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M03/370/H(2)M+

# **MARKSCHEME**

**May 2003**

**BUSINESS AND MANAGEMENT**

**Higher Level**

**Paper 2**

1. (a) Describe the main features of each stage of the product life cycle. [6 marks]

*Stages of the product life cycle:*

- **Research and development**
  - High cost phase
  - Most ideas are rejected
  - Product and market audits are conducted
  - Planning is put into place to accompany the launch
  
- **Launch and introduction**
  - Low sales
  - Heavy promotion (to develop awareness of the product and supply information about it)
  - Loss making in most cases
  - Purchase of the product by “Innovators”
  
- **Growth**
  - Increasing sales volume and wider distribution
  - Lower costs as more economies of scale in production
  - Promotion becomes more persuasive
  - Brand loyalty develops
  - Profits more likely as sales revenue rises and costs fall
  - Purchased by “Early Adopters”
  
- **Maturity**
  - Significant market share in most cases
  - Sales revenue rising, but more slowly
  - Promotion becomes reminding, emphasizing brand loyalty, image and product attributes
  - Economies of scale means the company is more able to compete effectively against newer rivals, possibly on price
  - Purchased by the “Early Majority”
  
- **Saturation**
  - High market share, but sales level off or even start to fall as newer rivals take market share
  - Price reductions are likely to maintain sales
  - Promotion may be more aggressive and competitive
  - New product design and packaging features may be necessary to compete, or get existing customers to repurchase
  - Purchased by the “Late Majority”
  
- **Decline**
  - Sales and profits fall
  - Substitute products appear and/or the product becomes obsolete
  - Extension strategies may be introduced
  - Promotion and support is cut
  - Prices may tumble
  - Purchased by “Laggards”
  
- **Death**

**[6 marks]**

At least four stages are recognized and most of the main features described.

**[4 to 5 marks]**

At least three stages are recognized and some or most of the features described.

**[2 to 3 marks]**

At least two stages are recognized. For **[3 marks]**, there must be some description of the features of at least two stages.

**[1 mark]**

One stage is recognized and some of its features described, or the candidate merely lists the stages.

- (b) **Define the term price elasticity of demand and explain why this is likely to change as a product or service moves through its life cycle. [5 marks]**

*Price Elasticity of Demand:* “The responsiveness or sensitivity of demand to changes in price”.

Given by the equation 
$$Ped = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$$

Price elasticity is measured at a particular time and at a particular price.

The sensitivity of demand to changes in price will be influenced initially by whether the product or service is a luxury or a necessity. This in itself may change as products that were originally thought of as luxuries, e.g. television, cars, become reclassified as necessities.

When a product or service is first introduced to the market the demand may be influenced by many factors, such as customer type. The “Innovator” may be insensitive to price as the main purpose of purchase may be for show, or simply to be ahead of other purchasers. “Laggards” are very sensitive to price, as this is one of their main criteria for purchase.

As a product or service moves through its life, more substitutes may become available, thus making customers more sensitive to price differentials. However, as economies of scale kick in, relative price to income may fall, reducing the sensitivity of customers to price changes. Price sensitivity may be less if the product is able to acquire brand loyalty from its customers.

Clearly as a product becomes habitual or necessary, then price sensitivity may fall. Price sensitivity will differ between FMCGs and luxury goods which may attract innovators.

**[5 marks]**

An accurate definition of price elasticity is provided with a thorough explanation of why it changes throughout the life of a product or service.

**[3 to 4 marks]**

Several reasons are outlined to explain the change in price elasticity. For **[4 marks]**, an accurate definition of price elasticity is given.

**[1 to 2 marks]**

The answer may include an accurate definition of price elasticity but with little supporting explanation of changes throughout the life cycle, or the definition is missing or inaccurate, but with one or two reasons provided for the changes in price elasticity.

- (c) **Analyse the major differences between the marketing strategies that could be used to attract “Innovators” and the “Late Majority”.** **[9 marks]**

Major differences between the two groups:

**Innovators**

- risk takers
- search for the newest products with the most up-to-date technologies
- image conscious and conspicuous consumers
- competitive

**Late Majority**

- risk averse
- looking for value for money and reliability and therefore price sensitive
- influenced by earlier consumers
- suspicious of new products and resistant to change

As a result the marketing mix for the two groups are likely to be significantly different. When the Innovator purchases, there may be no competitors in the market place. By the time the “Laggard” enters the market, it is possibly saturated.

