



MARKSCHEME

November 2008

BUSINESS AND MANAGEMENT

Higher Level

Paper 1

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SECTION A

1. (a) Describe *three* of Alison Modano’s responsibilities as the human resource manager for *Organix*.

[6 marks]

The responsibilities of a human resource manager include:

- planning workforce requirements (assessing current workforce and assessing future requirements) and recruiting staff as appropriate
- induction and training of new staff
- matching employee skills to the strategic direction of the business
- developing a competitive advantage by maximizing quality and motivating the workforce to perform at their best – this will include training as well as employee monitoring and appraisal
- maximizing the efficiency of the workforce
- monitoring and maintaining relations between employees and employer
- *any other relevant responsibilities.*

[5 to 6 marks]

A clear description of three responsibilities of the human resource manager at *Organix*. Award a maximum of **[5 marks]** where the responsibilities are not directly related to Alison Modano’s role at *Organix*.

[3 to 4 marks]

A detailed description of two of the responsibilities of the human resource manager or some description of three responsibilities though this may not be directly related to Alison Modano and *Organix*.

[1 to 2 marks]

A limited answer that may simply list responsibilities.

N.B. the distinction between a “clear” description and “some” description may be for example the difference between one area of responsibility being planning workforce requirements with details of at least two of the areas above as opposed to “she is responsible for hiring new staff”.

(b) Define the term *staff turnover* (lines 117-118).

[2 marks]

Staff turnover can be measured as the percentage of staff who have moved on in a given time period (usually one year). A high staff turnover indicates that a large proportion leaves the organization; this may be symptomatic of low morale, low pay rates or the job market in a particular geographic location – but it is usually regarded as a bad thing for the organization (as it means increased expenditure on recruitment and training).

$$\frac{\text{Number of staff leaving per year}}{\text{Average number of staff}} \times 100$$

[2 marks]

A clear definition showing understanding of the meaning of the concept. The definition may be supported by a formula or a description of its elements using a proportion or percentage, and indication of the analytical usefulness of the concept.

[1 mark]

A general statement indicating that many staff are leaving *Organix*. Reference to the formula is not necessary.

- (c) **Alison Modano is arguing that wages for serving staff in the restaurant should be increased by 35 % (line 127). Evaluate her claim “that the resulting lower recruitment and training costs as well as higher productivity will compensate for the higher wage levels” (lines 128-129).**

[8 marks]

Alison Modano’s argument revolves around the premise that the increase in wages will reduce staff turnover. If this is the case then the lower staff turnover will lead to lower recruitment costs as they will not need to replace staff as often. This in turn should reduce training costs as once staff are trained, if they stay longer, then they will not need subsequent training and so training costs will be reduced. Higher productivity, if it can be achieved, will help to reduce unit costs and so will help reduce relative staffing costs helping to compensate for the higher wages.

However, there are a number of issues that could be raised when considering these arguments:

- Would the higher wages really reduce staff turnover? This may depend on the available pool of labour in the local area. If the main people available to be employed are young people or students, then they may simply plan to work for a period of time to fund further study or to gain experience to move on elsewhere. If this is the case turnover may remain high despite the higher wages. A local labour survey may help provide some of the answers to this. If there are people looking for medium-term employment then the premise may be correct.
- Would training costs really fall? If the majority of the training is done, as seems likely, as on-the-job training, then the costs of constantly training new staff may not be significant. This premise will depend also on the level of skills required for the work – if they are relatively low then the training costs will also be low.
- Would recruitment costs fall sufficiently to cover the extra wage costs? A 35% increase in wages will significantly increase the wage bill for the restaurant, which could already be considered a relatively labour-intensive operation. This would lower margins considerably. Recruitment costs are likely to be relatively low, so to what extent is it likely that the two financial forces will counter each other?
- Will productivity really increase? The job under consideration is perhaps one where gains in productivity are likely to be relatively insignificant and so even if staff are better motivated, it may be that there is relatively little scope for productivity gains. What may be more important for Alison, Max and Terry to consider is the impact on customer service and the extent to which this may improve if wages are raised. This may be indeed be an important issue for a business where customer perception and reputation are both crucial.
- *Any other relevant arguments.*

[6 to 8 marks]

There is a detailed and balanced evaluation of the claim with a clear understanding of the implications of higher wages in the restaurant. The answer is closely related to the case and business theory and terminology are used appropriately where relevant. A substantiated judgment is offered.

