number of reasons, including:

- To build on its outstanding build quality and prestigious cars
- Its culture of a high degree of decision-making power means there is a need for staff to be highly trained in all aspects of their work
- To uphold the high level of motivation and employee loyalty at *Ferrari*
- To remain competitive against their rivals such as Aston Martin, Lamborghini, Bugatti, Maserati and Porsche.

Award *1 – 2 marks* if there is a generalized answer, which might lack depth and/or substance or if only no application is shown.

Award *3 – 4 marks* for a detailed explanation of why skills training is important to firms such as *Ferrari*. For full marks, there should be appropriate reference made to the case study with good use of business management terminology.

(c) Centralization occurs when all or most key decisions in an organization are made by senior management, i.e. there is a lack of discretion and autonomy among the workforce. By contrast, decentralization occurs when there is delegation of decision-making power to others in the organizational structure of the business.

Factors that influence the degree of decentralization at *Ferrari* might include:

- The quality of experience and skills held by the workforce - in *Ferrari's* case this means that decentralized decision-making can be justified.
- Nature (size and scope) of the decision, e.g. major decisions that carry huge risks and costs will be centralized, i.e. made by the senior management team.
- The organizational culture - the prevailing culture at *Ferrari* will mean an expectation of decentralized decision-making.
- The size of the firm - as Ferrari is a relatively small car manufacturer with a very limited product range, there is less of a need to centralize decision-making and management control.
- The nature (skills, experiences, outlook and attitudes) of management - In *Ferrari's* case, there seems to be mutual trust between management and employees so some degree of delegation is likely to take place.
- The geographical concentration of *Ferrari* (in Maranello, Italy) also means less of a need for centralized decision-making.
- The need for product innovation in the motor industry also means that decentralization is suitable for *Ferrari*.

Award *1 – 2 marks* if the answer is brief, generalized and tends to be descriptive, or is presented as an unexplained list.

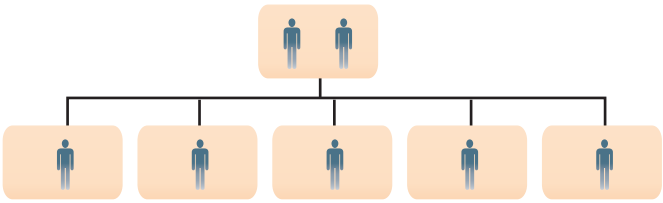
Award *3 – 4 marks* if there is an understanding of the demands of the question, with adequate explanations, but the answer may lack detail and/or application to *Ferrari*.

Award *5 – 6 marks* if there is thorough examination of the factors that influence the degree of decentralization at *Ferrari*. There is clear application of the case study and effective use of business management terminology throughout the answer.

Question 2.2.3

(a)

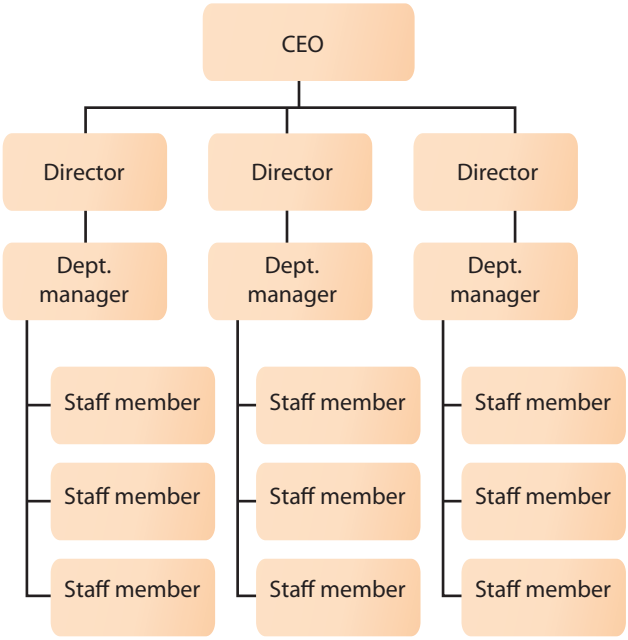
(i)



Award *1 mark* if there is some understanding of the demands of the question shown, although there is one error or omission.

Award *2 marks* if the organization chart is accurate, showing the two partners jointly responsible for their workforce of five employees.

(ii)



Award *1 – 2 marks* if there is some understanding of the demands of the question shown. At the top end, the organization chart has no more than two errors and/or omissions.

Award *3 – 4 marks* if there is a clear understanding displayed in the construction of the organization chart. For *3 marks*, allow one error or omission in the organization chart.

(b) The span of control is equally shared by the two partners and there is tight control due to the flat organizational structure. By contrast, there is greater delegation in the private company with three directors and three department managers, due to its larger workforce. Therefore, there is a longer chain of command in the private company than in the partnership.

Award *1 – 2 marks* if the answer makes reference to either the span of control or the chain of command in the organization charts.

Award *3 – 4 marks* if there is appropriate reference to both the span of control and the chain of command in the two organization charts.

(c) A wide span of control occurs when a manager is directly responsible for many people. Possible consequences to a business that chooses to adopt a wider span of control could include:

- Fewer layers in the hierarchy of the organization are needed, i.e. it is cheaper to operate a wider span of control because there are fewer levels of management.
- Delegation becomes a relatively important part of managing the organization.
- Communication should be improved overall (in terms of speed and accuracy) because there are fewer layers in the hierarchy.
- There is a smaller psychological distance between those at the top and those at the bottom of the organization.
- There are fewer opportunities for subordinates to take on extra responsibilities as promotion (through the hierarchical ranks) is limited.

Award *1 – 2 marks* if only one consequence is explained or if the answer is vague and lacks substance.

Award *3 – 4 marks* if two consequences of adopting a wider span of control are clearly explained, with relevant examples used. There is good use of appropriate business management terminology.

Question 2.2.4 – Departments or Faculties?

(a) A change away from departments to faculties would mean that the separate subject leaders would be managed by the Head of Faculty (HOF). This essentially adds an extra layer to the hierarchical structure of the school. Heads of Department would become Heads of Subject all with a new line manager (who would be accountable to the senior management team). The Heads of Subject would retain the same span of control whereas the HOF would have a much wider span of control that encompasses all members of the newly formed faculty. Finally, the chain of command would be lengthened as there is a taller structure in the organization.

Award *1 – 2 marks* for a generalized answer that lacks substance and/or application.

Award *3 – 4 marks* if the answer correctly explains the taller hierarchical structure resulting from the new faculty structure. For full marks, there is reference to how the span of control and chain of command are affected by the restructuring of the organization.

(b) Arguments for organization by faculties include:

- To create and foster more collaborative teams within the humanities subjects, e.g. sharing of good practice, cross-curricular links and common teaching approaches
- Senior management no longer need to spend so much time with individual HODs (this becomes the responsibility of the HOF), thereby freeing their time to focus on strategic leadership of the school
- Creating a promotional opportunity (and drive/motivation) for one of the HODs to become the new HOF.

Arguments against using faculties in schools (i.e. in favour of departmentalization by subject area) include:

- More meetings since HODs would need to meet with the HOF on a regular basis to discuss issues that affect the whole faculty. HODs would also need to find time to feed back this information to their own teams (hence there is greater burden on the HODs).

- HODs are no longer in direct communication with senior management (as they are accountable to the HOF instead), so this might make some HODs feel somewhat out of touch.
- Having an extra layer in the hierarchy means greater costs to the organization and potentially slower communications.
- There is greater specialization within departments than with faculty structures.

Whether using departments or faculties is better for a school will depend on a whole host of factors, such as its budgetary constraints, the number of staff involved, the personalities and aptitudes of the staff, the subjects being offered at the school, and so forth. For a good discussion, some of these factors should be critically considered.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation.

Award *5 – 6 marks* if an unbalanced (one-sided) answer is provided regarding the organization structure into departments or faculties. There is appropriate use of business management terminology. At the bottom end of the band, the answer may be unbalanced. At the top end, there is an attempt at application using the case study.

Award *7 – 8 marks* if a balanced response is provided regarding the organization structure into departments or faculties, with appropriate examples and application made to the case study. There is good use of business management terminology. However, the answer lacks synthesis and evaluation.

Award *9 – 10 marks* if a balanced and thorough response that considers both costs and benefits of using faculties rather than departments (or subject areas). There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking.

Question 2.2.5

(a) The plant managers are *accountable* to their respective vice presidents (Marketing, Finance or Production) of the organization.

They are *responsible* for the people in their own departments (for both consumer and industrial products).

Award *1 mark* for correctly identify the accountability and *1 mark* for correctly identifying the responsibility of the plant managers, up to the maximum of *2 marks*.

(b) The 'span of control' refers to the number of subordinates that are controlled by a manager, i.e. the number of people who are directly accountable to a manager. The span of control is wide for a manager responsible for a large number of staff, whereas it is narrow for managers in charge of only a few people.

'Levels of hierarchy' refers to organizational structures based on a ranking (hierarchical) system, usually with a Chief Executive Officer (or equivalent such as a President or Managing Director) at the top of the structure and unskilled staff producing consumer products and industrial products at the bottom. The levels show the relative degree of authority and responsibility of each rank in the overall organization.

Award *1 – 2 marks* if the terms are described, although there may be some omissions or lack of clarity. Appropriate examples/application might be missing.

Award *3 – 4 marks* if both 'span of control' and 'levels of hierarchy' are correctly described. There is appropriate use of business management terminology with relevant use of examples.

(c) An organization chart might be used by a firm for its induction programme in the following ways:

- To show and explain to new staff where they fit into the overall organization, i.e. their position and rank in the business
- To show their lines and scope of organizational responsibility (if any)
- To show who they are accountable to, i.e. their line manager(s).

This overview can help new staff to settle quicker into the business as they become more familiar with the personnel structure of the organization. It can also act as a point of reference for when the new recruit has particular enquiries, such as who to approach for certain questions.

Award *1 – 2 marks* if some understanding of the use of organizational charts is shown, although the answer may lack detail and/or may not be directly related to a firm's induction programme.

Award *3 – 4 marks* if there is a detailed understanding of the purpose of using organization charts for inducting new staff. At the top end, appropriate business management terminology is applied effectively, with the use of relevant examples.

Question 2.2.6 – The importance of body language

(a) Communication is the transfer of information from one party to another, be it verbal, non-verbal, written or by electronic means. The objectives of communication include to instruct, clarify, interpret, notify, warn, receive feedback, review and, above all, to inform.

Award *1 mark* for a vague answer that displays some understanding of the term communication.

Award *2 marks* for an answer that shows a clear understanding of the term communication, with appropriate use of business management terminology and/or relevant examples.

(b) Benefits of good communication for a business include:

- Enhancing the level of customer services (thereby helping to meet their needs and wants) and customer loyalty.
- Making business operations more cost effective, e.g. greater labour productivity and better relationships with suppliers and investors.
- Having positive motivational effects on the workforce (since employees have been consulted or communicated with).
- Making better (more informed) decisions.

Award *1 – 2 marks* if only one benefit of good communication is clearly outlined *or* if the answer lacks substance/depth.

Award *3 – 4 marks* if two benefits of good communication are clearly outlined in the context of a business, with relevant use of examples.

Question 2.2.7 – Email usage at work

(a) Electronic mail (email) refers to the process of using computers and telephone lines as a mailing system for both internal (intranet) and external (internet) communication purposes.

Award *1 mark* for a vague answer that displays some understanding of the term electronic mail.

Award *2 marks* for an answer that shows a clear understanding of the term electronic mail, with appropriate use of business management terminology and/or relevant examples.

(b) Email could encourage informal communication in the workplace in several ways, such as:

- Personal messages being sent from the workplace to family and friends
- If emails are not monitored (by the employer) due to privacy laws, this can encourage informal communication via emails, i.e. emails not related to work
- There is no financial cost to the sender (employee) so this might further encourage informal communication, both internally and externally.

  Note: Informal communication is not the same as informal messages.

Award *1 mark* if the answer shows a vague understanding of how electronic mail might encourage informal communication in the workplace.

Award *2 marks* if the answer shows a clear understanding of how electronic mail might encourage informal communication in the workplace, with appropriate use of an example.

(c) Students should clarify what they see as an 'improvement' in communication in the workplace. Measures used to judge the efficiency of communication could include:

- Speed
- Accuracy
- Cost
- Comprehension (of the message being sent).

Email works well as a form of communication when:

- Speed and cost are an important consideration (compared to fax or postage mail)
- The same message needs to be relayed to many recipients in different geographical locations
- Reference to data and information is needed (using attached files to the email), perhaps at a later date, e.g. sales figures
- There is sufficient training in using the email system at work
- Used in a professional manner, with employees observing protocol and email etiquette.

Email works well as a form of communication when:

- There are technical hitches, e.g. power failure, viruses or computer hacking
- There is monitoring of emails by the employer (conflict and controversy over privacy and management time issues)
- The use of email is not embedded in the organizational culture, i.e. people do not regularly and systematically read/respond to emails
- Codes of practice (email etiquette) are not established to guide employees in the use of email at work
- External communication requires the use of more traditional/formal methods of communication, e.g. written contracts (which require signatures on letter-headed paper)
- It is abused by staff, e.g. if significantly used for informal communication not connected to work matters
- Junk mail and spam mail clog Inboxes (thereby reducing worker efficiency).

Whether email improves efficiency in the workplace really depends on how and why it is used, based on the considerations of some of the above points.

Award *1 – 2 marks* for a generalized answer that lacks detail or for an answer that is presented in a list-like manner with no / minimal explanation.

Award *3 – 4 marks* if there is sufficient explanation how email might improve the efficiency of communication in the workplace. The answer might be one-sided (unbalanced). Award up to *3 marks* if only the advantages or disadvantages (of using email as a form of efficient communication) are considered.

Award *5 – 6 marks* if there is a sound and balanced discussion that considers whether electronic mail improves the efficiency of communication in the workplace. There is good use of business management terminology throughout the answer.

Question 2.2.8 – OCR's examination paper blunder

(a) Barriers to effective communication include:

- Jargon / specialist language
- Technical faults, e.g. printing error
- Misunderstandings
- Poor communications management.

Application is needed for maximum marks, such as:

- Poor management of information and communication systems, e.g. failing to send the right documents to clients
- Tall hierarchical structures with long chains of command (*Edexcel* is one of the UK's main examination boards) leading to distorted messages being communicated
- Inadequate staff training leading to gaps in the work being carried out (inefficiently). This is clearly linked to poor planning and management.

Award *1 – 2 marks* if only one barrier is clearly outlined or if the answer is vague and lacks substance.

Award *3 – 4 marks* if two barriers to effective communication are clearly explained, with appropriate use of examples and/or application to the case study.

(b) Effective communication (unlike *Edexcel's* examination blunders) is vital to an organization such as *Edexcel* (and any other choice of organization) because it helps to:

- Minimize errors and mistakes (such as the one in the case study), thereby improving productivity and efficiency in the organization
- Guide workers in the right direction in order to achieve organizational objectives
- Keep schools (the customers) up to date with curriculum changes and developments
- Promote organizational efficiency in order for *Edexcel* to compete with its rivals
- Preserve or enhance *Edexcel's* reputation and corporate image
- Improve working relationships (or prevent potential conflicts) because misunderstandings are likely to be minimised
- Prevent schools and parents losing confidence in *Edexcel,* thereby preventing them from switching to rival examination boards such as AQA or the IBO
- Gain feedback in order for *Edexcel* to continually improve
- Improve the management of communications, especially since *Edexcel* deals with clients from around the world.

Award *1 – 2 marks* for a generalized answer that lacks details of the importance of effective communication to *Edexcel*. There may be no reference to another organization.

Award *3 – 4 marks* for a good examination of several factors, with some understanding of the importance of effective communication to *Edexcel* and any other organization. The answer might lack substance or the use of relevant examples.

Award *5 – 6 marks* for a thorough examination of several factors, with detailed understanding of the importance

of effective communication to *Edexcel* and any other organization. There is good use of business management terminology throughout the answer and effective use of relevant examples.

Unit 2.3 Leadership and Management

Question 2.3.1 – Vinayak Textiles

(a)(i) Laissez-faire is a leadership style based on having minimal direct input in the work of employees. Managers and leaders allow their subordinates to make their own decisions and to complete tasks in their own way whilst retaining overall responsibility for the work.

Award *1 mark* for a vague answer that shows some understanding of the term laissez-faire.

Award *2 marks* for an answer that shows a clear understanding of the term laissez-faire, with appropriate use of business management terminology, similar to the example above.

(a)(ii) Sales revenue refers to the money a business earns from selling goods and/or services. It is calculated using the formula unit selling price × quantity sold (P × Q).

Award *1 mark* for a vague answer that shows some understanding of the term sales revenue.

Award *2 marks* for an answer that shows a clear understanding of the term sales revenue with appropriate use of business management terminology, similar to the example above.

(b) The functions of management include:

- *Planning* – Managers are responsible for setting the course of action to achieve organizational objectives, e.g. *Vinayak Textiles* aims 'to gain higher sales and to increase market share'.
- *Organizing* – Managers organize resources in order to achieve corporate objectives, e.g. by restructuring the business as hinted by Ritu Vinayak, the incoming Managing Director.
- *Controlling* – Managers are responsible for the performance of their teams. In the case of Vinayak Textiles, there seems to be a need to take corrective measures as profits have been falling.
- *Commanding* – Managers pass on instructions and orders to their subordinates in order to achieve corporate objectives. Workers have become complacent at Vinayak Textiles so commanding as a function of management becomes vital for the firm to restore its competitiveness.
- *Coordinating* – Managers have the responsibility of ensuring that all sections (or departments) strive to achieve the main goals of the business, e.g. by delegating or allocating appropriate tasks to workers to the 30 workers in Hyderabad.
- *Managers as general practitioners* – Handy suggested that managers must oversee the level of staff turnover, productivity and customer satisfaction. The 'health' problems in the business, such as complacent staff (and perhaps demoralized staff following the proposed changes to the remuneration system) must be dealt with by the management.
- *Communicating with and motivating employees* – Drucker argued that even the most laissez faire manager has to communicate with the workforce in order for the organization to be successful.
- *Measuring performance* – Drucker also suggested that every employee's job performance can be measured by the extent to which s/he meets the objectives that have been set.
  Note: it is not expected that student use specific theories of Fayol, Drucker or Handy.

Award *1 – 2 marks* if the answer lacks detail and/or coherence. The answer might be listed in bullet point form without much, if any, development.

Award *3 – 4 marks* if there is some good application of management functions and some appropriate business management terminology has been used correctly in the answer.

Award *5 – 6 marks* if there is thorough application of a range of management functions to *Vinayak Textiles*. Appropriate business management terminology has been used effectively throughout the answer.

Question 2.3.2 – School leadership and management

(a)(i) Leadership is the skill of getting things done through other people by inspiring, influencing and invigorating them.

Award *1 mark* for a vague answer that shows some understanding of the term leadership.

Award *2 marks* for an answer that shows a clear understanding of the term leadership, similar to the example above.

(a)(ii) Management is the practice of achieving an organization's objectives by effectively using and controlling the available human and non-human resources of the business.

Award *1 mark* for a vague answer that shows some understanding of the term management.

Award *2 marks* for an answer that shows a clear understanding of the term management, similar to the example above.

(b) Differences in the roles of managers and leaders in schools might include the following points:

- The school Principal is the leader of the organization because s/he determines (with the senior management team) the vision and direction of the school, e.g. deciding whether to adopt IB courses (PYP, MYP and DP) to the benefit of the students. By contrast, managers such as the Heads of Year and Heads of Department, deal with daily, tactical and routine decisions.
- Leaders are accountable for a much broader range of responsibilities. The senior leadership team (SLT) are collectively responsible for all the staff (teaching and non-teaching) whereas managers are responsible for the people within their teams.
- As a leader, the Principal strives to inspire and motivate staff; s/he encourages and entrusts creative and talented staff to help the school move forward.
- Managers follow predetermined rules and policies set by the school and SLT. Their focus tends to be on accomplishing tasks and managing people within their teams.
- Middle managers 'do things right', i.e. teaching and administration. By contrast, the SLT and Principal 'do the right thing', e.g. devising school policies and contingency plans to manage crises.
- The Principal and SLT focus on inspiring staff to achieve organizational aims and objectives via delegation and empowerment. By contrast, middle managers focus on control (managing and directing) subordinates within their teams. They focus on completion of tasks within predetermined deadlines.

  Note: Given the question, allow examples that are not related to schools/education.

Award *1 – 2 marks* if the commentary is vague and/or incoherent. Answers might appear in a list-like form with little, if any, explanation.

Award *3 – 4 marks* if the commentary is accurate, with the roles of managers and leaders clearly distinguished. There is good use of examples and reference to the case material.

(c) A range of leadership/management and motivation theories could be used. For example:

- An autocratic management/leadership style (favoured by the likes of F.W. Taylor and Henri Fayol) can:
  - Motivate staff who want clear leadership and direction.
  - Help to keep staff 'on their toes', i.e. it reduces the likelihood of slack and complacency.
  - Be effective/appropriate in 'failing schools' where examination results and/or discipline are a cause for concern.
  - Demotivate highly creative and skilled employees, such as highly experienced school teachers, who don't want to be told 'how' to do their jobs.
  - Negatively impact on staff retention levels in the long term.

- A democratic management/leadership style:
  - Is suitable if staff want to participate in decision-making; otherwise it could be seen as a burden on their time.
  - Is suitable if the views of the teachers are actually actioned; otherwise such a style may be seen as rather superficial and this breaks down the trust between senior management and teaching staff, thereby causing conflict and demotivation.
  - Can foster trusting and professional relationships at work, thereby helping to meet people's social needs (Maslow's hierarchy of needs).
  - Tends to lead to slower decision making, especially in large organizations. It can therefore have detrimental effects on staff morale, motivation and productivity.

- A laissez-faire management/leadership style::
  - Can be appropriate in schools where the Principal and senior leadership team (SLT) have upmost faith in the professionalism and ability of their staff to get on with their jobs. The SLT will set the organizational objectives and school development plan, but then it is up to the employees to decide how best to achieve the objectives using the resources available to them.
  - Can lead to high levels of motivation as staff may feel trusted and highly valued by their employer. Staff also feel that they have control over their work and can contribute to the success of the school. This helps them to achieve esteem and ego needs, to some extent (Maslow's hierarchy of needs).
  - Can make coordination and decision-making very time-consuming because there is a lack of overall supervision or control. Furthermore, laissez-faire management/leadership relies heavily on people's goodwill and teamwork to achieve the organization's goals. Thus, it can lead to slack and/or complacency in the workplace unless there are systems set in place to make staff fully accountable for their work, e.g. lesson observations and performance management reviews.
  - Can make coordination and decision-making very time-consuming because there is a lack of overall supervision or control. Furthermore, laissez-faire management/leadership relies heavily on people's goodwill and teamwork to achieve the organization's goals. Thus, it can lead to slack and/or complacency in the workplace unless there are systems set in place to make staff fully accountable for their work, e.g. lesson observations and performance management reviews.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of management/leadership theory and motivation theory.

Award *5 – 6 marks* if an unbalanced (one-sided) answer is provided regarding how different management and leadership styles can influence the level of staff motivation in organizations such as schools, although the answer lacks detail in certain areas. At the top end, there is an attempt at application using the case study.

Award *7 – 8 marks* if a balanced response is provided regarding how different management and leadership styles can influence the level of staff motivation in organizations such as schools, with appropriate examples and application from the case study. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if a balanced and thorough response is provided regarding how different management and leadership styles can influence the level of staff motivation in organizations such as schools. There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking.

Question 2.3.3

(a) Situational leadership is probably most suitable for a small local restaurant with just 13 members of staff. Being a small firm, there may be no need for an autocratic leader. However, key decisions need to be made with clear management and leadership, so democratic and laissez-faire leadership might also not be suitable.

(b) An authoritarian/dictatorial leadership style will probably prevail in the armed forces. This is because military personnel need to follow strict procedures, routines and commands in order for there to be any chance of success/survival. Decision-making comes from the top and there is little time (or point) in negotiating strategies with the workforce.

(c) A 'typical' secondary school will probably be run in a democratic manner (although this will clearly depend on the situation, the type of school, its teachers and support staff and the nature/ability/motivation of the students). The teachers are likely to be highly skilled professionals so the senior management team is unlikely to ignore or to disregard the input of the teaching staff.

For each question, apply the mark scheme below:

Award *1 – 2 marks* if there is a generalized answer, which might lack depth and/or substance or if only no application is shown.

Award *3 – 4 marks* for a detailed explanation of a relevant leadership or management style. For full marks, there should be appropriate reference made to the case study with good use of business management terminology, with a clear justification/explanation of the answer.

Question 2.3.4

(a) In the case of Yoann who is seeking permission to take two weeks off work to look after his critically ill father, the issues to consider include:

- Whether Yoann is a highly valued member of staff, i.e. is he trustworthy, hardworking and respected?
- This is likely to be a one-off request as his father is 'critically ill'.
- Not granting permission might be counter-productive as Yoann is likely to be distracted and highly demotivated at work whilst his father was ill.
- A supportive leadership style, such as paternalistic leadership, may be appropriate.
- There are also ethical issues (corporate social responsibility) for the management team to consider if they were to decline Yoann's request.

(b) In the case of Kiran, who is highly demotivated and lacks effort, the issues to consider include:

- A directive leadership style may be appropriate to ensure that Kiran puts in more effort to achieve individual and team targets.
- A telling/directing leadership style might be necessary as Kiran is unable and/or unwilling to complete tasks. This could be combined with the use of SMART targets to get Kiran back on track with her work performance.
- Alternatively, a supportive leadership might be appropriate to establish the root causes of Kiran's demotivation and possible causes of conflict within the team. Reprimanding her could be counter-productive and lead to further conflict and demotivation.
- The management team may need to take more drastic measures if Kiran does not meet the standards stipulated in her employment contract.

(c) In the case of Monisha who has complained that her line manager is using bullying tactics and is not observing the equal opportunities policy of the organization, the issues to consider include:

- Leaders need to understand the particular circumstances of a situation in order to choose the most appropriate type of authority to implement, e.g. using position authority to remind Monisha's line manager that s/he must adhere to company policies and statutory requirements such as equal opportunities.
- Alternatively, a selling/coaching leadership style might be appropriate as this is used when employees (such as the line manager) have the ability but are not fully committed, and so they need persuading and coaching in order to accomplish organizational targets. This means the effective leader has concerns for both tasks (accomplishing goals in line with company policy) and people (the line manager and his/her team).

For each question, apply the mark scheme below:

Award *1 – 2 marks* if there is a generalized answer, which might lack depth and/or substance or if only no application is shown. The answer might be presented in a list-like format with little, if any, elaboration.

Award *3 – 4 marks* for a detailed explanation of a relevant leadership or management style. For full marks, there should be appropriate reference made to the case study with good use of situational theories and business management terminology, with a clear justification/explanation of the answer.

Unit 2.4 Motivation

Question 2.4.1 – The world's richest billionaires

(a) Motivation means the desire, effort and passion to accomplish something, i.e. the willingness to complete a task or job with enthusiasm. It refers to what drives a person to do what they do, be it for money, enjoyment and/or other intrinsic or extrinsic reason.

Award *1 mark* if the definition shows some understanding of motivation.

Award *2 marks* if the definition shows a clear understanding of motivation. The answer uses appropriate business management terminology, similar to the example above.

(b) Taylor's scientific management suggests that people are motivated by money, which in turn will improve productivity and quality. His theory tends to apply to low-skilled workers employed in the manufacturing sector. However, it is highly unlikely that the world's richest people are motivated by money alone. Wealthy people such as Bezos, Gates, Ortega and Buffett do not conform to there being a single 'best' way to complete a task. Hence, it is unlikely that Taylor's theory applies to such people. In addition, Taylor's theories may not apply to those employed in non-governmental organizations (NGOs).

Maslow's hierarchy of needs suggests that people need sufficient remuneration (e.g. wages or salaries) to meet their physiological needs. However, once these needs are met, people become motivated by other factors (or needs): security, social, ego and self-actualization. Perhaps the world's richest people are ultimately after self-actualization as they strive to be the very best that they can, rather than being motivated purely by the money.

Award *1 – 2 marks* for a generalised answer that is descriptive or lacks substance, although some understanding is shown.

Award *3 – 4 marks* if there is some application of the theories, although the answer might lack appropriate use of examples or depth of explanation. Award up to *3 marks* if there is reference to only one theory (Taylor or Maslow).

Award *5 – 6 marks* if there is thorough application of both Taylor and Maslow's theories, with appropriate use of business management terminology and relevant examples. There is likely to be appropriate reference to the case study.

(c) Driving factors (for the world's richest people to continue working despite their age or their wealth) might include:

- The strive to achieve self-actualization – perhaps these people have not achieved their ultimate goal so continue to work for this purpose
- They may simply be highly motivated and passionate about what they do, e.g. people like Warren Buffet enjoy and thrive on running large and diversified businesses
- They might enjoy the challenge that work itself brings, rather than the financial benefits that come with the job
- They might be highly competitive people who strive to achieve ever more; in fact, the Forbe's Rich List league table could spur these people to be more motivated to 'top' the chart.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of motivation theory.

Award *5 – 6 marks* for a well explained answer, written in the context of the world's richest people. At the top end, there is some application of relevant motivation theory written in the context of the world's richest people.

Award *7 – 8 marks* if there is a thorough discussion of factors that drive people to continue to work beyond the retirement age, despite their accumulated wealth. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if there is a thorough discussion of factors that drive people to continue to work beyond the retirement age, despite their accumulated wealth. There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking.

Question 2.4.2 – Richer Sounds

(a) Empowerment (or empowering) is a form of non-financial motivation, which involves delegating decision-making power to workers. Empowerment is about developing the potential of workers or teams. It involves giving workers the authority to be in charge of their own jobs and to execute their own ideas to solve business problems.

Award *1 mark* if the description shows some understanding of empowering (empowerment).

Award *2 marks* if the description shows a clear understanding of empowering (empowerment). The answer uses appropriate business management terminology, similar to the example above.

(b) Productivity refers to the level of output per worker. Motivation can lead to improved labour productivity in several ways, including:

- Motivated workers at *Richer Sounds* 'have fun' or 'enjoy' their work, thereby helping to improve productivity
- Higher morale and job satisfaction suggest that workers are likely to be more productive as their desire and/or effort to complete tasks will increase
- Motivated staff are unlikely to cause industrial unrest in the workplace, thereby helping to boost output and productivity
- Lower absenteeism (due to higher levels of motivation) also help to improve labour productivity.

Award *1 – 2 marks* for a vague answer that lacks detail and/or depth. The answer might appear in a list-like format, with little if any explanation.

Award *3 – 4 marks* if there is a thorough explanation of how motivation can lead to improved labour productivity. Relevant examples are used with appropriate use of business management terminology.

(c) The views of leaders such as Julian Richer can affect the successful implementation of motivation in several ways, including the following points:

- Leaders who hold a pessimistic view about their workers because they oversee a low-skilled workforce who value direction from senior managers.
- Leaders who have an optimistic view about their workers are suited to organizations that encourage and value creativity. They also welcome the views of the staff.
- Managers who believe in the human relations school of thought are more likely to use job enrichment, job enlargement, job rotation and team working (Herzberg's motivation theory). By contrast, those who believe that there is a single 'best' way to get things done will use a more scientific management approach (F.W. Taylor).
- The 'wrong' leadership view (or wrong interpretation) will therefore adversely affect the level of motivation in the workplace.
- If the leader him/herself is demotivated, then this is likely to have adverse effects on the workforce (a case of leading by example).
- Julian Richer's beliefs (e.g. the importance of 'having fun' or that demotivation costs the business far more money than that used to motivate staff) will also directly affect his actions (e.g. to internally promote his staff), thereby influencing the worker's level of motivation.

Award *1 – 2 marks* if the answer is rather vague and there are major omissions in the answer.

Award *3 – 4 marks* if the answer demonstrates a good level of understanding but lacks some details or clarification. There is some attempt at applying the answer to the case study.

Award *5 – 6 marks* if there is a thorough examination of how the views of leaders can affect the level of motivation in an organization. Appropriate business management terminology and relevant examples are used effectively.

Question 2.4.3 – Tanusankar Business School *(TBS)*

(a) A non-government organization (NGO) is a private sector, not-for-profit business that operate for the benefit of others rather than primarily aiming to make a profit. Any surplus tends to be reinvested back into the business rather than being distributed as earnings for its owners. Examples include *Oxfam, Friends of the Earth* and *Tanusankar Business School*.

Award *1 mark* if the description shows some understanding of the term non-government organization.

Award *2 marks* if the description shows a clear understanding of the term non-government organization. The answer uses appropriate business management terminology, similar to the example above.

(b) According to the theory of Adams, the extent to which the remuneration structure at *TBS* might motivate its employees depends on the comparative rewards from the perspective of its employees. The perceived equity at *TBS* depends on the ratio of inputs (contributions made by the staff at *TBS*) to outcomes (financial and non-financial rewards offered to the staff). Based on the figures provided, we can calculate the following:

	Vice president	Marketing lecturer
Salary	$78 000	$45 000
Housing allowance	$10 000	$18 000
Gratuity (22%)	$17 160	$9 990
Pension	$1 250	$1 250
Total compensation	$106 410	$74 150

From the financial data, the following can be deduced:

- The VP earns 73.33% more salary than the marketing lecturer. Based on equity theory, this suggests that the marketing lecturer would expect the vice president to have a significantly higher input at *TBS*.
- Therefore, the VP also earns 73.33% more in gratuity than the lecturer.
- The lecturer receives $8,000 more in housing allowance, but this amount is not gratuitable (only the salary qualifies for the end of contract bonus).
- Pension contributions are the same for both the VP and lecturer. It is debatable whether this has any direct impact on motivation as the amount is insignificant (1.6% of the VP's salary and 2.77% of the lecturer's salary) and the workers do not receive the pension until retirement age.
- However, the total compensation (remuneration) is significantly lower for the VP, who earns 43.5% more than the lecturer. This might aggrieve the VP as s/he would receive the same amount of pension contributions from *TBS* and a lower housing allowance, despite being a senior member of staff.
- However, other considerations also need to be taken into account, e.g. annual paid holidays, hours of work, roles and responsibilities, medical cover/benefits, education allowance, and the working environment (such as office space).
- Alternative theories (such as Maslow's hierarchy of needs or Pink's drive theory) can also explain how and what motivates workers, rather than only a firm's remuneration structure. Such an approach should be rewarded accordingly if answered in the context of the case study.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question (i.e. some understanding of equity theory) but without sufficient explanation.

Award *5 – 6 marks* for a well explained answer, written in the context of the remuneration package at *TBS*. At the top end, there is some application of equity theory, written in the context of *TBS*.

Award *7 – 8 marks* if there is a thorough discussion of equity theory and how the remuneration package at *TBS* might motivate its employees. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if there is a thorough discussion of equity theory and how the remuneration package at *TBS* might motivate its employees. There is a balanced answer that considers qualitative factors that affect motivation, not only the financial data given in the case study. There is clear application and evidence of critical and evaluative thinking.

Question 2.4.4 – Calculating financial rewards

(a) A time-rate financial reward system is a remuneration scheme that pays staff based on the amount of time they devote to their work, e.g. wage per hour or salaried staff who are paid a fixed amount per month.

Award *1 mark* if there is some understanding of time-rate as a reward system.

Award *2 marks* if the meaning of time-rate is accurate, with the appropriate use of business management theory, similar to the answer above.

(b) $5 × 12.5 = $62.50 per week

Apply the own figure rule (OFR) as appropriate in questions that require calculations.

Award *1 mark* if the correct answer is given, and *1 mark* for showing the full working out.

For Questions 2.4.4 b, c and d, award 1 mark for the correct working out, plus 1 mark for the correct answer.

(c) (i) Annual gross income = $2,400 × 12 = $28,800

(ii) Annual taxable income = $28,800 – $18,000 = $10,800

(iii) Annual take-home pay = $18,000 + ($10,800 × 0.85) = $27,180

(d) ($3,400 × 12) / 52 = $784.62

Or $3,400 ÷ 4.33 weeks per month = $784.62

(accept answers that show $784.61, $784.6, or $785)

(e)
- Base pay = $1,250
- Commission = $12,000 × 0.05 = $600
- $1,250 + ($12,000 × 0.05) = $1,850

Award *1 mark* if the correct answer is given, and up to *2 marks* for showing the full working out.

Question 2.4.5 – Camden International Consultants

(a)(i) Perks (or fringe payments) are the financial rewards paid in addition to a worker's wages or salaries, e.g. free uniforms, subsidised meals, housing allowance, pension fund contributions and paid holidays.

Award *1 mark* for a vague answer that shows some understanding of the term perks.

Award *2 marks* for an answer that shows a clear understanding of the term perks, similar to the example above.

(a)(ii) Performance-related pay (PRP) is a payment system that rewards people who meet set targets over a period of time. The targets can be on an individual, team or organizational basis.

Award *1 mark* for a vague answer that shows some understanding of the term performance-related pay.

Award *2 marks* for an answer that shows a clear understanding of the term performance-related pay, similar to the example above.

(b) Possible consequences of implementing Mairead Taylor's plans for *Camden International Consultants (CIC)* include:

- A 5% pay cut is likely to cause resentment and reduce employee morale – this will therefore negatively impact upon productivity, at least in the short term.
- Staff may feel they are being monitored and/or less trusted by the management team because of the new performance appraisal system (company policy is a hygiene factor according to Herzberg).
- However, if *CIC* maintains the perks for its consultants (housing allowance, profit related pay and company car), this might allow staff to still meet their security needs (Maslow's hierarchy of needs).
- From a culture perspective, it could be argued that some consultants will work harder in order to meet their performance appraisal targets and to be awarded their annual profit related pay and/or a possible pay increment.
- *CIC* can improve its competitiveness (according to the new CEO) by cutting its fees by up to 3% for its clients. If this ensures *CIC* remains competitive, then it might be able to better meet the security needs of its staff in the long term.

Award *1 – 2 marks* if the answer is vague and lacks coherence. There may be little, if any, reference to motivational theory.

Award *3 – 4 marks* if the response is sound although may be lacking in depth in some areas. There is appropriate application of relevant motivational theory although relevance to *Camden International Consultants* may be limited.

Award *5 – 6 marks* if there is a good examination of the likely consequences of implementing the new CEO's plans. The answer makes good use of examples from the case study and there is effective use of motivational theory.

(c) Performance related pay systems reward employees (be they individuals, teams or as a whole workforce) who meet certain goals, e.g. competence in a job or reaching sales targets. Mairead Taylor's proposal to remunerate consultants by using performance appraisals is likely to have both positive and negative outcomes, such as:

- Financial incentives for consultants who reach their targets should ensure that staff work hard(er) to enhance the quality of their service to CIC's clients.
- If administered properly, it is seen as a fairer system because hard work is rewarded; Adams' equity theory suggests that staff remuneration packages (output) should reflect their efforts (input).
- The pressure to perform will mean that there are greater expectations of consultants to carry out their jobs.

However, the new CEO's proposal to use performance appraisals for consultants might also have some disadvantages, such as:

- The difficulty (and subjectivity) in measuring aspects of the 'performance' of management consultants makes such payment systems difficult to implement, e.g. a consultant could deliver extremely valuable advice to clients, although this does not always lead to proportionately more revenue for CIC. It can be difficult to measure the 'quality' of the service they provide.
- Resistance to change from the consultants, thereby creating tension between staff and senior management. In extreme circumstances, this might lead to industrial unrest and/or higher staff turnover.
- The added pressures on consultants could cause job dissatisfaction and lower motivation. Some motivation theorists suggest that motivation is best improved through fostering better human relations at work.

Another challenge for the CEO is that the new performance appraisals and targets must be set in a transparent and fair way. The change process must be clearly communicated to the staff, i.e. the rationale for change and why it will benefit the organization and its clients. As CIC is already "highly successful", Mairead Taylor might have some difficulties in implementing her plans; so effective change management processes must be set in place.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of motivation theory.

Award *5 – 6 marks* if there is consideration of the CEO's proposal to remunerate consultants by using performance-related pay, although the answer lacks detail in places. At the top end, there is an attempt at application using the case study.

Award *7 – 8 marks* if there is consideration of the CEO's proposal to remunerate consultants by using performance-related pay. There is good use of motivation theory and application to the case study, but the answer lacks judgment / evaluation.

Award *9 – 10 marks* if there is consideration of the CEO's proposal to remunerate consultants by using performance-related pay. There is good use of motivation theory and application to the case study. There is clear application and evidence of critical and evaluative thinking.

Question 2.4.6 – Pfizer

(a) Internal recruitment refers to the employment practice of hiring people who already work for the organization to fill a vacancy, instead of hiring someone new to the organization.

Award *1 mark* for a vague answer that shows some understanding of the term internal recruitment.

Award *2 marks* for an answer that shows a clear understanding of the term internal recruitment, similar to the example above.

(b) Likely benefits for *Pfizer* in using internal recruitment for most of its managerial positions include:

- Motivational - Internal recruitment for promotional posts can act as a form of motivation at *Pfizer*. By providing internal people with opportunities for promotion suggests to staff that *Pfizer* values its employees. Hence, internal promotion can also create employee loyalty and commitment to the pharmaceutical company.
- Cost effectiveness - It is usually cheaper and quicker to recruit from within the organization than to recruit externally.
- Less risk - Candidates who are suitable for management positions may be readily available within *Pfizer* so the firm will be able to identify such people without having to recruit from outside the organization.

- Less down-time - Internal people are already familiar with how *Pfizer* operates and its culture. They are therefore usually more able to adapt and settle into the new management position than those who are new to the organization. There is less of a need to induct and train the new managers.

Award *1 – 2 marks* if the answer lacks detail and/or substance. Award *1 mark* for each appropriate benefit of internal recruitment identified, up to *2 marks*.

Award *3 – 4 marks* if there is a good explanation of two likely benefits to *Pfizer* in using internal recruitment. Appropriate examples are used to substantiate the answer in the context of *Pfizer*.

(c) Reasons why a culture of risk-taking is important to pharmaceutical firms such as *Pfizer* could include:

- The need to be innovative in the industry requires staff to conduct ground-breaking research by taking risks. Innovation is integral to the culture of successful pharmaceutical companies such as *Pfizer*.
- In such highly competitive occupations, the need to achieve suggests that workers need to take (at least some) moderate risks in order to stand out from the competition.
- The huge research and development (R&D) costs signify the high level of risks as a feature of the pharmaceutical industry (in addition to acting as a barrier to entry into the industry).
- The culture would suit *Pfizer's* highly skilled and competent staff who excel with the freedom to be able to take on risks (otherwise they would be severely constrained if the culture was risk-adverse).

Award *1 – 2 marks* for a vague answer that lacks detail and/or depth. Application to the pharmaceutical industry may be missing.

Award *3 – 4 marks* if there is a good explanation of why a culture of risk-taking is important to pharmaceutical firms such as *Pfizer.* Business management terminology and applied examples are used effectively.

(d) The answer should consider the costs and benefits of using financial rewards as a method of motivation. The theories of F.W. Taylor's Scientific Management, Maslow's Hierarchy of Needs and/or J.S. Adam's Equity Theory can be explored to answer this question.

Whether managers over-estimate the importance of financial rewards as motivators is debatable, and this depends on numerous issues, such as:

- Management and leadership style, e.g. autocrats who believe in scientific management might favour the use of financial rewards to motivate their staff.
- View on what motivates staff, e.g. Taylorite theory suggests that the use of financial rewards to motivate staff should not be underestimated.
- Remuneration being offered by rival employers, i.e. financial rewards must be sufficiently attractive to recruit and retain staff.
- Consideration of non-financial motivators, e.g. *Pfizer* uses Individual Development Plans to help employees progress in their careers - this does not evolve around financial rewards alone.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of motivation theory.

Award *5 – 6 marks* if the answer addresses the issue of using financial rewards to motivate employees, but lacks detail in certain areas. There is an attempt at application using the case study. At the lower end, an unbalanced answer is provided.

Award *7 – 8 marks* if there is an examination of both the costs and benefits of using financial rewards to motivate workers. There is good use of motivation theory and application to the case study, but there is little, if any, evidence of critical thinking.

Award *9 – 10 marks* if there is an examination of both the costs and benefits of using financial rewards to motivate workers. There is good use of motivation theory and application to the case study. There is clear evidence of evaluation, which addresses the extent to which managers might over-rate the use of financial rewards to motivate their staff.

Unit 2.5 Organizational and corporate culture

Question 2.5.1 – Warwick Park school *(WPS)*

(a) Organizational culture is the set of beliefs that guides the way that people within an organization behave, based on what is considered to be acceptable (and not acceptable). At *WPS* there does not seem to be a culture of learning because only 15% of students meet the national examination standards ('staff and students had grown accustomed to failure'). Perhaps this culture was fostered by an ineffective senior management team at the school.

Award *1 mark* for a vague outline of organizational culture, with some understanding shown.

Award *2 marks* for a clear outline of organizational culture, similar to the example above.

(b) Paramesh Murali, the new principal, may have felt that the (radical) changes were needed for several reasons:

- Teachers and students were not deemed to be engaged in their teaching and learning; hence a change to the organizational culture was seen as being absolutely necessary.
- The poor examination results were indicative of a poor culture of (quality) teaching and learning at the school.
- As the principal, Paramesh Murali might feel that no school should be "accustomed to failure", especially as he had a reputation for turning around failing schools.
- He was hired to improve the quality of teaching and learning at the school, so the changes were seen as instrumental to achieving his targets.
- Teachers needed to be given an ultimatum - improve their performance or lose their jobs.

Award *1 – 2 marks* for a vague answer that lacks detail and/or there is a lack of application to *WPS*.

Award *3 – 4 marks* if there is a good explanation of why Paramesh Murali, the new principal, felt the need to change the organizational culture at *WPS*. Relevant business management terminology and examples are used effectively.

(c) The staff are concerned mainly about potential job losses for teachers deemed to be underperforming under the new principal's proposals. They had grown used to a culture of failure, where the senior management team was perhaps somewhat laid back in their approach. The radical changes would cause anxieties and stress among the workforce.

Paramesh Murali felt the need to change the organizational culture at *WPS*. He could manage this situation in several ways (any change management model could be applied). Nevertheless, it is vital that clear and concise communication with the workforce is necessary (in the first staff meeting). Paramesh felt the need to change the organizational culture at *WPS* so he would need to explain (and perhaps justify) the reasons for his proposals. For example, teaching staff need to understand the full benefits of performance management (being linked to their pay). They also need reassurances that staff working towards their set targets would not be simply retrenched. The benefits of the restructured timetable might also be used to win some support.

Award *1 – 2 marks* if the answer lacks detail and/or coherence. The answer might be listed in bullet point form without much, if any, development.

Award *3 – 4 marks* if there is some application of how the principal might realistically handle the concerns of the teaching staff. Some appropriate business management terminology has been used correctly in the answer.

Award *5 – 6 marks* if there is thorough examination of how the principal might realistically handle the concerns of the teaching staff to foster the desired change in organizational culture. There is appropriate use of business management terminology throughout the answer, and effective use of the stimulus material.

Question 2.5.2 – Organizational culture at Lenovo

(a) A merger is a form of external growth, involving two (or more) firms agree to form a new organization, thereby giving up their original identities.

Award *1 mark* for a vague answer that shows some understanding of the mergers.

Award *2 marks* for an answer that shows a clear understanding of the term mergers, with appropriate use of business management terminology, similar to the example above.

(b) Culture is the set of beliefs and values held by the staff of an organization, thereby determining what is considered the 'norm' in the business. Therefore, culture clash exists when there is conflict or incompatibility between two or more cultures within an organization, e.g. when two firms from different parts of the world integrate via a takeover.

Award *1 mark* for a vague outline of cultural clashes, with some understanding shown.

Award *2 marks* for a clear outline of cultural clashes, with an appropriate example used form the case study.

(b) Problems that *Lenovo* might have faced in its attempt to integrate two different corporate cultures include:

- The cultural differences between Eastern and Western firms create a natural barrier to effective integration of the different cultures. National cultures have a direct impact on organizational culture (as shown by the work of Geert Hofstede).
- Cultural differences can also lead to conflict (differences in opinions) and these have to be managed effectively in order for a merger or joint venture to succeed.
- Resistance to change from *Lenovo's* workforce (including the managers) because staff are likely to resent changes to the culture that they are used to.
- Geert Hofstede's cultural dimension 'power distance' also suggests that *Lenovo* would face difficulties in its takeover of *IBM* personal computers - China's high power-distance rating means that workers at the Chinese firm are accustomed being introvert (not voicing their opinions, for example) whereas *IBM* would have had a low power-distance rating.
- Language barriers might also have existed, e.g. different interpretations of the same word/message in different languages and/or messages that are lost in translation.

Award *1 – 2 marks* if the answer is rather vague and lacks coherence and/or application to *Lenovo*.

Award *3 – 4 marks* if there is some examination of the problems that *Lenovo* might have faced when attempting to integrate two different corporate cultures. The answer lacks detail/depth in areas.

Award *5 – 6 marks* if there is a clear examination of the likely problems that *Lenovo* might have faced in its attempt to integrate two different corporate cultures. Appropriate business management terminology and examples are used effectively.

Question 2.5.3 – Wahaha and Danone's joint venture

(a) A joint venture is an external growth strategy that combines the contributions and responsibilities of two different organizations in a shared project by forming a separate legal enterprise.

Award *1 mark* for a vague answer that shows some understanding of the mergers.

Award *2 marks* for an answer that shows a clear understanding of the term mergers, with appropriate use of business management terminology, similar to the example above.