**Price:**

The “Innovator” is not price sensitive, so premium pricing is likely.

The “Late Majority” will be looking for a low, or at least competitive price, possibly with easy payment terms.

**Promotion:**

The “Innovator” will be attracted to the image of the product, its features and the technical specifications. The product will need to be ahead of the existing product and promotion should emphasize the kudos or status that the product will confer on the user. The element of risk taking may form part of the promotional strategy. Low customer numbers (2.5 %) may mean “below the line” promotion is more focused and appropriate.

The “Late Majority” will be influenced by recommendations by respected others, reputable claims of reliability and by expert endorsement. The promotion will need to emphasize value for money. Improved guarantees may be offered. “Above the line” promotion may be more used.

**Place/distribution:**

This may be highly restricted for the “Innovator”. The outlets stocking the product may also be of high status or difficult for others to access. Getting hold of the product may be competitive.

By the time the “Late Majority” enter the market, the product is widely available and stocked in a range of outlets providing purchase convenience and allowing price and package comparison for the best product.

**Product:**

The “Innovator” will be receiving the first model or edition of the product. It may be flawed or unreliable.

The product will be well tested and possibly updated, or redesigned by the time the Late Majority purchase it. It is likely to be much more reliable. Extension strategies may be applied *e.g.* new improved models with additional features.

***[7 to 9 marks]***

There is a detailed and relevant examination of marketing strategies, which includes at least two elements of the marketing mix and employing suitable marketing terminology. There is a clear and accurate distinction in approach to the strategies used for the “Innovator” and those employed for the “Late Majority”, supported by relevant examples. The clarity and depth of discussion increases at the top of the band, along with the recognition of the different customer numbers and needs/attitudes of the two customer types.

***[3 to 6 marks]***

There is consideration of marketing strategies which recognize the differences in the needs of the two customer types. At the top of the band it is likely that the candidate will consider at least one element of the marketing mix in some depth supported by relevant examples and terminology, or at least two elements less effectively.

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

A generalized answer. It may refer to the marketing mix or its elements, but in a limited fashion and/or may not differentiate adequately or accurately between the two customer types.

2. (a) Using the information in the table calculate the value of closing stock as at the end of June 2003:

(i) if the method of valuation is first in, first out (FIFO).

(ii) if the method of valuation is last in, first out (LIFO).

[8 marks]

*N.B. Calculations should be shown for each month.*

**FIFO**

Date	Purchases		Issues/Sales		Balance	
	Quantity	Price Value	Quantity	Price Value	Quantity	Price Value
	\$	\$	\$	\$	\$	\$
Opening stock (January)					12 @ 156	1872
January	140 @ 165	23100	12 @ 156 74 @ 165	1872 12210	66 @ 165	10890
February	60 @ 162	9720	66 @ 165 27 @ 162	10890 4374	33 @ 162	5346
March	160 @ 170	27200	33 @ 162 77 @ 170	5346 13090	83 @ 170	14110
April	60 @ 168	10080	83 @ 170 25 @ 168	14110 4200	35 @ 168	5880
May	150 @ 173	25950	35 @ 168 90 @ 173	5880 15570	60 @ 173	10380
June	100 @ 170	17000	60 @ 173 86 @ 170	10380 14620	14 @ 170	<b><u>2380</u></b>

**LIFO**

Date	Purchases		Issues/Sales		Balance	
	Quantity	Price Value	Quantity	Price Value	Quantity	Price Value
	\$	\$	\$	\$	\$	\$
Opening stock (January)					12 @ 156	1872
January	140 @ 165	23100	86 @ 165	14190	12 @ 156 54 @ 165	1872 8910
February	60 @ 162	9720	60 @ 162 33 @ 165	9720 5445	12 @ 156 21 @ 165	1872 3465
March	160 @ 170	27200	110 @ 170	18700	12 @ 156 21 @ 165 50 @ 170	1872 3465 8500
April	60 @ 168	10080	60 @ 168 48 @ 170	10080 8160	12 @ 156 21 @ 165 2 @ 170	1872 3465 340
May	150 @ 173	25950	125 @ 173	21625	12 @ 156 21 @ 165 2 @ 170 25 @ 173	1872 3465 340 4325
June	100 @ 170	17000	100 @ 170 25 @ 173 2 @ 170 19 @ 165	17000 4325 340 3135	12 @ 156 2 @ 165	1872 330 <b><u>2202</u></b>

**[7 to 8 marks]**

The layout and working is clear and the calculations are essentially accurate.

