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# Business Management

1<sup>st</sup> Year Examination

**May 2010**

**Paper, Solutions & Examiner's Report**



### NOTES TO USERS ABOUT THESE SOLUTIONS

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There are often many possible approaches to the solution of questions in professional examinations. It should not be assumed that the approach adopted in these solutions is the ideal or the one preferred by us. Alternative answers will be marked on their own merits.

This publication is intended to serve as an educational aid. For this reason, the published solutions will often be significantly longer than would be expected of a candidate in an examination. This will be particularly the case where discursive answers are involved.

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**Accounting Technicians Ireland**  
**First Year Examination: Summer 2010**  
**Paper 3: BUSINESS MANAGEMENT**

Wednesday 19<sup>th</sup> MAY 2010 - 9.30 p.m. to 12.30 p.m.

**INSTRUCTIONS TO CANDIDATES**

**Answer FOUR questions in total. QUESTION 1 IN SECTION A IS COMPULSORY AND MUST BE ANSWERED. Answer ANY THREE questions in Section B. If more than the requisite number of questions are answered, then only the requisite number, in the order filed, will be corrected.**

**Candidates should allocate their time carefully and should note that 1 mark equates to 1.65 minutes.**

**Answers should be illustrated with examples, where appropriate.**

**Question 1 begins on page 2 overleaf.**

**SECTION A****(COMPULSORY QUESTION)****QUESTION 1 (COMPULSORY)**

The market for alcoholic drinks in Ireland has been subject to major change over the last number of years. As a business analyst you have been specifically requested to explain how the "PESTLE" model may be used as a framework to identify the underlying changes that have taken place in this market.

**Requirements:**

- (a) Describe the "PESTLE" model. **10 Marks**
- (b) Using the "PESTLE" model identify four macro environmental influences that have had a major influence on the market for alcoholic drinks in Ireland over the last five years, giving reasons in support of your answer **10 Marks**
- (c) "Environmental scanning has little relevance in the present business climate" Do you agree? Give reasons in support of your answer. **5 Marks**

**Total 25 Marks**

**SECTION B****(ANSWER ANY THREE QUESTIONS IN THIS SECTION)****QUESTION 2**

A school friend of yours attended a marketing conference recently where the speaker stressed the importance of the STP process (Market Segmentation, Market Targeting and Market Positioning process). She works for a large mobile phone operator and would like you to inform her further.

**Requirements:**

- (a) Explain each of the three elements in the STP process. **10 Marks**
- (b) Describe three segmentation variables relevant to the analysis of the market she works in, giving reasons in support of why you consider them relevant. **10 Marks**
- (c) Briefly describe two factors that should be considered in assessing the attractiveness of a market segment. **5 Marks**

**Total 25 Marks**

**QUESTION 3**

You are a member of the management team of a progressive Irish quoted company in the paper and packaging recycling sector. Senior management are concerned that the downturn in the economy is having a negative impact on the style of leadership that is manifesting itself around the group and the effect this is having on the relationship between management and employees.

The Board is considering preparing guidance on leadership, power and motivation for its junior managers.

**Requirements:**

- (a) Identify and describe four common sources of power in organisations. **10 Marks**
- (b) Describe Alderfer's ERG (Existence – Relatedness – Growth) theory of motivation. Outline two of its limitations as a theory of motivation in the present business climate. **10 Marks**
- (c) Briefly explain how power and leadership are interrelated. **5 Marks**
- Total 25 Marks**

**QUESTION 4**

- (a) "Resistance to change is a common feature of many organisational environments". Describe four major underlying reasons behind employee resistance to change in the work place. **10 Marks**
- (b) Explain how Kotter's model of change management contributes to the reduction of resistance to change in organisations. **10 Marks**
- (c) "Employee Performance Appraisal continues to have relevance in the present business climate" Do you agree? Give reasons in support of your answer. **5 Marks**
- Total 25 Marks**

**QUESTION 5**

You are working in the marketing department of a company that manufactures components for wind turbines. One of the speakers at a recent conference you attended with your manager stressed the importance of the New Product Development (NPD) process. Following the conference your manager requested further information in these areas.

