



MARKSCHEME

November 2005

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

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1. (a) **With reference to *Wide Water plc*, distinguish between their objectives, strategies and tactics and describe how these interrelate.** **[4 marks]**

Examples

- **Objectives:** survival and growth (what *Wide Water plc* is trying to achieve)
- **Strategies:** focus on leading markets, excellent reputation and potential for growth/globalization (in a broad sense show the objectives to be achieved)
- **Tactics:** sell, close, reform, retrench, delay (specific changes that support the strategy to achieve the objective).

[3 to 4 marks]

Is able to distinguish between their objectives, strategies and tactics and explains how they interrelate with reference to *Wide Water plc*.

[1 to 2 marks]

Some attempt to distinguish between their objectives, strategies and tactics, and/or limited explanation as to how they interrelate with reference to *Wide Water plc*. The answer may only distinguish two of the three concepts, but does this well.

- (b) **Assess the current position at *Wide Water plc* using SWOT analysis.** **[6 marks]**

Wide Water plc faces a number of external and internal challenges and opportunities and SWOT analysis provides a useful framework for identifying and assessing these.

<p>S (internal)</p> <ul style="list-style-type: none"> • leading market positions • excellent reputation • ethical objectives 	<p>W (internal)</p> <ul style="list-style-type: none"> • overstaffed • underperforming areas • managers lacking dynamism
<p>O (external)</p> <ul style="list-style-type: none"> • expanding markets with growth potential • globalization 	<p>T (external)</p> <ul style="list-style-type: none"> • competition • globalization

[5 to 6 marks]

SWOT analysis is used effectively to assess the current position. Factors are placed under the correct headings, and there is at least one entry in each category.

[3 to 4 marks]

An attempt to use SWOT analysis to assess the current position at *Wide Water plc*. Some issues are placed in the wrong category or a category or a category may have no entries.

[1 to 2 marks]

A largely descriptive response. Some understanding of SWOT analysis. Several issues are misplaced and one or two categories have no entry.

(c) Explain *three* likely effects of globalization on *Wide Water plc*. [6 marks]

Globalization is the increased interdependence amongst world economies and the expansion of multinational corporations. This may provide opportunities and threats. Three likely effects on *Wide Water plc*:

Negative	Positive
<ul style="list-style-type: none"> • increased competition in markets • more need to develop new technologies • increased costs as more diverse cultures and markets • organizational adoptions • relocation costs 	<ul style="list-style-type: none"> • economies of scale • new market opportunities • lower costs in foreign markets • diversification and spreading risks

[5 to 6 marks]

A detailed explanation of three likely effects of globalization on *Wide Water plc*.

[3 to 4 marks]

An explanation of at least two likely effects on *Wide Water plc*.

[1 to 2 marks]

A limited and general response.

(d) Explain *two* potential advantages for *Wide Water plc* of setting ethical objectives. [4 marks]

Ethics refers to something that is considered morally right or acceptable.

Potential advantages include:

- acts as a guide to employees and may improve motivation
- avoid bad publicity and adverse pressure group activities
- marketing advantages, such as providing a USP
- impact on morale
- *any other relevant potential advantage.*

[3 to 4 marks]

An explanation of two advantages of setting ethical objectives.

[1 to 2 marks]

A limited and general response.

2. (a) **Explain why the market research gathered by *Gabad Design Ltd* might be unreliable.** [6 marks]

The following reasons may be cited:

- sample size and frame
- unrepresentative sample (e.g. age, sex, income)
- honesty of respondents (e.g. may exaggerate their generosity)
- asks the wrong questions or fails to ask certain questions
- may be from unreliable secondary sources
- outdate research
- potential bias
- secondary data may lack specific focus.

[5 to 6 marks]

A detailed explanation as to why the market research may be unreliable.

[3 to 4 marks]

An explanation of why the market research may be unreliable.

[1 to 2 marks]

A general and descriptive response.

- (b) **Discuss how market segmentation and knowledge of consumer profiles can help *Gabad Designs Ltd* achieve its growth targets.** [6 marks]

Market segmentation is the process of dividing up a market or sector into subsets or segments – e.g. birthday cards for teenage girls.

Consumer profiles are the characteristics of consumers in different markets or market segments (e.g. lifestyle, age, sex, income, habits).