**[3 to 6 marks]**

The calculations contain minor errors. At the top end the layout and workings are clear.

**[1 to 2 marks]**

There are many inaccuracies and the layout and working are poor. For **[1 mark]** there must be some understanding shown.

- (b) Calculate the gross profit on the “Slider X6” for the six-month period January to June, using the two methods of stock valuation. *[3 marks]*

	FIFO	LIFO
<i>Sales:</i> 668 units @ \$220	146960	146960
Opening stock: 12 @ 156	1872	1872
Purchases	<u>113050</u>	<u>113050</u>
	114922	114922
<i>Less closing stock</i>	<u>2380</u>	<u>2202</u>
Cost of goods sold	112542	112720
 <b><i>Gross profit</i></b>	 <b>34418</b>	 <b>34240</b>

*[3 marks]*

The layout and working is clear and the calculations are accurate.

*[2 marks]*

There is a maximum of one error. There is logic in the layout.

*[1 mark]*

There are several errors, but the answer contains some accuracy and logic.

*N.B. Do not double penalize candidates bringing through incorrect figures from part (a).*

- (c) (i) Describe *three* advantages to *Gunwale Surfboards* of branding their products. *[3 marks]*

**Advantages of branding:**

- branding encourages *Gunwale Surfboard* customers to ask for the board by its brand name, reinforcing consumption habits
- the brand may distinguish the product from its competitors selling the same board, even though the product quality and function are the same
- the success of the *Gunwale Surfboard* brand may allow premium pricing
- the image associated with a brand may provide a successful barrier to entry for new competitors
- successful brand development could allow *Gunwale Surfboard* to extend its brand name into other markets such as specialist clothing or swimwear.

In a market like surfboards aimed at the young, fashionable market, the brand provides an identity and image, which can be exploited in marketing and pricing terms. Successful branding is essential if the product is operating in a competitive environment, where purchase decisions are made on a range of factors.

Award *[1 mark]* for each relevant advantage described.

(ii) Evaluate the option of switching suppliers from small local producers to *Johanssons*.

[6 marks]

*Advantages* of such a switch:

- lower cost and the potential for higher long-term profits as the result of economies of scale.
- a more consistent product as production is more advanced and standardized
- the availability of large volume to meet unexpected or increasing demand
- additional capital to expand the business without losing operational control
- rising costs of boards

*Disadvantages* of such a switch:

- less control as *Johanssons* are located overseas
- the requirement to take larger orders. This may add to stock costs, tie up cash and could leave excess stock if there is insufficient demand
- the possibility of fluctuations in currency
- professionals may reject the boards as they are mass-produced and less unique
- the image of *Gunwale Surfboards* may be affected by an inferior board
- less sensitivity to demand patterns
- transportation problems delaying delivery
- loss of expertise provided by the local producers

**The Decision**

This is not a clear-cut decision. The judgment may ultimately be a financial one, but *Gunwale Surfboards* will need to undertake substantial market research and product testing. If there is resistance from their customer base, then the idea may be a non-starter. However, it may be possible to target new market segments, where performance may be only one element alongside cost.

If *Johansson* can show that the quality is good and the *Gunwale Surfboards* brand name is sufficient to differentiate the product from competitors then a switch might be approved.

The objectives of the owners will need to be taken into account. If growth is important then such a deal may be sensible in the medium to long run.

**[5 to 6 marks]**

The discussion is balanced with the advantages and disadvantages of the switch being highlighted. The evaluation shows evidence of critical, reflective thinking.

**[3 to 4 marks]**

The discussion is sensible with some analysis of the advantages and disadvantages of the switch. A judgment should be attempted for **[4 marks]**, although it may be brief and relatively unsubstantiated.

**[1 to 2 marks]**

The answer is essentially descriptive and list-like. Some relevant points are made although there may be a lack of balance or depth.

3. (a) **What is the purpose of a company's mission statement?** **[3 marks]**

A mission statement is a philosophy or “guiding hand”, which should regulate an organization's operations and behaviour from the senior management to the most junior of employees. A mission statement provides a focus and a shared sense of purpose. It lacks specificity and is often expressed in qualitative terms. The mission statement is more than an aim or objective and should be more than a slogan. It is often expressed in a brief, but memorable manner although it should represent the reality of the firm's activities and behaviour. The mission statement provides a framework within which aims and objectives are set.

**[3 marks]**

The explanation of the purpose is detailed and may include examples. The answer highlights that the mission statement is different to an aim or objective.