[3 to 5 marks]

The answer considers the claim but may not be balanced and any judgments may not be adequately substantiated and so the evaluation may be limited. The answer is generally related to the case, though this may be limited and perhaps tend to be descriptive at the lower end of the range.

[1 to 2 marks]

A limited and essentially descriptive answer.

2. (a) Describe *two* elements that you would expect to find in *Organix*'s business plan (*line 43*).

[4 marks]

A business plan may include a number of elements, such as:

- Analysis of potential market – the business plan may include projections for the growth in the market and the level of demand. This will help *Organix* ensure that there is a market available for their products and therefore that the proposed expansion is viable. It may also include relevant market research as evidence for this potential.
- Financial projections – the business plan will include financial projections for the planned expansion. This will help them to consider the financial viability of the expansion and the nature of any finance required for the expansion. They will then be able to apply in advance for loans and any other finance requirements.
- Human resource requirements – the business plan may well include the staffing requirements for each element of the expansion plan to help them plan future workforce requirements.
- Production and development – this element of the business plan may consider the current state of development of each of the proposed products/business areas and any development work that will be required to make them ready for market. It should also include any development costs.
- *Any other relevant element.*

[3 to 4 marks]

A clear description of two elements. For [4 marks] the description is directly related to *Organix*'s planned expansion. The relation to the case study may be more limited for [3 marks].

[1 to 2 marks]

A clear description of one element or identification of two elements.

- (b) **With reference to *Organix*, distinguish between strategic objectives and operational objectives.**

[4 marks]

Strategic objectives refer to the high-level and long-term decisions of *Organix* that set the overall direction of the organization. These decisions will be dealt with by Max or Terry such as which type of organic crop to grow, major investment decisions or organizational restructuring.

Operational decisions refer to the day-to-day decisions such as whether or not to hire staff on a daily basis or to deal with customer queries at the farm shop.

[3 to 4 marks]

Strategic objectives and operational objectives are distinguished between, and for **[4 marks]** the explanation is directly related to the case study. The comments may be lacking some detail at the lower end of the range.

[1 to 2 marks]

There is some consideration of the distinction between strategic objectives and operational objectives but this may lack detail and may not be related to the case study.

- (c) (i) **Using a SWOT framework, identify *four* opportunities available to *Organix*.**

[4 marks]

The candidate need not draw a SWOT framework but they should recognise that opportunities are external to the business.

Opportunities

- growing interest in the local area and nationally in fresh, organic produce
- strong local and global demand for fresh, organic produce
- growth in tourism demand and associated activities may offer potential for holiday accommodation market
- operational synergies between retail outlets, which have limited working capital requirements, and sales to distributors
- vertical integration.

Candidates should be credited for other appropriate points.

Award [**1 mark**] for each relevant opportunity identified up to a maximum of [**4 marks**].

- (ii) Discuss whether *Organix* would be better able to take advantage of two of the opportunities identified in part (i) if they converted “from a partnership to a limited company” (line 155).

[8 marks]

The precise answer to this question will depend on the opportunities chosen and the way in which candidates have answered 2(c)(i). A possible example of appropriate discussion might include:

- growing interest in the local area and nationally in fresh, organic produce – if this is the case, it may be that *Organix* can take better advantage of it as a limited company. To be able to take advantage of the growing demand will require expansion of their marketing and production activities and perhaps the opening of further outlets. All of this will require finance and a limited company may be in a better position to raise finance and therefore take advantage of these opportunities. It may also be that expansion to take advantage of these opportunities will mean greater risk. Terry is essentially risk-averse in nature and the greater risk also means greater risk of failure. This risk may be better managed if *Organix* was a limited company and therefore had limited liability.
- *relevant discussion of other opportunities.*

[6 to 8 marks]

The discussion of the potential for taking advantage of the opportunities is detailed and balanced. The discussion is directly related to the issue of converting from a partnership to a limited company and business theory and terminology are used appropriately where relevant.

