

# BUSINESS MANAGEMENT

# ANSWERS

Paul Hoang  
5th Edition

ISBN: 978-1-921917-84-4

FOR USE WITH THE I.B. DIPLOMA PROGRAMME

# **Business Management**

**Answers to Exam Style  
Questions**

**Paul Hoang**



Copyright ©IBID Press, Victoria, Australia.

[www.ibid.com.au](http://www.ibid.com.au)

First published in 2022 by IBID Press, Victoria, Australia. Library Catalogue:

Hoang P., Puri R.

Series Title: International Baccalaureate in Detail

ISBN: 978-1-921917-82-0ANS

All rights reserved except under the conditions described in the Copyright Act 1968 of Australia and subsequent amendments. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, without the prior permission of the publishers.

While every care has been taken to trace and acknowledge copyright, the publishers tender their apologies for any accidental infringement where copyright has proved untraceable. They would be pleased to come to a suitable arrangement with the rightful owner in each case.

This material has been developed independently by the publisher and the content is in no way connected with nor endorsed by the International Baccalaureate Organization.

All copyright statements, '© IBO 2022' refer to the Business Management guide published by the International Baccalaureate Organization in 2022.

IBID Press express their thanks to the International Baccalaureate Organization for permission to reproduce its intellectual property.

Cover design by Key-Strokes.

Published by IBID Press, [www.ibid.com.au](http://www.ibid.com.au)

# Contents

Unit 1.1 Introduction to business management - What is a business?	1
Unit 1.2 Types of business entities	2
Unit 1.3 Business objectives	7
Unit 1.4 Stakeholders	11
Unit 1.5 Growth and Evolution	17
Unit 1.6 Multinational Companies	27
Unit 2.1 Introduction to human resource management	32
Unit 2.2 Organizational structure	34
Unit 2.3 Leadership and Management	40
Unit 2.4 Motivation and demotivation	44
Unit 2.5 Organizational (corporate) culture (HL only)	53
Unit 2.6 Communication	56
Unit 2.7 Industrial/employee relations (HL only)	59
Unit 3.1 Introduction to finance	63
Unit 3.2 Sources of finance	64
Unit 3.3 Costs and revenues	68
Unit 3.4 Final accounts	71
Unit 3.5 Profitability and liquidity ratio analysis	79
Unit 3.6 Efficiency ratio analysis (HL only)	85
Unit 3.7 Cash Flow	91
Unit 3.8 Investment Appraisal	97
Unit 3.9 Budgeting	104
Unit 4.1 Role of Marketing	109
Unit 4.2 Marketing Planning	112
Unit 4.3 Sales forecasting (HL only)	117
Unit 4.4 Market research	118
Unit 4.5a The 7Ps of the marketing mix - Product	121
Unit 4.5b Place	126
Unit 4.5c Promotion	132

Unit 4.5d-g	136
Unit 4.6 International marketing	142
Unit 5.1 Introduction to operations management	147
Unit 5.2 Operations methods	148
Unit 5.3 Lean production and quality management ( <i>HL only</i> )	151
Unit 5.4 Location	156
Unit 5.5 Break even analysis	163
Unit 5.6 Production planning (HL only)	171
Unit 5.7 Crisis Management (HL only)	181
Unit 5.8 Research and Development (HL only)	185
Unit 5.9 Management Information Systems (HL only)	190
Chapter 44 SWOT Analysis	192
Chapter 45 Ansoff's matrix	192
Chapter 46 STEEPLE analysis	193
Chapter 47 BCG matrix	199
Chapter 48 Business plan	201
Chapter 49 Decision Trees	202
Chapter 50 Descriptive statistics	205
Chapter 51 Circular business models	208
Chapter 52 Gantt charts (HL only)	210
Chapter 53 Porter's generic strategy (HL only)	211
Chapter 54 Hofstede's cultural dimensions (HL only)	213
Chapter 55 Force field analysis (HL only)	214
Chapter 56 Critical paths analysis (HL only)	215
Chapter 57 Contribution analysis (HL only)	220
Chapter 58 Simple linear regression (HL only)	222

# Unit 1.1 Introduction to business management - What is a business?

## Question 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 clear and accurate distinction between revenue and costs, with relevant examples of these in the context of schools.

- (b) This question requires application of the four main functions of a business organization, such as a school. 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	33	4	45
Manufacturing	15	24	30
Services	52	72	25

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

- In low-income countries or less economically developed countries (LEDCs) like Bangladesh, agriculture accounts for a larger proportion (45%) of the country's gross domestic product (GDP). France (4%) does not, therefore, fit this criterion, and the Philippines (33%) to a lesser extent.

- Bangladesh's large pool of low-paid workers (being the one of the world's most populated nations) 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 service accounts for a significant share (52%) of its GDP; although the proportion is much larger in high-income countries such as France (72%).
- Many multinational companies 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 (24%).

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 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 business entities

### Question 2.1 – The private and public sectors

- (a) Most businesses operating in the private sector primarily endeavour to earn 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, to become the market leader, and to create value for shareholders (or their owners).

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 average price of the houses tends 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 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 that shows some understanding.

Award [2 marks] for a clear and accurate 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 in Montpellier, France.
- Being a small business, Cam can keep all business transactions private, i.e., only the French 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 possessions 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. childcare 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. Application is limited. Award up to [3 marks] if only costs or benefits are 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 2.3 - EXP

- (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 that shows some understanding.

Award [2 marks] for a clear and accurate definition of ordinary partnership, similar to the example 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 UK 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) Discuss the costs and benefits of *EXP* remaining as a small business. [10 marks]

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 profitable. 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 2.4 - Mars Inc.

- (a) The term ‘privately held 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 that shows some understanding.

Award [2 marks] for a clear and accurate definition of a privately held 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 from 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 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 that shows some understanding.

Award [2 marks] for a clear and accurate definition, similar to the example above.

(a)(ii) The term ‘public sector company’ refers to a state-owned enterprise. It is a limited liability company owned, controlled, and funded by the government.

*Note:* Do not award any marks for a definition of “publicly held company”.

Award [1 mark] for a vague definition that shows some understanding.

Award [2 marks] for a clear and accurate definition, similar to the example above.

(b) The benefits of the decision to expand HKDL as a public sector company 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 discussed.
- The globally recognized Disneyland brand name could 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 Hong Kong economy, thereby leading to the economic growth (with an estimated net benefit of \$19 billion over 40 years).
- Investment in Hong Kong’s infrastructure would also bring long-term benefits to the local community, such as roads and public transport networks to the hotels and theme (amusement) park.
- Had the partnership between the government and the Walt Disney Company 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. The benefits for the Hong Kong economy would therefore not have materialised.
- *Accept any other valid advantage that is discussed in the context of the case study.*

Counter arguments for this decision could include a discussion of the following points:

- Debates about whether this is the best way for a government to spend its limited sources of finance, i.e., there is an opportunity cost to such investment expenditure of the public sector.
- The high risks involved for a public sector company (and hence the burden on taxpayers), especially as HKDL did not earn a profit for around 7 years. Not all investments in public sector companies turn out to be a success.
- Operational inefficiencies could occur due to the bureaucracies involved in operating a public sector company (with the government being the majority shareholder). This can cause frustrations for the Walt Disney Company that is owned by shareholders in the private sector.
- *Accept any other valid counter argument that is discussed in the context of the case study.*

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 of operating HKDL as a public sector 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 HKDL being run as a public sector 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 operating HKDL as a public sector company. 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 operating HKDL as a public sector company. There is effective application of the stimulus material and good evidence of a balanced response throughout the response. Judgments are relevant and well substantiated.

## Unit 1.3 Business objectives

### Question 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 creates the foundation for setting the goals or objectives of a business.

Award [1 mark] for a vague definition that shows limited understanding of a mission statement.

Award [2 marks] for a clear and accurate definition that shows a good understanding of a mission statement.

(b) The role of vision and mission statements in a business organization includes an explanation of the following points:

- To have a clear purpose, i.e., what the business is trying to achieve.
- To state the underlying goal of the organization, i.e., the reason for its existence.
- To unify all people and corporate sub-cultures within the workforce.
- To outline 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 up to [2 marks] if only vision *or* mission statements are examined.

Award [3 – 4 marks] for a thorough explanation of the role of vision *and* mission statements in business organizations. There is competent use of examples from the stimulus material.

### Question 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 and accurate definition of strategy, similar to the example 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.*

*Mark as a 2 + 2*

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 an examination of the following points:

- 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 3.3 - McDonald’s versus Burger King**

(a) A non-profit organization (NPO) is any private sector business that retains and reuses its financial surplus within the organization instead of distributing this as dividends to its owners. Although an NPO can generate a financial surplus, it must be completely kept within the organization, as an internal source of finance for the firm’s growth or expansion.

Award [1 mark] for a vague definition that shows some understanding.

Award [2 marks] for a clear and accurate definition that shows a good understanding of a non-profit organization (NPO), similar to the example above.

(b) Ethical business behaviour means that McDonald’s and Burger King operate in a moral or principled manner, rather than acting purely for commercial gains. It involves the organization conducting its business activities in a way which is open, fair, and honest.

Ethical business behaviour, such as improving the wellbeing of children or using humanely sourced meat, would be considered as being socially responsible. This means the business takes into account the interests of all stakeholders, such as customers, employees, managers, suppliers, and shareholders.

Award [1 – 2 marks] for an answer that shows limited understanding of the meaning of ethical business behaviour. Award up to [2 marks] if there is no application of the stimulus materials.

Award [3 – 4 marks] for a thorough and accurate explanation of the meaning of ethical business behaviour. There is appropriate and competent use of examples from the stimulus material.

- (c) A vision statement is an inspiring statement that provides all stakeholders with information about the organization's purpose, its values, and what it strives to achieve in the distant future. It focuses on tomorrow (the very long-term) and what the organization wants to ultimately become.

By contrast, a mission statement is a more quantifiable and tangible statement of what the business wants to do or achieve every day. The mission statement portrays what the business is about, whereas the vision statement is about where the business is heading towards. It focuses on today and now, and what the organization does to achieve this.

Award [1 – 2 marks] for an answer that shows some understanding of the demands of the question, showing basic knowledge of the difference between vision and mission statements.

Award [3 – 4 marks] for an answer that shows good understanding of the demands of the question, showing good knowledge of the difference between vision and mission statements, similar to the example answer above.

- (d) 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 3.4 - Walmart

- (a) Labour turnover measures the rate of change of human resources within an organization, per period of time. The more people who leave the organization per time period, the higher the labour turnover rate.

Award [1 mark] for a vague definition that shows some understanding of labour turnover.

Award [2 marks] for a clear and accurate definition of labour turnover, similar to the example above.

- (b) 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].

- (c) 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.

## Unit 1.4 Stakeholders

### Question 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 and accurate 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 4.2

- (a) External stakeholders are individuals and parties not part of the organization but who have a direct interest in its activities and performance, such as customers, suppliers, financiers, pressure groups, and the government. These stakeholders will have contrasting interests in the business.

Internal stakeholders also have a direct interest in the activities and performance of the business organization, but these individuals and entities are part of the organization itself, such as employees, managers, and the board of directors. These stakeholders tend to have similar interests in the business, linked to pay, conditions, and profits.

Award [1 – 2 marks] if the distinction is not very clear and there are omissions in explaining the difference between internal and external stakeholders.

Award [3 – 4 marks] if the answer shows a good understanding of the difference between internal and external, with a clear and accurate distinction made.

- (b) The question requires candidates to examine any **two** relevant stakeholder groups and how they are affected by the performance of a high school (secondary school), 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 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 throughout the response, and use of relevant examples.

### Question 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 and accurate 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:

$$[(£0.11 - £3.54) / £3.54] \times 100 = -96.89\%$$

Note: the minus sign (loss) must be shown for full marks.

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.

- (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 a discussion of the following points:

- 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.
- *Accept any other relevant argument, discussed in the context of the case study.*

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 the *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 4.4 - Škoda Auto**

(a) External stakeholder groups include:

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



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

*Mark as a 1 + 1*

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

(b) Remuneration refers to the pay as well as other financial compensation provided to employees in exchange for their labour services. This includes wages and salaries (pay) as well as perks such as holiday pay, medical (health) insurance, pension contributions, and company car.

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 mark] 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 [2 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 4.4 (c) is likely to be developed using a decision-making framework or a stakeholder mapping tool (as above), although alternative approaches can be taken.

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 minimized. There is good application of the stimulus material. For maximum marks, the answer should address *how* the conflict could be minimised.

**Question 4.5 - Royal Dutch Shell**

- (a) Internal stakeholders are individuals and other entities that have a direct interest in the activities and performance of a business organization. As internal stakeholders, these people own the company (shareholders) and/or work in the organization (such as employees, managers and directors).



Award [1 mark] for a definition of internal stakeholders that shows some understanding. Do not award any marks for a definition or example of external stakeholders.

Award [2 marks] for a clear and accurate 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.

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 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 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 Growth and Evolution

## Question 5.1 - 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 definition that shows some understanding of market share.

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

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

- Effective pricing method – 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 customers 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 internal growth, described in the context of the case study.

Award [1 mark] for each valid reason, and [1 mark] for a clear and accurate 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 5.2. - 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 definition that shows some understanding of product portfolio.

Award [2 marks] for a clear definition that shows a good understanding of product portfolio, similar to the example 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 company (e.g. with operations in 27 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 can be 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 economies/markets beyond Asia 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 5.3 - Small versus Large

(a) Economies of scale might benefit customers in the following ways:

- 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 reason why economies of scale might benefit customers.*

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, or 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 reason that is clearly and accurately explained.*

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 5.4 - Hoang Tan

- (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 Tan* include:

- The market for cultural art and craft products is relatively small, so represents a large risk for financiers
- The business was founded in 2018, so could lack brand recognition and may not have any form of brand loyalty
- *Hoang Tan* 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 Tan*, 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 Tan* due to the high level of risk involved.

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

- (c) Problems that *Hoang Tan* might encounter when operating in new overseas markets, such as Laos and Cambodia, include:

- A lack of local knowledge about customer tastes, habits, and business etiquette in markets such as 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.
- *Accept any other relevant explanation, written in the context of the case study.*

Candidates may use a STEEPLE 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 Tan*. 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 5.5 - The London taxi

- (a) Profit is the positive difference between a firm's total revenues and its total costs, over a given period of time. The financial surplus belongs to the owners of the business.

Award [1 mark] for a vague definition that shows some understanding of the meaning of profit.

Award [2 marks] for a clear and accurate definition that shows good understanding of the meaning of profit, similar to the above example.

- (b) 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 term acquisition.

Award [2 marks] for a clear and accurate definition that shows good understanding of the meaning of term acquisition, similar to the above example.

- (c) Winners 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 thoroughly. There is effective use of examples from the case study and proficient use of business management terminology throughout the answer.

- (d) 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 “after 5 years without making any profits” 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 valid driving force that is clearly 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 5.6 - Disney's takeover of Pixar

- (a) The term takeover refers to a type or form of external growth that involves one business buying a majority stake in another company, thereby taking ownership of the target business.

Award [1 mark] for a vague definition that shows some understanding of the meaning of takeover.

Award [2 marks] for a clear and accurate definition that shows a good understanding of takeover, similar to the example above.

- (b) Synergy exists when the whole is greater than the sum of its parts. For example, in a takeover, the integration of the two organizations can produce a combined effect greater than the sum of their separate impacts.

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

Award [2 marks] for a clear and accurate definition that shows a good understanding of synergy, similar to the example above.

- (c) Potential problems experienced by businesses during a takeover could 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 purchase through this method.
- 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.

(d) Disney might choose to take over 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.

Note that 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 5.7 - Tiffany & Co. and Swatch Group**

(a) 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.

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.

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

- Tiffany & Co. and Swatch would have to lose their (separate) corporate identities; something that neither organization was prepared to do. Swatch produces a broad range of relatively affordable products whilst Tiffany & Co. produces high-end luxury products. By merging with Swatch, Tiffany & Co. might lose its status as a leading designer brand that stands for high-end luxury – something the company is not willing to risk.
- 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 Tiffany & Co. and Swatch (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. 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 of Tiffany & Co. and Swatch would probably have been inappropriate. For maximum marks, there is effective reference made to the case study and appropriate use of business management terminology.

(c) Benefits of a joint venture to Tiffany & Co. and Swatch include:

- The joint venture allows both companies to retain their separate corporate identities (luxury designer product for Tiffany & Co. and watches for Swatch).
- Synergies – for example, Tiffany & Co. could benefit from Swatch's expertise in the mass market for watches (given its status as the world's largest watchmaker), whilst Swatch could benefit from the marketing power of Tiffany & Co., including the distribution of its watches at Tiffany & Co.'s high-end outlets.
- Risks are reduced – for instance, Tiffany & Co. does not need to invest by itself in a saturated industry that it has no expertise in because the investment costs and risks are shared with Swatch.
- Increased market power – the joint venture provides both firms with a presence in the market, thereby allowing *Tiffany Watch Co.* 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, as outlined in the case study.

Costs of the joint venture to Tiffany & Co. and Swatch include:

- Contrasting and conflicting cultures and/or corporate strategies of Tiffany & Co. and Swatch, 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 joint venture.
- Difficulties arise if there is an imbalance in expertise and investment (financial commitment) to the joint venture.
- It takes time, resources, and much effort to make the relationship work. The disputes between the two companies resulted in the joint venture being cancelled, with legal proceedings thereafter.
- There is always the temptation to 'go it alone' when the two companies gain enough experience, expertise, and market presence if the joint venture eventually became 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 Tiffany & Co. and Swatch. 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 Tiffany & Co. and Swatch. Appropriate examples are used, with effective application and clear use of business management terminology.

## Question 5.8 - 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 and accurate definition that shows a good understanding of the meaning of franchise, similar to the example 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
- Accept any other reason correctly explained in the context of *Pizza Hut*.

Mark as a 2 + 2

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 throughout the response.

(c) Franchising as a growth strategy has its potential problems. These issues include:

- 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.
- Accept 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.

# Unit 1.6 Multinational Companies

## Question 6.1 - The Coca-Cola Company

- (a) A multinational business is an organization such as *The Coca-Cola Company* that operates in two or more countries, usually with its Head Office based in the home country (the US in this case). As *Coca-Cola Company* sells its products in more than 200 economies, it is a multinational business.

Award [1 mark] if the answer outlines the meaning of a multinational company.

Award [2 marks] if the answer uses evidence from the case study to suggest why *The Coca-Cola Company* is a multinational company.

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

Brand awareness can help to improve **brand loyalty**, which measures the extent to which customers stick to buying a particular brand (such as Coca-Cola) over rival products (such as Pepsi or Schweppes). 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.

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 soft drinks may have become globalized due to driving forces such as:
- Sponsorship deals from beverage producers such as Coca-Cola's sponsorship of global sporting events such as the Olympic Games, NASCAR, the PGA Tour, English Premier League, the UEFA European Championships, and the FIFA World Cup.
  - Soft drinks are an American / Western cultural export that has made inroads across all part of the world.
  - MNCs such as *Coca-Cola* have continued to expand in overseas markets (more than 200 economies, in this case), thereby introducing their drinks in these new markets.
  - In the strive to achieve growth and market share, multinational companies such as *Coca-Cola* have expanded operations in overseas markets thereby helping to make mass-produced soft drinks a globalized product
  - Intensive competition in the soft drinks industry may also have fueled *Coca-Cola's* presence in international markets.
  - The liberalization of trade around the world may have led to soft drinks exports being made available across the globe.
  - Increased travel and tourism leading to Coca-Cola and other soft drinks being made available on air flights and in hotels, bars, and restaurants around the world.
  - Media exposure, e.g. sporting events such as football (soccer) and the wide publicity in movies/TV/music videos/ the Internet.
  - *Accept any other relevant reason explained in the context of Coca-Cola and/or the soft drinks industry.*

Award [1 – 2 marks] if the answer outlines one factor that may have led to the globalization of the soft drinks 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 soft drinks market are clearly and accurately explained. Relevant examples related to the case study are used, with appropriate application of business management terminology throughout the response.

(d) Possible opportunities to Coca-Cola operating in overseas markets include the following points:

- Increased customer base – Coca-Cola's traditional market in the US is stagnant and therefore the company could gain from seeking to expand in new (and possibly larger) markets in other parts of the world.
- Economies of scale – A larger degree of beverage production is likely to reduce the average costs for Coca-Cola 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 Coca-Cola to employ a cheaper labour force, further cutting its overall production costs.
- Avoid protectionist measures – Coca-Cola could get around protectionist measures such as tariffs, quotas, and administrative trade barriers by locating directly in countries imposing such obstacles. For example, European and Asian countries belong to different regional trading blocs from the US, so expanding its operations in these markets enables Coca-Cola to resolve potential trade barriers and conflicts.
- To spread risks – Coca-Cola might wish to expand overseas to reduce the financial risks of its established markets that may be facing decline, perhaps due to a regional economic decline, stagnant markets, or changing habits and trends (away from consuming sugary soft drinks), whereas operating in new markets could present many opportunities for Coca-Cola.
- *Accept any other relevant/potential opportunity that is examined in the context of Coca-Cola.*

There are also potential threats to *Coca-Cola* operating in overseas markets, which include:

- A lack of local knowledge and local culture can create problems, e.g. views on children drinking sugary beverages.
- Diseconomies of scale may arise for Coca-Cola if it is unable to control its costs of overseas expansion.
- Regulatory issues and problems in setting up Coca-Cola's overseas operations.
- Varying political and economic conditions in foreign countries can limit the extent to which Coca-Cola can prosper overseas, e.g. the need to have a local partner (joint venture) agreement in certain countries such as India, China, and Myanmar.
- Existing competition from well-established local producers (e.g. Hangzhou Wahaha, which is China's largest beverages producer). This can also limit the success of Coca-Cola's overseas operations.
- Greater demands on and scrutiny of Coca-Cola's corporate social responsibilities, especially in less economically developed countries or countries that have a more reserved approach to unhealthy soft drinks targeted at children.
- Greater uncertainties and risks due to overseas expansion, e.g. the impact of exchange rates on costs, prices, and profits of the Coca-Cola Company.
- Issues regarding human resources, e.g. national cultures, varying expectations, and language and communication issues.
- *Accept any other relevant/potential threat that is examined in the context of Coca-Cola.*

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 Coca-Cola 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 Coca-Cola 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 Coca-Cola 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 6.2 - 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, similar to the example above.

- (b) Change might affect the location of multinational companies in a number of ways, including:
- The costs of production (such as taxes) can cause MNCs to consider the need to relocate, 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.
  - Change can bring about an increase in tourism in places like Dubai, due to its economic development, tourist attractions such as the Burj Khalifa (the world's tallest building) and tax-free shopping, further attracting MNCs to locate in such locations.
  - *Accept any other factor that explains how change brings potential for MNCs to benefit from a much larger customer base.*

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 throughout the response.

- (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 different kinds of economies of scale.
- *Accept any other reason/benefit, that is accurately and clearly examined in the context of the case study.*

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 throughout the response.

### **Question 6.3 - Bollywood**

- (a) Sales revenue can be defined as the income of a business earned from the sales of goods and/or services over a given period of time.

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

Award [2 marks] for a clear and accurate definition that shows a good understanding of the meaning of sales revenue, similar to the example above.

- (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, in this case through movies.

Hence, it is likely that knowledge and awareness of local cultures are increasingly important, although the globalization of and access to information (media coverage) has reduced the culture gap that may have existed previously.

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 is 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 is 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.

# Unit 2.1 Introduction to human resource management

## Question 7.1 - 332 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 demonstrating a limited understanding of the term ageing population.

Award [2 marks] for demonstrating a good understanding of the term ageing population, similar to the example above.

(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 an accurate explanation of any other relevant threat caused by the demographic changes in the USA.*

Award [1 – 2 marks] for a limited response that lacks detail and/or depth. The answer may appear in a list-like format that lacks clarity.

Award [3 – 4 marks] if there is a good explanation of two threats of the demographic changes in the case study. Relevant examples are used with appropriate use of business management terminology throughout the answer.

(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
- *Accept an accurate explanation of any other relevant opportunity caused by the demographic changes in the USA.*

Award [1 – 2 marks] for a limited response that lacks detail and/or depth. The answer may appear in a list-like format that lacks clarity.

Award [3 – 4 marks] if there is a good explanation of two opportunities of the demographic changes in the case study. Relevant examples are used with appropriate use of business management terminology throughout the answer.

## Question 7.2 - McDonald's

(a)(i) Growth strategy refers to the various methods used by a business to grow or evolve. In Ansoff's matrix, for example, four generic growth strategies are available, based on new and existing products and new and existing markets. It allows managers to identify opportunities for market penetration, product development, market development and diversification.

Award [1 mark] for a definition that shows a limited understanding of growth strategy.

Award [2 marks] for a definition that shows a good understanding of growth strategy, similar to the example above.

(a)(ii) Part-time employees refers to workers who are hired to work less than the equivalent time of full-time members 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 workers, such as students, to pursue other priorities.

Award [1 mark] for an answer that shows a limited understanding of part-time employees.

Award [2 marks] for an answer that shows a good understanding of part-time employees, similar to the example above.

(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 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 human resource 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 flexible work practices 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 (positive and negative consequences) of flexible work practices 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 (positive and negative consequences) of flexible work practices are considered, in a detailed and balanced way. There is effective use of business management terminology throughout the response. There is clear application and evidence of synthesis and evaluation.

## Unit 2.2 Organizational structure

### Question 8.1 - 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 limited answer that shows some understanding of the term decentralization.

Award [2 marks] for a definition that shows a clear understanding of the term decentralization, with appropriate use of business management terminology similar to the example above. Note there is no formal requirement to include an example.

- (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 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 appropriate use of business management terminology throughout the answer.

- (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 8.2 - 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. 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 limited answer that shows some understanding of the term training.

Award [2 marks] for a definition that shows a clear understanding of the term training, with appropriate use of business management terminology 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.

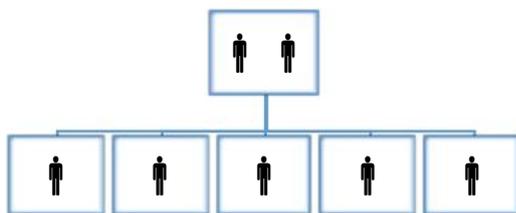
Award [5 – 6 marks] if an unbalanced (one-sided) answer is provided regarding the decision to restructure *Southmead College*. There is appropriate use of business management terminology. At the top end, there is an attempt at application using the case study.

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 8.3 - Organization charts (1)

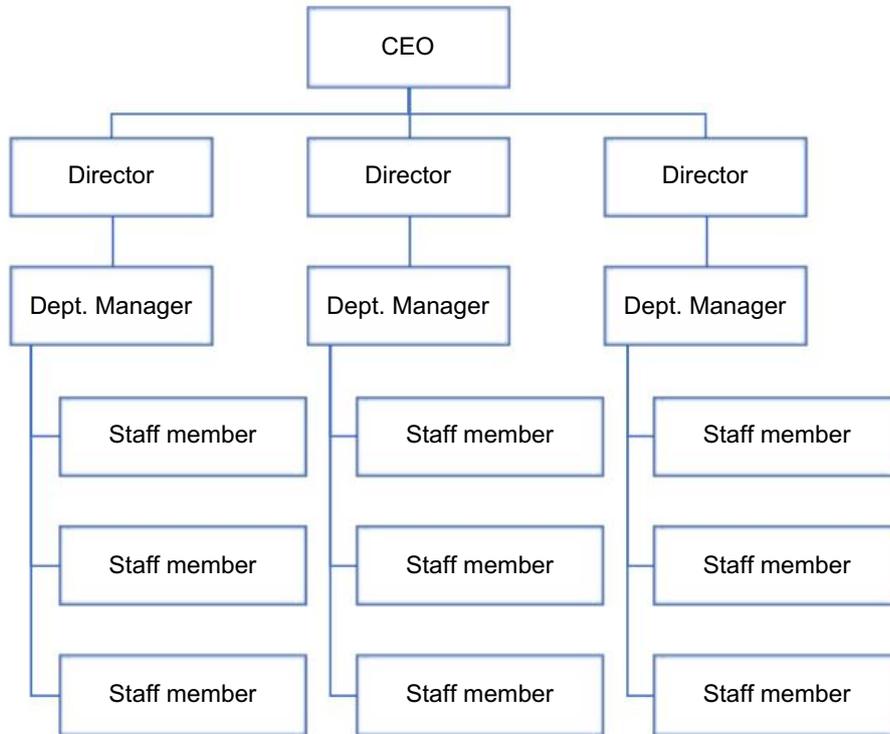
(a) (i)



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 refers 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 8.4 - Organization charts (2)

- (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 quickly 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 8.5 - 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 or is presented as an unexplained list of points.

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 needs 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.
- *Accept any other valid point, discussed in context.*

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 a 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.
- *Accept any other valid point, discussed in context.*

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.

## Unit 2.3 Leadership and Management

### Question 9.1 – 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  $\text{unit selling price} \times \text{quantity sold}$  ( $P \times Q$ ).

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 importance of effective management and leadership include:

- *Planning* – Managers and leaders 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’, so effective management and leadership are required to meet these goals.
- *Organizing* – Managers organize the resources needed to achieve business 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 and leaders 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.
- *Inspiring* – Leaders must inspire others to achieve organizational objectives. They also help to ensure staff loyalty (labour retention), high productivity, and customer satisfaction. Along with managers, they tackle the problems in the business, such as complacent staff (and perhaps demoralized staff following the proposed changes to the remuneration system).
- *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* – Managers and leaders hold others accountable for their work. An 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 students distinguish between managers and leaders in this question.

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 understanding of the demands of the question. There is some appropriate application and business management terminology used correctly in the explanation.

Award [5 – 6 marks] if there is good understanding of the demands of the question. There is effective application to *Vinayak Textiles*. Appropriate business management terminology has been used effectively throughout the answer.

## Question 9.2 – Situational leadership (1)

- (a) Situational leadership is probably most suitable for a small local restaurant with just 12 members of staff. Being a relatively small firm could mean there is no need to use an autocratic leader style. However, key strategic decisions will still need to be made with by senior managers and directors, so a democratic and laissez-faire leadership might also not be suitable in this case.
- (b) An authoritarian/autocratic 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 in a directed or dictatorial style and there is little time (or purpose) in negotiating strategies with the workforce.
- (c) A 'typical' high 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 leadership team is unlikely to ignore or to disregard the input of the teaching staff.

Accept alternative explanations that are clear and accurate, written in the context of the case study.

For each question, apply the mark scheme below:

Award [1 – 2 marks] if there is a generalized answer, which shows a limited understanding of the demands of the question. The response lacks depth and/or substance. There is little, if any, application shown.

Award [3 – 4 marks] for an answer that shows a good understanding of the demands of the question. The explanation is accurate and sufficiently detailed, in the context of the given situation. There should be effective use of business management terminology throughout the response.