(b) It is important to understand corporate culture and international culture when engaging in cross-border joint ventures for several reasons, including:

- Culture clash clearly exists between *Wahaha* and *Danone* and hence the subsequent conflict between these cultures limits their ability to progress as a joint venture. Conflict can also occur when a firm expands overseas and is ignorant of international cultural differences.
- Culture is largely formed by the subjective views of people and it becomes ingrained in the workers' minds of how they see the organization (and how it should be run). This is even more problematic when dealing with two sets of international cultural differences in two large organizations (*Wahaha* and *Danone*) with a substantial workforce.
- Having a strong and unified corporate culture creates a sense of belonging and security for staff because they feel that they are part of the joint venture. This can help to improve cross-border cooperation and to raise overall motivation in the organization.
- Mistakes and misunderstandings may be minimized as staff are familiar with the policies, processes and protocol at work.
- It can be argued that as markets become more competitive and globalized, such as the drinks industry, organizations such as *Wahaha* and *Danone* are forced to adapt to change in order to survive. If this is the case, then success for the cross-border joint venture requires organizational cultures to adapt and embrace the changes.
- Ultimately, corporate cultures and international cultures may need to change when there is a joint venture in order to gain from economies of scale and synergies. In reality, organizations that cannot adapt to work in the new culture are likely to fail.

Award *1 – 2 marks* if the answer is generalized or lacks substance.

Award *3 – 4 marks* if there is a thorough explanation of the importance of understanding (differences in) corporate and international cultures for the success of cross-border joint ventures. Appropriate business management terminology has been used, with relevant examples used.

(c) Consequences of culture clashes within organizations, when leadership styles change, include the following:

- Disputes over how things ought to be done, such as approaches to health and safety issues at *Wahaha* and *Danone*.
- Misunderstandings and miscommunications - A change in leadership often results in communications problems as employees not fully understand the reasons for change.
- Resistance to change - Employees are likely to resent changes to the culture that they are used to, perhaps due to fear of the unknown.
- Unhappy staff - Cultural clashes resulting from a change in leadership styles will tend to make people unhappy in the workplace.

- There are likely to be major disruptions to output and lower productivity. It will take time, effort and resources to ensure that the culture gap is minimized.
- If not managed carefully, the cultural clashes can result in poor employer-employee relations and cause industrial disputes. This is particularly the case if a merger or takeover results in mass job losses.

Award *1 – 2 marks* if the answer is rather vague and lacks coherence and/or the use of relevant examples.

Award *3 – 4 marks* if there is some examination of the consequences of culture clashes within organizations. The answer lacks detail in areas. Relevant examples are included.

Award *5 – 6 marks* if there is a clear examination of the likely consequences of culture clashes within organizations, when leadership styles change. Appropriate business management terminology and examples have been used effectively.

Question 2.5.4 – The Body Shop

(a) The corporate culture at *The Body Shop* seems to be one that values being green (environmentally friendly) and conducting business in a socially desirable way. Its core values clearly reflect the desired corporate culture of the organization, e.g. acting ethically by not testing their products on animals.

Award *1 mark* for a vague description of the corporate culture at *The Body Shop*.

Award *2 marks* for a clear description of the corporate culture at *The Body Shop* that makes appropriate use of the case study.

(b) Having a strong belief in ethical business behavior can shape the culture of *The Body Shop* in several ways. For example, an organization that believes in being 'green' will most likely be engaged in operations that use sustainable resources. Having such core values communicated clearly to the whole organization means that the staff are more likely to work harmoniously to achieve the firm's corporate objectives. For example, employees who believe in the philosophy and culture of *The Body Shop* will act in such a way to 'protect the planet', perhaps by reusing resources, reducing the use of resources and recycling waste.

Such a culture can clearly offer competitive advantages to organizations, e.g. *The Body Shop* has thrived on using its core values as its distinctive selling point. Customers who share these values are more inclined to buy (or even switch to buying) products from *The Body Shop*. This is evident in the case of *The Body Shop* which operates under the five core values that shape the company's culture (since it now has operations in over 65 countries, serving more than 80 million customers a year).

Award *1 – 2 marks* if the answer is rather vague and lacks coherence and/or application.

Award *3 – 4 marks* if there is some examination of how ethical business behaviour can shape an organization's culture or provide it with competitive advantages, although the answer lacks detail or relevance to *The Body Shop*.

Award *5 – 6 marks* if there is a clear examination of how ethical business behaviour can shape corporate culture, with reference to how this might benefit *The Body Shop*. Appropriate business management terminology has been used effectively throughout the answer.

Unit 2.6 Employer and employee relations

Question 2.6.1 – Small versus Large

(a)(i) The public sector refers to is the part of the economy under the ownership and control of the government, e.g. government hospitals, state schools and the police force.

Award *1 mark* for a vague definition of public sector, with some understanding shown.

Award *2 marks* for a clear definition of public sector, similar to the example above.

(a)(ii) Industrial action is the collective term for various activities taken by disgruntled employees due to disputes over working conditions and practices, e.g. pay disputes. It is a result of poor employer-employee relationships or conflict at work.

Award *1 mark* for a vague definition of industrial action, with some understanding shown.

Award *2 marks* for a clear definition of industrial action, similar to the example above.

(b) Mass-scale industrial action, such as major trade union protests, can affect business opportunities in several ways, including:

- The international competitiveness of UK businesses is likely to fall with any prolonged mass-scale industrial action involving such a large number of workers.
- Mass-scale industrial action will disrupt business operations in the UK, thereby having a negative impact on the country's unemployment.
- Public services would suffer as hospitals, schools and public transport services would be negatively affected by the mass-scale industrial action.
- A fall in labour productivity, thereby reducing the output of UK businesses and further deteriorating its international competitiveness, especially as the public sector accounts for a large proportion of the country's gross domestic product (GDP).

Answer *1 – 2 marks* if the answer is vague and lacks coherence, and may be presented in a list-like format.

Award *3 – 4 marks* if there is some examination of how mass-scale industrial action might affect the business opportunities of a country, although the answer lacks detail in some areas. At the lower end, there is little, or no, application to the case study.

Award *5 – 6 marks* if there is a clear and succinct examination of how mass-scale industrial action might affect the business opportunities of a country. There is effective use of business management terminology and appropriate reference to the stimulus material.

Question 2.6.2 – Indonesia's national strike action

(a)(i) Labour unions are organizations consisting of worker-members who unite to protect their employment rights and wellbeing in the workplace.

Award *1 mark* if the description shows some understanding of labour unions.

Award *2 marks* if the definition shows a clear understanding of labour unions, similar to the example above.

(a)(ii) Strike action is a form of industrial action that involves employees refusing to work. It is usually used as a last resort due to major industrial disputes such as large-scale pay disputes.

Award *1 mark* if the description shows some understanding of strike action.

Award *2 marks* if the definition shows a clear understanding of strike action, similar to the example above.

(b) Alternatives to strike action as a form of dealing with industrial disputes include:

- Negotiations - Skilled labour union negotiators could be used to deal with the government representatives, with the aim to get to a win-win solution to reconcile conflicting interests. Perhaps the 44% increase in the minimum wage is deemed by unionists to be insufficient, so needs to be renegotiated.
- Overtime bans - Labour unionists, such as the factory workers, may choose to refrain from working beyond their contracted hours, thereby causing disruptions to business activity.
- Work-to-rule - Labour unionists might opt do the absolute minimum required according to the rules set by their employers, thereby delaying output reducing productivity.
- Go-slow - Workers might also choose to operate at the minimum pace allowable in their employment contracts, again diminishing productivity without employers being able to discipline those who work at the contractually acceptable pace.
- Public Relations - The use of PR specialists to deal with the media and for issuing press releases and other information that portray the labour unions in a positive manner, e.g. comparing wages with the cost of living in China and India.

Award *1 – 2 marks* if the answer is vague and lacks coherence, and may appear as a list of unexplained points.

Award *3 – 4 marks* if two alternative methods have been examined, although not in sufficient detail and/or there may be a lack of application. Award up to *3 marks* for answers that cover only one method, thoroughly examined in the context of the case study.

Award *5 – 6 marks* if two appropriate methods are examined in the context of the case study. There is appropriate and effective use of business management terminology throughout the answer.

Question 2.6.3 – Deutsche Telekom

(a) A walk-out occurs when workers collectively leave (or walk out of) their place of work as a sign of protest or disapproval of management decisions.
It does not necessarily involve many staff and can happen spontaneously (unplanned). By contrast, strike action is an extreme case of industrial action with workers refusing to work, usually as a result of major industrial unrest such as pay disputes or protests about work hours. Hence, strike action happens on a larger scale (the 11 000 employees who went on strike) and can seriously affect the operations of businesses such as *Deutsche Telekom*.

Award *1 – 2 marks* for a vague definition that shows limited understanding.

Award *3 – 4 marks* for clear definitions of the two terms. For *4 marks*, the answer must show a clear distinction between a walk-out and strike action.

(b) Conflict occurs when stakeholders have a difference in their opinions and this often causes friction and/or arguments within the workplace. At *Deutsche Telekom*, the sources of conflict include:

- Proposed pay cuts - this would clearly upset workers whilst the management team strives to balance remuneration with the need to control the company's costs.
- Increased working hours - this would cause conflict as workers have added pressures placed on them;

there might also be legal issues surrounding changes to employment contracts.

- Power struggle - workers at *Deutsche Telekom* feel that their views are not being heard and that they have little influence over decisions being made by the company.

Award *1 – 2 marks* if the answer is vague and lacks coherence. There is little, if any application to the case study.

Award *3 – 4 marks* if one source of conflict is thoroughly commented on or if two sources of conflict are appropriately commented on. There is correct use of business management terminology throughout the answer and good application to *Deutsche Telekom*.

Question 2.6.4 - Human Rights Watch and Walmart

(a)(i) A non-governmental organization (NGO) is one that is created and owned by private individuals or a business with no direct association with the government. NGOs such as *Human Rights Watch* are not usually funded by the government although they are run for the benefit of others in society.

Award *1 mark* for a vague definition of non-governmental organization (NGO), with some understanding shown.

Award *2 marks* for a clear definition of non-governmental organization (NGO), similar to the example above.

(a)(ii) Corporate social responsibility refers to the moral behaviour of businesses towards their stakeholders, such as their employees and the local community. Examples might include the implementation of fair pay and working conditions for its workers.

Award *1 mark* for a vague definition of corporate social responsibility, with some understanding shown.

Award *2 marks* for a clear definition of corporate social responsibility, similar to the example above.

(b) The independent reports that suggested *Walmart* employees were dissatisfied over the company's perceived lack of corporate social responsibility could cause conflict for several reasons, including:

- The perceived poor pay and working conditions suggests that *Walmart* employees would be displeased.
- Similarly, as there seems to be no union representation for the employees, *Walmart* does not meet the needs of its many employees. This can cause conflict due to the insecurity that is caused.
- The lack of CSR suggests that *Walmart* ignores the interests of the society and does not take responsibility for the impact it has on its various stakeholder groups, e.g. the local communities that rely on Walmart to provide employment would resent the company's lack of CSR.

Award *1 – 2 marks* for a vague answer that lacks detail and/or depth. The answer might appear in an unexplained list-like format.

Award *3 – 4 marks* if there are good explanations of how a (perceived) lack of corporate social responsibility at *Walmart* can cause conflict. Relevant examples are used with appropriate use of business management terminology.

(c) Conflict resolution is the set of actions taken to resolve differences in opinion and disputes in the workplace. It works when each party's interests are addressed, leading to a satisfactory outcome (or a 'win-win' situation) for all sides.

There are several ways that *Walmart* can resolve the conflicts in the company, such as:

- Improve communications between employees and the management - Better communication between employees and management can promote a better understanding of each other's wants and needs, thereby developing their relationship. However, since *Walmart* operates on such a large scale, effective communication can be extremely difficult (and expensive) to accomplish.
- Negotiations - This method allows both parties to address each other's needs, such as pay and working conditions, in order to establish a mutually acceptable outcome. However, if neither party is willing to compromise during the negotiation process, then a win-win outcome will not be reached thereby possibly intensifying the conflict.
- Mediation - This method involves bringing in a third party (the mediator) to act as a middle person between *Walmart* management and the employees. By avoiding face to face confrontation, this method can help to prevent the conflict from escalating. The different viewpoints would be collected separately by the mediator and he/she would recommend a solution for the situation. If both parties agree to this, then the conflict is resolved. However, mediation is cumbersome and bureaucratic, i.e. it tends to be more time consuming than negotiation and effective communication. As a third party is involved, it could also mean that this method is more costly than the other two. In addition, the relationship between management and employee may well weaken as the conflict is not sorted out face to face.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of relevant business management theory.

Award *5 – 6 marks* if there is an examination of various methods that could be used to resolve conflict, although detail and/or application is lacking in some areas. At the top end, there is an attempt at application using the case study.

Award *7 – 8 marks* if there is an examination of various methods that could be used to resolve conflict, with appropriate examples and application from the case study. Relevant examples and business management terminology are used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if a balanced and thorough response is provided regarding conflict resolution. There is effective use of business management terminology throughout the answer. There is clear application to *Walmart*, and evidence of critical and evaluative thinking.

Unit 3.1 Sources of Finance

Question 3.1.1 – Olympic Games 2012

(a) **Revenue expenditure** is spending on the daily running of a business, such as wages and materials used in the preparation for the 2012 Olympic Games.

By contrast, **capital expenditure**, on the other hand, refers to the finance spent on purchasing fixed assets, such as the land, buildings and machinery used in preparation of the Olympic Games in London.

Award *1 – 2 marks* if the terms are defined although they lack some detail/clarity. Examples may be missing.

Award *3 – 4 marks* if both terms are clearly defined and a distinction is made between revenue expenditure and capital expenditure. There is good use of examples, written in the context of the case study.

(b) There are potential benefits to various stakeholders, such as:

- Pre-Olympic Games, firms in the construction and transport industries will be involved in the infrastructure needed to host the Olympic Games, e.g. building an Olympic stadium.
- Huge opportunities exist for job creation and human resource planning. The development and preparation of the Olympic Games will create jobs and wealth in the local community, London and the UK, thereby providing further potential benefits to UK businesses.
- The Olympic Games will attract a huge volume of foreign visitors and tourists to London and the UK, thereby providing many opportunities, e.g. airlines and hotels will tend to benefit from the influx of tourists in London.
- Homeowners near the Olympic Village are likely to benefit from higher property prices due to the necessary improvements in transportation links (Transport for London) and infrastructure in the area.
- The government benefits from increased tax revenue, e.g. higher expenditure taxes from spending in the economy and higher corporate tax revenues from the boost in profits of London and UK-based businesses.
- There are huge marketing opportunities for British multinationals, including advertising agencies and sponsorship deals. Broadcasters and corporate sponsors also enjoy the global attractiveness of the Olympic Games.

Businesses in London are likely to benefit the most, although other stakeholders such as employees and the local community are also likely to benefit. There must be a clear examination of at least two different stakeholder groups to be awarded maximum marks.

Award *1 – 2 marks* for a generalized answer that is descriptive, or lacks substance/relevance (to the case study). The answer might appear in a list-like format.

Award *3 – 4 marks* if there is an analysis of the benefits of hosting the Olympic Games, but the answer might lack detail/depth. Award up to *3 marks* if only one stakeholder group is considered.

Award *5 – 6 marks* if there is a thorough examination of the benefits for various stakeholder groups of the Olympic Games being held in London. There is effective use of business management terminology, written in the context of the case study.

Question 3.1.2 – Agricultural Bank of China *(ABC)*

(a) An Initial Public Offering (IPO) occurs when a company floats its shares on a stock exchange for the very first time. For example, *ABC* floated its shares in both Shanghai and Hong Kong. In doing so, *ABC* became a public limited company.

Award *1 mark* if the definition shows some understanding of 'initial public offering'.

Award *2 marks* if the definition shows a clear understanding of 'initial public offering', similar to the example above.

(b) Reasons why *ABC* might have decided to float its shares on the stock market include the following:

- The main benefit of issuing shares in a company is the potential to raise a huge amount of share capital. In the case of *ABC*, it was able to raise $22.1 billion, significantly improving its cash flow and sources of finance.
- The extra source of finance would allow *ABC* to compete against more established global banks such as Citibank, HSBC, Bank of China and ICBC, especially as it would be able to expand its operations within and beyond China.
- Expansion (funded by the IPO) allows *ABC* to have a greater market presence, thereby enhancing its corporate image.
- In addition, 'going public' allows a business to have the protection of limited liability.

Award *1 – 2 marks* if there is some understanding shown, although the answer might be rather generalized and/or the suggestions may lack substance.

Award *3 – 4 marks* if there is a concise commentary on why *ABC* might have decided to float its shares on the stock market. There is appropriate use of business management terminology throughout the answer.

(c) Investors in the stock market tend to buy for the medium to long term. Given that *ABC* is China's third biggest lender, with over 325 million customers, this may have provided sufficient reason (i.e. a sense of security) for investors to pour money into the company.

With China's rapid and sustained economic growth, confidence levels in China and *ABC* may have led to the influx of investment funds. Presumably, investors felt positive about the profitability of *ABC*. There is, after all, a positive correlation between a firm's profitability and its share price and dividend pay-out.

Award *1 – 2 marks* for a vague answer that lacks detail and/or depth. Only one reason might be provided or there is a lack of application to the case study (students are not required to have in-depth knowledge of the Asian stock market).

Award *3 – 4 marks* if there is a good explanation of why investors might have been keen to buy shares in *ABC*, despite the weak market sentiment in Asian stock markets. There is effective use of business management terminology, and appropriately examples are used

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Question 3.1.3 – Kellett School

(a) Debentures allow Kellett School to finance its capital expenditure for expansion purposes, i.e. construction of the new campus with its improved facilities. The issuing of debentures also enabled school fees to be cut, thereby possibly improving the school's competitiveness in the private education sector.

Award *1 mark* if the definition shows some understanding of debentures.

Award *2 marks* if the definition shows a clear understanding of debentures, similar to the example above.

(b) Debentures allow to finance its capital expenditure for expansion purposes, i.e. construction of the new campus with its improved facilities. The issuing of debentures also enabled school fees to be cut, thereby possibly improving the school's competitiveness in the private education sector.

Award *1 mark* if the answer shows some understanding of why *Kellett School* decided to sell debentures.

Award *2 marks* for a definition that clearly outlines why *Kellett School* decided to sell debentures as a major source of finance.

(c) There seems to be justified reasoning behind *Kellett School's* decision to issue debentures. The capital raised from the debentures is to be reinvested in the school (e.g. auditorium, swimming pool, Astroturf multisport areas, library and state-of-the-art classrooms) to benefit the students.

Other possible reasons include:

- Parents are compensated, to some extent, by the reduction in school fees (which could perhaps increase parental goodwill and support).
- It is an equitable system as parents with more than one child at the school get a 'discount' on the purchase of their debentures.
- Perhaps the opportunity cost is for parents to save this money in their bank accounts, but this does not have any direct benefit to their children.

Award *1 – 2 marks* for a vague answer that shows a limited understanding of why parents might agree to buy the debentures.

Award *3 - 4 marks* if a clear level of understanding is shown with a good explanation of why most parents might agree to purchase the debentures. Appropriate application is shown.

(d) Potential drawbacks for a school that chooses to raise finance through the sale of debentures include the following:

- There may be conflict and resistance from the parents; HK$10m (US$1.29m) is a lot of money!), especially those from less affluent backgrounds.
- There could be negative publicity as *Kellett School* might be seen to be acting in unethically; the debenture fee could be seen as excessive given that other schools such as Harrow International School charge significantly lower fees.
- Schools are not necessarily able to generate a surplus (in the same way as profit-seeking organizations) to pay interest to debenture holders.
- Issuing debentures will lead to an increase in *Kellett School's* level of gearing, possibly affecting its working capital unfavourably.

Award *1 – 2 marks* if the answer explains one drawback in detail or two drawbacks are outlined but lacking in detail. Appropriate examples/application might be missing.

Award *3 – 4 marks* for an answer that clearly explains two potential drawbacks to a school that chooses to raise finance through the sale of debentures. Appropriate business management terminology and examples related to the case study are used effectively.

(e) Alternative sources of finance that *Kellett School* could have used might include:

- Mortgage or bank loans (e.g. business development loans)
- Donations from parents, the local community, alumni and the business community
- Selling dormant assets, e.g. sale of land at the old campus
- Fund-raising events, e.g. school fair (fete or carnival).

It is debatable whether theses alternative methods would raise the HK$200m (US$25.8m) needed for the new campus.

Award *1 – 2 marks* for a generalized answer that is descriptive or lacks substance.

Award *3 – 4 marks* if there is an examination of two alternative sources of finance that *Kellett School* could have used, although the response lacks detail and/or application.

Award *5 – 6 marks* if there is a clear examination two alternative sources of finance that the school could have used. Relevant examples are used in the context of *Kellett School,* with effective use of business management terminology throughout the answer.

Question 3.1.4 – Bradylee Diamonds

(a) Debt factoring is a financial service whereby a financier (such as a commercial bank) collects debts on behalf of other businesses in return for a fee. For example, a debt factor might take on the $180,000 owed to *Bradylee Diamonds*, for which it charges 20% fee of the debt.

Award *1 mark* if the definition shows some understanding of debt factoring.

Award *2 marks* if the definition shows a clear understanding of debt factoring, similar to the example above.

(b) 80% of $180,000 = 0.8 × $180,000 = $144,000
This is $4,000 more than the forecast cash flow deficit
Hence the cash flow problem should be (just) solved.

Award up to *2 marks* for the calculation (apply rule of 'error carried forward' as appropriate) and up to a further *2 marks* for the explanation.

Question 3.1.5 – Wizz Air

(a) Sale-and-leaseback is a source of external finance. It involves a business such as *Wizz Air* selling fixed assets, such as commercial aircraft (to raise finance) and immediately leasing these back. In essence, the airline transfers ownership of the assets (in this case to *Chinese CDB Leasing Co.*) although they does not physically leave the business.

Award *1 mark* if the definition shows some understanding of sale-and-leaseback.

Award *2 marks* if the definition shows a clear understanding of sale-and-leaseback, similar to the example above.

(b) There are several advantages of leasing for businesses such as *Chinese CDB Leasing Co*. For example, leasing provides an extra revenue stream for *Chinese CDB Leasing Co*. as the lessee (*Wizz Air*) pays rental income to hire the assets.

As *Wizz Air* is in need of raising cash, this creates an opportunity for *Chinese CDB Leasing Co*. to acquire these assets (in this case, the six Airbus A320 aircraft) at a competitive price ($549 million).

Award *1 – 2 marks* for a vague answer that lacks detail and/or depth. There may be little, if any, application to *Wizz Air*. Award *1 mark* for an unexplained list of advantages.

Award *3 – 4 marks* if there are good explanations of two advantages of leasing assets to established organizations such as *Wizz Air*. Appropriate examples are used and there is relevant application.

Question 3.1.6 - MG Rover

(a) An acquisition (or a takeover) occurs when a company buys a controlling interest in another firm, i.e. it buys enough shares in the target business to hold a majority stake.

Award *1 mark* if the definition shows some understanding of acquisition.

Award *2 marks* if the definition shows a clear understanding of acquisition, similar to the example above.

(b) Business angels are private individuals who invest their own money in business ventures that offer potentially high returns. The *Phoenix Four* 'rescued' MG Rover by putting in £60,000 each after having bought the company from previous owners BMW with the expectation that MG Rover would reap them a reward.

Award *1 mark* if the description shows some understanding of business angels.

Award *2 marks* if the description shows a clear understanding of why the *Phoenix Four* might be classed as business angels, with appropriate application to MG Rover.

(c) Drawbacks or dangers of using business angels include:

- Lack of experience in the field, i.e. the *Phoenix Four* were not familiar with the motor manufacturing industry. This can therefore lead to gross mismanagement of the organization.
- Conflict of interest - it is stated that the *Phoenix Four* gave themselves 'extravagant financial rewards'.
- As business angels, the *Phoenix Four* may not have had their hearts truly in the business. Business angels tend not to make follow-on or continual investments in the same firm.

Award *1 – 2 marks* if the answer explains one drawback in detail or if two drawbacks are vaguely outlined. Appropriate examples/application might be missing.

Award *3 – 4 marks* for clearly explaining the dangers outlined in the article concerning the use of business angels. Appropriate terminology and examples related to the case study are used.

(d) External sources of finance are those that are obtained from outside the organization, e.g. overdrafts, bank loans and debentures. The profitability of a business is likely to have a huge impact on its ability to raise external finance because:

- Banks and other creditors tend not to lend to high risk customers with a low credit rating, i.e. those that are unlikely to be able to repay their debts
- Similarly, debt factoring service providers are unlikely to take on clients with poor credit ratings
- By contrast, firms with high profitability have collateral (security) to offer to lenders in case they default on their loans

- Trade creditors are more likely to grant preferential credit terms to clients with a good record of profitability
- Shareholders tend not to hold onto shares of companies that have low profitability, and this indirectly affects the firm's ability to raise finance through external methods
- Highly profitable firms can also enjoy financial economies of scale, i.e. borrowing more and at a relatively lower rate of interest.

Award *1 – 2 marks* if the answer is generalised and is descriptive. It lacks substance, although there is limited understanding shown.

Award *3 – 4 marks* if there is some analysis of how the profitability of a firm affects its ability to obtain external sources of finance, although the answer is not fully substantiated.

Award *5 – 6 marks* if there is thorough analysis of how the profitability of a firm such as MG Rover affects its ability to obtain external sources of finance. Appropriate business management terminology has been used and there is effective application.

Unit 3.2 Costs and Revenues

Question 3.2.1 – Airline costs

(a)

- Advertising and promotions = Fixed cost
- Airport charges = Fixed cost
- Fuel = Variable cost
- Meals and drinks onboard = Variable cost
- Remuneration of administrative staff = Fixed cost
- Remuneration of pilots and flight attendants = Variable cost.

Award *1 mark* if no more than two costs are correctly identified.

Award *2 marks* if four or five costs are correctly identified.

Award *3 marks* if all six costs are correctly identified.

(b) A direct cost is specifically related to a particular flight. For a flight on a no-frills airline carrier, the catering costs are considered to be direct costs. Without the flight, these costs would not be incurred. By contrast, indirect costs have to be paid, irrespective of whether the flight takes place, e.g. the airline's stationary and photocopying costs, rents paid to the airport authorities, advertising costs, and contributions towards employee pension schemes. These costs are not directly linked to a particular flight.

Award *1 – 2 marks* if the two terms are outlined although the answer lacks some detail/clarity. Examples might also be missing.

Award *3 – 4 marks* if both terms are clearly understood and a distinction is made. There is good use of examples and proficient application of business management terminology.

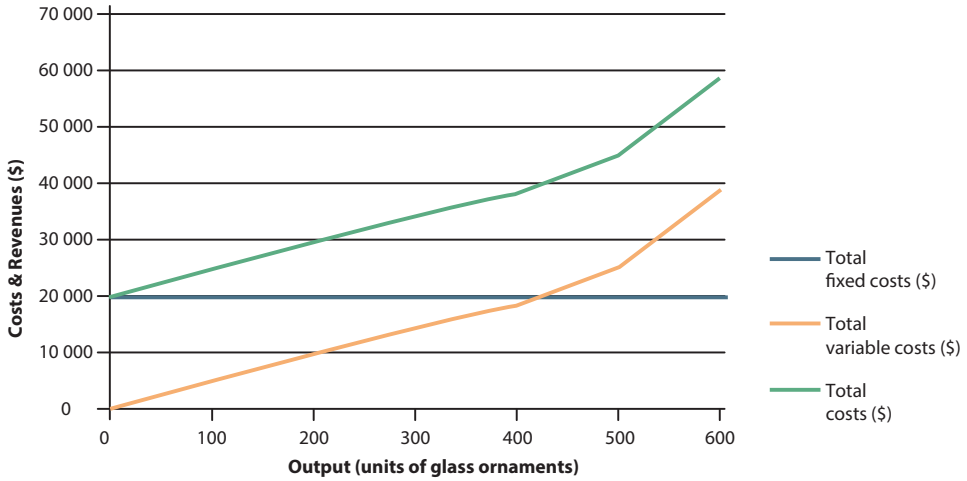
Question 3.2.2 – Calculating business costs

(a) Costs of producing fine glass ornaments:

Output (Units)	Total fixed costs ($)	Total variable costs ($)	Total costs ($)	Average costs ($)
0	20 000	0	20 000	-
100	20 000	5 000	25 000	250.0
200	20,000	10 000	30 000	150.0
300	20,000	14 500	34 500	115.0
400	20,000	18 000	38 000	95.0
500	20,000	25 000	45 000	90.0
600	20,000	38 200	58 200	97.0

Deduct *1 mark* for each error, but apply the Own Figure Rule (error carried forward) where appropriate.

(b) See graph below



Award *1 mark* for accurately scaling and labeling the x-axis and y-axis, e.g. 'Costs and revenues ($)' and 'Output – units of glass ornaments'.

Award a further *1 mark* each for correctly drawing and labeling the total costs, fixed costs and total variable cost curves, up to *3 marks*.

(c) Reasons for the shape of the cost curves:

- Fixed costs line - TFC remain the same irrespective of the output level, e.g. rent and overhead costs. Hence, the shape of the fixed costs line is horizontal, intersecting the y-axis at $20,000.
- Total variable costs line - Variable costs increase with the level of output, e.g. glass to make the ornaments. It costs $5,000 to make 100 units and $10,000 to make 1000 units so the more that is produced the higher the variable costs. Hence, the shape of the line is upwards sloping.
- Total costs line - Total costs are the sum of fixed and variable costs. Hence, if nothing is produced, the firm still has to pay its fixed costs. Therefore, the TC line starts at the same level as TFC, i.e. $20,000. It is parallel to the TVC line because the vertical distance between TC and TVC at each output level is the TFC.

Award up to *2 marks* for explaining the shape of each cost curve, up to *6 marks*.

Question 3.2.3 - Big Bao

(a) Sales volume refers to the units of a product that a business sells, per time period. *Big Bao* sold 31,790 units of its lunchtime snacks during 2019.

Award *1 mark* for a vague answer that shows some understanding of the term sales volume.

Award *2 marks* for an answer that shows a clear understanding of the term sales volume, similar to the example above.

(b)

- Let x = sales in 2018
- $x1.1 = 31{,}790$
- Hence, $x = 28{,}900$ units
- Sales revenue (or value of sales) in 2018 = 28,900 × \$6.50 = **\$187,850**

Award *1 mark* for a correct answer without any working out shown.

Award *2 marks* for the correct answer with the working out shown.

Question 3.2.4 – Goff's Organic Fresh Fruits *(GOFF)*

(a) A wholesale market is a marketplace where firms purchase large quantities of products (fruits and vegetables in this case) from a producer (farmers in this case) and then separate or break their bulk purchases into smaller units for resale to retailers such as GOFF.

Award *1 mark* if there is some understanding of wholesale market, although the answer might lack clarity.

Award *2 marks* if wholesale market is clearly defined, similar to the example above.

(b) Two other indirect costs not mentioned in the case study could include:

- Insurance for Ian Goff's vehicle
- Advertising costs
- Rates (tax) to the government for the running of his business
- Fees for professional services, e.g. accountancy or solicitor's fees
- Utility bills for the store.

Award *1 – 2 marks* if the answer outlines in detail one other indirect cost that might have to be paid or if two advantages are vaguely outlined. Appropriate examples/application might be missing.

Award *3 – 4 marks* for clearly outlining two other indirect costs that GOFF might have to pay. Appropriate business management terminology and examples related to the case study are used effectively.

(c)

Cost	=	\$0.8 × 50kg = \$40
Revenue	=	\$1.2 × 50kg = \$60
Profit	=	(\$1.2 – 0.8) × 50kg = \$20

Award *1 mark* for a correct answer without any working out shown.

Award *2 marks* for the correct answer and impartial working out shown.

Award *3 marks* for the correct answer with full working out shown.

(d) (80kg × \$2.00) + (20kg × \$1.50) = \$190

Award *1 mark* for a correct answer without any working out shown.

Award *2 marks* for the correct answer with the working out shown.

Question 3.2.5 – Manchester United Football Club *(MUFC)*

(a) Revenue stream can be defined the money coming into a business from its various activities and operations, e.g. sales revenues, sponsorship deals, merchandise, membership fees and royalties.

Award *1 mark* if the explanation shows some understanding of revenue stream although the answer lacks clarity and/or relevant examples.

Award *2 marks* if the explanation shows a clear understanding of revenue stream, similar to the example above.

(b) Adidas and Pepsi might want to sponsor a club such as *MUFC* due to several reasons, such as:

- The huge amount of publicity that sponsors would enjoy; each time *MUFC* plays competitively, their sponsor's logo is being marketed.
- A large sports club, such as *MUFC* valued at over \$3 billion, would help Adidas and Pepsi to get international brand exposure, with its many football supporters from around the world.
- Sponsors may have exclusive marketing rights, e.g. to advertise during live football matches.
- The sponsors might be associated with an image of health and fitness, following its association with football and *MUFC*.
- Through sponsorship deals, Adidas and Pepsi may gain greater brand recognition, brand awareness and possibly brand loyalty.
- Sponsorship of well-known clubs or organizations such as *MUFC* can be a very cost-effective marketing tool.

Award *1 – 2 marks* for a vague answer that lacks detail and/or depth. There is a lack of application to the case study.

Award *3 – 4 marks* if there is a good explanation of why the likes of Adidas and Pepsi might want to sponsor a large football club such as MUFC. There is effective use of business management terminology and relevant examples are applied.

(c) Although the sponsorship deal with Mansion was financially more attractive to *MUFC* back in 2006, the management team clearly felt that non-financial factors needed to be considered before agreeing on a new sponsorship deal.

Had *MUFC* opted for the Mansion deal, there would have been an extra \$21.5m worth of funds. However, it is likely that the management team at MUFC did not want to be associated with a sponsor involved in gambling. This is especially important since a significant segment of its fan base is young children, resulting in a decline in the sales of its football outfits and other merchandise resulting from the negative perception associated with gambling and unethical business behaviour. *MUFC*, therefore, may have been acting in accordance with its policy on corporate social responsibility.

The bottom line is the management did not feel the extra \$21.5m was worth the risk in upsetting the Club's reputation amongst its key stakeholders and fan base.

Award *1 – 2 marks* for a generalised answer that is descriptive or lacks substance. There is some understanding shown.

Award *3 – 4 marks* if there is some examination of whether the management at *MUFC* was correct to select AIG as its sponsor, although the answer might lack depth and appropriate application. There is limited, if any, justification given to support the arguments presented.

Award *5 – 6 marks* if there is a thorough assessment of whether the senior management at *MUFC* was correct to select AIG as its sponsor despite the larger offer from Mansion, with appropriate use of examples and business management terminology. There is justification given to the arguments presented, with effective reference to the case study.

Unit 3.3 Break-even Analysis

Question 3.3.1 - Graham Go-Karts!

(a) BEQ = \$20,000 ÷ (\$35 – \$10) = 8,00 rides per month

Award *1 mark* for the correct answer without any working out shown.
Award *2 marks* for the correct answer with full working out shown.

(b) Total revenue = \$35 × 800 = \$280,00

Award *1 mark* for a correct answer without any working out shown. Apply the own figure rule (error carried forward) as necessary.
Award *2 marks* for the correct answer with the working out shown. Apply the own figure rule (error carried forward) as necessary.

(c) Total costs = Total fixed costs + Total variable costs
\$20,000 + (\$10 × 8,00) = \$280,00

Award *1 mark* for a correct answer without any working out shown. Apply the own figure rule (error carried forward) as necessary.
Award *2 marks* for the correct answer with the working out shown. Apply the own figure rule (error carried forward) as necessary.

(d) Profit = Total contribution – Total fixed costs
Profit = [(\$35 – \$10) × 855] – \$20,000 = \$1,375

Award *1 mark* for a correct answer without any working out shown.
Award *2 marks* for the correct answer with the working out shown. Apply the own figure rule (error carried forward) as necessary.

Question 3.3.2 – Tread-it and Play-it (Calculating the margin of safety)

(a)

(i) 500 + 300 = 800 units
(ii) 500 – 250 = 250 units
(iii) (300 ÷ 500) × 100 = 60%

Award 1 mark for calculating each correct answer, , up to the maximum of 3 marks.

(b) *Tread-it* has the better margin of safety (MOS) than *Play-it* when measured as a percentage of the break-even quantity, i.e. 100% and 60% respectively. However, *Play-it* has the better MOS in absolute terms, i.e. 300 units rather than 250 units. Nevertheless, it tends to be better to use the first method (the percentage above the BEQ) for comparisons across different industries (hiking shoes and children's wooden toys).

Award up to *2 marks* for the definition and explanation of the margin of safety. Award up to a further *2 marks* for an answer that demonstrates a clear understanding of why *Tread-it* has the better margin of safety or for explanation why the answer depends on the method chosen to measure the MOS.

Question 3.3.3

(a) Total fixed costs = $1,840 (Rent, Salaries, Administration and Utility bills).

Award *1 mark* for the correct answer without any working out shown.

Award *2 marks* for the correct answer with the correct working out shown.

(b) BEQ = $1,840 ÷ ($20 – $4) = 115 child places

Award *1 mark* for the correct answer without any working out shown.

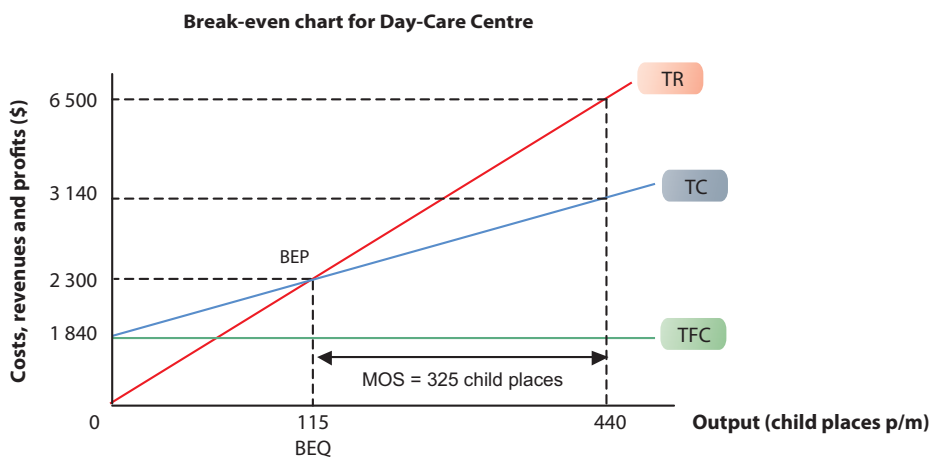
Award *2 marks* for the correct answer with the correct working out shown.

(c) Daily demand = 80% of capacity = 25 × 0.8 = 20 child places per day
Monthly demand = 20 children × 22 days = 440
Safety margin = 440 – 115 = 325 child places (or a very attractive 282%)

Award *1 mark* for the correct margin of safety, but working out is not shown or is inaccurate.

Award *2 marks* for the correct answer with the correct working out shown.

(d) Graph: value of TR (and TC) at BEQ = $20 × 115 = $2,300.



Award *1 mark* for each of the following that is accurately drawn/labeled: Title; Axis labels; TR line; TC line and scaling (of y-axis and x-axis).

e) See above graph for Break-even point, Margin of safety and Break-even level of output.

Award *1 mark* for each item that is correctly identified on the break-even chart, up to the maximum of *3 marks*.

(f) Strengths (application needed) might include:

- It is quick to construct and easy to understand, especially for one product businesses such as *TMR Day-Care Centre*.
- As a management decision-making tool, BEA can be used to study the impact of changes in the price (per child, per day), fixed costs and/or variable costs.
- It can be useful when *TMR Day-Care Centre* needs to seek external finance, perhaps for expansion reasons, especially as it has a high MOS.

Weaknesses (application needed) might include:

- Fixed costs do not necessarily remain constant, e.g. rent and salaries may increase, thus distorting findings from the break-even analysis.
- Average costs are unlikely to be constant due to economies of scale, e.g. materials costs per child might not remain at $4 with more children at the day-care centre.
- Thuy and Mark Rees might consider changing the price to entice greater demand, i.e. it does not necessarily remain constant.
- Cost and revenue figures are based on estimates which may not prove to be accurate.
- Break-even analysis is a static model so the results are of limited use.

Award *1 – 2 marks* for a generalized answer that lacks detail or is presented in a list-like format.

Award *3 – 4 marks* for an examination of the strengths and weaknesses of break-even analysis. The answer might lack clarity and/or appropriate application. Award a maximum of *3 marks* for an unbalanced answer, i.e. the answer does not account for both strengths and weaknesses of using break-even analysis.

Award *5 – 6 marks* for a thorough examination of the strengths and weaknesses of using break-even analysis for businesses such as *TMR Day-Care Centre*. There is effective use of relevant business management terminology.

Question 3.3.4 – Creighton Tours

(a) Fixed costs are the costs that do not vary with the level of output. They exist even if there is no output, e.g. the cost of rent, management salaries and interest repayments on bank loans.

Award *1 mark* for a vague answer that shows some understanding of the term fixed costs.

Award *2 marks* for an answer that shows a clear understanding of the term fixed costs, similar to the example above.

(b) Target price = (x - 120)60 – 3,500 = $2,500
Hence, target price = $220

Award *1 mark* for the correct answer without any working out shown.

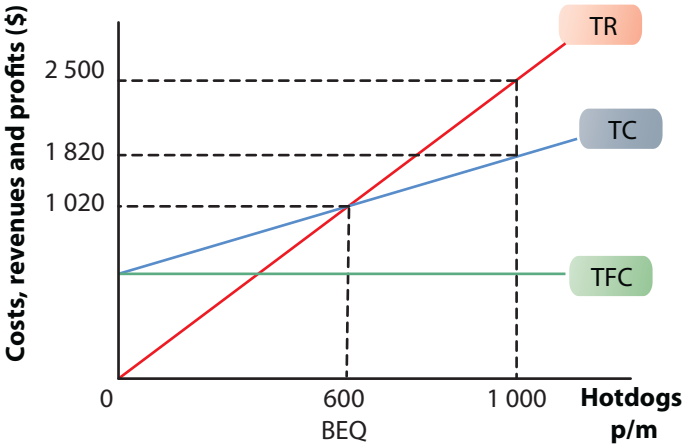
Award *2 marks* for the correct answer with full working out shown.

Question 3.3.5 – RT's Hotdogs

(a) Award *1 mark* for each of the following:

- Sales revenue line drawn and labeled accurately and correctly
- Fixed cost line (at $1,020) drawn and labeled accurately correctly
- Total costs line (starting at $1,020) drawn and labeled accurately and correctly
- Intersection of the sales revenue line with the total costs line at **600 units**
- Clearly showing on the *x*-axis that the BEQ = 600 hotdogs p/m.

Break-even chart for RT's Hotdogs



(b) Rent increases by 50% = 200 × 1.5 = $300

Hence, the revised fixed costs = $300 + $500 + $320 = **$1,120**
A new fixed cost line should therefore be plotted.

The new BEQ is therefore: $1,120 / ($2.5 – $0.8) = **659** hotdogs p/m
This should be shown on the break even chart.

Daily sales increase by 70% = 200 × 0.7 = 140 hotdogs sold, i.e. Rhys Thomas sells an extra 30 hotdogs each day. Therefore the difference between revenues and costs is greater, i.e. RT's Hotdogs makes more profit.

For maximum marks, the answer must: show all working out (*1 mark*), show the effect of higher costs on the fixed costs (*1 mark*) and the subsequent impact on BEQ (*1 mark*). There should also be a brief commentary (*2 marks*) of the change (reduction) in BEQ.

Question 3.3.6 – Mendoza Taxi Services

(a) BEQ = 6 400 ÷ (330 – 130) = 32 taxi journeys.

Award *1 mark* for the correct answer without any working out shown.

Award *2 marks* for the correct answer with the correct working out shown.

(b) MOS = 66 – 32 = 34 taxi journeys (i.e. 106% greater than its BEQ).

Award *1 mark* for the correct answer without any working out shown.

Award *2 marks* for the correct answer with the correct working out shown.

(c)
Profit = Total contribution – Total Fixed Costs
Profit = [(330 – 130) x 66] – 6,400
= 13,200 – 6,400
= 6,800 peso per month
= 81,600 pesos per year

Award *1 mark* for the correct answer without any working out shown.

Award *2 marks* for the correct answer with partial working out shown.

Award *3 marks* for the correct answer with the correct working out shown.

(d) Target profit = 8,000 per month
TR – TC = 8,000 per month
66P – [6,400 + (130 x 66)] = 8,000
66P – (6,400 + 8,580) = 8,000
66P – 14,980 = 8,000
66P = 22,980
P = 348.18 peso per taxi journey

Check:

- TR = 66 x 348.18 = 22,980 pesos
- TC = 6,400 + (66 x 130) = 14,980 pesos
- Profit = 22,980 – 14,980 = 8,000 pesos (the target profit)

Award *1 mark* for the correct answer without any working out shown. Accept answers that round down to 348 pesos or up to 350 pesos.

Award *2 marks* for the correct answer, with the correct working out shown.

Question 3.3.7 – Eleanor Art Studio.

(a) BEQ = ¥3,000 ÷ (¥20 – ¥5) = 200 customers per month
Note: ¥ = yuan

Award *1 mark* for the correct answer, but working out is not shown or is inaccurate.

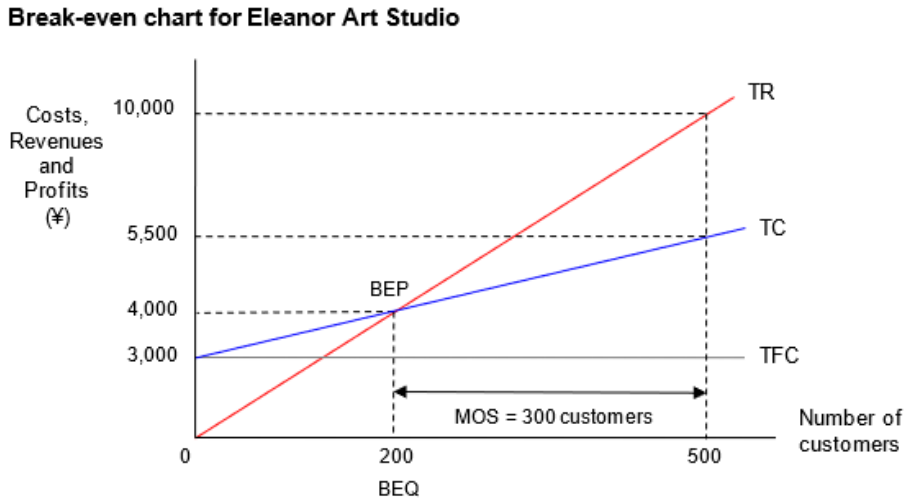
Award *2 marks* for the correct answer, with the correct working out shown.

(b) The margin of safety = 500 – 200 = 300 customers

Award *1 mark* for the correct answer, but working out is not shown or is inaccurate.

Award *2 marks* for the correct answer, with the correct working out shown.

(c) Graph



Award *1 mark* for each of the following that is accurately drawn/labeled:

- Title
- Axis labels
- TR line
- TC line and
- TFC line

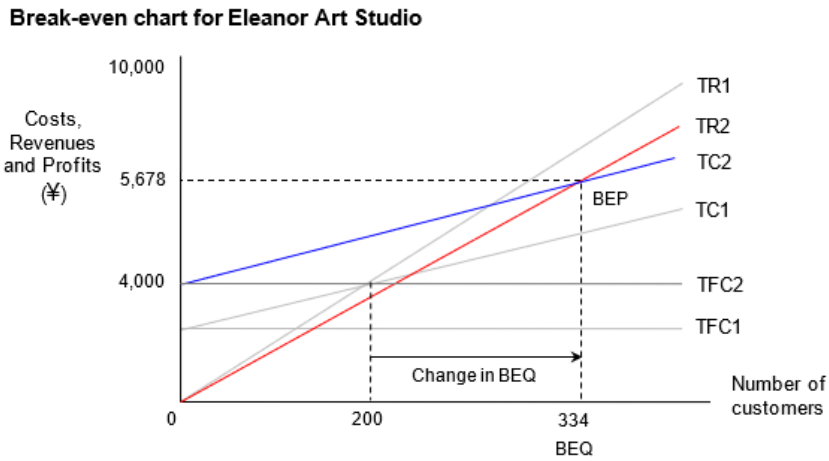
up to the maximum of *5 marks*.

(d) New break-even = ¥4,000 ÷ (¥17 – ¥5) = 334 customers
This means the BEQ has increased by 67%.

Award *1 – 2 marks* for correctly calculating the new break-even quantity, with working out shown. There is no comment made about the change in the BEQ.

Award *3 – 4 marks* for correctly calculating the new break-even quantity, with the correct working out shown. There is an appropriate comment made about the change in the BEQ.

(e) Graph. The MOS must be shown on the diagram for the *1 mark*



(f) Explanation that this was a poor decision because the change in profit = ¥4,500 – ¥2,240 = a loss of ¥2,260 by reducing price, brought about by the 67% increase in the break-even quantity.

Award *1 – 2 marks* if the explanation is incomplete and/or vague. The answer might lack the application of numerical data from the case study.

Award *3 – 4 marks* if the explanation is thorough and there is good use of numerical data from the case study.

Question 3.3.8 – Airbus A380

(a) Break-even quantity refers to the level of output that generates neither profit nor loss. The BEQ is shown on the x-axis on a break-even chart.

Award *1 mark* for a vague answer that shows some understanding of the term break-even quantity.

Award *2 marks* for an answer that shows a clear understanding of the term break-even quantity, similar to the example above.

(b) Revised MOS = 750 – 420 = 330 aircraft

Award *1 mark* for the correct answer, but the working out is not shown or is inaccurate.