[3 to 5 marks]

There is some discussion of the potential for taking advantage of the opportunities, though this may be relatively limited and descriptive at the lower end of the range and may not be directly related to the issue of converting from a partnership to a limited company.

[1 to 2 marks]

A limited and essentially descriptive answer.

N.B. Award a maximum of [4 marks] where candidates have offered a detailed discussion of the opportunities offered by converting from a partnership to a limited company, but these are not related to the opportunities identified in the SWOT analysis.

Award a maximum of [4 marks] where candidates have offered a detailed discussion of **one** opportunity offered by converting from a partnership to a limited company.

Candidates should not be penalised if their opportunities identified in 2(c)(i) are incorrect. If the candidate has applied the opportunities to the change to limited status then they can be rewarded as above.

3. (a) (i) Define the term *mission statement* (line 59).

[2 marks]

A mission statement is a brief description of a company's fundamental purpose. A mission statement answers the question, "Why do we exist?" The mission statement articulates the company's purpose for internal and external stakeholders.

[2 marks]

A clear definition of the term that shows a good understanding of its meaning for example by referring to different stakeholders.

[1 mark]

A definition that shows some understanding of the term but may lack in detail or depth. For example a statement that could be interpreted as the "vision" of the company.

- (ii) Explain how *Organix's* mission statement could help them devise an appropriate marketing strategy.

[4 marks]

The mission statement of *Organix* is “*Organix: The Natural Way of Thinking*”. The statement was written to provide an overarching purpose for the business and to help in the creation of a single brand identity. This means that the mission statement can form an important element of the overall marketing strategy. The purpose of the single brand identity is to support a joint marketing strategy for the farm, the restaurant and the farm shops. This will help provide an overall focus for all these different areas and develop customer perception of an overall brand. The mission statement will therefore help ensure that this approach is integrated into the marketing strategy.

The mission statement is targeted at both internal and external stakeholders. For external stakeholders like customers, the marketing strategy can be aimed partially at unifying the target markets and cross-selling across the different areas. For example, customers at the restaurant may be persuaded to purchase from the farm or farm shop and the mission statement may help give the overall coherence to the brand. It also helps to build customer perception and stresses what the partners feel are the principal features of the brand – the natural and organic products. For internal stakeholders like employees the mission statement may help unify the different business activities and remind employees that they should act in the interests of the business/brand overall rather than just the element they work for.

The development of the mission statement, while in itself arguably symbolic could nevertheless be argued to be fundamental to the intended direction of the business and its overall marketing strategy.

[3 to 4 marks]

A clear explanation of the role of the mission statement in the formulation of *Organix's* marketing strategy. Business theory and terminology are used appropriately where relevant and applied to the case.

[1 to 2 marks]

A limited answer that may incorporate some limited explanation and information about marketing, but this may be unrelated to the mission statement and/or the case.

- (b) **Prepare a marketing mix for the new farm shop that is scheduled to open in December 2008 (lines 48-49). Your proposals for each element of the mix must be justified.**

[10 marks]

The marketing mix needs to cover the four P's. It may consider more P's than this and these should be credited as appropriate, though we would expect the principal emphasis to be on the four P's. A range of answers are possible and students should be credited for valid points where these are explained and argued as appropriate. Possible valid points could include:

Price – the nature of the products sold by the farm shop means that they command a premium over and above comparable products because of their organic nature. As the case study indicates “As this was a niche market, Max and Terry were able to charge premium prices for their organic products.” (lines 18-19). The farm shop is planning to sell crops from the farm and while these may command a small premium over conventionally grown products, it may not be that significant. They are also planning to sell products produced in the local area and it may be that these can command more of a premium price. The pricing strategy for the farm shop is therefore likely to be some combination of cost-based and premium pricing – either could be effectively argued.

Product – in the current farm shop, 60 % of the products come from the farm. However, this was being developed and so the new farm shop is likely to represent an extension of this development and the proportion of farm products stocked may be lower. It is hoped that more local products will be stocked and that the USP will be their socially responsible nature. As part of this the “food miles” of each product will be displayed.

Promotion – promotion may take a variety of forms. Some will be below-the-line and some above-the-line. Advertising in local papers and perhaps local magazines is likely with discount coupons and introductory offers as before. Point of sale promotion is also likely to be a key part of the promotional mix given John's belief that passing trade is a crucial element of overall demand. Their target market is “socially responsible” people and so promotion is likely to be targeted to try to reach this group.