Knowledge of market segments and consumer profiles would help *Gabad Designs Ltd* to devise appropriate marketing strategies to improve or maintain its position for each identified segment and identify and meet consumer needs and wants. It could also help to identify potential segments/consumers that are currently being overlooked by *Gabad Designs Ltd*.

[5 to 6 marks]

Good understanding of market segmentation and consumer profiles evident. Detailed discussion of how these could help *Gabad Designs Ltd* achieve its growth target.

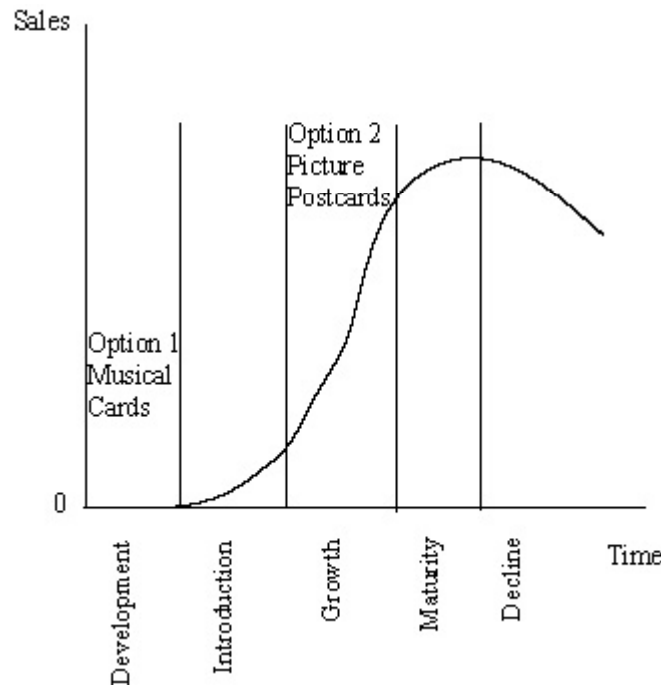
[3 to 4 marks]

Some understanding of the concepts evident. An attempt to discuss how consumer profiles and market segmentation could help *Gabad Designs Ltd* achieve its growth target.

[1 to 2 marks]

Limited understanding of the concepts and how these might help *Gabad Designs Ltd* achieve its growth target.

- (c) With reference to Options 1 and 2, explain the relationship between the product life cycle and the marketing mix. [8 marks]



Option 1 is in the pre-introduction stage and is ready for launch (introduction) – a plausible mix (in terms of price, product, promotion and place) should be presented. *E.g.* penetration, pricing and informative advertising.

Option 2 greeting cards are in the growth stage and *Gabad* should aim to consolidate their position with continued awareness and reminder campaigns. The aim will be to turn the product into a cash cow. They may require additional promotion *e.g.* competitive advertising and wider distribution.

[6 to 8 marks]

Refers to *Gabad Designs Ltd* and explains in detail the relationship between the product life cycle and the marketing mix.

[3 to 5 marks]

An explanation of the relationship between the product life cycle and the marketing mix. Some reference to *Gabad Designs Ltd*.

[1 to 2 marks]

A general and descriptive response.

3. (a) Explain *three* reasons why Dr Hugo Lorenzo may have adopted an autocratic style of leadership. **[6 marks]**

Factors that could influence the leadership style of Dr Hugo Lorenzo include

- importance/urgency of the decision (*e.g.* Hugo felt that decisions were urgent and important so imposed his ideas)
- character/ability of the leader (*e.g.* that may just be the way he is used to operating and he may believe he knows best). He wants to maintain control and power
- Hugo may have come from an autocratic culture
- ability/expectations of the subordinates (Hugo may believe that this is how subordinates expect to be treated)
- nature of the market (a creative, dynamic market is more likely to need a more “laissez faire” style). Stable markets may suit autocratic leaders.

[5 to 6 marks]

A detailed explanation of three factors that could influence the style of leadership adopted by Hugo.

[3 to 4 marks]

A reasonable explanation of up to three factors; some explanation may lack depth, or less than three factors have been explained in detail.

[1 to 2 marks]

A general and descriptive response with little or no reference to *BN*.

- (b) **Using Herzberg’s theory of motivation, explain why the strategy adopted by Dr Hugo Lorenzo led to dissatisfaction among his regional directors.** *[4 marks]*

Herzberg’s theory suggested that there are two factors affecting motivation: hygiene and motivators.