Award *2 marks* for the correct calculation, with full working out shown.

(c) The previous MOS = 750 – 270 = 480 aircraft. The answer should explain that a lower MOS leads to lower levels of profit and therefore exposes *Airbus* to further risks.

Award *1 – 2 marks* if there is some understanding of how the change in the margin of safety will affect *Airbus*. The commentary might lack clear application to the case study or be presented in a list-like format.

Award *3 – 4 marks* for an applied commentary that demonstrates a clear understanding of how the change in the MOS will affect *Airbus*. Relevant examples and appropriate business management terminology have been used.

(d) Delays can harm relations with the customers of *Airbus*, such as Singapore Airlines and Emirates Airline. Higher production costs are likely to reduce profits for *Airbus* as demand (tends to) falls and customers may switch to rival aircraft maker Boeing. Production delays might also negatively affect the company's reputation and corporate image, further damaging the profits of *Airbus*.

Award *1 – 2 marks* if there is limited understanding of the demands of the question. The answer might be presented in a list-like format.

Award *3 – 4 marks* if there is some understanding of how delays and/or soaring production costs might affect profits. At the lower end, the commentary might lack clear application to the case study.

Award *5 – 6 marks* for an applied commentary that demonstrates a clear understanding of how the delays <u>and</u> soaring production costs might affect the profits of *Airbus*. Relevant examples and business management terminology have been used effectively throughout the answer.

(e) The answer should consider both the advantages and disadvantages of BEA for *Airbus*, with evaluation of its value/usefulness. Selling a single product (the A380) might make BEA highly suitable for such a large and expensive project. Break-even analysis is likely to be a short-lived tool for the *Airbus* A380 project; once the firm reaches break-even, the management tool no longer proves as useful to the organization for this specific product.

Award *1 – 2 marks* for a vague or bullet-pointed answer that shows limited understanding.

Award *3 – 4 marks* for an unbalanced answer that lacks depth/clarity. At the top end, appropriate application has been attempted.

Award *5 – 6 marks* for a thorough discussion of the value of break-even analysis as a management tool for businesses such as *Airbus*. There is reference to the stimulus material with relevant business management terminology and examples used. For maximum marks, there is evidence of critical thinking, such as the acknowledgement of other management tools that are likely to be of value to *Airbus*.

Unit 3.4 Final Accounts

Question 3.4.1 - Nestlé

(a) The stock exchange is the marketplace where stocks and shares of public limited companies (PLCs) can be bought and sold. Nestlé's shares can be bought and sold on the Swiss stock exchange.

Award *1 mark* for a vague answer that shows some understanding of the term stock exchange.

Award *2 marks* for an answer that shows a clear understanding of the term stock exchange, similar to the example above.

(b) Stakeholder groups of Nestlé include:

- Shareholders (Nestlé is a listed company on the Swiss Stock Exchange).
- Competitors, e.g. Mars and Cadbury's.
- Employees who work for Nestlé.
- Managers who run the business on a daily basis.
- Customers of Nestlé's large range of products.
- Governments (Nestlé is a large multinational company).

Award *1 mark* for each relevant stakeholder group identified, up to *2 marks*.

(c) The examination must stem from the stakeholder groups identified in part (b) of the question. For example:

- Shareholders - interested in assessing the financial health and the profitability of *Nestlé*.
- Competitors - interested in benchmarking financial data with *Nestlé*, which can help with strategic decision-making, e.g. changes to *Nestlé's* marketing strategies.
- Managers - use final accounts to judge the operational efficiency of *Nestlé*, enabling them to set new targets for strategic planning.

Award *1 – 2 marks* if the answer is generic with little, if any, application to *Nestlé*.

Award *3 – 4 marks* if the answer is sound, although it might lack depth in some areas. Award up to *3 marks* if only one stakeholder group is examined.

Award *5 – 6 marks* if there is a thorough examination of the importance of final accounts to two stakeholder groups of *Nestlé*. There is effective use of appropriate business management terminology throughout the answer.

Question 3.4.2 – Clockworks Ltd

(a) Closing stock is the value of a firm's stocks at the end of a trading period. The value is equal to that of the opening stock minus the value of costs of goods sold (COGS) in a given trading period.

Award *1 mark* for a vague definition of closing stock.

Award *2 marks* if the concept of closing stock is clearly defined with appropriate use of business management terminology.

(b) Trading account for *Clockworks Ltd.*, year ended 31 March 2019

	$	$
Sales ($35 × 3,000)		105,000
Cost of Goods Sold:		
Opening stock	15,000	
Plus Purchases	50,000	
Less Closing Stock	20,000	
		45,000
Gross Profit		60,000

Question 3.4.3 – Masks-R-Us Ltd

(a) P&L account for *Masks-R-Us Ltd.* for the period ended 31st August

	$	$
Sales revenue ($10 × 14,000)		140,000
Cost of Goods Sold:		
Opening stock	10,000	
Plus Purchases	35,000	
Less Closing Stock	12,000	
		33,000
Gross Profit		107,000
Less Overhead expenses		17,000
Net profit before interest and tax		90,000
Less interest		57,000
Net profit before tax		85,000
Less tax		12,750
Net profit after interest and tax		72,250

Deduct *1 mark* for each error, applying the Own Figure Rule (error carried forward). Award *1 mark* for an appropriate title.

(b) Interpretations from the P&L could include:

- Gross profit is healthy as it represents over 76% of sales revenues.
- Net profit (before interest and tax) is also healthy, at over 64% of sales revenue, because overheads are insignificant.
- However, as the P&L account is only a snapshot of the position of *Masks-R-Us Ltd.*, no strong conclusions can be made.
- Also, net profit after interest and tax is only 51.6%, suggesting that overall costs and expenses account for 48.4% of *Masks-R-Us Ltd.'s* sales revenues.
- To make a proper judgment of the financial position, the cash flow statement, cash flow forecast and balance sheet should also be used.
- In addition, there is a need to benchmark the data, i.e. historical and inter-firm comparisons.
- Other issues could include consideration of:
    - The state of the economy
    - The aims and objectives of *Masks-R-Us Ltd.*
    - Qualitative factors that can influence financial performance, e.g. level of staff motivation and degree of employee loyalty at *Masks-R-Us Ltd.*
    - Accept any other valid discussion point, written in the context of the case study.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of management theory.

Award *5 – 6 marks* if an unbalanced (one-sided) answer is provided regarding whether the financial performance of *Masks-R-Us Ltd.* can be judged solely on quantitative information, although the answer lacks detail in certain areas. At the top end, there is an attempt at application using the numerical data in the case study.

Award *7 – 8 marks* if a balanced response is provided regarding whether the financial performance of *Masks-R-Us Ltd.* can be judged solely on quantitative information. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if a balanced and thorough response is provided regarding whether the financial performance of *Masks-R-Us Ltd.* can be judged solely on quantitative information. There is effective use of business management terminology throughout the answer. There is clear application of the numerical data and evidence of critical and evaluative thinking.

Question 3.4.4 – TOYS

(a) Profit & Loss Accounts for TOYS., for years ended 31st December

	Year 1 ($'000)	Year 2 ($'000)	% change
Sales	450	**500**	11.1%
Cost of sales	**180**	200	11.1%
Gross Profit	270	300	11.1%
Expenses	90	100	11.1%
Net profit before interest and tax	180	**200**	11.1%
Interest Payable	0	10	
Taxation	**45**	48	6.6%
Net profit after interest and tax	135	142	5.2%
Dividends	15	10	(33.3%)
Retained Profit	**120**	132	10%

Missing figures (answers) are in bold: award *1 mark* per correct answer, up to the maximum of *5 marks*.

(b) Shareholders of *TOYS* may be pleased with the performance of the company because:

- Gross profit and Net profit (after interest and tax) have both increased, by 11.1% and 5.2% respectively.
- Retained profit, an important source of internal finance, has increased by 10%.
- The amount paid in taxation has only increased by 6.6% despite sales and gross profits increasing by 11.1%.

However, shareholders of *TOYS* might also have some reservations about the performance of the business because:

- Despite sales revenues increasing by 11.1%, the cost of sales also increased by the same amount, i.e. there were no economies of scale.
- Dividends now represent only 10% of profit after tax (compared to 15% in the first year) -a drop of 33% being paid out to shareholders.
- *TOYS* has incurred $10,000 of debt interest; this has limited the growth in net profit before interest and tax to only 5.2% despite the gross profit having risen by 11.1%.
- The gross profit margin (GPM) has stayed at 60% despite the higher sales revenue.
- The net profit margin (NPM) has also remained the same at 40% despite the growth of the firm.
- The percentage increase in tax paid (6.6%) is greater than the percentage increase in net profits after interest and tax (5.2%).

In addition, shareholders would most probably want to consider qualitative (non-financial) factors too in their judgment of the firm's performance, e.g. the state of the economy or the extent to which *TOYS* reached its corporate objectives. They might also want to benchmark the financial data with the company's main rivals to judge its performance.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of management theory.

Award *5 – 6 marks* if an unbalanced (one-sided) answer is provided regarding whether the owners of *TOYS* would be pleased with the performance of the company, although the answer lacks detail in certain areas. At the top end, there is an attempt at application using the numerical data in the case study.

Award *7 – 8 marks* if a balanced response is provided regarding whether the owners of *TOYS* would be pleased with the performance of the company. The discussion is likely to consider non-financial factors. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if a balanced and thorough response is provided regarding whether the owners of *TOYS* would be pleased with the performance of the company. The discussion is likely to consider non-financial factors. There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking.

Question 3.4.5 – Marc Brothers Motor Repairs

(a) A balance sheet is part of firm's final accounts, which contains financial information on the organization's assets, liabilities and the capital invested by the owners on one specific day, thus showing a 'snapshot' the firm's financial situation.

Award *1 mark* for a vague answer that shows some understanding of the term balance sheet.

Award *2 marks* for an answer that shows a clear understanding of the term balance sheet, with appropriate use of business management terminology, similar to the example above.

(a) Balance sheet for *Marc Brothers Motor Repairs* as at 31st March

	$	$
Fixed assets		
Property	630,000	
Machinery and vehicles	230,000	
Less Depreciation	144,000	
		716,000
Current assets		
Stock	30,000	
Cash	12,000	
Debtors	16,000	
	58,000	
Current liabilities		
Overdraft	13,000	
Net current assets		45,000
Total assets less current liabilities		761,000
Loan capital (debt)	380,000	
Net assets		**381,000**
Financed by:		
Share capital	300,000	
Accumulated retained profit	81,000	
Equity		**381,000**

Question3.4.6 – Bajaj Electronics

(a) Examples of fixed assets: premises, equipment and machinery.
Examples of stock: computer equipment and computer accessories.

Award *1 mark* for each correct answer identified, up to *2 marks*.

(b) Balance sheet for *Bajaj Electronics* for years ended 31st December

	2019 $'000	2018 $'000
Fixed assets	250	250
Current assets		
Stock	100	95
Cash	70	50
Debtors	25	20
	195	165
Current liabilities		
Creditors	50	50
Overdraft	20	10
Net current assets	70	60
Total assets less current liabilities	375	355
Less **Long-term liabilities** (debt):		
Long term liabilities	50	80
Debentures	50	50
	100	130
Net assets	**275**	**225**
Financed by:		
Share capital	200	150
Retained profit	75	75
Equity	**275**	**225**

Award *1 mark* for an appropriate title. Deduct *1 mark* per error, but apply the Own Figure Rule (error carried forward) where appropriate. The maximum number of marks for this question is *5 marks*.

(c) Working capital = Current assets less Current liabilities
2014: 195 – 70 = **$125,000**
2013: 165 – 60 = **$105,000**

Award *1 mark* for each correct value stated, up to *2 marks*.

Question 3.4.7 – Senjaya Fabrics Ltd.

(a) Share capital is the finance raised by a limited liability company from selling shares to individual and institutional shareholders. This permanent capital is invested in the business.

Award *1 mark* for a vague definition of share capital.

Award *2 marks* if the answer clearly defines share capital, similar to the example above.

(b) Balance sheet for Senjaya Fabrics Ltd. as at 31st March 20XX

	IDR (millions)	IDR (millions)
Fixed assets		
Property		350
Current assets		
Stocks	60	
Debtors	35	
Cash	32	
Total current assets	127	
Current liabilities		
Overdraft	30	
Creditors	45	
Total current liabilities	75	
Working capital		52
Total assets less current liabilities		402
Less Long-term liabilities (mortgage)		127
Net assets		275
Financed by:		
Share capital		175
Retained profit		100
Equity		275

Question 3.4.8 – Harry Potter (J.K. Rowling)

(a) Intellectual property rights (IPR) are the intangible assets of a person or organization which are legally protected by patents, trademarks and copyrights. They give the owner (such as authors) the legal right to own pieces of work or inventions.

Award *1 mark* for a vague description of intellectual property rights (IPR).

Award *2 marks* if the answer clearly describes intellectual property rights (IPR), similar to the example above.

(b) Benefits or reasons for protecting copyrights include:

- They protect the works of the author (J.K. Rowling) so that others cannot simply plagiarize her original ideas.
- They act as a barrier to entry so that the author, publishers and movie producers can generate more revenues.
- They can act as a source of income for the owner of the IPR, e.g. J.K. Rowling was able to reap the financial benefits of granting Warner Bros. and Universal Studios the legal rights to construct 'Harry Potter World'.

Award *1 – 2 marks* if only one benefit is explained clearly or the answer lacks detail and/or depth. The answer might appear in a list-like format.

Award *3 – 4 marks* if there are good explanations of two benefits of protecting copyrights. Relevant examples are used and there is appropriate application of the stimulus material in the case study.

(c) Placing a financial value on IPRs is a difficult and somewhat subjective task. The 'true' value of IPRs such as the *Harry Potter* franchise cannot be accurately realized until the sale of the IPRs. The Harry Potter phenomenon with its huge fan base means that its associated IPRs are highly valued because they generate revenue streams and add value to the franchise. However, rather like shares on the stock market, the value of such intangible assets will fluctuate from time to time. If, for example, subsequent movies are not so successful, then the value of the IPR of the franchise might not be so lucrative.

Award *1 – 2 marks* if the commentary attempts to address the subjective nature of placing a value on intellectual property rights but lacks detail/coherence. The answer might appear as a list with little, if any, elaboration.

Award *3 – 4 marks* if the commentary explains the subjective nature of placing a value on intellectual property rights, in the context of the case study. There is effective use of business management terminology throughout the answer.

Question 3.4.9 – Safarie Air Tours

(a) The residual value of a fixed asset is an estimate of the scrap or disposal value of the asset at the end of its useful life, as recorded/seen on the balance sheet.

Award *1 mark* for a vague answer that shows some understanding of the term residual value.

Award *2 marks* for an answer that shows a clear understanding of the term residual value, similar to the example above.

(b) Annual depreciation = ($5,200,000 – $1,600,000) ÷ 5 years = $720,000 per year

Award *1 mark* for the correct answer and 1 mark for showing the working out accurately, up to the maximum of *2 marks*

Question 3.4.10 – Neville Stibbs Stationers

(a) Depreciation refers to the fall in the value of a fixed asset over time, due to wear and tear (as the asset is used) and/or obsolescence (being out of date or out of fashion).

Award *1 mark* for a vague answer that shows some understanding of the term depreciation.

Award *2 marks* for an answer that shows a clear understanding of the term depreciation, similar to the example above.

(b)

Year	Depreciation at 30% ($)	Book value ($)
0		200,000
1	60,000	140,000
2	42,000	98,000
3	29,400	68,600
4	20,580	48,020
5	14,406	**33,614**

The residual value of the laser printing machines at the end of year 5 is therefore $33,614.

Award *1 mark* for a limited understanding of the question or for showing the correct answer without any working out.

Award *2 marks* for the correct answer with incomplete working out shown.

Award *3 marks* for the correct answer with accurate and full working out shown.

Question 3.4.11 – Chard-Reid Enterprise Inc.

(a) Reducing balance method:

Year	Depreciation	Net Book Value
0	0	$35,000
1	$10,500 ($35,000 × 30%)	$24,500
2	$7,350 ($24,500 × 30%)	**$17,150**

Award *1 mark* for the correct answer.

Award *2 marks* if the correct answer is calculated, with partial working out shown.

Award *3 marks* if the correct answer is calculated, with full working out shown.

(b) Straight line method of depreciation:

Annual depreciation = ($35,000 – $5,800) / 5 years = $5,840

Year	Depreciation	Net Book Value
0	0	$35,000
1	5,840	$29,160
2	5,840	**$23,320**

Therefore, the value of the car is estimated to be **$23,320** after two years.

Award *1 mark* for the correct answer.

Award *2 marks* if the correct answer is calculated, with partial working out shown.

Award *3 marks* if the correct answer is calculated, with full working out shown.

(c)

Method	Net Book Value (Year 3)
Reducing balance	$12,005
Straight line	$17,480

Hence, the reducing balance method depreciates the NBV of the car by a (significantly) greater amount in this time period, i.e. the value is lower by $5,475.

Award *1 – 2 marks* if there is a generalized answer, which lacks depth and/or substance or if no calculations are shown.

Award *3 – 4 marks* for a detailed explanation of which method of depreciation would reduce the NBV of the car the most by the end of the third year. The answer includes the working out, which stems from the answers taken from Questions 3.4.11a and 3.4.11b.

(d) Factors to consider include:

Reducing balance method:

- More realistic method for depreciating motor vehicles. These assets tend to lose most of their value at the beginning of their useful life.
- More complicated to calculate.
- Subjective nature of the (arbitrary) chosen rate of 35% depreciation.

Straight line method:

- Easier method to calculate.
- Simple to understand.
- Residual value of the asset is often a guess (at best) and may not be realized in the future.

Award *1 – 2 marks* for a generalized answer that lacks details of the strengths and weaknesses of the two methods of depreciation.

Award *3 – 4 marks* for a good examination of the strengths and weaknesses of both methods of depreciation for *Chard-Reid Enterprise Inc.* The answers might lack substance or the use of examples.

Award *5 – 6 marks* for a thorough examination of the strengths and weaknesses of both methods of depreciation for *Chard-Reid Enterprise Inc.* There is effective use of relevant business management terminology throughout the answer.

Unit 3.5 Profitability and liquidity ratio analysis

Question 3.5.1

(a) *JKL Ltd.'s* Profit & Loss Account for years ended 31 December ($'000s)

	Year 2	Year 1
Sales revenue	1,000	850
Cost of goods sold	500	450
Gross profit	**500**	**400**
Expenses	**100**	**40**
Net profit before interest and tax	400	360

- Gross profit = Sales revenue – Cost of goods sold
- Year 2 Gross profit = $1,000,000 – $500,000 = $500,000
- Year 1 Gross profit = $850,000 – $450,000 = $350,000

- Expenses = Gross profit – Net profit
- Year 2 Expenses = $500,000 – $400,000 = $100,000
- Year 1 Expenses = $400,000 – $360,000 = $40,000

Award *1 mark* for each correct answer , up to the maximum of *2 marks*.

(b)(i) Year 2 GPM = $500k / $1,000k = 50.0%
Year 1 GPM = $400k / $850k = 47.05%

Year 2 NPM = $400k / $1,000k = 40.0%
Year 1 NPM = $360k / $850k = 42.35%

For each ratio, award *1 mark* for the correct answer, and *1 mark* for appropriate working out. The total marks for this question is *4 marks*.

(b)(ii) Possible explanation points could include:

- The GPM in year 2 shows that for every $100 of sales, $50 is gross profit
- The NPM in year 2 shows that for each $100 sold, $40 is generated as net profit (so expenses accounted for the other 10%)
- Whilst the GPM has improved, the NPM (the relatively more important figure for profitability) has declined; due to the large increase in expenses from $40,000 to $100,000 (150% increase)
- Overall, these figures show healthy profitability at *JKL Ltd.*, although only limited information is provided.

Award *1 – 2 marks* for an answer that shows some understanding of the demands of the question, but lacking in detail in areas.

Award *3 – 4 marks* for an answer that shows good understanding of the demands of the question, with appropriate interpretation of both the GPM and NPM. There is effective use of business management terminology throughout the answer.

(c) The answer might include a definition of profitability (not profit). Profitability ratios examine the profit of a firm in relation to other figures, such as sales revenues in order to assess the financial performance of the business. Further information might include: forecast profits and sales figures, or the amount of capital invested in the *JKL Ltd*.

Other information could include the use and analysis of:

- Return on Capital Employed (ROCE)
- Benchmarking data (historical data regarding *JKL Ltd.'s* financial performance and that of its closest rivals)
- Looking at profit in relation to the size of *JKL Ltd*.
- Objectives and aims of *JKL Ltd.*

Award *1 – 2 marks* if the commentary is vague and/or incoherent. Answers might appear in an unexplained list-like format.

Award *3 – 4 marks* if the commentary details further information that could be used to determine the profitability of *JKL Ltd.* There is good use of business management terminology throughout the answer.

Question 3.5.2

(a) Year 2 ROCE = $400k / $1,000k = 40%
Year 1 ROCE = $360k / $800k = 45%

Award *1 mark* for the correct answers without any working out shown, or if only one correct answer is shown with the correct working out.

Award *2 marks* if both correct answers are given, along with the full working out.

(b) ROCE is an efficiency ratio that measures the financial performance of a firm compared to the amount of capital invested in the business. In Year 2, *JKL Ltd.* returned 40% from the value of the firm, i.e. for every $100 invested in the firm $40 was generated as profit (before interest and tax). The ratio fell by 5% from the previous year, suggesting poorer use of the firm's capital, i.e. deteriorating efficiency.

Profitability can be judged by comparing to bank interest rates (40% is relatively high when compared to any bank deposit rate) or benchmarking against *JKL Ltd.'s* nearest rivals. The ROCE for both years is likely to be significantly higher than the return from savings offered by banks/financial institutions.

Award *1 – 2 marks* if only one reason is explained clearly or the answer lacks detail and/or depth. The answer might appear in a list-like format, without any explanations.

Award *3 – 4 marks* if there is some understanding of the demands of the question. Explanations are provided for what the figures suggest about the efficiency and/or profitability of *JKL Ltd.*, although lacking in detail in some areas.

Award *5 – 6 marks* for an answer that shows good understanding of the demands of the question. There are detailed explanations of what the figures suggest about both the efficiency and profitability of *JKL Ltd.*

Question 3.5.3 – Dan & Glover

(a) Gross profit is the difference between the sales revenue of a business and its direct costs incurred in making or purchasing the products that have been sold to its customers.

Award *1 mark* for a vague answer that shows some understanding of the term gross profit.

Award *2 marks* for an answer that shows a clear understanding of the term gross profit, similar to the example above.

(b) ROCE = ($150m – $30m) ÷ $400m = 30%

Award *1 mark* for the correct answer (the answer must be expressed as a percentage).

Award *1 mark* for showing appropriate working out.

Question3.5.4 – Bjorn Bowls

(a) Debtors are a category of current assets, referring to customers who have bought goods or services on credit, i.e. they owe money to the business, which is due (payable) at a later date.

Award *1 mark* for a vague answer that shows some understanding of the term debtors.

Award *2 marks* for an answer that shows a clear understanding of the term debtors, similar to the example above.

(b)

- Current assets = Cash + Debtors + Inventories
- CA = $50,000 + $35,000 + $45,000 = $130,000
- Current liabilities = Overdrafts + Tax + Trade creditors
- CL = $15,000 + $25,000 + $50,000 = $90,000
- Current ratio = $130,000 / $90,000 = 1.44 : 1

Award *1 mark* for the correct answer.

Award *1 mark* for showing appropriate working out of current assets and current liabilities.

Question 3.5.5

(a) Year 2 Current Ratio = 700 / 300 = 2.33 : 1
Year 1 Current Ratio = 500 / 200 = 2.5 : 1

Year 2 Acid Test = (700 – 350) / 300 = 1.17 : 1
Year 1 Acid Test = (500 – 250) / 200 = 1.25 : 1

Award *1 – 2 marks* if only the correct answers are given without any working out, or if only the working out and correct answer is given for one of the ratios.

Award *3 – 4 marks* if the correct answers are given along with the working out for both the current and acid test ratios.

(b) *JKL Ltd.'s* liquidity position is quite favorable. In both years, the current ratio shows that there is sufficient working capital in the firm, e.g. in Year 2 for every $1 of current liability, *JKL Ltd.* has $2.33 of current assets. The slight fall in the ratio is not necessarily indicative of poorer liquidity as too high a current ratio means the firm is not using its resources efficiently (such as holding too much cash or stocks).

Likewise, the acid test reveals that *JKL Ltd.'s* liquidity is favourable because it exceeds the recommended minimum of ratio of 1:1 (stocks are not necessarily liquid), although the figures have deteriorated slightly.

Award *1 – 2 marks* if the commentary is vague and/or incoherent. The answer might appear in an unexplained list-like format.

Award *3 – 4 marks* if there is a detailed commentary on the liquidity position of *JKL Ltd.* There is appropriate use of business management terminology.

(c) Considerations of what other information might be needed to judge the liquidity position of *JKL Ltd.* include:

- *JKL Ltd.'s* cash holdings have increased by 300% (from $50,000 to $200,000); this might help to improve liquidity but there is a potentially large opportunity cost of holding too much cash.
- *JKL Ltd.* will also want to investigate the cause of the 50% increase in its short-term liabilities (such as overdrafts and creditors) which have reduced its liquidity ratios.
- Stocks have also increased, thereby reducing the value of the acid test in Year 2. Further information on the type of stock is need, such as whether most of the stock is work-in-progress or finished stocks.
- It might also be useful to know the stock turnover, i.e. how fast *JKL Ltd.* sells its products. A high stock turnover rate might mean that the current ratio can be indicative of the firm's liquidity position.
- The relationship with debtors and suppliers can also give some insight to the liquidity position of the firm. Debtors are more likely to pay on time and suppliers are more likely to grant credit if there is a trusting professional relationship.

Award *1 – 2 marks* if only one reason is explained clearly or the answer lacks detail and/or depth. The answer might appear in an unexplained list-like format.

Award *3 – 4 marks* if there is a detailed explanation of what other information would be needed to judge the liquidity position of JKL Ltd. Relevant examples are used in the context of the case study and there is effective use of business management terminology throughout the answer.

Question 3.5.6

(a) The quick ratio (or acid test ratio) measures a firm's ability to meet its short-term debts. It ignores stock because not all inventories can be easily turned into cash in a short time frame.

Award *1 mark* for a vague answer that shows some understanding of the term quick ratio.

Award *2 marks* for an answer that shows a clear understanding of the term quick ratio, similar to the example above.

(b) Gross profit shows the difference between a firm's sales revenues and its cost of goods sold (COGS). Net profit, however, is calculated after deducting overheads (expenses) from the gross profit figure, i.e. it considers both direct and indirect costs in the calculation of profit. Gross profits will, therefore, always be greater than net profits.

Award *1 – 2 marks* if the two terms are outlined although the answer lacks some detail/clarity.

Award *3 – 4 marks* if both terms are clearly understood and a clear distinction is made. There is proficient use of business management terminology throghout the answer.

(c) It is important for potential investors to consider non-financial factors when making investment decisions because not all choices are made on quantitative grounds. For example:

- There is no information regarding the type of industries in which *D. McCleod & Co*. and *K.Tang & Son* operate; indeed the two firms might not even operate in the same industry!
- Labour turnover and factors such as the level of staff motivation can affect the firm's long term costs and profitability (both are important considerations for potential investors).
- Past financial performance is not necessarily indicative of future performance so caution should be taken when basing investment decisions purely on quantitative factors.
- Financial / quantitative analysis may not be reliable due to window dressing of accounts and historical data being used, i.e. the current situation for both firms is likely to have changed.
- Consumer confidence levels will also affect investment decisions, irrespective of what financial ratios might reveal, e.g. a looming recession might be enough to put off investors. Investment decisions tend to be more reserved during a period of recession or when the level of consumer and business confidence is declining.
- The reputation of the two firms is likely to have an influence on investors' decisions as corporate social responsibility and ethics are factors that increasingly affect the customer's perception (and hence sales and profitability) of a business.
- Aims and objectives of the two firms are likely to be considered, e.g. *D. McCleod & Co.* might be expanding, which explains its declining acid test ratio.

Award *1 – 2 marks* if the commentary is vague and/or incoherent. The answer might be presented as an unexplained list.

Award *3 – 4 marks* if there is a detailed commentary on why it is important for potential investors to consider non-financial factors when making investment decisions. There is effective use of business management terminology throughout the answer.

(d) Note: SL students are not expected to use the gearing ratio in this question.

Ratio	Firm	Commentary
GPM	*D. McCleod & Co.*	Gross profit has fallen by 20% (from a GPM of 50% to 40%).
	K. Tang & Son	Gross profit has fallen by just 10% (from a GPM of 50% to 45%); hence *K. Tang & Son* has performed better in terms of its ability to control COGS.
NPM	*D. McCleod & Co.*	NPM is stable at 20% but this means with a reduced GPM that overhead control is improving; overheads accounted for a 30% differential (comparing the GPM and NPM) but only 20% by the Year 3.
	K. Tang & Son	NPM has improved by 5.2% (from a GPM of 19% to 20%) and is quite stable. *K. Tang & Son's* ability to control overheads has also improved but *D. McCleod & Co.* performed better.
ROCE	*D. McCleod & Co.*	The ROCE has fallen by 6.7% but the rate is still quite attractive with a yield of 14%.
	K. Tang & Son	The ROCE has improved by 25% so seems very attractive if such performance can be maintained. *K. Tang & Son's* ROCE overtakes that of *D. McCleod & Co*. in the 3rd year and seems attractive with its 15% return.

Quick ratio	*D. McCleod & Co.*	The firm has a high acid test ratio in Years 1 and 2, but improves with the ratio falling to 1.5 (although we have no information about the type of industry that *D. McCleod & Co.* operates in).
	K. Tang & Son	The firm's quick ratio has fluctuated and is close to the minimum recommended 1:1, so liquidity issues at *K. Tang & Son* could be a concern for investors.

Award *1 – 2 marks* if the answer lacks details / depth. The answer may be presented in a list-like format with little understanding shown.

Award *3 – 4 marks* if there is an analysis of at least one of the given financial ratios. A limited understanding of the demands of the question is shown.

Award *4 – 5 marks* if there is some understanding of the demands of the question shown, with analysis of at least two of the given financial ratios.

Award *7 – 8 marks* if there is a good understanding of the demands of the question shown, with an examination of at least three of the given financial ratios. Evidence of critical and evaluative thinking is missing.

Award *9 – 10 marks* for a thorough understanding of the demands of the question shown. There is detailed examination of the financial ratios, with effective use of business management terminology throughout the answer. There is evidence of a justified conclusion as to which firm is the better investment, with evidence of critical and evaluative thinking.

Unit 3.6 Efficiency ratio analysis (HL Only)

Question 3.6.1

(a)

	Year 2	Year 1
Stock turnover	(350 ÷ 500) × 365 = 255.5 days	(250 ÷ 450) × 365 = 202.7 days
	or	
	500 ÷ 350 = 1.43 times	450 ÷ 250 = 1.8 times
Debtor days	(150 ÷ 1,000) × 365 = 55 days	(200 ÷ 850) × 365 = 86 days
Creditor days	(300 ÷ 500) × 365 = 219 days	(200 ÷ 450) × 365 = 162 days

For each ratio, award *1 mark* for the correct answer, and *1 mark* for appropriate working out.

(b) There are three efficiency ratios in this question and hence any development in these should help to improve the overall efficiency position of *JKL Ltd.* Some examples are given below:

- Stock turnover - Hold less stock, e.g. introduce a system of Just-in-time (JIT) or introduce lean production to the production process at *JKL Ltd.*
- Debtor days - Improved credit control, e.g. if credit control is too loose, then this could lead to liquidity problems despite the preferential credit terms to customers.

- Creditor days - Given the improved cash position of *JKL Ltd.*, suppliers will probably query why the firm is taking so much longer to pay its debts. The ratio suggests that the credit period is rather generous especially as *JKL Ltd.* has sufficient working capital and liquidity to meet these debts. This could, therefore, dampen the relationship with its suppliers.

For each ratio/method, award *1 mark* for an appropriate way *JKL Ltd.* can improve its efficiency position, and *1 mark* for the explanation. The total number of marks for this question is *6 marks*.

(c) The term 'efficiency position' should be defined. The efficiency position of *JKL Ltd.* can be judged by assessing the firm's efficiency ratios, i.e. its stock turnover, debtor days and creditor days:

- Stock turnover - *JKL Ltd.'s* stock is taking longer to turn over (or turning over at a lower rate), i.e. there is less efficiency.
- Debtor days - *JKL Ltd.'s* debtors are, on average, paying much earlier (from 86 days to 55 days), suggesting that there is improved credit control.
- Creditor days - *JKL Ltd.* is taking significantly longer to pay its creditors (from 162 days to 219 days), which might dampen its relationship with suppliers in the long run.
- Overall then, it seems that the firm's liquidity position has probably deteriorated; although more information and data is needed to make any firm conclusions.

Award *1 – 2 marks* if the answer lacks detail and is rather generalized. There is limited understanding of the demands of the question.

Award *3 – 4 marks* if the answer shows some understanding of the efficiency position of *JKL Ltd.*, with appropriate explanation of the ratios. The answer lacks detail in some areas, or does not consider all three measures of *JKL Ltd.'s* efficiency ratios.

Award *5 – 6 marks* if there is a detailed explanation that considers the efficiency position of *JKL Ltd.* by examining all three ratios. There is effective use of business management terminology throughout the answer, and evidence of critical thinking.

Question 3.6.2

(a) Gearing ratio for *JKL Ltd.*

Year 2	Year 1
250k ÷ 1,000k	250k ÷ 800k
= 25%	**= 31.25%**

Award *1 mark* for the correct answers without any working out shown, or if only one correct answer is shown with the correct working out.

Award *2 marks* if both correct answers are given, along with the full working out.

(b) The gearing ratio is a long term liquidity ratio that measures the percentage of a firm's capital employed that comes from long-term liabilities, such as debentures. *JKL Ltd.* has less than 50% gearing so this is considered to be relatively safe, albeit very limited information is given about the firm.

JKL Ltd. has lower gearing in Year 2, meaning that it is less vulnerable to any increases in interest rates, i.e. external borrowing through the use of debentures represents less risk. However, there is a need to benchmark this ratio with the industry norm before any strong conclusions can be made about *JKL Ltd.'s* liquidity position.

Award *1 – 2 marks* if the explanation is vague and shows a limited understanding of the demands of the question. The answer might appear in an unexplained list-like format.

Award *3 – 4 marks* if there are good explanations of what the figures suggest about the long term liquidity position of *JKL Ltd.* There is good use of relevant business management terminology throughout the answer.

(c) Answers should consider both the costs and benefits of high gearing. For example, having high gearing during times of rising interest rates is likely to be risky (even if the economy is doing well) as the higher loan repayments will hinder the firm's working capital. However, high gearing might be necessary for a firm that lacks internal funds to finance growth and evolution.

In the case of *JKL Ltd.* the fall in its gearing ratio (from 31.25% to 25%) is not necessarily a good thing, e.g. could *JKL Ltd.* afford to have higher gearing to finance expansion, especially as it has both higher net profit and retained profit in Year 2.

Award *1 – 2 marks* if the answer is vague with some, with limited understanding shown.

Award up to *3 – 4 marks* for a good explanation of whether high gearing can be beneficial, although the answer lacks depth in some areas and/or is presented as a one-sided argument.

Award *4 – 6 marks* for a two-sided argument that considers both costs and benefits of high gearing for firms such as *JKL Ltd.* There is appropriate use of relevant business management terminology throughout the answer.

Question 3.6.3 – Ocean Deco Limited

(a) External finance can be defined as sources of funding that come from outside the business. In the case of *Ocean Deco Ltd.* this might include the $80,000 mortgage from the bank.

Award *1 mark* if there is some understanding of external finance shown, although the answer might lack clarity.

Award *2 marks* if external finance is clearly defined, with the use of a relevant example.

(b)

(i) Gross profit margin (GPM):

- Gross profit = (532 – 248)
- GPM = 284 / 532
- GPM = **53.38%**

Award *1 mark* if the GPM is correct but there is no working out shown or the correct procedure is used but with an incorrect answer.

Award *2 marks* if the correct GPM is given with accurate working out shown.

(ii) Return on capital employed (ROCE):

- Net profit = Gross profit less expenses
- Net profit = 284 – 132 = 152
- Capital employed = 88 + 80 = 168
- ROCE = 152 / 168
- ROCE = **90.48%**

Award *1 mark* if the ROCE is correct but there is no working out shown or the correct procedure is used but with an incorrect answer.

Award *2 marks* if the correct ROCE is given with accurate working out shown.

(iii) Gearing ratio:

- Gearing ratio = loan capital / capital employed
- Long term liabilities (i.e. mortgage) = 80
- Gearing = 80 / (88 + 80)
- Gearing = **47.62%**

Award *1 mark* if the gearing ratio is correct but there is no working out shown or the correct procedure is used but with an incorrect answer.

Award *2 marks* if the correct gearing ratio is given with accurate working out shown.

(c) The ratios suggest several reasons why *Shanghai Commercial Ltd*. might be interested in taking over *Ocean Deco Limited*, including:

A gross profit margin of over 53% means that for every $100 of sales revenue, around $53 turns out to be gross profit (or costs of goods sold accounted for $47 for every $100 of sales). The higher the GPM figure the better the financial performance of the organization, so perhaps the 53% GPM is sufficiently high to attract the attention of *Shanghai Commercial Ltd.*

An ROCE ratio shows the financial performance (based on net profits) from the amount of capital invested in the firm. Hence, the ROCE is an indicator of the profitability of the organization. The higher the ROCE figure, the better it is for the business. In the case of *Ocean Deco Limited*, an ROCE figure of over 90% suggests that for every $100 invested in the company, over $90 profit is generated. Clearly then, this is attractive to buyers such as *Shanghai Commercial Ltd.*

However, the gearing ratio is perhaps rather high at almost 48%. This ratio shows that for every $100 of capital employed, the organization has interest-bearing loan capital of $48. Whilst *Shanghai Commercial Ltd.* might have some concerns with this, it might simply be due to the expansion plans at *Ocean Deco Limited.*

Award *1 – 2 marks* if the answer shows some understanding of the financial ratios and their impact on the decision of *Shanghai Commercial Ltd.* The answer might be presented in a list-like format with little, if any, application.

Award *3 – 4 marks* if the answer shows a thorough understanding of the financial ratios and their impact on the decision of *Shanghai Commercial Ltd.* There is effective use of business management terminology and appropriate application shown.

(d) Quantitative (numerical) factors that might need to be considered include:

- The current ratio (Current assets ÷ Current liabilities) is 85 / 62 = 1.37:1. This suggests the *Ocean Deco Ltd*. is quite solvent, although the ratio is perhaps a little too close to the (absolute) minimum of 1:1. An insolvent company is more likely to sell the business to a potential buyer.
- The firm's gearing ratio is high at almost 48%. If *Ocean Deco Ltd*. expects to face long term liquidity problems (affecting its ability to repay the $80,000 mortgage or perhaps due to rising interest rates in the economy), then maybe the takeover bid becomes more attractive to the owners.

- The ROCE is an impressive 90.48%, suggesting that Chris DelPreore is more likely to want to keep the business. As a result, the hostile takeover bid from *Shanghai Commercial Ltd.* is likely to be rejected by the owners.
- Similarly, a GPM ratio of over 53% might suggest to Chris DelPreore that *Ocean Deco Ltd.* has good profitability and therefore he might choose not to sell or even hold out for a more favourable offer.

Quantitative (non-numerical) factors that might need to be considered include:

- The potential conflict between Chris DelPreore and his son. Would it be better for his son to back down and allow his father to make the decision or should Chris DelPreore listen to his son and avoid confrontation?
- Chris DelPreore's son might be correct in believing that Ocean Deco Ltd. can no longer compete with the larger rivals; in which case it may be a good time to sell to *Shanghai Commercial Ltd.* whilst a 'lucrative' deal is being offered.
- The emotional value of keeping the family business might be regarded as far more important (to Chris DelPreore at least) than any possible financial gain from selling the company that he helped to set up.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of management theory.

Award *5 – 6 marks* for an answer that considers both numerical and non-numerical factors in some detail. At the top end, there is an attempt at application using the data in the case study. Any recommendation made may lack justification.

Award *7 – 8 marks* for an answer that considers both numerical and non-numerical factors in detail, regarding whether the owners of *Ocean Deco Ltd.* should accept or reject the takeover bid. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if a balanced and thorough response (with consideration of both numerical and non-numerical factors) is provided regarding whether the owners of *Ocean Deco Ltd.* should accept or reject the takeover bid. There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking.

Question 3.6.4 – ACS Playframes Limited

(a) Long-term liabilities are the debts owed by a business, which are expected to take longer than a year from the balance sheet date to repay.

Award *1 mark* if the answer shows some understanding of long term liabilities, although the answer might lack clarity.

Award *2 marks* if long term liabilities is clearly defined, similar to the example above.

(b) Profit and loss account for ACSPL, for year ended 31st March:

	$
Sales revenue	3,500,000
less Cost of sales	900,000
Gross profit	2,600,000
less Expenses	600,000
Net profit	2,000,000

Award *1 – 2 marks* if only limited understanding is shown. The P&L account might be presented in an incoherent format.

Award *3 – 4 marks* if the construction of the P&L account is coherent although there are two or more errors. An appropriate title might be missing. Apply the own figure rule (error carried forward) where appropriate. At the top end of the band, one error is permissible.

Award *5 marks* for the accurate construction of the profit and loss account, with an appropriate title used.

(c)

(i) Current ratio = Current assets ÷ Current liabilities
So, 600 ÷ 550 = 1.09 : 1

Award *1 mark* if the current ratio is correct but there is no working out shown or if the correct procedure is used but with an incorrect answer.

Award *2 marks* if the correct current ratio is given with accurate working out shown.

(ii) Gearing ratio = Long term liabilities ÷ Capital employed
Capital employed = Long term liabilities + Retained profit + Shareholders' funds
So, $3.2m ÷ ($3.2m + $0.85m + $3.5m) = 42.38%

(iii) Working capital issues (problems) occur when a business has insufficient net current assets (working capital) in the short term, i.e. within twelve months of the balance sheet date. Longer term liquidity issues occur when a firm experiences high gearing during times of escalating interest rates (since the commitment to long term liabilities drains the firm's financial resources).

Hence, the current ratio could be used to assess the short term liquidity position of *ACSPL*. In this case, *ACSPL's* current ratio is 1.09 : 1, i.e. for every $1 of current liabilities, *ACSPL* only has $1.09 worth of liquid assets. In fact, fixed assets account for over 99% of net assets employed, i.e. *ACSPL* lacks liquidity.

Students might also choose to use the gearing ratio in this question. In this case, *ACSPL's* gearing is quite high at 42.38%. The necessity to repay long term creditors with interest means that *ACSPL's* level of gearing could make the company quite vulnerable since the economy is experiencing higher interest rates.

Award *1 – 2 marks* for a limited response with some understanding shown. There are omissions in the explanation and/or the explanation lacks depth.

Award *3 – 4 marks* for a good explanation of why *ACSPL* faces working capital and liquidity problems, using the current ratio. Appropriate reference is made to the stimulus material and there is good use of business management terminology throughout the answer.

(d) Possible financial strategies might include:

- Obtaining an overdraft to deal with the lack of working capital - this might not be too difficult as *ACSPL* has been experiencing growth for several years. However, interest rates are on an upwards trend.
- As interest rates are increasing, cash outflow to finance *ACSPL's* long term liabilities (which represent over 42% of the company's sources of finance) will increase, thereby adding further pressure to company's liquidity position.
- Tighter credit control - *ACSPL* might limit trade credit to its customers (hotels, schools and local government) or reduce the credit period. This would enable the company to receive its cash sooner (thereby improving its working capital and liquidity position). It is unlikely that *ACSPL* could offer incentives for customers to pay by cash, given the high price of play frames.
- Examine the poor current ratio of 1.09 : 1, i.e. how might current assets (cash, debtors and stocks) be improved whilst controlling cash outflows on current liabilities (tax, overdrafts, dividends and creditors)?
- Investigate whether the $600,000 worth of expenses could be reduced in the future. This would help to improve net cash flows for *ACSPL*. Similarly, it might look for different suppliers of its raw materials and components to reduce direct costs of production, thereby also improving profit margins.
- *ACSPL* could be experiencing problems with overtrading, i.e. expanding too quickly without the necessary financial and human resources to do so (the firm has fixed assets worth $7.5m but only employs 5 full-time staff). Hence, one strategy would be to limit its rate of expansion.

Award *1 – 2 marks* for a generalized answer that lacks details of the options available to deal with liquidity problems.

Award *3 – 4 marks* for a good examination of any two options available to deal with liquidity problems that *ACSPL* faces. Application is missing or is used superficially. Award up to *3 marks* if only one financial strategy is examined thoroughly, in the context of the case study.

Award *5 – 6 marks* for a thorough examination of any two financial strategies available to deal with the working capital and liquidity problems that *ACSPL* faces. Appropriate business management terminology and examples are used, written in the context of *ACSPL*.

Unit 3.7 Cash Flow

Question 3.7.1 – McDonald's

(a) Net profit refers to the surplus that a business earns after all expenses have been paid for out of its gross profit. The formula is net profit = Gross profit – Expenses.

Award *1 mark* for a vague answer that shows some understanding of the term net profit.

Award *2 marks* for an answer that shows a clear understanding of the term net profit, similar to the example above.

(b) Possible reasons why *McDonald's* experienced an increase in sales revenues but a decline in its net profits could include:

- Due to its revamped menu, *McDonald's*was able to entice more customers thereby helping to boost its sales by 6%.
- However, sales revenue is not the same as profit. The costs of product research and development for its new menu, for example, would contribute to higher expenses and hence lower net profits.
- It is likely that there is a significant time lag between investment expenditure (R&D and marketing costs for its revamped menu) and receiving sufficient sales revenue to recoup these costs.
- *McDonald's* expansion plans, such as opening its first store in Vietnam, would help to boost sales revenues but increase operations costs. Again, this contributes to declining net profits at least in the short term.
- Hence, it is probable that overall net profits declined despite sales revenue being higher.

Award *1 – 2 marks* if there is some understanding of how it is possible for *McDonald's* to report an increase in sales revenue but a fall in net profits, although the explanation lacks some detail. At the lower end, there is no reference made to the stimulus material in the case study.

Award *3 – 4 marks* if there is a clear understanding of how it is possible for *McDonald's* to report an increase in sales revenue but a fall in net profits, written in the context of the case study. There is appropriate use of relevant business management terminology throughout the answer.

(c) Credit cards allow customers to 'buy now and pay later' through a third party, i.e. a financial lender such as a bank or credit company. The finance company pays the retailer (and charges the retailer a small fee for the service) and charges the customer at a later date.

Since credit improves flexibility and convenience (customers do not need to carry so much cash with them) and allows customers to buy now but to postpone payment, it can attract a large number of customers to businesses, including *McDonald's*. Hence, sales revenues may increase as customers have a greater choice of payment systems.

However, retailers and restaurants such as *McDonald's* will not receive their payment instantaneously, i.e. there is a (relatively short) delay in payment from the credit card company. This therefore extends the working capital cycle of the business that offers credit to its customers. In addition, the amount received from the finance company will be slightly lower because a fee is charged by the creditor.

Award *1 – 2 marks* if the answer lacks depth and substance. There is little, if any, reference to the working capital cycle of *McDonald's*.

Award *3 – 4 marks* if there is a clear understanding of how the introduction of credit card payments offers greater flexibility and convenience for customers of *McDonald's*. There is a good explanation of how the working capital cycle is affected by consumer credit.

Question 3.7.2 – Le Royal Méridien Hotels

(a) Working capital (or net current assets) refers to the liquidity available to a business, i.e. the existing short term assets of a firm to cover its short term debts. Working capital is calculated as the sum of current assets (cash, stocks and debtors) minus the sum of current liabilities (overdrafts, tax, dividends and creditors).

Award *1 mark* for a vague understanding of working capital.

Award *2 marks* if working capital is clearly understood with the appropriate use of business management terminology, similar to the example above.

(b) Improved cash flow management is needed during a long working capital cycle, such as when *Le Royal Meridien* is building new hotels because:

- There is a prolonged delay between payments for production costs (to construct the new hotels) and the proceeds from customers paying to stay at the new hotels. Poor cash flow management could therefore cause the construction work to halt due to a lack of working capital.
- Current liabilities (such as overdrafts, creditors and tax demands) will further drain cash flow during the construction period. Again, it is vital to manage cash flow in order to keep the *Le Royal Meridien* afloat.
- Poor cash flow management can make the organization go further into debt as it seeks to borrow more finance to fund the construction of the new hotels. This may cause gearing problems for *Le Royal Meridien*.

Award *1 – 2 marks* if the answer lacks some detail and/or substance. There may be little, if any, application to *Le Royal Meridien*.

Award *3 – 4 marks* if there are good explanations of why *Le Royal Meridien* needs better cash flow management, with reference to a long working capital cycle during the construction of its new hotels. There is appropriate use of business management terminology with relevant application.

Question 3.7.3 – Pranab & Co

(a) Cash inflows refers to cash that comes into a business, such as Pranab & Co., usually from sales revenue, i.e. when customers pay for the products that they have purchased.

Award *1 mark* for showing some understanding of cash inflows.

Award *1 mark* for showing a clear understanding of cash inflows, similar to the example above.

(b) Net cash flow = Total cash inflows – Total cash outflows

Hence, NCF for Pranab & Co. = MAD135,000 – MAD103,000 =

where MAD refers to Morocco dirham (MAD).

Award *1 mark* for the correct answer.

Award *1 mark* for showing appropriate working out.

