

# **MARKSCHEME**

**November 2004**

**BUSINESS AND MANAGEMENT**

**Standard Level**

**Paper 2**

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1. (a) Explain what is meant by the phrase *strong cash flow position*. [2 marks]

A strong cash flow position occurs when the balance between inflows and outflows of cash is favourable and enables the business to meet its daily cash needs without cash problems.

[2 marks]

A full explanation of the *strong cash flow* is evident.

[1 mark]

Some explanation of the *strong cash flow* is evident.

- (b) Explain *two* potential advantages for Bcool of aiming their product at a specific group such as “the 15-25 year old market”. [4 marks]

Answers might include

- risk spreading (since it is a new market)
- increase product portfolio; more options for profit
- easier to identify and select celebrities for promotion
- easier to identify appropriate media for advertising
- less “waste” in advertising effort.

For example a good response will argue that this new market segment could offer opportunities for greater profits because demographic changes could increase the market size in the 15-25 year old market and that having a clear definition of your target group will provide opportunities to ensure that the marketing mix is tailored to this market segment (young, internationally minded).

[3 to 4 marks]

Identifies two advantages and offers a good explanation of two advantages in relation to the case study.

[1 to 2 marks]

Identifies at least one advantage and offers an explanation.

- (c) Analyse *three* factors that could allow Bcool to set its prices “10-15 % higher than its closest rivals”. **[6 marks]**

Relevant factors include

- reputation of *Superscent*/Bcool (and ensuring this reputation is maintained)
- target market is able to pay premium prices
- product position is exclusive and differentiated from rivals
- using promotions to sustain demand
- *any other relevant factor.*

For example a candidate has achieved a high level of attainment if he/she argues that consumers may expect to pay a premium price because this is consistent with the image and distribution outlets of the organization. The higher price is entirely consistent with the reputation and position of the organization.

**[5 to 6 marks]**

Three suitable factors have been identified and analysed and linked to the case.

**[3 to 4 marks]**

At least two factors have been identified but development/analysis is limited. There should be some reference to the case.

**[1 to 2 marks]**

Candidate identifies at least one factor(s) but there may be no attempt to analyse or apply it to the case.

- (d) Discuss the potential advantages *and* disadvantages of selling “Bcool through its (*Superscent*’s) existing network of retail outlets”. **[8 marks]**

Potential advantages include

- avoids costs associated with setting up new outlets
- staff already have experience selling cosmetics
- existing outlets may be in appropriate locations
- known to existing customers.

Potential disadvantages include

- may dilute the image of the outlets as “exclusive outlets”
- outlets may be in a “second best” location (since the locations were originally chosen for a different segment)
- staff skills may not transfer between market segments.

A high level of attainment has been achieved if the candidate argues (for example) that setting up new outlets would involve considerable financial costs. In addition training existing staff to introduce the new range should be straightforward because this is a related market. However, the new market segment may be inconsistent with the decor of the existing outlets or there may be a “clash” in terms of customers perceptions of the organization.

***[6 to 8 marks]***

Detailed discussion of the potential advantages and disadvantages of selling “Bcool through its existing network of retail outlets”. Direct reference is made to the case.

***[3 to 5 marks]***

Discussion of the potential advantages and disadvantages of selling “Bcool through its existing network of retail outlets”. Discussion, number of advantages and disadvantages and reference to the case may be limited at the lower end.

***[1 to 2 marks]***

Discussion is descriptive, advantages and disadvantages are limited and there is little or no reference to the case.

2. (a) (i) **What is meant by globalization?** [2 marks]

Globalization is the trend for an organization to produce and market products for the global market (rather than for national or regional markets).

[2 marks]

A good understanding of the concept is evident.

[1 mark]

Some understanding of the concept is evident.

(ii) **Explain three factors that have contributed to globalization in recent years.** [6 marks]

Factors that have contributed to globalization include

- communication (e.g. telephone, Internet, television)
- transportation (e.g. faster and cheaper air travel)
- trade barriers (markets have opened up to trade)
- economies of scale (unit costs are lower if goods are mass produced)
- rising world income (and hence increased purchasing power).

[5 to 6 marks]

Three relevant factors are explained, they are relevant to the case study.

[3 to 4 marks]

At least two factors are explained, they are relevant to the case study.

[1 to 2 marks]

Up to two factors have been identified but the explanation is limited in terms of detail and/or relevance.

(b) **Analyse the potential problems for WMB if they use “financial incentives to improve motivation”.** [6 marks]

Possible answers include

- may be divisive (e.g. if distribution of incentives is perceived as unfair)
- may affect quality adversely (since focus may be on output)
- not always easy to identify an individual’s contribution (e.g. in team work)
- may be that money is not a long term motivator (as many theorists suggest)
- measuring “good results” may be difficult
- may be costly (e.g. if many employees achieve “good” results).

[5 to 6 marks]

A good and detailed analysis of several potential problems of using financial incentives to improve motivation. Reference is made to the case.

[3 to 4 marks]

Some attempt at an analysis of the potential problems of using financial incentives to improve motivation. There is some relevance to the case.

[1 to 2 marks]

A limited response, tending to be descriptive.