Hygiene	Motivators
(Those factors that do not give positive satisfaction but their absence will cause dissatisfaction)	(Those factors that give positive satisfaction)
policy and administration (top down communication)	achievement (failed to recognize)
supervision (cover rule decisions)	recognition (stifled creativity)
work conditions (beaucratic/hierarchical)	work itself
relationship with peers (formal meetings)	responsibility
personal life	advancement
relationship with subordinates (autocratic)	growth
status (overruled decisions)	
security	

Dr Hugo Lorenzo seems to have neglected hygiene factors (and this results in dissatisfaction) and harmed motivators (resulting in low motivation).

[3 to 4 marks]

An understanding of Herzberg’s theory and an explanation of the dissatisfaction at BN.

[1 to 2 marks]

A general and limited response in terms of theory and explanation.

- (c) (i) **Explain *three* causes of communication failure at *BN*.** **[3 marks]**

Causes of communication failure at *BN* include

- poor media (e-mail is static)
- poor direction (one way/top down)
- formal (discourages open/honest discussion)
- lack of interest in the message (*e.g.* because of emotional state of recipient)
- hierarchy (increases status differentials)
- distance (global conglomerate)

Award **[1 mark]** for each explained cause of communication failure up to a maximum of **[3 marks]**.

- (ii) **Evaluate solutions to the three communication failures you have identified in (c)(i).** **[7 marks]**

Alternative solutions include:

ideas to address each of the above – these can be categorized in terms of **skills** (*e.g.* patience/understanding) or **systems** (*e.g.* ensuring feedback and reducing status differentials)

N.B. *An evaluation of solutions means that the answer should judge the likely success of each solution and/or recommend which is likely to work (and why).*

[5 to 7 marks]

Evaluate three alternative solutions to communication failure at *BN*. The answer may lack detail at the lower end of the band.

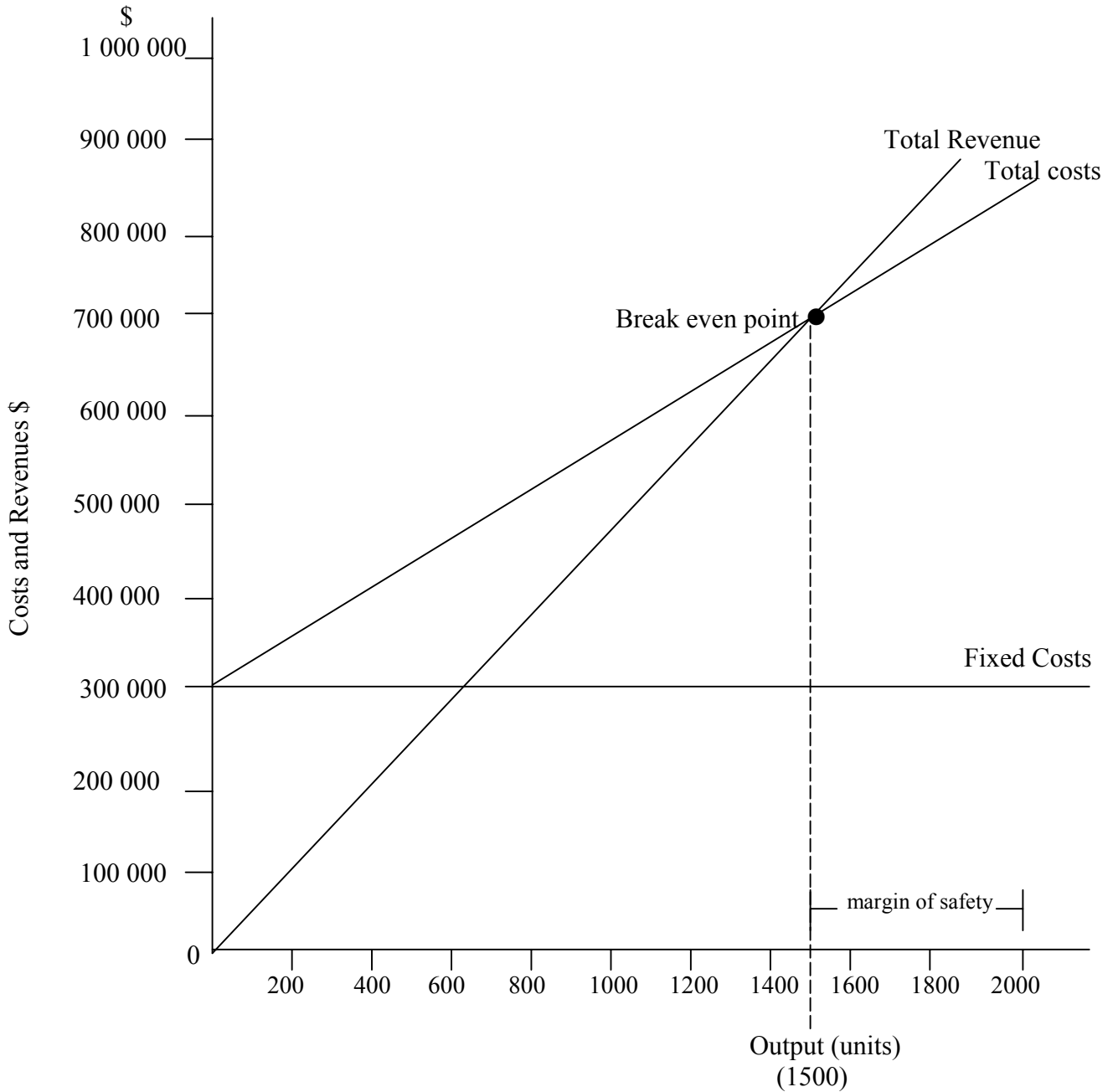
[3 to 4 marks]

