



# **MARKSCHEME**

**May 2009**

**BUSINESS AND MANAGEMENT**

**Higher Level**

**Paper 1**

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The markbands on pages 3–8 should be used where indicated in the markscheme.

Section A			Level descriptors
(c) questions			
Q1 (c)	Q2 (c)	Q3 (c)	
Marks 0–7			
<b>0</b>			
<b>1–2</b>			<ul style="list-style-type: none"> <li>• Little knowledge and understanding of relevant issues, concepts and theories.</li> <li>• Little use of appropriate terminology.</li> <li>• No reference is made to the information in the case study.</li> </ul>
<b>3–5</b>			<ul style="list-style-type: none"> <li>• A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories.</li> <li>• Some use of appropriate terminology.</li> <li>• Some reference is made to the information in the case study, not just to the name of the organization.</li> <li>• At the lower end of the markband responses are mainly theoretical.</li> </ul>
<b>6–7</b>			<ul style="list-style-type: none"> <li>• A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories.</li> <li>• An analysis/examination that uses appropriate terminology throughout the response.</li> <li>• Explicit references are made to the information in the case study.</li> </ul>

Section B	Level descriptors
Q4 (b)	
Marks 0–8	
<b>0</b>	<ul style="list-style-type: none"> <li>• No knowledge or understanding of relevant issues, concepts and theories.</li> <li>• No use of appropriate terminology.</li> </ul>
<b>1–2</b>	<ul style="list-style-type: none"> <li>• The response is purely descriptive and demonstrates little understanding of the topic.</li> <li>• There is little or no use of appropriate terminology.</li> <li>• There are few, if any, relevant examples from the case study to support any explanations.</li> <li>• Little or no reference is made to the case study.</li> </ul>
<b>3–5</b>	<ul style="list-style-type: none"> <li>• The response exhibits a reasonable explanation that demonstrates some understanding of the topic.</li> <li>• There is some use of appropriate terminology throughout the response.</li> <li>• Some relevant examples from the case study are given to support explanations.</li> <li>• At the bottom of the band, the answer may be descriptive and lack some detail.</li> </ul>
<b>6–8</b>	<ul style="list-style-type: none"> <li>• The response exhibits an accurate, specific, well-detailed explanation of the relevant issue(s) and demonstrates a thorough understanding of the topic.</li> <li>• There is an appropriate use of the appropriate terminology throughout the response.</li> <li>• Relevant examples from the case study are given to support explanations within the response.</li> </ul>

<b>Section B</b>	<b>Level descriptors</b>
<b>Q4 (c)</b>	
<b>Marks 0–8</b>	
<b>0</b>	<ul style="list-style-type: none"> <li>• No knowledge or understanding of relevant issues, concepts and theories.</li> <li>• No use of appropriate terminology.</li> </ul>
<b>1–2</b>	<ul style="list-style-type: none"> <li>• Little knowledge and understanding of relevant issues, concepts and theories.</li> <li>• Little use of appropriate terminology.</li> <li>• No evidence of judgments and/or conclusions.</li> <li>• No reference is made to the information in the case study.</li> </ul>
<b>3–4</b>	<ul style="list-style-type: none"> <li>• A description with some knowledge and/or understanding of relevant issues, concepts and theories.</li> <li>• Some use of appropriate terminology.</li> <li>• No evidence of judgments and/or conclusions.</li> <li>• Some reference is made to the information in the case study, not just to the name of the organization.</li> <li>• The response is mainly theoretical.</li> </ul>
<b>5–6</b>	<ul style="list-style-type: none"> <li>• A response with relevant knowledge and understanding of relevant issues, concepts and theories.</li> <li>• A response that uses relevant and appropriate terminology.</li> <li>• Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding.</li> <li>• Explicit references to the information in the case study are made at places in the response.</li> </ul>
<b>7–8</b>	<ul style="list-style-type: none"> <li>• A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories.</li> <li>• A response that uses appropriate terminology competently throughout the response.</li> <li>• A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis.</li> <li>• Explicit references to the information in the case study are made throughout the response.</li> </ul>