## Question 9.3 – Situational leadership (2)

- (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, reliable, and well-respected?
  - How often Yoann has requested time off work, although this could be a one-off request as his father is 'critically ill'.
  - Not granting permission might be counterproductive as Yoann is likely to be distracted and highly demotivated at work whilst his father is ill.
  - A supportive leadership style, such as paternalistic leadership, may be appropriate.
  - There are also ethical issues (corporate social responsibilities) 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 or autocratic leadership style may be appropriate to ensure that Kiran puts in more effort to achieve her individual and team targets.
  - Alternatively, a supportive or paternalistic leadership style might be appropriate to establish the root causes of Kiran's demotivation and possible causes of conflict within the team. Reprimanding her could be counterproductive and lead to further conflict and demotivation.
  - A telling/directing leadership style might be necessary if Kiran is unable and/or unwilling to complete tasks. This could be combined with the use of SMART business objectives to get Kiran back on track with her work performance.
  - 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 main 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 execute, i.e. situational leadership. For example, Monisha's line manager may need to be spoken with to determine the full story and/or to remind him/her to adhere to company policies and statutory requirements such as equal opportunities in the workplace.
  - Alternatively, situational leadership may require a selling/coaching leadership style 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, such as Monisha).

Accept alternative explanations that are clear and accurate, written in the context of the case study.

For each question, apply the mark scheme below:

Award [1 – 2 marks] if there is a generalized answer, which shows a limited understanding of the demands of the question. The response lacks depth and/or substance. There is little, if any, application shown.

Award [3 – 4 marks] for an answer that shows a good understanding of the demands of the question. The explanation is accurate and sufficiently detailed, in the context of the given situation. There should be effective use of business management terminology throughout the response.

## Question 9.4 – 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/limited answer that shows some understanding of the term management.

Award [2 marks] for an answer that shows a clear and accurate 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 overall 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 programmes (PYP, MYP, CP 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/limited in meeting the demands of the question. The answer might appear in a list-like format 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 effective reference to the stimulus material in the case study.

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

- An autocratic management/leadership style (favoured by theorists such as F.W. Taylor) 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.
  - ◇ Negative 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.

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 are used, but there is limited 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 of the stimulus material, and evidence of critical and evaluative thinking.

## Unit 2.4 Motivation and demotivation

### Question 10.1 - 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 Arnault, Gates, 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-profit social enterprises such as 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 generalized 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 relevant examples and appropriate use of business management terminology throughout the response. There is 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:
- They 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.
- Accept any other relevant factor that is accurately applied using the motivation theories Maslow, Herzberg, and/or Taylor.

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 10.2 - 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 definition shows limited understanding of empowerment.

Award [2 marks] if the definition shows a clear understanding of 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 and accurate explanation of how motivation can lead to improved labour productivity. Relevant examples are used with appropriate use of business management terminology throughout the answer.

- (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.
- *Accept any other relevant argument that is examined in the context of the case study.*

Award [1 – 2 marks] for a limited understanding of the demands of the question. The answer is vague and there are major omissions in the answer.

Award [3 – 4 marks] if the answer demonstrates some understanding of the demands of the question but lacks details or clarification in certain areas. There is some attempt at applying the answer to the case study.

Award [5 – 6 marks] if there is a good understanding of the demands of the question, with a thorough examination of how the opinions of leaders can affect the level of motivation in an organization. Appropriate business management terminology and relevant examples are used effectively.

**Question 10.3 - Andy Hay Management School (AHMS)**

- (a) A non-government organization (NGO) is a private sector, not-for-profit business that operates 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.

Award [1 mark] if the definition shows some understanding of the term non-government organization.

Award [2 marks] if the definition shows a clear and accurate 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 J.S. Adams, the extent to which the remuneration structure at AHMS might motivate its employees depends on the comparative rewards from the perspective of its employees.

The perceived equity at AHMS depends on the ratio of inputs (contributions made by the staff at AHMS) to outcomes (financial and non-financial rewards offered to the staff). Based on the figures provided, we can calculate the following:

	Vice president	Senior marketing lecturer
Salary	\$78,000	\$45,000
Housing allowance	\$10,000	\$18,000
Gratuity (22%)	\$17,160	\$9,900
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 senior marketing lecturer. Based on equity theory, this suggests that the senior marketing lecturer would expect the vice president to have a significantly higher input at AHMS.
- Therefore, the VP also earns 73.33% more in gratuity than the senior lecturer.

- The senior 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 senior 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 senior 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 senior lecturer. This might aggrieve the VP as s/he would receive the same amount of pension contributions from AHMS 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 Deci & Ryan's self-determination 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.
- *Accept any other argument that is clearly and accurately discussed 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 or application.

Award [5 – 6 marks] for a well explained answer, written in the context of the remuneration package at AHMS. At the top end, there is some application of equity theory, written in the context of AHMS, although the response lacks depth and balance.

Award [7 – 8 marks] if there is a thorough discussion of equity theory and how the remuneration package at AHMS 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 AHMS might motivate its employees. There is a balanced answer that considers qualitative factors that affect motivation, not only the financial data provided in the case study. There is clear application and evidence of critical and evaluative thinking.

## Question 10.4 – Walmart

- (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, similar to the example above.

- (b) Two reasons why a business such as Walmart might need to hire new workers include:
- Expansion – as an organization grows, so does the need to hire more workers, such as Walmart being the “single largest private sector employer in the USA”, with a workforce of “2.3 million worldwide.”
  - Labour turnover – to replace staff who have left the organization, perhaps due to other opportunities elsewhere, external promotional posts, those being unhappy at Walmart, or due to retirement.
  - Restructuring – new job opportunities may exist within the organization due to a restructuring of staff roles and responsibilities in different parts of the USA or other parts of the world.

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 accurate and clear explanations of two reasons why a business such as Walmart might need to hire new/more workers. Appropriate examples/application of the stimulus material are used.

- (c) It is important for a business such as Walmart 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 at Walmart.
  - Knowledge of labour turnover rates will inform human resource managers at Walmart about changes and trends in order to aid their workforce planning.
  - High labour turnover can affect the corporate image of Walmart in a negative way, e.g. potential recruits will wonder why so many people have left the organization.
  - Limiting or controlling labour turnover is important because it ensures Walmart can continue to operate smoothly, thereby helping to maintain or improve its competitiveness in domestic and international markets.

Award [1 – 2 marks] for an answer that shows some understanding but 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 clear and accurate explanation about the importance of understanding labour turnover. There is appropriate application and effective use of business management terminology throughout the answer.

### **Question 10.5 – Pfizer**

- (a) Internal recruitment refers to the employment practice of hiring people who already work for the organization to fill a vacancy, recruiting someone new to the organization.

Award [1 mark] for a vague definition that shows some understanding of the term internal recruitment.

Award [2 marks] for a definition 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 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 use of business management terminology is 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 an answer that shows some understanding, but the answer lacks detail and/or depth. Clear 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. For example, 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. Taylor's 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 that shows limited understanding. 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 synthesis and evaluation, and the answer addresses the extent to which managers might over-rate the use of financial rewards to motivate their staff.

### Question 10.6 - 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 example above.

- (b)  $\$5 \times 12.5 = \$62.50$  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 the questions in 10.6.c, award [1 mark] for appropriate working out, plus [1 mark] for the correct answer.

- (c) (i) Annual gross income =  $\$2,400 \times 12 = \$28,800$   
 (ii) Annual taxable income =  $\$28,800 - \$18,000 = \$10,800$   
 (iii) Annual take-home pay =  $\$18,000 + (\$10,800 \times 0.85) = \$27,180$

- (d)  $(\$3,400 \times 12) / 52 = \$784.62$   
 Or  $\$3,400 \div 4.33$  weeks per month =  $\$784.62$   
 (accept answers that show  $\$784.61$ ,  $\$784.6$ , or  $\$785$ )

Award [1 mark] for the correct answer, and a further [1 mark] for showing appropriate working out.

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

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

### Question 10.7 – Perez International Consultants

- (a) (i) Fringe payments are the financial perks or rewards paid in addition to a worker's wages or salaries, e.g. housing allowance, company car, pension 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 definition that shows some understanding of the term performance-related pay.

Award [2 marks] for a definition that shows a clear understanding of the term performance-related pay, similar to the example above.

- (b) Possible consequences of implementing Diana's plans for *Perez International Consultants (PIC)* 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 *PIC* 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.
- *PIC* can improve its competitiveness (according to the new CEO) by cutting its fees by up to 3% for its clients. If this ensures *PIC* 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 *Perez 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 throughout the answer.

- (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. Diana Perez'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 *PIC*'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 *PIC*. 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 *PIC* 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 10.8 – 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 promotional opportunities, 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 much, if 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, using the stimulus material.

- (c) The view that training and development are burdens, 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 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 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 are considered in a detailed and balanced way. There is effective use of business management terminology throughout the response. There is clear application and evidence of synthesis and evaluation.

## Unit 2.5 Organizational (corporate) culture (HL only)

### Question 11.1 - 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 WPS's organizational culture, with limited understanding shown.

Award [2 marks] for a clear outline of WPS's organizational culture, similar to the example above.

- (b) Paramesh Murali, the new principal, may have felt that (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 an answer that shows limited understanding. There may be a lack of detail in the explanation and/or limited, if any, application to WPS.

Award [3 – 4 marks] if there is an accurate explanation of why Paramesh Murali, the new principal, felt the need to change the organizational culture at WPS. Relevant business management terminology and appropriate application of the stimulus materials are used effectively throughout the response.

- (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 needed to understand the full benefits of performance management (being linked to their pay). They also needed 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 11.2 - Organizational culture at Lenovo

- (a) An acquisition is a form of external growth, involving one company purchasing a majority stake in another company, with the approval of the target company's shareholders. The assets of the target company are then transferred to the acquiring company.

Award [1 mark] for a definition that shows limited understanding of the term acquisition.

Award [2 marks] for a definition that shows a clear understanding of the term acquisition, with appropriate use of business management terminology, similar to the example above.

- (b) Cultural clashes occur when different cultural values and beliefs within an organization conflict because workers have a different set of opinions and moral standards. It exists when there is conflict or incompatibility between two or more cultures within an organization, perhaps due to two firms from different parts of the world integrating via an acquisition.

Award [1 mark] for a limited understanding of cultural clashes. There may be no application shown.

Award [2 marks] for a clear outline of cultural clashes, with an appropriate example used from the case study.

- (c) 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 to 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 11.4 - The Body Shop

- (a) Corporate culture refers to the set of beliefs, values, standards and practices associated with a particular organization. This determines how things are done within the corporation.

At *The Body Shop*, the corporate culture seems to be one that values being green (environmentally friendly) and conducting business in a socially desirable and sustainable way. The company's core values clearly reflect the desired corporate culture of the organization, e.g. acting ethically by not testing their products on animals.

Award [1 – 2 marks] for an answer that shows a limited understanding of the demands of the question. There may be limited, if any, application.

Award [3 – 4 marks] for a clear and accurate description of the corporate culture at *The Body Shop* with appropriate use of business management terminology throughout the answer. There is appropriate application 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] for a limited answer that 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 Communication

### Question 12.1 – 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 description of 'email' that shows limited understanding.

Award [2 marks] if the description of 'email' is clear and accurate, with appropriate terminology used, similar to the example above.

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

- Allows personal messages to be sent from the workplace to family and friends.
- Emails might not be monitored (by the employer), so this can encourage informal communication and emails not directly related to work.
- There is no financial cost to the sender (employee), so this may further encourage informal communications, both internally and externally.

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

Award [1 mark] if the answer shows some understanding of how email might encourage informal communication in the workplace.

Award [2 marks] if the answer shows clear understanding of how email might encourage informal communication in the workplace, with appropriate use of examples.

- (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:

- Reference to data and information is needed, perhaps at a later date, e.g. sales figures.
- 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.
- There is sufficient training in using the email system at work.
- Use in a professional manner, observing protocol and email etiquette.

Email does not work well as a form of communication when:

- There are technical hitches, e.g. power failures, 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 clogs Inboxes (which reduces 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.

Award [3 – 4 marks] if there is sufficient explanation of 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 and disadvantages are considered.

Award [5 – 6 marks] if there is a sound and balanced explanation that considers both advantages and disadvantages in determining whether email improves the efficiency of communication in the workplace. There is clear and appropriate use of business management terminology throughout the response.

## Question 12.2 – The importance of non-verbal communication

(a) Reasons or benefits could include:

- Good communication skills are important to enhance the level of customer services (thereby helping to meet their needs and wants) and customer loyalty.
- Good communication skills can make business operations more cost effective with other stakeholders, e.g. suppliers and investors.
- It can also have motivational effects (feel more valued since they have been consulted or communicated with).
- Good or effective communication can help a firm to make better (more informed) decisions.

Award [1 – 2 marks] if only one benefit of good communication is clearly outlined *or* if the answer is limited and lacks substance or application.

Award [3 – 4 marks] if two benefits of good communication are clearly outlined. There is clear application and effective use of business management terminology throughout the response.

(b) According to the research, 55% of communication is dependent on non-verbal signals. This suggests that the body language is critical to good communication skills. This is perhaps why so many firms spend a large amount of money on customer service training.

Students should explain that body language and non-verbal signs can affect the way in which a message is communicated to customers. McDonald's, for example, have a 'Smiles are free' policy. Hotel staff are trained to greet customers with a warm smile and to adopt a friendly approach. *People*, being part of the marketing mix, therefore play a very important role in the marketing of a firm's products.

In addition, there could be reference to the use of visual stimuli (such as poster adverts) or packaging being used to market and communicate a firm's products (these being non-verbal forms of communication).

Award [1 – 2 marks] for a generalized answer that lacks details of the importance of non-verbal communication as a tool for marketing a firm's products.

Award [3 – 4 marks] for a good examination of the importance of non-verbal communication as a tool for marketing a firm's products. The answer might lack substance or the use of examples.

Award [5 – 6 marks] for a thorough examination of the importance of non-verbal communication as a tool for marketing a firm's products. There is effective use of business management terminology and relevant examples.

### Question 12.3 – The Global Office

- (a) Foreign language might hinder communication due to any of the below reasons (not an exhaustive list):
- Misunderstanding or simply not understanding messages expressed in a foreign language.
  - Some words can have very different meanings in different languages and cultures, and this can lead to misinterpretations of a message.
  - Poor command of a foreign language can mean that communicators lack the confidence to express their ideas in the foreign language.
  - Overall, ineffective command of a foreign language can negatively affect the quality, speed and accuracy of communication.

Award [1 mark] if the answer shows some understanding of why foreign language might be a hindrance to effective business communication.

Award [2 marks] if the answer shows a clear understanding of why foreign language might be a hindrance to effective business communication.

- (b) An awareness and knowledge of multiculturalism may foster improved communication because:
- Workers can communicate better with one another in order to achieve organizational objectives.
  - Conflict caused by misunderstandings can also be avoided, thereby enhancing communication flows.
  - An understanding of different cultures can prevent embarrassing situations.
  - Opportunities for communicating global marketing messages are enhanced.
  - Any psychological barrier between different groups of workers is removed, thereby promoting improved formal and informal communications, and encouraging a more harmonious workplace.
  - Workers might feel more accepted (a sense of belonging) and this security can also foster improved cooperation and communication.

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 how an awareness and knowledge of multiculturalism in the 'global office' can improve communications in the workplace. Appropriate business and management terminology is used.

### Question 12.4 – OCR's examination paper blunder

- (a) Identification and explanation of any two barriers to effective communication: e.g. jargon, technical faults, misunderstandings or poor communications management. Possible answers could include:
- Poor management of information communication systems, e.g. failing to send the right documents to clients.
  - Tall hierarchical structures (OCR is one of the UK's largest/main examination boards) leading to distorted messages being communicated.
  - Inadequate staff training leading to 'gaps' in the work being carried out. 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 the OCR's examination blunders) is vital to an organization such as the OCR exam board because it helps to:
- Keep schools (the customers) up to date with curriculum developments and organizational change.
  - 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.
  - Preserve or enhance OCR's reputation and organizational image.
  - Promote organizational efficiency in order for the OCR to compete with its rivals
  - Help to improve working relationships (or prevents potential conflict) since misunderstandings are likely to be minimised.
  - Prevent schools and parents losing confidence in the organization, thereby preventing them from switching to rival examination boards such as the AQA or IBO.
  - Gain feedback in order for the organization to continually improve.
  - Improve the management of communications, especially since OCR 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 an organization.

Award [3 – 4 marks] for a good examination of several factors, with some understanding of the importance of effective communication to an organization such as the OCR Examination Board. The answers might lack substance or application.

Award [5 – 6 marks] for a thorough examination of several factors, with detailed understanding of the importance of effective communication to an organization such as the OCR Examination Board. There is effective use of business management terminology and application of the case study.

## Unit 2.7 Industrial/employee relations (HL only)

### Question 13.1 - Deutsche Telekom

- (a) 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 mark] for a definition that shows limited understanding of the term strike action.

Award [2 marks] for clear definition of strike action, similar to the example above. There is no need to use an example, which has been included for illustrative purposes only.

- (b) Industrial action refers to the activities taken by disgruntled employees due to disputes about pay and/or terms and conditions of work, such as work-to-rule and strike action. It is a result of poor employer-employee relationships or conflict in the workplace.

Award [1 mark] for a definition that shows limited understanding of the term industrial action.

Award [2 marks] for clear and accurate definition of industrial action, similar to the example above.

- (c) Conflict occurs when stakeholders have a difference in their opinions, and this often caused 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.
- *Accept any other relevant source of conflict, written in the context of the case study.*

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 explained or if two sources of conflict are covered, but the answer lacks depth and/or there is lack of clear application to the case study.

Award [5 – 6 marks] if two sources of conflict are clearly and accurately explained in the context of *Deutsche Telekom*. There is effective use of business management terminology throughout the answer.

### **Question 13.2 - 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 definition shows limited understanding of labour unions.

Award [2 marks] if the definition shows a clear and accurate understanding of labour unions, similar to the example above.

*Please note that Question 13.1 on the same page also asks for a definition of industrial action. Can we please add an erratum in the answer book to state that this question should be "Define the term minimum wages." The answer to this (revised) question is given below.*

- (a) (ii)** A minimum wage refers to the lowest amount of pay per time period, such as per hour, that an employer must pay its workers. This is a statutory (legal) requirement imposed on employers.

Award [1 mark] if the definition shows limited understanding of labour unions.

Award [2 marks] if the definition shows a clear and accurate understanding of labour unions, similar to the example above.

- (b)** Possible ways of dealing with industrial disputes include:

- Collective bargaining - 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.
- 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.
- Public relations (PR) - 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.
- Accept any other form of industrial action that employee representative may take to protect the interests of their members, such as:
  - ◇ 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.
  - ◇ 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.

Award [1 – 2 marks] if the answer shows limited understanding of the demands of the question. The answer may appear as a list of unexplained points.

Award [3 – 4 marks] if two alternative methods have been explained, although not in sufficient detail and/or there may be a lack of application.

Award up to [3 marks] for an answer that covers only one method, thoroughly examined in the context of the case study.

Award [5 – 6 marks] if two appropriate methods are explained in the context of the case study. There is appropriate and effective use of business management terminology throughout the answer.

### Question 13.3 - 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 (CSR) refers to the moral behaviour of businesses towards their stakeholders, such as their employees and the local community. Examples of CSR might include the implementation of fair pay and working conditions for workers.

Award [1 mark] for a vague definition of corporate social responsibility, with some understanding shown.

Award [2 marks] for a clear and accurate definition of corporate social responsibility, with effective use of business management terminology, similar to the example above.

(b) The independent report 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.
- *Accept any other relevant and clearly explained reason why a perceived lack of CSR can cause conflict at Walmart.*

Award [1 – 2 marks] for an answer that shows a limited understanding of the demands of the question. The answer might appear in an unexplained list-like format.

Award [3 – 4 marks] for an answer that shows some understanding of the demands of the question. The explanation may lack depth in certain areas and there is partial application of the stimulus material.

Award [5 – 6 marks] for an answer that shows a good understanding of the demands of the question. The explanation is detailed and accurate about how a perceived lack of CSR at *Walmart* can cause conflict. There is appropriate use of business management terminology throughout the response, and relevant application shown.

(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 - Improved communications 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.
- Accept any other relevant approach to conflict resolution that is discussed in the context of Walmart.

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 Introduction to finance

## Introduction to 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** 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 there is an understanding of both terms 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.

## Unit 3.2 Sources of finance

### Sources of finance

#### Question 15.1 - 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 response 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 an accurate and concise explanation of 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 320 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 appropriate examples are used.

#### Question 15.2 - Kellett School

- (a) Debentures are a source of finance, with a business issuing long term loans bought by debenture holders. Debenture holders (individuals, governments or other businesses) receive interest payments even if the business makes a loss and before shareholders are paid any dividend.

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 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 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 (customers) 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 at the school 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\$3m (US\$387,000) is a lot of money!), especially for those from less affluent backgrounds.
- There could be negative publicity as *Kellett School* might be seen to be acting 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 are 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 local business community.
- Selling dormant assets, e.g. the sale of land at the old campus.
- Fund-raising events, e.g. school fair (fund-raising fete or carnival).

It is debatable whether most, if not all, of these 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 of 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 15.3 - 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 do 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).

Mark as a 2 + 2

For each point, award [1 mark] for a valid benefit and a further [1 mark] for an accurate and clear explanation.

- (c) Advantages of leasing as a source of finance for *Wizz Air* could include an explanation of:
- Lower monthly payments as there is no need for *Wizz Air* to purchase the Airbus A320 aircraft outright. This frees up cash for the company and also means it does not have to borrow the funds.
  - Little or no down payment (deposit) required, so this also helps to reduce the expenses for the company, at least in the short-term.
  - *Wizz Air* does not have to worry about the time and costs needed for maintenance of the aircraft if it uses an operating lease or contract hire with *DB Leasing Co.* The leasing company also takes responsibility if the aircraft or equipment breaks down.
  - Leasing enables *Wizz Air* to access higher quality products (aircraft in this case), which might be too expensive for the company to buy outright if leasing was not an option.
  - The interest rate charged on monthly rental costs is usually fixed for the duration of the lease contract, making it easier for *Wizz Air* to forecast its cash flows and to plan its financial budgets.
  - It is easier for *Wizz Air* to upgrade or replace the aircraft using a leasing agreement, which allows the company to make a small adjustment to its monthly payment rather than to invest a large lump sum of money to purchase a new fleet of aircraft.
  - It frees up cash for *Wizz Air* for other items of capital and/or revenue expenditure.

Mark as a 2 + 2

For each point, award [1 mark] for a valid benefit and a further [1 mark] for an accurate and clear explanation.

## Question 15.4 - Tawfeer Market

- (a) Business angels are wealthy individuals, usually with valuable corporate experience, who choose to invest their own money in businesses that offer high growth potential. They provide finance for firms that are unable to secure sufficient funds from personal savings and/or commercial banks as they are unestablished or too small to attract the attention of shareholders or other investors.

Award [1 mark] if the definition shows some understanding of business angels.

Award [2 marks] if the definition shows a clear and accurate understanding of business angels, similar to the example above.

- (b) Possible limitations or disadvantages of using business angels include:

- Lack of experience in the industry, i.e. business angels might not be familiar with the online grocery retail business in Egypt. This can therefore lead to gross mismanagement of the organization should the angels demand control of the operations at *Tawfeer Market*.
- The co-founders of *Tawfeer Market* may have to give up a share of their ownership and control in the business; something they might not be willing to do or do so very reluctantly.
- Conflict of interest and differences in opinions between the co-founders of *Tawfeer Market* and business angels.
- Business angels are investors, so may not always have their hearts truly in the business venture. Business angels tend not to make follow-up or continual investments in the same firm.
- Accept any other limitation that is accurately and clearly explained.

Mark as a 2 + 2

For each point, award [1 mark] for a valid benefit and a further [1 mark] for an accurate and clear explanation of the limitation.

- (c) 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 such as *Tawfeer Market* 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, business angels are unlikely to take on clients with poor credit ratings or have a poor record of profitability. 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, such as business angels.

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 demonstrates limited understanding and is generalized or highly descriptive.

Award [3 – 4 marks] if the explanations are accurate and developed, demonstrating an understanding of how the profitability of a business such as *Tawfeer Market* affects its ability to obtain external sources of finance. Appropriate business management terminology has been used throughout the response, with relevant examples used.

# Unit 3.3 Costs and revenues

## Costs and revenues

### Question 16.1 - Airline costs

(a)

- Advertising and promotions = Fixed cost
- Airport charges = Fixed cost
- Fuel = Variable cost
- Meals and drinks onboard = Variable cost
- Remuneration of ground staff = Fixed cost
- Remuneration of pilots and flight attendants = Variable cost

Award 1 mark for each correctly identified cost in terms of its classification.

(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 appropriate use of examples and proficient application of business management terminology throughout the answer.

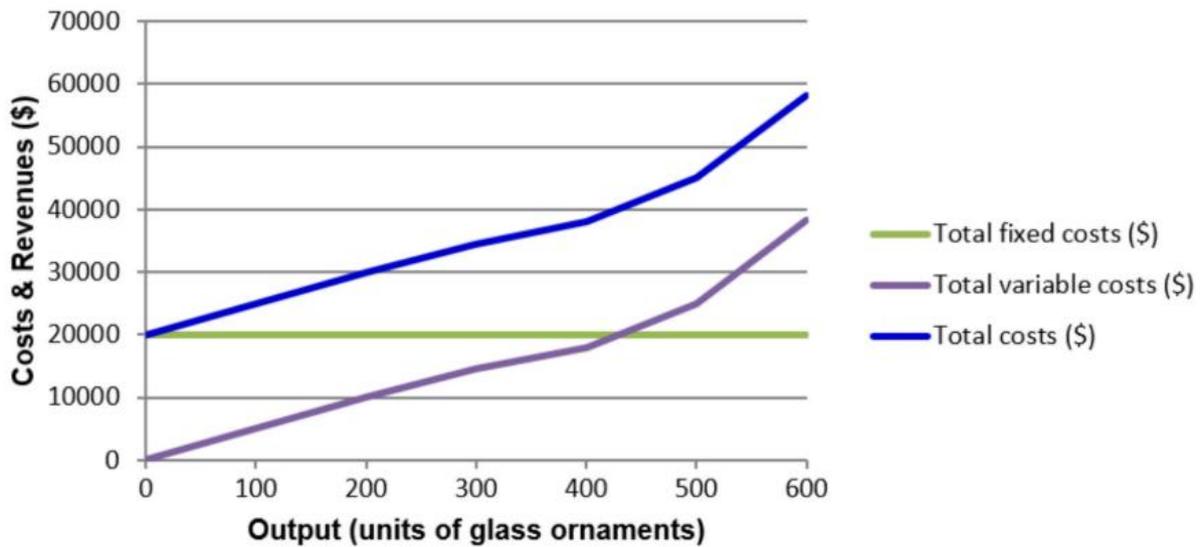
### Question 16.2 - Kompothekra Glass Technologies

(a) Costs of producing fine glass ornaments for Kompothekra Glass Technologies:

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 each for correctly drawing and labeling the total costs, fixed costs and total variable cost curves, up to 3 marks.

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)’.

(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 in total.

### Question 16.3 - 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 2021.

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. Application is not expected or required.

(b)

Let  $x$  = sales in 2020

$$x \times 1.1 = 31,790$$

Hence,  $x = 28,900$  units

$$\text{Sales revenue (or value of sales) in 2020} = 28,900 \times \$6.50 = \mathbf{\$187,850}$$

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 16.4 - 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. Application is not expected or required.

- (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 =  $\$0.8 \times 50\text{kg} = \$40$   
 Revenue =  $\$1.2 \times 50\text{kg} = \$60$   
 Profit =  $(\$1.2 - 0.8) \times 50\text{kg} = \$20$

Award 1 mark for a correct answer without any working out shown.

Award 2 marks for the correct answer and working out shown.

Award 3 marks for the correct answer with full working out shown.

- (d)  $(80\text{kg} \times \$2.00) + (20\text{kg} \times \$1.50) = \$190$

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 16.5 - Manchester United Football Club (MUFC)**

- (a) Revenue stream can be defined as 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 of upsetting the Club's reputation amongst its key stakeholders and fan base.

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 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 3.4 Final accounts

### Final accounts

#### Question 17.1 - 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 17.2 - 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 sales (COS) for 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 2022

	\$	\$
<b>Sales</b> (\$35 × 3,000)		105,000
<b>Cost of sales:</b>		
Opening stock	15,000	
Plus Purchases	50,000	
Less Closing stock	20,000	
		<u>45,000</u>
<b>Gross profit</b>		<u>60,000</u>

**Question 17.3 - Masks-R-Us Ltd:**

- (a) P&L account for *Masks-R-Us Ltd.* for the period ended 31<sup>st</sup> August

	\$	\$
<b>Sales revenue</b> (\$10 × 14,000)		140,000
<b>Cost of sales:</b>		
Opening stock	10,000	

Plus Purchases	35,000	
Less Closing stock	12,000	
		<u>33,000</u>
<b>Gross profit</b>		<u>107,000</u>
Less Overhead expenses		17,000
Profit before interest and tax		90,000
Less interest		5,000
Profit before tax		85,000
Less tax (at 15%)		12,750
Profit after interest and tax		<u>72,250</u>

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.
- 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, the 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 17.4 - TOYS

(a) Statement of profit or loss for *TOYS* for years ended 31<sup>st</sup> March

	Year 1 (\$'000)	Year 2 (\$'000)	% change
Sales	450	<b>500</b>	11.1%
Cost of sales	<b>180</b>	200	11.1%
<u>Gross Profit</u>	270	300	11.1%
Expenses	90	100	11.1%
<u>Profit before interest and tax</u>	180	<b>200</b>	11.1%
Interest	0	10	
Taxation	<b>45</b>	48	6.6%
<u>Profit after interest and tax</u>	135	142	5.2%
Dividends	15	10	(33.3%)
Retained profit	<b>120</b>	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 profit after interest and tax have both increased, by 11.1% and 5.2% respectively. However, these figures should be benchmarked with historical and inter-firm data.
- 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 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 profit margin 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 profits after interest and tax (5.2%).

In addition, shareholders would most probably want to consider qualitative (non-financial) factors 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 17.5 - Marc Brothers Motor Repairs**

(a) An overdraft is a short-term source of external finance that enables a business to withdraw more money from its bank account than the amount that exists. Although it needs to be repaid, it is a quick method of raising finance for immediate use.