Explains up to three solutions, but does not judge their likely success.

[1 to 2 marks]

A limited and general response.

4. (a) (i) Construct a break-even chart from the data given in Table 2. [6 marks]



Costs and Revenues \$

Output	Fixed costs	Total variable costs	Total costs	Total revenue
200	300 000	60 000	360 000	100 000
400	300 000	120 000	420 000	200 000
600	300 000	180 000	480 000	300 000
800	300 000	240 000	540 000	400 000
1 000	300 000	300 000	600 000	500 000
1 200	300 000	360 000	660 000	600 000
1 400	300 000	420 000	720 000	700 000
1 600	300 000	480 000	780 000	800 000
1 800	300 000	540 000	840 000	900 000
2 000	300 000	600 000	900 000	1 000 000

$$\frac{\text{Fixed cost}}{\text{contribution}} = \frac{300\,000}{200} = 1\,500 \text{ units} = \text{break-even output}$$

		Units	Price	
			\$	\$
Revenue	=	2 000	500	1 000 000
Variable costs	=	2 000	300	600 000
Fixed costs	=			300 000
Profit at current sales	=			<u>100 000</u>

[5 to 6 marks]

Fully labeled, accurate and neat break-even chart. Allow one error at the lower end.

[3 to 4 marks]

A break-even chart that has some errors but is generally laid out correctly, or is accurate but poorly labeled.

[1 to 2 marks]

Attempts to construct a break-even chart, some understanding evident.

(ii) Identify the break-even output. [1 mark]

Break-even output = 1 500 units

[1 mark] for identifying the correct break-even output.

(iii) Calculate the margin of safety if 2 000 units are sold. [1 mark]

Margin of safety = 500 units

[1 mark] for identifying the correct margin of safety (500 units)

It is possible that a candidate could identify these without constructing the break-even chart. Awards marks for (ii) and (iii) if correct and no chart drawn.

(b) Calculate the price that would have to be charged to achieve a target profit of \$150 000 at current levels of output. [2 marks]

To achieve this level of profit an additional \$50 000 revenue needs to be generated from 2 000 units *i.e.*

$$\frac{50\,000}{2\,000} = \$25 \text{ extra per unit}$$

Hence, price would need to go up to \$525 per unit.

[2 marks]

For correct calculation and correct price of \$525 with working.

[1 mark]

A reasonable attempt with a minor error or the correct answer with no working.

(c) **What further information would you require to assess the marketing manager’s proposal? Explain how this information would help you.** **[6 marks]**

Further information required:

- level of competition in the industry (the more competition the less likely that his suggestions will work)
- availability of close substitutes (domestically and from overseas)
- elasticity of demand (the more elastic demand the less likely that his suggestions will work)
- impact in the short run compared to the long run (*i.e.* sales may not fall in the short run, but in the long run consumers may switch to competitors or reduce consumption)
- is the good a luxury or a necessity (necessities tend to be less price sensitive)
- is it habit forming or addictive (habit forming goods tend to be less price sensitive)
- is it a good consumed as part of the consumers tradition (traditional goods tend to be less price sensitive)
- can target profit be met?