Question 3.7.4 – Wincent Wines

(a)

	Month 1 ($)	Month 2 ($)	Month 3 ($)
Sales revenue	25,000	20,000	22,000
Overdraft	**3,000**	8,000	0
Cash inflow	28,000	**28,000**	22,000
Cost of goods sold	16,250	**13,000**	14,300
Staff wages	4,000	4,500	4,300
Expenses	5,000	5,000	5,000
Other costs	**1,500**	1,600	1,850
Cash outflow	26,750	24,100	**25,450**
Net cash flow	1,250	**3,900**	-3,450
Opening balance	(1,750)	-500	**3,400**
Closing balance	**-500**	3,400	-50

Award *1 - 2 marks* for an answer that shows some understanding of cash flow forecasting, although there 3 or more errors. Apply the own figure rule (error carried forward), as appropriate.

Award *3 - 4 marks* for an answer that shows good understanding of cash flow forecasting. For *3 marks*, allow up to 1 error. Apply the own figure rule as appropriate.

(b) *Wincent Wines* is expected to face some cash flow problems in the first 2 months of trading. Possible causes of this cash flow problems for might include:

- Sales being lower than expected (perhaps Morten Wincent was being too optimistic)
- Costs being higher than budgeted, especially for a new business
- Insufficient or ineffective marketing to attract customers
- A large proportion of *Wincent Wines*' customers are expected to buy the wines on trade credit
- *Wincent Wines* may have poor credit control
- *Wincent Wines* may have poor stock control, e.g. overstocking of certain wines that do not sell well.

Award *1 mark* for each possible cause of cash flow problem, plus another 1 mark for the explanation, written in the context of *Wincent Wines*. The total marks for this question is *4 marks*.

(c) Possible ways for Morten Wincent to resolve his expected cash flow problems include:

- Spending some money on marketing the wines in order to increase the firm's sales revenue.
- Negotiating improved trade credit terms with its suppliers, as 14 days is below the average of 30 – 60 days.
- Applying for a bank overdraft to deal with the predicted cash shortage of $500 in the next month, and another $50 shortfall in the third month.
- Ensuring there is better credit control.
- Leasing rather than buying capital equipment.
- Accept any other reasonable way to resolve the cash flow problems.

Award *1 mark* for each possible solution to resolve the cash flow problem, plus another *1 mark* for the explanation, written in the context of *Wincent Wines*. The total marks for this question is *4 marks*.

Question 3.7.5 – Menelao Stationers

(a) Cash Flow Forecast for *Menelao Stationers*

	Aug ($)	Sep ($)	Oct ($)	Nov ($)
Cash inflow				
Cash sales	2,000	5,500	3,200	3,000
Cash outflow				
Stock purchases	1,000	2,750	1,600	1,500
Rent	0	2,000	0	2,000
Utilities	500	500	500	500
Other costs	1,800	1,100	1,100	1,100
Total outflow	3,300	6,350	3,200	5,100
Net cash flow	-1,300	-850	0	-2,100
Opening cash balance	6,500	5,200	4,350	4,350
Closing cash balance	5,200	4,350	4,350	2,250

Award *1 mark* for an acceptable format used to present the cash flow forecast. Award up to *5 marks* for the construction of the CFF, deducting *1 mark* for each error (apply the Own Figure Rule where necessary).

(b) The answer should show an understanding (or definition) of 'liquidity position, i.e. the extent to which *Menelao Stationers* can meet its short term debts. The firm seems to be suffering from worsening liquidity as seen by the closing balance figures. The net cash flow for the first four months of trading is either zero or negative, suggesting its liquidity position is somewhat of a concern for *Menelao Stationers*. Without the initial cash inflow of $6,500 from Denise Menelao to start the business, there would be insufficient working capital.

Award *1 – 2 marks* if the commentary is vague and/or incoherent. The answer might appear in a list-like form, without little, if any, explanation.

Award *3 – 4 marks* if the commentary is sound, with a clear understanding of the liquidity position of *Menelao Stationers*. There is good use of business management terminology and reference to the case material.

Question 3.7.6 – Bereti's Boutique

(a) Salary is a type of financial payment that rewards workers a fixed annual amount of money, but paid in monthly instalments. It represents a fixed cost of production.

Award *1 mark* for a vague answer that shows some understanding of the term salary.

Award *2 marks* for an answer that shows a clear understanding of the term salary, similar to the example above.

(b) Cash flow forecast for *Bereti's Boutique* (Aug – Nov):

Bereti's Boutique	**Aug ($)**	**Sep ($)**	**Oct ($)**	**Nov ($)**
Opening balance	0	10,100	6,020	2,770
Owner's capital	15,000	0	0	0
Cash inflows (sales)	5,000	5,800	7,000	9,500
Total cash inflows	20,000	5,800	7,000	9,500
Cash outflows:				
Cost of sales	3,000	3,480	3,850	4,750
Advertising	1,500	1,000	1,000	1,000
Staffing (4 × $1,200)	4,800	4,800	4,800	4,800
Others	600	600	600	600
Total cash outflows	9,900	9,880	10,250	11,150
Closing bank balance	10,100	6,020	2,770	1,120

Deduct *1 mark* for each error, but apply the Own Figure Rule (error carried forward) as appropriate. The maximum marks for this question is *5 marks*.

(c) The cash flow forecast suggests several issues for Nicole Bereti:

- The business is expected to have a negative closing balance in November. This is an unfavourable position to be in, so short term external finance is likely to be needed.
- The net cash flows between Sept and Nov are negative, i.e. the liquidity position is rather unfavourable. The closing balance in August is only positive because of the initial $15,000 from Nicole's personal bank account. However, it can be seen that net cash flow does improve during this time.

	Aug ($)	Sep ($)	Oct ($)	Nov ($)
Net cash flow	10,100	-4,080	-3,250	-1,650

- Cash inflows from sales have continually increased by 102.5% (from $4000 to $8100) whilst payments have only increased by 11.6% (from $8150 to $9095), i.e. the liquidity position is improving over time.
- Given that *Bereti's Boutique's* is a new establishment, the cash flow forecast suggests that the firm might still succeed since negative cash flow only occurs temporarily.
- However, it is difficult to conclude whether *Bereti's Boutique's* will have a positive net cash flow and a positive closing balance after December (the most profitable time of year for perfume retailers).
- Overall, the cash flow position faced by *Bereti's Boutique's* may not be too much of a concern, especially with its rising sales revenue, so long as it can secure finance to overcome the short term liquidity problem in November (a $105 deficit rather insignificant).

Award *1 – 2 marks* for a vague answer that lacks substance or is simply descriptive.

Award *3 – 4 marks* if there is an attempt at examining the cash flow position of *Bereti's Boutique's*, but the answer may lack detail or application of the stimulus material.

Award *5 – 6 marks* if there is a detailed examination of *Bereti's Boutique's* cash flow position. Suitable business management terminology is used, with appropriate reference to the case study.

Question 3.7.7 – Ducie's Dance Studios Ltd.

(a) A cash flow forecast is a financial document that shows the predicted future cash inflows and cash outflows of a business for a particular trading period.

Award *1 mark* for a vague answer that shows some understanding of the term cash flow forecast.

Award *2 marks* for an answer that shows a clear understanding of the term cash flow forecast, similar to the example above.

(b) Profitable firms such as *Ducie's Dance Studios Ltd.* can experience cash flow problems for a number of reasons, such as:

- Overtrading
- Long working capital cycle
- Poor credit control
- Long credit periods.

Award *1 mark* for a vague outline of why profitable firms might experience cash flow problems, with some understanding shown.

Award *2 marks* for a clear outline of why profitable firms might experience cash flow problems. The answer makes effective use of appropriate business management terminology.

(c) Cash flow forecast for *Ducie's Dance Studios Ltd.* for the period April to June:

	April ($)	May ($)	June ($)
Cash sales	5,000	4,500	5,500
Credit sales	6,000	5,000	4,500
Cash inflows	**11,000**	**9,500**	**10,000**
Direct costs	5,500	4,950	6,100
Indirect costs	5,100	5,000	5,000
Cash Outflows	**10,500**	**9,950**	**11,100**
Net cash flow	**500**	**-450**	**-1,150**
Opening balance	1,000	1,600	1,050
Closing balance	1,500	1,050	-50

Deduct *1 mark* for each error, but apply the Own Figure Rule (error carried forward) as appropriate. The total marks for this question is *5 marks*.

(d) The options available to Marj Ducie in dealing with her liquidity problems could include:

- Applying for a pre-approved overdraft for June (and perhaps May when net cash flow is negative) in case actual cash outflows are higher than those forecast, in which case the closing balance would be negative; but this option would incur high interest charges.
- Offering incentives to customers to pay earlier (or by cash) because currently half of the sales are paid

for on credit. Whilst this might improve liquidity, offering such incentives might reduce the profits of the business.

- Better credit control by offering less credit (as 50% of customers pay by credit) or a shorter credit period (currently one month's credit); but this might lead to fewer customers thereby reducing the attractiveness the business.
- Negotiate the option to pay indirect costs in instalments in order to ease the firm's cash flow.Reviewing marketing planning to help *Ducie's Dance Studios Ltd*. to better meet the needs and wants of its customers, thereby helping to improve the firm's cash inflows.
- Reviewing the firm's pricing strategy in order to raise sales revenues.

Award *1 – 2 marks* if the answer is generalized and lacks detail. The answer might appear in a list-like format.

Award *3 – 4 marks* if there is an explanation of the options available to *Ducie's Dance Studio Ltd.,* although the analysis lacks detail in some areas. At the top end, there is an attempt at application to the case study.

Award *5 – 6 marks* if there is a thorough examination of the ways in which *Ducie's Dance Studio Ltd.* could deal with its liquidity problems, with consideration of the effectiveness of these options to the firm. Appropriate business management terminology is used in the context of *Ducie's Dance Studio Ltd.*

Unit 3.8 Investment Appraisal

Question 3.8.1 – Verton Coffee

(a) The payback period (PBP) is an investment appraisal technique that calculates the length of time needed to recoup (earn back) the initial expenditure on an investment project.

Award *1 mark* for a vague answer that shows some understanding of the term payback period.

Award *2 marks* for an answer that shows a clear understanding of the term payback period, similar to the example above.

(b) Payback period = $300,000 ÷ ($45,000 / 12) = 80 months = 6.67 years
Hence, the PBP = 6 years and 8 months

Award *1 mark* for the correct answer, and *1 mark*for showing appropriate working out.

(c) Elvy Verton would be keen to have a short payback period for several reasons, including:

- As the owner, Elvy Verton would want to see a short PBP so that she can start to earn a return (profit) on her investment; the shorter the PBP, the quicker the cost of the investment can be recouped
- The $300,000 new machinery could become obsolete relatively quickly, and this would be extremely costly if it occurred before the payback period
- It allows Elvy Verton to see whether her business will break-even on the purchase of the new machinery before it needs to be replaced; this can be important in today's fast-paced and competitive business environment
- The cash spent on investment projects has an opportunity cost – Elvy Verton could have spent the $300,000 on something else to improve her business and its profitability; hence, a shorter PBP can help to justify such expenditure.

Award *1 – 2 marks* if there is some understanding of why a short payback period is desirable. There is little, if any, reference to *Verton Coffee*.

Award *3 – 4 marks* if the explanation show a clear understanding of why a short payback period is desirable for Elvy Verton. There is effective use of business management terminology throughout the answer.

Question 3.8.2 – Mark Allegro Leasing Co.

(a)

Year	Net cash flow	Cumulative net cash flow
1	$12,000	$12,000
2	$14,000	$26,000
3	$15,000	$41,000
4	$15,000	$55,000
5	$12,000	$67,000

The cumulative NCF method shows that *Mark Allegro Leasing Co.* will reach payback (of the $50,000 investment) before the end of 4th year.

- The shortfall by the end of the 3rd year is $9,000 ($50,000 – $41,000)
- The average monthly NCF in the 4th year is $15,000 / 12 = $1,250 per month
- Hence, payback occurs during the 4th year in the 8 month, i.e. $9,000 / $1,250 = 7.2 months
- So, the PBP = 3 years and 8 months (accept 3 years and 7 months).

Award *1 mark* for the correct answer.

Award*1 mark* for showing appropriate working out.

(b) Points to consider in the commentary could include:

- Assuming this is a 5-year project, the PBP is rather long, occurring towards the end of the 5th year makes this a highly risky project; profit would be earned in the final 4 months of the project
- Other quantitative investment appraisal techniques, such as the ARR (average rate of return) and the NPV (net present value) of the investment over the next 5 years
- Other financial considerations, e.g. to what extent can *Mark Allegro Leasing Co.* afford the $50,000
- Qualitative considerations, such as the organizational aims and objectives of *Mark Allegro Leasing Co.*

Note: students do not need to write a balanced response for this question, and it is acceptable to comment that the investment project should not proceed given the relatively long payback period.

Award *1 – 2 marks* for some understanding of the demands of the question, although the commentary lacks detail/depth in some areas.

Award *3 – 4 marks* for a clear understanding of the demands of the question, with appropriate use of business management terminology. There is appropriate use of the financial data and consideration of the payback period in particular.

Question 3.8.3 – Chelsea Football Club *(CFC)*

(a) Possible reasons could include:

- The potential for *CFC* to return healthier profits to its owners in the future
- *CFC* may have been undervalued at the time of purchase
- Greater brand exposure associated with a large football club such as *CFC*
- Roman Abramovich could simply be a big fan of *CFC* , i.e. his purchase is based on a personal interest.

Award *1 mark* for each appropriately identified reason that might have influenced Roman Abramovich's decision to buy *Chelsea Football Club,* up to the maximum of *2 marks*.

(b) Possible reasons could include:

- Roman Abramovich had spent hundreds of millions of pounds of his own money on the club yet there was no guarantee that *CFC* would become successful or profitable
- *CFC* was suffering from 'huge financial losses' so Roman Abramovich took a large risk by investing in such a business
- The club was not estimated to break-even until around 7 years after Abramovich took over the business; this represents a long payback period.

Award *1 – 2 marks* if there is a generalized answer which might lack depth and/or substance or if no application shown.

Award *3 – 4 marks* for a detailed explanation of why investment can be risky. Appropriate business management terminology is used, with clear application made to the case study.

(c) The PBP would inform Roman Abramovich how long it would take (as an estimate) before his spending on the club would generate enough revenue to pay back the value of the investment. A shorter payback period would tend to reduce the risk of such an investment project. However, given the wealth of the owner, and his willingness and ability to take risks (of a project with a 7-year payback period), the PBP method of investment appraisal may have limited use in this case. Ultimately, the PBP acts as a decision-making tool for risk assessment when making investment decisions.

Award *1 – 2 marks* if the answer lacks detail and/or substance. Three is no application made to *CFC*.

Award *3 – 4 marks* if there is a thorough commentary on the usefulness of the payback period as an investment decision-making tool for *CFC*. Appropriate business management terminology and relevant examples are used, written in the context of the case study.

Question 3.8.4 – DeRogatis Computing Inc.

(a) Capital expenditure refers to a firm's investment spending on fixed assets, such as the purchase of land and buildings.

Award *1 mark* for a vague answer that shows some understanding of the term capital expenditure.

Award *2 marks* for an answer that shows a clear understanding of the term capital expenditure, similar to the example above.

(b) Investment expenditure = \$100,000
Net cash flow = \$50,000 per years (for 4 years)
Profit per year = (\$50,000 × 4) – \$100,000 = (\$100,000) / 4 = \$25,000 per year
Or annual profit = \$50,000 – (\$100,000 / 4) = \$25,000 per year
Hence, ARR = (\$25,000 ÷ \$100,000) × 100 = 25%

Award *1 mark* for the correct answer.

Award *1 mark* for showing appropriate working out.

Question 3.8.5

(a) $140,000

Award *1 mark* for correctly identifying the cost of the investment projects.

(b)

	Atlanta	Boston
Cumulative cash flow (after 2 years)	$140,000	$120,000
Payback period	2 years	2 years and 4 months

Project Atlanta has the shorter payback period, i.e. it reaches breaks even quicker (but only by 4 months). This makes Project Boston the slightly riskier of the two projects.

Award up to *2 marks* for correctly calculating the payback periods for both projects.

Award up to *2 marks* for the commentary, applying the Own Figure Rule (error carried forward) where applicable.

(c)(i)

- ARR for Project Atlanta = [($160,000 – $140,000) ÷ 3 years] / $140,000 = 4.76%
- ARR for Project Boston = [($180,000 – $140,000) ÷ 3 years] / $140,000 = 9.52%

Award *1 mark* for the correct answers.

Award *1 mark* for showing appropriate working out. Apply the own figure rule as appropriate.

(c)(ii) Project Atlanta has an ARR of 4.76% which is only marginally higher than the savings interest rate at 4.75%, i.e. the investment risk might not be worthwhile. By contrast, Project Boston has a much better ARR of 9.52% (more than double the savings interest rate), even though both projects cost the same amount of money.

Award *1 marks* for an answer that shows some understanding of the demands of the question, although the commentary is limited.

Award *2 marks* for a commentary which considers the benchmarked savings interest rate against the calculated ARR figures in Question 3.8.5.c(i).

(d)

	Atlanta	Boston
Payback	2 years	2 years and 4 months
ARR	4.76%	9.52%

The decision depends on whether the firm's priority was a quick return on the investment (in which case Project Atlanta would be picked) or if profit was more of a priority. Although there is a much better average rate of return for Project Boston, a large amount of the money is received at a later stage in the project's timeline, i.e. it would be worth less based on today's value. Both projects have an expected annual return that is greater than the base interest rate, albeit very marginally for Project Atlanta. Nevertheless, Project Boston yields a significantly higher return than Project Atlanta, making it relatively more attractive despite its slightly longer payback period

Award *1 – 2 marks* for a generalized answer that lacks details of which investment project is most attractive, given the available information.

Award *3 – 4 marks* for a good examination of factors that affect the decision, with some understanding of which investment project is most attractive. The answer might lack substance in some areas or application of the stimulus material.

Award *5 – 6 marks* for a thorough examination of factors that affect the decision, with a detailed understanding of which investment project is most attractive based on the stimulus material. There is effective use of relevant business management terminology throughout the answer.

Question 3.8.6

(a)

Year	Investment Colorado			Investment Detroit		
	Net Cash Flow ($)	Discount Factor	Present Value ($)	Net Cash Flow ($)	Discount Factor	Present Value ($)
0	(300,000)	1.00	(300,000)	300,000	1.00	(300,000)
1	50,000	0.9434	47,170	100,000	0.9434	94,340
2	100,000	0.8900	89,000	200,000	0.8900	178,000
3	200,000	0.8396	167,920	200,000	0.8396	167,920
4	200,000	0.7921	158,420	50,000	0.7921	39,605
NPV			**162,510**			**179,865**

Deduct *1 mark* for each error made, applying the Own Figure Rule (error carried forward) where appropriate. For full marks, there should be a brief explanation of why Project Detroit is the relatively more attractive investment. The total number of marks for this question is *4 marks*.

(b) Other information that could be considered include the following:

- Based on these figures, Project Detroit should be pursued as it has the higher NPV (by a value of $17,355 or around 10.67% higher than Project Colorado).
- Although both projects yield the same absolute amount of net cash flow (each totalling $550,000), Project Colorado does not see most of its returns until the final two years, i.e. when the money has lost much of its current value.
- The payback period for Project Detroit is shorter (just 2 years, compared to 2 years and 9 months for Project Colorado).
- The ARR is the same for both projects (because discounted cash flows are not considered in the calculation of the ARR).
- Other quantitative factors may also need to be considered, e.g. management preferences (gut feelings and intuition, rather than just quantitative analysis).

Award *1 – 2 marks* if the answer lacks detail and/or substance. The answer might be presented as a list of reasons, with little if any explanations.

Award *3 – 4 marks* if there is a good commentary of further information that should be considered before deciding which investment project to pursue, although there explanations lack depth/clarity in areas. Application of the stimulus material is shown.

Award *5 marks* for a thorough commentary of further information that should be considered before deciding which investment project to pursue, with appropriate explanations used to substantiate the answer. There is effective use of business management terminology and relevant application of the data in the stimulus material.

Question 3.8.7

(a) Net cash flow is the difference between a firm's cash inflows and its cash outflows, per time period, as detailed on the firm's cash flow statement or cash flow forecast.

Award *1 mark* for a vague definition of net cash flow or if only the formula is given.

Award *2 marks* if net cash flow is clearly defined, similar to the example above.

(b) The question requires candidates to carry out a full quantitative investment appraisal:

	Project England	**Project France**
Payback period	2 years, 7 months	2 years
ARR	22.5%	20.83%
NPV	$21,141	$19,990

- Based on the financial data, Project France has a shorter payback (by just over 6 months), so if liquidity is an issue, then the firm should opt for this venture.
- However, the ARR is higher if the firm opts for Project England; although both are significantly higher than any return from savings at a bank.
- The NPV is higher for Project England (by $1,241 or 6.23%).
- Overall, on financial grounds, Project England seems the slightly better option if the business is prepared to wait a further 6 months or so before it achieves payback.
- In addition to quantitative investment appraisal methods, qualitative factors could also be considered. For example, there could be some thought about organizational objectives and the competing views of different stakeholder groups.

Award *1 – 2 marks* if the answer lacks coherence and shows limited understanding of investment appraisal methods.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation of the investment appraisal methods.

Award *5 – 6 marks* if there are several errors in the quantitative investment appraisal. The analysis shows some understanding of the financial figures.

Award *7 – 8 marks* if a full quantitative investment appraisal has been conducted, with analysis of the findings. There may be one or two errors in the calculations. There is little, if any, consideration of qualitative factors that affect investment decisions.

Award *9 – 10 marks* if a full quantitative investment appraisal is carried out with appropriate working out shown. There is a thorough examination of the findings. Qualitative factors have also been considered in the recommendation. There is evidence of evaluation and critical thinking.

Question 3.8.8 – Karoo Garments Limited

(a) Scrap value is the residual value of an asset, based on an estimate of the disposal value of the asset at the end of its useful life.

Award *1 mark* for a vague answer that shows some understanding of the term scrap value.

Award *2 marks* for an answer that shows a clear understanding of the term scrap value, similar to the example above.

(b)

(i) Payback period (PBP)

Year	€'000	Cumulative cash flow
0	(230)	(230)
1	140	(90)
2	180	90
3	150	240
4	100	340

In year 2: €90,000 / (€180,000/12) = 6 months.
Payback period is **1 year and 6 months**

Award *1 mark* if the PBP is correct but there is no working out shown or the correct procedure is used but with an incorrect answer.

Award *2 marks* if the correct PBP is correctly calculated, with the working out shown.

(ii) Average rate of return (ARR):

Net cash flow = €570,000
Principal = €230,000
Total profit = €340,000

Annual profit = €340,000 ÷ 4 years = €85,000 p.a.
ARR = (€85,000 ÷ €230,000) × 100
= **36.96%**

Award *1 mark* if the ARR is correct but there is no working out shown, or if the correct method is used but with an incorrect answer.

Award *2 – 3 marks* if the correct ARR is given with the working out shown. For full marks, all steps in the working out should be shown.

(iii) Net Present Value (NPV):

Year	NCF (€'000)	Present Value(€)
0	(230)	(230,000)
1	140	129,626
2	180	154,314
3	150	119,070
4	100	73,500
		476,510
4	10	7,350 (scrap value)
		483,860
		230,000 (principal)
	NPV =	253,860

Award *1 mark* if the NPV is correctly stated without any working out shown, or if minimal understanding is shown in the answer.

Award *2 – 3 marks* if there is some understanding shown in the calculation of the NPV. Allow up to two errors at the lower end and up to one error for 3 marks. Award up to *3 marks* if the scrap value is ignored, but the calculations are otherwise accurate.

Award *4 marks* for accurately calculating the NPV, with full working out shown.

(c) Relevant financial factors could include:

- There is a relatively short payback period of 1 and a half years (especially as the project lasts for 4 years).
- The ARR of almost 37% is significantly higher than the base interest rate (at 8%).
- The NPV of €253,860 suggests that the 4-year project is profitable, i.e. it is a good investment.
- The predicted scrap value of machinery helps towards its replacement cost.
- However, *Karoo Garments Limited* should also consider the reliability of the forecasted net cash flows.

Non-financial factors that could be considered in the decision include:

- Continuous changes in the fashion industry in Europe mean that the versatility and flexibility of the machinery are important considerations.
- Staff retention is already a problem, so buying new machinery might either cause technological unemployment or improve labour productivity as workers operate with better machinery.
- Possible changes in the state of the economy and hence economic activity (the fashion industry is very reliant on a healthy economy).
- Consumer confidence levels - which can directly affect the demand for luxury clothing items.
- Changes in interest rates, which will change the value of quantitative investment appraisals, such as net present values.
- The opportunity cost of the €230,000 used for the investment, i.e. what else *Karoo Garments Limited* could have spent the money on instead.

Award *1 – 2 marks* if the answer is vague, generalized or lacks substance.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation.

Award *5 – 6 marks* if the answer displays some understanding of relevant factors that link to improvements in productivity, although the factors may not be explicitly distinguished as numerical and non-numerical. There is limited, if any, application of the stimulus material.

Award *7 – 8 marks* if there is consideration of relevant numerical and non-numerical factors in relation to *Karoo Garments Limited's* investment decision. Appropriate business management terminology and examples are used. There is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if there is a balanced discussion of relevant numerical and non-numerical factors in relation to whether *Karoo Garments Limited* should invest in the new machinery to improve its productivity. Appropriate business management terminology and examples are used. There is clear evidence of evaluation and critical thinking.

Unit 3.9 Budgeting

Question 3.9.1 – Kay Edwards

(a) Income = $150 × 10 = $1,500
Outgoings = $110 × 10 = $1,100
Net income = $400

Based on the projections, Kay Edwards will have a shortfall of $100 from being able to pay for her holiday, i.e. the budget suggests that she is unable to afford her planned holiday.

Award up to *2 marks* for calculating the net income (difference between Kay's income and outgoings), with working out shown.

Award up to a further *2 marks* for correctly answering the question, i.e. that Kay Edwards cannot afford her planned holiday.

(b) Budgeting is a forward-looking decision-making plan that might help Kay because it allows her to assess whether she is achieving her objectives (i.e. a planned holiday in Shanghai). She can then take appropriate actions in order to resolve any expected financial problems (i.e. the unfavourable variance) before they arise. Examples of such corrective measures include:

- Reducing her outgoings – especially those that are non-essential or 'quite flexible'
- Raising her income – perhaps by working overtime at weekends and/or evenings if possible.

Award *1 – 2 marks* if the explanation is rather vague and lacks detail and/or substance. There may be little, if any, application.

Award *3 – 4 marks* if there is a good explanation of how budgeting can help Kay Edwards in her financial planning for a holiday. Appropriate business management terminology is used and there is relevant application to the case study.

Question 3.9.2 – Tsingtao Brewery Company

(a)(i) Budgeting is the cyclical (on-going) process of planning, setting, controlling, monitoring and reviewing the financial plan of expected revenues and expenditures for an organization (or a department within an organization), for a given period of time.

Award *1 mark* for a vague definition of budgeting.

Award *2 marks* if budgeting is clearly defined, with appropriate use of business management terminology.

(a)(ii) Brand awareness measures the extent to which potential customers or the general public recognize a particular brand. It can be expressed as a percentage of the sample surveyed.

Award *1 mark* for a vague definition of brand awareness.

Award *2 marks* if brand awareness is clearly defined, with appropriate use of business management terminology.

(b) Being China's second largest brewery, *Tsingtao* will need effective budgeting in order to run its global operations efficiently. Budgeting as a management tool is important to *Tsingtao* for several reasons, including:

- Budgeting can be used to motivate *Tsingtao* managers and other budget holders, to encourage responsibility and accountability and to aid financial control.
- It helps to control business costs in order to prevent liquidity problems.
- It has a central role in strategic planning, e.g. setting aside a sufficient budget to sponsor major sporting events such as the Beijing Olympic Games or the British Superbike Championship.
- Budgeting requires *Tsingtao* to plan for the future as it tries to enhance its corporate brand awareness and brand development.
- It helps to ensure that *Tsingtao* managers plan ahead and to anticipate any financial problems before they arise. They are required to anticipate the costs and revenues of different business activities and hence to agree on competing priorities and targets.
- Ultimately, effective budgeting avoids inefficient expenditure and improves the long-term competitiveness of *Tsingtao*.

Award *1 – 2 marks* if the answer is generalized and/or lacks substance.

Award *3 – 4 marks* if there is some examination of the importance of budgeting although the answer might lack detail and/or application to *Tsingtao Brewery Company.*

Award *5 – 6 marks* if there is a thorough examination of the importance of budgeting to *Tsingtao Brewery Company.* Appropriate terminology has been used with sound application to the case study.

Question 3.9.3 – Cathay Pacific Airways Limited

(a) A strategic alliance is a form of external growth which involves two or more firms coming together to share the costs, risks and benefits of a business venture. The affiliated businesses in the strategic alliance remain independent organizations, unlike in a joint venture.

Award *1 mark* for a vague definition of strategic alliance.

Award *2 marks* if strategic alliance is clearly defined, with appropriate use of business management terminology.

(b) Businesses such as *Cathay Pacific* use cost and profit centres for several reasons, including the need to:

- Allow *Cathay Pacific* to identify the divisions that generate the most (and least) revenue in order to identify areas of financial weakness. In large firms, it is not always clear whether a certain area of the business (e.g. cargo, in-flight entertainment and the Marco Polo Club) is making a loss, especially if the organization as a whole is profitable.
- Delegate power to departmental managers in charge of cost and profit centres. This can be a way to motivate these people, develop important management skills and speed up decision-making in the organization.
- Make managers more accountable for their centre's (department's) operational costs and revenues and to have better cost control.
- Use the performance of cost and profit centres as a form of rewarding departmental managers and their teams who operate within their budgets or achieve favourable variances in their budgets.
- Improve financial accountability and efficiency, which ultimately leads to improved cost control and therefore higher profits for *Cathay Pacific*.

Award up to *2 marks* for each reason explained in the context of *Cathay Pacific*, up to the maximum of *4 marks*.

(c) Difficulties likely to be involved in allocating *Cathay Pacific's* overheads include:

- The subjectivity in allocating overhead costs such as rent, interest, insurance and administrative costs across the airline's various cost and profit centres, especially as the airline "operates over 200 routes worldwide in over 60 countries".
- The performance of a cost or profit centre can be changed by external factors beyond its control, such as higher food prices for the catering centre which could not directly affect other centres. This therefore bears no resemblance to the productivity and efficiency of the different departments.
- Such an approach can promote unnecessary internal competition to cut costs and/or to raise revenues, thereby creating unwanted tension and conflict between the various divisions of the airline, including its subsidiary *Cathay Dragon*.
- Allocating a greater proportion of overhead costs to a particular division will reduce its profits, although this does not necessarily represent its underlying trading position.

Award *1 – 2 marks* if there is some understanding of the likely difficulties involved in allocating overheads, although the explanation lacks some detail. At the lower end, there is no reference made to the stimulus material in the case study.

Award *3 – 4 marks* if there is a clear understanding of the likely difficulties involved in allocating *Cathay Pacific's* overheads, written in the context of the case study. There is appropriate use of relevant business management terminology throughout the answer.

Question 3.9.4 – Laptops R Us

(a)

Variable	Budget	Actual	Variance
Sales of laptop A (units)	250	180	70 (A)
Sales of laptop B (units)	250	260	10 (F)
Production costs ($'000)	120	150	30 (A)
Output per worker (units)	20	22	2 (F)
Labour costs ($'000)	100	115	15 (A)

Award *1 mark* for each correct answer, up to a maximum of 5 marks. Do not award a mark if the correct numerical value is given without the correct variance (favourable or adverse).

(b) Favourable variances are those that lead to higher than expected profits, i.e. actual revenues are higher than budgeted or actual costs are lower than budgeted costs. By contrast, adverse variances reduce profits for a business.

For example, whilst mathematically $115,000 – $100,000 = +$15,000 (labour costs at *Laptops R Us*), this is unfavourable to the business as its actual labour costs are higher than planned.

Hence, a positive difference in the actual outcome and the budgeted number does not mean that it is necessarily financially beneficial to the business. Instead, the correct term to use in this case is an unfavourable variance.

Award *1 – 2 marks* if there is some understanding shown although the response lacks detail, clarity and/or use of examples from the case study.

Award *3 – 4 marks* if the answer shows a clear understanding of referring to favourable and adverse variances (rather than referring to variances as positive and negative). There is good application of the stimulus material in the case study.

(c)

(i) Actual – Budgeted = \$5,850 – \$6,000 = **\$150 (F)**

Award *1 mark* if only the correct answer is provided or if the working out is correct but the final answer is incorrect.

Award *2 marks* if both the working out and the correct answer are provided.

(ii)

Budgeted:	10 × \$100	=	\$1,000
Actual:	8 × \$100	=	\$800
Variance		=	**\$200 (F)**

Award *1 mark* if only the correct answer is provided.

Award up to *3 marks* if both the full working out (budgeted and actual figures) and the correct answer are provided.

Question 3.9.5 – Quay's Hair Salon Inc

(a) Examples of stock that might be held by *Quay's Hair Salon Inc.* could include:

- Shampoo
- Conditioner
- Hair dyes
- Gel
- Hair spray.

Award *1 mark* for each relevant answer, i.e. written in the context of *Quay's Hair Salon Inc.*

(b) Examples of direct costs likely to be incurred by *Quay's Hair Salon Inc.* might include:

- Wages for hair salon staff
- Stocks of shampoo, conditioner, hair gel, etc.
- Utilities bills, e.g. electricity and water bills.

Award *1 mark* for each relevant answer, i.e. written in the context of *Quay's Hair Salon Inc.*

(c)

Variable	Budgeted (\$)	Actual Outcome (\$)	Variance (\$)	Variance (F/A)
Wages	4,000	4,200	200	Adverse
Salaries	4,500	4,500	0	-
Stock	1,800	1,850	50	Adverse
Revenue	15,750	16,040	290	Favourable
Direct costs	3,200	2,950	250	Favourable

Deduct *1 mark* for each error, applying the own figure rule (error carried forward). The total number of marks for this question is *5 marks*.

Unit 4.1 Role of marketing

Question 4.1.1 – Sony

(a) Customers are an external stakeholder group, consisting of the clients of a business. They seek to have value for money, such as competitive prices and good customer service.

Award *1 mark* for a vague answer that shows some understanding of the term customers.

Award *2 marks* for an answer that shows a clear understanding of the term customers, similar to the example above.

(b) Product orientated businesses tend to be inward-looking and produce products that they hope will sell in the marketplace. For example, *Sony* hoped that its ¥380,000 digital cameras and ¥1.5m audio systems would sell. However, with so much competition in these mass consumer markets, *Sony* seemed to be ignoring the market prices being paid by the average consumer of such products.

Award *1 mark* if the answer shows some understanding of product orientation.

Award *2 marks* if there is an outline of why *Sony* might be described as a product orientated business.

(c) Disadvantages of product-orientated marketing include:

- Consumer needs are ignored so there is likely to be a high failure rate, as in the case of *Sony's* Qualia line of products
- It is a high risk marketing strategy since *Sony* simply hopes that customers will purchase these highly expensive gadgets
- Marketing and Research & Development costs often prove fruitless for product orientated firms. Hence, this represents an inefficient use of *Sony's* finances
- By being inward looking, Sony's rivals such as Samsung, Apple and Hitachi are likely to take away some of its market share
- The extremely high prices set by *Sony* do not reflect the ability and willingness of customers to pay (such prices) for these products.

Award *1 – 2 marks* if only one disadvantage is clearly explained or if the answer lacks substance/clarity.

Award *3 – 4 marks* for clearly explaining two disadvantages of product-orientated marketing to a business such as *Sony*. There is appropriate use of business management terminology and application of the stimulus material in the case study.

Question 4.1.2 – Singapore's littering policy

(a) Social marketing is the use of mainstream marketing methods to achieve the benefits of social change rather than for direct commercial gain, e.g. anti-littering campaigns. Other examples include: promoting the use of contraceptives, anti-drug campaigns, protection of animals, anti-smoking campaigns, informing the public about the dangers of under-age drinking, encouragement of recycling and the promotion of healthy eating.

Award *1 mark* if there is some understanding of social marketing shown, although the definition might lack clarity.

Award *2 marks* if social marketing is clearly defined, , similar to the example above.

(b) The Singaporean government is likely to use social marketing tactics in order to control litter problems in its country. Educating people, rather than simply fining them, is likely to be more cost effective in the long term as it becomes part of the cultural norm (not to litter). The case study mentions the use of litter laws being taught and promoted in schools as a way to embed the desired culture from a young age. It is therefore likely that the government's success will depend heavily on aspects of social marketing. However, much of this will also rely on marketing tactics used to inform the general public about the penalties for littering and/or the benefits of the desired social change.

Other considerations include:

- Actions will only be undertaken if people believe that the benefits of doing so outweigh the costs, i.e. the littering penalties must be substantial
- The government is more likely to succeed if its strategy is based on educating people to comprehend the social goals and benefits, rather than allowing their own perceptions to dictate personal action
- Education, not social marketing itself, has been used to ingrain a culture of cleanliness
- Success does not rely on social marketing itself; legislation (such as littering fines and the Corrective Work Order) is also used to achieve the government's objectives.

In conclusion, the combination of government control and the use of social marketing have clearly worked in ensuring that Singapore remains one of the cleanest countries in the world.

Award *1 – 2 marks* for a generalized answer that is descriptive or lacks substance. There is some understanding shown.

Award *3 – 4 marks* if there is an examination of the role of social marketing, but the answer might lack detail or application to the situation in Singapore.

Award *5 – 6 marks* if there is a thorough examination of the role of social marketing for dealing with litter problems in Singapore. Appropriate business management terminology has been used, with reference to the case study.

Question 4.1.3 – Samsung

(a) The combined two-firm concentration ratio of *Samsung* (31%) and *Apple* (approximately 15%) is around 46% of the market.

Award *1 mark* if only the correct answer is shown.

Award *2 marks* if the correct answer is calculated, with the working out shown.

(b) Market share is a measure of a firm's sales revenue expressed as a percentage of the market's total sales revenue. The formula is needed for maximum marks.

Note: students may choose to explain market share via concentration ratios or measured in terms of sales volume, so this should be awarded accordingly.

Award *1 – 2 marks* if market share is defined, although there may be some omissions or lack of clarity. Appropriate examples/application may be missing.

Award *3 – 4 marks* if the term is correctly defined, with the correct use of a formula. The explanation is clear and there is effective use of business management terminology.

(c) Market leadership is important to businesses such as *Samsung* for several reasons, including the following:

- By being the dominant firm in the market, *Samsung* is able to enjoy high market power so has price setter power.
- Large scale operations enable *Samsung* to enjoy the benefits of economies of scale from, e.g. technological and financial economies.
- There is a positive correlation between sales revenue and profit levels, i.e. *Samsung's* profits tend to rise as the firm gains more market share.
- Market leaders enjoy brand recognition and brand loyalty, which brings benefits such as a potentially higher customer base and an improved corporate image.
- Having a larger market presence means that *Samsung's* key stakeholders, such as suppliers, shareholders, managers and employees, are more confident and motivated by the company.
- Larger firms are likely to have the funds to invest in Research & Development (R&D), which is essential in *Samsung's* case as it operates in a high-tech and fast-paced consumer electronics industry.

Award *1 – 2 marks* for a generalized answer that is descriptive or lacks substance.

Award *3 – 4 marks* if there is an examination of the importance of market leadership, but the answer lacks detail or application to businesses such as *Samsung*.

Award *5 – 6 marks* if there is a thorough examination of the importance of market leadership for businesses such as *Samsung*. Appropriate business management terminology is used effectively, with reference to the stimulus material in the case study.

Question 4.1.4 – Barcelona

(a)(i) A non-profit organization is a business run in a commercial-like manner but without primarily aiming to earn a profit, i.e. profit maximization is not the main goal. Instead, NPOs use their surplus revenues to achieve their social goals rather than distributing it to owners or shareholders, e.g. the Qatar Foundation focuses on "education, scientific research and community development".

Award *1 mark* for a vague answer that shows some understanding of the term non-profit organization.

Award *2 marks* for an answer that shows a clear understanding of the term non-profit organization, similar to the example above.

(a)(ii) Sponsorship refers to financial gifts or donations in support of an event or a business venture in return for dominant marketing exposure of the sponsor's name. In this case, *FC Barcelona* were sponsored by The Qatar Foundation.

Award *1 mark* for a vague answer that shows some understanding of the term sponsorship.

Award *2 marks* for an answer that shows a clear understanding of the term sponsorship, similar to the example above.

(b) There are several possible reasons why *FC Barcelona* chose to sponsor a NPO such as *UNICEF,* such as the following:

- *FC Barcelona* is adhering to its social corporate responsibilities.
- There may be indirect commercial benefits for *FC Barcelona*, e.g. an improved corporate image and a wider fan base.
- *FC Barcelona* is following its core values, i.e. it is more than a football club (that seeks to earn profit).
- By such unique, altruistic actions, such a decision could bring huge marketing opportunities for the Spanish football club.

Award *1 – 2 marks* if there is a generalized answer, which might lack depth and/or substance. There is little, if any, application shown.

Award *3 – 4 marks* for a detailed explanation of why *FC Barcelona* might have decided to sponsor *UNICEF,* a non-profit organization. There is good use of business management terminology and application of the stimulus material in the case study.

(c) Marketing objectives of NPOs such as *FC Barcelona* might include:

- High market standing, i.e. the extent to which the NPO has a presence in the market. NPOs such as *UNICEF* and *FC Barcelona* have a higher chance of success they have a positive image and well-respected reputation.
- Increasing product awareness by promoting the activities of the NPO to its targeted consumer groups. This includes providing relevant information about the NPO's cause and persuading donors and sponsors to part with their money.
- Social change (betterment) through the use of social marketing.
- Reaping gains for beneficiaries, e.g. *FC Barcelona's* sponsorship deal with *UNICEF*.
- Product positioning in order to improve the image and perceptions of the NPO held by the general public, e.g. football fans, the media and the general public are more inclined to support *FC Barcelona* (or any other NPO) if they are in agreement of its purpose (mission statement).
- Consumer satisfaction through providing socially-desirable marketing activities for the benefit of others in society.
- Maintaining or increasing market share - even NPOs need to compete for the limited finances of donors, sponsors and customers. A higher market share enables the NPO to develop its brand and to raise brand awareness.
- Meeting the needs of customers - all businesses, whether they aim to make a profit or not, need to meet the needs of their customers in order to thrive and survive.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of management theory.

Award *5 – 6 marks* if the answer compares and contrasts the marketing objectives of *FC Barcelona* with one other non-profit organization, although the answer lacks detail in certain areas. At the top end, there is evidence of relevant application using the information in the case study.

Award *7 – 8 marks* if the answer compares and contrasts the marketing objectives of *FC Barcelona* with one other non-profit organization. Relevant examples and business management terminology have been used effectively, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if there is a good discussion that compares and contrasts the marketing objectives of *FC Barcelona* with one other non-profit organization. There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking.

Question 4.1.5 – Banning Pester Power

(a) Ethics can be a rather subjective matter; whether it is ethical to market products directly at children depends on several factors:

- The age of the children being targeted (younger children are more vulnerable so it may be considered less ethical if marketing is directed at them).
- People's perceptions of what is right or wrong, i.e. societal norms.
- The type of product(s) being marketed at children, e.g. textbooks and educational toys or games consoles and fast food?
- The type of selling / marketing techniques being used, e.g. deliberate hard-selling and bait-and-switch techniques aimed at children would probably be considered unethical by most people.

Arguments against marketing products directly at children:

- Are children able to filter so much advertising clutter?
- It creates huge peer and social pressures for children to conform.
- Children (especially the very young) are vulnerable and are easily influenced/manipulated by what they see and hear.
- Pester power techniques can cause tension between family members.

Other issues that could be considered:

- Directly targeting children would be considered immoral if marketing techniques take advantage of children and/or their parents.
- Marketing aimed at children does not have to be aggressive, offensive, distasteful or unethical in order to be successful.
- Children today tend to have more autonomy and power in decision-making.
- The bottom line – parents have the final say and, in theory, should be able to make rational decisions in the best interest of their children.

Award *1 – 2 marks* for a generalized answer that lacks details of whether it is ethical to market products directly at children.

Award *3 – 4 marks* for a good examination of several factors, with some understanding of whether it is ethical to market products directly at children. The answer might lack substance in areas and/or the use of relevant examples.

Award *5 – 6 marks* for a thorough examination of several factors, with a detailed understanding of whether it is ethical to market products directly at children. There is effective use of relevant examples and business management terminology.

(b) There are likely to be both negative and positive outcomes of such marketing campaigns:

Positive outcomes	Negative outcomes
• Brand awareness - shock tactics can draw attention and bring publicity to a firm and/or its products	• Boycotting of a firm and its product(s) that cause offense to the general public
• Word of mouth/Viral marketing to spread the word quickly	• Upsetting members of the general public and other stakeholder groups
• Reverse reaction to entice people to buy due to the thought-provoking marketing messages	• Damaging the firm's corporate image (which could be irrevocable)

• Can be humorous and memorable, even if (somewhat) offensive	• Fines and legal battles for breaking consumer protection laws

Issues to consider could include the following:

- The distinction between what is humour and what is simply offensive in society.
- Overly offensive advertisements are likely to be banned and this therefore could represent ineffective use of the firm's money (budget).
- Knowledge of shock tactics often spread fast, e.g. viral marketing on the internet and can become instant hits with the general public.
- Award marks for appropriate use of real world examples that students may be aware of, e.g. Thierry & Guy's *Fat Bastard* brand of wines, the successful rebranding of French Connection to *FCUK*, and the commercial success of Nestlé's *Yorkie* bar aimed at aggravating women (their "*It's not for girls*" campaign).

Whether the outcome is likely to be positive or negative is not always clear. Shock tactics are often a gamble and therefore represent a high risk strategy due to their unpredictable outcome.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation and/or limited use of relevant examples.

Award *5 – 6 marks* if the answer shows some understanding of the effectiveness of marketing campaigns designed to shock, and possibly offend members of the general public, although the answer lacks detail in certain areas. At the top end of the mark band, a two-sided argument is provided.

Award *7 – 8 marks* if the answer shows good understanding of the effectiveness of marketing campaigns designed to shock. Relevant examples and business management terminology have been used, with evidence of application of the stimulus material. However, there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* for a detailed discussion of the effectiveness of marketing campaigns designed to shock, and possibly offend members of the general public. There is effective use of the stimulus material, with applied examples and relevant business management terminology used throughout the answer. There is clear evidence of critical and evaluative thinking.

Question 4.1.6 – Nestlé's offensive advertising: a strategy?

(a) Market segment refers to a distinct consumer group or part of a market for a particular product, e.g. children, women, Asians, retired people, Christians or the highly affluent.

Award *1 mark* if there is some understanding of market segment shown, although the defintion might lack some clarity.

Award *2 marks* if market segment is clearly defined, with the use of an example related to the case study likely to be used.

(b) Answers might consider some of the following issues:

- Definition of marketing strategy, with specific reference to actions that are designed to achieve the long term marketing objectives of an organization.
- Examples of unethical marketing, such as 'bait and switch' or pester power.

- The word 'should' is rather subjective so is open to different interpretations; what is offensive or immoral to one segment of the market or region of the world is not necessarily so for other segments and regions.
- There is a higher risk of getting things wrong rather than right when using shock tactics and unethical marketing techniques. This might therefore reduce the effectiveness of any offensive/unethical marketing campaign.
- There is increasing pressure for firms to observe their corporate social responsibilities (CSR), so this will affect the extent to which firms might act (un)ethically.
- It also depends on whether the unethical advertising campaign was intentional; people tend to be less forgiving if immoral practices are deliberate.
- A two-sided argument should be provided, e.g. unethical and/or offensive marketing can make people curious/become interested in a particular product. It might be suitable during times of slow growth or sluggish trading periods.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with little relevance to the issue in question.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of business management theory.

Award *5 – 6 marks* if an unbalanced (one-sided) answer is provided, such as only considering why businesses should act ethically in their advertising campaigns. At the top end, there is an attempt at application using the stimulus material in the case study and other examples.

Award *7 – 8 marks* if there is a balanced discussion of both the benefits and costs of using an unethical/offensive approach to marketing strategy (or the costs and benefits of acting ethically). Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if there is a balanced discussion of both the benefits and costs of using an unethical/offensive approach to marketing strategy (or the costs and benefits of acting ethically). The discussion is detailed and probing, and there is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking regarding the extent to which such marketing actions are effective.

Unit 4.2 Marketing planning

Question 4.2.1 - Lego

(a) Revenue stream refers to the money coming into a business from its various operations and activities, e.g. sales revenue from selling *Lego* toys, revenue from the sale of *Lego* computer games and ticket sales from its themed amusement parks.

Award *1 mark* if the definition shows some understanding of the term revenue stream.

Award *2 marks* if the definition shows a clear understanding of the term revenue stream, similar to the example above.

(b) Elements of the marketing mix for *Lego* might include:

- Product - *Lego* is likely to continue focusing on producing its plastic interlocking bricks, the cash cow product in its product portfolio. This might be developed in line with other franchises such as DC Comics characters from *The Lego Movie* (such as Batman, Superman and The Green Lantern).
- Price - The prices of *Lego* products need to be set strategically. This could be based on the prices charged

by rivals (perhaps the likes of *Mega Bloks* and *K'nex*). However, as the market leader, it is likely to be able to use market leadership pricing. Price discrimination is likely to be used at the *Lego* theme parks.