**Requirements:**

- (a) Describe four stages in the New Product Development (NPD) process **10 Marks**
- (b) Distinguish between primary and secondary market research. Outline how they might be helpful in assessing the size of the market for components for wind turbines in the EU. **10 Marks**
- (c) Explain what is meant by a "Market Skimming" pricing strategy **5 Marks**
- Total 25 Marks**

**QUESTION 6**

- (a) Explain what is meant by "B2B", "B2C" and "B2E" in relation to e-commerce. Illustrate your answer with examples. **10 Marks**
- (b) "IT Systems and Data are exposed to many threats" Describe four categories of security controls that enhance IT / IS security, giving examples of specific controls within each category. **10 Marks**
- (c) Briefly explain what is meant by "Cost-Benefit-Analysis (CBA)" in an IT/IS context. **5 Marks**
- Total 25 Marks**

**QUESTION 7**

- (a) The onset of the global recession has highlighted the importance of effective budgeting in organisations. Describe four common problems that frequently arise in preparing effective budgets in organisations. **10 Marks**
- (b) Describe two short term sources of finance available to organisations. **10 Marks**
- (c) Distinguish between the gross profit margin ratio and the acid test ratio. **5 Marks**
- Total 25 Marks**

# 1st Year Examination: May 2010

## Business Management

### Suggested Solutions

**Students please note:** These are suggested solutions only; alternative answers may also be deemed to be correct and will be marked on their own merits.

#### **SOLUTIONS TO QUESTION 1 (COMPULSORY)**

##### **PART A**

PESTLE analysis is a technique for analyzing the macro environment of an organization under the following headings – political, economic, socio-cultural, technological, legal and environmental considerations..

Analysis of the Political environment involves considering the impact of changes in taxation requirements, safety regulations, consumer protection legislation, parties in Government, EU developments etc.

Consideration of the levels of demand within the economy, interest rates, foreign exchange rates, grants, inflation etc. are indicative of the economic variables to be monitored and considered.

The Socio-Cultural environment encompasses issues of a demographic nature, such as, changes in the structure of the population – age, gender, income distribution, emigration etc.; and issues of a cultural nature, such as, language, customs, religion etc.

The Technological environment includes consideration of the threats and opportunities arising from IT and scientific developments in various areas.

Organisations must be aware of the legal parameters of their markets and operating environments including issues related to employment law, contract law etc.

Increasingly organizations are developing strategies to minimize the effects their operations have on ecological systems etc.

**SOLUTIONS TO QUESTION 1 (Cont'd)****PART B**

Many macro economic factors have significantly influenced the shape of the alcoholic drinks industry in Ireland over the last five years. A number of these are set out below:

## Political

- Greater awareness and pressure on politicians to take action on drink driving, underage drinking, binge drinking etc. – (i.e. tightening of policy on Drink Driving)
- Greater awareness of the damaging health and other negative consequences associated with excessive drinking – successful drink aware campaigns
- Curbing of advertising glamorising our drinking culture

## Economic

- Significant reduction in disposable income due to the recession – less money available to spend on perceived luxuries although drink spending has proven itself to be quite inelastic
- Entry of large super markets – with removal of grocery order – use of drink specials as loss leaders
- Arrival of low cost European supermarkets
- Impact of cross border trading – lower VAT / Excise rates, favourable currency rates

## Socio Cultural factors

- Changing socio cultural patterns – greater maturity being shown towards drinking
- Much more drinking at home / different attitude to drink driving
- Changing preferences – growth in wine sales
- Growing diversity of the people with different attitudes to drink and drinking habits

## Legislation

- Significant changes have taken place in the legislation relating to drink – lowering of blood alcohol levels
- More stringent enforcement of drink driving laws and licensing laws
- Smoking Ban and its tight enforcement
- Restrictions on certain forms of advertising

Students were required to elaborate on the implications of the above for the industry as a whole. Many noted that it has had a profoundly negative impact on many rural pubs (and some urban pubs) but that many off-licenses experienced unprecedented growth over the same period.