Section C	Level descriptors
5 (b)	
Marks 0–8	
<b>0</b>	<ul style="list-style-type: none"> <li>• No knowledge or understanding of relevant issues, concepts and theories.</li> <li>• No use of appropriate terminology.</li> </ul>
<b>1–2</b>	<ul style="list-style-type: none"> <li>• The response is purely descriptive and demonstrates little understanding of the topic.</li> <li>• There is little or no use of appropriate terminology.</li> <li>• There are few, if any, relevant examples from the case study and/or the extension material within Section C to support any explanations.</li> <li>• Little or no reference is made to the case study and/or the extension material within Section C.</li> </ul>
<b>3–5</b>	<ul style="list-style-type: none"> <li>• The response exhibits a reasonable explanation that demonstrates some understanding of the topic.</li> <li>• There is some use of appropriate terminology throughout the response.</li> <li>• Some relevant examples from the case study and/or the extension material within Section C are given to support explanations.</li> <li>• At the bottom of the band, the answer may be descriptive and lack some detail.</li> </ul>
<b>6–8</b>	<ul style="list-style-type: none"> <li>• The response exhibits an accurate, specific, well-detailed explanation of the relevant issue(s) and demonstrates a thorough understanding of the topic.</li> <li>• There is an appropriate use of the appropriate terminology throughout the response.</li> <li>• Relevant examples from the case study and/or the extension material within Section C are given to support explanations within the response.</li> </ul>

<b>Section C</b>	<b>Level descriptors</b>
<b>Q5 (c)</b>	
<b>Marks 0-8</b>	
<b>0</b>	<ul style="list-style-type: none"> <li>• No knowledge or understanding of relevant issues, concepts and theories.</li> <li>• No use of appropriate terminology.</li> </ul>
<b>1-3</b>	<ul style="list-style-type: none"> <li>• Little knowledge and understanding of relevant issues, concepts and theories.</li> <li>• Little use of appropriate terminology.</li> <li>• No reference is made to the information in the case study and/or the extension material within Section C.</li> </ul>
<b>4-6</b>	<ul style="list-style-type: none"> <li>• A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories.</li> <li>• Some use of appropriate terminology.</li> <li>• Some reference is made to the information in the case study and/or the extension material within Section C, not just to the name of the organization.</li> <li>• At the lower end of the markband responses are mainly theoretical.</li> </ul>
<b>7-8</b>	<ul style="list-style-type: none"> <li>• A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories.</li> <li>• An analysis/examination that uses appropriate terminology throughout the response.</li> <li>• Explicit references are made to the information in the case study and/or the extension material within Section C.</li> </ul>

Section C	<b>Level descriptors</b>
Q5 (d)	
Marks 0–10	
<b>0</b>	<ul style="list-style-type: none"> <li>• No knowledge or understanding of relevant issues, concepts and theories.</li> <li>• No use of appropriate terminology.</li> </ul>
<b>1–3</b>	<ul style="list-style-type: none"> <li>• Little knowledge and understanding of relevant issues, concepts and theories.</li> <li>• Little use of appropriate terminology.</li> <li>• No evidence of synthesis of information from the case study, the extension material in Section C and, where applicable, from other responses within Section C. Information is merely lifted and copied into the response.</li> <li>• No evidence of judgments and/or conclusions.</li> <li>• No reference is made to the information in the case study and the extension material within Section C.</li> </ul>
<b>4–6</b>	<ul style="list-style-type: none"> <li>• A description with some knowledge and/or understanding of relevant issues, concepts and theories.</li> <li>• Some use of appropriate terminology.</li> <li>• No evidence of synthesis of information from the case study, the extension material in Section C and, where applicable, from other responses within Section C. Information is merely lifted and copied into the response.</li> <li>• Evidence of judgments and/or conclusions that are no more than unsubstantiated statements.</li> <li>• Limited reference is made to the information in the case study and the extension material within Section C.</li> <li>• The response is mainly theoretical.</li> </ul>
<b>7–8</b>	<ul style="list-style-type: none"> <li>• A response with relevant knowledge and understanding of relevant issues, concepts and theories.</li> <li>• A response that uses appropriate terminology.</li> <li>• At places in the response information from the case study, the extension material in Section C and, where applicable, from other responses within Section C is (synthesised and) integrated to provide a basis for analysis and evaluation.</li> <li>• A response that includes judgments and/or conclusions that have limited support and are underpinned by a balanced analysis.</li> <li>• Explicit references to the information in the case study and the extension material within Section C are made at places in the response.</li> </ul>
<b>9–10</b>	<ul style="list-style-type: none"> <li>• A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories.</li> <li>• A response that uses appropriate terminology competently throughout the response.</li> <li>• Information from the case study, the extension material in Section C and, where applicable, from other responses within Section C is proficiently (synthesised and) integrated to provide a basis for analysis and evaluation.</li> <li>• A response that includes judgments and/or conclusions that is well supported and underpinned by a thorough and balanced analysis.</li> <li>• Explicit references to the information in the case study and the extension material within Section C are made throughout the response.</li> </ul>