**[2 marks]**

The purpose is explained, but it may be difficult to distinguish from any other aim or objective.

**[1 mark]**

A brief statement stating it is an aim and/or objective, but not really clarifying a purpose.

(b) **Analyse the potential benefits and problems associated with *Tesco's* and *Carrefour's* decision to expand their businesses in overseas locations, rather than seek expansion in their own countries.** **[8 marks]**

*Potential benefits* of expansion overseas:

- larger market and sales potential, especially if the domestic market is saturated
- the spreading of risk by not relying on any single economy
- greater opportunities for economies of scale
- location costs may be lower
- lower wage rates in countries with lower standards of living may provide higher profit margins
- restrictions on development may be less and the employment opportunities sufficient to persuade governments to offer grants and tax breaks
- competition may be less intense and existing competitors may be forced out of the market by their lack of efficiency, especially in previous command economies, such as those found in Eastern Europe
- the foreign nature of the company may provide competitive advantage and exclusivity, positioning the business in a different market segment
- first mover advantages

*Potential problems* of expansion overseas:

- lack of experience in, and knowledge of, the new market
- the advantages of customer and brand loyalty and recognition are lost
- distribution may be more costly
- distribution may be lengthy requiring greater costs in specialist equipment and storage, with higher possible risks of damage and/or loss
- PEST factors may make operations problematic *e.g.* legal restrictions, language and cultural differences
- the infrastructure may be less developed

**[7 to 8 marks]**

The analysis is balanced with detailed assessment of the benefits and problems of expansion overseas. The analysis shows evidence of critical, reflective thinking and employs examples appropriate to *Tesco* and *Carrefour*.

**[3 to 6 marks]**

The analysis is sensible and appropriate to *Tesco* and *Carrefour*, but may lack detail and/or balance, especially at the lower end of the band.

**[1 to 2 marks]**

A brief, generalized and probably unbalanced answer, which tends to description or listing.

- (c) **Evaluate the option of accelerating *Tesco*'s overseas development through the use of franchising or joint ventures. Consider both options in your answer.**

**[9 marks]**

Franchising involves the hiring out or licensing of the use of product lines and brand names to other companies in return for a royalty payment and a share of future profits. The franchise agreement specifies that the franchisee must purchase its supplies from the franchisor.

Joint ventures, such as that with Sime Darby are arrangements where two independent firms set up and jointly own a new business. Expertise and resources are pooled but no merger between the two companies occurs.

**Franchising and joint ventures have the following advantages:**

*Franchising:*

- the expansion is facilitated without the high capital cost of direct ownership of all the new businesses
- *Tesco* would save on running costs including wages and salaries, rent, stock purchase and administration
- local franchisees will have greater local knowledge of market conditions, legal requirements and cultural/social differences
- franchisees may be more committed and motivated than local managers who only work for a salary as the franchisee's return is based on performance.

*Joint Ventures:*

- two large firms pool resources hoping to create synergy
- *Tesco* are able to use the local knowledge, goodwill and distribution networks of the local organization
- access to the market may not be legally possible without a local partner
- financial risks are shared, as would be losses.

**Franchising and joint ventures have the following disadvantages:**

*Franchising:*

- franchisees may have different priorities and objectives to *Tesco*
- franchisees may break the conditions of their contract by selling additional products or not maintaining required quality levels
- there is a risk that at a later time, the franchisee may leave the business and use their experience and knowledge to set up a rival operation in the locality
- may not be so successful in other countries where the brand name is unknown.

*Joint Ventures:*

- decision making may be hampered by the additional layers of management and the need to agree on decisions
- there may be cultural clashes between the parties and objectives may not be shared
- the image of the partner company may adversely affect that of *Tesco*
- some control of operations will be lost and profits will be shared.

The decision rests on financial, legal and marketing grounds. If *Tesco* can afford to expand on its own, then the retention of control is probably worth the additional financial risk. However, in some countries it is not possible to operate without a local partner, so *Tesco* may be forced to look at franchising or joint ventures. Franchising provides the lowest cost form of expansion, but risks tarnishing *Tesco's* image. Nonetheless it is a quick and relatively inexpensive method of growth and firm's like *Marks and Spencers* employed this method in some of their overseas expansion; not with great success!

***[8 to 9 marks]***

The evaluation is comprehensive and shows evidence of critical, reflective thinking and employs examples appropriate to *Tesco*. There is a clear understanding of the two forms of expansion with detailed advantages and disadvantages. There is an attempt at a final judgment.