[5 to 6 marks]

Identifies most of the information required and gives an explanation as to how it would help.

[3 to 4 marks]

Provides some of the information required and gives an explanation as to how it would help. For **[3 marks]**, information is presented, but not explained.

[1 to 2 marks]

Limited in terms of information required and/or how this information would help.

If the candidate only answers one part of the question award a maximum of **[3 marks]**.

(d) **Calculate and comment on the values of the current ratio and the acid test ratio.** **[4 marks]**

current ratio $CA/CL = 170\ 000 / 80\ 000 = 2.125$ (ideal is 1.5 to 2)

acid test ratio $\frac{CA - \text{stock}}{CL} = 0.875$ (ideal is 1.0 to 1.5)

The current ratio is slightly higher than recommended. This means that they can pay their liabilities but should look at reducing current assets. The acid test ratio shows that they have a liquidity problem and that too much of their assets is tied up in stock.

[1 mark] for each correct answer and **[1 mark]** for an appropriate comment on each ratio.

5. (a) Explain the reasons for *Double Deckers Private Limited* forming a private limited company rather than a partnership. [6 marks]

Reasons for forming a private limited company rather than a partnership include:

- perpetual succession (the company continues even if a shareholder leaves)
- limited liability/separate legal entity
- memorandum of association (clarifies the aims of the business)
- articles of association (clarify internal regulations governing the conduct of the company)
- easier to access finance
- different tax treatment.

(Alternatively a candidate might discuss the problems associated with forming a partnership and how setting up a private limited company would overcome these e.g. death/departure of a partner, unlimited liability, a deed of partnership may not have been written.)

[5 to 6 marks]

A detailed explanation of the reasons for forming a private limited company rather than a partnership.

[3 to 4 marks]

An explanation of the reasons for forming a private limited company rather than a partnership.

[1 to 2 marks]

For a general and descriptive response.

N.B. If a candidate describes a partnership/private ltd company, but fails to address the question the maximum mark available is **[3 marks]**.

(b) Construct a cash flow forecast for *Double Deckers Private Limited* for January to June 2006. [5 marks]

	Jan	Feb	Mar	Apr	May	June
Opening balance	500	300	450	750	550	700
In	1200	1200	1200	1200	1200	2200
Out goings						
Rent	500			500		
Electricity		150			150	
Labour						500
Fuel	200	200	200	200	200	200
Withdrawals	700	700	700	700	700	700
Total outgoings	<u>1400</u>	<u>1050</u>	<u>900</u>	<u>1400</u>	<u>1050</u>	<u>1400</u>
Net cash flow	(200)	150	300	(200)	150	800
Closing balance	300	450	750	550	700	1500

[4 to 5 marks]

A detailed, accurate, cash flow laid out in a suitable format. At the lower end allow one error.

[1 to 3 marks]

Some understanding of cash flow with some errors. Significant omissions or errors towards the lower end.

(c) *Double Deckers Private Limited* now operates in the private sector of the economy. Analyse the major differences between organizations in the public and private sectors of the economy. [5 marks]

	Private sector	Public sector
ownership	shareholders/private individuals	government/the public
control	board of directors/owners	directors appointed by government
objectives	usually profit motivated	usually motivated by non profit motive
finance	personal funds	tax

[5 marks]

Analysis of the major differences between organizations in the public and private sectors of the economy.

[3 to 4 marks]

An attempt to analyse the major differences between organizations in the public and private sectors of the economy.

[1 to 2 marks]

A limited and general response.

- (d) **Explain *two* advantages and *two* disadvantages of using internal funds to purchase a new bus.** **[4 marks]**

Potential advantages include

- no interest charge (since the money is not borrowed)
- does not affect gearing (since borrowing has not changed)
- does not dilute ownership (and therefore control).

Potential disadvantages include

- may create cash flow problems
- opportunity cost (the money cannot be used for something else)
- may act as a constraint on the business since it could delay the decision if internal funds are not immediately available
- lower dividends for shareholders (since less will be available for distribution).

[3 to 4 marks]

An explanation of two advantages and two disadvantages.

[1 to 2 marks]

For a general or descriptive response with a tendency to listing.