**SOLUTIONS TO QUESTION 1** *(Cont'd)***PART C**

Each organisation faces a variety of threats, which may be categorised as unique or industry wide, as internal or external etc. Threats may also be ranked in terms of significance and by likelihood of occurrence. Environmental analysis is a process of collecting information to carry out a systematic analysis of the forces affecting a company and is particularly important in the present business climate. It helps detect trends and events important to the company. It enhances the organisations awareness and responsiveness to forces in its market. It promotes a future orientation in the thinking of management, thereby improving its capacity to devise appropriate strategies that lead to a better allocation of its limited resources. (i.e. Strategies that counter likely threats /weaknesses and build on opportunities /strengths).

## **SOLUTIONS TO QUESTION 2**

### **PART A**

Market segmentation involves analysing the total market into segments that share common properties, such as consumers stage of life needs, purchasing power, geographical spread, buyer behaviour, attitudes to environmental issues etc. The ultimate in terms of market segmentation is "customised marketing" where sellers design a separate product for individual buyers. Typical segmentation variables include;

Age range – 18 to 30

Gender – male or female

Location – urban, rural, national or international

Family life cycle – single, married no children, married young children, etc.

Socio- economic status – professional, managerial, skilled workers, unskilled etc.

Market targeting follows market segmentation. It involves evaluating the various segments identified during the segmentation process and deciding how many and which segments it can serve best.

#### **Undifferentiated Marketing**

This is a full market coverage strategy, in which the firm serves all customer groups with products they might need. It is a market coverage strategy in which the firm decides to ignore market segment differences and goes for blanket market coverage. It relies on mass distribution and advertising which may provide cost efficiencies.

#### **Differentiated Marketing**

This is a market coverage strategy in which the firm decides to target several market segments and designs a separate marketing mix for each. By offering product variations and marketing, the company hopes for higher sales and a stronger position in a market segment.

#### **Concentrated Marketing**

This is a market coverage strategy in which a firm goes after a large share of one or a few submarkets. It pursues a niche market strategy.

Market positioning considers the perceptions of the consumer about the product or service, relative to other products and services in the market. The marketer seeks to position the product so that it is perceived to possess the key variables considered important by customers. Re-positioning involves moving the product away from its current position to a point that improves its market appeal. Lucozade is a product that was re-positioned from a drink for people who were feeling unwell to a sports drink.

A perceptual map may be used to identify key consumer criteria and where brands are positioned in relation to each other. Branding may form part of the drive to re-position or reinforce an existing position in the market place.

**SOLUTIONS TO QUESTION 2** (*Cont'd*)**PART B**

Market segmentation would be critical to this market. A number of possibilities exist. Indeed the market could be analysed in multiple ways. A variety of the standard segmentation variables outlined above apply and it may be beneficial to combine them in various ways.

Business v non business. Within business it may make sense to analyse it by occupational category based on the extent of mobile phone usage. Non business users maybe analysed by gender – male v female. These in turn maybe analysed by age group, life style patterns, socio economic status etc. The company's aim will be to develop attractive bundle offers that have value added appeal to consumers relative to what is available in the market. As technology develops there will be greater scope to extend the range of services that may be bundled together as package offerings.

**PART C**

The key questions here include: Does the company ignore segment differences? Does it target several segments and devise separate marketing mixes for each? It is most unlikely it will rely solely on a niche marketing strategy. (e.g. the Rolex approach). The targeting strategy will be influenced by size of segments, growth opportunities therein, the risk profile of the segment, competitive intensity, access issues, changes in market tastes and new product developments etc.