- Promotion - As the target market is mainly children, the promotional mix is likely to use a range of suitable media such as television advertising during children's TV programmes and children's movies at the cinema. The sequel to *The Lego Movie* in 2017 will also have to be appropriate promoted to a mass market audience.
- Place - Distribution channels for *Lego* toys include its own *Lego* stores, *Lego* theme parks, retailers such as *Toys Я Us*, and online orders.
- Packaging - *Lego* toys are packaged in cardboard boxes for protecting the toy bricks and for promoting the brand and perhaps other *Lego* products that customers might be interested in buying.
- Physical environment - Marketers have to pay attention to the physical environment in its *Lego* stores and *Lego* themed amusement parks. The retail stores need to create an ambience suitable for attracting customers and children in particular.
- People - Sales staff at its *Lego* stores and *Lego* amusement parks need to be appropriately trained to serve customers in the desired way to generate sales and brand loyalty.

Note: students might take an alternative approach to preparing a marketing mix for *Lego*, so should be awarded accordingly. There is no need to cover all aspects of the marketing mix for full marks.

Award *1 – 2 marks* if the answer shows limited understanding of the demands of the question. The response is vague, generalized or lacks substance.

Award *3 – 4 marks* if the answer shows some understanding of the marketing mix in relation to *Lego*, although there is a lack of development in some areas. There is appropriate use of business management terminology and some evidence of application.

Award *5 – 6 marks* if there is a thorough consideration of an appropriate marketing mix for *Lego*. Appropriate business management terminology and relevant examples are used throughout the answer. The answer is presented concisely and coherently.

Question 4.2.2 – Del Monte Foods

(a) A vision statement outlines the ambitions of a business, i.e. where it ultimately wants to be) in the distant future. *Del Monte*, for example, has a vision "To be one of the fastest growing global branded food and beverage companies".

Award *1 mark* if there is some understanding of vision statement shown, although the answer might lack clarity.

Award *2 marks* if vision statement is clearly defined, similar to the example above.

(b) The marketing mix consists of the interrelated elements of the 4 Ps used to successfully market a physical product, i.e. price, product, promotion and placement. The broader marketing mix for services includes: physical evidence, people and process. Packaging, as an eight P in the marketing mix, is also relevant to *Del Monte*.

The marketing mix plays an important part in helping businesses such as *Del Monte* to achieve their organizational objectives. For example:

- Product - highly desirable products can help *Del Monte* to improve its market share and to diversify to other market segments such as pet food.
- Price - the right price(s) will boost sales revenues and customer perceptions of quality. Private sector firms such as *Del Monte* charge different prices compared to those in the public sector due to their

contrasting organizational objectives.

- Promotion - this is used to differentiate *Del Monte* from its rivals in order to give it a competitive edge and higher marketing standing (both are marketing objectives directly linked to organizational objectives).
- Place - the right distribution channels are needed to ensure that customers get the right products at the right time; essential for ensuring customer satisfaction and therefore having some influence over the extent to which *Del Monte* can achieve its organizational objectives.

However, marketing alone may be insufficient to allow businesses such as *Del Monte* to achieve their organizational objectives. Other considerations include:

- Human resource management issues, e.g. a highly motivated workforce is important to ensure customer satisfaction at *Del Monte*.
- Finance issues, e.g. budgetary constraints may limit the extent to which organizations can achieve their organizational and marketing objectives.

Indeed, the marketing mix is more inclined to be used to achieve the marketing objectives of an organization, e.g. *Del Monte* striving for increased market share, higher market standing, product positioning and diversification (pet food market). It is unlikely that the marketing mix would be sufficient to achieve the broader organizational objectives of a business.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of business management theory.

Award *5 – 6 marks* if the answer shows some understanding of the marketing mix, although the answer lacks detail in some areas. At the top end, there is some application made to the achievement of organizational objectives.

Award *7 – 8 marks* if the answer shows understanding of the marketing mix and its role in helping *Del Monte* to achieve its marketing objectives. There is consideration of the marketing mix and how it can be used to help businesses to achieve their objectives Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if there is a balanced discussion of how the marketing mix can help businesses such as *Del Monte* to achieve their marketing objectives. There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking.

Question 4.2.3 – Oasis Hong Kong Airlines

(a) Innovation refers to the advancement or new idea in creating a business idea. As no other airline company had provided cost-low (budget) long haul air travel for 24 years, *Oasis's* approach can be argued to be innovative in the industry.

Award *1 mark* if the answer outlines some understanding of why *Oasis's* business approach can be considered to be innovative.

Award *2 marks* if the answer clearly outlines why Oasis's business approach might be considered as being innovative. There is good use of business management terminology.

(b) Price is only one factor that affects the level of demand for a good or service. Despite the low prices being offered, customers may have preferred to pay a little extra for peace of mind in travelling with well-established providers such as *Cathay Pacific* or *Singapore Airlines*. In addition, with any innovative product, relatively few customers (known as innovators and early adopters in Everett Roger's diffusion of innovation model) would be attracted.

Award *1 mark* for a brief comment on why customers might not have been keen to fly with *Oasis*. The answer might be presented in a list-like format with little if any explanation.

Award *2 marks* if the commentary clearly outlines why customers might not have been keen to fly with *Oasis*, despite its low prices.

(c) Innovators refers to the market segment (the group of customers) who are enthusiasts about new products in the market place. They are the risk takers who are prepared and able to pay for the exclusivity of 'being the first'. Marketing strategies need to focus on the uniqueness and exclusivity of the product. In the case of *Oasis*, the focal point will be on the price. Specific segments are likely to be targeted, such as price-sensitive customers (e.g. Hong Kong students studying abroad in the UK or Vancouver, Canada) or those with relatives and friends in Canada and the UK.

By contrast, the late majority is the consumer group who is rather unadventurous and will only purchase the product when they are completely confident about the product, e.g. the reliability of the services being provided by *Oasis*. Therefore, the late majority will be attracted by quality assurance at *Oasis*. Problems will need to be ironed out, followed by a well-planned public relations strategy based on the airline's proven track record (and the benefits of low-cost long haul air travel). Promotion may need to take place on a large scale through above the line methods to attract a large number of potential customers (rather than specific segments of the market).

Note: students might take an alternative approach to answering this question, such as examining different market segments such as business travelers, tourists, peak and off-peak travelers, or even different marketing strategies aimed at children and adults. Such an alternative approach should be rewarded accordingly.

Award *1 – 2 marks* for a vague and incoherent answer, although some understanding is shown. The answer might appear in a list-like format with little, if any, explanation.

Award *3 – 4 marks* if there is an examination of some differences in the marketing strategies used to target innovators and the late majority, although it lacks clarity in areas. At the lower end of the mark band, there is little, if any, application.

Award *5 – 6 marks* if there is a thorough examination of the differences in marketing strategies used to target innovators and the late majority. Appropriate terminology and examples have been used in the context of *Oasis Hong Kong Airlines*.

Question 4.2.4 – The business of international students

(a)(i) Globalization refers to the integration and interdependence of social, politic and economic issues (goods, services, capital and people), across the world. For example, consumers from different countries have increasingly similar habits and tastes. Hence, educational establishments such as universities no longer cater only for local and domestic students.

Award *1 mark* for a vague answer that shows some understanding of the term globalization.

Award *2 marks* for an answer that shows a clear understanding of the term globalization, similar to the example above.

(a)(ii) Innovation refers to the commercialization of a new idea or reinvention of an existing idea. In some cases, innovations even create new industries, such as online education and distant learning. In today's highly unpredictable business world, innovations can give organizations such as universities a competitive edge.

Award *1 mark* for a vague answer that shows some understanding of the term innovation.

Award *2 marks* for an answer that shows a clear understanding of the term innovation, similar to the example above.

(b) Segmentation can help universities to have a better understanding of the different types of customers (students in this case) and hence help such organizations to create better (more cost-effective) marketing activities. Students might be segmented in different ways, such as:

- Gender, e.g. male and female students might have varying hobbies and interests and this can help universities to plan their extra-curricular activities (thereby enhancing the experience of their customers).
- Ethnic background, e.g. culture and background. Many universities have societies and clubs to cater for people from different regions of the world. The product range in the university canteen could also be affected by the demographics of the students.
- Age, e.g. high school graduates, postgraduates and mature students.
- Language, e.g. newsletters and other forms of written marketing correspondence can be translated into different languages to cater for students from overseas countries.
- Religion - some colleges and universities are affiliated by religion, e.g. Hong Kong Baptist University, Saint Mary's College of California, and University of Notre Dame.
- Academic ability, e.g. Universities can use segmentation data to target appropriate students for their establishments and courses. Cambridge and Harvard, for instance, target their marketing at top (academic) schools across the world. Such universities are more likely to use focused marketing; other universities may use more mainstream marketing techniques.

Overall, effective segmentation can help universities to develop more specific marketing strategies for their overseas customers and to have opportunities to target a wider range of students.

Award *1 – 2 marks* if the answer is generic and rather descriptive with little, if any, application to the business of international students.

Award *3 – 4 marks* if the answer makes reference to market segmentation and cost-effective marketing activities. There is appropriate use of business management terminology although application might be weak in areas.

Award *5 – 6 marks* for a thorough examination of how market segmentation might help universities to have more cost-effective marketing activities to attract overseas students. There is effective use of business management terminology and relevant examples throughout the answer.

Question 4.2.5 – Pink Ladies

(a) Market research refers to marketing activities designed to discover the opinions, beliefs and preferences of potential and existing customers in order to identify and anticipate their wants and needs. For example, market research conducting by *Pink Ladies* found that customers (women) prefer female taxi drivers.

Award *1 mark* if there is some understanding of market research shown, although the answer might lack some clarity.

Award *2 marks* if market research is clearly outlined, with the use of an example related to *Pink Ladies* likely to be used.

(b) Award *2 marks* for each alternative method of market research that is considered in the context of *Pink Ladies* (up to a maximum of *4 marks*). These might include:

- Qualitative Vs Quantitative market research techniques
- Focus groups
- Interviews/Surveys with potential female clients
- Secondary research, e.g. economic data (to judge the level of consumer spending levels).

Award *1 – 2 marks* if the answer explains in detail one other market research technique that *Pink Ladies* was likely to have used or if two methods are outlined vaguely. Appropriate examples/application might be missing.

Award *3 – 4 marks* for clearly explaining two other market research techniques that *Pink Ladies* was likely to have used. Appropriate business management terminology and examples related to the case study are used.

(c) A niche market refers to a small and lucrative market segment. *Pink Ladies* is specifically targeted at women travelling alone who do not have or want to use their own cars. Advantages of operating in a niche market include:

- Limited, if any, competition since *Pink Ladies* offers a unique service. Therefore premium prices can be charged, allowing the firm to earn higher profit margins.
- Focused marketing at the specific market segment, which helps *Pink Ladies* to meet its consumer needs better, thereby improving the firm's competitiveness.
- More effective use of the marketing budget as marketing is highly concentrated on a particular target market (female travelers in this case).
- Highly specialized service, which helps *Pink Ladies* to promote brand awareness and customer loyalty.

Award *1–2 marks* if the answer explains one advantage in detail or two advantages are vaguely outlined. Appropriate examples/application might be missing.

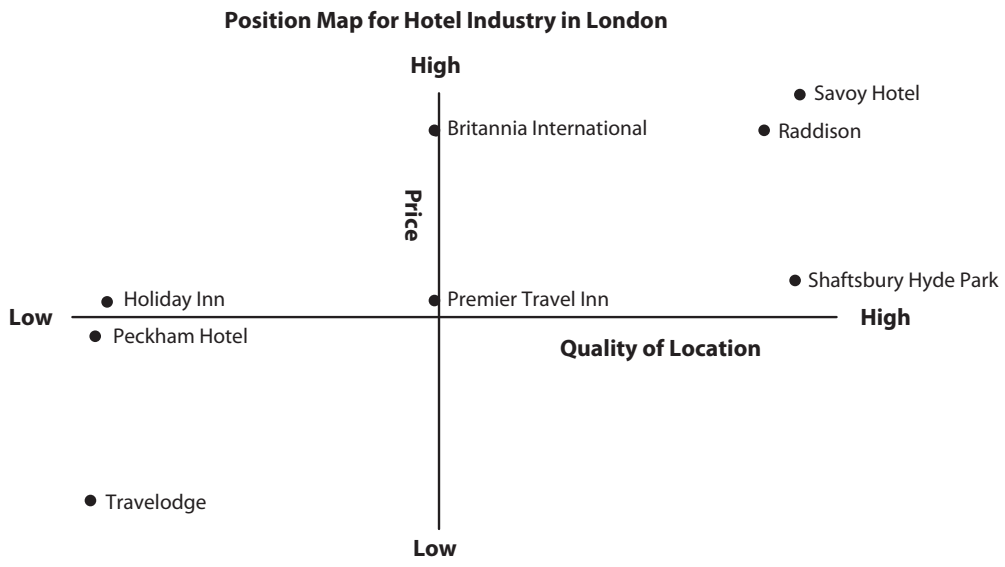
Award *3–4 marks* for clearly explaining two potential advantages for *Pink Ladies* operating in a niche market. Appropriate business management terminology and examples related to the case study are used.

Question 4.2.6 – The hotel industry, London (UK)

(a) Perception maps will vary according which variables are chosen, i.e.

- Price with Quality of location
- Price with Quality of service
- Quality of location with Quality of service.

An example is shown below:



Award *1 – 2 marks* if there are major errors / omissions in the position map.

Award *3 – 4 marks* if a position map is constructed with a few errors / omissions.

Award *5 marks* for an accurate and correctly labeled position map. All eight hotels are accurately shown in the correct quadrants.

(b) The use of position maps may be beneficial to both *Savoy Hotel* and *Peckham Hotel* because:

- It can provide information to aid their pricing decision, e.g. *Peckham Hotel* will charge less than *Savoy Hotel.*
- It can help the hotels to determine whether they want to reposition, e.g. is *Peckham Hotel* content with being perceived as having 'low quality' service? There is no particular need to change if this is what the hotel want to focus on, i.e. it cannot charge 'medium' prices for high quality services.
- *Savoy Hotel* may use such perceptions to fine-tune its marketing by emphasizing the perceptions of high quality.
- For hotel chains, it can help to determine whether there are gaps in the market, e.g. *Savoy Hotel* may wish to target the low or medium range market, perhaps using a different brand of hotels, in order to reach a broader customer base.

Award *1 – 2 marks* for a vague and generalized response. There may be minimal development, if any.

Award *3 – 4 marks* if there are omissions in the explanations or if the answer fails to consider the benefits to both *Savoy Hotel* and *Peckham Hotel.*

Award *5 – 6 marks* for a detailed and considered explanation of the benefits of using position maps to both *Savoy Hotel* and *Peckham Hotel.*

Question 4.2.7 – J.D. Power and Associates

(a) A mass market refers to a large consumer market for a particular good or service, thus requires undifferentiated marketing. With mass markets, there is no need to specifically target individual market segments. For example, Toyota cars are often mass marketed at all their consumer groups, without specific detail to age, religion, gender and ethnicity.

Award *1 mark* if there is some understanding of mass market shown, although the answer might lack clarity.

Award *2 marks* if mass market is clearly defined, similar to the example above.

(b) A unique selling point, or unique selling proposition, is any aspect of a product that makes it stand out from those offered by competitors. The USP explains why customers buy the product/brand over rival brands, for example due to its quality.

Quality awards and ratings, such as those awarded by J.D. Power and Associates, can provide carmakers with a unique selling point because it can be a major source of competitive advantage and therefore firms such as *Toyota, Lexus, Porsche* and *Hyundai* will want to emphasize their product's quality awards and high quality ratings in order to attract customers. The data from J.D. Power & Associates can therefore help develop these firms' corporate image (customer perceptions) and to differentiate themselves from other competitors.

Award *1 – 2 marks* if the answer shows some understanding of 'unique selling point' although there are omissions in the explanation.

Award *3 – 4 marks* if there is a clear understanding of the term 'unique selling point' and a good explanation of how quality awards and ratings can provide motor vehicle manufacturers with a USP. There is good use of business management terminology and application throughout the answer.

(c) Having a USP can provide major benefits and allow a business to achieve its objectives such as increased market share. For example, the USP for a car manufacturer, such as high quality ratings, can improve the market standing and corporate image of the business (which are organizational objectives in their own rights). If this leads to increased sales, then the firm can also benefit from economies of scale and improved profits.

However, obtaining a USP can be very costly. Not many companies will have the financial resources to improve the quality of their cars to the extent that they destroy the USP of the likes of *Porsche* and *Toyota*, i.e. there might be a large opportunity cost in trying to achieve a USP.

In highly competitive markets, a unique selling point may be short-lived as rivals seek to reduce or eliminate such competitive barriers, e.g. by improving the quality of their own cars. However, this may be more difficult in the motor industry due to the huge costs of R&D required to improve quality in the long run.

The product is central to a firm's success. However, other aspects of the marketing mix also need to be considered, e.g. the price of the cars, the effectiveness of the promotion used to market the cars, the quality of the customer services provided and where/how the cars are distributed. Furthermore, it is most likely that having a USP will help a firm to thrive in the short run only; in a continuously changing and highly competitive industry, having a USP might not be sufficient to allow a business to achieve its organizational objectives in the long run.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, and lacks coherence.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of business management theory.

Award *5 – 6 marks* for an answer that demonstrates how having a unique selling point in a highly competitive market can help an organization to achieve its objectives, although the answer lacks detail in certain areas. At the top end, there is an attempt at application.

Award *7 – 8 marks* for a balanced answer that discusses how a unique selling point in a highly competitive market, such as the motor industry, can help an organization to achieve its objectives. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* for a balanced discussion with good use of business management terminology, examples and application. The answer addresses the extent to which having a USP in a highly competitive market can help an organization to achieve its objectives. There is evidence of evaluation and critical thinking.

Unit 4.3 Sales forecasting [HL Only]

Question 4.3.1 – Esswood Campers

(a) Mean = $3,300
Median = $3,250
Modal = $3,000

Award *1 mark* for each correct calculation, up to a maximum of *3 marks.*

(b) Range = 4,500 – 2,500 = **$2,000**

The range shows the difference between the highest and lowest sales forecast figures for *Esswood Campers,* i.e. there is a difference of $2,000 between the peak period and the off-peak period for the firm.

Award *1 mark* for the correct calculation.

Award *2 marks* if the answer contains the correct calculation and the commentary is sound.

(c) 4-month moving averages for *Esswood Campers* (rounding to the nearest $):

Month	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb
	3500	3000	3000	2500	2800	2600	2900	3000	3600	4500	4200	4000
4-point total				12000	11300	10900	10800	11300	12100	14000	15300	16300
8-point total				23300	22200	21700	22100	23400	26100	29300	31600	
4-point MA				2,913	2,775	2,713	2,763	2,925	3,263	3,663	3,950	

Award *1 – 2 marks* if there is some understanding shown in the calculation of 4-point moving averages. There are two or more errors. Apply the own figure rule where appropriate.

Award *3 – 4 marks* if there is a clear understanding shown in the calculation of 4-point moving averages. For full marks, there are no errors.

(d) Figures rounded to nearest $

Month	Sales ($)	4-point moving average (trend)	Centred trend ($)	Variation ($)
Mar	3500			
Apr	3000			
May	3000			
		2913		
Jun	2500		2884	-344
		2775		
Jul	2800		2744	+56
		2713		
Aug	2600		2738	-138
		2763		
Sep	2900		2844	+56
		2925		
Oct	3000		3094	-94
		3263		
Nov	3600		3463	+138
		3663		
Dec	4500		3806	+694
		3950		
Jan	4200			
Feb	4000			

Award *1 – 2 marks* if there is some understanding shown in calculating the variation from the trend. There are two or more errors. Apply the own figure rule where appropriate.

Award *3 – 4 marks* if there is a clear understanding shown in calculating the variation from the trend. For full marks, there are no errors.

(e) Accurate sales forecasting (including knowledge of average sales figures and the range) can help *Esswood Campers* in several ways, including:

- Improving cash flow management, e.g. knowing that sales are likely to be lowest in June can help the firm to arrange an overdraft or to secure other sources of external finance if necessary.
- Stock control can be improved, e.g. more stock is needed for peak period from November to March.
- Improved workforce planning, e.g. more part-time staff may be hired in the summer months of December to February.
- Aids the budgeting process, e.g. comparing income and expenditure (variance analysis).
- Helps with financial planning, e.g. to predict break even and profits/losses for the business.

Award *1 – 2 marks* if the explanation is incomplete and/or vague. The answer might be presented as an unexplained list.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation.

Award *5 – 6 marks* for a thorough examination, with clear examples used written in the context of *Esswood Campers.*

Question 4.3.2 – Chatterjee Travel Ltd.

(a) A niche market targets a specific and well-defined market segment. Firms that operate in niche markets cater for the distinct and precise needs of their customers. Unlike mass markets, the client base for niche markets is relatively small. *Chatterjee Travel Ltd.* might be considered to operate in a niche market because it offers a specialised service to its wealthy Finnish clients who are fans of the English Premier League.

Award *1 mark* for some understanding of niche market, although the answer lacks application to the case study.

Award *2 marks* if niche market is accurately outlined, with clear application to the stimulus material in the case study.

(b)

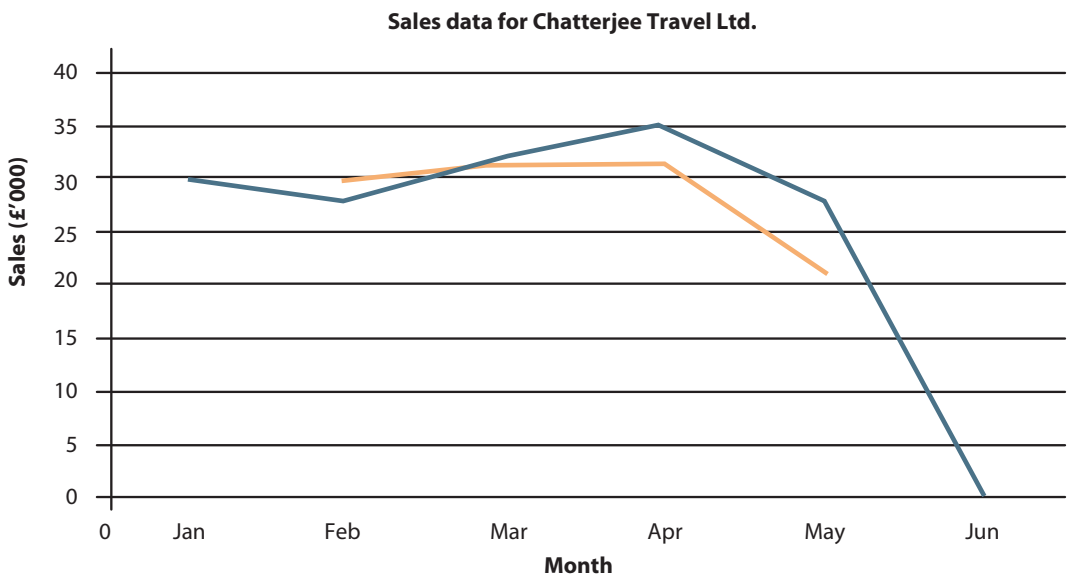
Sales (£'000)	Jan	Feb	Mar	Apr	May	Jun
	30	28	32	35	28	0
3-month moving averages	90 ÷ 3 = £**30,000**					
		95 ÷ 3 = £**31,167**				
			95 ÷ 3 = £**32,333**			
				63 ÷ 3 = £21,667		

Award *1–2 marks* if there is no working work out shown and/or more than two mistakes are made.

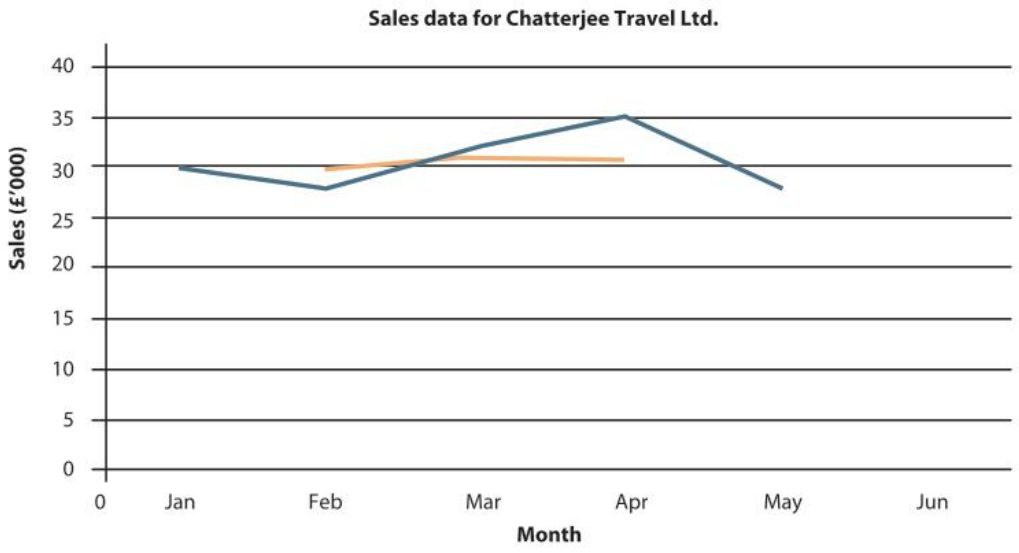
Award *3 marks* if the answer is correct but not expressed in £'000 and/or there are minor errors/omissions.

Award *4 marks* for a correctly worked out set of three-point moving averages. Working out is shown and there are no errors or omissions.

(c) Actual sales figures and the moving averages for *Chatterjee Travel Ltd.*



As the zero sales in June (end of the football season) distorts the sales trends, it is possible to plot the 3-point moving average for the period ending 31 May:



Deduct *1 mark* for each error made. For full marks, the axes should also be correctly labelled, with an appropriate title. The maximum number of marks for this question is *5 marks*.

Note: The monthly sales figures could also be plotted as a bar chart, with the 3-month moving average included.

(d) Due to the large fluctuations in sales (with a variance of £35,000 in April and zero sales in June), it is difficult to establish any underlying trend line by using the actual sales figures (see first graph in Question 4.3.2c). The 3-month moving average does smooth out these fluctuations to some extent, however. The zero sales in June, end of the football season, also puts a huge statistical bias on the moving average (hence the use of the second graph in Question 4.3.2c).

During the football (soccer) season, the range in sales is only £7,000 (from £35,000 in April to £28,000 in February and May). As the range is small, *Chatterjee Travel Ltd.* is likely to be able to manage this. However, with no sales at the end of the football season, *Chatterjee Travel Ltd.* will need to have strategies in place to deal with a lack of cash inflow during such times, i.e. sales forecasting can help the firm to improve its financial management. There are also likely to be some staffing issues during the off-peak football season.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development.

Award *3 – 4 marks* if there is some understanding of trends and seasonal fluctuations. The commentary might lack adequate reference to the data and application to *Chatterjee Travel Ltd*.

Award *5 – 6 marks* for an applied commentary that demonstrates a clear understanding of trends/seasonal fluctuations and how these might affect the operations of *Chatterjee Travel Ltd*. Relevant examples and business management terminology have been used throughout the answer.

Question 4.3.3 – Acosta Adventures

(a) Three-part moving average and the variation from the trend for *Acosta Adventures*:

Year	Quarter	Sales (฿ million)	3-part moving average (trend)	Variation (฿ million)
Last year	1	7.89		
	2	7.56	8.33	-0.77
	3	9.55	7.89	1.66
	4	6.57	7.94	-1.37
This year	1	7.69	7.27	0.42
	2	7.55	8.41	-0.86
	3	9.98	8.00	1.98
	4	6.47	8.12	-1.65
Next year	1	7.92	7.35	0.57
	2	7.67	8.64	-0.97
	3	10.32		

Award *1 – 2 marks* if there is some understanding shown in calculating the three-part moving average and variation from the trend. There are two or more errors. Apply the own figure rule where appropriate.

Award *3 – 4 marks* if there is a clear understanding shown in calculating the three-part moving average and variation from the trend. For full marks, there are no errors.

(b) There are at least two possible answers, including:

- Averaging the two Q4 figures (฿6.57m + ฿6.47m) = ฿6.52m
- Averaging the seasonal variation for Q4 (-฿1.37m + - ฿1.65) = -฿1.51m. This figure is taken away from the trend of ฿7.99m, i.e. Q4 = ฿6.48m.

Award *1 mark* for a vague understanding of how the trend is extrapolated.

Award *2 marks* for a clear understanding of how the trend is extrapolated. The working out is clearly shown.

(c) The sales forecasting data above can help the operations of *Acosta Adventures* for a few reasons. Considerations include the following:

- The range is ฿3.85 million (Q3 next year compared to Q4 this year), whereas the range for the 3-point moving average is only ฿1.37 million.
- The variation from the trend can help *Acosta Adventures* to better manage its staffing and resource needs, e.g. Q4 has a negative variation from the trend so less staff are needed during this off-peak period.
- The data can help *Acosta Adventures* with its pricing strategies, such as setting higher prices for its tourist package during peak periods (Q3 when there is a positive variation from the trend).

Award *1 – 2 marks* if there is some understanding of how sales forecasting data can help the operations of *Acosta Adventures*. Application of the data is limited or missing.

Award *3 – 4 marks* if there is a clear understanding of how the sales forecasting data can help the operations of *Acosta Adventures*. There is good reference to the data calculated in Question 4.3.3b, with proficient use of business management terminology.

Question 4.3.4 – Bhave Bakery

(a) To 'extrapolate the trend' means to identify the trend by using past sales data and extending this trend to predict future sales. Graphically, the trend can be identified by a line of best fit and extrapolation simply extends this line to make sales forecasts.

Award *1 mark* for a vague understanding of what it means to extrapolate the trend.

Award *2 marks* for a clear understanding of what it means to extrapolate the trend. There is good use of business management terminology, with application to the case study likely to be shown.

(b) Four-weekly moving average for *Bhave Bakery* (figures rounded to nearest $):

Week	Sales (INR)	4-week total	4-week average
1	7,347		
2	6,123		
3	6,735		
4	7,347	27,552	6,888.00
5	7,041	27,246	6,811.50
6	7,531	28,654	7,163.50
7	7,837	29,756	7,439.00
8	6,061	28,470	7,117.50
9	6,000	27,429	6,857.25
10	6,368	26,266	6,566.50

Award *1–2 marks* if there is some understanding shown in calculating the four-point moving average. There are two or more errors. Apply the own figure rule where appropriate.

Award *3–4 marks* if there is a clear understanding shown in calculating the four-point moving average. For full marks, there are no significant errors.

(c) With very little past data (as *Bhave Bakery* has only recently introduced cookies to its menu), predicting sales for new products is much more difficult than predicting sales for well-established products.

Random fluctuations in the demand for cookies make it very difficult to make any meaningful explorations, i.e. analysing the data for the past 10 weeks doesn't seem to reveal any strong trends. In order to use extrapolation to make future sales forecasts, *Bhave Bakery* requires far more data to identify any long-term trends. This is a weakness of extrapolation - it relies on the assumption that past trends will continue into the future, but random fluctuations in sales makes it difficult to make such predictions.

Award *1 – 2 marks* if there is some understanding of how random fluctuations make it difficult to make accurate sales forecasts. The answer lacks depth in some areas.

Award *3 – 4 marks* if there is a clear understanding of how random fluctuations make it difficult to make accurate sales forecasts. There is good use of business management terminology.

Unit 4.4 Market research

Question 4.4.1 – Questioning questionnaires

(a) **Quantitative primary market research** relies on a large number of responses from research subjects to get 'hard' answers (factual and measurable information rather than people's opinions) to aid statistical analysis, e.g. the use of closed questions such as the age or gender categories.

By contrast, **qualitative primary market research** involves getting non-numerical answers and opinions from market research respondents, e.g. how a customer feels about a particular product or brand. They are commonly used as part of market research in order to understand the behaviour, attitudes and perceptions of respondents and customers by asking open-ended questions. Asking respondents why they choose to buy from a particular greetings card retailer would be an example.

Award *1 – 2 marks* if limited understanding is shown, but the distinction is not very clear and/or there are omissions in the answer.

Award *3 – 4 marks* if a clear distinction is made between qualitative and quantitative primary market research. There is good use of relevant examples.

(b) Errors/mistakes in the questionnaire include:

- Asking for the name of the respondent is not necessary for the purpose of this particular research.
- The age category has a couple of errors, i.e. which box should those aged 15 tick? Also, the age range for those aged 36-64 is significantly larger than the range for the other age categories so this will cause some statistical bias.
- The gender question could be better structured with selection boxes for male and female. This will prevent varying answers being given, e.g. 'F' versus 'Female'
- The fourth question 'Where do you live?' does not seem to have much relevance to the research; if this information was important to know, then a range of options (based on the area where the respondents live) should be given. Again, a host of (unwanted) answers might be given, e.g. 'in a house', 'in Europe' or a specific postal address.
- Q5 is redundant – assuming that the questionnaire is being used in Kennedy Town Centre, the respondent obviously does shop there.
- Q6 is too vague and the questionnaire should specify the parameters, e.g. per week, per month or per year.
- Q8 is misleading and confusing, especially for those who answer 'no' to Q7. There is also very limited space to give a qualitative response.
- Being a greetings card shop, the answer to Q9 should be quite obvious. If the business has a broader product range, then the questionnaire should list the various product categories in the question, e.g. greeting cards, stationery, toys, wrapping paper, gift boxes etc.
- Q10 is a very leading question as there isn't the option to select "no"!

Award *1 mark* for each correctly identified mistake, up to *3 marks*.

Award a further *1 mark* for each explanation, up to *3 marks*.

The total marks for this question is *6 marks*.

Question 4.4.2 – Zaffran Craftphoria

(a) Primary market research is field research or bespoke research that involves gathering new data first-hand for a specific purpose, such as using surveys (questionnaires) to gather feedback from customers about what appeals to them.

Award *1 mark* for a vague answer that shows some understanding of the term primary market research.

Award *2 marks* for an answer that shows a clear understanding of the term primary market research, similar to the example above.

(b) Primary market research can be of value to small businesses such as *Zaffran Craftphoria* for several reasons, such as:

- Cheaper - it is probably cheaper for Wahida Mostafa to collect primary research data, such as feedback from her customers on her Facebook page, than for her to gather secondary data for which she may need to pay.
- Primary data from customers can help to identify buying patterns and to anticipate changes in market trends, thus enabling *Zaffran Craftphoria* to be better aware of their customers' needs and wants.
- Relevance - primary research is carried out for the specific purpose of the business, so it directly addresses the questions that Wahida Mostafa wants answered. By contrast, secondary data is not always in a format that can be easily used by small businesses like *Zaffran Craftphoria*.
- Confidential and unique - as the market research is done first-hand, no one else (including rivals of *Zaffran Craftphoria*) has access to the information.

Award *1–2 marks* for a vague answer that lacks detail and/or depth. The answer may be presented in a bullet point list without sufficient explanation. Award up to 2 marks if only one point is explained.

Award *3–4 marks* if there are good explanations of the value of primary market research for small businesses such as *Zaffran Craftphoria*. Relevant examples are applied, with accurate use of business management terminology.

Question 4.4.3 – Toys 'Я' Us

(a) Toy retailers might be interested in the television programmes and magazines viewed by children for several reasons, including:

- Making their promotion more effective by advertising during the television programmes watched by children and in the specific magazines they read.
- There will be improved use of marketing funds since toy retailers can target the correct customers via the right media.
- There is better financial management due to the reduced chances of unfavourable variances in the marketing budget.
- Enables toy retailers to gather invaluable, up-to-date market research data and to discover the opinions, beliefs and feelings of potential and existing customers who watch these programmes / read these magazines.

Award *1 – 2 marks* if the explanation is incomplete and/or vague. The answer might be presented as a list, with little if any detail.

Award *3 – 4 marks* if the explanation is thorough and good examples are used in the context of toy retailers.

(b) Market research refers to marketing activities designed to discover the opinions, beliefs and feelings of potential and existing customers. It involves collecting primary and/or secondary data and information to identify and anticipate the wants and needs of customers.

Market research can allow toy retailers to gather information on competitors, the state of the economy (and hence the likely impact on consumer spending) and the level of demand in the toy industry in order to differentiate itself from its competitors. For example:

- Market research data can be used as part of their marketing, perhaps to identify a USP (unique selling point) or other core strengths.
- Having up to date market research data allows toy retailers to stay ahead of the competition by supplying the products (toys) in high demand based on the latest trends -vital in a changing business environment and an industry that frequently faces changing consumer tastes and trends.
- Segmentation analysis can provide invaluable information, e.g. the toys demanded by 'tweens' versus the products being demanded by pre-school children or teenagers.
- Knowing more about what children enjoy doing, e.g. watching certain television programmes or reading particular magazines, can help to improve the marketing strategies used by toy retailers.
- The use of perception mapping information as a source of market research can better inform toy retailers of its market standing in order to devise marketing strategies to differentiate itself from competitors.
- It can also give toy retailers a better understanding of the activities and strategies used by its competitors in order to devise its own (differentiated) marketing strategies.
- Ultimately, effective market research provides useful information to reduce business risks by allowing toy retailers to distinguish itself from its rivals.

Award *1 – 2 marks* if the answer is rather generalized and lacks coherence. It might be presented in a list-like format with little, if any, explanations.

Award *3 – 4 marks* if there is some analysis of how market research can allow toy retailers to differentiate itself from its competitors, although the answer lacks detail/clarity in areas. At the lower end, there is little, if any, application to toy retailers.

Award *5 – 6 marks* if there is a thorough analysis of how market research can allow toy retailers to differentiate themselves from their competitors. Appropriate terminology has been used, and there is good application of the stimulus material.

Unit 4.5 Product

Question 4.5.1 – Sony PlayStation 4

(a)(i) A first mover advantage (FMA) is a method of competitive advantage gained by being the original firm to enter a particular market or industry. These advantages include being able to establish brand awareness, brand recognition and brand loyalty before competitors enter the market.

Award *1 mark* for a vague answer that shows some understanding of the term first mover advantage.

Award *2 marks* for an answer that shows a clear understanding of the term first mover advantage, similar to the example above.

(a)(ii) Product life cycle (PLC) refers to the typical stages that a product goes through from its initial design and launch to its eventual decline and withdrawal from the market. Different products undergo each of the stages (research, launch, growth, maturity, saturation and decline) at varying speeds.

Award *1 mark* for a vague answer that shows some understanding of the term product life cycle.

Award *2 marks* for an answer that shows a clear understanding of the term product life cycle, similar to the example above.

(b) Answers should make connections between a product's cash flow situation and its stage in the product life cycle. An example is shown below.

R&D	There will be negative cash flow as the money spent on R&D will be large, without any corresponding cash inflow.
Launch	There will be some cash inflow, with innovators and early adopters purchasing the PSP4 games console, although net cash flow will be negative.
Growth	Net cash flow will go into positive territory as the PSP4 establishes itself in the market. Sony is likely to be making profits at some point during the growth stage of the PSP4's product life cycle.
Maturity	The PSP4 is possibly a cash cow for Sony at this stage, thereby contributing significantly to the company's cash flow.
Decline	The PSP4's lack of popularity at this stage means that the cash flow position will become unfavourable. This fall will continue unless the firm introduces effective extension strategies.

Award *1 – 2 marks* if the answer is generalised with little substance. The answer may be presented in a list-like format with limited understanding shown.

Award *3 – 4 marks* if there is an examination of most stages in the PSP4's life cycle with reference to its cash flow position. At the lower end, the answer lacks application.

Award *5 – 6 marks* if there is an examination of the various stages in the PLC, with clear explanations of the relationship between the cash flow for Sony's PSP4 games console and its life cycle.

Question 4.5.2 – Mattel

(a) Product portfolio refers to the collection of the different product made or sold by a business. In this case, *Mattel's* product portfolio includes: toy cars, board games, dolls, cuddly toys and educational toys.

Award *1 mark* for a vague answer that shows some understanding of the term product portfolio.

Award *2 marks* for an answer that shows a clear understanding of the term product portfolio, similar to the example above.

(b) Having a broad product portfolio is important to Mattel for several reasons, including:

- Increased sales due to a wider customer base being catered for - This can also encourage repeat purchases (consumer loyalty) as customers may be attracted to buying a range of different toys, such as those associated with Pixar movies *Cars* and *Toy Story*.
- Risk-bearing economies of scale - A broad and diversified product portfolio can help to compensate losses made by unpopular product lines by the profits earned from more successful products, i.e. a broad portfolio reduces risks.
- By offering a broad and balanced range of products, *Mattel* can increase its sales revenue as its portfolio of products appeal to wider and larger markets, e.g. *Barbie* dolls targeted at young girls, *Hot Wheels* cars aimed at young boys, and board games such as *Pictionary* and *Scrabble* for families.
- It can increase Mattel's market share and market power, i.e. the firm's competitiveness improves.
- A broad product portfolio gives customers greater choice and therefore this can improve Mattel's profits

and competitiveness in the long term.

- Economies of scale - *Mattel* can promote the family brand across the broad portfolio of products, thereby cutting marketing and other related costs.
- Broadening the product portfolio can help to publicise the *Mattel* brand and this makes future product launches more likely to succeed.
- Hence a broad and balanced product portfolio can be considered crucial for *Mattel* as the conditions facing businesses in the toy industry are ever changing.

Award *1 – 2 marks* for explaining the meaning of a broad product portfolio. The answer lacks depth of understanding of the importance of having a broad product portfolio.

Award *3 – 4 marks* for a good examination of the importance of a broad product portfolio for a business. The answer might lack substance or the use of examples.

Award *5 – 6 marks* for a thorough examination of the importance of a broad product portfolio for a business such as *Mattel*. There is proficient use of business management terminology and relevant examples.

Question 4.5.3 – Virgin Group Ltd.

(a) An entrepreneur is the owner or key person of an organization who manages, organizes and plans the other three factors of production. The entrepreneur takes business risks in pursuit of business opportunities in return for profits.

Award *1 mark* for a vague answer that shows some understanding of the term entrepreneur.

Award *2 marks* for an answer that shows a clear understanding of the term entrepreneur, similar to the example above.

(b) *Virgin* needs a different marketing mix for each of its distinct products as each product is aimed at a different target market and each product is also likely to be in a different stage of the product life cycle. For example, *Virgin Atlantic* might be marketed at middle to high income earners who can afford to travel overseas. It would therefore have to be promoted in the right places so that the right people are targeted and the advertising is effective. This type of promotion would be very different from the promotion of *Virgin Cola* which could be promoted as a mass market product aimed at people of any income bracket.

There are several justifications for using such a varied approach:

- *Virgin* is an immensely large organization which has an extremely large product portfolio, so a uniform marketing mix will not be suitable, e.g. the promotional strategy for an airline and a mobile phone company would be entirely different.
- The products within the portfolio may share nothing in common except the parent name, *Virgin* so a homogenous marketing mix is unlikely to succeed in marketing the multinational company's huge range of products such as flowers and train travel.
- Pricing strategies will vary for the different categories of products within the Boston matrix, e.g. premium prices can be charged for cash cows whereas penetration pricing might be used for wild cards.
- The distribution channels for the products in the product portfolio may be vastly different, e.g. mobile phones and cola could be sold in supermarkets but it is unlikely that airline or train tickets would be purchased in such outlets.
- A different marketing mix is used for each of their products in order to differentiate them from each other. *Virgin* needs to ensure that each product has its own identity so that if one of the products fails or does not appeal to a particular market segment it will not affect customer perceptions of the other products in the portfolio.

- The type of promotion used for problem children (wild card) products would also be more persuasive, whilst that used for cash cows might just be to remind the customer about the product in order to keep sales revenue high.
- It is with the differences in these marketing mixes that can highlight and optimize the special qualities of each product within *Virgin's* portfolio, thereby helping it to maximise potential sales and profits.

Award *1 – 2 marks* if the answer is vague, generalised or lacks substance.

Award *3 – 4 marks* if the answer shows some understanding of the marketing mix, although there may be omissions in the explanation. There is some application made to the *Virgin Group*.

Award *5 – 6 marks* if there is an examination of the (main) 4 Ps in the marketing mix and the reasons why *Virgin Group* needs a different marketing mix for each of its distinct products. The answer is written in the context of the case study with appropriate application of examples and relevant use of business management terminology.

Question 4.5.4 – Lexus

(a) Reasons for *Toyota's* decision might include the following:

- *Toyota* is a well-established producer of cars around the world for the mass market so a new brand name, *Lexus*, would be required to penetrate the luxury car industry.
- Association and market positioning of the *Toyota* brand would have meant that its *Lexus* cars could have been considered far too expensive.
- *Lexus* would be established as a separate strategic business unit (division) operating as a separate profit centre, thereby giving it a unique and recognizable brand name and corporate image to differentiate it from other (*Toyota*) cars.
- A new brand, associated with luxury, helps to create a sense of value for money in a market dominated by established carmakers such as *BMW, Lincoln, Cadillac* and *Mercedes–Benz*.
- Due to the higher costs of production of *Lexus* cars, it is important to be able to charge higher prices; so by using a new brand label, customers are more willing to pay a substantially higher price for a premium brand.

Award *1 – 2 marks* if the explanation is incomplete and/or vague. It might be presented as a bullet-point list with no or minimal elaboration.

Award *3 – 4 marks* if the explanation is thorough and is written in the context of *Toyota* and *Lexus*. There is good use of business management terminology and relevant application.

(b) The roles of branding to multinationals such as *Toyota* include:

- To create a legal identity for a product that is protected by law in the various countries that *Toyota* and *Lexus* operate in.
- To act as a vital source of product differentiation (not just from its rivals but also from its own strategic business units, such as *Toyota* and *Lexus* divisions of the Japanese carmaker).
- To encourage customer loyalty or brand loyalty in a trusted brand.
- To portray an image of high-quality branded motor vehicles.

Branding is important to *Toyota* because:

- Branding is a form of intellectual property and such rights gives *Toyota* the ability to differentiate itself from rivals such as *Mercedes-Benz, Jaguar, Audi, BMW, Lincoln* and *Cadillac*.
- Branding can also help to boost the book value of the company on its balance sheet, thereby making it easier for *Toyota* to secure external sources of finance to fund it future expansion plans (the case study

mentions the *Lexus* brand being one of Japan's largest global brands by market value).

- By creating brand recognition and brand loyalty, *Toyota* is able to reduce the risks involved in operating in the motor vehicle industry (which undergoes continual, and sometimes rapid, change).
- A strong brand can give *Toyota* greater market standing, thereby allowing it to charge relatively higher prices for its vehicles. This will improve the profit margins made on the cars that are sold.
- Research has shown that purchasing habits of customers are affected by branding and not just prices. In some cases, the brand is considered more important than the price.

However, there is more to a product than the brand, such as the quality and price of the product. The priority for some customers is cars that are fuel efficient and reliable, for example. They will also want cars that are well designed and aesthetically pleasing. Moreover, what makes a brand successful in one country does not necessarily mean the same formula will work in another country. Nevertheless, globalization has led to converging consumer tastes, much to the delight of multinationals such as *Toyota*.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of business management theory.

Award *5 – 6 marks* if the answer considers the role and/or importance of branding, but lacks detail in certain areas. At the top end, there is an attempt at application using the case study.

Award *7 – 8 marks* if there is an examination of the role and importance of branding for companies such as *Toyota*. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if the discussion considers both the role and the importance of branding for companies such as *Toyota*. There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking.

Question 4.5.5 – Coca-Cola

(a) A brand name is of huge importance to *Coca-Cola* because:

- It allows the customer to recognize the product and to distinguish it from others, e.g. *Coke* versus *Pepsi*.
- A well-recognized and protected brand name allows the business to enjoy customer brand loyalty whilst reducing the risk of 'me too' brands from taking away its market share.
- Brand names are a form of promotion. It can help to give *Coca-Cola* brand exposure through activities such as sponsoring major sporting events.

Award *1 – 2 marks* if the answer shows some understanding of the demands of the question, but is generalised and lacks detail in some areas.

Award *3 - 4 marks* if there is a good explanation of why branding is important to businesses such as *Coca-Cola*, with appropriate application to the case study.

(b) A widely recognized and well respected brand, through effective brand development, can bring about many benefits, such as the following:

- Customer perceptions of quality and reputation are largely based on branding; hence investment in developing a brand can be vital to a firm's success and ultimately its survival.
- Marketing standing and market power – For example, *Coca-Cola* invests heavily in its brand development

in order to maintain its number one position in the market.

- Brand development can help to create brand preference and brand loyalty (which certainly seems to be the case for *Coca-Cola*); hence investing in a brand is a strategy to achieve marketing objectives such as market leadership.
- *Coca-Cola's* investment in its brand has ensured that brand development strategies have been successful, e.g. its product portfolio includes brands such as *Coke Light, Coke Zero, Fanta* and *Sprite*.

However, the opportunity cost of achieving such status through brand development include the following points:

- The huge costs in marketing the brand, such as through sponsoring major sporting leagues and events, e.g. the NBA, NHL, the Olympics Games and the FIFA World Cup.
- Big brands can become generalized (e.g. *Frisbee, Hula Hoop, Rollerblade* or even *Coke*) and thus this defeats one major purpose of branding – product differentiation.
- The international marketing of a brand is likely to require some adjustments to the marketing plan in order to adapt the brand to local tastes and cultures. Few companies and brands are able to fully exploit global marketing economies of scale.

Award *1 – 2 marks* if the answer is generalized and lacks detail. The answer might be presented in a list-like format, with minimal explanations.

Award *3 – 4 marks* if the analysis is sound, although there are omissions in some areas. At the lower end, the answer is unbalanced.

Award *5 – 6 marks* if there is a balanced examination of whether firms should devote their time and resources for brand development. There is good use of appropriate business management terminology and examples.