***[6 to 7 marks]***

The discussion is balanced with an assessment of the advantages and disadvantages of using franchising and joint ventures, although it may not be thorough.

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

The discussion tends to be descriptive rather than evaluative and the content is limited. A final judgment may not be attempted.

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

A brief, generalized and probably unbalanced answer, which tends to description or listing.

4. (a) **Analyse the advantages and disadvantages to *Shell* of setting and implementing socially responsible and ethical objectives.** **[8 marks]**

*Advantages:*

- attracts customers and employees who agree with the policy. This may have positive influence on motivation and staff turnover
- has a positive long-term effect on the local and world environment
- improves corporate image, which may provide competitive advantage and marketing/promotion opportunities
- may pre-empt legislation, and may save costs in the long run
- improved image may influence local and national governments in granting of planning permission or the provision of trading licences
- appears to contribute to improved profits for *Shell* of £10 bn in 2000.

*Disadvantages:*

- the policy may be perceived as merely a cynical or cosmetic attempt to avoid its longer term responsibilities
- the implementation may be costly, which places the firm at a competitive disadvantage
- the approach may not carry the support of investors and shareholders who may sell their investments, lowering market values
- *Shell* may come under increased scrutiny which may highlight failings leading to bad publicity, *i.e.* need to maintain a “clean image” over time.

**[7 to 8 marks]**

The analysis is balanced with detailed assessment of the advantages and disadvantages of setting and implementing socially responsible and ethical objectives. The analysis shows evidence of critical, reflective thinking and employs examples appropriate to *Shell*.

**[3 to 6 marks]**

The analysis is sensible and appropriate to *Shell*, but may lack detail and/or balance, especially at the lower end of the band.

**[1 to 2 marks]**

A brief, generalized and probably unbalanced answer, which tends to description or merely a list.

- (b) **Define, with examples, “intangible assets” and explain how these assets benefit businesses like *Shell*.** **[5 marks]**

Intangible assets are non-physical fixed assets, which nonetheless add value to a business and provide income-generating resources. These intangible assets include goodwill, investments, patents, copyrights and trademarks, brand names and research and development

Intangible assets add value to a business as they provide additional income-generating opportunities. Goodwill or customer loyalty increases sales values. Brands improve product recognition, image and desirability. Patents, copyrights and trademarks maintain competitive advantages by protecting new inventions or ideas, providing an opportunity for revenue maximization. Fees can be charged to individuals or companies wishing to use works covered by copyright or to obtain licences to produce patented products. Research and development expenditure may generate considerable future revenues.

In the case of *Shell*, their brand-name and logo are protected and can be used for promotional purposes and to create brand loyalty. Patents are held on certain by products of oil-refining and distillation. Goodwill is substantial.

**[5 marks]**

The definition of intangible assets is clear and accurate, and is supported by relevant examples. The answer clearly illustrates how these assets benefit *Shell*.

**[3 to 4 marks]**

The definition is clear and accurate although examples may be omitted. There is an attempt to illustrate how intangible assets benefit *Shell*. This may be brief.

**[1 to 2 marks]**

The definition may be poor and the benefits derived limited in number and/or illustration.

**(c) Assess how, and to what extent pressure groups like *Greenpeace*, can impact on the decision making of large corporations.**

**[7 marks]**

Pressure groups are groups of individuals with a shared interest, but without direct political power, who nonetheless attempt to influence political decision making at local, national or international levels. Pressure groups are one way in which stakeholders can exert influence over decision makers in businesses.

**Methods** by which pressure groups can impact on the decision-making of large corporations:

- they can seek to influence the behaviour of consumers through directed campaigns. For instance, *Greenpeace* picketed *Shell* petrol stations across Europe in an attempt to persuade motorists to buy their petrol elsewhere. Alternatively, consumers may be encouraged to alter lifestyle or behaviour, which may have a direct or indirect effect on the sales and profitability of businesses.
- by lobbying politicians, pressure groups may hope that changes are made to laws or new statutes introduced. This may restrict the commercial activities of firms and may increase regulation of industries. This may increase the costs of production, through say new health and safety regulations
- investors may be discouraged by pressure groups from providing funds
- recruitment and retention of staff may become more difficult as potential and existing employees react to negative stories
- media campaigns may be employed by pressure groups which adversely affect corporate image and marketing effectiveness
- pressure groups may attempt to gain power on the board of directors by the purchase of shares and election of sympathetic directors
- direct action such as intimidation and threats.