Place – this is perhaps the least important element in the context of the farm shop. The channel of distribution is relatively clear and simple – direct from producer (farm) to retailer (farm shop). The channel of distribution is similar for other products produced by other local businesses.

Candidates should be credited for other relevant points.

[9 to 10 marks]

A detailed and balanced marketing mix covering the principal four areas. The marketing mix is relevant to the case and each point raised is justified. Marketing theory and terminology is used appropriately where relevant and the various elements are complementary to each other.

[6 to 8 marks]

A marketing mix with detailed coverage of at least three of the principal four areas though the other one may be lacking detail or balance. The marketing mix is relevant to the case and each point raised is analysed. Marketing theory and terminology is generally used appropriately where relevant.

[3 to 5 marks]

A marketing mix that may be lacking detail and/or balance. There may be detailed coverage of at least two areas though the other one or two may be lacking detail or balance. The points raised are generally related to the case study, though some points may not be adequately explained.

[1 to 2 marks]

A marketing mix with some relevant marketing issues raised but these may be limited, unbalanced or may simply be listed without any explanation.

4. (a) Identify *two* sources of conflict between Terry and the farm workers. [2 marks]

There are various possible sources of conflict at *Organix* between Terry and the farm workers. These may include:

- Terry's management style has led to a high turnover of staff and the potential for conflict
- close monitoring of all the farm worker's work may lead to the potential for conflict as they may feel a lack of empowerment and this may lead to mistrust and conflict
- low wages – the combination of low wages and the above points may lead to the potential for conflict
- quality control – Terry does not allow workers to finish for the day until work is completed to the quality standards that he sets and this may lead to the potential for conflict
- *any other relevant point.*

Award **[1 mark]** for each relevant source of conflict identified up to a maximum of **[2 marks]**.

(b) Examine *two* strategies to help resolve *one* of the conflicts identified in (a). [6 marks]

The answer to this part will depend on the nature of the conflicts identified in (a). The answer should include two appropriate strategies and an examination of each of them. For example, if the conflict over wages is chosen, a possible strategy could include:

- Negotiation through an intermediary – the intermediary could perhaps be Max or someone independent and a solution could perhaps be discussed. Negotiation through an intermediary may be more effective than direct negotiation between the two parties. To be effective this process would require agreed outcomes – perhaps formally agreed, with a series of targets and outcomes to solve the situation. This approach may have a number of problems – difficulties reaching an agreement, difficulties in agreeing outcomes and targets to resolve the conflict and perhaps entrenched positions on either side of the negotiations. Even if some kind of agreement over wages is reached, it may prove difficult to implement that agreement. Other issues raised may also be related to underlying needs of the two parties and these may need to be addressed as part of the negotiations as well to ensure that these are met. This is likely to lead to a more lasting and enforceable agreement. Effective communication is likely to be crucial as part of this process.

Candidates should be rewarded for an appropriate examination of other strategies.

[5 to 6 marks]

A detailed examination of two appropriate strategies to resolve the conflicts. The examination is balanced and directly relevant to (a).

[3 to 4 marks]

Some examination of appropriate strategies to resolve the conflicts though the examination may lack detail and balance and tend to be essentially descriptive at the lower end of the range. For a detailed examination of just one appropriate strategy award a maximum of **[3 marks]**.

[1 to 2 marks]

A limited and essentially descriptive answer that may incorporate some information about conflict, but this may be unrelated to the case or simply a series of listed points.

SECTION B

5. (a) (i) **Define the term *gross profit*.** **[2 marks]**

Gross profit is the level of profit calculated by taking the value of sales less all costs directly related to those sales. These costs can include manufacturing expenses, raw materials, the cost of labour and other direct costs.

[2 marks]

A clear definition of the term that shows a good understanding of its meaning. Reference should be made to direct costs.

[1 mark]

A definition that shows some understanding of the term but may lack in detail or depth.