Question 4.5.6 – The top brands in the world

(a) Brand development is the process of strengthening and building the trademark name and perception of a brand in order to boost its sales. Companies such as *Coca-Cola, Microsoft* and *Toyota* continue to pour money into brand development in order to:

- maintain or improve their market share
- retain and build brand loyalty and repeat purchases
- enhance the brand image in order to attract new customers in new and existing markets
- improve chances of success when introducing new products based on brand extension
- ultimately and directly affect the future earning potential of the brand.

Award *1 – 2 marks* if the answer shows some understanding, of the demands of the question, but lacks detail and/or examples.

Award *3 – 4 marks* if there is a clear explanation of brand development and why firms with globally recognized brands invest heavily in such brands, despite their worldwide dominance. Appropriate business management terminology and examples have been used.

(b) Brand names can be a major determinant of the future success of a business for several reasons:

- Some customers will perceive the brand as indistinguishable from the company, e.g. *Coke and Coca-Cola or iPhone* and *Apple*.
- Major brands rely on the reputation and awareness/publicity of the trademark in order to succeed overseas (the top brands have at least 20% of their sales coming from overseas trade, according to *Interbrand*).

- Brand development can lead to customer/brand loyalty and this will directly affect the future earning potential of a business.
- Brand development can also lead to brand switching, which again can affect the future earning potential of a brand/business.
- Investing in a brand can make a brand so powerful that it becomes a generic brand or even a global brand, thereby leading to increased sales, market share and earning potential.
- Branding can also act as a barrier to entry, as in the case of firms such as *McDonald's, Intel* and *Microsoft*. Raising entry barriers helps to secure sales revenue, market share and future earnings.
- Brand development can also help to foster brand extension strategies thereby helping businesses such as *Coca-Cola, Google* and *Mercedes-Benz* to develop and launch new products under the brand name.

Award *1 – 2 marks* if the answer is rather vague and lacks detail/substance. The answer might be presented in a list-like format without any explanations.

Award *3 – 4 marks* if there is an examination of how a brand name might determine the future success of a business, although the answer lacks depth and/or coherence in certain areas.

Award *5 – 6 marks* if there is a thorough examination of how a brand name might determine the future success of a business, such as those identified by *Interbrand* as the top brands in the world. Appropriate business management terminology, application and examples have been used.

Question 4.5.7 – French Connection, UK

(a) Brand loyalty occurs when customers buy the same brand of a product time and time again. Customers are devoted to the brand because they have brand preference over other brand names. In this case, customers are losing their brand loyalty towards *FCUK*, preferring to buy clothes from rival brand labels.

Award *1 mark* for a vague answer that shows some understanding of the term brand loyalty.

Award *2 marks* for an answer that shows a clear understanding of the term brand loyalty, similar to the example above.

(b) Brand loyalty is important to businesses such as *FCUK* for several reasons, including the following points:

- Brand loyalty helps firms such as *FCUK* to maintain or even to improve their market share.
- It allows *FCUK* to charge premium prices due to customer loyalty towards its products. Therefore, this improves the company's profit margins.
- It can act as a barrier to entry in highly competitive markets such as the fashion and clothing industry. This is because brand loyalty reduces the likelihood of brand switching.
- Brand loyalty also plays a major role in the future success of a business.

Award *1 – 2 marks* if the explanation is generalised and lacks depth. There may be little, if any, reference to the case study.

Award *3 – 4 marks* if the answer clearly explains why brand loyalty is important to businesses such as FCUK. Relevant examples and business management terminology are used proficiently.

Question 4.5.8 – Tulgestke Trampolines Co.

(a) Mark-up refers to the extra amount charged by a business on top of its unit costs of production in order to earn a profit margin. This can be expressed as an absolute amount or as a percentage of the cost.

Award *1 mark* for a vague answer that shows some understanding of the term mark-up.

Award *2 marks* for an answer that shows a clear understanding of the term mark-up, similar to the example above.

(b) Price with mark-up of 90% = \$150 × 1.9 = \$**285**

Award *1 mark* for the correct answer.

Award another *1 mark* for appropriate working out.

(c) \$105 = \$65x
x = \$105 ÷ \$65 = 1.6154 = **61.54% mark-up**

Accept answers that state 61.5% or 61.53%

Award *1 mark* for the correct answer.

Award another *1 mark* for appropriate working out.

Question 4.5.9 – Price discrimination at theme parks

(a) Price discrimination is a pricing strategy used by firms such as theme parks that charge different prices to different customers for essentially the same product.

Award *1 mark* if there is some understanding of price discrimination shown, although the answer might lack clarity.

Award *2 marks* if price discrimination is clearly defined, with reference to theme parks likely to be used.

(b) Theme parks use price discrimination in a number of ways to raise revenue, including:

- Age – adults pay an admission price of \$88 whereas children pay only \$78, exploiting the higher ability of adults to pay a higher price.
- Demographics – a family of 2 adults and 2 children pay \$305 (saving \$27) or \$230 for a family of 1 adult and 2 children (saving \$24), although the price discounts can attract more customers to visit the park.
- Customer loyalty – adult annual pass holders start from \$275 whereas single entry adults would pay \$264 for only 3 visits (\$88 × 3). This can help to raise sales as bargain hunters buy annual passes (whereas they may not visit three times a year originally).
- Time – Theme parks might also choose to charge more during peak periods, such as the weekends or summer holidays, thus raising revenues.

Accept any reasonable response that is explained in the context of theme parks.

Award *1 – 2 marks* for a brief answer that shows limited understanding of the demands of the question.

Award *3 – 4 marks* for a good answer with appropriate reference to price discrimination.

Award *5 – 6 marks* for a detailed and justified examination of how theme parks use price discrimination to raise sales revenue.

Question 4.5.10 – The price of price wars

(a)(i) Loss leader pricing is a pricing strategy that involves setting the price of a product below its costs of production. Supermarkets often use loss leader products in order to entice customers to buy other products with high profit margins.

Award *1 mark* if there is some understanding of loss leader pricing shown, although the answer might lack clarity.

Award *2 marks* if loss leader pricing is clearly defined, similar to the example above.

(a)(ii) Price wars are a form of pricing strategy that involve businesses competing by a series of continuous and/or intensive price cuts to threaten the competitiveness of rival firms.

Award *1 mark* if there is some understanding of price war shown, although the answer might lack clarity.

Award *2 marks* if price war is clearly defined, similar to the example above.

(b) In the short run, customers are likely to benefit from the intense price cuts, e.g. lower food prices and cheaper supermarket goods. Some businesses may also see a greater than proportionate increase in their demand, following the price reductions so this will increase their sales revenues. Many businesses (especially smaller ones) will experience declining profit margins and profitability; some might even experience temporary losses due to the intense price competition.

However, in the long run, since these industries tend to be dominated by firms with market power, only the largest ones are able to sustain losses. Smaller rivals are likely to face liquidity problems or even bankruptcy. Thereafter, prices are likely to be raised (due to the lack of competition that remains) and so customers may lose out from price wars in the long run.

Award *1 – 2 marks* for a generalized answer that lacks details of the winners and losers of a price war.

Award *3 – 4 marks* for a good examination of the winners and losers of a price war. The answer might lack application or the use of relevant examples. Award up to *4 marks* if only winners <u>or</u> losers are examined, or if there is no reference to the short and long run.

Award *5 – 6 marks* for a thorough examination of the winners and losers of a price war in both the short run and the long run. There is proficient use of relevant examples and business management terminology throughout the answer.

(c) Candidates might consider any two of the following non-pricing strategies (i.e. other components of the marketing mix):

- Promotion – Ethical marketing strategies, e.g. supermarkets might promote recycling or the sale of organic produce. In the modern age of environmental concern, socially responsible supermarkets are more likely to succeed. Other promotional tactics might include: aggressive television advertising, BOGOF (buy one get one free) deals, customer loyalty schemes/cards, point of sales promotion, free product samples, and the use of discount vouchers/coupons.

- People – investing in the workforce through careful workforce planning and staff training can help to boost the morale and productivity of the workers. In turn, customers are likely to have a better experience at the supermarket, thereby improving its attractiveness and competitiveness.
- Physical environment – improving the aesthetics and physical layout of the supermarket can make the shopping experience more enjoyable for customers (who are also more likely to become loyal customers). Examples might include: a large car park, free parking for customers, bagging/packing service, and special shopping trolleys for children and/or disabled persons. However, improving the physical environment is likely to cost a huge amount of money and other supermarket chains can copy such ideas/designs/improvements quite easily.
- Place – more and more supermarkets are offering 'free' delivery services and offering online purchases. Both these methods help to increase the convenience for customers, thereby improving the supermarket's competitiveness. There are, however, associated set-up and running costs of enlarging the channels of distribution.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. Only one (appropriate) non-pricing strategy might be examined.

Award *5 – 6 marks* if two forms of non-price competition are examined in the context of the supermarket industry, although the answer lacks detail in certain areas. At the top end, there is an attempt at application using the case study.

Award *7 – 8 marks* if there is a thorough examination of two forms of non-price competition that supermarkets might use to increase their competitiveness. The answer is detailed and probing. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if there is a thorough examination of two forms of non-price competition that supermarkets might use to increase their competitiveness. The answer is detailed and probing. There is a reasoned justification of both non-pricing strategies in terms of their ability to raise the competitiveness of supermarkets, and evidence of critical and evaluative thinking.

Question 4.5.11 – Virgin Australia Airlines

(a) Direct costs are costs specifically attributed to the production or sale of a particular good or service. Direct costs can be traced back to the product and/or to a cost centre.

Award *1 mark* for a vague answer that shows some understanding of the term direct costs.

Award *2 marks* for an answer that shows a clear understanding of the term direct costs, similar to the example above.

(b) Pricing strategies that *Virgin Australia Airlines* could use to enter a new market include:

- Penetration pricing – setting a low (initial) price to enter the market and then raising prices (and hence profit margins) once the airline becomes more established in the market.
- Promotional pricing – similar to penetration pricing, the use of promotional pricing involves setting a low price to entice customers to try the airline service and to build brand awareness. It is highly suited to Virgin Australia Airlines since the technique focuses on (low) price being the most important part of the marketing mix and it is only used in this case as a short term measure to establish market share.
- Premium pricing and prestige pricing do not suit Virgin Australia Airlines (initially a "low cost" airline) but could be used specifically by airlines that cater for the high-end traveler (such as Singapore Airline's executive-class suites on the Airbus A380 aircraft).

- Price leadership – it is likely that an airline entering a new market will set prices with reference to those set by the market leader(s).

Award up to *2 marks* for each relevant pricing strategy that airline companies can adopt when entering a new market, up to *4 marks*.

Award up to *2 marks* if the answer does not include reference to *Virgin Australia Airlines* or the airline industry.

(c) To increase sales revenues, *Virgin Australia Airline*s could adopt several pricing strategies, such as:

- Cost-plus pricing – this will help the airline to ensure that prices cover the costs of production, thereby making a positive contribution towards profit. However, this pricing strategy ignores the prices set by rival airlines so this might have negative consequences on sales and profits of *Virgin Australia Airlines*.
- Price discrimination – this would involve charging different prices for essentially the same service, e.g. charging higher prices to adults and those traveling during peak periods. However, there must still be consideration of other factors, such as the prices being charged by rivals and the state of the economy (lower priced services tend to do better during a recession, for example). In addition, higher prices during peak periods are short lived as prices will fall again during off-peak periods so this will limit the extent to which airlines can raise their sales revenues. Nevertheless, given the market power of *Virgin Australia Airlines* (being 'Australia's second largest airline'), some form of price discrimination is highly likely to be used to raise sales revenues.
- Penetration pricing – this could help *Virgin Australia Airlines* to establish itself in an existing and perhaps highly competitive market. Once a solid customer base is secured, prices can be raised to increase sales revenues (but this will depend on the degree of customer loyalty and the number of available substitute flights). Raising prices might mean that customers switch to rival carriers such as *Qantas* or *Singapore Airlines*. In addition, if prices are set 'too' low initially, the airline could be associated with negative substandard connotations (e.g. unsafe aircraft or poor customer service) which would make future price hikes difficult to implement.
- Psychological pricing – airlines are likely to use this method to affect the emotions of people in order to persuade them to buy tickets because they feel that they are receiving a bargain, e.g. $195 might seem far more attractive than $200 because the $5 difference is insignificant to *Virgin Australia Airlines* if the subsequent effect on customer perceptions (of value for money) leads to a greater than proportional increase in sales.
- Predatory pricing – As *Virgin Australia Airlines* is such a large operator, it might choose to temporarily offer airline fares at a very low price in order to reduce the competitiveness of its rivals or to even push them out of the industry. In the medium to long term, sales revenues are likely to increase as *Virgin Australia Airlines* dominates the market and raises prices to compensate for earlier losses that might have been incurred. However, such practices do not guarantee success as the amount of losses incurred could be significant if a price war is initiated. Furthermore, such anti-competitive practices would be outlawed in many countries.
- In the evaluation, candidates should comment on other aspects of the marketing mix being important in raising revenues (e.g. the quality of the airline's customer service).

Award *1 – 2 marks* for a vague answer that shows limited understanding of the demands of the question.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation.

Award *5 – 6 marks* if the answer shows some understanding of two pricing strategies that can be used to increase sales revenue or if only one (appropriate) pricing strategy is thoroughly analysed.

Award *7 – 8 marks* if two pricing strategies are examined in the context of the airline industry, but without any evaluation of the suitability of these policies in raising sales revenue for airlines such as V*irgin Australia Airlines*.

Award *9 – 10 marks* for a thorough examination and evaluation of each of the two pricing strategies in terms of their ability to raise sales revenues in companies such as *Virgin Australia Airlines*.

Question 4.5.12 – The entertainment industry

(a) Above the line promotion refers to the use of the mass media to promote a business or its products. Examples include the use of television, cinema, newspapers, magazines and national radio.

Award *1 mark* for a limited understanding of above the line promotional strategies. The answer might lack clarity.

Award *2 marks* for a good definition of above the line promotional strategies, similar to the example above.

(b) There are several reasons why the entertainment industry uses ATL methods of promotion, including the following:

- ATL promotion tends to get maximum exposure to existing and potential customers.
- The entertainment industry, such as the movies and music, tends to have a short life span (product life cycle) so mass advertising and promotion is needed to recoup production costs and to maximise sales revenues in the shortest possible time.
- There is the threat of illegal downloading of music and movies in the entertainment industry so ATL promotion is used to gain maximum sales revenue from official distribution channels.
- The entertainment industry caters for the mass market, so ATL promotional methods are ideal for marketing the industry.
- BTL methods such as packaging and direct mail are inappropriate and not cost effective in promoting music, theatre shows, concerts and movies.

Award *1 – 2 marks* for a generalized answer that lacks details of the reasons for using above the line methods to promote the entertainment industry.

Award *3 – 4 marks* for a good examination of two reasons for using ATL methods to promote the entertainment industry. The answer might lack substance in areas or lack the use of relevant examples. Award up to *3 marks* if only one reason is examined thoroughly.

Award *5 – 6 marks* for a thorough analysis of two reasons for using ATL methods to promote the entertainment industry. There is sound application of relevant examples, and relevant use of business management terminology throughout the answer.

Question 4.5.13 – Sponsoring the FIFA World Cup

(a)(i) Revenue refers to the money that a business earns from the sale of its goods and services. In this case, the organizers of the FIFA World Cup earn revenue mainly from broadcasting rights and selling tickets to the sporting tournament.

Award *1 mark* for a vague answer that shows some understanding of the term revenue.

Award *2 marks* for an answer that shows a clear understanding of the term revenue, similar to the example above.

(a)(ii) Sponsorship is a form of promotion that involves other businesses financially supporting a particular business venture or event, such as *Emirates Airlines* and *Coca-Cola* sponsoring the FIFA World Cup. In return, the sponsors expect prominent publicity at the sporting event.

Award *1 mark* for a vague answer that shows some understanding of the term sponsorship.

Award *2 marks* for an answer that shows a clear understanding of the term sponsorship, similar to the example above.

(b) Benefits to a business that sponsors major sporting events such as the FIFA World Cup might include the following:

- Being the world's most watched sports event, there are huge marketing opportunities for the larger sponsors of the FIFA World Cup, e.g. exclusive advertising rights and exposure.
- They can gain from global marketing economies of scale since as firms tend to market to an international audience, especially for worldwide events such as the FIFA World Cup.
- Sponsoring the FIFA World Cup can also act as a barrier to entry, thereby increasing the market power of the successful sponsors, e.g. *Adidas* (versus *Nike*), *Coca-Cola* (versus *Pepsi*) and *Hyundai* (versus *Kia* or *Daewoo*).
- There may be positive association created by linking the brand to the (highly popular) sport, thus positioning such sponsors in a favourable manner.

Award *1 – 2 marks* if the answer is vague and lacks explanations/substance, but some understanding is shown.

Award *3 – 4 marks* if two benefits are considered but the answer lacks detail. At the lower end, only one benefit is examined thoroughly.

Award *5 – 6 marks* if there is a thorough examination of two appropriately applied benefits to multinational companies that sponsor events such as the FIFA World Cup.

Question 4.5.14 – The Paris Motor Show

(a) Publicity is the process of exposing and promoting a business and its products by getting media coverage without directly paying for it. The Paris Motor show, being one of the 'top auto shows in the world' attracts all the major news and media corporations and hence can be seen as a publicity exercise for exhibiting and promoting the cars of major motor manufacturers to a worldwide audience.

Award *1 mark* if there is some understanding of publicity shown, although the answer might lack some clarity.

Award *2 marks* if publicity is clearly defined, similar to the example above.

(b) Trade shows (such as motor shows) are important for businesses such as car manufacturers for several reasons, including the following:

- Helping to promote a business and its products in order to raise awareness – in this case, motor shows could serve to promote the car manufacturers' newly launched (or to-be-launched) range of cars.
- Directly targeting a captured audience of potential buyers – as trade shows are more focused than direct marketing, it could be a more effective way to promote the cars, rather than using above-the-line

methods such as television advertising or billboard commercials.

- To create a media 'buzz' for products about to be launched (getting press coverage without having to pay for such publicity).

Award *1 – 2 marks* for a vague answer that lacks detail and/or depth. The answer might appear in an unexplained list-like format. There may be little, if any, application to the car manufacturing industry. Only one reason might be provided.

Award *3 – 4 marks* if there are good explanations of why trade shows are important to car manufacturers to exhibit their new cars. There is relevant application of the stimulus material in the case study.

(c) Motor shows (exhibits) are probably more cost effective and hence preferred than the use of direct mail for promoting new cars for several reasons:

- The exhibit attracts a huge number of potential buyers where direct mail would not.
- Direct marketing includes telemarketing, sending email advertisements and direct mail to clients – all of which may be ignored by the recipients due to advertising clutter and perceived junk mail.
- Promotional materials such as leaflets, brochures and catalogues are less attractive than allowing potential customers to physically see and touch the real vehicles at motor shows.
- Direct marketing focuses on one-to-one selling to gain sales, where motor shows are aimed at a much larger target market.
- Exhibiting the latest motor vehicles at these events can also promote the manufacturer's latest products without directly paying for it if there is sufficient media interest and media exposure.

Award *1 – 2 marks* if the answer lacks detail and/or depth. Only one reason might be provided or the answer lacks substance. There may be little, if any, application to the motor industry.

Award *3 – 4 marks* if there is a good commentary of why car manufacturers use trade shows instead of or in addition to direct marketing. At the upper end, examples of direct marketing are used and there is relevant application.

Question 4.5.15 – Tiger Woods

(a)(i) An endorsement is the use of famous people (such as movie stars, music stars and sports stars) to promote a particular brand or organization, e.g. using celebrities such as Tiger Woods to endorse products from companies such as *Gillette* or *Tag Heuer*.

Award *1 mark* for a vague answer that shows some understanding of the term endorsement.

Award *2 marks* for an answer that shows a clear understanding of the term endorsement, similar to the example above.

(a)(ii) The promotional mix is the combination of both above and below the line promotional methods used by a business, e.g. advertising, direct marketing, packaging and sales promotions.

Award *1 mark* for a vague answer that shows some understanding of the term promotional mix.

Award *2 marks* for an answer that shows a clear understanding of the term promotional mix, similar to the example above.

(b) The advantages in using celebrity endorsements endorsements as part of an organization's promotional strategy include:

- The subsequent media publicity that might be generated can be more favourable than sponsors (such as Nike and Gatorade) could have hoped for from any commercial advertisement.
- Celebrities can have a huge impact on the purchasing habits of their fans who aspire to be like their idols.
- Celebrity endorsements tend to engage and even inspire the general public, whereas other forms of promotion, such as newspaper and magazine advertisements, can be passive and static.
- For prolific stars such as Tiger Woods, their celebrity status and pulling power are usually worth far more than the cost of their services.

The disadvantages of using celebrity endorsements as part of an organization's promotional strategy include:

- Being unable to control this form of promotion because actions of the celebrity are beyond the control of the business yet reflect on the brand itself – Tiger Woods fell out of favour with several sponsors following his misdemeanours.
- High profile celebrities can overshadow the product or the brand. This might mean that customers remember the celebrity rather than the brand itself.
- Similarly, the celebrity might (accidentally or otherwise) use the products of other rival brands.

Award *1 – 2 marks* if the answer is vague and lacks explanations/substance, but some understanding is shown.

Award *3 – 4 marks* if only advantages or disadvantages are considered, or if the answer lacks detail in some areas.

Award *5 – 6 marks* if there is a thorough examination of the advantages and disadvantages of using celebrity endorsements as part of a firm's promotional strategy. There is proficient use of business management terminology and appropriate examples.

Question 4.5.16 – Kim Do Yi Limited

(a) A target market refers to a particular group of customers that a business aims its goods or service at, e.g. *KDY* targets primary and secondary school age children for its Taekwondo classes.

Award *1 mark* for a vague answer that shows some understanding of the term target market.

Award *2 marks* for an answer that shows a clear understanding of the term target market, similar to the example above.

(b) Promotion is important to *KDY* because it is a relatively small business that operates in a niche market (Korean martial arts catered at school-aged children). Since the business hires various venues to run its martial arts classes, it needs effective promotion to attract enough students to ensure that rental costs are at least covered.

Award *1 – 2 marks* if there is some understanding of why promotion is important, although the answer might lack some clarity.

Award *3 – 4 marks* if there is a clear understanding and explanation of why promotion is important to organizations such as *KDY*.

(c) The promotional mix for *KDY* might include the use of:

- Online advertising, perhaps through a dedicated website for *KDY.*
- Direct mail (flyers and posters) sent directly to primary and secondary schools in Hong Kong and New York.
- Advertising in leisure centres and popular sports clubs in Hong Kong and New York to gain exposure and publicity.
- Use word of mouth marketing from existing customers (parents whose children attend Taekwondo and Hapkido classes at *KDY*).
- Social media and social networks, e.g. *Facebook*, *Twitter* and *YouTube* to promote *KDY* and to provide information on where customers should go to for more information about Taekwondo and Hapkido classes.
- Publicity events - martial arts demonstrations in shopping malls, schools, the various 'kwans' it uses, or other popular locations to attract potential customers.
- Advertising in school newsletters and/or brochures, again to attract potential customers.

Award *1 – 2 marks* for a generalised answer that demonstrates limited understanding but lacks detail, application and/or substance.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of business management theory.

Award *5 – 6 marks* if relevant points are recommended but not necessarily in the context of *KDY.* Some of the recommendations might be suitable for *KDY*. At the top end of the mark band, there is an attempt at application.

Award *7 – 8 marks* if the recommendations are clearly examined. The answer is written in the context of the case study, e.g. it is unlikely that *KDY* could afford to use ATL methods such as television advertising. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if there is thorough and balanced discussion of the recommendations. The answer is written in the context of the case study, and there is effective use of business management terminology throughout the answer. There is clear evidence of evaluation and critical thinking regarding the recommended promotional mix for *KDY*.

Question 4.5.17 – YouTube

(a) Viral marketing is a promotional strategy that combines online technologies with word of mouth (WOM) techniques, usually through emails and social networks. For example, *YouTube* video clips are shared online by millions of bloggers and people who spread the word with their friends, perhaps in person or on their social networks such as Facebook.

Award *1 mark* if there is some understanding of viral marketing shown, although the answer might lack some clarity.

Award *2 marks* if viral marketing is clearly defined, similar to the example above.

(b) Benefits of advertising on internet video sharing websites, such as *YouTube*, include the following:

- The immense growth in internet users and the popularity of video sharing websites makes *YouTube* (and others) highly attractive to marketers.

- The internet is proving to be a significant rival to traditional above the line promotional methods such as TV and radio advertising (e.g. the younger population prefer to surf the internet, with over '6 billion hours of video clips accessed every day' and '100 hours of video uploaded per minute').
- Video sharing websites such as *YouTube* that are innovative and interactive have a higher retention level (partly due to their huge range of archived video clips) and hence potential customers are more likely to pay attention to the online advertisements, especially if this is through peer-to-peer word of mouth and/or social networks.

Award *1 – 2 marks* for a generalized answer that lacks details of the benefits to businesses advertising on internet video sharing websites.

Award *3 – 4 marks* for a good examination of the benefits to businesses advertising on internet video sharing websites, although the answer might lack depth/substance or the use of examples in some areas.

Award *5 – 6 marks* for a thorough examination of the benefits to businesses that choose to advertise on internet video sharing websites, such as *YouTube*. There is good application of examples and use of relevant business management terminology throughout the answer

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Question 4.5.17 – Costco Wholesale

(a) A wholesaler is a business that buys large quantities of various products directly from different manufacturers and then sells them in smaller quantities to retail customers. *Costco,* for example, buys huge quantities of soft drinks from several producers and then breaks the bulk in order to sell these to its customers (mainly families and small retailers).

Award *1 mark* if there is some understanding of wholesaler shown, although the description might lack clarity.

Award *2 marks* if wholesaler is clearly defined, similar to the example above.

(b) Benefits for businesses of using wholesalers such as *Costco* include:

- Business customers can buy in smaller bulk from the wholesaler, thus benefit from lower expenditure (than if they had to buy from the manufacturer) and lower storage costs. Manufacturers can sell their products in large volumes directly to wholesalers, thereby benefit from lower transactions costs.
- In the case of *Costco*, manufacturer brands do not face much, if any, competition as the wholesaler does not usually sell different brands of the same product.

Benefits for consumers (small businesses and families) of using wholesalers such as *Costco* include:

- Convenience and choice – consumers can buy a huge range of products from the wholesaler, all under one roof.
- Relatively cheaper prices (per unit) since the wholesaler is able to pass on its savings (from economies of scale) to the consumer, as *Costco* and other wholesalers focus on selling their products 'at low prices by selling in small bulks'.

Award *1 – 2 marks* if the answer is vague and lacks detail / explanations, but some understanding is shown.

Award *3 – 4 marks* if the answer is unbalanced or partial, e.g. benefits for only businesses <u>or</u> consumers are considered.

Award *5 – 6 marks* if there is a thorough examination of the benefits of wholesaling to both businesses <u>and</u> consumers (small businesses and families).

Question 4.5.19 – 7-Eleven

(a) A retailer is a business that sells products (goods and services) to the general public in relatively small quantities for private consumption, rather than for reselling.

Award *1 mark* for a vague answer that shows some understanding of the term retailer.

Award *2 marks* for an answer that shows a clear understanding of the term retailer, similar to the example above.

(b) *7-Eleven* might be described in several ways, including being a:

- Conglomerate – *7-Eleven* is owned by Seven & I Holdings Co (a diversified company).
- Franchise – *7-Eleven* stores are run as independent franchises on an international scale.
- Chain store (or multiple retailer) – *7-Eleven* has over 50,250 stores throughout the world.
- Multinational company – *7-Eleven* operates all over the world, with its headquarters in Japan and the USA.

Award *1 mark* for a vague answer that shows some, but limited, understanding.

Award *2 marks* for stating and outlining an acceptable classification of the business.

(c) Global conglomerates operate international franchises for several reasons, which include the following:

- It is a quick form of external growth/expansion, without having to incur high capital costs (and running costs) since the franchisee pays for the vast majority of the costs of the investment.
- Global conglomerates may strive for further growth so franchising can be a cost effective option to facilitate this desire (which enhances their global presence with minimal risk).
- Since the franchisee is likely to be highly motivated and passionate about running the business, this presents a good growth opportunity for the global conglomerate with negligible risks.
- With a larger chain of franchises, the global conglomerate is better positioned to compete with its rivals.
- The global conglomerate can earn royalties (as well as the enrolment fee) from expanding as a franchise, even though it is the franchisee that runs the business on a day to day basis.

Award *1 – 2 marks* if the answer is brief and lacks detail / development, but some understanding is shown. The answer might simply offer an unexplained bullet-point list of possible reasons.

Award *3 – 4 marks* if there is some examination of two or more reasons for the operation of franchises, though the answer might lack clarity or detail, and tends to be descriptive at the lower end of the mark band.

Award *5 – 6 marks* if there is a clear and detailed examination of two or more relevant reasons why conglomerates might wish to operate international franchises. There is direct reference to the stimulus material and good use of business management terminology throughout the answer.

Question 4.5.20 – Sacha Cosmetics

(a)(i) Channel of distribution refers to the way(s) that a product gets from the manufacturer to the consumer. Examples include wholesaling, agents, retailers, mail order, e-commerce and vending machines.

Award *1 mark* for a vague answer that shows some understanding of the term channel of distribution.

Award *2 marks* for an answer that shows a clear understanding of the term channel of distribution, similar to the example above.

(a)(ii) Having an online presence means that a business has a dedicated and functional website for conducting e-commerce activities. Having a large online presence means that the business is featured on major search engines, such as Google and Yahoo!, and customers can browse and purchase products online without the need to physically visit a retail outlet.

Award *1 mark* for a vague answer that shows some understanding of the term online presence.

Award *2 marks* for an answer that shows a clear understanding of the term online presence, similar to the example above.

(b) The Internet can be an effective distribution channel for expanding firms (or propelling them forward) for several reasons, such as the following:

- Since e-commerce reduces or eliminates the need for intermediaries, it can allow a family-owned business such as *Sacha Cosmetics* to retain more of its profits.
- Without intermediaries, the organization would have direct control over how it wants to market its products rather than giving the responsibility to (and relying on) external marketing agents who may not market the Haalal certified makeup products as desired by *Sacha Cosmetics*.
- E-commerce tends to be more cost efficient than traditional above-the-line promotional techniques, such as advertising on television or commercial radio.
- There is less of a need to recruit sales personnel, thereby making e-commerce a potentially cost effective method of distribution of *Sacha Cosmetics*' makeup products.
- Due to its convenience and flexibility, the Internet has become increasingly popular with customers, thereby making it a more desirable distribution channel for many businesses.

On the other hand, the Internet has its limitations and there are other factors that can/should be used to assist a business that strives to expand. Limitations of the Internet as a distribution channel include:

- The inability of all businesses to successfully market and trade their products online, e.g. highly valuable products such as diamonds or sports cars are unlikely to be traded purely via the Internet. For *Sacha Cosmestics,* perhaps only repeat or loyal customers are likely to buy the firm's makeup and cosmetics products online.
- Many customers may still prefer to visit physical outlets such as *Walmart* to purchase products such as makeup or cosmetics so that they can see or even try out the products with the assistance of sales staff.
- Having an online presence does not necessarily make customers more likely to choose the firm's products over its competitors, simply because all businesses that have global brands now have an online presence. Hence, having an online presence does not necessarily present a business with a unique selling point.
- Online security issues - fraudulent trading on the Internet has been a major hindrance on its growth and popularity. This makes customers less inclined to make online purchases with their credit cards. This clearly limits the ability of relying on the Internet for business growth.

On its own, having an online presence is unlikely to propel a business such as *Sacha Cosmetics*. It will need to rely on other distribution channels, including retailers (e.g. *Walmart*) and other marketing strategies (e.g. sponsorship and celebrity endorsements). Nevertheless, with its flexibility, convenience and international reach, the Internet has proved to be a highly successful distribution channel for many businesses such as *Sacha Cosmetics* operating on a global scale.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of business management theory.

Award *5 – 6 marks* if an unbalanced (one-sided) answer is provided regarding whether the internet is an effective distribution channel for propelling businesses, although the answer lacks detail in certain areas. At the top end, there is an attempt at application using the case study.

Award *7 – 8 marks* if there is a good discussion of both the arguments for and against the Internet being an effective channel of distribution for pushing businesses forward. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if there is a good discussion of both the arguments for and against the Internet being an effective channel of distribution for pushing businesses forward. There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking.

Question 4.5.21 – Dell and Walmart

(a) Intermediaries are people (or organizations) that act as a middle person in the chain of distribution between the producer and consumers of a product. Examples include retailers, distributors and agents. In the case study, *Walmart* and *Sam's Club* are intermediaries used by *Dell Inc.*

Award *1 mark* if the answer shows some understanding of intermediaries, although the answer might lack clarity.

Award *2 marks* if intermediaries is clearly defined, similar to the example above.

(b) Advantages to *Walmart* establishing a deal to distribute *Dell* computers include:

- Broadening its product range to cater for customers of mass market products (personal computers and related accessories).
- The contribution per product (*Dell* computers in this case) is relatively high in comparison to other products sold by *Walmart* (such as groceries) so this represents higher sales revenue per square foot of floor space at *Walmart* stores.
- Increased customer choice (of products) can also help to secure competitive advantages for *Walmart*.

Award *1 – 2 marks* if the answer explains one advantage in detail or if two advantages are vaguely explained. Appropriate examples/application might be missing.

Award *3 – 4 marks* for clearly explaining two advantages to *Walmart* in establishing a deal with *Dell Inc.* Appropriate business management terminology and examples related to the case study are used effectively.

(c) *Dell Inc.* decided to move away from direct distribution and use intermediation instead. Reasons for such a decision could include:

- Wholesalers such as *Walmart* and *Sam's Club* have better access to customers (this is especially the case in the USA as *Walmart* is the largest retailer).
- *Dell Inc.* is likely to receive a massive number of orders for its products from wholesalers such as *Sam's Club* and *Walmart.*
- Wholesalers bear the costs of the storage, thereby freeing up space (and reducing costs) for *Dell Inc.*
- Broadening the channels of distribution may improve *Dell's* chances of competing with *Lenovo* and *HP* due to *Walmart's* wide distribution network and reputation of low prices.

However, drawbacks of this decision might include:

- Lower profit margins and/or higher prices due to the use of intermediaries (*Walmart* and *Sam's Club*).
- *Dell Inc.* no longer has full and direct control of its marketing; instead the intermediaries will choose

where and how to market *Dell's* products.

- Intermediation is being used at a time when e-commerce is becoming ever more popular as a distribution channel; perhaps *Dell* did not exploit such opportunities.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of business management theory.

Award *5 – 6 marks* if relevant points are explained with some good analysis. However, the answer might lack detail in some areas and/or it is presented as an unbalanced (one-sided) argument. At the top end, there is an attempt at application using the case study.

Award *7 – 8 marks* if there is a good discussion of *Dell's* decision to use intermediation, in terms of commercial and competitive advantages. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if a balanced and thorough response is provided regarding *Dell's* decision to use intermediation, with reference to commercial and competitive advantages. There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking. For full marks, the answer should include an evaluation of the decision made by *Dell* in the context of the arguments presented.

Unit 4.6 The extended marketing mix [HL Only]

Question 4.6.1 – Wallington High School for Girls (WHSG)

(a) Marketing is important to *WHSG* for several reasons, including:

- The need to attract the right kind of students to the school (there are rival schools in close proximity).
- Specific marketing is required to attract the most academically outstanding students (*WHSG* is a selective grammar school); thus effective marketing will prevent/reduce those unsuitable from applying.
- To attract high-caliber teaching staff to the organization.
- To inform key stakeholders (such as parents and the local community) about the achievements of the students at *WHSG*.
- Marketing can help to improve the school's public relations and its market standing in Surrey, the local area.
- To maintain or enhance its reputation and image, i.e. to uphold its reputation of excellence, including its 'Engineering Status' which attracts extra government funding.
- To attract donations and/or sponsorship deals to raise finance for the school.

Award *1 – 2 marks* for a vague answer that lacks detail or if only one well-explained reason is given. There may be little, if any, application to *WHSG*.

Award *3 – 4 marks* if there are good explanations of two reasons why marketing is important to *WHSG*. There is proficient use of business management terminology, with relevant application to *WHSG*.

(b) **People** are important in the marketing of schools such as *WHSG*. In this case, it is most likely to refer to the teachers and support staff of the school. The functions mentioned in the case study suggest that teachers and other members of staff need to portray a fitting image (such as the quality and academic qualifications of the teaching staff), in line with the organization's culture and objectives.

The **physical evidence** (the buildings and facilities) of a school is also important to its marketing. Parents (the customers) are unlikely to want to send their children to schools that lack sufficient facilities. Schools with adequate space for studying, ICT equipment, sports facilities and other physical resources are more likely to be marketed successfully. Indeed, the physical environment of a school can have a direct impact on customer perceptions of the quality of teaching and learning in the school.

Processes in schools are also important to their success. Procedures such as communication links with parents and entrance exam administration will affect the general level of customer service. The quality of delivery in teaching and learning will also obviously affect the level of customer satisfaction. Other processes might include: the school's entrance exams (for selecting academically able students), school uniform policy, extra-curricular activities, information evenings for parents, charity events, music concerts and drama productions.

Award *1 – 2 marks* for a vague answer that lacks depth/detail. There might only be consideration of one of the additional P's in the marketing mix for *WHSG*.

Award *3 – 4 marks* if there is a good analysis, although the answer might lack some depth. Award up to *4 marks* if only two of the three additional Ps are examined.

Award *5 – 6 marks* if there is an in-depth examination of how people, process and physical evidence are vital elements of the marketing mix in the marketing of *WHSG*. There is good use of the case study and proficient use of business management terminology throughout the answer.

Unit 4.7 International marketing

Question 4.7.1 – Colgate–Palmolive

(a) Sales revenue refers to the money that a business earns from selling its goods and services. *Colgate-Palmolive* earns its sales revenues from customers who buy the company's goods, such as personal hygiene products and household cleaning products.

Award *1 mark* if there is some understanding of sales revenue, although the answer might lack clarity.

Award *2 marks* if sales revenue is clearly defined, with an example from the case study likely to be used.

(b) There are several possible answers here; justification/reasoning is needed to award both marks. For example, *Colgate* toothpaste might be classified as being a consumer product or as a fast-moving-consumer good.

Award *1 mark* if there is a brief outline of the type of product that *Colgate* toothpaste might be classified as.

Award *2 marks* if there is a good explanation of the type of product that *Colgate* toothpaste might be classified as. Appropriate business management terminology is used effectively.

(c) Brand names refers to the use of an exclusive name, symbol or design to identify a specific product or organization. They are used to differentiate a product from similar ones offered by competitors. Brand names create a legal identity for a product by giving it a unique and recognisable name and image to differentiate it from other products. Good brand names, such as *Colgate* or *Palmolive*, can stimulate positive associations with the product or business.

For many products, the brand name is crucial to its sales. *Colgate* and *Palmolive* (and other globally recognized brand names) can help the company to sell their products due to brand awareness, brand recognition and brand loyalty. Globalization has meant that international branding is increasingly important as a business strategy.

On the other hand, the brand name must be carefully chosen and considered in the context of overseas markets (see Box 4.7.b and Box 4.7.e in the textbook for some examples of the wrong way to go about international branding).

Evaluation of the extent to which branding is important is needed for top marks. For example, the brand itself will not usually be sufficient to secure success in overseas markets; other marketing considerations are needed such as the product's price, the effectiveness of its promotion in overseas markets and distribution channels. Non-marketing aspects might also need to be considered, such as economic, legal, political, social and ethical issues.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of business management theory.

Award *5 – 6 marks* if there is an analysis of how important the name of a product is for international marketing, although the answer lacks detail in certain areas. There may be a one-sided argument (such as considering only why the name of a product is important for successful international marketing). At the top end, there is an attempt at application using the case study.

Award *7 – 8 marks* if there is a balanced examination of how important the name of a product is for international marketing. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if there is a balanced examination of how important the name of a product is for international marketing. There is effective use of business management terminology throughout the answer. There is clear evaluation of the extent to which the name of a product, such as *Colgate* or *Palmolive,* is important for successful international marketing.

Question 4.7.2 – Tesco

(a) A market leader is a firm that dominates a particular industry, as measured by its market share. Market leaders such as *Walmart* have significant market power, coupled with customer loyalty, thus making it difficult for new entrants such as *Tesco* to compete in the market.

Award *1 mark* if there is some understanding of the term market leader, although the answer might lack clarity.

Award *2 marks* if the term market leader is clearly defined, similar to the example above.

(b) *Tesco's* arrival in the USA market should give customers more choice and at more competitive prices due to the increased rivalry, i.e. they can choose between *Tesco* and other retailers such as *Walmart.*

By operating on a larger scale, *Tesco* should be able to enjoy further benefits of economies of scale, thereby passing on some of this cost saving to their customers (via lower prices).

Tesco's presence might also benefit customers in America who have improved convenience and greater access to cultural exports and related products from the UK (which might not be widely available in other US retail outlets).

Award *1 – 2 marks* if the answer is incomplete and/or vague. It might be presented as an unexplained bullet-point list.

Award *3 – 4 marks* if the explanation is thorough and good examples are used in the context of *Tesco* entering the USA.

(c) *Tesco's* overseas expansion plans could reap huge benefits, including opportunities to:

- Expand overseas as part of its growth strategy. This is important given that *Tesco* has already exploited and dominated the UK market.
- Secure a share of the (larger) American market, thereby helping to boost *Tesco's* global sales and profit.
- Develop *Tesco's* brand awareness in overseas markets and to generate brand exposure, to further improve its chances of being a market leader in overseas markets.
- To spread risks by operating in overseas markets. *Tesco* is less exposed to the risks in its home country (such as an economic recession) if it has operations in other regions of the world.

However, threats of *Tesco's* overseas expansion plans may include consideration of the following:

- Entry into new markets requires extensive market research in order to have a detailed understanding of overseas markets, e.g. *Tesco* must ensure that its product range meets the anticipated needs of the American market. Hence, issues of social and demographic changes will also need to be considered.
- With well-established rivals such as *Walmart*, *Tesco* will need to determine its strategy on market positioning and targeting. For example, it would need to decide whether to benchmark itself against low-cost *Walmart*, the industry leader. By contrast, charging premium prices may prove ineffective for a new entrant in an overseas market.
- The marketing mix will need to match the needs of American customers; the nature and strategies of existing firms will influence the nature and scope of *Tesco's* marketing mix.
- External constraints will need to be considered and appropriate strategies devised, e.g. fluctuating exchange rates, cultural differences, international trade barriers and different legal systems. There will also be language issues with *Tesco's* expansion plans in France and South Korea.

Given that *Tesco* could benefit immensely from the significantly larger customer base if it operates overseas, the company is likely to pursue such growth strategies. Nevertheless, any plan will need to consider the potential threats and have in place appropriate strategies to deal with these.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of business management theory.

Award *5 – 6 marks* if there may be an unbalanced (one-sided) argument, although the answer lacks detail in certain areas. At the top end, there is an attempt at application using the case study.

Award *7 – 8 marks* if there is a good discussion of both the opportunities and threats to *Tesco* expanding its operations in overseas markets. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if there is a thorough discussion of both the opportunities and threats to *Tesco* expanding its operations in overseas markets. There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking.

Question 4.7.3 – Viya Crab Products Company

(a) Cultural exports are the commercial transfer of ideas and values from one country to another. Canned crab meat is a popular local delicacy in Thailand and *Viya Crab Products Co*. has chosen to export this to overseas continents.

Award *1 mark* if there is some understanding of cultural exports, although the answer might lack clarity or application to the case study.

Award *2 marks* if cultural exports is clearly outlined, with application to the case study and correct use of business management terminology.

(b) International marketing is the marketing of an organization's products in foreign countries. It can be vital to the success of a business such as *Viya Crab Products Co.* The Thai company needs to consider marketing issues such as price, promotional, packaging and distribution in overseas markets. Each of these components of the marketing mix is likely to differ slightly from one country to another.

The product itself may need to be slightly modified to better suit the tastes of overseas customers. This is therefore likely to cost *Viya Crab Products Co*. a significant amount of money. Hence, getting international marketing right becomes even more vital for businesses such as *Viya Crab Products Co*. with its plans to sell its products in overseas markets.

Award *1 – 2 marks* if the answer is rather generalized and lacks coherence. It might be presented in a list-like format with little, if any, explanation.

Award *3 – 4 marks* if there is some analysis of the role of international marketing to a business, although the answer lacks detail/clarity in areas. At the lower end, there is no application to businesses such as *Viya Crab Products Co.*

Award *5 – 6 marks* if there is a thorough examination of the role of international marketing to a business such as *Viya Crab Products Co.* Appropriate business management terminology has been used and there is good application of the stimulus material.

Question 4.7.4 – Ford Motor Company

(a) Benefits to *Ford Motor Company (FMC)* in using 'Focus' as a single brand name on an international level include the following:

- The benefits of mass marketing/undifferentiated marketing without having to target specific market segments in different parts of the world.
- It reduces the chances of devising a brand name that will not work in various parts of the world, e.g. *Pinto* in Brazil.
- Benefits of global marketing economies of scale since the whole market can be addressed with a single marketing campaign (at least to a greater extent than using different brand names for essentially the same vehicle in different parts of the world).
- It enhances global brand recognition (brand awareness) of *FMC's* best-selling family car.
- Perhaps the key driving force for is the cost savings gained by *FMC* from using a single branded name (the *Focus*) on a global scale.

Award *1 – 2 marks* if the answer explains one advantage in detail or if two advantages are vaguely outlined. Appropriate examples/application might be missing.

Award *3 – 4 marks* for clearly explaining two benefits to *Ford Motor Company* in using *Focus* as a single brand name on an international level. Appropriate business management terminology and examples related to the case study are used effectively.

(b) Justifications for *FMC* using different brand names in different parts of the world include:

- The benefits of glocalisation over globalization, e.g. a successful brand name in one part of the world does not necessarily mean that it will work in other parts of the world, e.g. The Ford 'Escort' or Ford 'Pinto' having sexual connotations in different parts of the world.
- Similarly, language and cultural considerations become important to the success of an international brand. A single brand name might not transpire in other (overseas) markets, e.g. 'Bobcat' or 'Lynx' might not work well outside of North America.
- Product differentiation, including the use of different brand names in different parts of the world, is an important product strategy which reaps various benefits.
- The brand name plays a vital role in the positioning of *FMC* and this is likely to differ in various part of the world, e.g. the popularity of Ford in the USA versus in Japan. Using different brand names can directly affect the effectiveness of any (re)positioning strategy.
- There may also be legal issues over the use of certain brand names in different parts of the world, e.g. brand names that may cause offense in certain regions of the world.

Award *1 – 2 marks* if the answer is generalised and lacks coherence.

Award *3 – 4 marks* if the examination is sound although lacking in detail in certain areas. There may also be a lack of examples / application at the lower end of the mark band.

Award *5 – 6 marks* if there is a thorough examination of the justifications for *FMC* in using different brand names in different parts of the world. There is appropriate use of business management terminology and examples, written in the context of the case study.

Question 4.7.5 – McDonald's

(a) International marketing is the marketing of a firm's products in foreign countries. For *McDonald's*, this involves marketing the company's products, such as its 'Happy Meals', for its 34 000 restaurants worldwide.

Award *1 mark* if there is some understanding of international marketing, although the answer might lack clarity or application to the case study.

Award *2 marks* if international marketing is clearly defined, with application to the case study likely to be used.

(b) Critics have suggested that the foods and drinks sold at *McDonald's* remain unhealthy and are a contributing (and perhaps growing) cause of child obesity. This may create some serious problems for *McDonald's* because of the potential damage to its corporate image and resulting decline in its global sales.

Award *1 mark* for outlining a potential problem, although this lacks clarity and/or is not outlined in the context of *McDonald's*.

Award *2 marks* for any potential problem that is clearly outlined in the context of *McDonald's*.

(c) Possible reasons for the growth in the global sales of *McDonald's* could include:

- Revamped menus (such as salads and other healthier options) thereby helping to attract a broader range of customers.

- Sustained growth through its franchise strategy means that *McDonald's* continues to have a greater global presence, thereby helping to raise its sales revenues.
- Changing customer perceptions of the food at *McDonald's* by publishing and publicizing nutritional information about its products.
- A favourable economic climate in different regions of the world, thus boosting sales revenues.

Award *1 – 2 marks* for a vague answer that lacks depth/detail. There might be consideration of only one possible reason for the growth in the global sales of *McDonald's*.

Award *3 – 4 marks* if two plausible reasons are explained, although the answer might lack some depth at the lower end. At the top end of the mark band, there is some application of the stimulus material.

Award *5 – 6 marks* if two likely reasons for the growth in the global sales of *McDonald's* are examined in depth. There is good use of the stimulus material, and there is proficient use of business management terminology throughout the answer.

(d) The extent to which the fast-food industry might be considered as being a globalized one depends on the relative strengths of the arguments put forward. On the one hand, fast food could be considered to be highly globalized as an industry because:

- The rapid expansion and presence of US restaurant chains throughout the world, such as *McDonald's, Burger King, Pizza Hut* and *KFC*, have meant that fast food is available in almost every country.
- *McDonald's* record global sales and revamped menus around the world also suggest that fast food is a globalized industry.
- As a cultural export, the American burger and fast-food meals are a huge earner for multinational companies from the USA.
- The most well-known fast-food multinational companies all use franchising as a method of growth, meaning that these organizations can produce and sell the same foods and drinks simultaneously in different countries.