The effectiveness of direct action, lobbying or media campaigns is influenced by some of the following factors:

- the financial strength and organizational ability of the pressure group. A group that is able to produce professional materials and recruit effective full time campaigners is likely to be more successful than individuals or small groups pursuing change in a part-time capacity
- the ability to capture the mood and sympathy of the general public
- access to prominent politicians through effective lobbying
- the reputation of the pressure group and the respect in which it is held by the general public

***[6 to 7 marks]***

The answer presents a cogent and comprehensive assessment of the methods by which pressure groups influence decision making and the factors which affect their likely success. The answer uses suitable examples.

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

The assessment is thoughtful, but may be brief on the methods employed or the factors influencing success.

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

A brief, generalized answer, which tends to description or merely lists.

5. (a) **Explain what is meant by “outsourcing” or “subcontracting”. Suggest activities in a firm which might be suitable for outsourcing or subcontracting, and explain why.** **[5 marks]**

Outsourcing or subcontracting is the transfer of internal activities to an outside firm or third party. The kinds of activities, which would be suitable for such treatment, might include:

- catering
- cleaning
- payroll
- recruitment and training
- security systems
- property and ground maintenance
- information systems
- customer communications.

The reasons for outsourcing or subcontracting, is to:

- employ others who have skills that are not available internally, or are not so specialist
- concentrate on “core activities”, which are perceived as central to the achievement of the organization’s objectives
- to cut costs on the assumption that the contract is negotiated at a lower cost without affecting service or quality
- to reduce the numbers receiving payments and benefits such as pension contributions and sickness benefits.

**[3 to 5 marks]**

The explanation of outsourcing or subcontracting is clear. The activities identified as suitable for outsourcing are appropriate and sensible reasons are provided for their choice.

**[1 to 2 marks]**

There may be lack of clarity in definition, although some understanding is shown. There is an attempt to identify suitable activities, or a suitable activity, although the reasons may not be provided or are poor.

- (b) **Assess how the introduction of new information and communication technologies has contributed to changes in organization structures and corporate culture.** **[8 marks]**

New information and communication technologies include:

- e-mail
- the world wide web
- satellite communication
- mobile telecommunications
- laptop and palm-held computers
- ISDN lines
- smart cards
- video-conferencing
- pdas.

The question provides an opportunity for a broad range of answers and discussion. It is to be expected that some of the following may be addressed, although these may not be exhaustive and intelligent answers should be rewarded:

- New ICT systems reduce the need for individuals to work at a head office. Homeworking is the obvious result, but increasing mobility of individuals means that organizations can become more customer-focused and mobile. There are significant discussion opportunities surrounding the changes in organizations' structure, to include this more peripheral and non-standard workforce and the effect on motivation and reward systems.
- The location and focus of business transactions has changed. E-commerce is expanding rapidly. The largest growth area in employment in many developed societies is in call centres. The result has been the "downsizing" of administrative staff, the flattening of hierarchies and the movement away from large numbers of staff in megalithic city-based headquarters. The reward and security structures of these staff, many of whom are part-time, may be worse than traditional full time staff.
- The new industries, especially in the tertiary sector are changing their traditional organization structures, encouraged by new ICT technologies into ones which contain smaller core teams, and more contract and peripheral staff who may be project based. Traditional line hierarchies are being replaced with matrix structures and tight-loose structures to aid flexibility.
- There is a potential for increased globalization of operations and markets.

In general, answers should conclude that organization structures are becoming more flexible, many organizations are reducing the size of their "core staff" and replacing these with a more transient workforce. One result is the large increase in homeworking and net-based operations.

Corporate culture is being affected in that the traditional image of the corporate family is being reduced and the motivation hierarchies, such as that put forward by Maslow are less relevant. Cultures are becoming, by necessity, more dynamic, task and customer focused. Organizations are becoming more organic with an emphasis on contingency approaches. These changes may be less pronounced in LEDCs and in more traditional secondary sectors.

***[7 to 8 marks]***

There is a clear understanding of the new technologies and their effects. The answer addresses change in both organization structures and corporate culture and is quite wide ranging. There is an intelligent assessment of the nature and significance of the change and the answer employs relevant business terminology.

***[5 to 6 marks]***

There is a good understanding of the new technologies and their effects. The answer addresses change in both organization structures and corporate culture although this may lack some detail. There is an attempt to assess the nature and significance of the change and the answer employs some relevant business terminology.