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

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

(b) Statement of financial position for *Marc Brothers Motor Repairs* as at 31<sup>st</sup> March

	<b>Non-current assets</b>	<b>\$</b>	<b>\$</b>
Property	630,000		
Machinery and vehicles	230,000		
Accumulated depreciation	<u>(144,000)</u>		
<i>Total non-current assets</i>		716,000	
 <b>Current assets</b>			
Cash	12,000		
Debtors	16,000		
Stock	<u>30,000</u>		
<i>Total current assets</i>		58,000	
<b>Total assets</b>		<b>774,000</b>	
 <b>Current liabilities</b>			
Overdraft	13,000		
 <b>Non-current liabilities</b>			
Loan-term loan	380,000		
<b>Total liabilities</b>		<b>393,000</b>	
<b>Net assets</b>		<b>381,000</b>	
 <b>Equity</b>			
Share capital	300,000		
Retained earnings	81,000		
<b>Total equity</b>		<b>381,000</b>	

Deduct 1 mark for each error, applying the Own Figure Rule (error carried forward). Award 1 mark for an appropriate title.

### Question 17.6 - Bajaj Electronics

- (a) A balance sheet (or statement of financial position) is an annual financial statement which contains information on the value of an organization's assets, liabilities and capital invested by the owners. It shows the financial position of a business on a particular day (usually the last day of the firm's accounting or trading year).

Award 1 mark for a vague definition of balance sheet.

Award 2 marks if the answer clearly and accurately defines balance sheet, similar to the example above.

- (b) Examples of non-current 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.

- (c) Statement of financial position for *Bajaj Electronics* as at 31<sup>st</sup> December

	2022 \$'000	2021 \$'000
<b>Non-current assets</b>	250	250
<b>Current assets</b>		
Cash	25	20
Debtors	70	50
Stocks	<u>100</u>	<u>95</u>
	195	165
<b>Total assets</b>	<b>445</b>	<b>415</b>
<b>Current liabilities</b>		
Bank overdraft	20	10
Creditors	<u>50</u>	<u>50</u>
	70	60
<b>Non-current liabilities</b>		
Long term liabilities	50	80
Mortgage	<u>50</u>	<u>50</u>
	100	130
<b>Total liabilities</b>	170	190
<b>Net assets</b>	<b>275</b>	<b>225</b>
<b>Equity</b>		
Share capital	200	150
Retained earnings	75	75
<b>Total equity</b>	<b>275</b>	<b>225</b>

Award 1 mark for an appropriate title. Deduct 1 mark per error but apply the Own Figure Rule (error carried forward) where required and appropriate to do so. The maximum number of marks for this question is 6 marks.

### Question 17.7 Senjaya Fabrics Ltd.

- (a) Share capital refers to the finance raised by a limited liability company from selling shares to individual and institutional shareholders. This represents the permanent capital that 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) Statement of financial position for *Senjaya Fabrics Ltd.* as at 31<sup>st</sup> March 20XX

(c)

	IDR (millions)	IDR (millions)
<b>Non-current assets</b>		
Property		350
<b>Current assets</b>		
Cash	32	
Debtors	35	
Stocks	<u>60</u>	
		<u>127</u>
<b>Total assets</b>		<b>477</b>
<b>Current liabilities</b>		
Overdraft	30	
Trade creditors	<u>45</u>	
		75
<b>Non-current liabilities</b>		
Mortgage		127
<b>Total liabilities</b>		<b>202</b>
<b>Net assets</b>		<b>275</b>
<b>Equity</b>		
Share capital		175
Retained earnings		100
<b>Total equity</b>		<b>275</b>

### Question 17.8 - Harry Potter (J.K. Rowling)

- (a) Intangible assets are the intellectual property rights in the form of patents, trademarks and copyrights. The protection of intellectual property gives the owner (such as authors) the legal right to own pieces of work or creations.

Award 1 mark for a limited understanding of intangible assets.

Award 2 marks if the answer clearly and accurately defines intangible assets, similar to the example above.

- (b) Benefits or reasons for protecting copyrights could include:

- They protect the works of the author (J.K. Rowling) so that others cannot simply copy or plagiarize her original ideas.

- They act as a barrier to entry so that the author, publisher and movie producers can generate more revenues.
- They can act as a source of income for the owner of the intangible asset, 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 intangible assets (or intellectual property) is a difficult and somewhat subjective task. The 'true' value of intellectual property rights such as the *Harry Potter* franchise cannot be accurately realized until the sale of the intangible assets. The Harry Potter phenomenon, with its huge fan base, means that its associated intangible assets are highly valued because they generate revenue streams and add value to the franchise.

However, rather like shares on a public stock exchange, the value of such intangible assets will fluctuate over time. If, for example, subsequent Harry Potter movies are not so successful, then the value of the intangible assets 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 17.9 - Safarie Air Tours

- (a) A non-current asset is any item that a business owns that is not intended for resale within the next 12 months but is used to generate output and sales, such as property, vehicles and capital equipment.

Award 1 mark for a vague answer that shows some understanding of the term non-current asset.

Award 2 marks for an answer that shows a clear and accurate understanding of the term non-current asset, similar to the exemplar above.

- (b) 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 and accurate understanding of the term residual value, similar to the exemplar above.

- (c) Annual depreciation =  $(\$5,200,000 - \$1,600,000) \div 5 \text{ years} = \$720,000 \text{ per year}$

Award 1 mark for the correct answer and 1 mark for showing the working out accurately, up to the maximum of 2 marks.

### Question 17.10 - Neville Stibbs Stationers

- (a) The units of production method of calculating depreciation allocates an equal value of depreciation charge to each unit of output provided by a non-current asset, such as a new printing machine. It calculates depreciation based on physical output, so reduces the value of an asset based on its usage rather than basing it on time.

Award 1 mark for a vague answer that shows some understanding of the units of production method of calculating depreciation.

Award 2 marks for a description that shows a clear and accurate understanding of the units of production method of calculating depreciation, similar to the exemplar above.

(b) Depreciation per unit of production =  $(\$250,000 - \$50,000) / 500,000 = \$0.40$  per unit

Award 1 mark for the correct answer and 1 mark for showing the working out accurately, up to the maximum of 2 marks.

(c)  $90,000 \times \$0.40 = \$36,000$

Award 1 mark for the correct answer and 1 mark for showing the working out accurately, up to the maximum of 2 marks.

(d) Book value = Purchase cost – Accumulated depreciation

$$\$250,000 - [(90,000 \times \$0.40) + (110,000 \times \$0.40)] = \$250,000 - \$80,000 = \$170,000$$

The table is included for illustrative purposes only.

Year	Output	Depreciation (\$)	Book value (\$)
1	90,000	36,000	214,000
2	110,000	44,000	<b>170,000</b>

Award 1 mark for a limited understanding of the question or for showing the correct answer without any working out or if the working out is incomplete.

Award 2 marks for the correct answer with accurate and appropriate working out shown.

## Unit 3.5 Profitability and liquidity ratio analysis

### Profitability and liquidity ratio analysis

#### Question 18.1

(a) Statement of profit or loss for *JKL Ltd.*, for years ended 31 December (\$'000s)

	Year 2	Year 1
Sales revenue	1 000	850
Cost of sales	500	350
<b>Gross profit</b>	<b>500</b>	<b>500</b>
<b>Expenses</b>	<b>100</b>	<b>140</b>
Profit before interest and tax	400	360

- Gross profit = Sales revenue – Cost of sales
- Year 2 Gross profit =  $\$1,000,000 - \$500,000 = \$500,000$
- Year 1 Gross profit =  $\$850,000 - \$350,000 = \$450,000$
- Expenses = Gross profit – Profit before interest and tax
- Year 2 Expenses =  $\$500,000 - \$400,000 = \$100,000$
- Year 1 Expenses =  $\$500,000 - \$360,000 = \$140,000$

Award *1 mark* for the correct values of gross profit **and** expenses for each year, up to the maximum of *2 marks*.

- β(b) Year 2 GPM =  $\$500\,000 / \$1\,000\,000 = 58.82\%$   
 Year 2 Profit margin =  $\$400\,000 / \$1,000\,000 = 40.0\%$   
 Year 1 Profit margin =  $\$360\,000 / \$850\,000 = 42.35\%$

For each ratio, award *1 mark* for the correct answer, and *1 mark* for appropriate working out, up to the maximum of *4 marks*.

- (c) For reference, the percentage changes in the figures as shown below.

	<b>Year 2</b>	<b>Year 1</b>	<b>% change</b>
Sales revenue	1 000	850	+17.65%
Cost of sales	500	350	+42.86%
<b>Gross profit</b>	<b>500</b>	<b>500</b>	-
<b>Expenses</b>	<b>100</b>	<b>140</b>	<b>-28.57%</b>
Profit before interest and tax	400	360	+11.11%

Possible explanation points could include:

- The GPM in Year 2 shows that for every \$100 of sales, \$50 is gross profit. However, it was higher at \$58.82 in Year 1 as *JKL Ltd.* earned the same amount of gross profit despite the sales revenue being lower back then.
- The profit margin in Year 2 shows that for each \$100 sold, \$40 is generated as net profit (so expenses accounted for the other 10%). Although the profit margin was better by 11.11% in Year 2, it could have been higher given sales revenues were 17.65% higher.
- Despite sales revenues increasing by 17.65% during the year, the significant increase in cost of sales (by 42.86%), which has a negative impact on the profitability (and profitable ratios) of *JKL Ltd.*
- Overall, these figures show quite a healthy profitability position for *JKL Ltd.*, especially as expenses (overheads) have fallen by 28.57% although only limited information is provided. However, managers ought to be concerned about the 42.86% increase in cost of sales.

Award *1 – 2 marks* for an answer that shows some understanding of the demands of the question but lacks detail in the explanation.

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 profit margin. There is effective use of business management terminology throughout the answer.

- (d) 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 its 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 commentary of:

- The return on capital employed (ROCE) ratio.
- Benchmarking data (historical data regarding *JKL Ltd.*'s financial performance over the past few years as well as that of its closest rivals).
- Expressing profit in relation to the size of *JKL Ltd.*
- Business objectives of *JKL Ltd.*, including ethical objectives and its corporate social responsibilities (CSR).

Award 1 – 2 marks if the commentary is vague and/or largely incoherent. Answers might appear in an unexplained list-like format.

Award 3 – 4 marks if the answer comments on further appropriate information that could be used to determine the profitability of *JKL Ltd.* There is effective use of suitable business management terminology throughout the answer.

## Question 18.2

(a) Capital employed = Non-current liabilities + Equity, where Equity = Share capital + Retained earnings

$$\text{Year 2 ROCE} = \$400\,000 / \$1\,000\,000\text{k} = 40\%$$

$$\text{Year 1 ROCE} = \$360\,000 / \$800\,000 = 45\%$$

Award 1 mark for each correct answer, up to 2 marks.

Award a further 1 mark for showing accurate and appropriate 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 also be measured using the ROCE ratio and judged against bank interest rates. In this case, the ROCE in both years is very high when compared to any bank deposit rate. The ROCE figure can also be benchmarked against *JKL Ltd.*'s nearest rivals to measure relative profitability.

Award 1 – 2 marks for an answer that shows some understanding of the demands of the question. The response may lack detail and/or depth with a limited explanation.

Award 3 – 4 marks for an answer that shows good understanding of the demands of the question. The explanation includes use of the ROCE figures and what these suggest about both the efficiency and profitability of *JKL Ltd.*

## Question 18.3 - 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, i.e. it is the difference between sales revenues and cost of sales.

Award 1 mark for a limited definition that shows some understanding of the term gross profit.

Award 2 marks for a definition that shows a clear understanding of the term gross profit, similar to the example above.

(b)  $\text{ROCE} = (\$150\text{m} - \$30\text{m}) \div \$400\text{m} = 30\%$

Award 1 mark for the correct answer (the answer must be expressed as a percentage).

Award 1 mark for showing appropriate working out.

## Question 18.4 – 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 limited definition that shows some understanding of the term debtors.

Award 2 marks for a definition that shows a clear understanding of the term debtors, similar to the example above.

(b) Current assets = Cash + Debtors + Stock

$$\text{CA} = \$50,000 + \$35,000 + \$45,000 = \$130,000$$

Current liabilities = Overdrafts + Tax + Trade creditors

$$\text{CL} = \$15,000 + \$25,000 + \$50,000 = \$90,000$$

$$\text{Current ratio} = \$130,000 / \$90,000 = 1.44 : 1$$

Award 1 mark for the correct answer to 2 d.p.

Award 1 mark for showing appropriate working out of current assets and current liabilities.

- (c) The current ratio shows that Bjorn Bowls had \$1.44 of current assets for each \$1 of current liabilities. This means the business is in a good liquidity position as it can cover its current liabilities using its current (liquid) assets.

Award 1 mark for a limited response that shows some understanding of the demands of the question.

Award 2 marks for an answer that shows a good understanding of the demands of the question, similar to the example above.

## Question 18.5

- (a) Year 2 current ratio =  $700 / 300 = 2.33 : 1$

$$\text{Year 1 current ratio} = 500 / 200 = 2.5 : 1$$

$$\text{Year 2 Acid Test} = (700 - 350) / 300 = 1.17 : 1$$

$$\text{Year 1 Acid Test} = (500 - 250) / 200 = 1.25 : 1$$

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 ratio has 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 throughout the answer.

- (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 needed, 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 give 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 18.6 - Howald-Lee & Co. vs Quintanilla Inc.

- (a) The quick ratio (or acid test ratio) measures a firm's ability to meet its short-term debts. It ignores stock in the calculation because not all inventories can be easily turned into cash in a short time frame.

Award 1 mark for a limited definition that shows some understanding of the term quick ratio.

Award 2 marks for an accurate definition 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 sales (COS). This shows how well a firm is able to control its direct costs. 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. Therefore, gross profit will always be greater than profit. The numerical difference between gross profit and profit indicates how well a firm is able to control its overhead costs.

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 throughout 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 *Howald-Lee & Co.* and *Quintanilla Inc.* 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 long-term costs and profitability of the firm (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 potential window dressing of the final 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.
- The business objectives of the two firms are likely to be considered, e.g. *Howald-Lee & Co.* might be expanding, which would explain why the firm's acid test ratio has declined.

Award 1 – 2 marks if the commentary is limited and/or incoherent. The answer might be presented as an unexplained list-like format.

Award 3 – 4 marks for 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	<i>Howald-Lee &amp; Co.</i>	Gross profit has fallen by 20% (from a GPM of 50% to 40%).
	<i>Quintanilla Inc.</i>	Gross profit has fallen by just 10% (from a GPM of 50% to 45%); hence <i>Quintanilla Inc.</i> has performed better in terms of its ability to control cost of sales.
NPM	<i>Howald-Lee &amp; Co.</i>	The profit margin is stable at 20% but this means (along with a reduced GPM) that overhead control is improving; overheads accounted for a 30% differential (comparing the GPM and profit margin) but only 20% by the end of Year 3.
	<i>Quintanilla Inc.</i>	NPM has improved by 5.2% (from a GPM of 19% to 20%) and is quite stable. <i>Quintanilla Inc.</i> 's ability to control overheads has also improved but <i>Howald-Lee &amp; Co.</i> performed better.
ROCE	<i>Howald-Lee &amp; Co.</i>	The ROCE has fallen by 6.7% but the rate is still quite attractive with a yield of 14%.
	<i>Quintanilla Inc.</i>	The ROCE has improved by 25% so seems very attractive if such performance can be maintained. <i>Howald-Lee &amp; Co.</i> 's ROCE surpasses that of <i>Howald-Lee &amp; Co.</i> in the 3 <sup>rd</sup> year and seems attractive with a return of 15%.
Quick ratio	<i>Howald-Lee &amp; Co.</i>	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 <i>Howald-Lee &amp; Co.</i> operates in).
	<i>Quintanilla Inc.</i>	The firm's quick ratio has fluctuated and is close to the minimum recommended ratio of 1:1, so liquidity issues at <i>Quintanilla Inc.</i> 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 limited or 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)

## Efficiency ratio analysis (HL only)

### Question 19.1

(a)

	Year 2	Year 1
Stock turnover	$(350 \div 500) \times 365 = 255.5 \text{ days}$ or $500 \div 350 = 1.43 \text{ times}$	$(250 \div 350) \times 365 = 260.7 \text{ days}$  $350 \div 250 = 1.4 \text{ times}$
Debtor days	$(150 \div 1,000) \times 365 = 55 \text{ days}$	$(200 \div 850) \times 365 = 86 \text{ days}$
Creditor days	$(300 \div 500) \times 365 = 219 \text{ days}$	$(200 \div 350) \times 365 = 208.6 \text{ days}$

For each financial ratio, award 1 mark for the correct answer, and 1 mark for appropriate working out.

- (b) The term 'efficiency position' should be defined or explained. 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 209 days to 219 days), which might dampen its relationship with suppliers in the long term.
  - Overall, it seems that the firm's liquidity position probably deteriorated, although more information and data are needed to make any strong 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.

- (c) 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 ratio - 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 ratio - 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 ratio - 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.

**Question 19.2**

- (a) Gearing ratio for *JKL Ltd.*

Year 2	Year 1
$250k \div (25k + 750k)$	$250k \div (250k + 550k)$
<b>= 25%</b>	<b>= 31.25%</b>

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 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 19.3 - 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.

Examples are not required for full marks.

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, similar to the example above.



- (b)

- (i) Gross profit margin (GPM):

$$\text{Gross profit} = (532,000 - 248,000)$$

$$\text{GPM} = (284,000 / 532,000) \times 100$$

$$\text{GPM} = \mathbf{53.38\%}$$

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):

$$\text{Profit} = \text{Gross profit less expenses}$$

$$\text{Profit} = 284,000 - 132,000 = 152,000$$

$$\text{Capital employed} = 88,000 + 80,000 = 168,000$$

$$\text{ROCE} = (152,000 / 168,000) \times 100$$

$$\text{ROCE} = \mathbf{90.48\%}$$

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:

$$\text{Gearing ratio} = \text{Loan capital} / \text{Capital employed}$$

$$\text{Long term liabilities (i.e. mortgage)} = 80,000$$

$$\text{Gearing} = [80,000 / (88,000 + 80,000)] \times 100$$

$$\text{Gearing} = \mathbf{47.62\%}$$

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 the working out shown.

- (c) The ratios suggest several reasons why *Vintage 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 *Vintage Commercial Ltd.*

The 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*, a 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 *Vintage 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 *Vintage 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 *Vintage 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 *Vintage 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 company'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 *Vintage 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 *Vintage 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 19.4 - ACS Playframes Limited

- (a) Non-current 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 non-current liabilities, although the answer might lack clarity.

Award 2 marks if non-current liabilities is clearly defined, similar to the example above.

- (b) Profit and loss account for *ACSPL*, for year ended 31<sup>st</sup> March:

\$	
Sales revenue	3,500,000
less Cost of sales	900,000
Gross profit	2,600,000
less Expenses	<u>600,000</u>
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

$$\text{So, } 600 \div 550 = 1.09 : 1$$

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

$$\text{Capital employed} = \text{Long term liabilities} + \text{Retained profit} + \text{Shareholders' funds}$$

$$\text{So, } \$3.2\text{m} \div (\$3.2\text{m} + \$0.85\text{m} + \$3.5\text{m}) = 42.38\%$$

- (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, non-current 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 the 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 non-current 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*.

## Question 19.5 - Le Royal Méridien Hotels

(a) Insolvency is a financial state where an individual or business entity is unable to pay its debts on time. If insolvency cannot be resolved, this can lead to bankruptcy.

Award 1 mark for a vague understanding of insolvency.

Award 2 marks if insolvency 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.

## Unit 3.7 Cash Flow

### Cash Flow

#### Question 20.1 - McDonald's

- (a) Profit refers to the financial surplus that a business earns after all expenses have been paid for from its gross profit. The formula is Profit = Gross profit – Expenses.

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

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

- (b) Possible reasons why *McDonald's* experienced an increase in sales revenues but a decline in its 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 there is some understanding of the working capital cycle being affected by the use of credit. There is little, if any, reference to *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 20.2 - Garima Khurana Enterprises**

(a) Cash inflows refers to cash that comes into a business, such as *Garima Khurana Enterprises*, 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 *Garima Khurana Enterprises* = MAD135,000 – MAD103,000 = **MAD32,000**

where MAD refers to Morocco dirham (MAD).

Award 1 mark for the correct answer.

Award 1 mark for showing appropriate working out.

**Question 20.3 – Wincent Computing Ltd.**

(a)

	Month 1 (\$)	Month 2 (\$)	Month 3 (\$)
Sales revenue	25,000	20,000	22,000
Overdraft	<b>3,000</b>	8,000	0
Cash inflow	28,000	<b>28,000</b>	22,000
Cost of goods sold	16,250	<b>13,000</b>	14,300
Staff wages	4,000	4,500	4,300
Expenses	5,000	5,000	5,000
Other costs	<b>1,500</b>	1,600	1,850
Cash outflow	26,750	24,100	<b>25,450</b>
Net cash flow	1,250	<b>3,900</b>	-3,450
Opening balance	(1,750)	-500	<b>3,400</b>
Closing balance	<b>-500</b>	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 Computing Ltd.* is expected to face some cash flow problems in the first two 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 Computing Ltd.*'s customers are expected to buy the computer products on trade credit
  - ◇ *Wincent Computing Ltd.* may have poor credit control.
  - ◇ *Wincent Computing Ltd.* may have poor stock control, e.g. overstocking of certain computer accessories 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 Computing Ltd.* 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 computer products 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 Computing Ltd.* The total marks for this question is 4 marks.

### Question 20.4 - Menelao Stationers

- (a) Cash flow forecast for *Menelao Stationers*

	Aug (\$)	Sept (\$)	Oct (\$)	Nov (\$)
<b>Cash inflow</b>				
Cash sales	2000	5500	3200	3000
<b>Cash outflow</b>				
Stock purchases	1000	2750	1600	1500
Rent	0	2000	0	2000
Utilities	500	500	500	500
Other costs	1800	1100	1100	1100
Total outflow	3300	6350	3200	5100
<b>Net cash flow</b>	<b>-1300</b>	<b>-850</b>	<b>0</b>	<b>-2100</b>
Opening cash balance	6500	5200	4350	4350
Closing cash balance	5200	4350	4350	2250

	Aug (\$)	Sept (\$)	Oct (\$)	Nov (\$)
<b>Opening balance</b>	6,500	5,200	4,350	4,350
<b>Cash inflows</b>				
Cash sales	2,000	5,500	3,200	3,000
<b>Cash outflows</b>				
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
<b>Total cash outflows</b>	3,300	6,350	3,200	5,100
<b>Net cash flow</b>	(1,300)	(850)	0	(2,100)
<b>Closing cash balance</b>	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, with 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 20.5 - Bereti's Boutique

- (a) Personal funds are an internal source of finance for a business, coming from the savings of the individual owner(s). It is a significant source of finance for sole traders and partnerships.

Note that application or examples are not required.

Award 1 mark for a vague answer that shows some understanding of the term personal funds.

Award 2 marks for an answer that shows a clear understanding of the term personal funds, similar to the exemplar above.

- (b) Salary is a type of financial payment that rewards workers a fixed annual amount of money but paid in regular instalments. It represents a fixed cost of production for businesses such as Bereti's Boutique.

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.

(c) Cash flow forecast for *Bereti's Boutique* (Aug – Nov):

	Aug (\$)	Sept (\$)	Oct (\$)	Nov (\$)
<b>Opening balance</b>	0	10,100	6,020	2,770
<b>Cash inflows:</b>				
Owner's capital (personal funds)	15,000	0	0	0
Cash sales	5,000	5,800	7,000	9,500
<b>Total cash inflows</b>	20,000	5,800	7,000	9,500
<b>Cash outflows:</b>				
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
<b>Total cash outflows</b>	9,900	9,880	10,250	11,150
<b>Net cash flow</b>	10,100	(4,080)	(3,250)	(1,650)
<b>Closing bank balance</b>	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.

(d) The cash flow forecast suggests several issues for *Bereti's Boutique*:

- 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 (\$)	Sept (\$)	Oct (\$)	Nov (\$)
Net cash flow	10,100	(4,080)	(3,250)	(1,650)

- Cash inflows from sales have continually increased by 102.5% (from \$4,000 to \$8,100) whilst payments have only increased by 11.6% (from \$8,150 to \$9,095), i.e. the liquidity position is improving over time.
- Given that *Bereti's Boutique* 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* 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* 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 due to three consecutive months of negative net cash flows.

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*, 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 20.6 - 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:

	<b>April (\$)</b>	<b>May (\$)</b>	<b>June (\$)</b>
<b>Opening balance</b>	1,000	1,500	1,050
<b>Cash inflows</b>			
Cash sales	5,000	4,500	5,500
Credit sales	6,000	5,000	4,500
<b>Total cash inflows</b>	11,000	9,500	10,000
<b>Cash outflows</b>			
Direct costs	5,500	4,950	6,100
Indirect costs	5,000	5,000	5,000
<b>Total cash outflows</b>	10,500	9,950	11,100
<b>Net cash flow</b>	500	(450)	(1,100)
<b>Closing balance</b>	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 of 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 examination 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 Studios Ltd.*

## Unit 3.8 Investment Appraisal

### Investment Appraisal

#### Question 20.1 – 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)  $\text{Payback period} = \$300,000 \div (\$45,000 / 12) = 80 \text{ months} = 6.67 \text{ years}$   
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 reach 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 21.2 – 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	\$14,000	\$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  $\$14,000 / 12 = \$1,166.67$  per month.
- Hence, payback occurs during the 4th year in the 8th month, i.e.  $\$9,000 / \$1,167.67 = 7.7$  months.
- So, the PBP = 3 years and 8 months (accept 3 years and 7.7 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 21.3 – 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. There 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 21.4 – DeRogatis Computing Inc.

- (a) Capital expenditure refers to a firm's investment spending on fixed assets, such as the purchase of commercial 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 =  $(\$50,000 \times 4) - \$100,000 = (\$100,000) / 4 = \$25,000$  per year

Or annual profit =  $\$50,000 - (\$100,000 / 4) = \$25,000$  per year

Hence, ARR =  $(\$25,000 \div \$100,000) \times 100 = 25\%$

Award 1 mark for the correct answer.

Award 1 mark for showing appropriate working out.

**Question 21.5 - Victoria Mayers Holidays Co.**

(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 break 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 =  $[(\$160,000 - \$140,000) \div 3 \text{ years}] / \$140,000 = 4.76\%$

ARR for Project Boston =  $[(\$180,000 - \$140,000) \div 3 \text{ years}] / \$140,000 = 9.52\%$

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 21.5c(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 21.6 - Asvin Bundhun Construction Company

(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
<b>NPV</b>			<b>162,510</b>			<b>179,865</b>

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 21.7 - Charnley Consulting Company

- (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 Adelaide	Project Brisbane
Payback period	2 years, 7 months	2 years
ARR	22.5%	20.83%
NPV	\$21,141	\$19,990

- Based on the financial data, Project Brisbane 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 Adelaide, although both are significantly higher than any return from savings at a bank.
- The NPV is higher for Project Adelaide (by \$1,241 or 6.23%).
- Overall, on financial grounds, Project Adelaide seems the slightly better option if the business is prepared to wait a further 7 months before it achieves payback.
- In addition to quantitative investment appraisal methods, qualitative factors could also be considered. For example, there could be discussion 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 21.8 - Puri Garments

- (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 =  $\$340,000 \div 4$  years = \$85,000 p.a.

ARR =  $(\$85,000 \div \$230,000) \times 100$   
 = **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	<u>73,500</u>
		476,510
4	10	<u>7,350</u> (scrap value)
		483,860
		<u>230,000</u> (principal)
	NPV =	<b>253,860</b>

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, *Puri Garments* 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 *Puri Garments* 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 *Puri Garments'* investment decision. Appropriate business management terminology and examples are used. There is limited, if any, clear 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 *Puri Garments* 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

### Budgeting

#### Question 22.1 – 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 the commentary, 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 22.2 – Qantas

(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 *Qantas* use cost and profit centres for several reasons, including the need to:

- Allow *Qantas* 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 frequent flyer programme) 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 *Qantas*.

Award up to 2 marks for each reason explained in the context of *Qantas*, up to the maximum of 4 marks.

(c) Difficulties likely to be involved in allocating *Qantas*' 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, such as *Jetstar*.
- 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 *Jetstar*.
- 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 *Qantas*' overheads, written in the context of the case study. There is appropriate use of relevant business management terminology throughout the answer.

**Question 22.3 – 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)  $\text{Actual} - \text{Budgeted} = \$5,850 - \$6,000 = \mathbf{\$150 (F)}$

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:  $10 \times \$100 = \$1,000$   
 Actual:  $8 \times \$100 = \$800$   
 Variance =  $\mathbf{\$200 (F)}$

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 22.4 - Quay's Hair Salon Inc.**

- (a) A budget is a financial plan of expected revenues and expenditures for a business, or a department within the business, for a given time period, e.g. planned sales revenues, costs, cash flow or profits.

Award 1 mark for a vague definition of budget.

Award 2 marks if budget is clearly defined, with appropriate use of business management terminology.

- (b) Examples of stock (inventory) that might be held by *Quay's Hair Salon Inc.* could include:

- ◇ Shampoos
- ◇ Conditioners
- ◇ Hair dyes
- ◇ Gels
- ◇ Hair sprays

Award 1 mark for each relevant answer, i.e. written in the context of *Quay's Hair Salon Inc.*

- (c) Examples of direct costs likely to be incurred by *Quay's Hair Salon Inc.* might include:

- ◇ Wages for hair salon staff.
- ◇ Stocks of shampoos, conditioners and hair gels etc.
- ◇ Utilities bills, e.g. electricity and water charges.

Award 1 mark for each relevant answer, i.e. written in the context of *Quay's Hair Salon Inc.*

- (d)

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.

- (e) Points that could be examined regarding the importance of budgeting could include:

- Helping Dianna Quay to control her spending / prevent overspending on variables such as wages, salaries and stock (inventory).
- Setting short- and long-term goals for the survival and growth of *Quay's Hair Salon Inc.*
- Tracking sales revenue, expenses and cash flows (to prevent liquidity issues or the problems associated with debts that the business might otherwise encounter).
- Preparing for busier (or quieter) periods during different times of the week, month, or year, i.e. fluctuations in visitors to the hair salon.
- Being ready for emergencies, i.e. budgeting can help Dianna Quay to be better prepared for unexpected costs, such as higher-than-expected utility bills.
- *Accept any other relevant reason that is clearly and accurately examined in the context of the case study.*

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 importance of budgeting for *Quay's Hair Salon Inc.*, but the answer may lack detail or application of the stimulus material.

Award 5 – 6 marks if there is a detailed examination of the importance of budgeting for *Quay's Hair Salon Inc.* Suitable business management terminology is used throughout the response, with appropriate reference to the case study.

## Unit 4.1 Role of Marketing

### Question 23.1 - 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 \$25,700 digital cameras and \$101,500 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 a clear 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 23.2 - Calculating market share

- (a)

Company	Sales (\$m)	Market share (%)
A	80	40
B	30	15
C	40	20
D	50	25

Award 1 mark for each correct answer. There is no need to show any working out.