(ii) **Using the figures above, prepare the balance sheet (as at 31 December 2006) and the profit and loss account (for the year ended 31 December 2006) for *Organix*.** **[6 marks]**

Organix

Balance sheet as at 31 December 2006

| | |
|-------------------------|-------|
| Figures as at 31 Dec 06 | \$000 |
| Fixed assets | 800 |
| Cash | 29 |
| Stock | 71 |
| Debtors | 50 |
| Current liabilities | 64 |
| Net assets | 886 |
| | |
| Loan capital | 745 |
| Retained profit | 141 |
| Capital employed | 886 |

Organix

Profit and loss account for the year ended 31 December 2006

| | |
|------------------------------------|-------|
| Figs for year ending 31 Dec 06 | \$000 |
| Total sales revenue | 975 |
| Gross Profit | 230 |
| Expenses | 265 |
| Net profit before tax and interest | -35 |
| Interest | 35 |
| Tax | 0 |
| Net profit after tax and interest | -70 |

[5 to 6 marks]

A detailed and accurate balance sheet and profit and loss account. For **[6 marks]** the accounts are completely accurate and appropriately laid out. For **[5 marks]** there may be up to two minor errors in calculation or perhaps layout.

[3 to 4 marks]

A generally correct balance sheet and profit and loss account with a number of minor errors in calculation or perhaps layout of the accounts.

[1 to 2 marks]

An attempt to prepare a balance sheet and profit and loss account, but there are a number of errors.

(b) Using the balance sheet and profit and loss account prepared in (a), calculate the following:

(i) gross profit margin

(ii) net profit margin

(iii) current ratio

(iv) acid test ratio.

[4 marks]

- gross profit margin (%): 23.59
- net profit margin (%): -3.59 (or -4.8%)
- current ratio: 2.34
- acid test ratio: 1.23

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

- (c) Discuss *two* reasons for *Organix* suffering a loss in 2006 (*lines 137-139*). [8 marks]

There are a number of reasons why *Organix* may have suffered its first loss in 2006. These may include:

- The performance of the restaurant – the average capacities in the restaurant have been falling. It may well be that, given the cost structure of the restaurant, the break-even level of output is at a fairly high level of occupancy and the falling levels have pushed the restaurant below break-even.
- *Organix* may be fairly highly geared with a significant mortgage. It could perhaps be that higher interest payments due to higher debts may have caused higher overhead costs. There is an indication in the case that the bank is reluctant to lend further funds at the moment and this may indicate high gearing or some deterioration in financial performance.
- The expansion of the firm may have pushed up staffing costs and led to faster growth in costs than revenue.
- The development of the new farm shop may have required significant funding and may have drawn funds away from more profitable uses and may also have raised costs without matching revenue streams.
- The farm's products have always been subject to significant price variation due to the vagaries of supply and demand in international commodity markets. It may be that low prices have led to lower revenues for a time and therefore contributed to a loss.
- *Any other relevant point.*

[6 to 8 marks]

There is a detailed and balanced discussion of two possible reasons for the financial loss. The discussion recognizes related financial issues and theory. The discussion is related to the case, and business theory and terminology are used effectively and appropriately where relevant.

[3 to 5 marks]

There is a detailed discussion of one possible reason for the financial loss or an examination of two possible reasons that is lacking detail and/or depth. At the lower end of the band the answer may be relatively incomplete and tend to be descriptive. There is some understanding of finance theory. The discussion is generally related to the case.

[1 to 2 marks]

A limited and essentially descriptive answer.

6. (a) Identify *two* variable costs that the *Organix* farm incurs. [2 marks]

Possible examples of variable costs at the farm may include:

- fuel for farm vehicles – this will be a higher cost the more that is produced *i.e.* the more they are used
- fertilizer (organic) costs – the more that is produced, the higher these costs will be
- water – if watering is required and this is paid for by metering then this will be higher the more is produced
- seed – the costs of seed will be higher the more is produced
- wages of crop pickers – *Organix* currently employs seasonal pickers for their crops
- *any other relevant variable cost.*

Award [1 mark] for each appropriate variable cost identified up to a maximum of [2 marks].