**SOLUTION TO QUESTION 3****PART A**

Power is generally described as the capacity or ability to influence a person. Power comes from many different sources. In many cases we legitimise positions of power collectively – like through an election process. In other instances power may be held against peoples will as in the case of autocratic regimes.

It is recognised that power may be derived from a number of sources:

Legitimate sources

In organisational terms legitimate power is based on the structure of an organisation. It is defined by the organisation chart.

Reward power

This is a form of power derived from perceptions of the capacity of the person or institution to allocate or distribute rewards. (e.g. ability of managers to award or withhold monetary rewards to employees).

Expert power

This is based on the specialist knowledge of a subject area and is increased to the extent that others need or depend on the knowledge held by the individual.

Referent power

This power derives from others wishing to be like the manager. It is visible through the actions of those who admire the manager. For example, they may talk, dress and act like the manager.

**PART B**

Alderfer's ERG theory of motivation builds on the work of Maslow. It proposes that needs are not necessarily hierarchical in the strict Maslow sense. ERG positions its elements as simultaneous needs and is arguably more accurate. Needs are seen to be concurrent rather than layered. Existence refers to the physiological and safety needs (levels 1 and 2 of Maslow). Relatedness refers to social and esteem needs and Growth refers to internal esteem and self actualisation needs.

It simplifies Maslow's theory. On the other hand it may be seen as overly simplistic. Motivation is a complex concept. There are a variety of factors which influence the meanings people give to a situation and which prompt them to act in particular ways.

Similarly, there is no one universally accepted theory of motivation. Broadly speaking the theories, may be categorised into two groups; content and process theories of motivation.

Alderfer's theory falls into the first category. It assumes needs are the most important determinant of an individual's level of motivation. Process theories seek to establish not only what people want from their work situations, but how they believe they can achieve

**SOLUTION TO QUESTION 3** *(Cont'd)*

it and what influences the process. These theories focus on the dynamic of how people decide what motivates them. (e.g. their beliefs in the equity of the process and its capacity to deliver on the expectancies that it generates).

The ERG model like most theoretical frameworks does not necessarily hold for all people in all situations. People's needs vary from individual to individual, from culture to culture and there is a temporal dimension to motivation in that different needs will assume varying degrees of importance at different stages of peoples lives.

Overall, no one theory of motivation covers all of the complexities of reality, but in appropriate conditions and circumstances, the ERG theory has a significant part to play in the way motivation is conceptualised and understood.

**PART C**

Power and leadership are closely interrelated. The more power a leader has the more power he/she can exert. Charismatic leadership is largely based on the referent power of the leader, their inspirational qualities rather than their formal position of power. Positional power on the other hand is derived from the legitimacy of its sources, which may be undermined through inequities or perceived injustices.

**SOLUTIONS TO QUESTION 4****PART A**

Organisational conflict can take many forms; it may be active and overt, or passive and covert. It can occur at all levels for a wide range of reasons. It may relate to tasks, processes or relationships. It tends to be most pronounced when the organisation is undertaking changes in direction and / or in the services / products it provides.

There may be resistance to change from individuals or groups within the organisation. Individuals may feel their working habits are being disrupted or that they are not being adequately briefed, involved or compensated etc. Likewise sections of the organisation may feel their expertise or power is being undermined or their needs are being ignored and so on. Employee's may resist change therefore for a number of reasons ranging from self-interest, fear, group pressure and / or inertia.

Self interest – employees typically resist a change they believe will take away something of value to them. (e.g. economic issues, status or autonomy). They seek to preserve these items of value for their own reasons and agendas and may therefore become resistant to change.

Fear – uncertainty is one of the outcomes of change. This can lead to a fear of failure associated with learning new ways. The psychological security associated with tried and tested ways is removed leading to perceived loss of predictability associated with new roles, responsibilities, position in the new organisational order, financial fears, redundancy fears etc.