- b. Explain **two** strategies that a business can use to increase its market share. [4 marks]

Businesses can increase their market share in any of the following generic ways, although these are not definitive:

- Increased and/or effective promotional campaigns.
- Product development, improvements and innovations.
- Wider distribution channels.
- Improved customer services.
- Target new market segments.
- Enter new markets.
- Diversification strategies.
- *Accept any other relevant strategy that is clearly explained.*

Mark as a 2+2

Award *1 mark* for an appropriate strategy, and a further *1 mark* for a clear and accurate explanation, up to the maximum of *4 marks*.

### Question 23.3 - Samsung versus Apple

- (a) Market share is calculated by dividing an organization's sales revenue by the total sales revenue in that market or industry, expressed as a percentage, for a given time. The formula for calculating market share is expressed as:

$$\text{Market Share} = (\text{Firm's sales revenue}) / (\text{Total sales revenue in the market}) \times 100$$

Award *1 mark* if there is some understanding of the demands of the question.

Award *2 marks* if there is clear reference to market share being calculated and express as a percentage figure in reference to the total sales revenue in a particular market or industry.

- (b) A market leader refers to any business that has significant market share in a particular market or industry. The market leader, such as Apple, has the highest market share of all firms in that specific market, i.e., it is the dominant firm in the industry.

Award *1 mark* if there is some understanding of the demands of the question.

Award *2 marks* if there is good understanding of the demands of the question, similar to the example above.

- (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 of scale.
  - 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 23.4 - 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 interests 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
<ul style="list-style-type: none"> <li>Brand awareness - shock tactics can draw attention and bring publicity to a firm and/or its products</li> </ul>	<ul style="list-style-type: none"> <li>Boycotting of a firm and its product(s) that cause offense to the general public</li> </ul>
<ul style="list-style-type: none"> <li>Word of mouth / Viral marketing to spread the word quickly</li> </ul>	<ul style="list-style-type: none"> <li>Upsetting members of the general public and other stakeholder groups</li> </ul>
<ul style="list-style-type: none"> <li>Reverse reaction to entice people to buy due to the thought-provoking marketing messages</li> </ul>	<ul style="list-style-type: none"> <li>Damaging the firm's corporate image (which could be irrevocable)</li> </ul>
<ul style="list-style-type: none"> <li>Can be humorous and memorable, even if (somewhat) offensive</li> </ul>	<ul style="list-style-type: none"> <li>Fines and legal battles for breaking consumer protection laws</li> </ul>

Issues to consider could include the following:

- The distinction between what is humour and what is simply offensive in society.
- Overly offensive adverts are likely to be banned and this therefore could represent ineffective use of the firm's money (budget).
- Knowledge of shock tactics often spread quickly, 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 if used.

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.

## Unit 4.2 Marketing Planning

### Question 24.1 – Oasis Hong Kong Airlines

(a) Innovation refers to the advances or new notions 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) 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 marketplace. 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 that is rather unadventurous and will only purchase the product when they are completely confident about it, 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, for example by examining different market segments such as business travellers, 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 24.2 – The business of international students

- (a) 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 definition that shows some understanding of the term innovations.

Award 2 marks for a definition that shows a clear understanding of the term innovations, similar to the example above.

- (b) Competition refers to the rivalry that exists between businesses operating in the same market or industry. Being able to compete against rival businesses is a key factor in determining the success of any organization, such as universities that compete for domestic and overseas students. Competition can drive innovation and efficiency, as well as reduce prices and increase choice for consumers.

Award 1 mark for a vague description that shows some understanding of the term competition.

Award 2 marks for a description that shows a clear understanding of the term competition, similar to the example above.

- (c) Knowledge of 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) high 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 refers to market segmentation and cost-effective marketing activities. There is appropriate use of business management terminology although application might be weak in areas.

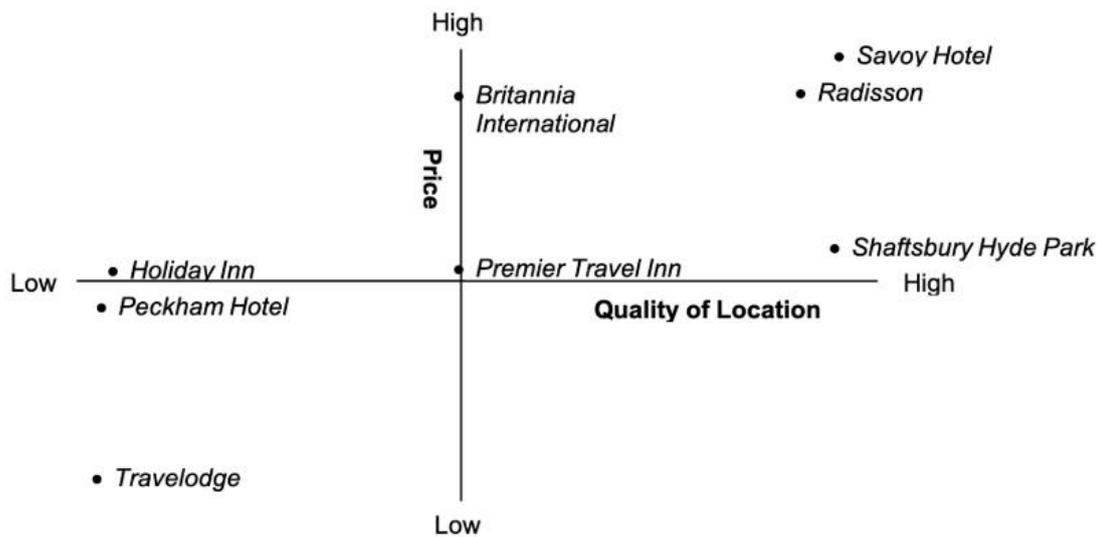
*Award 5 – 6 marks* for a thorough examination of how market segmentation might help universities to have more cost-effective marketing activities to attract overseas students. There is effective use of business management terminology and relevant examples throughout the answer.

### **Question 24.3 – The hotel industry, London (UK)**

- (a) Perception maps will vary according to which variables are chosen, i.e.
- Price with Quality of location
  - Price with Quality of service, or
  - Quality of location with Quality of service

An example is shown below, using price and quality as the comparable variables:

Position Map for the Hotel Industry in London



Award 1 – 2 marks if there are major errors / omissions in the position map.

Award 3 marks if a position map is constructed with a few errors / omissions.

Award 4 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 wants 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 24.4 – 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 conducted by *Pink Ladies* found that customers (women) prefer female taxi drivers.

Award 1 mark if the description shows some understanding of market research, although the answer might lack some clarity.

Award 2 marks if description of market research is clear and accurate, similar to the example above.

(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 versus 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).

Mark as a 2+2

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.

Mark as a 2+2

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 throughout the response.

## Question 24.5 - J.D. Power and Associates

(a) A mass market refers to a large consumer market for a particular good or service, thus requiring 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 shown, although the answer might lack clarity.

Award 2 marks if mass market is clearly and accurately 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 effective 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 25.1

- (a) Sales forecasting is the quantitative process of predicting a firm’s future sales, based on past sales data and trends over a specific period of time.

Award [1 mark] for an answer that shows some understanding of the term sales forecasting.

Award [2 marks] for an answer that shows a clear understanding of the term sales forecasting, similar to the one above.

- (b) Answers may include an explanation of any of the following points:

- Being able to identify sales trends can help FKF’s production planning by accurately forecasting sales figures in the near future.

- Sales forecasting uses past and current sales data to help reduce uncertainties about conducting business in the future.
- It enables various budgets to be prepared for different functions of the business, thereby helping managers at FKF to have better financial control.
- It facilitates FKF's organizational objectives and the implementation of appropriate strategies to achieve these goals.
- There is always the potential for inaccurate predictions when making sales forecasts. This can lead to over- or under-estimating future sales, making it difficult to plan for the right levels of production and it makes budgeting more challenging.
- Sales forecasting can be expensive due to the use of sophisticated tools and software, as well as the need to hire Specialist staff to analyze the data. Sales forecasts also require time and labour, which can divert resources from other areas of FKF.
- Sales forecasting does not account for unpredictable events, such as natural disasters, economic downturns, or other crises such as the outbreak of a highly infectious disease. These events can significantly change the expected sales trend line.

*Accept any other relevant advantage or disadvantage that is clearly explained.*

*Mark as 2+2*

Award [1 mark] for a relevant advantage (and disadvantage) identified and a further [1 mark] for an appropriate explanation, up to the total maximum of [4 marks].

- (c) Although seasonal and cyclical variations are used to predict sales trends, there is a subtle difference, or purpose. Seasonal variations are used to adjust the sales forecast from the trend within a year, usually using quarterly or monthly sales data. They are used to make a more accurate forecast for a specific quarter (or season).

Cyclical variations occur in the sales figures due to fluctuations in the business (or trade) cycle, i.e., economic recessions and booms. To make the forecasted figures from the trend more accurate, the fluctuations are adjusted by the average of the cyclical variations.

Seasonal variations are usually reoccurring due to the time of the year (i.e. the seasons), whereas cyclical variations occur due to fewer regular fluctuations in the level of economic activity.

Award [1 – 2 marks] for an answer that shows some knowledge of the seasonal and cyclical variations. The definitions are brief but show a basic level of understanding.

Award [3 – 4 marks] for a good answer that distinguishes between seasonal and cyclical variations to sales trends. For [4 marks] there is clear distinction between seasonal and cyclical variations and how they are used to adjust sales forecasts.

## Unit 4.4 Market research

### Question 26.1 - 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/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 26.2 - 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 'R' 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 'twens' 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 themselves from their 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 4.5a The 7Ps of the marketing mix - Product

### Question 27.1 – The Virgin Group

- (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) The term product portfolio refers to the collection of related goods and services offered by a company. Having a portfolio of products can create competitive advantages for a business as it is in a better position to meet and serve the needs of its different customers.

Award 1 mark for a vague definition that shows some understanding of the term product portfolio.

Award 2 marks for a definition that shows a clear understanding of the term product portfolio, similar to the example above.

- (c) *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 family brand 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 maximize potential sales and profits.

Award 1 – 2 marks if the answer is vague, generalized 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 27.2 – Sony PlayStation 5**

- (a) 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.

- (b) 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 definition that shows some understanding of the term product life cycle.

Award 2 marks for a definition that shows a clear understanding of the term product life cycle, similar to the example above.

- (c) 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 PSP5 games console, although net cash flow will be negative.
Growth	Net cash flow will go into positive territory as the PSP5 establishes itself in the market. Sony is likely to be making profits at some point during the growth stage of the PSP5’s product life cycle.
Maturity	The PSP5 is possibly a cash cow for Sony at this stage, thereby contributing significantly to the company’s cash flow.
Decline	The PSP5’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 generalized 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 PSP5’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* PSP5 games console and its life cycle.

### Question 27.3 – 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 generalized 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 27.4 – 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 27.5 – 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 give *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 its 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 27.6 – 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 generalized 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.

## Unit 4.5b Place

### Question 28.1 – Tanusankar 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% =  $\$150 \times 2.25 = \mathbf{\$337.50}$

Award [1 mark] for the correct answer.

Award a further [1 mark] for appropriate working out.

- (c)  $\$205 = \$95x$   
 $x = \$205 \div \$95 = 2.1579 = \mathbf{115.79\%}$  mark-up

Accept answers that state 115.8%

Award [1 mark] for the correct answer.

Award a further [1 mark] for appropriate working out.

## Question 28.2 – The price of price wars

- (a) (i) *Loss leader pricing* is a pricing method that involves setting the price of a product below its costs of production in order to attract customers. Supermarkets often use loss leader products in order to entice customers to buy other products with high profit margins.

Award [1 mark] for an answer that shows some understanding of loss leader pricing, although the answer lacks some clarity.

Award [2 marks] for an answer that shows a good understanding of loss leader pricing, similar to the example above.

- (a) (ii) *Price wars* are a form of predatory pricing method that involve businesses competing by a series of continuous and/or intensive price cuts to threaten the competitiveness (or even the survival) of rival firms.

Award [1 mark] for an answer that shows some understanding of price wars, although the definition lacks some clarity.

Award [2 marks] for a definition that shows a good understanding of price wars, similar to the example above.

- (b) In the short term, customers are likely to benefit from the intense price cuts, e.g. lower food prices and cheaper supermarket products. Some businesses may also see a greater than proportionate increase in the demand for their goods, following the price reductions, so this will increase their sales revenues. Many businesses (especially smaller ones) experience declining profit margins and profitability; some might even experience temporary losses due to the intense price competition.

However, in the long term, as these industries tend to be dominated by businesses with significant market power, only the largest firms are able to sustain losses during periods of a price war. 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), so customers tend to lose out from price wars in the long term.

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 or losers are examined, or if there is no reference to the short and long term.

Award [5 – 6 marks] for a thorough examination of the winners and losers of a price war in both the short term and the long term. 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 methods (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 methods might include: aggressive television advertising, BOGOF (buy one get one free) or similar deals, customer loyalty schemes, 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 programmes can help to boost the morale and productivity of the supermarket workers. In turn, customers are likely to have a better experience, thereby improving the attractiveness and competitiveness of the supermarket.
- 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: free car parking for customers, free electronic charging services for customers with e-vehicles, complimentary bagging/packing service and special shopping trolleys for children and disabled persons. However, improving the physical environment is likely to cost a huge amount of money and other supermarket chains may be able to copy such ideas/designs/improvements quite easily.
- Place – More and more supermarkets are offering ‘free’ delivery services and offering online service such as “click and collect” 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 are reasoned/justified recommendations of both non-pricing strategies in terms of their ability to raise the competitiveness of supermarkets, and evidence of critical and evaluative thinking.

### **Question 28.3 – The price of strawberries**

During the summer months, strawberries are much easier to grow due to the climate. This means it costs less for businesses to produce and harvest strawberries. The supply of strawberries increases as a result, which reduces the market price.

By contrast, during the winter months, the only practical way to grow strawberries is to use higher-cost production methods, such as greenhouses, artificial lighting, heating and water.

Hence, dynamic pricing enables strawberry farmers to adjust the price of their fruits to reflect the extra costs of production during the winter months.

Award [1 – 2 marks] for an answer that shows some understanding of the demands of the question, with some reference to dynamic pricing.

Award [3 – 4 marks] for an answer that shows a good understanding of the demands of the question, with effective reference to dynamic pricing written in the context of the given scenario.

### **Question 28.4 – Price elasticity of demand**

a)

- i. Petrol is likely to be price inelastic in demand. This is because there are few, if any, substitutes to petrol, so customers are left with little choice but to pay higher prices. For example, motorists will need to buy petrol, despite higher prices, in order to drive their own cars (motor vehicles and petrol are complementary goods as they are used together).
- ii. Demand for bananas is likely to be price elastic because there are plenty of alternative fruit products that customers can choose if the price of bananas is raised. For most people, bananas are certainly not a necessity, so this also raises the value of its PED.
- iii. Tobacco is likely to be price inelastic because of its addictive properties. For consumers of tobacco products, there are few, if any, substitutes so this will reduce the value of its PED.
- iv. Smartphones may be price inelastic in economically developed (high-income) countries. More and more people regard smartphones as essentials (e.g. the average person in Finland, Japan, and Hong Kong has more than one active mobile phone!) It could be argued, however, that smartphones are price elastic as they can be highly expensive (so account for a large proportion of the average person's income), customers have plenty of substitutes brands to choose from, and are durable products.

For each answer, award the marks as follows:

Award [1 mark] for a limited response that shows some understanding of the demands of the question.

Award [2 marks] for a clear and succinct response that shows good understanding of the demands of the question, similar to the example above.

- b) The consumption of tobacco, alcohol and petrol have negative side-effects on the economy as a whole, so the consumption of such products is considered to be harmful to society. Tobacco causes strain on health care services; alcohol can cause drink driving, drunkenly behaviour and crime; and petrol causes environmental damage. Hence governments around the world tax these products in order to limit their consumption.

A second reason for the high taxes on these products is that the demand for petrol, alcohol and tobacco are highly price inelastic. Whilst higher prices (caused by the rise in the taxes imposed on these products) tend to reduce the demand for such products, the proportionately higher prices ensure that the government receives huge tax revenues but without any significant damage to businesses in the petrol, alcohol and tobacco industries.

Mark as a 2 + 2

For each reason, award [1 mark] for a valid factor and a further [1 mark] for a suitable explanation that shows good understanding of the demands of the question using appropriate business management terminology.

### Question 28.5 – The business of music concerts

- (a) Price inelastic demand means that the demand for a particular product, such as tickets to attend concerts, is relatively unresponsive to changes in the price. This is likely to be due to a lack of close substitutes being available or a high degree of willingness to pay.

Award [1 mark] for a definition that shows some understanding of price inelastic demand, although the definition lacks some clarity.

Award [2 marks] for a definition that shows a good understanding of price inelastic demand, similar to the example above.

- (b) Music fans might be prepared to pay these high prices for music concert tickets because:

- The concerts provide a unique opportunity for the fans to see their idols performing live on stage; recorded music is therefore not regarded as a substitute.
- The hype caused by the marketers behind the concerts creates high demand.
- High prices act as a rationing device, i.e. if prices were lowered then there would be far too much excess demand (so prices would be raised anyway).
- The high prices still represent 'good entertainment value' to many customers.
- Higher levels of consumer income means that customers are willing and able to pay higher prices for the concert tickets.
- Fans expect high prices, i.e. this is the going rate for concert tickets.
- *Accept any other reasonable response, written in the context of the case study.*

Award 1 – 2 marks if the answer explains one reason in detail or if two reasons are vaguely outlined. Appropriate examples/application might be missing. The answer might appear in a list-like format.

Award 3 – 4 marks for clearly explaining two reasons why customers (music fans) might be prepared to pay high prices for concert tickets. Appropriate terminology and examples related to the case study are used.

- (c) Possible pricing methods could include an explanation of any two of the following pricing methods:

- Cost plus pricing, which involves the concert operator including a fixed markup on the price of the tickets.
- Premium pricing, which involves the concert operator charging above average prices for the concert tickets depending on the performers. High profile musicians, such as Elton John and Ed Sheeran, would enable the operators to charge higher prices due to the extremely high level of demand.
- Dynamic pricing, which involves the music concert operator charging different prices depending on changing levels of demand. For example, higher prices can be charged when the tickets are first sold, typically because of the

higher level of demand at that time. If there are unsold tickets shortly before an event, the concert operator can choose to lower the price to ensure a sell-out concert.

- Competitive pricing, which involves the music concert operator comparing and contrasting the prices being charged for other concerts or similar events run by other operators. This helps to ensure their own event is attractively priced.
- Price elasticity of demand, which involves the concert operator selling tickets to the same event at different prices based on a customer's ability and willingness to pay. For example, concert tickets may be sold at a concessionary price for elderly people, and there might be different prices charged for children and adults.

Do not award responses that cover penetration pricing, loss leader pricing or predatory pricing as these are inappropriate in the context of the case study.

Mark as a 2+2

For each pricing method, award 1 mark for a suitable answer plus a further 1 mark for inappropriate explanation, up to the overall maximum of 4 marks.

(d) Arguments for why the concert tickets could be price elastic include:

- Extremely high prices (up to \$320 per ticket!) so this is likely to represent a large proportion of most people's income.
- The next best alternative is much cheaper – buying the music in various platforms including vinyl and CD, streaming it, or downloading the music.
- Concerts can be considered as a luxury product so therefore people will be quite responsive to the price level.

Arguments for the tickets being price inelastic include:

- Despite the high prices, some customers think the concerts represent good entertainment value.
- The concerts reap in huge revenues (Sir Elton John raked in \$358.6 million) so customers cannot be that responsive to the price level.
- For the true fanatic, there is no substitute to seeing their favourite music artists 'live' in concert.

There will be, of course, varying degrees of price elasticity of demand for different music concerts. The most popular music artists will clearly be able to charge higher prices as their fans are more willing to pay; and there will simply be more of them (i.e. greater demand).

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

Award 3 – 4 marks if the answer shows some understanding of the demands of the question. The answer might be rather generalized with limited depth.

Award 5 – 6 marks if the answer shows some understanding of the demands of the question. The answer includes appropriate business management terminology, but the application is limited.

Award 7 – 8 marks if there is an understanding of the demands of the question. Price elasticity of demand is suitably discussed in the context of the case study. There is a balanced argument although evaluation is limited.

Award 9 – 10 for a clear understanding of the demands of the question. The discussion is thorough and balanced, using appropriate business management terminology throughout. There is justification of whether the demand for music concert tickets is price elastic or price is relatively inelastic. Arguments have been substantiated and justified.

## Question 28.6 – 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 an answer that shows some understanding of direct costs, although the answer lacks some clarity.

Award [2 marks] for an answer that shows a good understanding of direct costs, similar to the example above.

- (b) Pricing methods that airline companies can use to enter a new market include a description of any **two** of the following:
- 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.
  - Cost-plus pricing - As a new business in the industry, the airline will want to cover all of its costs in the shortest possible time in order to survive. Hence, the use of mark-up pricing can help to ensure the airline earns sufficient contribution.
  - Premium pricing does not suit *Virgin Australia Airlines* (initially a 'low cost' airline) but could be used specifically by other airlines that cater for the high-end traveller (such as *Singapore Airline's* executive-class suites on some of its aircraft).
  - Competitive pricing - An airline entering a new market may set prices based on those charged by the market leader(s) in order to entice customers to try the airline service and to build brand awareness. This is highly suited to *Virgin Australia Airlines* as 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.

Mark as a 2 + 2

Award up to [2 marks] for each relevant pricing method 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, airline companies such as *Virgin Australia Airlines* can adopt several pricing methods, 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 revenue and profits of *Virgin Australia Airlines*.
  - Penetration pricing - This could help *Virgin Australia Airlines* to establish itself in a new and highly competitive market. Once a solid customer base is secured, ticket prices can be raised to increase sales revenues (but this will depend on the degree of customer loyalty, the price elasticity of demand, 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.
  - Predatory pricing - As *Virgin Australia Airlines* is such a large operator, it might choose to temporarily offer fares at a very low price in order to reduce the competitiveness of its rival carriers 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 so can raise their prices to compensate for earlier losses that might have been incurred. However, such practises do not guarantee success as the losses incurred could be significant if a price war is initiated. Furthermore, such anti-competitive practices would be outlawed in many countries.
  - Price elasticity of demand - This would involve charging different prices for essentially the same service based on different degrees of responsiveness to price changes. So, *Virgin Australia Airlines* could charge 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 rival carriers 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 due to differences in the PED of their customers.

- In the evaluation, candidates should comment on other aspects of the marketing mix being important in raising revenues (such as 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 method is thoroughly analyzed.

Award [7 – 8 marks] if two pricing methods 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 *Virgin Australia Airlines*.

Award [9 – 10 marks] for a thorough examination and evaluation of each of the two pricing methods in terms of their ability to raise sales revenues for the likes of *Virgin Australia Airlines*.

## Unit 4.5c Promotion

### The seven Ps of the marketing mix - Promotion

#### Question 29.1 – 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 clear and accurate 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 an examination of the following:
- The entertainment industry, such as the movies and music, tends to have a short life span (product life cycle) so mass advertising and promotion are needed to recoup production costs and to maximize sales revenues in the shortest possible time.
  - ATL promotion tends to get maximum exposure to existing and potential customers.
  - 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.
  - Some 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 effective application of relevant examples, and appropriate use of business management terminology throughout the answer.

## Question 29.2 – Kim Do Yi

- (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 explanation lacks some clarity.

Award 3 – 4 marks if there is a clear understanding of the demands of the question, with a clear and accurate explanation of why promotion is important to businesses like *KDY*.

- (c) The promotional mix for *KDY* might include a discussion of 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 generalized 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. There is clear evidence of evaluation and critical thinking regarding the recommended promotional mix for *KDY*.

### Question 29.3 – The Paris Motor Show

- (a) Promotion refers to the management process of communicating marketing messages to existing and potential customers, usually with the intention of selling a firm's products. As part of the marketing mix, promotion includes advertising, trade fairs, sales promotion and public relations.

Award 1 mark if the definition shows some understanding of promotion.

Award 2 marks if promotion 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) Trade shows (exhibits) are probably more cost effective and hence preferred to the use of direct marketing 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 case study.

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, for example) are used and there is relevant application.

### Question 29.4 – Sponsoring the FIFA World Cup

- (a) Sales 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 definition that shows some understanding of the term sales revenue.

Award 2 marks for a definition that shows a clear and accurate understanding of the term sales revenue, similar to the example above.

- (b) 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 major sporting event.

Award 1 mark for a vague definition that shows some understanding of the term sponsorship.

Award 2 marks for a definition that shows a clear and accurate understanding of the term sponsorship, similar to the example above.

- (c) 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 for the likes of *Adidas* and *Sony*.
  - They can gain from global marketing economies of scale since 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 associations created by linking the brand to the (highly popular) sport, thus positioning the sponsors in a favourable way.

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 in areas. 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 29.5 – YouTube

- (a) Social media marketing (SMM) refers to any form of online platform (such as websites and applications) that enable users to create and share interactive content or to participate in online social networks. SMM technologies facilitate the creation and communication of marketing information, ideas and opinions.

Award 1 mark if there is some understanding of SMM, although the answer lacks some clarity or depth.

Award 2 marks if SMM is clearly and accurately defined, similar to the example above.

- (b) Advertising is the main method of promotion and is used to shape and develop brand awareness as well as to foster customer perceptions, knowledge and attitudes towards a firm's products. It communicates marketing messages in a persuasive and/or informative way.

Award 1 mark if there is some understanding of advertising, although the answer lacks some clarity or depth.

Award 2 marks if advertising is clearly and accurately defined, similar to the example above.

- (c) 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. For instance, an average of 30 million people use *YouTube's* website each day.
  - The Internet is proving to be a significant rival to traditional above the line promotional methods such as TV and radio advertising, e.g. there are over 2 billion active users on *YouTube*, with over 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 adverts, 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.

## Unit 4.5d-g

### Question 30.1 – 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 definition might lack clarity.

Award 2 marks if wholesaler is clearly and accurately defined, similar to the example above.

- (b) A brand is a distinguishing name, symbol, image or trademark of a product or organization. As an intangible asset, brands differentiate the product or organization from rival ones in the market.

Award 1 mark if there is some understanding of brands shown, although the definition might lack clarity.

Award 2 marks if the term is clearly and accurately defined, similar to the example above.

- (c) 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 benefitting 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 or consumers are considered.

Award 5 – 6 marks if there is a thorough examination of the benefits of wholesaling to both businesses and consumers (small businesses and families).

### Question 30.2 – 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 definition that shows some understanding of the term retailer.

Award 2 marks for a definition that shows a clear and accurate 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 71,800 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 accurately 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 30.3 – 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 and vending machines.

Award 1 mark for a vague definition that shows some understanding of the term channel of distribution.

Award 2 marks for a definition that shows a clear and accurate 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 description that shows some understanding of the term online presence.

Award 2 marks for a description that shows a clear and accurate 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 Cosmetics*, 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 to 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 deals 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 30.4 – 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 definition shows some understanding of intermediaries, although the answer might lack clarity.

Award 2 marks if the term intermediaries is clearly and accurately 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*.
- Accept any other valid advantage, accurately explained in the context of the case study.

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.

### **Question 32.1 – Aldi**

- (a) Process is an element of the marketing mix that refers to the methods and procedures used by a business to deliver a good or service to its customers. This includes any activities that are necessary to deliver the product to customers, such as payment methods, as well as after-sales services.

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

Award 2 marks for a clear and accurate definition of the term *process*, similar to the example above.

- (b) Possible benefits could include an explanation of:

- Speed - Customers no longer have to wait in long queues at Aldi's checkouts. Instead, customers using the supermarket's app can complete their purchases quickly and easily. The automation system therefore speeds up the shopping experience for Aldi's customers.
- Convenience - Aldi's customers no longer have to pay in cash or use a debit or credit card. Being automatically charged (digitally with the Aldi app) creates further benefits of convenience for customers. This also eliminates the need for customers to carry cash or payment cards with them.
- *Accept any other reasonable benefit explained in the context of the case study.*

Possible drawbacks could include an explanation of:

- Inconvenience - Aldi's Business model requires customers to have sufficient storage space on their smartphones to download and use the app, as well as sufficient battery charge. This can be frustrating for customers who want to shop at Aldi if the app creates more inconvenience.
- Discriminatory against certain demographics - The technology could disadvantage elderly people and low-income families who may not know how to use the technology and/or may not own a smartphone. Additionally, some customers have complained about not being able to use the store as they do not have the storage space on their phones to download the Aldi app.
- Unreliable technology - If the technology is unreliable, such as technological faults or malfunctions, this could lead to customers being incorrectly charged for their shopping or not being able to make purchases from the store.
- *Accept any other reasonable drawback explained in the context of the case study.*

For each point, award 1 mark for an appropriate benefit (or drawback) and a further 1 mark for the explanation. Award up to 4 marks for the two benefits and up to 2 marks for the drawback.

### Question 33.1 – 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 are 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 4.6 International marketing

### Question 34.1 – The Ford Focus

- (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 include 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 'glocalization' over globalization as an approach to international marketing, 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 generalized and lacks coherence, but shows some understanding.

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 34.2 – 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.

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 and accurately 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 American retail outlets).

Mark as a 2+2

Award 1 mark for each valid reason and 1 mark for an appropriate explanation, up to the maximum of 4 marks.

- (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 to *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 is 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 34.3 – 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 definition might lack clarity.

Award 2 marks if sales revenue is clearly and accurately defined, similar to the example above.

- (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 (FMCG).

Award 1 mark if there is a brief description of the type of product that *Colgate* toothpaste might be classified as.

Award 2 marks if there is a good description 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 recognizable 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 their sales and international marketing. *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.

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 34.4 – 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 37,000 restaurants worldwide.

Award 1 mark if there is some understanding of international marketing, although the definition might lack clarity.

Award 2 marks if international marketing is clearly defined, similar to the example above. Note that there is no need to include application for full marks although this has been included above illustrative purposes.

- (b) Critics obelms 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 examined, 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 American 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 suggest 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 5.1 Introduction to operations management

## Question 35.1

- (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 and accurate 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 resources 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 Operations methods

### Question 5.2.1 - Bristol Cars

- (a) A privately held company is a business with limited liability and its shares are typically issued only to family and friends with the approval of the board of directors.

Award 1 mark if the definition shows some understanding of 'privately held company'.

Award 2 marks if 'privately held company' is clearly and accurately defined, similar to the example above.

- (b) Bristol Cars 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 Cars 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 to justify the answer.