(b) Comment on the likely impact on the cost structure of *Organix* if the new harvesting machinery is purchased. [4 marks]

The direct impact of the harvesting machine on variable costs is likely to be fairly minimal. The cost of fuel for the machine is probably the only direct extra variable cost resulting from its purchase. Many of the other costs associated with the machine (maintenance, servicing, perhaps interest payments and so on) are likely to be fixed costs, perhaps with a semi-variable element. However, the new harvesting machine is likely to result in far fewer seasonal workers being required to harvest the crops and this will help reduce variable costs. Given the cost of employing seasonal pickers, however, this impact may not be that significant. The greater efficiency of the machine though may result in lower variable costs per unit of picking the crops.

[3 to 4 marks]

The impact of the new harvesting machine on the cost structure is considered in detail, and the emphasis should be on the addition to fixed costs. For [4 marks] the explanation is directly related to the case study. The comments may be lacking some detail at the lower end of the range.

[1 to 2 marks]

There is some consideration of the impact of the purchase on the cost structure but this may lack detail and may not be related to the case study.

- (c) Calculate the payback period *and* net present value for both the Harvester and PickIT machines using a discount rate of 8%. (Show all your working) [6 marks]

Payback period:

Harvester 3 years 214 days (accept 3 years 7 months)

PickIT 3 years 54 days (accept 3 years 2 months)

Net present value:

| | Harvester \$000 | Present value (\$000) | PickIT \$000 | Present value (\$000) |
|----------------------|---------------------------|--------------------------|------------------------|--------------------------|
| Capital cost | 245 | | 170 | |
| Net cash flow | | | | |
| Year 1 | 55 | 50.93 | 35 | 32.41 |
| Year 2 | 65 | 55.705 | 50 | 42.85 |
| Year 3 | 75 | 59.55 | 60 | 47.64 |
| Year 4 | 85 | 62.475 | 70 | 51.45 |
| Year 5 | 100 | 68.1 | 85 | 57.885 |
| | | | | |
| Total | 380 | 296.76 | 300 | 232.24 |
| Less investment cost | | 245 | | 170 |
| Net present value | | 52 | | 62 |

Award [1 mark] for the correct calculation of the payback period for each machine up to a maximum of [2 marks].

Award [2 marks] for the correct calculation of the net present value for each machine where appropriate working is shown up to a maximum of [4 marks]. If net present value answers are correct but not working is shown, award a maximum of [2 marks]. Where net present value figures are wrong but the workings indicate an understanding of the appropriate method, award a maximum of [2 marks].

- (d) **Taking into account financial and non-financial factors, recommend whether *Organix* should invest in the Harvester or the PickIT.**

[8 marks]

The financial information appears to favour the PickIT machine. The PickIT has a faster payback period, though the difference between the two machines is only five months and so unlikely to be a significant consideration. This may only become important if there are significant cash flows issues at the time and there is no indication of this. Once the time value of money is taken into consideration, the difference becomes slightly greater with the NPV of the PickIT being \$10 000 higher than that of the Harvester. Taken together, all these factors would tend to indicate the choice of the PickIT on the basis on financial factors alone.

However, this decision becomes significantly less clear when the non-financial issues are taken into consideration as well. The Harvester will enable them to pick a significantly greater proportion of their crops and is more flexible. The importance of this factor will depend on the likely future availability of seasonal labour to pick the crops. If there are likely to be shortages of labour in the future then this may push up wage rates and make the Harvester a better option. The Harvester will also require less training and is easier to operate and so this may enable it to be more productive on a faster timescale. It may also allow for the employment of less skilled (and therefore cheaper) labour to operate it. The PickIt on the other hand is cheaper to maintain and has a longer life span and so may give a better financial return if a period longer than the financial analysis is taken into account.

This makes it difficult to give an overall recommendation, but a well-argued recommendation for either machine should be credited appropriately.

N.B. The own-figure rule should be applied here and candidates should be credited appropriately for appropriate discussion and recommendation based on their own figures calculated in (c).

[6 to 8 marks]

A detailed and balanced discussion of the financial and non-financial factors relating to the purchase of each machine. For **[8 marks]** a substantiated recommendation is given about which machine to purchase.

[3 to 5 marks]

There is some discussion of the financial and non-financial factors relating to the purchase of each machine, though this may be relatively limited at the lower end of the range. The answer may lack some balance and consider financial factors in more detail than non-financial or vice-versa.

[1 to 2 marks]

A limited and essentially descriptive answer.