***[3 to 4 marks]***

The answer focuses on only a few technologies and although change is addressed, the discussion may be general and may not address both changes in organization structures and corporate culture.

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

A brief, generalized and probably unbalanced answer, which tends to description.

(c) **Analyse the consequences of changing work patterns and practices on the recruitment and training of staff.**

*[7 marks]*

The key changes in working practices and patterns are:

- fewer core staff on full benefits
- more flexible structures, involving outsourcing, contract work, project-based operations and the greater use of consultants
- more part-time and peripheral staff
- a more mobile workforce
- greater numbers of employees working from home or outside of the “traditional office”
- flatter hierarchies
- portfolio working and multi-skilling
- more empowered employees.

These changes are likely to have significant effects on recruitment and training.

**Recruitment:** Firms will be searching for:

- “flexible” workers in terms of location, working hours and skills
- increasing numbers of part-time or temporary/contract staff
- employees who are willing and able to work at a high skill level from day one
- employees who have the ability to take control of their working environment, especially if they are “contract staff”
- “key employees” who are highly skilled and well educated, who will join the elite of the core team, and will be rewarded with the whole range of company benefits
- employees with good ICT training and experience
- employees with excellent “customer skills” if they are front line staff.

**Training:**

- firms will be less willing to train peripheral and contract staff
- they will be making significant investment in fewer, core staff
- there is an increasing expectation that staff will be constantly updating their skills – “lifelong learning”, often at their own expense
- some of the traditional induction training may not be necessary
- training periods are likely to be lower
- banking staff in call centres, for example, will be expected to train only for a few weeks to acquire ICT skills, whereas traditional bank clerks would learn over a number of years, combining on the job training with external courses and accreditation
- more training is now offered “on-line” from home.

*[6 to 7 marks]*

There is a clear and comprehensive analysis of the effect of changing work patterns and practices on recruitment and training. There is a recognition of the need to have flexible and adaptable staff. Good examples are provided to support discussion.

*[3 to 5 marks]*

The analysis is thoughtful, but may be limited in terms of the effects. At the upper end the changing requirements of firms are recognized.

*[1 to 2 marks]*

A brief, generalized answer, which tends to description or merely lists.

6. (a) **Explain possible changes in the underlying conditions of supply and demand for commodities, which may have contributed to their falling prices (in real terms) over the last 40 years. Suggest which changes are most likely to have lowered price.**

*[6 marks]*

Underlying conditions of supply and demand are those non-price factors which lead to increases or decreases in demand for, and supply of a product, which lower market price. The following are suggestions for changes, which might have led to the long-term fall in commodity prices.

*Underlying conditions of supply:*

Factors, which may have led to an increase in supply resulting in an outward shift of the supply curve:

- improved plant husbandry, better irrigation, improved fertilizers – more hardy, pest and drought resistant plants leading to higher yields
- possible genetic modification
- more mechanization of production
- improved techniques, knowledge and training – a more skilled and efficient workforce
- more producers in more countries - few barriers to entry
- Improved storage and transport systems resulting in more, and better quality supplies
- better weather patterns
- government subsidies to producers
- the need to produce more cash crops to bring in foreign currency, especially if local currencies weaken
- failure of producer association (the ACPC cartel) to regulate supply and maintain quotas.

The result would be a glut and the build up of large buffer stocks, which could keep prices lower in western markets.

*Underlying conditions of demand*

Factors, which may have led to a decrease in demand resulting in an inward shift of the demand curve:

- more substitute products
- cheaper substitute products
- prices of complementary products increases e.g. nuts, whey
- health issues lower demand
- population consuming cocoa falls
- economic recession reducing effective demand
- expected decrease in future prices.

The result would be less demand at every price.

In reality the supply side-side factors are likely to be dominant for food products. Substitute products have been found for other commodities such as copper. Prices are set in western commodity markets and imposed on producers by large western oligopolies.

***[5 to 6 marks]***

Possible changes in both the underlying conditions of supply and demand are identified and the effect of market price explained. The suggestions for the most important factors leading to a price reduction are sensible. Appropriate terminology is employed.

***[3 to 4 marks]***

Some changes in the underlying conditions of supply and demand are identified, although the selection may not be a balanced. There is some attempt to explain the effect on market price. The suggestions for the major factors leading to a price reduction are sensible.

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

The identification of underlying factors is weak and the connection to price change may be poorly explained or absent. The major factors selected may be unlikely or no factors are selected at all.