Group pressure – pressure to resist change may come from peers. It may take on a collective dimension when people share a common sense of unease or fate or sense of collective injury. These perceptions of the reality surrounding the change process must be taken into account when effecting change.

Inertia – this captures the type of resistance associated with a reluctance to give up traditional ways of doing things. Individuals may feel their working habits are being disrupted or that they are not being adequately compensated etc. Areas of the organisation may feel their expertise or power is being undermined or their needs are being ignored and so on.

**SOLUTIONS TO QUESTION 4** (Cont'd)**PART B**

Change is so pervasive in business today that a whole new branch of management theory has evolved, concerned with the management of change. Theorists of change management have used different strands of thinking from the social sciences concerned regarding how individuals and organisations react to change.

A well managed change process should include a strategic picture of its aims, a coherent set of phases, the maximum involvement of those most closely affected, an emphasis on securing the commitment of everyone involved and perhaps a change in the behaviour of employees and in the culture of the organisation.

Kotter developed a framework which has been embraced by many as an accurate representation of the steps needed to effect major change within an organisation.

Deforst a hardened status quo

1. Establish a sense of urgency
2. Create a guiding coalition
3. Develop a vision and strategy
4. Communicate the change vision

Introduce new practices

- 5 Empower a broad base of people to take action
- 6 Generate short term wins
- 7 Consolidate gains and produce ever more change

Ground the changes in the culture, and making them stick

- 8 Institutionalise new approaches in the corporate culture

The steps are not equally important according to Kotter, therefore a leader should not spend equal amounts of time, effort and resources on each.

The first stage is very important as people must understand that there is a problem that needs to be solved, or an opportunity that is important to seize. They should also be encouraged that change will be beneficial to them. This involves creating a climate for change. This means increasing a sense of urgency / realisation of the need for change, a coalition to support it and vision to provide it with direction.

The second stage of the process reveals that it is a highly political process. Management must engage and enable employees and foster commitment to change.

The final stage is what Kotter describes as a process of leading, not managing change. Managerial approaches focuses on clearly defining objectives, making detailed plans, setting timetables, assigning responsibilities, and monitoring progress via supervision. In contrast, leadership approaches focus on energising other people to take action. It involves implementing and sustaining the change, making it stick.

**SOLUTIONS TO QUESTION 4** *(Cont'd)***PART C**

Assessing the work of employees is a key function of human resource management, and indeed a central aspect of all managerial work. The objective is to achieve and sustain high performance standards in an attempt to ensure organisational success and survival. It fulfils a number of important roles. Firstly to determine the extent to which people are meeting their job requirements. Secondly they are used to determine developmental needs and thirdly they help identify candidates with potential to take on further responsibility and thus allocate rewards and develop motivation and commitment. It increasingly relevant in the present economic environment.



**SOLUTIONS TO QUESTION 5****PART A**

New product development is the term used to describe the complete process of bringing a new product or service to the market place. It is suggested that it consists of seven sequential steps

**1. Idea generation**

This is a process of brain storming whereby companies generate new product / service ideas and possibilities

**2. Screening of ideas**

This involves assessing whether the new ideas match organisational objectives / resources

**3. Concept testing**

This is a process whereby an organisation seeks potential buyers responses to a new product idea.

**4. Business analysis**

This involves an evaluation of a product idea to determine its potential impact on sales, costs or profits

**5. Product development**

This is the process whereby the company determines the technical and financial feasibility of the product / service proposal

**6. Test Marketing**

This involves the introduction of the product on a test basis in geographic areas chosen to represent the intended market for the product.

**7. Commercialisation**

The process of refining and implementing plans for the full scale manufacturing and selling of the new product.

**PART B**

Primary research is research that is carried out for the first time and is used specifically for the particular problem or issue under study. It normally involves direct fieldwork using qualitative data collection techniques or surveys.