- (c) Consequences can be positive, negative or both. Examples include an examination of the following points:

Impacts on Bristol Cars could include a discussion about:

- ◇ 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 could include a discussion about:

- ◇ A 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 could include a discussion about:

- ◇ 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, 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, 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, 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 36.2 – Operations methods

- (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 description that shows some logic and understanding.

Award 2 marks for a description that shows a clear and accurate understanding of the most appropriate production method for navy battleships, backed by good 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 description that shows some logic and understanding.

Award 2 marks for a description that shows a clear and accurate understanding of the most appropriate production method for wedding cakes, backed by good 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 description that shows some logic and understanding.

Award 2 marks for a description that shows a clear and accurate understanding of the most appropriate production method for cookies, backed by good 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. 64GB or 128GB models), but there is a large enough market for each of these to mass produce the product.

Award 1 mark for a vague description that shows some logic and understanding.

Award 2 marks for a description that shows a clear and accurate understanding of the most appropriate production method for smartphones, backed by good 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 description that shows some logic and understanding.

Award 2 marks for a description that shows a clear and accurate understanding of the most appropriate production method for bottled water, backed by good reasoning.

### **Question 36.3 - Categorizing operations methods**

- (a) The components of *Dell* personal computers (such as computer monitors, CPUs, webcams and keyboards) are all mass produced.

However, since *Dell* customers can 'pick and mix' their own components, there is an element of job production because each client can have a PC custom built and personally delivered directly.

Award 1 – 2 marks for a brief explanation of why it might be difficult to categorize 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 categorize 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 categorize 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 categorize 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 37.1 – Subway

- (a) 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 for a definition that shows some understanding, although it might lack some clarity.

Award 2 marks if franchise is clearly and accurately defined, similar to the example above.

- (b) 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 for a definition that shows some understanding, although it might lack some clarity.

Award 2 marks if quality management is clearly and accurately defined, similar to the example above.

- (c) 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 costs 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 37,500 restaurants in over 100 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*.

- (d) *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 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 37,500+ 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 generalized 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 37.2 – Nissan’s product recalls

- (a) 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 shown, although the definition might lack clarity.

Award 2 marks if quality control is clearly and accurately defined, similar to the example above.

- (b) 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 shown, although the definition might lack clarity.

Award 2 marks if the term economies of scale is clearly and accurately defined, similar to the example above.

- (c) 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 cost of the product recalls in 2017 were around 25 billion yen (\$US180 million); which could have been 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 37.4. - 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 definition might lack clarity.

Award 2 marks if the term waste is clearly and accurately defined, similar to the example above.

- (b) Waste refers to any business activity or process that results in unnecessary costs, delays or inefficiencies. Examples include defected output, product recalls and overproduction.

Award 1 mark if there is some understanding of waste, although the answer might lack clarity.

Award 2 marks if the term "waste" is clearly and accurately defined, similar to the example above.

- (c) 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 37.4 - Mercedes Benz

- (a) 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*. The benchmark becomes a point of reference (yardstick) for the business to match or exceed in order to emulate best practice in the industry.

Award 1 mark if there is some understanding of benchmark shown, although the definition might lack clarity.

Award 2 marks if benchmark is clearly and accurately defined, similar to the example above. Note there is no requirement to use examples although this has been included for illustrative purposes.

- (b) Defects occur 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.

- (c) 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, e.g. reducing defects rates.
- 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 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 37.5 – 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.
- Recognizing 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 the *BSI*.

Award 3 – 4 marks if at least two functions/roles are explained 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 generalized / 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 have been used throughout the answer.

## Unit 5.4 Location

### Question 38.1 – 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 the level of 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 has studied/investigated. Possible advantages to consider when relocating overseas include:
- Consideration of advanced infrastructure in overseas locations, such as road, communications and transportation networks.
  - Government incentives and policies, e.g. the possibility of financial incentives to attract businesses to locate in or relocate to, a certain region. These could include, for example, tax rebates (concessions), government grants or subsidies.
  - The quantity, quality, suitability and cost of land may be more suitable for businesses looking to relocate overseas.
  - The availability and cost of labour can be a major advantage, e.g. many MNCs are attracted to locate in less-economically developed countries (LEDCs) due to the wide availability of low-cost labour.
  - Access to wider/larger markets, as well as growth potential of the overseas economy.
  - *Accept any other reasonable advantage that is clearly explained.*

Mark as a 2+2.

For each advantage, award *1 mark* for an appropriate benefit and a further *1 mark* for an appropriate explanation.

- (c) Possible disadvantages to consider when deciding whether to relocate overseas include:
- The financial costs and therefore risks of locating or relocating in foreign markets is a major barrier to any business considering expanding to new markets overseas.
  - Consideration of higher indirect costs of operating in overseas markets, e.g. higher corporation tax rates in some countries or higher interest rates.
  - There may be more complicated laws such as planning permission and intellectual property protection. Legal constraints, such as the length of time needed to set up (or relocate) a business in the foreign country, are further considerations.
  - The state of technology and the standard of work processes in the foreign country may be substandard, e.g. how stable (reliable) and secure are management information systems (MIS) in these overseas locations?
  - *Accept any other reasonable disadvantage that is clearly explained.*

Mark as a 2+2.

For each disadvantage, award *1 mark* for an appropriate drawback and a further *1 mark* for an appropriate explanation.

## Question 38.2 – 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.

*Mark as a 2+2.*

For each argument, award *1 mark* for an appropriate reason and a further *1 mark* for an suitable explanation.

- (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.

*Mark as a 3+3*

Award *1 mark* for each suitable quantitative factor and up to a further *2 marks* for the clarity and accuracy of the extended response.

Award a maximum of *4 marks* if the examination is sound although lacks clarity or application in some areas.

### Question 38.3 – Doing business in India

(a) Some of the risks for MNCs wishing to invest in India might include:

- Cultural differences - American 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.
- Economically developing countries may lack the infrastructure and communications networks that Western multinational companies are used to.
- Around 6% of India's population still lives in poverty; this will limit the amount of consumer spending in the economy.
- Legislation is likely to be another potential barrier. Apart from different legal systems overseas, laws tend to be rather laxer 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 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 an examination of the following points:

- 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 38.4 – 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, generalized 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 38.5 – Jeffrey Penn School

(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, *Jeffrey Penn School* is outsourcing aspects of its teaching to *Brighter Education*.

Award 1 mark if the definition shows some understanding of outsourcing, although it lacks clarity.

Award 2 marks if outsourcing is clearly and accurately defined, similar to the example above. Note there is no requirement to include application, although this has been included above for illustrative purposes.

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

- It is far cheaper to use tutors from *Brighter 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 *Jeffrey Penn 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 Mathematics graduates are fluent in English and have the correct expertise and experience to tutor the students of *Jeffrey Penn 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 *Brighter 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 *Jeffrey Penn 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 *Brighter Education*.
- Lack of local knowledge - can the graduate tutors in India really address 'local' educational issues of students in southeast 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 a good 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 *Jeffrey Penn 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 *Jeffrey Penn 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).

### **Question 38.6 – Volkswagen**

- (a) 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 definition shows some understanding of the term 'brands', but the answer lacks clarity.

Award 2 marks if the term 'brands' is and clearly and accurately defined, similar to the example above. Note there is no requirement to include application or examples for full marks.

- (b) 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 definition shows some understanding of infrastructure, although the answer lacks clarity.

Award 2 marks if the term infrastructure is clearly and accurately defined, similar to the example above.

- (c) 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 in 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.
  - *Accept 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 reason 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 38.7 – 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. American and European firms that operate call centres in India.

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

Award 2 marks if offshoring is clearly and accurately 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 or 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 38.8 – KFC, Vietnam**

- (a) A multinational company is an organization that operates in two or more countries, e.g. *KFC*, an American fast-food company, has operations in Vietnam.

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

Award 2 marks if the term multinational company is clearly and accurately defined, similar to the example above. Note that there is no expectation to include any examples for full marks.

- (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 rival 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 describing 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, as shown by the country's economic growth forecast. Hence, 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 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 the answer 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 Break even analysis

### Question 39.1 – Jade Villa Ltd.

- (a)
- $250 + 1,000 = 1,250$
  - Hence, the price per letting = **\$1,250**.

Award [1 mark] for the correct answer and [1 mark] for showing appropriate working out.

- (b)
- Total contribution =  $\$1,000 \times 300 = \$300,000$
  - Total fixed cost =  $\$250,000$
  - Hence, forecast profit =  $\$300,000 - \$250,000 = \mathbf{\$50,000}$ .

Award [1 mark] for the correct answer and [1 mark] for showing appropriate working out.

### Question 39.2 – Graham Go-Karts!

- (a) BEQ =  $\$20,000 \div (\$35 - \$10) = 800$  riders 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 =  $\$35 \times 800 = \$28,000$

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  
 $\$20,000 + (\$10 \times 800) = \$28,000$

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.

(d) Profit = Total contribution – Total fixed costs  
 Profit =  $[(\$35 - \$10) \times 855] - \$20,000 = \$1,375$

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 39.3 – Calculating the margin of safety

(a)

(i)  $500 + 300 = 800$  units

(ii)  $500 - 250 = 250$  units

(iii)  $(300 \div 500) \times 100 = 60\%$

Award 1 mark for calculating each correct answer, up to the maximum of 3 marks.

(b) *Tread-it* has a 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 demonstrating an understanding of the margin of safety. Award up to a further 2 marks for an answer that shows a clear understanding of why *Tread-it* has the better margin of safety or for an explanation of why the answer depends on the method chosen to measure the MOS.

### Question 39.4 – TMR Day-Care Centre

(a) Total fixed costs =  $600 + 1,000 + 100 + 140 = \$1,840$  (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 =  $\$1,840 \div (\$20 - \$4) = 115$  child places

Award 1 mark for the correct answer without any working out shown.

Award 2 marks for the correct answer with appropriate working out shown.

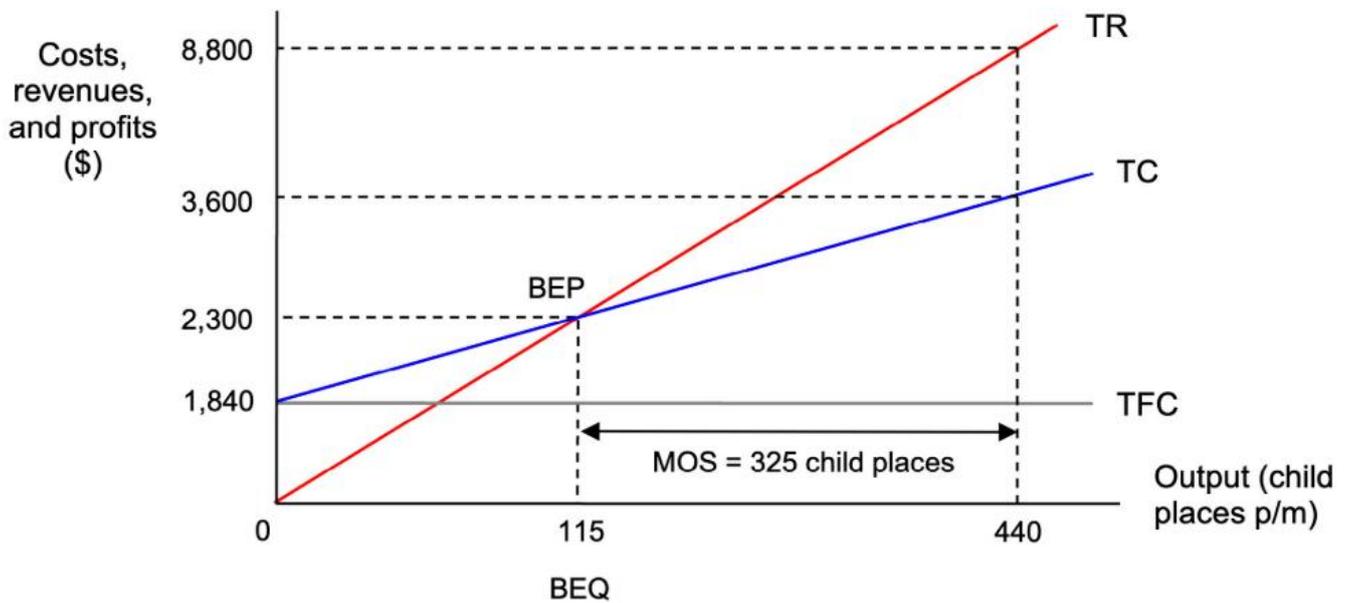
(c) Daily demand = 80% of capacity =  $25 \times 0.8 = 20$  child places per day  
 Monthly demand =  $20 \text{ children} \times 22 \text{ days} = 440$   
 Safety margin =  $440 - 115 = 325$  child places (or a very attractive 282%)

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 appropriate working out shown.

(d) Graph: value of TR (and TC) at BEQ =  $\$20 \times 115 = \$2,300$ .

**Break-even chart for TMR Day-Care Centre**



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 throughout the answer.

### Question 39.5 – 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 profit refers to the level of sales needed to earn a certain amount of profit. It is calculated by deducting total costs from expected sales revenues at the given level of output.

Award 1 mark for a vague answer that shows some understanding of the term target profit.

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

- (c) Target price =  $(x - 120)60 - 3,500 = \$2,500$

Hence, target price = \$220

Award 1 mark for the correct answer without any (suitable) working out shown.

Award 2 marks for the correct answer with appropriate working out shown.

- (d) The contribution from each tour is the difference between the target selling price (\$220) and the average variable cost per unit (\$120).

Hence, the contribution per tour =  $\$220 - \$120 = \$100$ .

Award 1 mark for the correct answer without any working out shown.

Award 2 marks for the correct answer with appropriate working out shown.

- (e) The break-even quantity for Creighton Tours = Total fixed costs / Contribution per unit. Hence, the BE quantity is:

$$\$3,500 / (\$220 - \$120) = 35 \text{ tours}$$

Award 1 mark for the correct answer without any working out shown.

Award 2 marks for the correct answer with appropriate working out shown.

### Question 39.6 – Mendoza Taxi Services

- (a) BEQ =  $6,400 \div (330 - 130) = 32$  taxi journeys.

Award 1 mark for the correct answer without any working out shown.

Award 2 marks for the correct answer with appropriate 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 appropriate working out shown.

(c) Profit = Total contribution – Total Fixed Costs

$$\begin{aligned} \text{Profit} &= [(330 - 130) \times 66] - 6,400 \\ &= 13,200 - 6,400 \\ &= 6,800 \text{ peso per month} \\ &= 81,600 \text{ pesos per year} \end{aligned}$$

Award 1 mark for the correct answer without any working out shown.

Award 2 marks for the correct answer, with appropriate working out shown.

(d) Target profit = 8,000 per month

$$\text{TR} - \text{TC} = 8,000 \text{ per month}$$

$$66P - [6,400 + (130 \times 66)] = 8,000$$

$$66P - (6,400 + 8,580) = 8,000$$

$$66P - 14,980 = 8,000$$

$$66P = 22,980$$

$$P = 348.18 \text{ peso per taxi journey}$$

Check:

$$\text{TR} = 66 \times 348.18 = 22,980 \text{ pesos}$$

$$\text{TC} = 6,400 + (66 \times 130) = 14,980 \text{ pesos}$$

$$\text{Profit} = 22,980 - 14,980 = 8,000 \text{ pesos (the target profit)}$$

Accept answers that round down to 348 pesos or up to 350 pesos.

Award 1 mark for the correct answer without any working out shown.

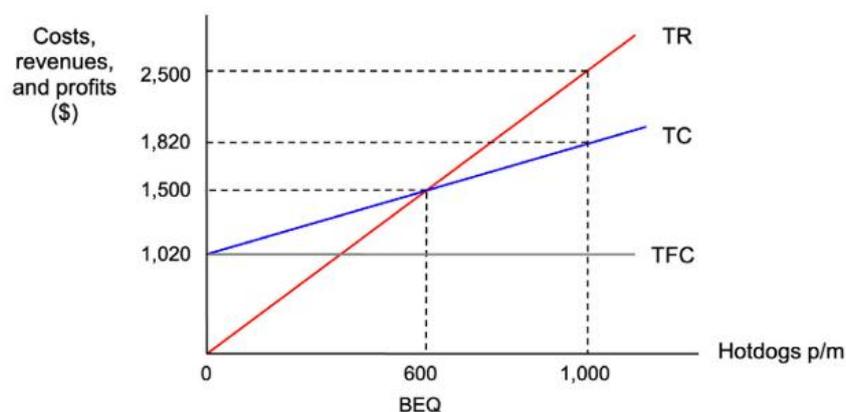
Award 2 marks for the correct answer, with appropriate working out shown.

### Question 39.7 – 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% =  $200 \times 1.5 = \$300$

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 breakeven chart.

Daily sales increase by 70% =  $200 \times 0.7 = 140$  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 39.8 – Ana Hermosa Art Studios

(a)  $BEQ = €3,000 \div (€20 - €5) = 200$  customers per month

Award 1 mark for the correct answer but working out is not shown or is inaccurate.

Award 2 marks for the correct answer, with appropriate working out shown.

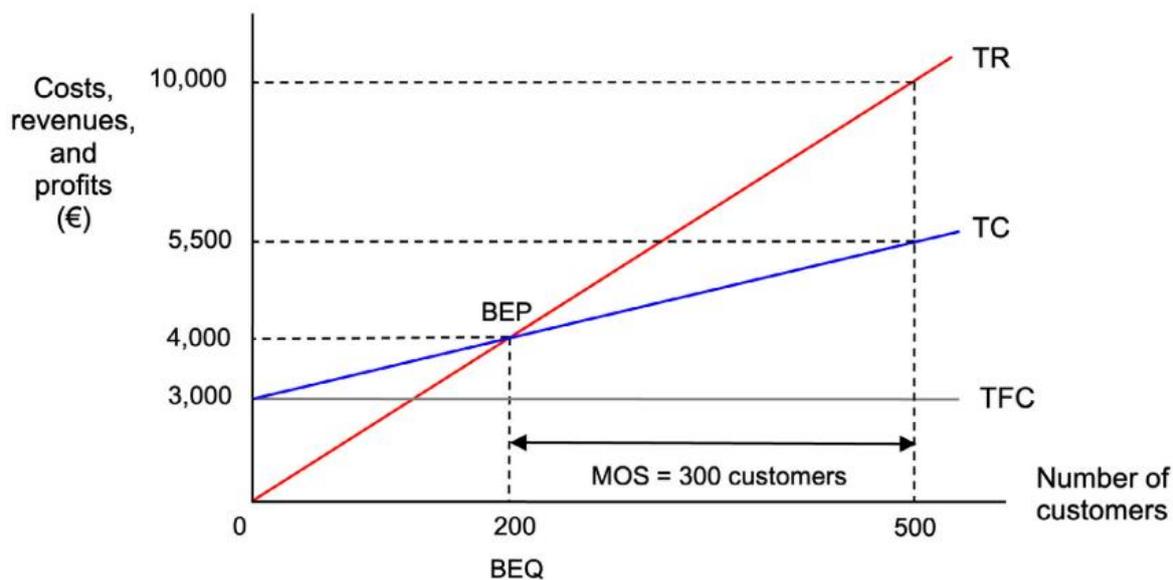
(b) The margin of safety =  $500 - 200 = 300$  customers

Award 1 mark for the correct answer but working out is not shown or is inaccurate.

Award 2 marks for the correct answer, with appropriate working out shown.

(c) Graph

**Break-even chart for Ana Hermosa Art Studios**



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) Overheads are costs that cannot be clearly traced to the production or sale of any single product, such as rent and insurance as these are not directly related to the output of a particular product or division of the business.

Award 1 mark for a definition that shows some understanding of overheads.

Award 2 marks for a clear and accurate definition of the term overheads, similar to the example above.

- (e) New break-even =  $\text{€}4,000 \div (\text{€}17 - \text{€}5) = 334$  customers

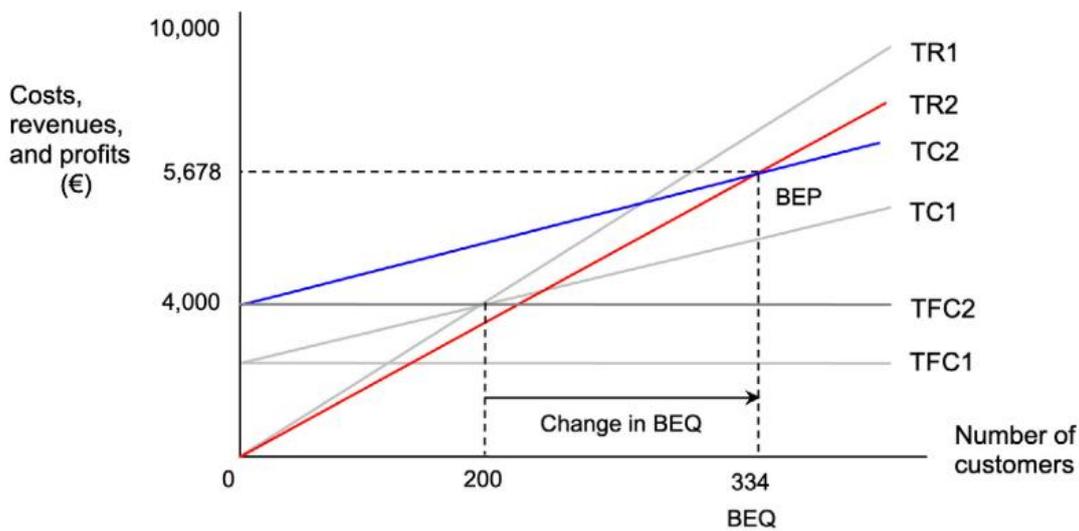
The combination of higher fixed costs and a lower selling price means the firm's BEQ has increased by 67%.

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.

- (f) Graph. The MOS must be shown on the diagram for the 1 mark.

**Break-even chart for Ana Hermosa Art Studios**



- (g) There should be an explanation that this was a poor decision because the change in profit =  $\text{€}4,500 - \text{€}2,240 =$  a loss of  $\text{€}2,260$  by reducing price, brought about by the 67% increase in the break-even quantity.

Higher Level candidates may refer to pricing elasticity of demand, although this is not a requirement.

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 39.9 – 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 on the vertical perpendicular where the total cost (TC) and total revenue (TR) lines intersect.

Award 1 mark for a vague definition that shows some understanding of the term break-even quantity.

Award 2 marks for a definition that shows a clear understanding of the term break-even quantity, similar to the example above.

- (b) Expected margin of safety =  $1,200 - 420 = 780$  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 appropriate working out shown.

- (c) in 2021, when the A380 was discontinued, *Airbus* had only sold 251 aircraft. Therefore, the airline had a negative margin of safety, i.e.  $MOS = 251 - 420 = -169$  aircraft.

The answer should explain that the lower (or negative) MOS leads to lower levels of profit (or losses in this case) 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) Possible points for examination could include the following:

- 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*.
- *Accept any other relevant point that is clearly and appropriately examined in the context of the case study.*

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 and 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 (if at all), the management tool no longer proves as useful to the organization for this specific product.

However, changes in the internal and external business environment, such as soaring production costs, can significantly increase the level of sales needed to reach break-even, such as the revised forecast of having to sell 270 A380 aircraft to 420 needed to reach break-even, i.e. an increase of over 55%. This limits the value of the tool.

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 5.6 Production planning (HL only)

### Question 40.1 – 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) Price refers to the amount of value of a product on the market, as measured by the amount of money that customers pay for the good or service. Price will typically include a mark-up so that the business earns more than the cost of sales.

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

Award 2 marks if price is clearly and accurately defined, similar to the example above.

- (c) *Carrefour* might choose to improve the efficiency of its global 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 some depth or substance.

Award 5 – 6 marks if there is a thorough examination of the ways that *Carrefour* might improve the efficiency of its global supply chain process. Appropriate business management terminology has been used with appropriate reference to the case study.

### Question 40.2 – IB Café

- (a) A sole trader is a type of business entity 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 definition shows some understanding of sole trader, although it lacks some clarity.

Award 2 marks if the term sole trader is clearly and accurately 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 *IB 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 *IB Café*. Therefore, this helps to improve the cash flow position of the business.

JIT also allows *IB 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 *IB Café*.

Award 1 – 2 marks if the explanation 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 *IB Café* because it faces cash flow problems. The explanation is thorough and there is suitable 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 *IB 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 answer lacks detail and/or application. Limited understanding of the demands of the question is shown.

Award 3 – 4 marks if the answer addresses how placing inventory orders based on sales forecast might be beneficial to a business such as *IB Café*. There is proficient use of business management terminology throughout the answer.

### Question 40.3 – Ford's stockpiling nightmare

- (a) Stockpiles refers to the accumulated (or excess level of) supply of *Ford* vehicles, i.e. there is 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 the term stockpiles is clearly and accurately defined, similar to the example above.

- (b) Profit is the surplus money that a business earns after all expenses have been paid for out of its gross profit, i.e.  $\text{Profit} = \text{Gross profit} - \text{Expenses}$ .

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

Award 2 marks if the term 'profit' is clearly and accurately defined, similar to the example above.

- (c) 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

- Reduces *Ford Motor Company's* cash flow position.
- Likely to hinder working capital since finance is tied up in stockpiles.
- Higher storage costs for the stocks of vehicles, e.g. insurance, maintenance and security.

- Possibility of some stock being damaged or even becoming obsolete (unlikely for finished cars, but their value could still depreciate, but perhaps applicable to vehicle parts and components).

#### Costs of understocking

- Disgruntled and dissatisfied customers due to a lack of stock.
- Customers might switch to rival manufacturers' brands of vehicles.
- Compensation payouts to customers for failure to meet promised delivery dates.
- 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 forced Ford 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 40.4 – Diallo Bakery

- (a) Just-in-time (JIT) is a stock control system whereby inventories (of materials and component parts) are scheduled to arrive precisely when they are needed in the production process.

Award 1 mark for a vague definition that shows some understanding of the term just-in-time (JIT).

Award 2 marks for a definition that shows a clear and accurate understanding of the term just-in-time (JIT), similar to the example above.

- (b)
- 400 kgs
  - 200 kgs
  - 600 kgs
  - 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 *Diallo 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 *Diallo Bakery* and therefore have the space for storing large volumes of stock (hence re-order levels can be higher).
  - *Diallo 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) The response should include an examination of both advantages and disadvantages of the proposal to use JIT. Advantages of JIT in comparison to JIC for *Diallo 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 *Diallo 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 *Diallo Bakery's* relationship with its suppliers (a prerequisite for JIT to work).

On the other hand, there are disadvantages to *Diallo Bakery* using JIT, such as:

- There is a huge reliance on *Diallo 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 *Diallo 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 *Diallo 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 *Diallo 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 *Diallo Bakery*. Appropriate business management terminology has been used and there is clear reference to the case study.

### Question 40.5 – The Emirates Stadium, London

(a) Capacity utilization =  $(59,957 \div 60,260) \times 100 = 99.4972\%$

Award 1 mark for showing appropriate working out and a further 1 mark for the correct answer.

(b) Operating at close to the stadium's capacity is important to Arsenal Football Club (AFC) for several reasons. Possible reasons could include an explanation of the following:

- It maximizes the AFC's sales revenue from ticket sales, which is vital for the organization's financial sustainability. Furthermore, football fans who attend the football matches are likely to purchase food and drinks (during the Half Time break) as well as merchandise (such as football shirts and other accessories). This provides additional revenue streams for AFC.
- Operating at close to the stadium's capacity can enhance Arsenal's reputation as a successful and reputable football club. A full stadium also creates a sense of excitement and attracts interest from football fans. This helps to entice media exposure, generate positive publicity and attract corporate sponsorship deals and commercial partnerships.

- Accept any other reason that is appropriately explained in the context of the case study.

Award 1 – 2 marks if limited understanding of the demands of the question is shown. The explanation lacks detail and/or application.

Award 3 – 4 marks for an explanation that addresses why operating at close to capacity is important to Arsenal Football Club (AFC). There is good use of business management terminology throughout the answer.

### Question 40.6 – Virginie Srienzi Inc.

- (a) Capacity utilization rate =  $(20,100 \div 30,000) \times 100 = 67\%$

Award 1 mark for showing appropriate working out and a further 1 mark for the correct answer.

- (b) At 20,100 units,  $AC = (\$10,000 \div 20,100) + \$5 = \$5.49$

At 30,000 units,  $AC = (\$10,000 \div 30,000) + \$5 = \$5.33$

Award 1 mark for showing appropriate working out and up to 2 marks for the correct answers.

- (c) At 20,100 units, the profit margin for VSI (mark-up) =  $\$15 - \$5.49 = \$9.51$

At 30,000 units, the profit margin for VSI (mark-up) =  $\$15 - \$5.33 = \$9.67$

Award 1 mark for showing appropriate working out and up to 2 marks for the correct answers.

- (d) At 20,100 units, total profit =  $(\$15 \times 20,100) - [\$10,000 + (\$5 \times 20,100)] = \$191,000$

At 30,000 units, total profit =  $(\$15 \times 30,000) - [\$10,000 + (\$5 \times 30,000)] = \$290,000$

Hence, the percentage change in profits is therefore = +51.83%

Accept answers rounded as follows:

At 20,100 units, total profit =  $\$9.51 \times 20,100 = \$191,151$

At 30,000 units, total profit =  $\$9.67 \times 30,000 = \$290,100$

Percentage change in profits is therefore = +51.76%

Award up to 2 marks for the correct/appropriate working out and up to 2 marks for the correct answers.

### Question 40.7 – 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 definition shows some understanding of capacity utilization, although it lacks clarity.

Award 2 marks if capacity utilization is clearly and accurately defined, similar to the example above.

- (b) Marginal cost refers to the extra cost of providing an extra unit of output, i.e.  $\Delta TC / \Delta Q$ . 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 case study.

Award 2 marks if the answer shows good understanding of marginal cost. There is good application with reference to the stimulus material.

- (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 40.8 – Durex**

- (a)  $0.03 \times 300\text{m units} = 9$  million units per year = approx. 3% defect rate.

Award 1 mark for the correct answer without any working out shown or inaccurate working out.

Award 2 marks for the correct answer with clear and accurate 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 there is a good understanding of the demands of the question, with the explanation being thorough and relevant application to the *Durex* case study.

- (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 some 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 response 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 40.9 – Measuring productivity

(a) Labour productivity based on sales revenue per worker:

- Gupta Realty Ltd. =  $\$15,450,372 \div 18 = \$858,354$  per person
- Jenkins Realty Co. =  $\$13,075,560 \div 16 = \$817,223$  per person
- Thus, the sales team at Gupta Realty Ltd. was more productive as the average salesperson 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. =  $\$15,450,372 \div 54 = \$286,118$
- Average price of properties sold at Jenkins Realty Co. =  $\$13,075,560 \div 60 = \$217,926$
- 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 40.10 – Social media and productivity

- (a) 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 and accurately defined, similar to the example above.

- (b) 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 and accurately defined, similar to the example above.