On the other hand, the fact that even the most 'globalized' fast-food chain has to adapt its menus to local tastes suggests that the fast-food industry is not so globalized. In addition, growing public concerns over the nutritional value of fast-food meals also suggests that firms such as *McDonald's* have yet to fully exploit the benefits of globalization.

Award *1 – 2 marks* for a vague and generalized answer that might appear in bullet-point form with no or little development.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient clarity in the explanation.

Award *5 – 6 marks* if the answer is one-sided or lacks detail in some areas. At the top end of the mark band, there is appropriate reference to the case study.

Award *7 – 8 marks* if there is an examination of the extent to which the fast food industry might be globalized, although the answer lacks evaluation of the issue. Appropriate application has been used and there is good use of business management terminology.

Award *9 – 10 marks* for a two-sided argument with a justified conclusion of the extent to which the fast food industry might be considered as a globalized one. There is good application to organizations such as *McDonald's* and there is proficient use of business management terminology throughout the answer.

Unit 4.8 E-commerce

Question 4.8.1 – Aggregators: Price-comparison websites

(a) Benefits of aggregator websites to customers include:

- Time saving – there is no need to use up time to compare prices of different retailers by foot or by browsing online.
- Convenience – customers can search for the best prices and deals from the comfort of their own home or office.
- Value for money – aggregators can help to ensure that customers get the best price/deal.
- Up to date information – Customers can get regular updates on the latest prices and deals via their emails or as online alerts.

Award *1 – 2 marks* if the answer explains one benefit in detail or if two benefits are vaguely explained. Appropriate examples/application might be missing.

Award *3 – 4 marks* for clearly explaining two benefits of aggregators (price comparison websites) to customers. Appropriate business management terminology and relevant examples are used.

(b) Aggregators can pose a threat to e-commerce businesses because:

- They create price transparency for customers and hence e-tailers will need to ensure that they are price competitive (perhaps by lowering prices and hence reducing their profit margins).
- Customers have the convenience of having instant price comparisons without leaving their home or office. Again, this forces e-tailers to be more price competitive.
- Firms that are unable to sustain lower profit margins due to the fierce online competition created by price aggregators may be forced out of business.

However, price itself is only one component of the marketing mix. Customers do not buy a product simply because of the (lower) price – this is especially the case for premium brands and specialist products. Furthermore, aggregators are not 100% reliable or accurate – as suggested in the case study. Finally, for online businesses that thrive on price competition, price aggregators can present opportunities (rather than threats) to e-commerce.

Award *1 – 2 marks* for a generalized answer that is descriptive and/or lacks substance.

Award *3 – 4 marks* if there is some examination of how e-commerce businesses are affected by price aggregators, although the answer is unbalanced and perhaps lacking in detail in some areas.

Award *5 – 6 marks* if there is a thorough examination of price aggregators being a threat to e-commerce businesses, with consideration of the opportunities that also exist. There is application of appropriate examples and proficient use of business management terminology and throughout the answer.

Question 4.8.2 – Amazon.com

(a)(i) Sales turnover refers to the funds received from selling goods and services, e.g. *Amazon* selling over $89 billion worth of goods. *Amazon* earns its sales revenues from customers who buy the company's goods, such as books, music and clothing.

Award *1 mark* for a vague answer that shows some understanding of the term sales turnover.

Award *2 marks* for an answer that shows a clear understanding of the term sales turnover, similar to the example above.

(a)(ii) After-sales service is a sales management technique that provides post-sale customer care. Examples include guarantees, product exchange, refunds and support services. *Amazon* provides different delivery services, such as shipping or air freight, and a tracking system (to check on the progress of the package being delivered to customers).

Award *1 mark* for a vague answer that shows some understanding of the term after-sales service.

Award *2 marks* for an answer that shows a clear understanding of the term after-sales service, similar to the example above.

(b) *Amazon's* strategy for success in e-commerce focused on:

- Wide product mix to cater for a mass target audience, with operations catering for customers in 220 countries around the world.
- Exploiting the cost advantages that e-commerce brings in order to offer customers value for money, e.g. *Amazon* does not need to be located in central business districts thereby avoiding high rents.
- Taking advantage of e-commerce to provide customers with a convenient and flexible shopping experience, with plenty of choice, from the convenience of their home or office.
- Providing after-sales services to enhance customer satisfaction and customer loyalty, resulting in "customers having trust and assurance in the brand".
- Branding strategy, which Jeff Bezos said is "more important in the virtual (online) world than it is in the physical world".

Collectively, these helped to ensure *Amazon* raised its market share and created customer loyalty.

Award *1 – 2 marks* if there is a generalised answer, which lacks depth and/or substance. There is no application shown and the answer might be no more than a list of possible strategies used by *Amazon*.

Award *3 – 4 marks* for a detailed explanation of two or more strategies used by *Amazon* to succeed in e-commerce. There is good use of business management terminology, and appropriate reference made to the case study.

(c) It can be debatable whether *Amazon* can repeat its success in selling products other than books because:

- Whilst books may be highly suited to e-commerce, other products such as furniture and jewellery might be better suited in retail outlets where customers can inspect these (relatively expensive) items in more detail.
- Certain items, such as food and clothing, may not be as successful as books when sold online in overseas markets.
- Diversification (Ansoff's matrix) is a high risk strategy and different marketing mixes might be required for the diverse range of products sold by *Amazon*.
- *Amazon* could lose focus and experience diseconomies of scale due to the vast size of its operations.

However, *Amazon's* global brand reputation, brand recognition and customer loyalty help to reduce the risks of its diversification and expansion. Hence, *Amazon's* market dominance makes it probable that the company could accomplish its growth objectives.

Nevertheless, due to the diverse nature of the products being sold by *Amazon* across 220 different countries, it may not be equally successful in all aspects of its operations. Whilst growth and expansion may bring along large economies of scale for *Amazon*, it is possible that having such a huge and diversified product portfolio could (eventually) bring about diseconomies of scale.

Note: Given that *Amazon* is one of the world's largest e-commerce businesses and that Jeff Bezos is the world's richest man, students may well argue about the success of *Amazon's* business model. Such an approach should be credited accordingly.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of business management theory.

Award *5 – 6 marks* if an unbalanced (one-sided) answer is provided regarding whether *Amazon* can be equally successful in selling a much broader product range as it has been with selling books online, although the answer lacks detail in certain areas. At the top end, there is an attempt at application using the case study.

Award *7 – 8 marks* if a balanced response is provided regarding whether *Amazon* can be equally successful in selling a much broader product range as it has been with selling books online. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* for a balanced and considered response regarding whether *Amazon* can be equally successful in selling a much broader product range as it has been with selling books online. There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking.

Question 4.8.3 – Apple iTunes

(a) Product refers to any physical or non-physical item (good or service) that is purchased by commercial or private customers, e.g. audio books, e-books and movies sold on *iTunes*.

Award *1 mark* for a vague answer that shows some understanding of the term product.

Award *2 marks* for an answer that shows a clear understanding of the term product, similar to the example above.

(b) Possible reasons for the increase in demand for *Apple iTunes* include:

- The increased popularity of the Internet and e-commerce makes *iTunes* a more viable option for customers from around the globe.
- Word-of-mouth and peer pressure, especially amongst teenagers.
- The flexibility in being able to hand-pick songs without having to pay for a whole album.
- Added value options, such as music videos and games have increased Apple's customer base.
- The huge increase in ownership of hand-held devices such as the iPhone and iPad has increased demand for Apps (applications) at the *iTunes* store.

Award *1 – 2 marks* if the answer describes one reason in detail or if two reasons are vaguely described. Appropriate examples/application might be missing.

Award *3 – 4 marks* for clearly describing two possible reasons for the huge increase in demand for *iTunes* products. Appropriate business management terminology and examples related to the case study are used effectively.

(c) On the one hand, e-commerce has revolutionized the way in which music and movies are bought:

- Due to relatively lower operation costs, e-commerce has led to more competitive prices for music and movies bought online.
- As a channel of distribution, the internet has allowed a greater number of customers from all over the world to make online purchases of movies and music (The Open University has over 20 million *iTunes* downloads).
- Greater flexibility and choice as consumers can hand-pick songs (*iTunes* beating retailers such as *HMV*

or *Walmart* in the sale of music).

These reasons have encouraged more people to purchase movies and music via the internet, hence reducing the problem/threat of illegal downloads.

On the other hand, e-commerce and the internet have provided many opportunities for people to illegally download movies and music through P2P file sharing software such as bit torrent. Open access websites such as *YouTube* also present huge threats for copyright holders. Hence, whilst e-tailers such as *iTunes* provide a relatively new purchasing experience for online shoppers, others allow (or even encourage) people to access music and movies without directly paying for them.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of business management theory.

Award *5 – 6 marks* if an unbalanced (one-sided) answer is provided regarding the case for and/or against e-commerce in dealing with problems such as copyright violation and piracy, although the answer lacks detail in certain areas. At the lower end of the mark band, there is little if any application to the music and movie industries.

Award *7 – 8 marks* for a thorough discussion that considers both the case for and against e-commerce in dealing with problems such as copyright violation and piracy in the movie and music industries. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* for a thorough discussion that considers both the case for and against e-commerce in dealing with problems such as copyright violation and piracy in the movie and music industries. There is proficient use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking.

Question 4.8.4 – HMV

(a) B2C businesses provide goods and services to the general pubic, i.e. consumers. *HMV* sells music to private individuals and can therefore be classed as a B2C business.

Award *1 mark* if some understanding of B2C business is shown, although the answer might lack clarity or application to A.

Award *2 marks* if B2C business is clearly outlined with reference to *HMV.*

(b) Reasons for more customers opting to buy music and books online include:

- the convenience of online retailing
- cheaper prices online
- ability to 'shop' for the best bargains without having to visit various retail outlets
- the ability of customers to buy just the tunes/music they want rather than whole music albums
- improved online security has also attracted many buyers to switch to e-commerce.

Award *1 – 2 marks* if the explanation is incomplete and/or vague. It might be presented as an unexplained list of possible reasons.

Award *3 – 4 marks* if the explanation is thorough, written in the context of the case study. There is proficient use of business management terminology throughout the answer.

(c) Any other strategy that is fully explained would warrant full marks. Examples of possible answers could include:

- *HMV* marketing its own website, with a greater emphasis on selling music and DVD products online.
- Allowing customers to pay by more convenient methods, including improved online security.
- Offer customer loyalty schemes.

Award *1 – 2 marks* if the suggestion is incomplete and/or vague. Application is weak or missing.

Award *3 – 4 marks* if the suggestion is thoroughly explained and is written in the context of *HMV*.

Question 4.8.5 – Christmas Online Shopping

(a) Opportunities that e-commerce provides for businesses include:

- The internet is an increasingly popular channel of distribution for many businesses, thereby generating a potentially much larger customer base (such as parents who do their Christmas shopping online).
- Having an online presence can improve the competitiveness of a business as it creates an extra distribution channel and added convenience for customers (especially during the busy Christmas trading period).
- E-commerce businesses do not have to be located in busy central business districts, thereby saving themselves a huge amount of rent and related costs.

Award *1 – 2 marks* if the answer describes one opportunity of e-commerce in detail or if two opportunities are vaguely described. Appropriate examples/application might be missing.

Award *3 – 4 marks* for clearly describing two opportunities that e-commerce presents for businesses. Appropriate business management terminology and relevant examples are used effectively.

(b) The possible advantages of the internet as a channel of distribution for consumers include:

- More choice arises due to the additional competition created by e-tailers.
- The intensified competition is also likely to lead to lower prices for the consumer (at least in the short run).
- Improved convenience for Christmas shoppers who can purchase products online without the hassle of large crowds and long queuing times.
- Greater price transparency occurs because customers can compare prices easily from the comfort of their own office or home.
- Customers can benefit from improved access to knowledge and information of a wide range of products, e.g. the popular consumer electronic gadgets, clothing and children's toys being sold at Christmas time.

Award *1 – 2 marks* if the explanation is incomplete and/or vague. It might be presented as a list of possible benefits without much, if any, substance.

Award *3 – 4 marks* if the explanation is thorough, and is clearly written in the context of the case study.

Question 4.8.6 – Online banking fraud

(a) Limitations of e-commerce for the banking sector include:

- Online fraud cannot be prevented yet this proves to be costly to banks.
- Online fraud still deters many potential customers from paying online.
- E-commerce does not cater well for customers who are uncomfortable or unfamiliar with internet technologies.

Award *1 – 2 marks* if the answer explains one limitation in detail or two limitations are vaguely outlined. Appropriate examples/application to banks might be missing.

Award *3 – 4 marks* for clearly outlining two limitations of e-commerce to organizations such as banks. Appropriate business management terminology and examples related to the case study are used.

(b) Customers can benefit from online banking because:

- There is added convenience – customers can use banking services even when the physical banks are closed, all from the comfort of their home/office and without the hassles of queuing at a bank.
- Internet technologies allow speedy transactions to be carried out, 24-7 and across the globe with ever-increasing safety mechanisms for online banking.
- E-commerce can cut the costs of banking quite substantially, thereby possibly leading to lower fees and bank charges to customers.

However, there are also potential pitfalls of e-commerce for customers:

- Online banking fraud is colossal in many parts of the world.
- Customers can be misled or simply made to misinterpret matters because of the bogus banking websites available online.
- Some customers may be technophobic, and worried about the 'tightened up online security' measures taken by banks such as HSBC.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of business management theory.

Award *5 – 6 marks* if an unbalanced (one-sided) answer is provided regarding whether e-commerce benefits customers of banking, although the answer lacks detail in certain areas. At the top end, there is an attempt at application using the case study.

Award *7 – 8 marks* for an answer that addresses whether e-commerce benefits customers of banking. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if a balanced and thorough response is provided regarding the extent to which e-commerce benefits customers of banking. There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking.

Unit 5.1 The role of operations management

Question 5.1.1

(a) Environmental sustainability (or ecological sustainability) is the term used to describe the capacity of the natural environment or ecosystem to meet the demands of the current generation without endangering the ability of future generations to meet their own needs. The use of plastic carrier bags, for example, is a threat to environmental sustainability.

Award *1 mark* for a vague definition that shows some understanding of environmental sustainability.

Award *2 marks* for a clear definition of environmental sustainability, similar to the example above.

(b) The use of taxes can be beneficial in striving to achieve environmental sustainability because:

- Taxes can help to reduce Hong Kong citizens using 30 million non-biodegradable plastic carrier bags every day; clearly not sustainable given HK's population of just 7 million (the equivalent of more than 4 plastic carrier bags per person per day). This was clearly effective as demand fell by 85% within the first couple of days.
- Taxes are a fair way to make polluters pay; those who cause the most environmental damage by using plastic carrier bags are taxed more.
- The environmental taxes help to promote intergenerational equity, i.e. taxing the use of non-biodegradable plastic carrier bags today means a better chance of protecting land and other for future generations.
- Taxes can reduce demand rapidly (85% in the case of Hong Kong) in order to slow down the depletion of natural resources, such as to protect landfill sites.
- Taxes encourage alternative methods to be used, such as the use of reusable fabric carrier bags. Environmental sustainability requires output to be more environmentally friendly.

However, there are also limitations of using taxation to achieve environmental sustainability, such as:

- Environmental sustainability requires more than just taxation, which acts as a cure rather than prevention (of environmental damage). For example, government subsidies for green technologies might be a better alternative to taxes.
- Targeting businesses might also be more effective for environmental sustainability. For example, making businesses accountable for their ecological footprint as part of their corporate social responsibility and/or environmental audits.
- Education about recycling, reducing, and reusing (the 3 Rs), preservation of scarce resources and conservation of the planet's finite resources might also be more effective in the long run. After all, it is debateable whether such a small amount of tax (HK$0.5) has a sustainable impact on reducing environmental damage caused by overuse of non-biodegradable plastic carrier bags.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of business management theory.

Award *5 – 6 marks* if an unbalanced (one-sided) answer is provided regarding whether taxes can achieve environmental sustainability, although the answer lacks detail in certain areas. At the top end, there is an attempt at application using the case study.

Award *7 – 8 marks* if a balanced response is provided that considers both the case for and against using taxes to achieve environmental sustainability. Relevant examples and business management terminology have been

used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if a balanced and thorough response is provided regarding the case for and against using taxes to achieve environmental sustainability. There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking.

Unit 5.2 Production methods

Question 5.2.1 – Bristol Cars Ltd.

(a) Ltd. stands for 'private limited company', i.e. a business with limited liability and its shares being issued only to family and friends with the approval of the board of directors.

Note: in some countries such as Australia and Hong Kong, publicly listed companies can also carry 'Ltd' after their name (although *Bristol Cars Ltd.* is a UK-based company).

Award *1 mark* if some understanding of 'Ltd' is shown, although the answer might lack clarity.

Award *2 marks* if 'Ltd' is clearly outlined with reference to *Bristol Cars Ltd.*

(b) *Bristol Cars Ltd.* create unique and individual cars, so this suggests the firm uses job production. Other reasons for this include:

- Slow lead times in production (only 100 are made each year)
- Quality is placed above quantity
- Customization is more important than standardization
- There is a long working capital cycle
- *Bristol Car Ltd.* uses highly skilled mechanics and engineers who work on one car at a time
- Premium prices are charged.

Note: there is no need to explain the advantages and disadvantages of job production in this question.

Award *1 – 2 marks* if job production is identified and the description shows some understanding.

Award *3 – 4 marks* if job production is identified and the description shows a clear understanding, with appropriate use of business management terminology. There is good use of the stimulus material in the case study.

(c) Consequences can be positive, negative or both. Examples include an examination of the following points:

Impacts on *Bristol Cars Ltd.*:

- High prices can be charged for the cars, thus enabling the firm to earn high profit margins
- Prestigious corporate image
- Benefits of specialization and niche markets
- High cost of hiring skilled labour force
- However, sales are limited to around 100 vehicles per year, i.e. it only has a small customer base

- High costs of production
- Limited, if any, economies of scale
- Long working capital cycle.

Impacts on employees:

- Motivated workforce
- High labour productivity
- High salaries
- Job satisfaction from challenging work
- More involved in decision-making
- Limited sales and profits may hinder future pay increments.

Impacts on customers:

- Limited channels of distribution
- Expensive (luxury perfection!)
- Long waiting time (from placing the order to getting the car)
- Quality customer service / satisfaction
- Feeling of pride/prestige in owning a prestigious and unique car.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The candidate does not examine all three stakeholder groups.

Award *5 – 6 marks* if an unbalanced (one-sided) answer examines the impact of job production on each stakeholder group (*Bristol Cars Ltd.*, employees and customers), although the answer lacks detail in certain areas. At the top end, there is an attempt at application using the case study.

Award *7 – 8 marks* if a balanced response is provided, examining the impact of job production on each stakeholder group (*Bristol Cars Ltd.*, employees and customers). Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if a balanced and thorough answer that examines the impact of job production on each stakeholder group (*Bristol Cars Ltd.*, employees and customers). There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking.

Question 5.2.2

(a) Navy battleships – Job production will be most suitable as navy battleships are highly expensive and sophisticated products with unique features and capabilities. The infrequency of orders and the huge costs of production also make it difficult to use batch production.

Award *1 mark* for a vague explanation that shows some logic and understanding.

Award *2 marks* for an answer that shows a clear understanding of the most appropriate method of production of navy battleships, backed by sound reasoning.

(b) Wedding cakes – Job production or batch production could be used. In many cases, clients may demand a highly unique wedding cake (job production) which is made to order. In other cases, clients may be given a choice from several different cakes on offer (batch production). Customers might also buy a batch-produced cake but have finishing touches to make the cake more unique for the wedding.

Award *1 mark* for a vague explanation that shows some logic and understanding.

Award *2 marks* for an answer that shows a clear understanding of the most appropriate method of production of wedding cakes, backed by sound reasoning.

(c) Cookies (biscuits) – Batch production is highly suitable as each group of cookies/biscuits is standardized but the product can be modified slightly to produce different batches of these, e.g. plain, raisins or chocolate chip flavour.

Award *1 mark* for a vague explanation that shows some logic and understanding.

Award *2 marks* for an answer that shows a clear understanding of the most appropriate method of production of cookies (biscuits), backed by sound reasoning.

(d) Samsung smartphones – Large manufacturers, such as Samsung and Apple, may outsource the production of their smartphones to manufacturers such as Foxconn. The outsourced firm uses mass production, especially as the global market for smartphones continues to rise. Only slight variations to the production process are needed for different versions of the smartphone (e.g. 16GB or 64GB models), but there is a large enough market for each of these to mass produce the product.

Award *1 mark* for a vague explanation that shows some logic and understanding.

Award *2 marks* for an answer that shows a clear understanding of the most appropriate method of production of Samsung smartphones, backed by sound reasoning.

(e) Evian bottled mineral water – Mass/Line/Continuous production is most suitable given that Apple can sell the standardized product to mass markets across the world. Again, there might be some variations, such as the various sizes of bottles.

Award *1 mark* for a vague explanation that shows some logic and understanding.

Award *2 marks* for an answer that shows a clear understanding of the most appropriate method of production of Evian bottled water, backed by sound reasoning.

Question 5.2.3

(a) The components of *Dell* personal computers (such as LCD monitors, CPUs, DVD drives and keyboards) are all mass produced (some parts might be manufactured using cell production). However, since *Dell* customers can 'pick and mix' their own components, there is an element of job production because each client can have their PC custom built and personally delivered directly.

Award *1 – 2 marks* for a brief explanation of why it might be difficult to categorise the production method used to make *Dell* personal computers. The explanation might lack application and/or clarity.

Award *3 – 4 marks* for a detailed explanation of why it might not be easy to categorise the production method used to make *Dell* personal computers. There is proficient use of business management terminology and good application shown.

(b) Large supermarket chains, such as *Carrefour, Walmart* and *Tesco*, are likely to have their own bakery departments that bake products such as birthday cakes. Within each store, these are likely to be batch produced. However, there will be some variation to offer the customer variety and individuality. If supermarkets distribute their cakes to individual stores, then the cakes are likely to be mass produced on a production line.

Award *1 – 2 marks* for a brief explanation of why it might be difficult to categorise the production method used to make birthday cakes sold at large supermarkets. The explanation might lack application and/or clarity.

Award *3 – 4 marks* for a detailed explanation of why it might not be easy to categorise the production method used to make birthday cakes sold at large supermarkets. There is proficient use of business management terminology and good application shown.

Unit 5.3 Lean production and quality management [HL only]

Question 5.1.3 – Subway

(a)(i) Franchise refers to the growth strategy that involves a franchisor selling the right to others (the franchisees) to operate using its name. *Subway* (the franchisor) allows individuals and other businesses to buy a franchise in its business, for which it receives a fee and royalty payments from the buyer (the franchisee).

Award *1 mark* if there is some understanding of franchise shown, although the answer might lack clarity.

Award *2 marks* if franchise is clearly defined, similar to the example above.

(a)(ii) Quality management is the operational process concerned with controlling business activities to ensure that products are fit for their purpose. The quality of a product is seen as an overall package, from the production and purchase of the product to its use and beyond (after-sales care).

Award *1 mark f*or showing some understanding of quality management, although the answer might lack clarity.

Award *2 marks* if quality management is clearly defined, similar to the example above.

(b) Quality management is important to a global franchise such as *Subway* for several reasons, including an explanation of the following:

- Quality management can raise the international competitiveness of *Subway*.
- It can affect *Subway's* reputation in a favourable way.
- Quality management reduces/eliminates the time and money to correct mistakes.
- It can improve staff motivation as employees feel proud of working for a reputable company.
- It can improve the attractiveness of *Subway* by overseeing quality issues, thereby aiding its global growth strategy.
- Facilitate *Subway's* growth strategy as it expands beyond 45,000 restaurants in around 105 countries.
- Overall, quality management can ensure that *Subway* remains profitable in the long run.

Award *1 – 2 marks* for a vague answer that lacks detail and/or depth. There may be little, if any, application to *Subway*. The answer might appear in a list-like format without any explanations.

Award *3 – 4 marks* if there is a good explanation of why quality management is of importance to *Subway* as a franchisor. There is proficient use of business management terminology and relevant application to *Subway.*

(c) *Subway's* rapid expansion plans can create its own problems for quality management. These potential problems might include:

- Difficulties related to the coordination of franchises all across the world, with its operations in around 105 countries, including communication problems and differences in regional cultures and business etiquette.
- Franchising also requires *Subway* franchisors across the globe to take responsibility for quality management - an extremely difficult task to oversee and manage across its 45,000+ restaurants.
- Staff training (to ensure consistency in quality management) will cost time and money, thereby having a possible impact on *Subway's* liquidity.
- With so many stores and operations in so many countries, *Subway* may find it increasingly difficult to respond to customer complaints, feedback and/or suggestions.

Award *1 – 2 marks* for a generalised answer that is descriptive or lacks substance. The answer might appear in an unexplained list-like format.

Award *3 – 4 marks* if there is an examination of how continued/rapid expansion can cause problems for quality management, although the answer might lack depth in some areas. At the top end of the mark band, there is some application shown.

Award *5 – 6 marks* for a thorough examination of the potential problems of quality management as *Subway* continues to grow through franchising on an international scale. There is proficient use of appropriate business management terminology, with good reference to the stimulus material in the case study.

Question 5.3.2 – Nissan

(a)(i) Quality control is the traditional method of quality management that involves checking and reviewing work processes. This is usually carried out by quality controllers and inspectors.

Award *1 mark* if there is some understanding of quality control shown, although the answer might lack clarity.

Award *2 marks* if quality control is clearly defined, similar to the example above

(a)(ii) Economies of scale are the cost savings (lower average costs) enjoyed by a business due to greater levels of output. For example, *Nissan* uses the same components across a range of its car models, e.g. windscreen wipers, mirrors, light bulbs, seat belts and tyres. This means *Nissan* can mass produce or purchase these components, thus reducing its average costs of production.

Award *1 mark* if there is some understanding of 'economies of scale' shown, although the answer might lack clarity.

Award *2 marks* if 'economies of scale' is clearly defined, similar to the example above.

(b) A major product recall due to defective products can be costly to Nissan for several reasons, including the following:

- It suggests that the quality of *Nissan* is poor and this would negatively impact on its global corporate image. This could have an irrevocable effect if *Nissan's* quality standards drop due to defective products in the market.
- Substandard quality can make it increasingly difficult for *Nissan* to remain competitive against rivals such as *Honda* and *Toyota* on an international level.
- There are likely to be concerns over public safety if the product recall is so high, i.e. hundreds of thousands of faulty or dangerous cars in this case.

- As stated in the case study, the product recalls in 2017 were around 25 billion yen ($222 million); which could had to avoided if quality management processes were in place and executed (i.e. if vehicle inspections were made).
- It can cost firms more money to rework the defected products (over a million *Nissan* cars) than if things been done right first time round, i.e. reworking negatively affects the cash flow position of the firm. At 15 minutes per car, this works out at 210,250 hours (or over 8,760 continuous days 24/7) of reworking for *Nissan*.

Award *1 – 2 marks* for a generalized answer that lacks details. Some understanding is shown, although the answer might appear in an unexplained list-like format.

Award *3 – 4 marks* for an examination of how a major product recall can be costly to businesses, although the answer might lack substance in some areas. For *4 marks*, there is application of the stimulus material in the case study.

Award *5 – 6 marks* for a thorough examination of how a major product recall can be costly to businesses such as *Nissan*. There is effective application of the stimulus material in the case study, and appropriate use of business management terminology.

Question 5.3.3 – McDonald's '100% Quality Food'

(a) Quality assurance (QA) is the philosophy and management process that entails all employees within an organization striving to achieve the agreed quality standards. To do so requires systematic processes such as lean production, kaizen and zero defects. This enables firms such as *McDonald's* to inform and reassure its customers that the products meet certain quality standards such as ISO 9000.

Award *1 mark* if there is some understanding of quality assurance, although the answer might lack clarity.

Award *2 marks* if quality assurance is clearly defined, similar to the example above.

(b) Quality management (QM), be it quality control or quality assurance, is important to MNCs such as *McDonald's* for several reasons, including the following:

- *McDonald's* will want to keep quality standards at a consistent level across all its franchises throughout the world in order to maintain its corporate reputation.
- QM can also help to control *McDonald's* costs; poor QM by contrast might lead to customer complaints and perhaps litigation issues over food, hygiene and safety issues
- QM is also important for *McDonald's* stock control system, especially as it has large scale operations throughout the world
- QM can ensure that *McDonald's* maintains its status as the world's leading restaurant chain
- Quality can act as a form of product differentiation in highly competitive markets such as the fast food industry
- QM is used to inform and assure customers that 'fresh' and 'quality' ingredients are used
- QM leads to the greater likelihood of *McDonald's* expanding/growing as a MNC franchise
- Ultimately, effective QM can help *McDonald's* to maintain its international competitiveness and therefore improves its profitability

Award *1 – 2 marks* for a generalized answer that lacks details. Some understanding is shown, although the answer might appear in a list-like format.

Award *3 – 4 marks* for an analysis of the importance of quality management for multinationals. The answer might lack substance or the use of applied examples.

Award *5 – 6 marks* for a thorough examination of the importance of quality management for multinationals such as *McDonald's*. There is effective use of relevant examples and business management terminology throughout the answer.

Question 5.3.4 – Mercedes-Benz

(a)(i) Benchmark refers to a business, such as *Mercedes-Benz*, comparing its products, operations and processes to those used by others in the same industry, especially dominant market players such as *Lexus*, *Audi* or *BMW*. It then becomes a point of reference or yardstick for the business to match or exceed. The purpose is to allow the business to emulate best practice (excellent performance), e.g. by establishing the standards for quality improvements.

Award *1 mark* if there is some understanding of benchmark shown, although the answer might lack clarity.

Award *2 marks* if benchmark is clearly defined, similar to the example above.

(a)(ii) Defects occurs when the quality of a particular product is unacceptable (i.e. substandard). This means the product does not meet the required quality standards, but has faults or imperfections. Defects represent waste and inefficiency.

Award *1 mark* if there is some understanding of 'defects' shown, although the answer might lack clarity.

Award *2 marks* if 'defects' is clearly defined, similar to the example above.

(b) Quality Assurance (QA) can be defined as the management process of guaranteeing (assuring) the consumer of a product's quality. To some extent, benchmarking can help businesses, such as *Mercedes-Benz*, to achieve quality assurance because:

- It informs customers that *Mercedes-Benz* vehicles have been built to (at least) the benchmarked specification in the industry, i.e. certain quality standards have been met.
- Emulating best practice (excellent performance) in the industry can help *Mercedes-Benz* to improve its operational efficiency, thereby aiding the achievement of QA.
- Similarly, strategic benchmarking can be used to benchmark the overall performance of firms such as *Mercedes-Benz*.
- Dealing with quality issues and problems can be quite fast and effective, relative to simple guesswork, if external benchmarking is used.
- Benchmarking compares customer perceptions of quality and therefore this should help *Mercedes-Benz* to take appropriate action to meet its customers' needs and wants, e.g. by examining the relative strengths of the *BMW, Audi* and *Lexus* brands.

However, benchmarking alone might not be sufficient for firms such as *Mercedes-Benz* to achieve QA because:

- The cost and time implications of collecting relevant and up-to-date information from other firms (competitors) in the industry can be a major constraint to effective benchmarking. This will clearly hinder the ability of *Mercedes-Benz* to achieve quality assurance.
- Relying on best practice benchmarking (BPB) can discourage initiative and innovative ideas in the motor industry and hence this may hinder QA.
- Relying on replicating the ideas and practices of other firms by BPB might be seen as second best (in the eyes of the customer), i.e. products might be seen as 'me too' products with no distinctive selling point and hence lacking any QA.

- Sufficient time and funding must be made available to implement the findings from BPB. Hence, benchmarking itself might not be sufficient for a firm such as *Mercedes-Benz* to achieve QA.
- Like the concepts of Kaizen and TQM, benchmarking cannot be a one-off exercise if *Mercedes-Benz* is to achieve quality assurance. To be effective, BPB has to be a continuous process that involves the commitment and involvement of every employee and with the financial backing of the employer.
- QA only works if each and every member of the organization, irrespective of their rank or role, is fully committed to quality assurance. Organizational culture, rather than benchmarking itself, may therefore have a much greater impact on the ability of *Mercedes-Benz* to achieve QA.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of business management theory.

Award *7 – 8 marks* if the discussion is thorough and well balanced. There is good use of appropriate business management terminology and relevant examples are used in context of the case study. There is clear evidence of critical thinking. For full marks, the answer considers the extent to which benchmarking can help businesses, such as *Mercedes-Benz* to achieve quality assurance.

Award *5 – 6 marks* if an unbalanced (one-sided) answer is provided regarding whether benchmarking can help businesses, such as *Mercedes-Benz,* to achieve quality assurance, although the answer lacks detail in certain areas. At the top end, there is an attempt at application using the case study.

Award *7 – 8 marks* if a balanced response is provided regarding whether benchmarking can help businesses, such as *Mercedes-Benz*, to achieve quality assurance. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if a balanced and thorough response is provided regarding whether benchmarking can help businesses, such as *Mercedes-Benz,* to achieve quality assurance. There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking.

Question 5.3.5 – Durex

(a) 0.03 × 300m units = 9 million units per year = approx. 3% defect rate.

Award *1 mark* for the correct answer without any working out shown.

Award *2 marks* for the calculation with full working out shown.

(b) Quality Assurance is the management process of guaranteeing (assuring) the consumer of a product's quality. This guarantee can be secured by meeting international quality standards such as the ISO 9000. QA is important to Reckitt Benckiser, producers of *Durex* for several reasons, including the following:

- Condoms must be fit for their purpose, perhaps more so than for most products (for health and safety issues and to prevent unwanted pregnancies, for example).
- QA aims to reduce/eliminate defects thereby giving customers a sense of security (peace of mind) in purchasing the product.
- Quality assurance will undoubtedly affect the reputation and corporate image of *Durex*.
- QA can help Reckitt Benckiser to maintain customer loyalty and prevent brand switching (*Durex* has only 25% of the world's market share).
- QA can be a form of product differentiation for Reckitt Benckiser, thereby improving its competitiveness.
- QA helps to reduce wastage (3% of its output is still 9 million units per year), therefore helping to raise Reckitt Benckiser's profit margins.

Award *1 – 2 marks* if the explanation is incomplete and/or vague. It might be presented as a list of reasons without any clear application.

Award *3 – 4 marks* if the explanation is thorough and relevant examples are used in the context of *Durex*.

(c) TQM is the belief in and process of removing wastage and inefficiencies in all forms of business activities, requiring the commitment of everyone in the organization to achieve quality standards. Features of TQM that might help *Durex* to reduce its 3% defect rate include:

- TQM aims for zero defects - perhaps a defect rate of 3% (or 9m condoms) is rather too high for this type of product.
- Testing - tests such as the artificial ageing of condoms or the water/air pressure tests are key aspects of TQM.
- 'Right first time' culture - helps to reduce defect rates.
- TQM involves the workforce (e.g. motivation, empowerment and responsibility) striving for reduced or zero defects.
- Since all workers are responsible for quality control and QA, substandard products are less likely to occur.
- The role of CAD/CAM/automation in reducing defect rates could also be outlined.

Award *1 – 2 marks* if there is an understanding of total quality management shown. The commentary might lack clear application, i.e. how TQM could help Reckitt Benckiser to reduce defect rates.

Award *3 – 4 marks* for an applied commentary that demonstrates a clear understanding of how TQM might help Reckitt Benckiser to reduce its defect rate of *Durex* products. Relevant examples and appropriate business management terminology have been used throughout the answer.

Question 5.3.6 – The BSI Kitemark

(a) A regulatory body for ensuring quality standards, such as the *BSI*, has several key roles or functions, including:

- Setting/establishing the quality standards within an industry or country/region.
- Promoting quality awareness within an industry or country/region.
- Recognising and rewarding quality achievements.
- Ensuring that products undergo rigorous and regular testing by independent agents.
- Influencing government legislation surrounding quality assurance issues (regulatory bodies are often non-governmental organizations).

Award *1 – 2 marks* if the answer is rather vague and lacks detailed examination. The answer might lack depth, perhaps by only looking at one function/role of regulatory bodies such as the *BSI*.

Award *3 – 4 marks* if at least two functions/roles are examined in context, with appropriate development and use of business management terminology throughout the answer.

(b) Advantages to organizations that hold an external quality assurance certificate such as the *BSI Kitemark* include the following:

- Helps to inform and assure customers that the product is of high quality, i.e. products have been manufactured to a high level of quality and are fit for their advertised purpose. This can give the bearer

of such certificates a competitive edge over their rivals that have not been awarded (met) such quality standards.

- Most customers recognize QA certification such as the ISO (or the *Kitemark* in the UK) as a sign of high quality.
- Customers would be more prepared to pay higher prices for products that carry quality assurance certificates such as the *BSI Kitemark*.
- They can also help to promote quality awareness within an organization, thereby fostering a TQC within the business.
- Since QA certification is given in recognition of quality achievements, there can be positive motivational effects on the workforce.
- High quality organizations attract high calibre employees to the organization, thereby improving their corporate image, productivity and profits (in the long run).
- The opportunity cost of not receiving QA certification can be disastrous to a business in the medium to long term.

Award *1 – 2 marks* if the answer is rather generalised / superficial and lacks coherence. Limited understanding is shown.

Award *3 – 4 marks* if the analysis is sound but lacks detail / reasoning in certain areas. At the bottom end of the mark band, application is missing.

Award *5 – 6 marks* if the answer is thorough and examines a range of benefits to organizations that hold an external QA certificate such as the *BSI Kitemark*. Appropriate examples and business management terminology been used throughout the answer.

Unit 5.4 Location

Question 5.4.1 – Location, Location, Location!

(a) Rising demand for a product, such as land, can push up its price because the higher the demand for something, the higher the price tends to be. Demand refers to the ability and willingness of a buyer to pay a certain price for a good or service. In this case, high/rising demand for prime locations has therefore pushed up the price (or value) of land.

Award *1 mark* if there is some understanding of the link between demand and land values, although the answer might lack clarity.

Award *2 marks* if there is a clear understanding of the link between rising demand and land values, with the use of an example related to the case study likely to be used.

(b) The answer could be written in the context of a business that the student have studied/investigated. Possible factors in terms of advantages and disadvantages, to consider when deciding whether to relocate overseas include:

- Consideration of adequate infrastructure overseas, e.g. road and communication networks.
- Government incentives and policies, e.g. are there incentives to attract businesses to locate in, or relocate to, a certain region? What are the tax rates in the country? How stable are interest rates in the overseas economy?
- Consideration of indirect costs of overseas operations, e.g. corporation tax rates and planning permission/rights legislation.
- Legal constraints, such as the length of time needed to set up (or relocate) a business in the foreign country.

- The quantity, quality, suitability and cost of land.
- Availability, and cost of labour, e.g. many MNCs are attracted to locate in less-economically developed countries due to the availability of low-cost labour.
- The growth potential of the overseas economy.
- The state of technology and the standard of work processes in the foreign country, e.g. how stable (reliable) and secure technology is in these overseas locations.
- The relative costs of hiring labour and technologies in overseas countries.

Award *1 – 2 marks* if the answer is rather generalized and lacks substance.

Award *3 – 4 marks* if the answer lacks detail in certain areas. Award up to 4 marks if only advantages or disadvantages are examined. At the top end of the mark band, there is evidence of application.

Award *5 – 6 marks* if there is a clear examination of the advantages and disadvantages to a business deciding whether to relocate overseas. There is appropriate and effective use of business management terminology and application.

Question 5.4.2 – Doing business in Singapore

(a) Government rules and regulations can constrain business activity in several ways, including:

- Bureaucratic policies and regulations can deter or even prevent businesses from setting up, e.g. having to take 694 days to set up a business in Suriname may simply put off organizations expanding to such countries.
- Government policies and standards, such as health and safety legislation or employment legislation, can be expensive to comply with.
- Some governments charge very high rates of corporation tax and this clearly drains the funds and therefore constrains the degree of business activity, e.g. high taxes reduce the amount of profits available for reinvestments so can also deter foreign firms from locating in such countries.

On the other hand, government rules and regulations can also enhance business activity in other ways, such as:

- Streamlined business procedures in countries such as Singapore ensure that businesses can set up in minimal time with simplistic administrative procedures to follow.
- Government incentives, such as reduced rents or taxes, can entice businesses to locate in a certain location. The business also benefits from having relatively lower costs of production due to the financial support from the government.
- Government policies and rules on trade union activity can also enhance business activity, e.g. the decline in labour union power in most developed nations has liberalized trade.

Award *1 – 2 marks* if the answer lacks detail in some areas or is unbalanced.

Award *3 – 4 marks* if the answer is well explained and considers how government rules and regulations can constrain as well as enhance business activity.

(b) Quantitative factors are the financial costs and benefits of locating or relocating an organization in a specific place, such as Singapore. Such factors include:

- Corporation tax rates – these will tend to be relatively low in countries that are 'highly rated' as lower rates of corporation tax act as an incentive to stimulate business activity.
- The level of interest rates – Similarly, interest rates play a key role in the international location or relocation of a business as interest rates affect the gearing and hence long term liquidity of businesses.

- The quantity, quality and cost of land – higher rated countries (for conducting business) tend to have land that offers high value for money.
- The availability and quality of labour – there will be some trade-off between the cost of labour and the quality of labour.
- Government incentives such as subsidies for locating in a specific location – these tend to be granted for businesses locating in strategic areas aimed at improving employment and economic prospects in such places.

Award *1 – 2 marks* if the answer is generalised, or incomplete and lacks coherence.

Award *3 – 4 marks* if the examination is sound although lacks clarity in some areas. At the lower end of the mark band, the factors examined might not be explicitly identified as being quantitative factors.

Award *5 – 6 marks* if there is a thorough examination of the various quantitative factors that affect the (re) location decision of businesses to countries such as Singapore. Appropriate business management terminology and relevant examples have been used.

Question 5.4.3 – Doing business in India

(a) Some of the risks for MNCs wishing to invest in economically developing countries like India might include:

- Cultural differences – US and British businesses may not be aware of the cultural norms in India. For example, the clothing range from M&S may need to be adjusted to suit local tastes and the different climate.
- Much of India's population still suffers from mass poverty; this will limit the amount of consumer spending in the economy.
- Economically developing countries will lack the infrastructure and communications networks that Western multinational companies are used to.
- Legislation is likely to be another potential barrier. Apart from different legal systems overseas, laws tend to be rather more lax and this can create all sorts of organizational problems, e.g. India's "bureaucratic procedures".

Award *1 – 2 marks* for a brief explanation of the risks involved for multinational companies investing in economically developing countries like India. The answer might lack clarity and/or the use of relevant examples.

Award *3 – 4 marks* for a thorough explanation of the risks involved for multinational companies (such as Nike, Reebok and Marks & Spencer) wanting to invest in economically developing countries like India.

Note: students do not need to have any prior or detailed knowledge of doing business in India or other LEDCs.

(b) Some of the opportunities might include:

- India's impressive economic growth means that there is likely to be increased demand for foreign imports.
- Deregulation in India makes it easier to conduct business in this high growth economy.
- The huge potential increase in sales, due to the large customer base in India, can lead to improved profits for MNCs investing in India.
- Businesses in the retail, tourism and aviation industries are likely to boom; thereby creating opportunities for related business sectors.
- The large English-speaking community and skilled labour force also present many opportunities for Western multinational companies.

  Note: students do not need to have any prior or detailed knowledge of India.

Award *1 – 2 marks* for a generalized answer that lacks details / clarity. The answer may be presented in a bullet-point list, without any explanations.

Award *3 – 4 marks* for a good examination of at least two opportunities that might exist for businesses that plan to invest in a country such as India. The answer might lack substance in some areas and/or the use of relevant examples (application).

Award *5 – 6 marks* for a thorough examination of at least two opportunities that might exist for businesses that plan to invest in a country such as India. There is proficient use of relevant business management terminology and good application shown.

Question 5.4.4 – Fifth Avenue, New York

(a) Location is an important management decision for retail businesses because:

- The location decision incurs a highly significant proportion of an organization's costs, so care must be taken in choosing where to locate especially as the decision is largely irrevocable.
- Retailers rely heavily on proximity to customers (who want convenience).
- Infrastructure is important, e.g. road and rail networks and easy access to retail outlets will improve patronage.
- Location is important as retailers cannot usually rely on e-commerce alone to generate sufficient sales.

Award *1 – 2 marks* if the explanation is incomplete and/or vague. It might be presented as a simple list of reasons.

Award *3 – 4 marks* if the explanation is thorough and good examples are used in the context of the case study.

(b) Retail businesses might be prepared to pay extremely high rents in key locations such as Fifth Avenue for several reasons, including:

- Competition – rivals may be prepared to pay higher rents to secure a prime location in order to capture a large potential customer base.
- Corporate image – a prestigious commercial address can affect the public image (perception) of the business.
- Prime retail areas also help to provide a pool of readily available and skilled workers.
- Clustering of retailers can also provide opportunities to sell more to customers.

Award *1 – 2 marks* if the answer is vague, generalised and/or descriptive. It might be presented in a list-like format with no/little elaboration.

Award *3 – 4 marks* if there is an explanation of reasons why retailers might be prepared to pay premium rents for prime locations although the answer lacks clarity or detail in some areas.

Award *5 – 6 marks* if there is a clear examination of the reasons why many retailers are prepared to pay premium rents for prime locations such as those mentioned in the case study. Appropriate business management terminology and relevant examples are used effectively.

Question 5.4.5 – Volkswagen

(a)(i) The term 'brands' means the exclusive names given to products in order to differentiate them from one another, backed by legal copyright protection. For example, the brands *Audi, Bentley* and *Beetle* are all owned by the *Volkswagen Group*.

Award *1 mark* if the answers shows some understanding of brands, although the answer might lack clarity.

Award *2 marks* if brands is clearly defined, with the use of examples related to the case study likely to be used.

(a)(ii) Infrastructure describes the transportation, communication and support networks in a certain geographical location, e.g. buildings, roads, Wi-Fi provision, and power supplies. It is vital for the functioning of businesses and societies.

Award *1 mark* if the answers shows some understanding of infrastructure, although the answer might lack clarity.

Award *2 marks* if infrastructure is clearly defined, similar to the example above.

(b) Reasons in favour of *Volkswagen's (VW)* decision to locate its business in India might include:

- The high rates of economic growth in India mean that the car industry is likely to continue booming in the country.
- Having operations is India is important in order to combat competition from existing and new rivals in the country, such as *Mercedes-Benz* and *BMW*.
- A large and educated Indian workforce would provide the necessary labour for *VW* to operate in India (the second most populated nation in the world).
- Foreign firms have flocked to India due to its low cost of operations.
- Any other valid point that is discussed in favour of *VW's* decision to locate in India.

On the other hand, arguments against *VW's* decision include:

- The lack of proper/developed infrastructure, such as road networks, hinders economic prospects in the country.
- *VW's* lack of local knowledge might present problems, such as cultural clashes and misunderstandings. Even if *VW* formed a joint alliance with an Indian firm, there may still be issues surrounding international business etiquette.
- Perhaps other locations, such as investing in China or Brazil, may have been a better move for *VW*.
- Despite India's high economic growth rates, India is an economically developing nation with mass poverty, especially given the huge discrepancy in income and wealth distribution. This can be a major problem for firms such as *VW* because demand for motor vehicles is highly dependent on the level of household income.
- Accept any other valid point against *VW's* decision to locate in India. Note: students do not need to have any prior or detailed knowledge of doing business in India.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation.

Award *5 – 6 marks* if an unbalanced (one-sided) answer is provided regarding *VW's* decision to locate in India, although the answer lacks detail in certain areas. Award up to *5 marks* if the answer lacks application to *Volkswagen* and *India*.

Award *7 – 8 marks* if a balanced response is provided regarding *VW's* decision to locate in India. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if a balanced and thorough response is provided regarding *VW's* decision to locate in India. There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking.

Question 5.4.6 – Offshore outsourcing: a risky business?

(a) Full capacity means that a business is operating at its maximum potential, i.e. there is no spare capacity as the firm is operating at its productive capacity. Drawbacks of *Foxconn* workers operating at full capacity include the following:

- Mistakes being made as workers are overstretched, thus possibly leading to product recalls.
- High capacity utilization requires constant use of equipment and machinery without the time for routine servicing and maintenance.
- Added stress and pressure for workers (who may well be exhausted from working overtime); this would clearly harm productivity and staff morale.In extreme cases, workers at the *Foxconn* plant have even committed suicide.

Award *1 – 2 marks* if the answer explains one drawback in detail or if two disadvantages are vaguely outlined. Appropriate examples/application might be missing.

Award *3 – 4 marks* for clearly explaining two drawbacks of workers operating at full capacity. Appropriate business management terminology and relevant examples are used.

(b) Arguments in favour of MNCs such as *Apple, Danone* and *Mattel* outsourcing some of their operations abroad include:

- The subcontracted work is provided at competitive prices, enabling the MNCs to control their operational costs.
- Quality can be improved as the outsourced firm is specialized in the output of such goods and/or services, e.g. *Foxconn* has competitive advantages in the output of electronics for its clients such as *Sony, Nintendo* and *Microsoft.*
- Outsourcing allows the MNCs to concentrate efforts on their core activities, i.e. what they are best at doing, thereby improving their own overall efficiency.

However, the disadvantages of outsourcing for the MNCs include:

- Subcontractors in China/overseas need to be monitored to ensure that deadlines and quality standards are met. This will increase administrative costs to the MNCs.
- Subcontractors have been known to 'cut corners' by hiring under-age, illegal and unqualified workers in order to cut their own costs and to optimize their own profits, e.g. mistreatment of workers has led to negative publicity associated with the likes of *Apple, Dell* and *HP.*
- The benefits of outsourcing are subject to changes in the external environment, e.g. rising labour costs in China will reduce the financial benefits of outsourcing to Chinese firms.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation.