Secondary research is research that has been previously been gathered for purposes other than addressing the issue or problem currently under study. It involves drawing on secondary sources of data such as Government data, EU data, trade data, market research agencies, published press etc.

Secondary research is likely to be particularly useful in gaining an understanding of the size of the market for components for wind turbines in Ireland and the EU and also in assessing the policies of various countries surrounding their adoption.

**SOLUTIONS TO QUESTION 5** *(Cont'd)*

Primary research of existing users / adopters and their experiences would also be of relevance.

**PART C**

This pricing strategy occurs when the prices of new products are initially set high and are gradually lowered as the product moves through the product life cycle. It usually occurs when demand is inelastic, the product is unique and the firm wishes to recover its costs quickly.

**SOLUTIONS TO QUESTION 6****PART A****B2C Business to Consumer**

This is where a business offers products / services via some electronic means (usually online). For example, most airlines operate a B2C model by allowing passengers to book flights online. Other common examples of B2C are online banking facilities, and electronic storefronts. (sometimes called e-tailing, for electronic retailing).

**B2B Business to Business**

This is where two businesses engage in transactions using electronic means. In a sell-side model, transactions are conducted on the seller's website. A simple example of B2B e-commerce would be a supermarket placing orders with their wholesale supplier. The stages involved in a B2B transaction will generally be the same as B2C, however it is likely that there would be the addition of a 'negotiation' stage, which is less common in B2C.

**B2E Business to Employee**

This is where businesses offer employees certain services / information electronically. Examples might include a HR system that allows employees to apply for holidays or reserve spaces on training courses. Some companies may offer their products for sale with employee discounts, and even offer other products / services, such as travel offers etc.

**C2C Consumer to Consumer**

This is where individual consumers buy and sell to each other. Web-sites that offer online auctions, such as e-Bay, are good examples of C2C e-commerce websites.

**SOLUTIONS TO QUESTION 6** *(Cont'd)***PART B**

## Physical controls

These refer to any control that limits physical access to the system or physically monitors the system, such as:

- Security guards
- CCTV
- Keypads / swipe cards to open doors
- Isolating computers from the network

## Access controls

These are any means of restricting access to authorised users only (and not only through physical means). The most common means are usernames and passwords; ID cards and biometrics (e.g. finger prints and facial recognition), although the latter is still expensive and not commonly used in business.

Firewalls are an access control used to prevent unauthorised users from getting access to networks, usually through a combination of hardware and software.

## Procedural controls

These are procedures put in place as rules / guidelines for users and are sometimes known as "company standards". Proper back-up procedures are essential to ensure data security for example.

## Organisational controls

These are structures in place to ensure clear lines of responsibility. Other items that would fall into this category are user training and support. The importance of proper training cannot be overemphasised.

**SOLUTIONS TO QUESTION 6** (Cont'd)**PART C**

All costs (tangible and intangible) and benefits (tangible and intangible) need to be considered is assessing the economic feasibility of a computer project.

Tangible costs

These include all those cost that can be predicted and measured to a fairly accurate degree. Typical examples include

- Hardware / Equipment
- Wages / salaries and consultancy fees
- Ongoing system benefits

Tangible benefits, would include

- Improved efficiency and throughput
- Reduction in errors
- Reduction in costs

Intangible costs, refer to costs that cannot be measured accurately and may always occur – some examples would include

- loss of employee morale
- disruption to the organisation

Intangible benefits would include

- gaining a competitive advantage
- improved employee morale
- faster decision making

**SOLUTION TO QUESTION 7****PART A**

A number of the common difficulties that can be encountered in the preparation of budgets are set out below:

It is vitally important that the budgeting system is detailed enough to suit the size and nature of the organisation

If the budget is not prepared in a realistic manner, it can have a negative effect on the attitudes and performance of managers and staff

The problems of slack and padding can be difficult to eliminate. This occurs when managers overstate their expected expenses, so that having a larger than necessary budget, they will be unlikely to overspend their budget allowance

Because the detailed budget focuses on the short term, there is a temptation to make decisions which will benefit the company in the short term but result in lost profits in the medium/ long term

Budgets are often completed using estimates and opinions. There is therefore a degree of uncertainty involved e.g. rate of inflation, interest rates. Methods of dealing with these uncertainties must be employed particularly with regard to the identification of the principal budget factor.