- (c) The costs of low productivity for businesses include an examination of the following:

- Lost output as around “£14 billion (\$20.3bn) a year in lost work time”.
- Higher costs as 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.
- Diminished competitiveness as lower productivity is associated with higher unit costs and inefficiency.
- Lower profitability as 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 40.11 - Bath & Body Works Inc.

- (a) Operating leverage refers to an organization's fixed costs as a proportion of its variable costs. So, a business with high operating leverage has a large percentage of its costs as fixed costs, such as rent and salaries.

Award 1 mark for a limited understanding of operating leverage.

Award 2 marks if operating leverage is clearly and accurately defined, similar to the example above.

- (b) Possible reasons why Bath & Body Works Inc. decided to sell off 55% of its stake in *Victoria's Secret* could include an explanation of:

- Victoria's Secret may no longer have been a strategic fit or priority for Bath & Body Works Inc. as the company (re) focused on its core business of selling bath and body products. Essentially, it may have become more profitable for Bath & Body Works Inc. to sell its stake and invest the proceeds in its own business.
- The COVID-19 pandemic severely harmed the retail industry. The pandemic accelerated the shift towards online shopping and disrupted the operations of traditional brick-and-mortar retail businesses. Bath & Body Works Inc. may have already realized that it was time to divest from a struggling retail business, especially in a rapidly changing market.
- The closures of numerous retail locations, including 250 of Victoria's Secret stores, indicated the significant impact on the profits for Bath & Body Works Inc. as the company saved \$400 million and therefore improved its profit margins.

Award 1 – 2 marks for an answer that shows limited understanding of why Bath & Body Works Inc. may have decided to sell off Victoria's Secret.

Award 3 – 4 marks for an answer that shows a good understanding of why Bath & Body Works Inc. may have decided to sell off Victoria's Secret. There is good use of the information in the case study.

### Question 40.12 - Nicola D'ambrosio Manufacturing Corp

- (a) Variable cost per unit is the cost associated with producing one unit of output of a particular good or service. It is calculated using the formula:  $\text{Total variable cost} \div \text{Level of output}$ .

Award 1 mark if the definition shows some understanding of variable cost per unit, although it lacks clarity.

Award 2 marks if variable cost per unit is clearly and accurately defined, similar to the example above.

- (b) Degree of operating leverage =  $\text{Total contribution} / \text{Profit}$

- Total contribution =  $(30 - 15) \times 250,000 = 3,750,000$
- Profit =  $3,750,000 - 750,000 = 3,000,000$
- Operating leverage =  $3,750,000 / 3,000,000 = 1.25$  (or 125%)

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

- (c) What this figure means is that a 10% increase in sales revenue would equal 12.5% increase in the firm's profit ( $10\% \times 1.25 = 12.5\%$ ).

Award 1 mark for an answer that shows limited understanding of the demands of the question.

Award 2 marks for an answer that shows good understanding of the demands of the question, similar to the example above.

### Question 40.13 – To make or to buy? That is the question

- (a) 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.

- (b) 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.

(c) 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.

### **Question 40.14 – A. Friend Inc.**

- (a) A make-or-buy decision (also called the outsourcing decision) is a quantitative management tool used to judge whether a firm should make a particular product (such as t-shirts) internally or buy it from a supplier in the market.

Award [1 mark] for a description that shows some understanding of a make-or-buy decision.

Award up to [2 marks] for a description that shows a clear and accurate understanding of a make-or-buy decision.

(b) For break-even,  $CTB = CTM$

$$\$1.5Q = \$15,000 + \$1Q$$

$$\$0.5Q = \$15,000$$

$$Q = 30,000 \text{ units}$$

Therefore, A. Friend Inc. needs to sell 30,000 t-shirts in order to break-even, but sales forecasts suggest only 25,000 t-shirts will be sold. Since the  $CTM > CTB$ , it is more financially desirable to buy the t-shirts from the supplier. It would only be cost effective to make if the firm's demand exceeds 25,000 t-shirts.

Alternatively, students might work out the CTB and CTM differently:

$$CTB \text{ 25,000 units} = \$1.5 \times 25,000 = \$37,500$$

$$CTM \text{ 25,000 units} = (\$1 \times 25,000) + \$15,000 = \$40,000$$

Hence, as  $CTB < CTM$ , it is more financially sound to opt to buy from the supplier.

Award [1 – 2 marks] for an answer that shows some understanding of the demands of the question. There may be errors in the calculation or the working out is not shown.

Award [3 – 4 marks] for an answer that shows good understanding of the demands of the question. The calculations are correct, with appropriate working out shown to demonstrate that as there is insufficient demand, the firm cannot afford to make the product itself so is better off buying it from the local supplier.

## Unit 5.7 Crisis Management (HL only)

### Question 41.1 – 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 *Walmart*.

Award 1 mark if the description shows some understanding of a crisis.

Award 2 marks if the description shows a clear and accurate understanding of a crisis.

- (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 106,318 kgs of 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 a 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 41.2 – 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 *B&L*.

Award 1 mark if the description shows some understanding of crisis planning.

Award 2 marks if the description shows a clear and accurate 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 major 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 41.3 – The COVID-19 pandemic

- (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 highly infectious diseases such as COVID-19.

Award 1 mark for a vague definition of contingency plan, which shows limited understanding.

Award 2 marks if contingency plan is clearly and accurately defined, similar to the example above.

- (b) Leadership is about inspiring others and having a vision for the future. It refers to the act of influencing, motivating and empowering other people in an organization to contribute towards the goals and success of the business.

Award 1 mark for a vague definition of leadership, which shows limited understanding.

Award 2 marks if leadership is clearly and accurately defined, similar to the example above.

- (c) Benefits to organizations such as 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 (virtual or online) lessons can continue in the event of an outbreak of pandemics such as COVID-19 (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 schools that are affected by the outbreak of pandemics or other major health scares such as COVID-19, negatively impacting teaching and learning.
  - The plans require effective communication between senior management and teachers and other 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 educational services to students via online learning technologies.

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 another global pandemic) 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 continue if there is a major crisis such as COVID-19, 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 education industry.

### Question 41.4 – Toyota

- (a) 2.4 million vehicle recalls × 40 minutes = 96m minutes, i.e. 1.6m labour hours.

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

- (b) 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.

- (c) 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.

## Unit 5.8 Research and Development (HL only)

### Question 42.1 – 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 42.2 – BMW and Rolls-Royce

- (a) A trademark is a distinctive and unique sign or symbol that is used to identify a brand, product or business and distinguishes it from other rival ones in the market. It is usually associated with a firm's logo or name and is protected by law from being used by unauthorized organizations.

Award 1 mark if the definition shows some understanding of trademark.

Award 2 marks if the definition shows a clear understanding of trademark, similar to the example above.

- (b) Intellectual property rights (IPRs) are of great importance to BMW, as evidenced by the major investment BMW made back in 1998 when the company purchased the Rolls-Royce logo and brand name. The \$65m acquisition demonstrates the value and importance BMW places on the protection of its own intellectual property. In particular, the Rolls-Royce brand gives BMW access to a market characterized by high status and prestige, for which premium prices can be charged.

Having the right to use the Rolls-Royce trademark was a major achievement for BMW, as it enabled the German multinational company to take control of Rolls-Royce Motor Cars Ltd. and its luxury automobiles. This gives BMW a competitive edge over their rivals such as Volkswagen.

By protecting its intellectual property, BMW is able to protect its corporate reputation and its financial interests (including its intangible assets such as brands, patents and trademarks). This can be advantageous to the

company in a highly competitive industry, especially if the company can build brand loyalty in order to improve its profitability.

Award 1 – 2 marks if the answer is vague and/or generalized. It might be presented as a bullet-point list with little, if any, explanation.

Award 3 – 4 marks if the examination covers at least the role or importance of intellectual property rights for BMW, although it lacks detail in areas. At the top end of the mark band, there is evidence of application.

Award 5 – 6 marks if there is a thorough examination of the role and importance of intellectual property rights for BMW. Business management terminology and application have been used effectively throughout the answer.

### Question 42.3 – 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 definition that shows some understanding of the term innovation.

Award 2 marks for a definition that shows a clear and accurate 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 for a good understanding of the demands of the question. The explanation is thorough and clearly written in the context of *Johnson & Johnson*.

(c) A two-sided argument is needed; an example of which is outlined below:

Justifications for R&D expenditure	Justifications against R&D expenditure
<ul style="list-style-type: none"> <li>• Can help to keep <i>Johnson &amp; Johnson</i> up to date / competitive</li> </ul>	<ul style="list-style-type: none"> <li>• Time, energy and resources are consumed in fruitless R&amp;D</li> </ul>
<ul style="list-style-type: none"> <li>• Improves the firm's chances of survival in the long run</li> </ul>	<ul style="list-style-type: none"> <li>• It can be difficult to predetermine R&amp;D timescales and budgets</li> </ul>
<ul style="list-style-type: none"> <li>• Positive effects on the reputation/image of the firm</li> </ul>	<ul style="list-style-type: none"> <li>• The high failure rate means there could be better use of the firm's limited funds</li> </ul>
<ul style="list-style-type: none"> <li>• R&amp;D can be a source of organizational growth and evolution</li> </ul>	
<ul style="list-style-type: none"> <li>• R&amp;D can prolong the product life cycle of certain products</li> </ul>	

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 42.4 – 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, with appropriate use of terminology and relevant examples 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.

# Unit 5.9 Management Information Systems (HL only)

## Unit 4.3.1

- (a) The IoT is a network of physical devices (such as those found in smartphones, modern motor vehicles and home appliances) with connectivity to the Internet thereby enabling these devices to collect and exchange data. Such devices are embedded with electronics, software and sensors to people to communicate directly over the Internet.

AI is an area of computer science that focuses on creating machines to do smart things in ways typically done by humans or possibly even better. Examples include self-driving cars and machine learning which enables computers to perform tasks that usually require human intelligence, such as speech recognition, text prediction, language translation, problem solving and decision-making.

Award [1 – 2 marks] for an answer that shows some understanding of the demands of the question, although the differences are not made clear.

Award [3 – 4 marks] for an answer that shows good understanding of the demands of the question, with the meanings and differences explained clearly.

- (b) The ethical implications of advanced computer technologies in organizations such as Meta could include a discussion about the following:
- The act of selling personal data of its 44 million Facebook users in the UK without obtaining explicit consent from these individuals is a breach of privacy. Organizations like Meta hold vast amounts of personal information, which must be treated with the utmost care and confidentiality. Any unauthorized use or sharing of personal data undermines individuals' rights to privacy – irrespective of the scale of data privacy laws in the country.
  - Meta's abuse of its market power to sell personal data raises questions about the ethical implications of monopolies that dominate the technology industry. It is unethical for such organizations to use their market power to exploit their customers for financial gain. This is especially true in the case of Meta, where they hold a monopoly on social media platforms, such as Facebook, making it difficult for users to switch to other platforms.
  - There may be ethical concerns about the transparency and accountability of Meta's use of AI and IoT. These technologies have the potential to mine vast amounts of personal data, which can be used for various purposes, including targeted advertising. However, it is unclear how Meta uses AI and IoT to collect and process personal data and it is not always possible, if at all, for users to opt-out of this data collection.
  - Similarly, as organizations like Meta become increasingly reliant on advanced computer technologies to make decisions, there is a risk of giving these systems too much autonomous decision-making power. This can raise ethical questions about accountability and responsibility if things go wrong.
  - As advanced computer technologies automate many tasks that were previously done by humans, this can lead to mass-scale unemployment in many business sectors. While MIS can lead to improved efficiency and productivity in the workplace, it also raises ethical concerns about job displacement and/or the need to retrain and reskill employees.
  - *Accept any other relevant argument that is discussed in the context of the case study.*
  - In conclusion, the ethical implications of advanced computer technologies in organizations like Meta are significant. The abuse of its market dominance, unauthorized use of personal data and lack of transparency and accountability raise ethical concerns about the protection of individual data rights and privacy. Hence, it is crucial for organizations to prioritize their ethical practices when developing and using advanced computer technologies.

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 ethical implications of advanced computer technologies in organizations, but without sufficient explanation.

Award 5 – 6 marks if an unbalanced (one-sided) answer is provided regarding the ethical implications of advanced computer technologies in organizations such as Meta, 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 discussion is provided regarding the ethical implications of advanced computer technologies in organizations such as Meta. 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 the ethical implications of advanced computer technologies in organizations such as Meta. There is effective use of business management terminology throughout the answer. There is clear application and evidence of critical and evaluative thinking.

## Chapter 44 SWOT Analysis

### Question 44.1 – 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 and written in the context of the case study.

## Chapter 45 Ansoff's matrix

### Question 45.1 – Growth strategies

- (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 were 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.

### Question 45.2 – Adidas

- (a) Market development is a growth strategy in Ansoff's matrix used by businesses to sell their existing products in new markets. This could be done by expanding geographically, such as the Adidas plan to double its e-commerce business, or by targeting new market segments or customer groups.

Award 1 mark for a vague definition that shows some understanding of the term market development.

Award 2 marks for a definition that shows a clear and accurate understanding of the term market development, similar to the example above.

- (b) Distribution channels are the various methods a business uses to get its products from the manufacturer to consumers (end users). These channels can include retail outlets, e-commerce, mail order, and other methods of selling and distributing the products to consumers.

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

Award *2 marks* for a definition that shows a clear and accurate understanding of the term distribution channels, similar to the example above.

- (c) Possible advantages could include an explanation of:

- Increased customer reach – Adidas's market development strategy enables the multinational company to expand its reach to new customers across the world, allowing it to strengthen its position as a global leader in the sporting goods industry.
- Cost savings – By shifting to a more e-commerce business strategy, Adidas can save money on operational costs associated with traditional retail outlets, such as rental costs for suitable commercial premises. This cost savings can be used to invest in other areas of Adidas for the continued growth of the business.
- Improved convenience – By doubling its e-commerce business, Adidas can improve the customer experience by providing more personalized services and better customer online and after-sales support. Customers can also access a wider selection of products online, giving them more choice and convenience.
- *Accept any other relevant advantage, explain in the context of the case today.*

Possible advantages could include an explanation of:

- Higher costs – Implementing market development is medium-risk growth strategy as it can require significant investments in market research, research and development, marketing, as well as financial resources for expanding into new, overseas markets. These costs can be difficult to sustain in the long run, especially when sales revenues are low due to external factors such as the prolonged COVID-19 pandemic.
- Greater uncertainties – Unfavourable political and economic conditions mean that a market development growth strategy may fail if it is implemented in a country that experiences unfavourable political and/or economic conditions. For example, if Adidas is unable to establish efficient distribution channels in an overseas country, where there is also a high degree of corruption and high taxes, the company may struggle to operate efficiently and profitably there.
- Difficulty in establishing brand loyalty – Establishing brand loyalty can be a challenge for businesses operating in new and unknown markets, especially if the company is entering an already saturated market where established rival brands dominate. This can lead to lower sales and profits due to competition from well-known brands that enjoy high degree of customer loyalty.

*Accept any other relevant disadvantage, explain in the context of the case today.*

*Mark as a 2+2*

For each point, award *1 mark* for identifying a suitable advantage or disadvantage, and a further *1 mark* for an appropriate explanation, written in the context of the case study.

## Chapter 46 STEEPLE analysis

### Question 46.1 – Internal and external constraints

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) – The Walt Disney Company'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 46.2 – Demographic changes

Examples of possible issues are shown in the grid below:

	Demographic change	Opportunities	Threats
(a)	Growing number of self-employed people	<ul style="list-style-type: none"> <li>▪ Consultation, advisory and supply chain opportunities.</li> <li>▪ Financial services providers are likely to benefit from patronage, e.g. banks and insurance firms.</li> <li>▪ Franchising opportunities as more people wish to become their own boss.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Smaller pool of potential employees / recruits, i.e. labour shortages, thus leading to higher wages having to be paid.</li> <li>▪ An increase in competition from those who have set up their own businesses.</li> </ul>
(b)	Increasing number of single-parent families	<ul style="list-style-type: none"> <li>▪ Prospects for child-care and related products.</li> <li>▪ Impact on workforce planning, e.g., labour flexibility.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Labour immobility.</li> <li>▪ Relatively low-income earners (or lower disposable incomes).</li> <li>▪ Possible reduction in size of potential labour force.</li> </ul>

(c)	Parents choosing to have fewer children and at a later stage in their lives	<ul style="list-style-type: none"> <li>▪ Career development of female workers.</li> <li>▪ More females opting for full-time employment.</li> <li>▪ Perhaps a greater labour supply in the short term.</li> <li>▪ Higher disposable incomes.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Long term impacts on related industries, e.g. schools and toy manufacturers.</li> <li>▪ Smaller workforce in the future.</li> </ul>
(d)	More people graduating with university degrees	<ul style="list-style-type: none"> <li>▪ Increased potential pool of skilled and qualified workers.</li> <li>▪ Increased productivity</li> <li>▪ Innovation and creativity can generate new commercial ideas.</li> <li>▪ Higher earners lead to greater spending in the economy.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Higher salaries as firms compete to attract the best workers.</li> <li>▪ Reduced workforce as more people enter higher education (postponed entry to the workforce).</li> <li>▪ Possibly higher staff turnover as skilled employees tend to be more mobile / headhunted.</li> </ul>

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 46.3 – Nintendo

(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 elderly or high-income earners.

Award 1 mark if the definition shows some understanding of ‘market segment’, although it lacks clarity.

Award 2 marks if ‘market segment’ is clearly and accurately defined, similar to the example above.

(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 explanation 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 46.4 - Zimbabwe's hyperinflation problems**

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

Award 1 mark if the definition shows some understanding of inflation, although it lacks some clarity.

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

- (b) Possible factors that could have caused 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 are 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 46.5 – Gijs Van Oosten Jeans**

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

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

Award 2 marks if exchange rate is clearly and accurately defined, similar to the example 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 = \$1.30	375,000	288,462	525,000	236,538
€1 = \$1.35	375,000	277,778	525,000	247,222
€1 = \$1.40	375,000	267,857	525,000	257,143
€1 = \$1.45	375,000	258,621	525,000	266,379

\* Purchase cost (\$) =  $\$25 \times 15,000 = \$300,000$

# Purchase cost (€) =  $\$300,000 \div \text{exchange rate}$

+ Sales revenue =  $\text{€}35 \times 15,000 = \text{€}525,000$

Profit = Sales revenue (€) – Purchase costs (€)

- (c) There is a positive relationship between the exchange rate and the level of profits for *JKL Jeans*. This means that 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 46.6 - 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 definition shows some understanding of 'product recall', although it lacks some clarity.

Award 2 marks if 'product recall' is clearly and accurately defined, similar to the example 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 definition shows some understanding of 'brand', although it lacks some clarity.

Award 2 marks if the term 'brand' is clearly and accurately defined, similar to the example 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 46.7 – Walmart

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

Award 1 mark for a definition that shows partial understanding of 'discrimination'.

Award 2 marks if 'discrimination' is clearly and accurately defined, similar to the above.

- (b) **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 definition that shows partial understanding of 'national minimum wage'.

Award 2 marks if 'national minimum wage' is clearly and accurately defined, similar to the example above.

- (c) 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 mean 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, synthesis and evaluation are limited.

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.

## Chapter 47 BCG matrix

### Question 47.1 – Mattel

- (a) Product portfolio refers to the collection of the different products 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 definition that shows some understanding of the term product portfolio.

Award 2 marks for a definition that shows a clear and accurate 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 appeals 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 47.2 – CK Hutchison Holdings

- (a) A conglomerate is a large, diversified company that operates in several different industries, often on a global scale. It is typically composed of different strategic businesses which are independently operated but all owned by a common parent company.

Award 1 mark for a vague definition that shows some understanding of the term conglomerate.

Award 2 marks for a definition that shows a clear and accurate understanding of the term conglomerate, similar to the example above.

- (b) CK Hutchison Holdings can be described as a diversified company as it has four core strategic business units (SBUs) that are spread across different industries as well as having operations in over 50 countries. It has a diverse portfolio of investments and services from retail to energy infrastructure.

Award 1 mark for an answer that shows limited understanding of the demands of the question.

Award 2 marks for an answer that shows a clear and accurate understanding of the demands of the question, similar to the example above.

- (c) CK Hutchison Holdings needs a different marketing mix for each of its distinct products and services as each one is aimed at a different target market and each product or service is also likely to be in a different stage of the product life cycle. For example, CK Hutchison Holdings' waste management division will be marketed at businesses and governments whereas its supermarkets and consumer electronics divisions will target consumers and the general public.

The marketing mix would therefore have to be executed in contrasting ways, such as using targeting marketing for waste management and above the line promotion for its retail divisions. This type of promotion would be very different from the promotion of CK Hutchison's Infrastructure Division.

There are several justifications for using such a varied approach:

- CK Hutchison Holdings 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 a container terminal operator would be entirely different to that for a mobile broadband services operator.
- The products within the portfolio may share nothing in common except the parent company name of the conglomerate, so a homogeneous marketing mix is unlikely to succeed in marketing the multinational company's huge range of products.
- Pricing methods will vary for the different categories of products within the Boston Consulting Group 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 CK Hutchison Holdings' product portfolio may be vastly different, e.g. mobile phone accessories and beauty products could be sold in its supermarkets, but it is not possible to distribute energy infrastructure and transportation infrastructure in such a way.
- A different marketing mix is used for each of their products in order to differentiate them from each other. CK Hutchison Holdings needs to ensure that each product or strategic business unit 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 vast product portfolio.
- It is with the differences in these marketing mixes that can highlight and optimize the special qualities of each product or division of CK Hutchison Holdings' portfolio, thereby helping the company to maximize potential sales and profits.

Award 1 – 2 marks if the answer shows limited understanding of the demands of the question. The response is is vague, generalized 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 CK Hutchison Holdings.

Award 5 – 6 marks if there is an examination of the (main) 4 Ps in the marketing mix and the reasons why CK Hutchison Holdings needs a different marketing mix for each of its distinct products or divisions. The answer is written in the context of the case study with appropriate application and relevant use of business management terminology.

## Chapter 48 Business plan

### Question 48.1 DS Bakery

- (a) A business plan is a formal and structured document that details an organization's objectives and strategy. As a live document, it serves as a roadmap for the firm's future direction, helping to identify its priorities.

Award 1 mark for a limited definition that shows some understanding.

Award 2 marks for a clear and accurate definition, similar to the example above.

- (b) A business plan will typically include any combination of the following elements:
- An outline of the owners and their backgrounds and business experiences.
  - An overview of the business idea and its product portfolio.
  - A situational analysis of market conditions and the positioning of the business, along with its products, within the market.
  - An outline of how the business and/or its products are to be promoted.
  - An estimate of the sales of the business (sales forecasting).
  - A financial section which is likely to include a cash-flow forecast, a profit forecast and a statement of what the business owns and owes.
  - Details of the human resource requirements of the business.
  - *Accept any other suitable component or element of a typical business plan.*

Mark as a 1 + 1.

Award 1 mark for each suitable element that may appear in a typical business plan, up to the maximum of 2 marks.

(c) Possible interrelated reasons could include:

- A business plan is often produced by entrepreneurs when setting up a business, such as Denis Sagide, to try and anticipate likely and potential problems and opportunities and to put in place appropriate actions to tackle these.
- As a business management planning tool, it helps owners and decision makers such as Denis Sagide to think logically, objectively and holistically about the issues which are likely to impact on the firm’s activities. For example, he “feels confident about being able to recruit suitable people” but needs to provide evidence of this in the business plan, such as any market research he has conducted.
- It sets the strategic direction for the organization and its key internal stakeholder groups, such as the employees Denis Sagide intends to hire for the bakery.
- Business plans are often used in an attempt to secure external sources of finance from commercial banks and other lenders, as well as potential investors. Denis Sagide still needs to secure external finance to help him start *DS Bakery*.
- *Accept any other reason why a business might choose to use business plans that is clearly explained.*

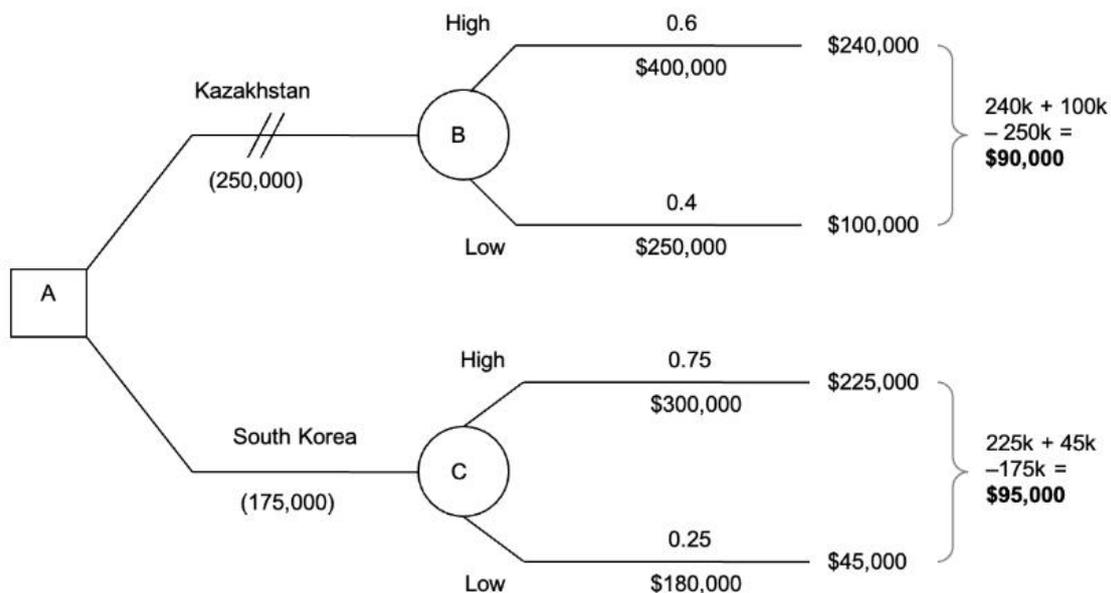
For each reason, award 1 mark for stating a relevant reason and award up to a further 2 marks for the explanation of why *DS Bakery* might benefit from the use of a business plan.

For an answer with clear and/or relevant application, award up to 4 marks.

## Chapter 49 Decision Trees

### Question 49.1 – Drisner Traders Ltd.

(a)



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 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.
- Provides 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, ignoring qualitative factors that can influence decision making, so could 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 for a vague and generalized response. The answer 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.*

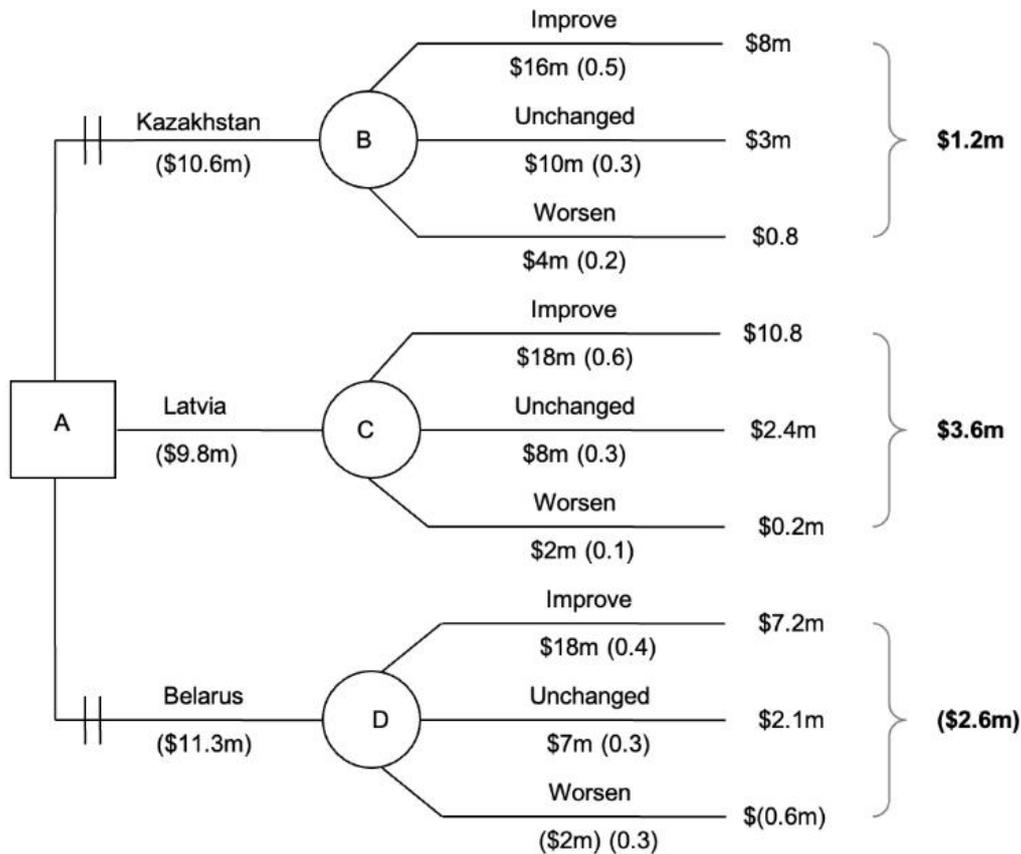
### Question 49.2 – Evgenii Gvozdev Beverages

(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 *Evgenii Gvozdev Beverages (EGB)*:

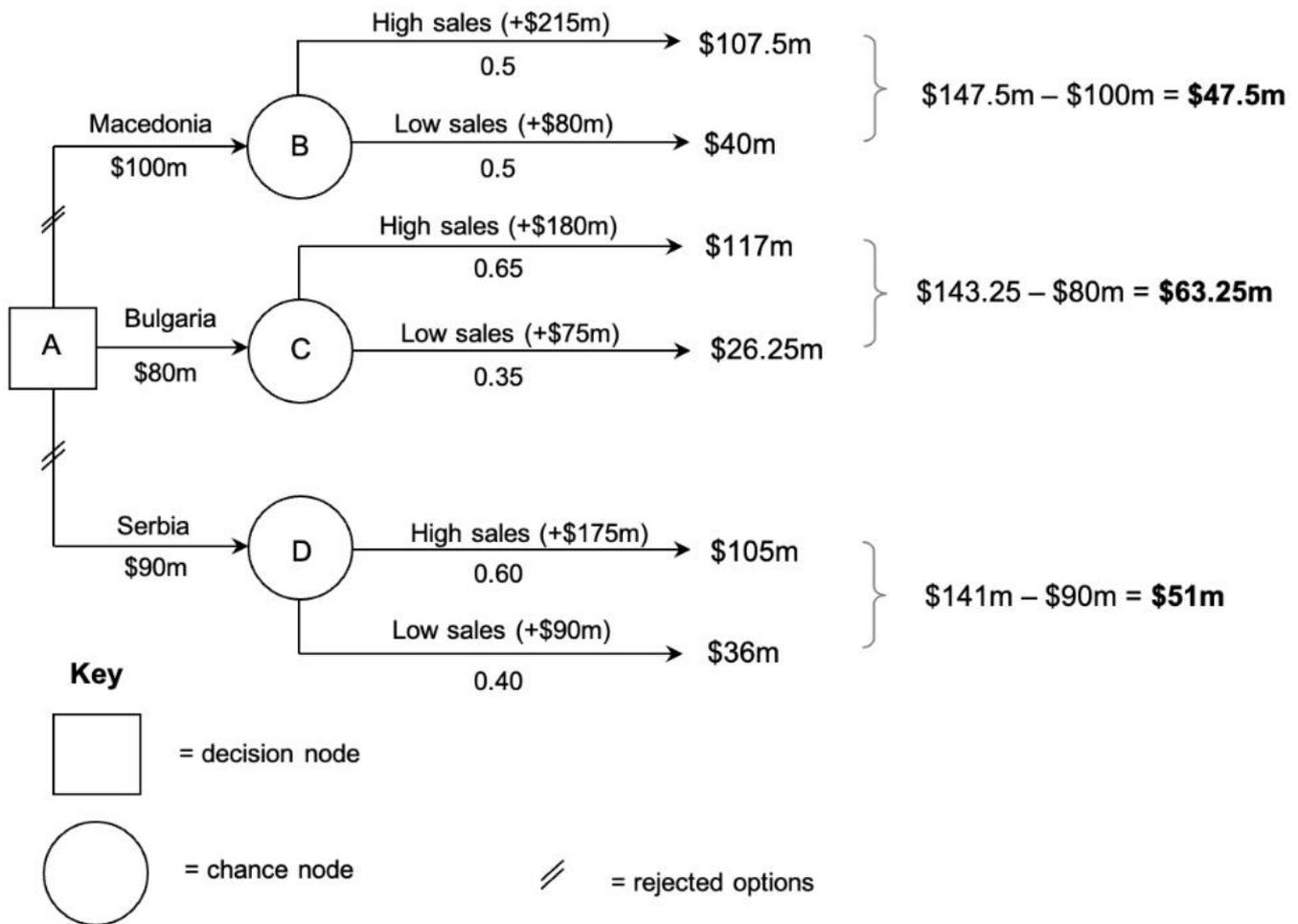


Award 1 – 2 marks for using a decision tree framework which shows some attempt at calculating the expected values, but the answer is incomplete and/or inaccurate.