Award *5 – 6 marks* if an unbalanced (one-sided) answer is provided, showing the arguments for and against MNCs using subcontractors, although the answer lacks detail in certain areas. At the top end, there is an attempt at application using the case study.

Award *7 – 8 marks* if a balanced response is provided regarding both the arguments for and against MNCs using subcontractors. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* for a thorough discussion of the arguments for and against MNCs using outsourcing to carry out some of their activities overseas. There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking.

Question 5.4.7 – Offshoring in India

(a) Offshoring is a form of outsourcing that involves relocating business functions and processes overseas as a strategy to remain competitive, e.g. USA and European firms that operate call centres in India.

Award *1 mark* for a vague definition of offshoring.

Award *2 marks* if offshoring is clearly defined, similar to the example above.

(b) Arguments in favour of offshoring include the following:

- Offshoring allows a business to move its non-core activities away from internal operations, thereby helping to cut costs of production.
- Offshoring to overseas specialists means that the subcontractors can carry out the non-core activities more efficiently and cost effectively, yet to a higher quality standard.
- Allowing the business more time to then focus on developing its core competencies.
- It can help a business to get around trade protectionist measures used by overseas governments.

Arguments against offshoring include:

- Initially, offshoring can cause major uncertainties among the workforce (due to the restructuring and the likelihood of staff redundancies). This needs to be managed carefully to minimize conflict and resistance to change.
- Offshoring is totally dependent on effective lines of communication with third party suppliers in order to maintain consistency.
- Since there is a total reliance on an overseas subcontractor, any conflict can be potentially damaging to the operations of the business.

Whether offshoring is suitable for a particular business will depend on a host of factors, such as:

- The financial and liquidity position of the business – offshoring can certainly help to reduce operational costs.
- The availability and costs of hiring overseas staff.
- The impact on the firm's corporate image, e.g. mass redundancies tend not to attract good media coverage and neither does hiring child labour in overseas countries.
- The firm's commitment to its corporate social responsibilities, e.g. does offshoring involve the exploitation of labour in poorer countries?

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation.

Award *5 – 6 marks* if there is a discussion of both the reasons for and against a business choosing to use offshoring for some of its functions, although the answer lacks detail in certain areas. Award up to *5 marks* if only reasons for <u>or</u> against offshoring are examined.

Award *7 – 8 marks* if a balanced response is provided regarding the reasons for and against a business choosing to use offshoring for some of its functions. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if a balanced and thorough response is provided regarding the reasons for and against a business choosing to use offshoring for some of its functions. There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking.

Question 5.4.8 – KFC, Vietnam

(a) A multinational company is an organization that operates in two or more countries, e.g. *KFC*, a US fast-food company, has operations in Vietnam.

Award *1 mark* if the answer shows some understanding of the term multinational company, although the answer might lack clarity.

Award *2 marks* if multinational company is clearly defined, similar to the example above.

(b) The benefits to *KFC* in being the first well-known fast food chain to locate in Vietnam include the following:

- Gaining a 'first mover advantage' allows *KFC* to gain a loyal customer base, to charge relatively high prices, to establish a favourable corporate image and to secure strong market share in Vietnam before rivals firms enter the country.
- There is huge scope to make the most of the monopoly situation in Vietnam. Hence, being the first well-known fast-food chain to locate in the country better prepares *KFC* to contend with potential competition from rivals such as *McDonald's*.
- *KFC* can secure the best locations in Vietnam, such as Hanoi, before rival companies locate in the country.

Award *1 mark* for identifying one benefit to *KFC* locating in Vietnam, but the answer lacks clarity.

Award *2 marks* for clearly outlining one benefit to *KFC* being the first fast-food chain to locate in Vietnam.

(c) The factors that make Vietnam such an attractive location for global multinational companies include the following:

- Economic and political reforms in Vietnam have transformed the former communist country to one with huge untapped retail potential for companies such as *KFC* and *McDonald's*.
- Vietnam has a large and youthful population, thereby creating a huge potential customer base for multinational retailers.
- Vietnam is a fast-growing economy, with the expectation of becoming an economically developed nation by 2020, so this creates huge opportunities for consumer-led markets in the country.
- Vietnam's entry into the World Trade Organization (WTO) in 2007 made trading in the country much easier and therefore has led to a significant increase in foreign direct investment. This creates further opportunities for multinational companies such as *KFC*.
- Entry to the WTO is also likely to lead to a significant increase in tourism in the country, again creating opportunities for multinational companies that operate in Vietnam.

Note: there is no need for candidates to have prior knowledge of the Vietnamese economy.

Award *1 – 2 marks* if the answer is generalized with a lack of detail. It might be presented in an unexplained bullet-point list.

Award *3 – 4 marks* if the examination shows good understanding, although it lacks detail in some areas. There is little, if any, application of the stimulus material in the case study.

Award *5 – 6 marks* if there is a thorough examination of factors that make Vietnam an attractive location for global multinational companies such as *KFC* and *McDonald's*. There is proficient use of business management terminology and appropriate examples are used effectively throughout the answer.

Unit 5.5 Production Planning [HL Only]

Question 5.5.1 – Carrefour

(a) The supply chain process refers to the management of a firm's operational logistics, i.e. managing and controlling the sequence of activities from the production of a good or service to its delivery to the end customer, in a cost effective way. This will include, for example, overseeing the distribution and transportation of *Carrefour's* vast product range to its 12,300+ retail stores.

Award *1 mark* if the answer shows some understanding of the supply chain process, although the definition might lack clarity.

Award *2 marks* if the supply chain process is clearly defined, similar to the example above.

(b) *Carrefour* might choose to improve the efficiency of its supply chain process in several ways, including:

- Fostering an improved relationship with its suppliers in order to reap benefits such as timely deliveries of products and perhaps at lower costs (thereby allowing *Carrefour* to charge lower prices).
- Continuous professional development, such as customer service training, for all staff in order to deliver a first-rate service for *Carrefour's* customers.
- Develop stock control systems to improve the ordering, storage and monitoring of inventory and the movement of all stocks through better use of ICT systems.
- Implement a system of quality assurance at all stages of the distribution process in order to improve overall operational efficiency.
- Investigating and reviewing alternative transportation (distribution) networks to determine the most cost-effective methods of distribution; vital for a global operator such as *Carrefour.*

Award *1 – 2 marks* for a generalized answer that is descriptive or lacks application. There is limited understanding of the demands of the question.

Award *3 – 4 marks* if there is some examination of the ways that *Carrefour* might improve the efficiency of its supply chain process, but the answer lacks depth or substance in some areas.

Award *5 – 6 marks* if there is a thorough examination of the ways that *Carrefour* might improve the efficiency of its supply chain process. Appropriate business management terminology has been used with appropriate reference to the case study.

Question 5.5.2 – DS Café

(a) A sole trader is a type of business owned and controlled by a single person who reaps all of the profits (if any) made by the organization. However, the sole trader also has the risk of unlimited liability.

Award *1 mark* if the answer shows some understanding of sole trader, although the answer might lack clarity.

Award *2 marks* if sole trader is clearly defined, similar to the example above.

(b) Just-in-time (JIT) is a stock management system based on having stocks (inventory) delivered only when they are needed for production. As stocks are delivered just before they are used, there is no need for *DS Café* to hold high levels of stock (which is causing liquidity problems for the firm). Instead, with JIT, only the absolute minimum level of stock, if any, is held at *DS Café*. Therefore, this helps to improve the cash flow position of the business.

JIT also allows *DS Café* to be more flexible and responsive to the changing needs of its customers, especially during non-busy trading periods. JIT reduces the costs of holding stock (e.g. storage space), cuts the risk of stock being damaged or spoiled, and lessens wastage for the café, such a stock management system helps to improve the cash flow position of *DS Café*.

Award *1 – 2 marks* if the answer lacks detail and/or application or is presented as an unexplained list of points.

Award *3 – 4 marks* if the answer explains why JIT might be suitable to *DS Café* because it faces cash flow problems. The explanation is thorough and there is good application of the stimulus material in the case study.

(c) Placing inventory (stock) orders based on sales forecasts might be advisable for several reasons, including the following:

- It reduces the risks of making decisions based on intuition or simple guess work, which can be highly inaccurate and therefore inefficient.
- Sales forecasts are based on past trends and these provide guidance to predicting future sales, i.e. it is likely to give more accurate predictions.
- Being 'too busy to place orders' means there is no systematic ordering system at *DS Café* so this could lead to under-stocking or stockpiling.
- Since it helps to improve stock control, the cash flow position can be improved and the café's working capital can be put to better use.

Award *1 – 2 marks* if the commentary lacks detail and/or application. Limited understanding of the demands of the question is shown.

Award *3 – 4 marks* if the commentary addresses how placing inventory orders based on sales forecast might be beneficial to a business such as *DS Café*. There is proficient use of business management terminology throughout the answer.

Question 5.5.3 – Ford's stockpiling nightmare

(a)(i) Stockpiles refers to the accumulated (or excess level of) supply of Ford motor vehicles, i.e. too much production of cars given the level of demand. The purpose is to prevent possible shortages in supplies which could harm sales and profitability (although stockpiling is the result of poor stock control in Ford's case).

Award *1 mark* if the definition shows some understanding of stockpiles, although the answer might lack clarity.

Award *2 marks* if stockpiles is clearly defined, similar to the example above.

(a)(ii) Net profit is the surplus money that a business earns after all expenses have been paid for out of gross profit, i.e. Net profit = Gross profit – Expenses.

Award *1 mark* if the definition shows some understanding of net profit, although the answer might lack clarity.

Award *2 marks* if net profit is clearly defined, similar to the example above.

(b) Poor stock control can mean either excessive stockpiling or under-stocking (or even a stock-out). There are drawbacks to both, as outlined below:

Costs of overstocking	Costs of understocking
• Reduces Ford Motor Company's cash flow position	• Disgruntled and dissatisfied customers due to a lack of stock
• Likely to hinder working capital since finance is tied up in stockpiles	• Customers might switch to rival manufacturers' brands of vehicles
• Higher storage costs for the stocks of vehicles, e.g. insurance, maintenance and security	• Compensation payouts to customers for failure to meet promised delivery dates
• Possibility of some stock being damaged or even becoming obsolete (unlikely for cars, but their value could still depreciate).	• Higher unit costs of production due to idle resources (which cost money but do not generate any revenue).

Essentially, poor stock control harms cash flow and profitability, and has therefore caused Ford to have to "discontinue the production of almost all of its car models in North America".

Award *1 – 2 marks* if the answer is generalized or simply descriptive. Some understanding is shown, although the answer might lack substance.

Award *3 – 4 marks* if there is some analysis of the costs of poor stock control. The answer might lack details in some areas. At the bottom end of the mark band, there is little, if any, application of the stimulus material in the case study.

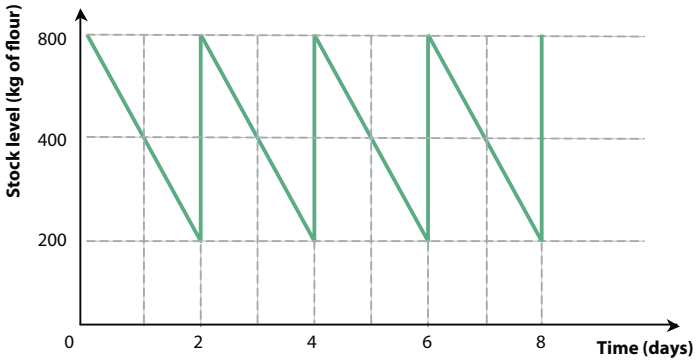
Award *5 – 6 marks* if there is a thorough examination of the costs of poor stock control to *Ford Motor Company*. Appropriate business management terminology has been used with clear application of the stimulus material in the case study.

Question 5.5.4 – QE Bakery

(a)(i) Just-in-time (JIT) is a stock control system whereby inventories (of materials, parts and components) are scheduled to arrive precisely when they are needed in the production process.

Award *1 mark* for a vague answer that shows some understanding of the term just-in-time (JIT).

Award *2 marks* for an answer that shows a clear understanding of the term just-in-time (JIT), similar to the example above.



(b) i. 400 kilos

ii. 600 kilos

iii. 200 kilos

iv. 1 week

Award *1 mark* for each correct answer.

(c) Possible reasons why a supermarket is likely to have a higher re-order quantity than *QE Bakery* could include the following points:

- Supermarkets have more customers and sales turnover so require higher re-order quantities, i.e. they hold larger volumes of stock that need to be replenished more regularly.
- Higher re-order levels are required to prevent a stock-out which would seriously damage the sales and public image of the supermarket.
- Supermarkets are probably larger in size than *QE Bakery* and therefore have the space for storing large volumes of stock (hence re-order levels can be higher).
- *QE Bakery* is unlikely to be the sole supplier of bread and cakes to the local supermarkets and hence supermarkets will have larger volumes of stock.
- Supermarkets experience longer lead times since they have longer distribution channels and more sophisticated supply chain management (hence re-order quantities need to be higher to compensate for the longer lead time).

Award *1 – 2 marks* if the explanation is incomplete and/or vague. It might be presented as a bullet-point list without any development.

Award *3 – 4 marks* if the explanation is thorough and clearly written in the context of the case study.

(d) Advantages of JIT in comparison to JIC for *QE Bakery* include:

- JIT reduces the storage and insurance costs of holding huge volumes of stock (of flour) for the bakery.
- As there is no need to hold stocks, JIT improves *QE Bakery's* cash flow and liquidity position.
- Implementation of JIT reduces waste as the stock of flour under a JIC system can go out of date or get damaged (there is no buffer stock in a JIT system).
- JIT can help strengthen *QE Bakery's* relationship with its suppliers (a prerequisite for JIT to work).

On the other hand, there are disadvantages to *QE Bakery* using JIT, such as:

- There is a huge reliance on *QE Bakery's* suppliers. Relying on an external firm to supply all the flour needed for production could mean that there are major problems if stocks are not delivered on time.
- Minimal stock levels mean that there is little flexibility. Thus there is no room for error in the production process so this can add pressure to staff, especially when dealing with large clients such as the supermarkets. JIT systems often prove inflexible in trying to cope with a sudden increase in demand.
- Since stock levels and stock orders are minimal, there are fewer opportunities for *QE Bakery* to exploit purchasing economies of scale. In addition, administration costs would be higher as the frequency of stock ordering increases under a JIT system.
- As JIT is a philosophy, it must be embedded into the culture of *QE Bakery.* This requires a cultural shift in thinking as the firm does not currently use a JIT stock control system.

Award *1 – 2 marks* if the answer is generalized and tends to be rather descriptive. It might be presented in a bullet-point list without much substance.

Award *3 – 4 marks* if there is an examination of how *QE Bakery* might be affected by using JIT, but the response is unbalanced. At the lower end of the mark band, there is little if any application of the stimulus material in the case study.

Award *5 – 6 marks* if there is a thorough examination of both the advantages and disadvantages of introducing JIT to *QE Bakery*. Appropriate business management terminology has been used, and there is clear reference to the case study.

Question 5.5.5 – The Emirates Stadium, London

(a) Capacity utilization = (59,846 ÷ 59,867) × 100 = 99.96%

Award *1 mark* for the correct working out and a further *1 mark* for the correct answer.

(b) Big matches against clubs like Manchester United could have drawn more crowds than usual. It is possible for such big matches in high demand Arsenal Football Club to add more temporary seating for the match.

Like airline companies, it is possible for football clubs to oversell, knowing that some football fans/supporters may not turn up for the match (perhaps due to traffic or travel problems, illness or other reasons).

Award *1 – 2 marks* if the explanation lacks detail and/or application. Limited understanding of the demands of the question is shown.

Award *3 – 4 marks* if the explanation addresses how it is possible for *Arsenal Football Club* to temporarily operate at more than 100% capacity. There is good use of business management terminology throughout the answer.

Question 5.5.6 – Sherman Skyline Inc.

(a) Capacity utilization = (20,100 ÷ 30,000) × 100 = 67%

Award *1 mark* for the correct working out and a further *1 mark* for the correct answer.

(b) At 20,100 units, AC = ($10,000 ÷ 20,100) + $5 = $5.49

At 30,000 units, AC = ($10,000 ÷ 30,000) + $5 = $5.33

Award *1 mark* for the correct working out and up to *2 marks* for the correct answers.

(c) At 20,100 units, profit margin (mark-up) = $15 – $5.49 = $9.51

At 30,000 units, profit margin (mark-up) = $15 – $5.33 = $9.67

Award *1 mark* for the correct working out and up to *2 marks* for the correct answers.

(d) At 20,100 units, total profit = ($15 × 20,100) – [$10,000 + ($5 × 20,100)] = $191,000

At 30,000 units, total profit = ($15 × 30,000) – [$10,000 + ($5 × 30,000)] = $290,000

Hence, the percentage change in profits is therefore = +51.83%

Accept answers rounded as follows:

At 20,100 units, total profit = $9.51 × 20,100 = $191,151

At 30,000 units, total profit = $9.67 × 30 000 = $290,100

Percentage change in profits is therefore = +51.76%

Award *2 marks* for the correct working out and up to 2 marks for the correct answers.

Question 5.5.7 – AMC Theatres

(a) Capacity utilization measures a firm's level of output as a proportion of its total potential output (productive capacity). The higher the capacity utilization, the closer the output is to the firm's maximum level of output.

Award *1 mark* if the answer shows some understanding of 'capacity utilization', although thedefinition might lack clarity.

Award *2 marks* if 'capacity utilization' is clearly defined, with the use of an example related to the case study likely to be used.

(b) Marginal cost refers to the extra cost of providing an extra unit of output, i.e. ΔTC / ΔQ. Whether the cinema has 100 or 101 customers makes very little, if any, difference to the cost of screening the particular movie. This is because the movie needs to be screened at the advertised time (with its associated costs such as staffing and power) irrespective of the number of customers watching the movie. The extra costs are therefore close to, or equal, to zero.

Award *1 mark* if there is some understanding of marginal cost but the answer lacks any application to the movie industry.

Award *2 marks* if marginal cost is understood and there is good application to the cost of serving an extra customer at the cinema.

(c) High capacity utilization at the cinema means that each movie screening is close to its maximum capacity (in terms of the number of seats in each auditorium). High capacity utilization is important for cinemas, such as *AMC*, for several reasons, including the following:

- The fixed costs of running a cinema are spread out over a large level of output, i.e. the greater the number of customers at the cinema, the lower its average fixed costs.
- Low capacity utilization would mean lower levels of sales revenue and lower total contribution made from each movie being screened.
- Higher capacity utilization would improve profit margins and hence shorten the payback period (break-even) for each movie.
- As the extra (marginal) cost of screening a movie is close to zero, high capacity utilization is important for firms such as *AMC* to maximize profits.
- Movies that are watched by a large audience (near full capacity) will be prolonged and perhaps shown on multiple screens. By contrast, unpopular movies will be terminated in order to improve the cinema's liquidity position.

Award *1 – 2 marks* if the answer is rather vague and generalized. It might be presented as a bullet-point list, with limited understanding shown.

Award *3 – 4 marks* if there is an examination of the importance of high capacity utilization, although the response lacks depth or coherence in some areas. At the lower end of the mark band, there is little, if any, evidence of application.

Award *5 – 6 marks* if there is a thorough examination of the importance of high capacity utilization for *AMC*. Appropriate business management terminology is used effectively, and the answer is written in the context of *AMC Theatres*.

Question 5.5.8 – Gupta Realty Ltd and Jenkins Realty Co.

(a) Labour productivity based on sales revenue per worker:

- Gupta Realty Ltd. = $15,450,372 ÷ 18 = $858,354 per person
- Jenkins Realty Co. = $13,075,560 ÷ 16 = $817,223 per person
- Thus, the sales team at Gupta Realty Ltd. was more productive as the average sales person sold an extra $41,131 worth of real estate.

Accept answers that calculate the average price of each unit sold:

- Average price of properties sold at Gupta Realty Ltd. = $15,450,372 ÷ 54 = $286,118
- Average price of properties sold at Jenkins Realty Co. = $13,075,560 ÷ 60 = $217,926
- Thus, again, the staff at Gupta Realty Ltd. are more productive as the average price of each unit sold is $68,192 higher.

For each company, award *1 mark* for the correct working out and *1 mark* for each correct answer, up to the maximum of *3 marks.*

(b) Although Gupta Realty Ltd. has higher productivity as measured by sales per worker or the average price of each property sold (part a of the question), Jenkins Realty Co. might be considered to be more productive if an alternative measure of output per worker is used:

- Gupta Realty Ltd. sold 3 properties with 18 workers (54 properties sold between 18 sales staff).
- Jenkins Realty Co. sold 3.75 properties in the same time period with a smaller workforce of 16 people (60 properties sold between 16 sales staff).
- In addition, it is not known how many hours were spent by each firm or each real estate agent in making the sale of each property.

So, each sales staff at Jenkins Realty Co. sold a greater number of units in the same time. Therefore, the choice of measurement of the productivity rate can determine how efficient firms are interpreted to be.

Award *1 – 2 marks* for an answer that shows limited understanding of why it might be difficult to confirm which of the two firms is most productive.

Award *3 – 4 marks* for an answer that shows a good level of understanding of why it might be difficult to conclude which of the two firms is most productive. There is good use of the numerical information in the case study.

Question 5.5.9 – Social media and productivity

(a)(i) Labour productivity measures the amount of goods and services produced by one unit of labour (such as output per worker, output per worker hour or sales per worker hour). It is a measure of the efficiency with which firms use their labour inputs to produce goods and services. Labour productivity will fall if workers spend one hour each day on social network websites such as Facebook and Twitter rather than doing their work during that time.

Award *1 mark* for a limited understanding of labour productivity.

Award *2 marks* if labour productivity is clearly understood with appropriate business management terminology and a relevant example used.

(a)(ii) Social networking refers to any platform used mainly by individuals to build social relationships between people, often because they are friends or share things in common. Social network services include Google+, Instagram, WhatsApp and Facebook.

Award *1 mark* for a limited understanding of social networking.

Award *2 marks* if social networking is clearly defined, similar to the example above.

(b) The costs of low productivity for businesses include:

- Lost output – some "£14 billion ($20.3bn) a year in lost work time".
- Higher costs – workers are being paid yet do not generate any revenue when they are surfing the social network websites.
- It can also mean that personnel costs rise due to reasons such as sanctions being introduced, training costs and the cost of hiring new/replacement staff.
- Less competitiveness – lower productivity is associated with higher unit costs and inefficiency.
- Lower profitability – Over 2 million worker hours are wasted each day at work, which could have been used to generate more sales and greater profits for businesses.

Award *1 – 2 marks* if the answer shows limited understanding of the demands of the question, but lacks detail. It may be presented in a bullet-point list, without any substance.

Award *3 – 4 marks* if the examination is good but lacks detail in some areas. There is adequate use of business management terminology. At the top end of the mark band, application has been attempted.

Award *5 – 6 marks* if there is a thorough examination of the costs of low labour productivity. Analysis is detailed and/or probing, with clear application of the stimulus material in the case study. There is good use of business management terminology throughout the answer.

Question 5.5.10 – To make or to Buy?

(a)(i) The CTM refers to the total costs of producing a particular product in-house, rather than purchasing it from a vendor or contractor.

Award *1 mark* for a vague answer that shows some understanding of the term cost to make.

Award *2 marks* for an answer that shows a clear understanding of the term cost to make, similar to the example above.

(a)(ii) The CTB refers to a person or firm's costs to purchase the product from a third party supplier, such as a retailers, vendor or contractor.

Award *1 mark* for a vague answer that shows some understanding of the term cost to buy.

Award *2 marks* for an answer that shows a clear understanding of the term cost to buy, similar to the example above.

(b) Arguments for Ned making the train table could include:

- He could personalize the product to meet the needs and tastes of his sons since 'the boys might not like the design' of the ready-made train table.
- On financial grounds, the CTM is $80 compared to the higher CTB of $155 (or an extra 93.75%).

Arguments for buying the ready-made train table could include:

- Ned saves fifteen hours of his time – does Ned have the (spare) time to make the product? What else could he have been doing in these 15 hours – playing with his sons instead of building the train table?

- Delays in making the train table could mean that the boys do not get delivery of their gift in time for their birthdays.
- Forecasting errors and quality defects could prove to be costly and therefore reduce the numerical difference between the CTB and the CTM.

Other issues that Ned might need to consider could include:

- CTM versus CTB include qualitative factors, i.e. $80 (plus 15 hours of his time) versus $155 – which is more important to Ned?
- On quantitative grounds only, as the CTM is less than the CTB, it is more financially desirable to 'make' the train table, but Ned might value his time differently.
- The relative quality of the ready-made and home-made products – does Ned have the skills and craftsmanship to match the quality of the train table produced by the manufacturer?
- Whether there are any guarantees or after-sales care being offered by the retailer – the greater the after-sales services, the more attractive the 'buy' decision becomes.

Given Ned feels the ready-made product is 'bland' and 'simplistic' he probably feels the ready-made product does not represent value for money. If this is the case, then it is advisable that Ned goes for the 'make' decision – assuming he can complete the project on time.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation.

Award *5 – 6 marks* if an unbalanced (one-sided) answer is provided regarding the decision to buy or make, although the answer lacks detail in certain areas. At the top end, there is an attempt at application using the case study.

Award *7 – 8 marks* if there is a balanced examination of both the arguments for and against the buy or make decision. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if there is a balanced examination of both the arguments for and against the buy or make decision. There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking.

Unit 5.6 Research and Development [HL Only]

Question 5.6.1 – Johnson & Johnson

(a) Innovation is the process of commercially pioneering new ideas and creations in the production process. It stems from successful R&D in order to meet the needs of customers in a profitable way.

Award *1 mark* for a vague answer that shows some understanding of the term innovation.

Award *2 marks* for an answer that shows a clear understanding of the term innovation, similar to the example above.

(b) Research and Development (R&D) is important to *Johnson & Johnson* for several reasons, including the following:

- Pharmaceuticals / medicines require thorough and extensive R&D before they can be launched (commercialized).
- R&D expenditure can lead to new products being marketed which are highly profitable, e.g. Viagra or influenza vaccinations.
- R&D can help to improve the quality and appeal of the firm's products, thereby giving *Johnson & Johnson* a competitive advantage.
- R&D can help *Johnson & Johnson* to spread its risks by having a larger product portfolio, such as baby products, contact lenses and other health care products.
- Like innovation, successful R&D can lead to brand switching and brand loyalty.
- Similarly, R&D can help *Johnson & Johnson* to launch new products under the same (manufacturer) brand name.

Award *1 – 2 marks* for a limited understanding of the demands of the question. The explanation may be incomplete and/or vague.

Award *3 – 4 marks* if the explanation is thorough and clearly written in the context of *Johnson & Johnson.*

(b) A two-sided argument is needed; an example of which is outlined below:

Justifications for R&D expenditure	Justifications against R&D expenditure
• Can help to keep *Johnson & Johnson* up to date / competitive	• Time, energy and resources are consumed in fruitless R&D
• Improves the firm's chances of survival in the long run	• It can be difficult to predetermine R&D timescales and budgets
• Positive effects on the reputation/image of the firm	• The high failure rate means there could be better use of the firm's limited funds.
• R&D can be a source of organizational growth and evolution	
• R&D can prolong the product life cycle of certain products.	

Whether R&D expenditure can be justified depends on several related factors, including:

- The firm's overall budget, i.e. are there sufficient funds available for R&D?
- The amount of R&D expenditure of rival firms.
- The type of industry in which the firm operates, e.g. *Johnson & Johnson* operates in the pharmaceutical industry, where the health and safety of customers is paramount.
- The aims and objectives of the organization, e.g. is *Johnson & Johnson* market led or product orientated?
- The firm's risk profile, i.e. how much risk is the firm willing and able to take?
- Whether management decision-making is based on gut feelings (intuition) or scientific methods.
- The quality of R&D (especially if R&D is outsourced to specialist organizations).

Given the nature of the industry in which *Johnson & Johnson* operates, it is highly likely that R&D is integral to the firm's long term strategic planning. Ultimately, for *Johnson & Johnson*, it could be necessary to spend money (on R&D) in order to earn more money in the future. R&D might be vital in order to increase the chances of success in launching new products. Arguably, it is not a matter of whether the firm can afford to spend on R&D, but whether it can really afford to ignore R&D expenditure. If this is the case, then R&D can be justified to a large extent.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of why R&D expenditure can be justified, but without sufficient explanation.

Award *5 – 6 marks* if an unbalanced (one-sided) answer is provided regarding the importance of R&D expenditure and how it can be justified, although the answer lacks detail in certain areas. At the top end, there is an attempt at application using the case study.

Award *7 – 8 marks* if a balanced response is provided regarding the extent to which R&D expenditure can be justified, despite the high failure rate of new products on the market. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if a balanced and thorough response is provided regarding the extent to which R&D expenditure can be justified, despite the high failure rate of new products on the market. There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking.

Question 5.6.2 – Nintendo

(a) Brand loyalty occurs when customers repeatedly buy the same brand of a product rather than over rival brands. Loyal customers are devoted to the brand as they have brand preference over other brands.

Award *1 mark* if the definition shows some understanding of brand loyalty.

Award *2 marks* if the definition shows a clear understanding of brand loyalty, similar to the example above.

(b) Innovation is important for businesses operating in rapidly changing industries, such as the games console market, for several reasons including the following:

- innovation is important for *Nintendo* to keep pace with rivals, such as *Sony* and *Microsoft*
- innovation can help get the attention of customers
- can provide a first mover advantage in such fast-moving industries
- games consoles tend to have relatively short life cycles and therefore innovation is essential for survival in a rapidly changing industry
- innovative products can give manufacturers a competitive edge and therefore to be more successful.

Award *1 – 2 marks* if there is some understanding of the demands of the question, but the commentary might lack application, i.e. the importance of innovation in a rapidly changing industry.

Award *3 – 4 marks* for an applied commentary that demonstrates a clear understanding of the importance of innovation in a rapidly changing industry, such as the games console industry. Relevant business management terminology and appropriate examples have been used effectively.

(c) The degree of R&D in a business such as *Nintendo* depends of several factors, which include the following:

- Benchmarking – the budgeted R&D expenditure of rival companies such as *Sony* and *Microsoft*.
- The financial position of the firm – the more profitable *Nintendo* is, the more likely it is to have funding for R&D.
- The firm's market share – higher market power means that *Nintendo* has greater ability to fund and conduct R&D.
- The product life cycle – games consoles tend to have quite short product life cycles so there is a greater need for R&D in such firms.
- Risk profile – firms that are risk adverse have a tendency for less innovation so will pour less money into R&D.
- Market orientation versus product orientation – firms that are more inward-looking will tend to produce products that they hope will sell.
- Adoption rates – if innovators and early adopters (customers) embrace the new technologies, *Nintendo* is more likely to invest in R&D.
- Management attitudes – this factor will be of importance especially given the high failure rate of products launched on the market.
- Change – the speed and severity of change in the games console industry is also likely to increase the degree of R&D in these firms.
- Quality of the workforce – for example, are employees enterprising and creative?

Award *1 – 2 marks* if the answer is vague and/or generalised. It might be presented as a bullet-point list with little, if any, explanation.

Award *3 – 4 marks* if the examination covers at least two factors that affect the degree of R&D in a business, although it lacks detail in areas. At the top end of the mark band, there is application to firms such as *Nintendo*.

Award *5 – 6 marks* if there is a thorough examination of various factors that affect the degree of R&D in a business such as *Nintendo.* Business management terminology and application have been used effectively throughout the answer.

Question 5.6.3 – Hotmail

(a) Explanation of what is meant by innovation (innovative products). Application is needed for maximum marks.

- *Hotmail* was offered as a 'free' email service, provided that people had access to the Internet (the first of such products to be offered to the general public).
- The founders were visionary: to allow people to access a single email account from anywhere in the world. Hence, this vision helped *Hotmail* to attract over 1 million customers in its first 6 months of operation.
- *Hotmail* underwent innovative product development, e.g. webcam and instant messaging services.

Award *1 – 2 marks* if the explanation is incomplete and/or vague, but some understanding of the demands of the question is shown.

Award *3 – 4 marks* if the explanation is thorough and relevant examples are used in the context of *Hotmail.*

(b) Innovation is vital to high-tech firms such as *Microsoft* for several reasons, such as:

- To keep pace with/ahead of competitors that are frequently launching new products (software), i.e. innovation can help a business to gain competitive advantages.
- High-tech firms tend to have short product life cycles, so innovation is crucial to the organization's long term survival.
- The high-tech industry undergoes more rapid change than most other industries, i.e. it is very fast paced. Hence innovation is inevitable.
- Innovation can be a major source of profits for high-tech firms (just look at what *Office* did for *Microsoft* and what the iPad and iPhone did to help *Apple*!)
- Being innovative can help to enhance an organization's corporate image and customer perceptions.
- Innovation is crucial in order to pay for (recoup) the high costs of R&D expenditure in high-tech industries.
- Being innovative can have positive motivational effects on employees.
- Innovation can allow firms to charge relatively high prices, thereby earning higher profit margins.
- Innovation, such as *Windows Live Messenger,* can foster brand loyalty and help brands to endure.
- Innovation can act as a vital source of product differentiation.

Award *1 – 2 marks* if the answer is rather generalized and lacks coherence. It might be presented as an unexplained bullet-point list of possible reasons.

Award *3 – 4 marks* if there is some examination of the importance of innovation to high-tech firms, although the answer lacks detail/clarity in areas. At the top end of the mark band, there an attempt at application to high-tech firms such as *Microsoft*.

Award *5 – 6 marks* if there is a thorough examination of the importance of innovation to high-tech firms such as *Microsoft*. Appropriate business management terminology has been used and there is good application of the stimulus material in the case study.

Question 5.6.4 – The International Academy School (TIAS)

(a) The term internal stakeholder refers to an individual member of an organization, e.g. an employee, manager, director or shareholder of the organization.

Award *1 mark* if the definition shows some understanding of the term internal stakeholder.

Award *2 marks* if the definition shows a clear understanding of the term internal stakeholder, similar to the example above.

(b) Innovative creativity is a radical form of innovation which involves creating something that is thoroughly new, including reshaping organizational culture. Innovators (people with innovative creativity, such as Mike Trigg) redefine problems and cultural norms in order to create something new, especially as the predecessor had led the school for the past 15 years. Reasons why Mike Trigg's proposals might be described as innovative creativity include:

- Changing the timings of the school day (from 4 to 5 periods, and lesson times from 75 minutes to 60 minutes).
- Introducing a new House system is rather radical, moving from six houses to just four.
- Empowering workers through the 'Open Forum' discussions with staff.

Award *1 – 2 marks* if the answer suggests one reason in detail or if two reasons are vaguely explained. Appropriate examples and application might be missing.

Award *3 – 4 marks* for clearly suggesting two reasons why the proposals might be considered to be innovative creativity. Appropriate business management terminology and examples related to the case study are used effectively.

Unit 5.7 Crisis Management and Contingency Planning [HL Only]

Question 5.7.1 – Meat products recalled in the USA

(a) A crisis can be described as an emergency situation causing instability and major problems for a business. It is usually unexpected and often unpredictable, e.g. food scandals causing a public relations disaster for retailers including *Nestlé, Walmart* and *Sam's Club.*

Award *1 mark* if the description shows some understanding of a crisis.

Award *2 marks* if the description shows a clear understanding of a crisis, written in the context of the case study.

(b) Crisis management refers to the management of operations before, during and after a crisis. Effective crisis management can help retailers such as *Walmart* to deal with the crisis of recalling over 3.62 million kilos of recalled meat.

- It allows managers to respond to such major disruptions to their business by implementing a contingency plan to restore their operations.
- It requires senior managers to detect and deal with crises in a swift manner before they escalate into significant problems for the business. This also dampens any damage to retailer such as *Walmart* caused by negative media coverage.
- Successful crisis management helps (to some extent at least) to ensure that measures are in place to minimize *Walmart's* exposure to a crisis, e.g. by implementing effective quality management systems to prevent unsafe meat products from being sold at its supermarkets.
- It will necessitate the use of business continuity plans to minimize the disruptions and damages (physical, psychological and financial) caused by the catastrophe faced by retailers such as *Walmart,* thereby giving employees a sense of direction and reassurance during the crisis.
- Ultimately, careful and effective planning can help retailers such as *Walmart* to become better prepared and resilient to such major catastrophes, thereby enhancing the chances of continuity in the face of major disasters.

Award *1 – 2 marks* if the answer shows limited understanding of the demands of the question. It is likely to be generalized and lacks substance.

Award *3 – 4 marks* if the answer shows some understanding of the demands of the question, but lacks detail in certain areas and/or may lack clear application to the case study.

Award *5 – 6 marks* if there is a thorough examination of how effective crisis management can help retailers such as *Walmart* to deal with a crisis, such as the one mentioned in the case study. Appropriate business management terminology has been used and there is good application of the stimulus material throughout the answer.

Question 5.7.2 – Bausch & Lomb

(a) Crisis planning is part of crisis management which involves the planned prevention of a crisis by formulating plans to deal with serious disruptions and damage to a business. In this case, crisis planning must be used to deal with the health and safety catastrophe faced by *Bausch & Lomb (B&L)*.

Award *1 mark* if the description shows some understanding of crisis planning.

Award *2 marks* if the description shows a clear understanding of crisis planning, written in the context of the case study.

(b) Devoting time and resources to crisis management may be futile or inefficient because:

- Statistically, crises are unlikely to occur or may never happen (why would *B&L* contemplate producing contact lens solutions that cause eye infections!) Hence, the time, resources and money invested into crisis management could have been better used elsewhere.
- The whole process can be extremely time consuming and this represents a huge opportunity cost to management time.
- Some risks are simply unpredictable and/or unquantifiable, e.g. terrorist attacks or public health scares. Hence, not all risks can be covered in crisis management.
- Crisis management might be based on outdated or inaccurate data, and therefore inappropriate plans may be devised leading to inappropriate action being taken in the event of an actual crisis.
- No amount of crisis planning can prevent the totally unexpected from happening, such as $500 million being wiped off *B&L's* stock market value.

These arguments (and others) suggest that it is not possible, nor worthwhile, for a business such as *B&L* to plan for a crisis.

On the other hand, many would argue that resources need to be devoted to crisis management, i.e. it is possible (and necessary) to plan for a crisis, because:

- Careful planning can help to reduce risks and the impact of a catastrophe faced by a business because most, if not all, eventualities are accounted for.
- Crisis management encourages proactive, rather than passive, thinking in order to be better prepared to cope with a crisis situation. However, this will also depend on the extent to which the crisis is quantifiable.
- Crisis management can reassure *B&L's* workforce as there is a well thought out plan to follow in the event of a major disaster.
- Similarly, it promotes effective communication between management and employees, thereby possibly helping to enhance productivity, motivation and industrial relations.
- External shocks are inevitable in today's fast-paced business environment. Effective crisis management can then mean the difference between survival and failure for a business such as *B&L*.
- Ultimately, effective crisis management enables a business such as *B&L* to be better prepared and equipped to deal with a crisis, although this tends to be easier to do if risks and crises are quantifiable.

The extent to which businesses such as *B&L* can realistically plan for a crisis will then depend on a number of interrelated factors, such as:

- Time and budgets allocated to management for crisis planning and to devise contingency plans.
- Management skills and experience in crisis management.

- The culture of the organization, e.g. has the organization always had a team dedicated to crisis management?
- The nature of the organization's operations and the industry in which it operates, e.g. hazardous occupations such as the soldiers in the army versus relatively 'safe' jobs such as management consultants. In the case of providers of healthcare products such as *B&L,* a major crisis could even cause irrevocable damage to the organization.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of business management theory.

Award *5 – 6 marks* if an unbalanced (one-sided) answer is provided regarding whether it is possible for a business such as *B&L* to plan for a crisis, although the answer lacks detail in certain areas. At the top end, the answer is written in the context of *B&L*.

Award *7 – 8 marks* for a balanced discussion in relation to *B&L's* ability to plan for a crisis. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if a balanced and thorough discussion is provided regarding how far it is possible for a business such as *B&L* to plan for a crisis. There is effective use of business management terminology throughout the answer. There is clear evidence of critical and evaluative thinking.

Question 5.7.3 – H5N1 bird flu

(a) A contingency plan is a back-up plan that looks at how to deal with a specific problem or crisis to ensure the continuity of the business. It involves the assessment of 'what if?' scenarios and specific strategies to deal with emergencies, e.g. the outbreak of infectious diseases such as bird flu.

Award *1 mark* for a vague definition of contingency plan, which shows limited understanding.

Award *2 marks* if contingency plan is clearly defined, similar to the example above.

(b) Benefits to organizations such as banks and schools that devise contingency plans include:

- Planning reduces the impact of a crisis on an organization because there is a well thought out plan to follow in the event of a disaster, e.g. training teachers so that 'lessons' can continue in the event of an outbreak of bird flu (via online teaching methods).
- It can help to reassure staff and hence satisfy the safety needs of employees, as advocated by psychologist Abraham Maslow. This is relatively important for banks that would be affected by the outbreak of bird flu, negatively impacting Turkey's lucrative tourism industry.
- The plans require effective communication between senior management and employees, possibly helping to improve motivation and productivity.
- Ultimately, it can reduce the risks faced by an organization in the wake of a crisis, thereby ensuring its continuity, e.g. providing banking services to customers via teleworkers, telebanking and online banking.

However, there are related costs too, such as:

- Contingency planning uses up valuable management time and resources, thereby increasing administrative costs.
- Crises may never happen (there may not ever be an outbreak of bird flu) and therefore the time and money spent on contingency plans could have been better used elsewhere.

- Plans can often be based on outdated or inaccurate data (e.g. scaremongering by the news media), then inappropriate actions may be taken if and when a crisis does occur.
- No amount of planning can ensure that the operational efficiency of schools and banks continue if there is a major crisis such as bird flu, e.g. could schools really continue to operate effectively without teachers and students physically in school?

Award *1 – 2 marks* if the answer is vague and generalized and may be presented in an unexplained bullet-point list.

Award *3 – 4 marks* if the answer shows some understanding of the costs and benefits of using contingency plans, although it lacks detail and/or application in areas.

Award *5 – 6 marks* if the answer considers both the costs and benefits of using contingency plans. There is good use of relevant business management terminology throughout the answer. Appropriate examples have been used in context of the banking and/or education industry.

Question 5.7.4 – Toyota

(a) A product recall occurs when (usually) the manufacturer has to retract a faulty product from the market due to health and safety reasons, i.e. the product is of substandard quality and could pose a public threat such as the various mechanical problems with *Toyota's* cars.

The product recall can damage *Toyota's* corporate reputation because:

- Substandard quality will adversely affect the perception of the quality of *Toyota's* cars, perhaps irrevocably.
- Product recalls can inconvenience customers thereby increasing the number of customer complaints.
- Unsafe cars can cause physical harm to customers, again damaging *Toyota's* global reputation.
- Product recalls mean that deliveries (of cars) are delayed. This can result in compensation claims being made, further harming *Toyota's* reputation.
- Ultimately, product recalls can harm the competitiveness of *Toyota* by affecting its corporate reputation and its costs (around $2.47 billion in the USA alone) in an unfavourable way.

Award *1 – 2 marks* if there is evidence of some understanding of the demands of the question, but the explanation is vague or there is no explanation of how product recalls affect the reputation of a business.

Award *3 – 4 marks* if there is a clear understanding of how product recalls can damage the corporate reputation of a business such as *Toyota*. There is good use of business management terminology and relevant examples.

(b) Whether it would be in *Toyota's* best interest to spend money on contingency planning or improving the quality of its cars is debatable. Arguments for spending money on contingency planning include the following:

- Producing high quality cars does not prevent crises from occurring, e.g. fire in the workplace or major industrial action from the workforce.
- Careful planning can help to reduce the risks of crises, which can happen despite any quality assurance that *Toyota* might have. This might include having a PR team trained and ready to deal with media exposure to crises in order to dampen any negative impacts on the organization.

On the other hand, arguments in support of spending money on improving the quality of *Toyota's* cars include:

- The argument that 'prevention is better than cure', i.e. building high quality cars would prevent product recalls.
- The funds spent by *Toyota* on planning for crises that are highly unlikely to occur means that the money could have been used for other purposes.

In evaluating the decision, *Toyota* would need to consider several factors such as:

- the views of its various shareholders, budgetary constraints
- past experiences, e.g. the extent to which it has effectively managed crises in the past
- public opinion
- market research data, e.g. how customers perceive the quality of *Toyota's* cars in relation to that of its main rivals.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation. The answer does not make effective use of business management theory.

Award *5 – 6 marks* for an answer that considers both the arguments for having contingency plans and for improving the quality of *Toyota's* cars, although the answer lacks detail in certain areas. At the top end, there is an attempt at application using the case study.

Award *7 – 8 marks* for a well-balanced answer that considers both the arguments for having contingency plans and for improving the quality of *Toyota's* cars. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* for a well-balanced answer that considers both the arguments for having contingency plans and for improving the quality of *Toyota's* cars. There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking.

Question 5.7.5 – Chaos at Hong Kong Disneyland (HKDL)

(a)(i) Public relations (PR) refers to marketing activities aimed at establishing and protecting a desired corporate image of an organization. It is about getting positive press and media coverage, usually without directly paying for it. PR would be hindered when an organization such as *HKDL* faces major complaints from employees and customers.

Award *1 mark* for a vague definition of public relations.

Award *2 marks* if public relations is clearly defined, similar to the example above.

(a)(ii) Labour unions are organizations consisting of worker-members who unite to protect their employment rights and wellbeing in the workplace.

Award *1 mark* for a vague definition of labour unions.

Award *2 marks* if labour unions is clearly defined, similar to the example above.

(b) Strategies that *HKDL* could have used in order to deal with the poor/negative public relations that it faced include:

- Enter negotiations with labour union representatives in order to deal with the issue of staff complaints to seek a win-win outcome.
- PR activities to deal with the negative press/media coverage of *HKDL's* catering arrangements.
- PR campaigns to deal with the issue of overcrowding in the theme park, with emphasis on the company's concerns for public safety.
- All external enquiries relating to the crises should be dealt with by a pre-determined team of senior managers and those experienced in crisis management to ensure that the correct or desired messages are being portrayed in a consistent manner.

Award *1 – 2 marks* if the answer shows limited understanding of the demands of the question, but lacks depth, application and/or coherence.

Award *3 – 4 marks* if two appropriate strategies are examined, although the answer might lack detail. At the lower end, only one strategy might be examined in detail.

Award *5 – 6 marks* if two appropriate strategies are examined, written in the context of the case study. Appropriate business management terminology and relevant examples have been used effectively.

(c) It could be argued that *HKDL* might have been better prepared for dealing with the problems of overcrowding because:

- Quality management systems would have ensured that *HKDL* did not oversell tickets beyond its daily capacity, i.e. overcrowding should have been prevented rather than dealt with.
- Perhaps it might be better for theme parks to overestimate, rather than underestimate in the case of *HKDL*, the number of visitors during its peak periods. Improved marketing research may have therefore helped to prevent such a disaster from happening.
- Successful crisis management would have helped to ensure that measures were in place to avoid such crises altogether. This may have minimized *HKDL's* exposure to the overcrowding crisis.

However, counter-arguments include:

- The theme park was in its first year of operation so therefore no amount of contingency planning could have catered for the huge influx of visitors during the Chinese New Year week.
- External factors are beyond the control of *HKDL*, e.g. changes to the state of the Chinese economy or the income levels of its people, mean that contingency plans can become invalid in a very short amount of time.
- Some risks are uninsurable as they are so difficult to quantify so this makes crisis management and contingency planning even more challenging.

Award *1 – 2 marks* for a vague and generalized response. The answer may appear in bullet-point form, with minimal development if any.

Award *3 – 4 marks* if a descriptive answer is provided with some understanding of the demands of the question, but without sufficient explanation.

Award *5 – 6 marks* if an unbalanced (one-sided) answer is provided regarding whether *HKDL* could have been better prepared for dealing with the excess number of visitors, although the answer lacks detail in certain areas. At the top end of the mark band, there is an attempt at application using the case study.

Award *7 – 8 marks* if a balanced response is provided regarding whether *HKDL* could have been better prepared for dealing with the excess number of visitors. Relevant examples and business management terminology have been used, but there is limited, if any, evidence of synthesis and evaluation.

Award *9 – 10 marks* if there is a good understanding of the demands of the question, written in the context of *HKDL*. There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking. The answer justifies whether *HKDL* could have been better prepared for dealing with the excess number of visitors to its theme park.

6.1 Concept based learning

IB Learner Profile – Be an Inquirer and Be Knowledgeable (1)

Place these innovations in chronological order, based on the year of their commercialization:

- Escalator - Jesse Reno 1900
- Vacuum cleaner - Hubert Booth 1901
- Air conditioner - Willis Carrier 1902
- Crayons - Edward Binney and Harold Smith 1903
- Teabags - Thomas Suillivan 1904
- Einstein's Theory of Relativity - Albert Einstein 1905
- Cornflakes - William Kellogg 1906
- Helicopter - Paul Cornu 1907

There are all in order already! And all commercialised in the first decade of the 1900s!

IB Learner Profile – Be an Inquirer and Be Knowledgeable (2)

Place these innovations in chronological order, based on the year of their commercialization:

- Fortune cookies - Charles Jung, 1918
- Lie detector - John Larson, 1921
- Radar - Robert Watson-Watt, 1935
- Colour television - Peter Goldmark, 1940
- Bar codes - Joseph Woodland & Bernard Silver, 1952
- Soft contact lenses - George Lindemann,1965
- Post-It notes - Arthur Fry, 1974
- Digital cell phones - Martin Copper (Motorola), 1988

There are all in order already – one from a different decade!

Best wishes for your studies and examinations!
Paul Hoang

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