**PART B****Bank Borrowings**

Commercial banks extend short-term facilities mainly in the form of overdraft arrangements. Generally commercial banks reserve the right to cancel overdraft facilities at short notice. In practice it is probably not to the banks advantage to pursue this policy to the letter, as they might needlessly force the borrower into financial difficulties.

Utilising bank facilities in a proper manner will ensure the maintenance of a flexible and comparatively cheap source of finance. Bank borrowings are flexible in that interest is only payable on the amount outstanding and not on a fixed advanced sum as is the case with the borrowings from other financial institutions. Bank borrowings are also comparatively cheaper than long-term loans due to the fact that the risk involved is smaller given that the lending period is shorter.

The security required by banks differs depending on the risks involved. They might require personal guarantees in the case of a private company or, alternatively, floating or fixed charges on the assets of the company, or indeed, both.

Bank lending rates are normally set one to two percent above the bank rate. Bank lending rates can therefore fluctuate upwards or downwards during the period in which the monies are advanced. This can be an advantage or a disadvantage depending on the direction of the change when compared to other forms of advances made by financial institutions at fixed interest rates.

**Trade Credit Taken**

Those companies experiencing difficulties in acquiring bank-borrowing facilities will, if possible, take greater credit by delaying payments to the suppliers of their goods and

**SOLUTION TO QUESTION 7** (Cont'd)

services. However, this is not to say that companies can use this form of finance recklessly. There are certain costs involved. Normally companies supplying goods will offer a discount for prompt settlement of invoices, e.g. 1% if settlement is made within one month of the date of the invoice of the goods. 1% per month is equal to a cost of 13.7% p.a. In periods of low interest rates this form of finance is the most expensive. In times of low interest rates there is more incentive to settle accounts with creditors within the credit period allotted.

A company can only use this source of finance to a certain degree as misuse of credit facilities offered, in the long run, may result in suppliers refusing to supply the goods or services required. This can be a critical factor with companies that rely heavily on a limited number of suppliers.

**PART C**

Gross margin – is the relationship of gross profit to sales. It calculated by

Gross Margin / Sales \* 100.

It is a measure of the profitability earned on each €/£ of sales.

Acid test ratio

Compares the current assets with the current liabilities but it excludes stocks from current assets.

Current Assets less Stock : Current Liabilities

It reflects the company's capacity to pay its liabilities as they arise.

# 1st Year Examination: May 2010

## Business Management

### Examiner's Report

#### GENERAL COMMENT

The overall performance of candidates was mixed in this recent sitting and below that of the previous sitting.

	Summer 2010	Autumn 2009	Summer 2009
Number of candidates	1,244	223	1,405
% Obtaining 50 or more	60%	62%	72%
Average marks	50	50	55.61

Question	1	2	3	4	5	6	7
No. Attempting	1216	896	360	537	610	744	465
Marks available	25	25	25	25	25	25	25
Average marks	14.82	11.77	12.61	13.37	10.22	12.87	11.17

#### Question 1.

- (a) The vast majority of candidates were comfortable describing the PESTLE model. A number were unprepared and resorted to elaborate guesswork. (e.g. "t" stands for temporal, "s" stands for structural etc.) Most candidates supported their answers with the use of examples. Some candidates failed to provide full descriptions of the elements of the model, thinking instead that the mere identification of the label was a complete answer.
- (b) Most candidates were able to demonstrate how the model could be used to identify major influences in the market for alcoholic drinks in Ireland over the last five years. It was important that candidates showed how the model may be used to identify these influences. Whilst drawing on personal experience is of assistance it is important that candidates address how issues impact the industry as a whole. There were a number of excellent answers to this part with candidates demonstrating fully how the various influences impacted the market over the last number of years. These candidates demonstrated confidence in their own ability to analyse issues and write about them.
- (c) It was pleasing to see that most candidates took up a position on the assertion and defended it well. A number however failed to consider the implications of their



comments very well. A number also seemed to think the assertion related solely green issues.