- (c) **Identify *three* stakeholders with an interest in *WMB* and explain why conflict between them is likely.** **[6 marks]**

A stakeholder is any person or group with a financial or non financial interest in the activities of an organization. Stakeholders include suppliers, employees, stockholders, customers, interest groups, creditors and competitors. Conflict between them is likely because their objectives may clash for example shareholders may wish to maximize profits but this may clash with employees desire for higher pay and/or environmentalists.

**[5 to 6 marks]**

Three relevant stakeholders have been identified and a detailed explanation of the likelihood of conflict is given.

**[3 to 4 marks]**

Fewer than three relevant stakeholders have been identified and/or the explanation of the likelihood of conflict lacks some detail.

**[1 to 2 marks]**

Fewer than two relevant stakeholders have been identified and/or the explanation of the likelihood of conflict is very limited. At the lower end there may be a list with no explanation.

3. (a) **YNOS is described as “the world’s leading supplier”. State *two* ways in which the size of a market may be measured.** [2 marks]

The size of a market may be measured in terms of

- sales revenue
- number of customers
- quantity (units) sold (volume)
- *any other appropriate responses should also be accepted.*

[1 mark] for each stated method of measuring the size of the electronic consumer goods market. Up to a maximum of [2 marks].

- (b) **Evaluate to what extent the information given in the case study suggests that the position of YNOS as the market leader may be threatened?** [6 marks]

The following should be considered

- rising interest rates will add to the costs of a highly geared business
- rising interest rates are likely to adversely affect credit sales
- rising inflation will add to business costs and may fuel future wage demands
- the rising currency will make YNOS products less attractive in the US and elsewhere (or YNOS will have to accept a lower profit margin if it does not increase the retail price)
- market share and profits are falling. Rivals are described as “close”
- dependence on the US market.

At the top end candidates may stress the need to compare **relative** statistics (e.g. inflation) and may suggest that the exchange rate might fall in future.

[5 to 6 marks]

The extent to which the future is threatened is evaluated and the evidence is weighed up and a conclusion is given. Direct reference is made to the data.

[3 to 4 marks]

The significance of the data is explained but application to the case may be limited.

[1 to 2 marks]

Explanation may be limited and there may be little or no reference to the case.



- (c) **Explain *two* ethical issues that may be associated with the proposed relocation of YNOS.** **[4 marks]**

Ethical issues involve doing what is morally right, and are therefore subjective and are likely to change over time.

Ethical issues include

- loss of jobs (in an area of high unemployment)
- creation of jobs where they relocate (and thus increasing incomes there)
- obligation to provide a dividend to investors
- ensuring the survival of the business and saving some jobs
- avoiding government regulation (perhaps in relation to health and safety, environment, trade union recognition) which is “minimal”
- *other suitable suggestions.*

**[3 to 4 marks]**

Two suitable ethical issues are explained. Reference is made to the case.

**[1 to 2 marks]**

Ethical issues are identified, but the explanation may lack depth. At the lower end reference to the case may be minimal or one ethical issue is explained and relevant to the case.

- (d) **Assess *three* strategies that YNOS could implement to address the threats it faces to its position as the world’s leading supplier.** **[8 marks]**

Strategies that could be implemented

- appropriate marketing can help to maintain this position. It is the leading supplier (and presumably this generates some consumer loyalty – being the first is important)
- relocation (especially to lower costs)
- reduce the level of gearing
- exploring opportunities to sell more goods outside the US
- *any other relevant strategy.*

**[6 to 8 marks]**

A detailed and balanced assessment of three strategies that YNOS could implement to address the threats. Reference is made to the case.

**[3 to 5 marks]**

Some assessment of the strategies that YNOS can implement to address the threats, though they may lack detail and balance at the lower end.

**[1 to 2 marks]**

A descriptive response. Strategies may be stated, but not assessed.

4. (a) From the data given above calculate the break-even quantity. (*Show your working.*) **[3 marks]**

Fixed costs	= \$10 000 per month
Cost per hat	= \$5
Commission	= \$0.60 per hat
Distribution	= \$0.40 per hat

$$\frac{\text{Fixed cost}}{\text{Contribution}} = \frac{\$10\,000}{\$9} = 1\,111 \text{ per month (or } 13\,333 \text{ per annum)}$$

Contribution	= \$15 - (5 + 0.4 + 0.6) = \$9
Break-even quantity	= 1 111 per month

**[3 marks]**

Correct calculation of the break-even quantity, showing 13 333 per annum. Full working shown.

**[1 to 2 marks]**

Understanding evident; a minor error or no limited working shown.

- (b) Explain *two* advantages and *two* disadvantages of using the payback method of investment appraisal. **[4 marks]**

Payback estimates the time it will take to recoup the cash outlay as an investment. Payback is usually preferred by a small business because of its simplicity. Large businesses use it as a screening method. The technique can be used to reject projects where the payback is too long or to rank projects according the speed in which they payback.

**Advantages**

- simplicity
- quick screening device
- emphasizes early return on investment
- especially useful when liquidity is more important than profitability.