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. Latvia.

Question 49.3 – Mitrovska Educational Resources (MER)



Award 1 to 2 marks if there is some evidence of a general knowledge of decision trees, but it is not accurately constructed. The calculations of each option are not all presented or are inaccurate.

Award 3 to 4 marks if the main elements of the decision tree are constructed but may not be entirely accurate or the working may not be shown. For [4 marks], the calculations for each option are largely correct and presented clearly.

Award 5 to 6 marks if the decision tree is accurately constructed. The calculations of each option are correct and well presented, with appropriate working out shown. For [6 marks], an appropriate key is provided.

## Chapter 50 Descriptive statistics

### Question 50.1

$$\text{Mean} = (4.16 + 4.42 + 4.64 + 4.91 + 5.27 + 5.28 + 5.11 + 5.11 + 4.93 + 4.35) / 10 \text{ years}$$

$$\text{Mean} = 48.18 / 10 = \text{£}4.818 \text{ billion}$$

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

### Question 50.2 – Esswood Campers

- (a) (i) Mean = \$3,300
- (ii) Median = \$3,000
- (iii) 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 up to a further 2 marks for a clear and accurate commentary.

(c) Possible reasons could include an explanation of:

- Descriptive statistics can be used to help Nicola Esswood understand the sales trends for her camping site, especially given the large range in sales revenue during the year. The mean, median and modal show that sales average around about \$3,000 or more per year.
- By calculating the mean, median, mode and range of the sales data, she can get a better idea of how her sales are likely to fluctuate throughout the year. Therefore, this helps *Esswood Campers* to plan its operations more efficiently.
- Descriptive statistics can help Nicola Esswood visualize her sales data by presenting this in the form of a bar chart or line graph. This can help her quickly spot any patterns or trends in her sales that she might have missed just by looking at the numbers.
- She can also use descriptive statistics to identify outliers or unexpected values in the data and to compare her sales across different months (such as the peak in sales in December). By identifying such seasonal trends in her sales, she can plan more effectively for the future, such as staffing needs during peak trading seasons.
- *Accept any other appropriate reason that is explained in the context of the case study.*

Award 1 – 2 marks for an answer that shows limited understanding of the demands of the question. Application is likely to be weak or missing.

Award 3 – 4 marks for an answer that shows good understanding of the demands of the question. There is appropriate use of the stimulus material and Business Management terminology throughout the answer.

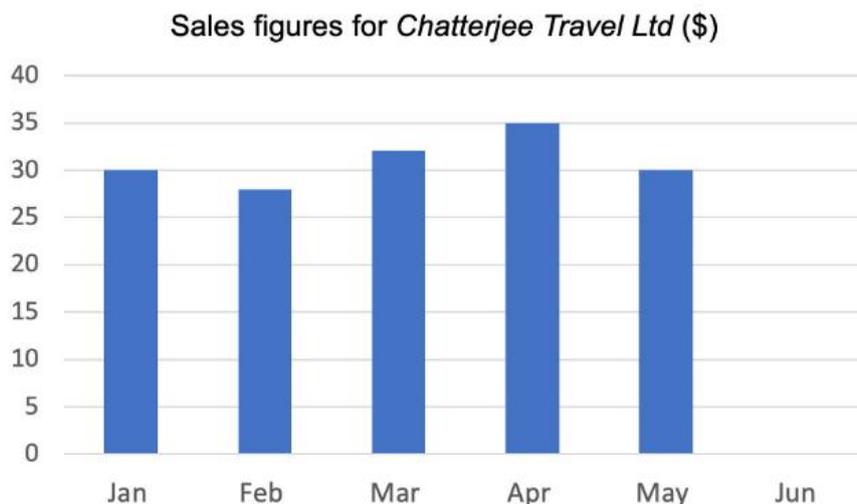
### Question 50.3 – Chatterjee Travel Ltd.

(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) Actual sales figures and the moving averages for *Chatterjee Travel Ltd.*



For full marks, the data must be plotted accurately, the axes should also be correctly labelled and there must be an appropriate title, up to the maximum of 3 marks.

*Note:* The monthly sales figures should be plotted as a bar chart, although credit those who plot the data accurately as a line chart.

(c) Possible points that could be explained include:

- 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. The zero sales in June, due to the end of the football season, also puts a huge statistical bias on managers to establish any trends in the sales data.
- 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 relatively 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. The significant decrease in sales could lead to a fall in profits. Sales forecasting, for example, can help the firm to improve its financial management.
- There are also likely to be some staffing issues during the off-peak football season. Hence, *Chatterjee Travel Ltd.* may need to reduce its staff or staff hours.

Award 1 – 2 marks for an answer that shows limited understanding of the demands of the question, with minimal explanation or application.

Award 3 – 4 marks for an answer that shows good understanding of the demands of the question, with appropriate use of terminology and application.

## Question 50.4

(a) Median = \$428

Award 1 mark for the correct answer (428 being the number in the middle of the data set when ranked in numerical order). There is no need for showing any working out.

(b) Mean = Total sales / working days = \$10,803 / 25 = **\$432.12**

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

(c) Quartiles = Q1 = 417 and Q3 = 450.

- When ranked in numerical order, 417 is mid-way between the minimum value (379) and the median (428).
- Likewise, 450 is mid-way between the maximum value (482) and the median (428).

Award 1 mark for each correct answer, up to the maximum of [2 marks] plus an additional 1 mark for showing appropriate working out.

## Question 50.5

(a) Mean = 231 cars sold during the year / 12 months = 19.25 cars per month

Award 1 mark for the correct working out and 1 mark for the correct answer.

(b) Standard deviation = 3.0311

Accept answers that show SD = 3.03

Sales (cars)	Mean	Variation	Variation squared
19	19.25	-0.25	0.0625
26	19.25	6.75	45.5625
20	19.25	0.75	0.5625
20	19.25	0.75	0.5625
15	19.25	-4.25	18.0625
18	19.25	-1.25	1.5625
20	19.25	0.75	0.5625
17	19.25	-2.25	5.0625
21	19.25	1.75	3.0625
22	19.25	2.75	7.5625
19	19.25	-0.25	0.0625
14	19.25	-5.25	27.5625
		Av $\sigma$	9.1875
231		Total	110.2500
19.25	Mean		
		Av $\sigma$	9.1875
		SD	3.0311

Award 1 mark for the correct answer and up to 2 marks for clearly showing accurate working out.

Apply the own figure rule (OFR) as appropriate).

## Chapter 51 Circular business models

### Question 51.1 – McDonald's

(a) A circular business model is an approach to business activity that aims to reduce waste and optimize the use of scarce resources by creating a closed-loop system in which materials are reused and repurposed. CBMs involve businesses designing products that can be reused, recycled or composted in environmentally friendly ways.

Award 1 mark for some understanding of circular business model.

Award 2 marks if niche market is accurately outlined, with clear application of the stimulus material in the case study.

(b) Possible reasons could include an explanation of the following points:

- *To reduce the company's environmental impact* – By moving away from a circular business model, McDonald's can reduce the environmental impact of their business operations. This is evident with its decision to phase out CFCs and plastic straws, as well as the company's opening of its first net-zero carbon restaurant.
- *To improve its corporate reputation* – By transitioning to a CBM and taking an active role in promoting sustainable business practices, McDonald's can improve its corporate reputation amongst customers, employees and other key stakeholder groups.

- *To reduce costs* – Transitioning to a circular business model can help McDonald's to reduce costs associated with waste management and disposal, as well as reducing the reliance on single use materials and resource consumption. This can help the company to reduce its production costs in the long run.
- *To gain competitive advantages* – By demonstrating its commitment to sustainability and innovation, McDonald's can gain competitive advantages in the global fast-food industry by differentiating itself from competitors that do not take such actions and measures to protect the planet (such as preserving rather than depleting non-renewable resources).

Mark as a 2 + 2

For each reason, award 1 mark for a valid purpose and 1 mark for a clear explanation, written in the context of the case study.

## Question 51.2 – Second Chance Bangkok

- (a) A social enterprise is a type of business entity that focuses on people before profits and seeks to create positive social and environmental impacts, often through the use of circular business models. It combines the core principles of corporate for-profit business with social change initiatives to generate greater social and economic value.

Award 1 mark for a definition that shows some understanding of social enterprise.

Award 2 marks for a clear and accurate definition that shows good understanding of social enterprise, similar to the example above.

- (b) The traditional linear business model focuses on transforming raw materials into products that are used until they are eventually discarded as waste. This model is focused on making a profit and creating a successful business and is often characterized by a 'take-make-dispose' approach. Value comes only from producing and selling as many products as possible to consumers.

By contrast, circular business models are designed to convert waste that businesses and consumers produce into valuable resources that can be used again by reintroducing waste into the production cycle rather than disposing of manufactured products at the end of their useful life cycle. The overarching purpose of using CBMs is to allow all types of businesses to reduce, reuse and recycle waste.

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

Award 3 – 4 marks for an answer that shows good understanding of the demands of the question. There is appropriate use of Business Management terminology throughout the answer.

- (c) Possible benefits could include an explanation of the following:

- *Improved corporate reputation* – By using a circular business model and taking an active role to improve the lives of local people in one of the poorest parts of Bangkok, Second Chance Bangkok can improve its reputation amongst customers, employees, the local community and other stakeholder groups.
- *Cost savings* – The circular business model used by Second Chance Bangkok allows the organization to save money by reusing and upcycling existing products, rather than having to buy more-expensive new materials. These cost savings can be used to fund other social projects or to increase its profitability.
- *Increased market presence* – By using a circular business model, Second Chance Bangkok can increase its visibility or presence in the market by creating unique and creative products. This can help the social enterprise to attract more customers and generate more sales revenue.
- *Improved sustainability* – Using a circular business model helps Second Chance Bangkok to reduce waste and improve sustainability by reusing and upcycling products. This helps to increase its overall impact on the local community and reduces waste disposal and environmental degradation in Bangkok.
- Accept any other benefit that is explained in the context of the case study.

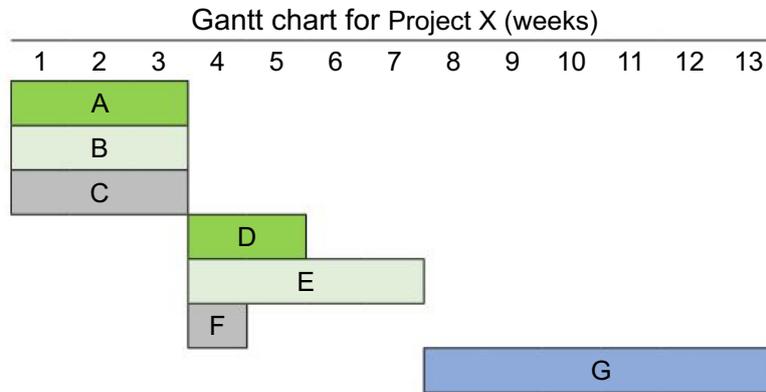
Mark as a 2+2

For each point, award 1 mark for identifying a suitable benefit and a further 1 mark for an appropriate explanation, written in the context of the case study.

## Chapter 52 Gantt charts (HL only)

### Question 52.1 – Project X

Gantt chart for Project X:



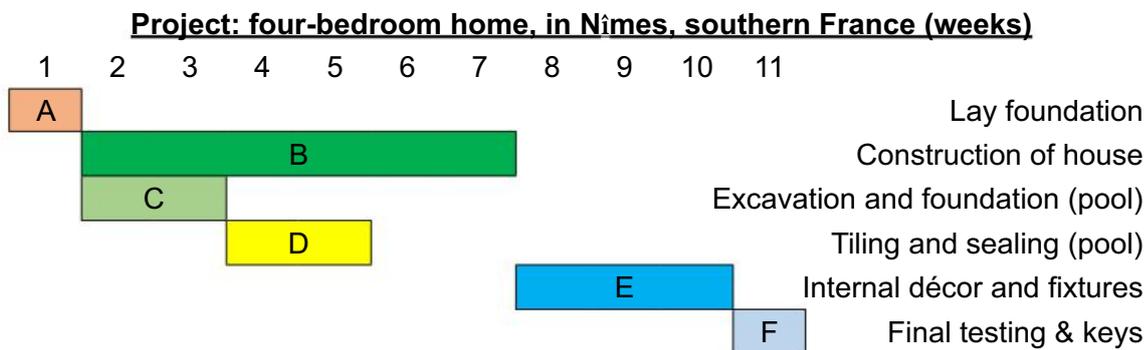
Award 1 – 2 marks for constructing a Gantt chart that shows some understanding, but the answer is incomplete and/or inaccurate.

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 52.2 – Kekerovic Construction

(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 the 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.

## Chapter 53 Porter's generic strategy (HL only)

### Question 53.1 - Which generic strategy?

- (a) Generic strategies is a business management decision-making tool that outlines the ways that any business can use to gain a competitive advantage. These strategies involve the use of either a narrow or broad market scope and the approach of the business in terms of cost leadership, differentiation or focus.

Award 1 mark for some understanding of generic strategies.

Award 2 marks if generic strategies is accurately outlined, with clear application of the stimulus material in the case study.

- (b)
- Harrods is using a *differentiation strategy*. This is because Harrods focuses on providing a distinct luxury shopping experience for their customers (the rich and famous, plus those willing to pay premium prices), as it offers exclusive and high-end products that are not available elsewhere. This strategy enables Harrods to charge premium prices for its goods and services and to attract a specific customer base that is willing to pay for this level of luxury.
  - KFC is using a *cost leadership strategy*. This is because KFC focuses on providing low-cost fast-food products to a wide range of customers in global markets. This strategy enables KFC to keep its prices low, allowing the company to capture a larger share of the fast-food market and to remain competitive in the global arena. As KFC also has a globally recognised brand, its marketing strategy focuses on ensuring customer loyalty so it can remain a market leader in the fast-food industry.

For each question, award 1 – 2 marks for an answer that shows limited understanding of the demands of the question.

Award 3 – 4 marks for an answer that shows good understanding of the demands of the question. The correct generic strategy has been identified and clearly explained. There is appropriate use of Business Management terminology throughout the answer.

- (c) Possible points for discussion of how Porter's generic strategies can be applied to global MNCs could include the following:
- Porter's generic strategies is a useful analytical tool for understanding the competitive dynamics of various industries. In particular, they can be applied to global multinational companies (MNCs) to inform strategic business decision making.
  - Many MNCs use a cost leadership strategy, such as low budget airlines and discount supermarket chains. They concentrate on finding ways to reduce costs and increase efficiency in order to produce a good or service at a lower cost than their competitors. In terms of cost leadership, MNCs can take advantage of their global operations to reduce unit costs in a number of ways, e.g. moving production to countries with lower labour costs, source raw material and component inputs from countries with lower costs and use global supply chains to reduce transportation and distribution costs.
  - Other MNCs, such as Apple, Rolls Royce and Omega, concentrate on a differentiation strategy by developing a unique good or service that stands out positively from the competition. In terms of differentiation, MNCs can leverage their global reach to develop an international brand name that is associated with high quality, sophistication and trustworthiness. They can also use their global network to source unique or high-quality inputs, such as rare metals, that can be used to develop a distinctive product offering.
  - Porter's generic strategies can be applied to global MNCs in order to inform strategic decisions. For example, Apple Inc. is a global MNC that uses cost leadership and differentiation to stay ahead of the competition. Apple has leveraged its global reach to reduce the costs of production and transportation, as well as source rare and exotic inputs for its products. It also uses its international brand name to differentiate itself from competitors with its perceived quality and trustworthiness.

However, some of the limitations of applying Porter's generic strategies to global MNCs could include the following interrelated arguments:

- Porter's generic strategies may be too simplistic to consider the complexities of today's business environment, with many MNCs operating in varied markets. In reality, the same strategy may not be suitable for businesses operating in different industries or different parts of the world where cultures differ. Hence, a more holistic approach to business strategy is often necessary to ensure success, rather than a single approach as suggested in Porter's model.
- The model is rigid and not flexible enough for many MNCs that may need to consider a range of factors that impact their operations, such as diverse customer preferences and global competition. This means that MNCs may be unable to take advantage of opportunities that do not fit neatly into one of the generic strategies in the model.
- Porter's generic strategies focus on the internal capabilities and resources of a MNC, rather than external environmental factors that impact their operations. They may need to be able to anticipate changes in the environment and adjust their corporate strategies accordingly – there are plenty of real-world examples of this during the COVID-19 era. This requires a more adaptive/flexible approach to business strategy that considers a variety of changing factors.
- Porter's generic strategies are not necessarily applicable to all multinational companies. Some MNCs may have unique objectives, resources and capabilities that require a more tailored corporate strategy rather than a generic strategy.
- Overall, Porter's generic strategies can be applied to global MNCs in order to inform strategic decisions. MNCs can use cost leadership to reduce costs and increase efficiency or differentiation to create a unique product or service offering. Any of these strategies can be used to gain a competitive edge over rivals MNCs in the global marketplace. However, the model is somewhat simplistic and does not always work for MNCs, especially those operating in highly diverse markets with contrasting and continually changing consumer needs and preferences.
- *Accept any other relevant argument, that is appropriately discussed in context.*

Award 1 – 2 marks for a vague and generalized response. The answer 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 Porter's generic strategies are examined.

Award 7 – 8 marks if both the advantages and disadvantages of Porter's generic strategies are considered. Appropriate examples are used in context.

Award 9 – 10 marks if both the advantages and disadvantages of Porter's generic strategies are considered, with clear application and evidence of evaluation of the usefulness of the tool for MNCs.

## Chapter 54 Hofstede's cultural dimensions (HL only)

### Question 54.1 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 business project by forming a separate legal enterprise.

Award 1 mark for a vague answer that shows some understanding of the term joint venture.

Award 2 marks for a definition that shows a clear and accurate understanding of the term joint venture, similar to the example above.

(b) It is important to understand cultures for the success of 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 for an answer that shows some understanding of the demands of the question. The answer is generalized or lacks substance.

Award 3 – 4 marks if there is an accurate and thorough explanation of the importance of understanding cultures for the success of cross-border joint ventures. Appropriate business management terminology is used, with relevant application throughout the response.

(c) Possible limitations could include an explanation of the following points:

- The model ignores the fact that sub-cultures may (and do) exist in organizations, especially large multinational companies such as Wahaha and Danone. Misconceptions or stereotypes (confirmation biases) about French and Chinese cultures can cause barriers to effective communications between Wahaha and Danone.
- The model oversimplifies aspects of national cultures, which can be complex and diverse in today’s modern and globalized world. Cultural nuances can exist within a country or even within large multinational companies. In the case of Wahaha and Danone, Hofstede’s cultural dimensions do not fully explain the organizational cultural differences between the two multinational companies that led to the disputes.
- The model is regarded by some analysts to be outdated. Hofstede’s model of cultural dimensions was developed in the 1970s, so it may not fully reflect the changes in cultural values and attitudes that have occurred within the past 50 or so years. For example, China’s cultural values have changed significantly since the 1970s, as the country has opened up to the world and experienced rapid economic growth. These changes can impact the way that Chinese companies approach international business relationships. This makes it difficult to apply Hofstede’s cultural dimensions in a meaningful way.
- There are other factors beyond Hofstede’s cultural dimensions that influence business etiquette. For example, the foundation of Chinese business etiquette is trust and there are auspicious factors that influence business behaviour – both factors are not covered in Hofstede’s model.
- *Accept any other limitation, explained in the context of the case study.*

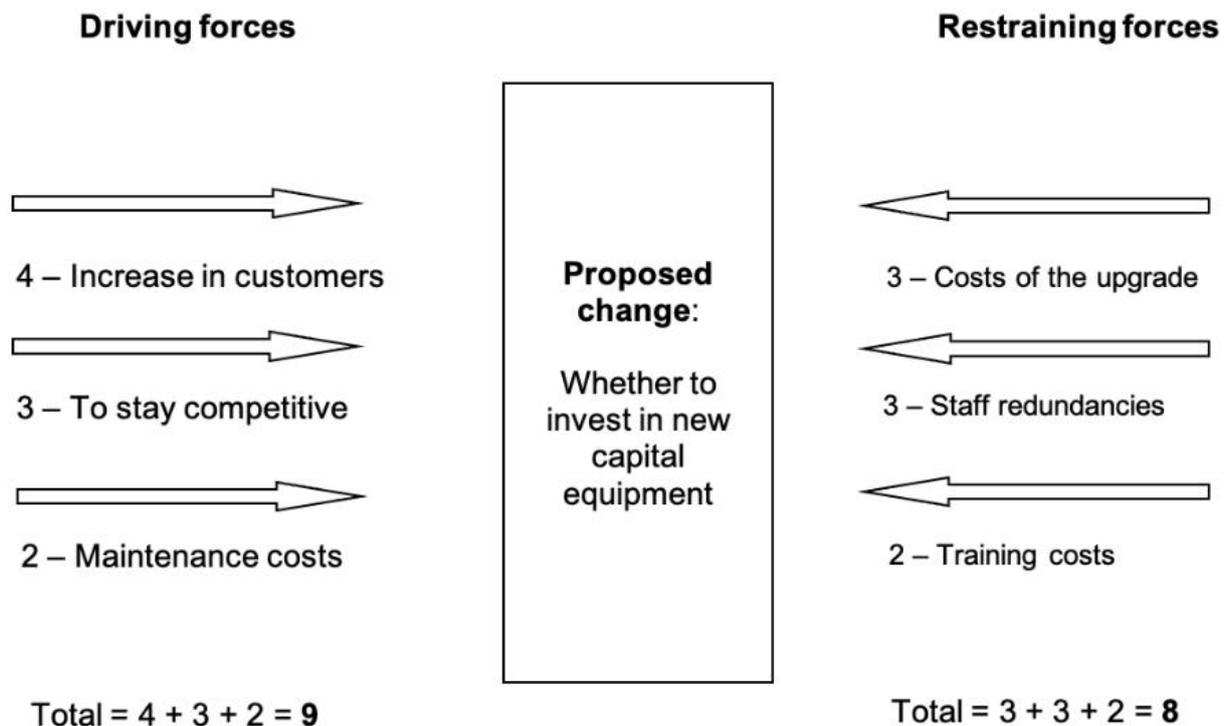
Mark as a 2+2

For each limitation, award 1 mark for identifying a suitable reason and a further 1 mark for an accurate and appropriate explanation, written in the context of the case study.

## Chapter 55 Force field analysis (HL only)

### Question 55.1 – Tyagi Enterprise

(a)



Award 1 – 2 marks for an answer that shows some understanding of the demands of the question. The diagram contains two or more errors and/or omissions.

Award 3 – 4 marks for an answer that shows good understanding of the demands of the question. The diagram is constructed accurately, using all elements included. For 3 marks, allow one error or omission.

- (b) The force field analysis suggests that *TE should* proceed with the proposal to invest in new capital equipment in order to increase its output. This is because the sum of the driving forces (9) is greater than the sum of the restraining forces (8).

Award [1 mark] for a response that shows limited understanding.

Award [2 marks] for a concise and accurate answer, similar to the example above.

## Chapter 56 Critical paths analysis (HL only)

### Question 56.1 – Calculating the EST and LFT

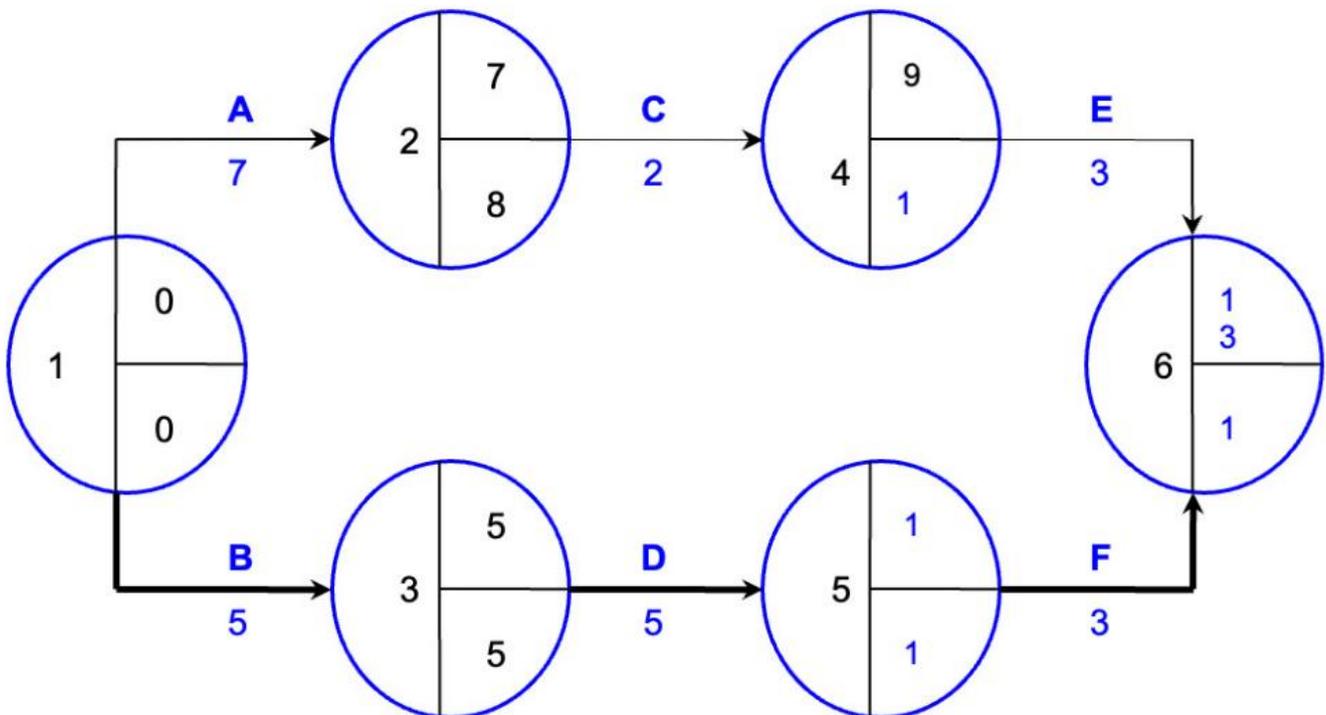
- (a) The earliest start time (EST) is the earliest point in time that a particular activity in a project can begin, i.e. it is the earliest point in the project timeline when the task can be started. The EST is based on when the previous activity in the project can be finished in the quickest time.

In contrast, the latest finish time (LFT) is the latest point in time that a particular activity in a project must be completed by, i.e. it is the latest point in the project timeline when the task must be finished so as not to delay the start of the next activity or the overall project. The EST of each activity will depend on the LFT of all preceding activities.

Award 1 – 2 marks for understanding the demands of the question. There is no clear distinction between the two terms made.

Award 3 marks for a clear understanding of the Demands of the question, which shows a distinction between the EST and LFT.

- (b) See diagram below:



Deduct 1 mark for each error and apply the own figure rule (OFR) as appropriate.

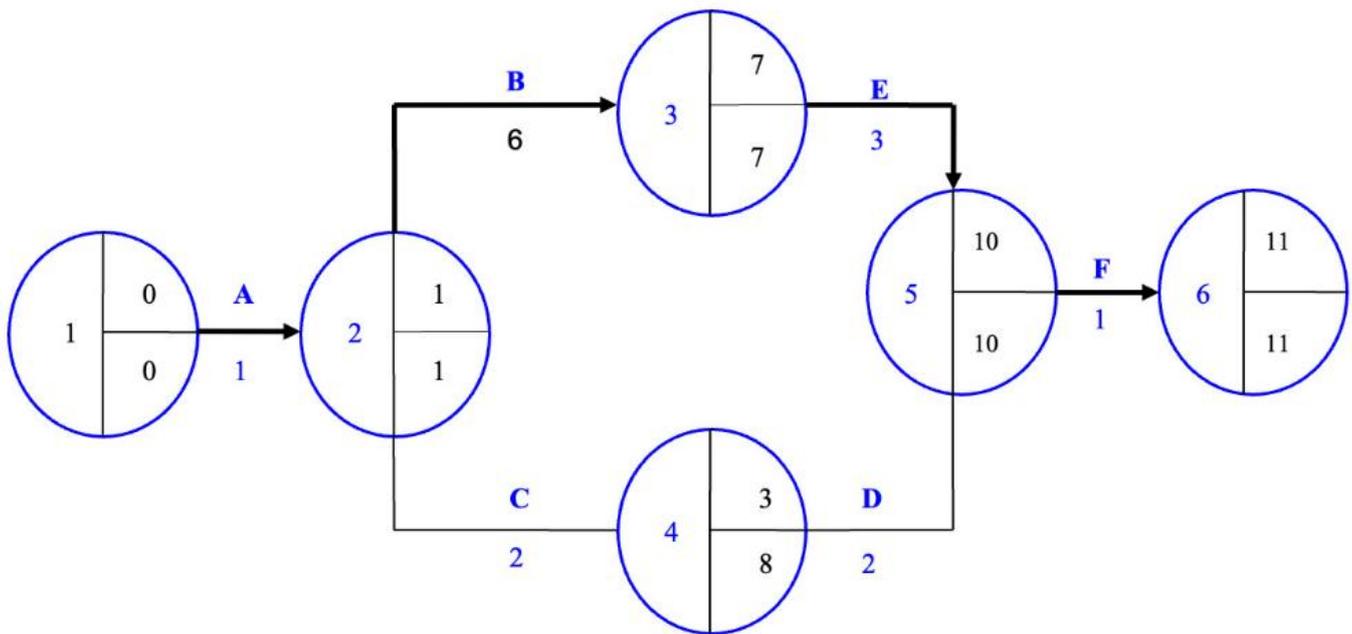
- (c) Critical Path = B, D, F

Award 1 mark for identifying the correct critical path.