- (b) Assess the competitive advantages that multinational companies have over smaller national cocoa producers in less economically developed countries, and comment on whether small producers can have a viable future.**

***[6 marks]***

The advantages that multinationals companies have, include:

- economies of scale in production, distribution, marketing and administration leading to lower costs
- knowledge of world market conditions and the technology to predict future supply and demand patterns
- research and development programmes and technology to improve yields
- the opportunity to source cocoa from a number of countries, which may enable them to bid prices down
- vertical integration allowing control over the distribution of cocoa
- the economic power to “encourage” national governments to allow them access to markets and production advantages
- buffer stocks to regulate pricing
- the ability to cross subsidize if losses are made in one or more years
- well known brand names.

These are significant advantages in a global market and are likely to lead to greater market share for MNCs. The only way that small producers can survive is to act together to achieve economies of scale, or to provide some form of unique selling proposition, such as organic products. This may be in the form of better quality products, unusual and superior varieties, financial and trade support from national governments or concentrating production for domestic markets.

However, producers of commodities are usually found in LEDCs and they do not have the financial clout to invest in new technologies and are rarely supported by governments under pressure to pay off large international debts. The future of most smaller producers is certainly in doubt.

**[5 to 6 marks]**

The competitive advantages of multinational companies over smaller national cocoa producers in LEDCs are competently assessed and the evaluation of the viability of these small firms focuses on their basic weaknesses, whilst making some suggestions for their possible survival.

**[3 to 4 marks]**

The competitive advantages of multinational companies over smaller national cocoa producers in LEDCs are listed, rather than assessed. They may be limited in number. It is recognized that small firms are at a disadvantage, but little is offered in way of suggestions to improve their competitive position.

**[1 to 2 marks]**

The answer is brief and descriptive and may not address all the issues in the question.

- (c) (i) **Evaluate *two* potential methods available to *Fair Trade* to select a sample for their market research.** **[4 marks]**

*Potential sampling methods include:*

**Random samples:** Random, systematic and stratified

Random sampling requires the use of a sample frame, which is a complete list of the population in which *Fair Trade* is interested. This would be very difficult and hugely expensive to achieve, although it would allow calculation of sample error. These methods are not appropriate.

**Non-random samples:** Cluster, quota, snowballing and multi-stage.

Non-random sampling methods select individuals for questioning based on predetermined criteria related to the population structure:

- cluster sample – involves making a random selection from groups of individuals. Everybody in the selected group is interviewed. Used when a population is widely dispersed.
- quota sample – the population is divided up according to known characteristics such as age, sex and occupation. A quota is selected for each category. The selection of whom to interview is not made randomly, but chosen by the interviewer.
- multi-stage sampling – a series of samples are taken at successive stages, such as a county, then a city, then a town, then a street. This is used when a cluster sample is too large.
- snowballing – interviews are carried out with individuals, who then suggest other individuals to increase the sample. Used for specialist research.

The most likely form of sampling would be quota or cluster sampling based on areas where *Fair Trade* might open a café. Secondary research could be used to identify the groups of individuals likely to visit a *Fair Trade* café.

**[3 to 4 marks]**

Two sampling techniques are selected and explained, although this may not be completely accurate for **[3 marks]**. A choice is made with some attempt to justify the choice backed up by sensible discussion.

**[1 to 2 marks]**

The answer is limited, but there is clear evidence that the concept of sampling is understood. The candidate must be able to mention more than one sampling method to achieve **[2 marks]**.

**(ii) Analyse possible sources of secondary data that will help Fair Trade judge the potential for their products and services. [4 marks]**

Possible sources of secondary data could include:

- company records / database of previous purchasers of *Fair Trade* products
- government statistics on Social Trends and Family Expenditure
- Retail and Market audits
- analysis of competitors
- trade information - trade press, trade associations, specialist publications
- economic forecasts

Clearly combinations of such data is necessary. There may be little specific data if there are limited examples of organic manufacturers. As the product is a luxury item, retail audits and market reports are likely to be useful as is data on social attitudes and trends linked to economic data. This would allow *Fair Trade* to judge whether sufficient demand for their product exists, and factors like elasticity of demand.

**[3 to 4 marks]**

Relevant sources of secondary data are identified and linked to the needs of *Fair Trade* and its products.

**[1 to 2 marks]**

Sources of secondary data are identified, although they may not all be appropriate or relevant to *Fair Trade* and its products.

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