**Disadvantages**

- focus is on time rather than profit
- ignores the timing of the cash inflows
- ignores the earnings after payback.

**[3 to 4 marks]**

A detailed explanation of two advantages and two disadvantages of payback.

**[1 to 2 marks]**

An attempt to explain advantages and disadvantages, though it may lack depth or number.

- (c) (i) Calculate the payback period from the data given in the table above. (*Show your working.*) [3 marks]

Monthly contribution towards the investment outlay is  
 $\$360\,000 \div 12 = 30\,000$

$$\text{Payback} = \frac{\text{initial outlay}}{\text{contribution per month}} = \frac{\$900\,000}{\$30\,000} = 30 \text{ months or 2 years 6 months.}$$

Candidates may use an alternative method of calculation. The answer may also be expressed in years and months.

Award up to [3 marks] for correct calculation and working. Award [1 mark] if answer only given correctly.

- (ii) Explain two non-financial factors that the *Colourful Hat Company* should consider before proceeding with the investment. [4 marks]

Non-financial factors to consider include

- the aims of the business (*e.g.* leading fashion trends, being innovative)
- technological change – does the equipment offer significant technological gains
- level of employee skill – will employees cope with the new machine
- activity of rivals – are rivals investing? Will this give them an advantage
- *any other appropriate non-financial factor.*

[3 to 4 marks]

Two non financial factors are explained. They are relevant to *Colourful Hat Company*.

[1 to 2 marks]

A limited response in terms of explanation and non-financial factors.

- (d) **Assess to what extent break-even analysis could help to determine whether the director of finance should accept the new order.** **[6 marks]**

Break-even analysis is a static analysis which provides a quick “test” of the acceptability of an order. However, it is only as reliable as the data used to calculate it. In this case we do not know the size of the order for \$17 hats, nor do we know if meeting this order will involve additional fixed and/or variable costs. We also do not know how much (if any) disruption to the existing products will result from the new order. In conclusion break-even analysis is of a limited use in helping us to accept this order. More information is needed before the finance director should accept the new order.

**[5 to 6 marks]**

A detailed assessment of the extent to which break-even analysis can help. Direct reference is made to the case.

**[3 to 4 marks]**

An attempt to assess the value of break-even analysis, but ideas may not be explained, or there is limited reference to the case.

**[1 to 2 marks]**

Some understanding of the value of break-even analysis is evident, but ideas are not supported, or there is little or no reference to the case.

5. (a) Explain the term *public limited company*. [2 marks]

A public limited company can advertise for shares and have them quoted on a stock exchange.

The liability of shareholders is limited to the extent of their investment in the company.

[2 marks]

An explanation of the term public limited company is correct and sufficient in detail.

[1 mark]

Offers some explanation of the term.

- (b) (i) Identify *three objectives of Clare Clothes plc other than growth*. [3 marks]

- maximize sales
- survival
- prestige
- innovation
- image and social responsibility

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

- (ii) Examine strategies and tactics *Clare Clothes plc* could have used to achieve their key objective of growth. [7 marks]

**Strategies**

- development of new types of clothes (increase product range)
- withdrawal from declining markets
- organization of production
- market penetration
- market segmentation
- development of marketing mix
- *other suitable strategies*.

**Tactics**

- training to improve effectiveness of sales staff
- expansion
- develop effective production methods
- *other suitable strategies*.

[6 to 7 marks]

A detailed examination of relevant strategies and tactics available to *Clare Clothes plc* to enable them to achieve growth.

[3 to 5 marks]

An examination of some of the strategies and tactics available to enable *Clare's Clothes plc* to achieve their key objective of growth.

[1 to 2 marks]

A limited response in terms of strategies, tactics and relevance to *Clare Clothes plc*.

- (c) (i) Calculate the level of working capital of *Clare Clothes plc* for 2001 and 2002. **[2 marks]**

	<b>2002</b>	<b>2001</b>
	<b>(\$m)</b>	<b>(\$m)</b>
Total current assets	340	360
Total current liabilities	170	100
Working capital	170	260

Award **[1 mark]** for each correctly calculated figure.

- (ii) Discuss how the changes in working capital identified in (c)(i) will affect *Clare Clothes plc*. **[6 marks]**

Working capital is required for the day to day financial management of the firm. The fall in working capital from \$260m to \$170m may make it more difficult for them to pay bills, wages and other costs on time. Given the fall in cash and the overdraft emerging in 2002, this problem may be more acute. Increased stock also means that their current assets are less liquid.

However, they still have sufficient net current assets to meet all their commitments and if they can improve their credit control they may be able to increase their working capital further. The balance sheet only represents a snapshot of their financial position and so the situation may have changed since the balance sheet was drawn up.

**[5 to 6 marks]**

A full and detailed discussion of the changes identified in working capital and the need for working capital. The discussion is relevant and consistent with the answer to (c)(i).

**[3 to 4 marks]**

Some discussion of the changes identified in working capital and some recognition of the need for working capital. The discussion may be limited and perhaps not completely consistent with (c)(i).

**[1 to 2 marks]**

A limited and essentially descriptive answer, perhaps with some tendency to list points.

**N.B** Do not double penalize accept answer (c)(i).