### Question 2

On average, 71% of candidates attempted this question

- (a) Answers to this section were highly variable covering the full range of the spectrum from excellent to disappointing. Answers in a number of instances lacked clarity with many candidates confusing segmentation with targeting and product positioning with physical location of items in shop windows.
- (b) Quite a few students completely ignored the scenario given in the question and referred to examples they made up themselves. Of those who dealt with mobiles, most were reasonable, if a bit disjointed.
- (c) Most candidates did well on this, but a number misunderstood the question and wrote about market segmentation again.

### Question 3

- (a) Generally well answered with most candidates correctly identifying the sources of power and describing them accurately. The most common type of error was to simply list the three levels of management, that is, strategic, tactical and operational
- (b) Most candidates could describe the basic elements of ERG but many did not provide an adequate answer for the second part of the question about its limitations in the current business climate. It would appear that most candidates knew the basic definition but could not go beyond that level
- (c) Not well answered, the most common error was to describe a person or a personal experience but failing to answer the question

### Question 4

- (a) Most people did well on this part with many giving good real life examples.
- (b) Quite a few people wrote about Lewin's theory instead: many of them called it Kotter's. A small number gave both theories in detail, and many omitted this part of the question altogether. It was generally well answered, but many failed to show how the specific model in question may contribute to a reduction in resistance to change.
- (c) Some candidates just gave a few examples of appraisal methods without ascribing relevance or irrelevance to them or analysing their possible benefits/drawbacks. Very few candidates dealt with the 'in the present business climate' aspect: although many did make passing reference to it. A good number of candidates did take up a position with regard to the assertion.

Question 5

- (a) Those who knew the answer to this question answered it very well and gained top marks. Unfortunately a significant number did not know it and failed this part entirely. A number of candidates elaborated in error on the stages of the product life cycle of a typical product.
- (b) In general this question was answered well. As above there were some who stood out and gave a full and complete answer.
- (c) A significant number of candidates had some idea of Market Skimming and the question was answered reasonably well if not fully. A surprising number of candidates confused it with market penetration pricing.

Question 6

- (a) The majority of students passed this part of the question.
- (b) There was some element of misreading the question in this part, with some candidates providing descriptions of intentional threats etc.
- (c) Answers to this part were mixed.

Question 7

- (a) Given the nature of the question, that is, budgeting is a basic business activity and is described in detail in the course material, the standard was a little disappointing. Many candidates simply described different budgeting techniques and failed to mention any problems or difficulties
- (b) Much higher standard than (a) with almost all candidates correctly identifying and comprehensively describing the two short term sources of finance
- (c) Answers to this section were disappointing. Two very basic ratios were asked – the gross margin ratio and the acid test ratio. A surprising number of candidates could not describe either ratio.

There are still candidates not indicating on the front cover which questions they had attempted, although the numbers doing so seem to have improved from last year.

A small number of candidates exam numbers were difficult to decipher. Also some candidates incorrectly numbered their questions. (e.g. indicated they were answering Q3 but actually answering Q4).

There is still a few chaotic answer books, with answers all over the place. (e.g. Q1(a) followed by Q4(c), Q6(a) then back to Q1(b) etc.)

A surprising number of students write on the wrong side of the answer sheet. (e.g. the side reserved for numerical work only). Some write on both sides of the sheet.

Levels of handwriting and presentation improved overall but could still be better. Candidates should be careful not to slip into the use of "texting" notation and remember to provide full and complete answers as much as possible.