Apply the own figure rule (OFR) as appropriate.

Question 56.2 – Sztomberski Contractors

(a)



Critical Path: A, B, E and F. Project completed in 11 weeks.

Deduct 1 mark for each error made, applying the Own Figure Rule (OFR) where appropriate.

Maximum marks can only be awarded if the candidate explicitly indicates the critical path (either on the diagram or written out).

(b) Reasons why network analysis can be important for businesses such as St. John Contractors include:

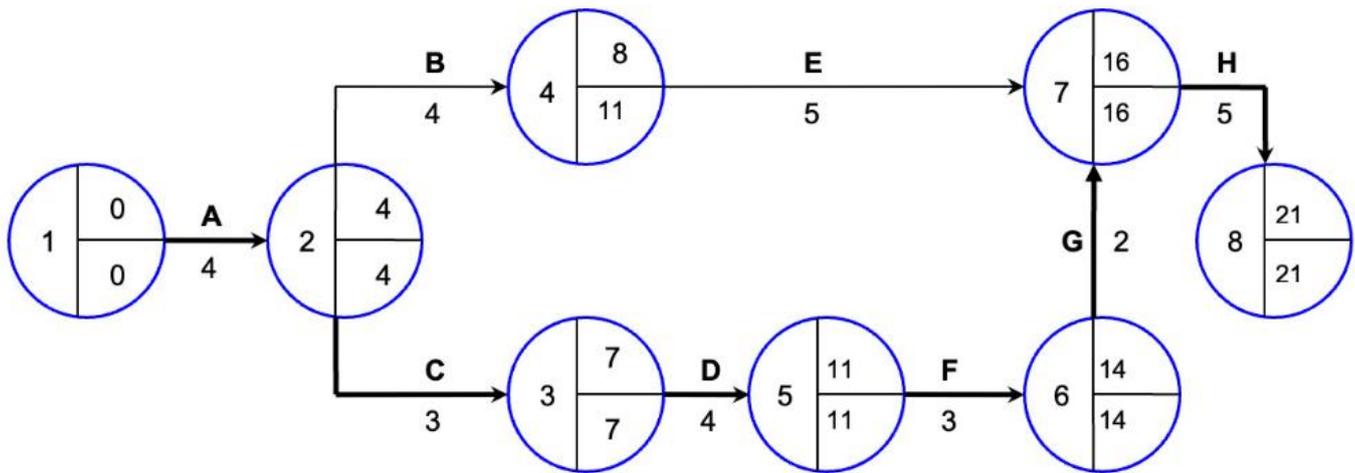
- It encourages forward planning at SJC, i.e. managers need to consider the different aspects of the construction project in order to complete it in minimal time.
- Since CPA provides a visual stimulus, it is easier for people to interpret the logistics of the plan in order for the construction project 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.
- CPA can help SJC to control costs more effectively by identifying when certain activities can start and how long certain tasks should last.

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

Award 3 – 4 marks if the explanation is thorough and good examples are used in the context of the case study.

**Question 56.3 – David Plumb Decorators Ltd.**

=(a) The quickest time that the project can be completed in is 21 days.



Deduct 1 mark for each error but apply the Own Figure Rule (OFR) where appropriate.

(b) Critical Path = A, C, D, F, G and H.

Award 1 mark for identifying the correct critical path.

Apply the own figure rule (OFR) as appropriate.

(c) The critical path refers to the minimum time needed to complete the entirety of a project. This is shown in a network diagram by identifying activities that cannot be delayed (critical activities). Any hold-ups to the tasks on the critical path will delay completion of the project.

Award 1 mark for a definition that shows some understanding.

Award 2 marks for for a definition that shows good understanding similar to the example above.

(d) The *free float* refers to the amount of time that any single activity can be delayed without affecting the EST of the *next* activity in the project, i.e. it represents the maximum spare time for an activity.

The *total float* refers to the amount of spare time available without causing a delay to the *overall* project. Hence, activities on the critical path do not have any total float time.

Award 1 – 2 marks for understanding of the demands of the question. There is no clear distinction between the two terms made.

Award 3 marks for a clear understanding of the demands of the question, which shows a distinction between the free float and total float.

(e) The free float and total float for David Plumb Decorators Ltd. is shown below:

Task	Duration (days)	EST	LFT	Free float	Total float
A	4	0	4	0	0
B	4	4	11	0	3
C	3	4	7	0	0
D	4	7	11	0	0
E	5	8	16	3	3
F	3	11	14	0	0
G	2	14	16	0	0
H	5	16	21	0	0

Award 1 – 2 marks if the free float **or** total float are correctly calculated only.

Award 3 – 4 marks if the free float **and** total float are correctly calculated. At the lower end, allow one numerical miscalculation.

Apply the own figure rule (OFR) as appropriate.

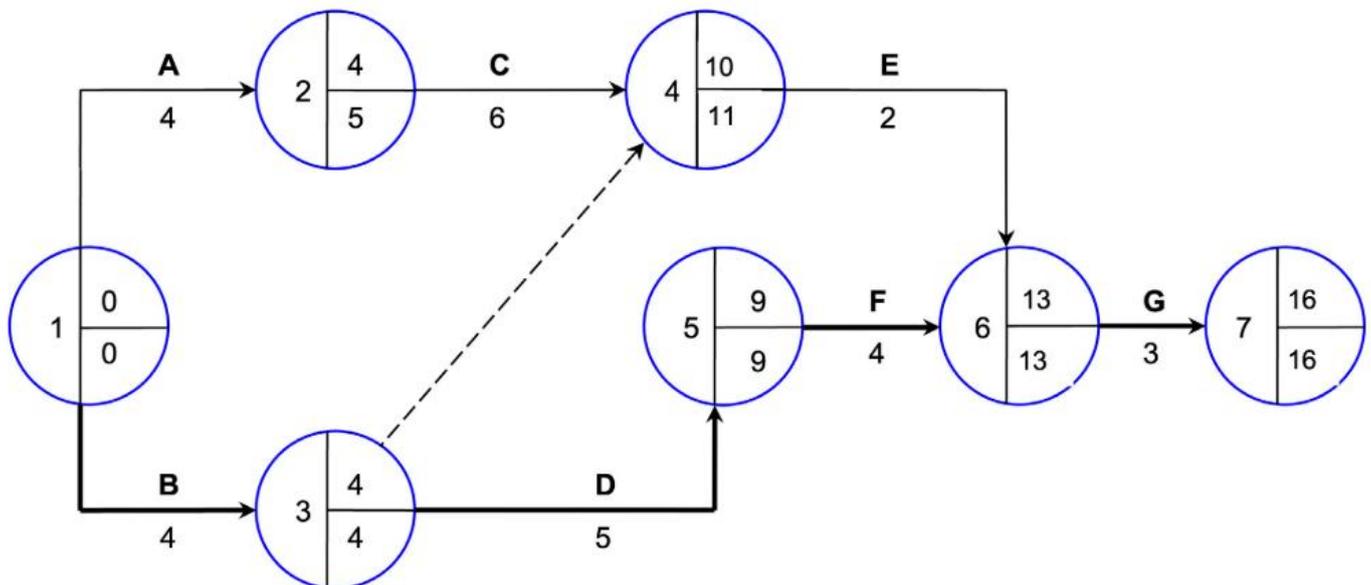
**Question 56.4 – Hobert Lastrollo Engineering Co.**

(a) A *dummy activity* (or *dummy variable*) is not an actual activity or task in a project but is used to show a logical dependency between two indirectly linked tasks in the project. It is used to prevent an illogical path from being followed in a network diagram. A dummy activity is represented by a dotted arrowed line in a network diagram.

Award 1 mark for some understanding of dummy activity.

Award 2 marks if dummy activity is accurately outlined, with clear application of the stimulus material in the case study.

(b)

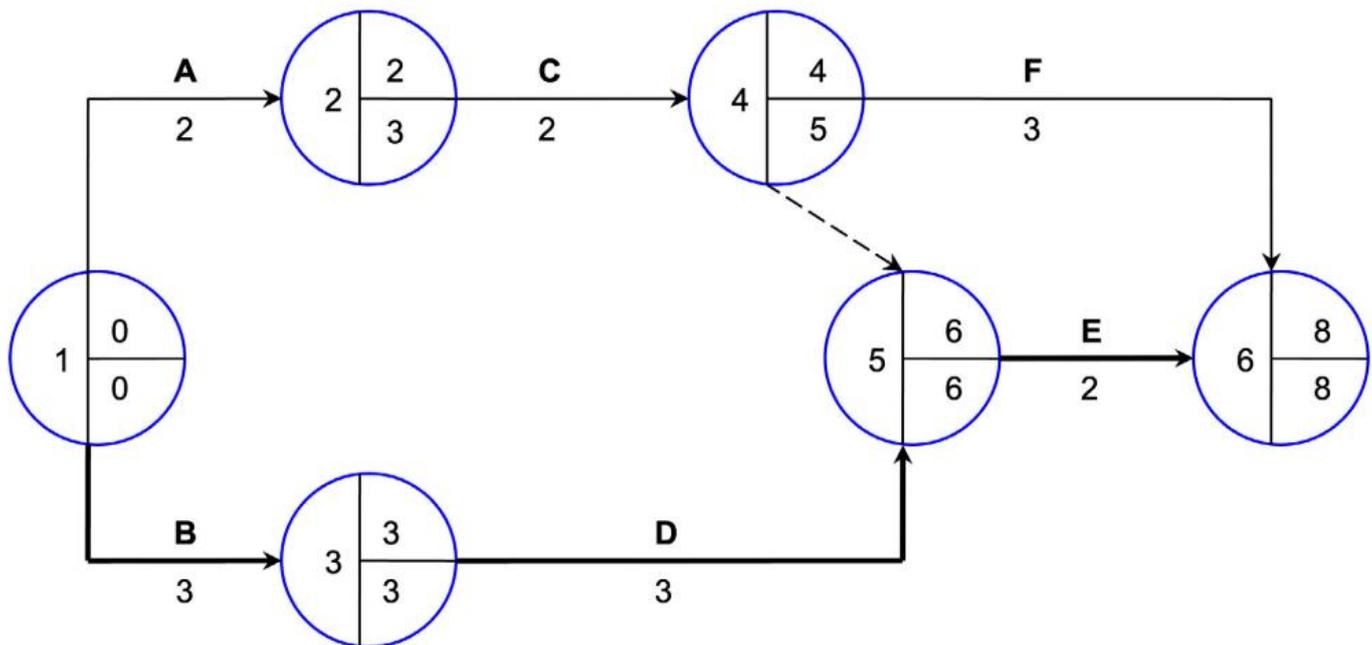


Deduct 1 mark for each error but apply the own figure rule (OFR) where appropriate.

Maximum marks can only be awarded if the candidate explicitly indicates the critical path (either on the diagram or written out).

Question 56.5 – Sui Yung Webster Inc.

(a)



Deduct 1 mark for each error but apply the own figure rule (OFR) where appropriate.

Award 5 marks for an accurately completed network diagram (the critical path must therefore also be explicitly shown).

(b) The dotted line (between Nodes 4 and 5) refers to a dummy activity in the network diagram. This shows a logical dependency between two indirectly related tasks in the project (Tasks C and D are independent of each other but both need to be completed prior to Task E being able to start). It is shown in the network to prevent an illogical path from being followed (the dummy itself is not an activity).

Award 1 mark if the commentary shows some understanding of the demands of the question.

Award 2 marks if the commentary shows good understanding of the demands of the question, with reference to the dummy activity in the network diagram.

(c) Arguments in favour of using CPA as a decision-making tool for Sui Yung Webster Inc. include:

- CPA provides a visual and logical representation of the tasks needed to run the concert. Hence, the network analysis can make it easier for the organizers to interpret.
- As a result, the plan can help the project (preparation for the outdoor rock concert) to run more smoothly, e.g. by calculating the float time and tasks that can be carried out simultaneously (Tasks C and D and tasks E and F), the organizers are able to reduce any lost time between the various activities.
- As a decision-making tool, CPA encourages forward planning and it encourages the organizers to consider different aspects of a particular project, such as the management of lead times and dummy activities.
- Network analysis promotes operational efficiency by identifying the critical path, i.e. the shortest time in which the preparation for the rock concert can be completed. Operational efficiency also means that the concert will run as scheduled rather than having disgruntled customers because of postponed concert dates.
- CPA can help the organizers to have better control of their operational costs by identifying when certain activities can start and how long certain tasks should last (so there is improved use of limited budgets).

However, counter-arguments and other issues to consider include:

- Construction of a CPA, no matter how well planned, does not guarantee that everything will go according to plan. Factors beyond the control of the organizers can cause delays to the completion of the project, e.g. poor weather conditions may prolong the construction of stage and seating areas for outdoor concerts.
- As with most methods of quantitative forecasts, CPA is only useful if the organizers use reliable and accurate data to construct the network analysis.
- If necessary steps are missed out in the network analysis, due to oversight, then the critical path as identified in a CPA will be void since the time needed to plan the outdoor rock concert will need to be increased.
- CPA itself is unlikely to be sufficient as a decision-making tool for the rock concert organizers. Other tools may be used, e.g. contingency and crisis management planning, cost-benefit analysis and business plans. Furthermore, the organizers will need to consider aspects of marketing and human resources in its planning.
- *Accept any other argument or counter argument that is clearly discussed 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 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 critical path analysis are examined.

Award 7 – 8 marks if both the advantages and disadvantages of critical path analysis are considered. Appropriate examples are used in context.

Award 9 – 10 marks if both the advantages and disadvantages of critical path analysis are considered, with clear application and evidence of evaluation of the usefulness of the tool for Sui Yung Webster Inc.

## Chapter 57 Contribution analysis (HL only)

### Question 57.1 – Sami Ikea Inc.

Break even occurs when the in-house costs = outsourced costs or  $CTM = CTB$

$$30,000 + 5Q = 10Q$$

$$30,000 = 5Q$$

$$Q = 6,000$$

The make or buy calculation suggests that it would be more cost effective for Sami Ikea Inc. to use the outsourced supplier if demand for its product is less than 6,000 units (needed to break even). If its sales are forecast to exceed 6,000 units, the company is better off buying the specialist machinery to make the products in-house.

As the business is a start-up, the \$30,000 capital investment might be unrealistic or unaffordable. Also, as a new business, it might not have accurate sales forecasts, i.e. it does not know whether it will actually sell a minimum of 6,000 units in this time.

Award 1 – 2 marks for an answer that shows some understanding of the demands of the question. The explanation lacks depth and/or is not clear in parts of the response.

Award 3 – 4 marks for an explanation that shows good understanding of the demands of the question. There is effective use of appropriate calculations, with working out and terminology throughout the answer.

**Question 57.2 – Dolls-R-Us**

- (a) The data show that Dolls-R-Us uses cost-plus pricing as the price of each of its products is 100% higher than the combined direct costs of each product, e.g. *Penny* costs \$7 per unit so the selling price is set at \$14 per unit.

Award 1 mark for an answer that shows understanding of the demands of the question.

- (b) Unit contribution = P – AVC

*Penny* = 14 – (3+4) = \$7

*James* = 10 – (3+2) = \$5

*Lori* = 20 – (5+5) = \$10

Award 1 mark for each correct calculation, up to 3 marks.

- (c) Criteria that could be used to allocate the firm’s fixed costs could include an explanation of:

- *Rent* – The \$36,000 rent could be apportioned according to the percentage of floor space occupied by each product line, i.e. *Lori* would pay more than the other two product lines.
- *Depreciation* – The \$12,000 allocated to depreciation could be apportioned according to the value of machinery and equipment used for each product line, e.g. *James* would be apportioned less than *Penny* and *Lori*.
- *Administration* – The \$25,000 could be divided according to the proportion of employees hired for the production of each product line.
- Alternatively, the total fixed costs of \$85,000 could be absorbed equally since this is the simplest criterion to use although it may not actually be very equitable.

Award up to 2 marks for each criterion that is suitable for allocating the firm’s fixed costs to each of the three products.

For maximum marks, the answer must address why each of the criteria is suitable.

- (d) The answer to this question will depend on the criteria used by the candidate in Question 57.2c. Examples of possible answers are shown below:

	<b>Penny</b>	<b>James</b>	<b>Lori</b>	<b>Total</b>
Floor space (m <sup>2</sup> )	3,000	3,000	4,000	10,000 m <sup>2</sup>
Number of employees	3	2	3	8
Value of machinery and equipment	\$30,000	\$25,000	\$35,000	\$90,000
Rent allocation	\$10,800	\$10,800	\$14,400	\$36,000
Administration allocation	\$9,375	\$6,250	\$9,375	\$25,000
Depreciation allocation	\$4,000	\$3,333	\$4,667	\$12,000
Other indirect costs*	\$4,000	\$4,000	\$4,000	\$12,000
Total indirect cost allocation	\$28,175	\$24,383	\$32,442	\$85,000
Add total direct costs (AVC × Q)	\$105,000	\$75,000	\$150,000	\$330,000
Total costs (absorption costing)	\$133,175	\$99,383	\$182,442	\$415,000
Sales revenue (P × Q)	\$210,000	\$150,000	\$300,000	\$660,000
Profit (contribution)	\$76,825	\$50,617	\$117,558	\$245,000

- \* These have been allocated equally for ease of calculation

All three product lines make a positive contribution towards profits at their respective prices. Although Lori costs the most to produce (double that of James) it has the highest contribution of the three products due to its larger profit margin.

Apply the own figure rule (OFR) where appropriate when marking this question.

Award 1 – 2 marks for a vague and generalized response that shows limited understanding. There are major errors and omissions.

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

Award 5 – 6 marks if appropriate calculations are shown with suitable analysis, although there is limited balance in the coverage of total costs, total revenues and profit.

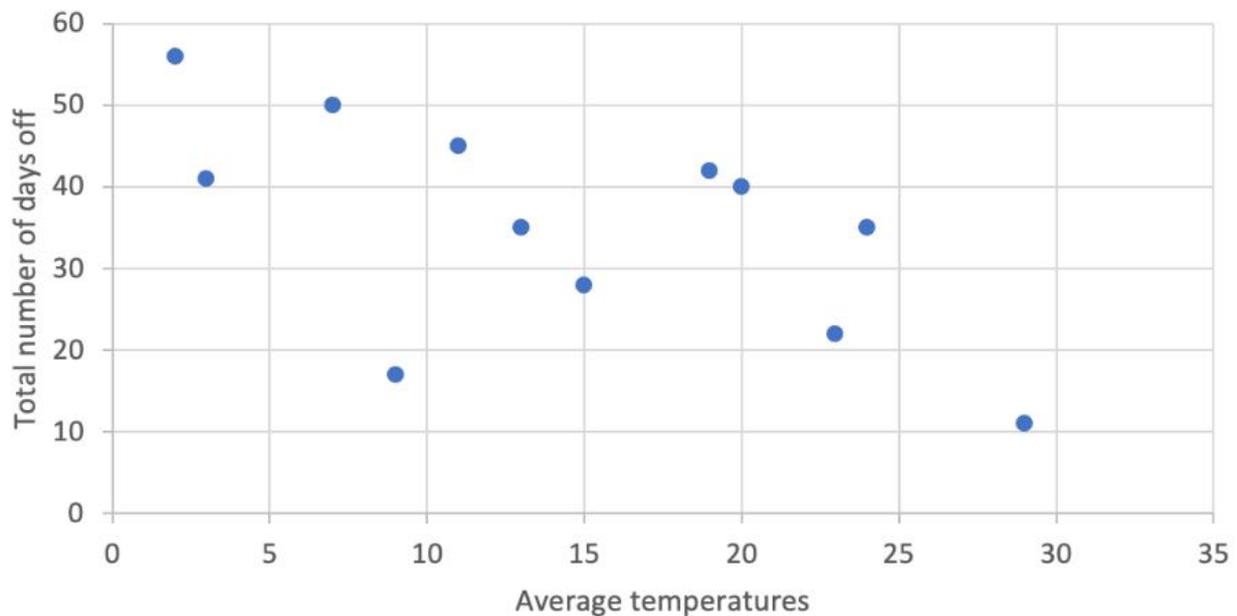
Award 7 – 8 marks if accurate calculations are shown with clear explanations. There is good analysis of the impact of this cost allocation on the total costs, total revenues and profit for each product.

Award 9 – 10 marks answer that shows good understanding of the demands of the question. Calculations are accurate and appropriate. There is detailed analysis of the impact of this cost allocation to the total costs, total revenues and profit for each product.

## Chapter 58 Simple linear regression (HL only)

### Question 58.1

- (a) Scatter diagram showing correlation between the number of employee days lost due to illness per month and the average daily temperatures (degrees Celsius):



Award 1 – 2 marks for an answer that shows some understanding of the demands of the question, although there are some inaccuracies or omissions in the scatter diagram.

Award 3 – 4 marks for an answer that shows good understanding of the demands of the question, with an accurately plotted scatter diagram using an appropriate scale and a suitable title.

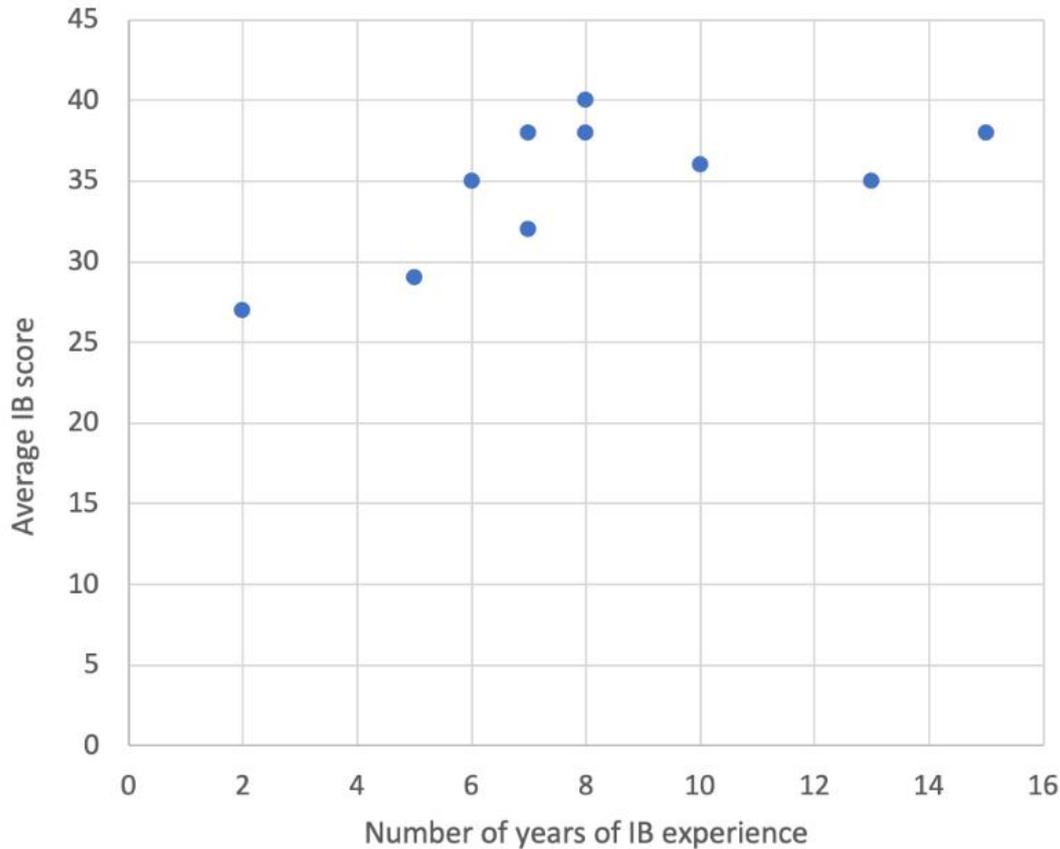
- (b) There is a weak negative correlation between the number of employee days lost due to illness per month and the average daily temperatures. This negative correlation is increased by outliers in the data set, such as in December when the temperature averaged 9 degrees Celsius (relatively cold) but only 17 employee days were lost (below the norm).

Award 1 mark for an answer that shows some understanding of the demands of the question.

Award 2 marks for an answer that shows good understanding of the demands of the question, similar to the example above.

## Question 58.2

(a)



### Scatter diagram showing correlation between years of IB experience and average IB scores:

Award 1 – 2 marks for an answer that shows some understanding of the demands of the question, although there are some inaccuracies or omissions in the scatter diagram.

Award 3 – 4 marks for an answer that shows good understanding of the demands of the question, with an accurately plotted scatter diagram using an appropriate scale and a suitable title.

- (b) There is a strong and positive correlation between the number of years that a school has offered the IB Diploma Programme and its average IB score (out of 45 points) in each of the ten schools in this data set. This is due to the data points being scattered close to the upward sloping line of best fit.

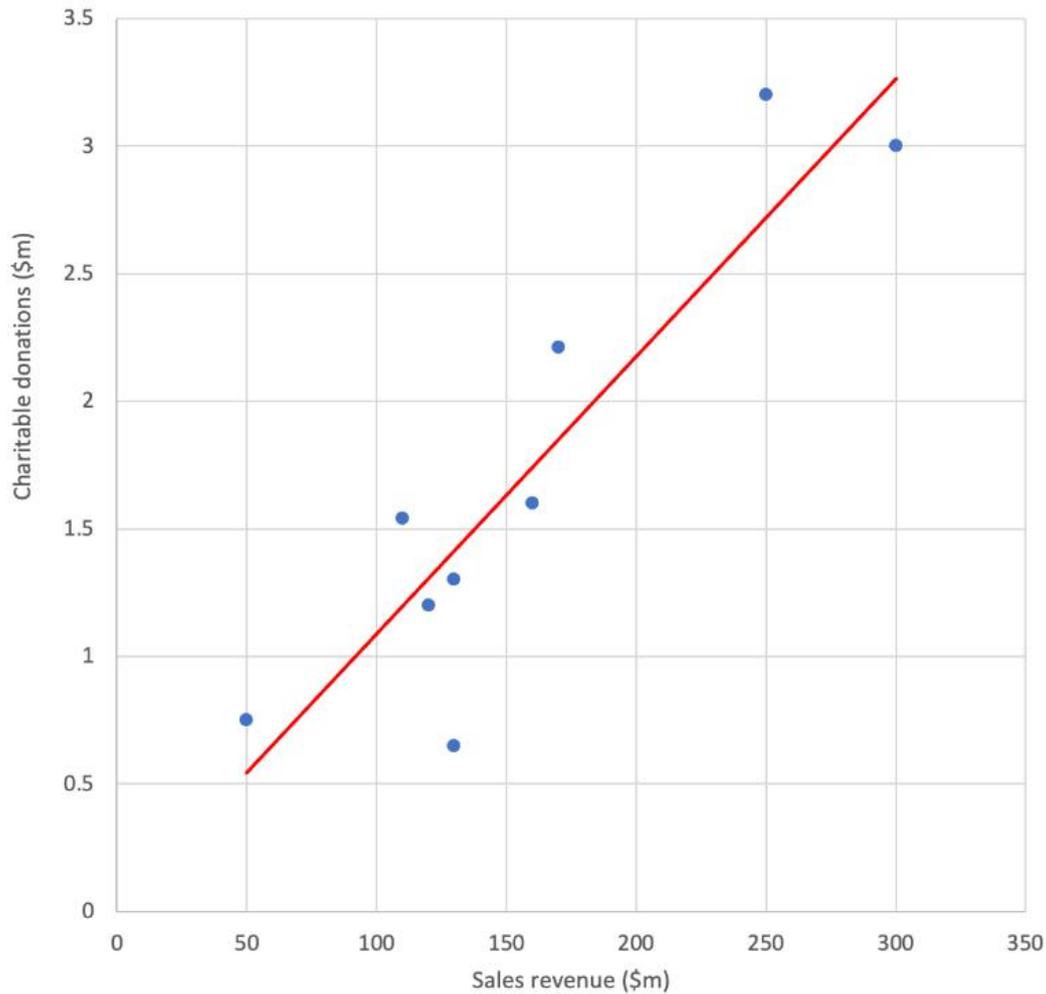
Note: there is no need to plot the line of best fit in this question.

Award 1 mark for an answer that shows some understanding of the demands of the question.

Award 2 marks for an answer that shows good understanding of the demands of the question, similar to the example above.

Question 58.3

(a) Scatter diagram showing the correlation between sales revenue and charitable donations:



Award 1 – 2 marks for an answer that shows some understanding of the demands of the question, although there are some inaccuracies or omissions in the scatter diagram.

Award 3 – 4 marks for an answer that shows good understanding of the demands of the question, with an accurately plotted scatter diagram using an appropriate scale and a suitable title.

(b) Award 1 mark for an appropriately drawn straight line of best fit (see diagram above).

(c) The line of best fit shows that at \$275m sales revenue, firms will donate approximately \$3m to charity.

Award 1 mark for the correct answer.

(d) A strong correlation means that there is minimal deviation between the data points and the line of best fit. In this case, the data set suggests that there is a strong correlation between how much a firm earns in terms of sales revenue and how much it donates to charity. Companies A, D and E align well with the line of best fit (the norm for the data set).

By contrast, a weak correlation means that the data points are spread quite wide and far away from the regression line, so a strong relationship cannot be established. Two companies (H and E) weaken the correlation in this data set (with Company H donating far less than the norm, given its sales revenue and Company E being far more generous than the majority of companies in this data set).

Award 1 – 2 marks for an answer that shows some understanding of the demands of the question.

Award 3 – 4 marks for an answer that shows good understanding of the demands of the question, similar to the example above.