**SECTION A**

1. (a) **Define the terms *sole trader* and *tertiary sector*.**

**[4 marks]**

**Sole trader**

A sole trader (or sole proprietor) can be simply defined as a person owning and running a private business. The most basic form of business organization, sole trading is a legal form of business where the business entity has no separate existence from the owner, unlike a limited company; as a consequence, the sole trader has unlimited liability and bears the financial risks of the business on their own. “Sole” refers to the fact that the entrepreneur is the only owner without business partners, though they may employ other people.

**Tertiary sector**

The tertiary sector can be defined as the third industrial category of a national economy, the other two being the primary sector (agriculture, fishing, forestry, mining) and the secondary sector (manufacturing, industry). It is also called the “service sector” or the “service industry” as it provides services, such as education, health, finance or leisure. (Candidates are not expected to refer to the other sectors: they can score **[2 marks]** for a full, clear definition which mentions services and provides examples.)

**Mark as 2+2.**

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding.

Award **[2 marks]** for a full, clear definition that is similar to the model answer above.

- (b) **Explain why the setting of strategic objectives is important in managing *Les Maisonnettes*.**

**[4 marks]**

Strategic objectives refer to middle-term and/or long-term targets; they give a sense of direction to the management of the business (*Les Maisonnettes* in this case) and they provide guidelines for growth in order to develop competitive advantages. Strategic objectives could here refer to Sophie's plan to make eco-tourism the core focus of her business, but it would be even better for Sophie to set precise targets (for example: to ensure a 20% occupancy rate in the winter months by offering new winter products).

Setting strategic objectives would give Sophie a sense of purpose and vision, which she rather lacks at the moment; she has let the business develop in an *ad hoc*, organic way, but she ought to start thinking more professionally at a strategic management level. Moreover, should she apply for further funding (for example for the Options 2 and 3), she would need to formulate a business strategy, rather than just working and managing at an operational level.

It may be helpful for examiners to think of this question as **[2 marks]** for theory and **[2 marks]** for application to *Les Maisonnettes*.

**[1 to 2 marks]**

For **[2 marks]**, the answer refers to strategic thinking and/or to the case study, yet in descriptive way without explanation. For **[1 mark]**, the answer is limited or generic.

**[3 to 4 marks]**

For **[4 marks]**, the explanation is clear, with references to strategic thinking and to the case study, mentioning why Sophie ought to formulate and adopt strategic objectives. For **[3 marks]**, the explanation is clear, yet without mentioning why Sophie ought to formulate and adopt strategic objectives.

- (c) **Examine two advantages and two disadvantages of *Les Maisonnettes* restructuring as a private limited company (line 24).**

[7 marks]

Key advantages include:

- Sophie herself would then have limited liability (she would not bear the financial risks of the business in case of major problems such as a lawsuit or bankruptcy)
- it may be easier to raise further capital (*e.g.* by selling shares)
- the status of a limited company may give more credibility to *Les Maisonnettes* as a business (for example some banks might be willing to lend money to a limited company).

Key disadvantages include:

- Sophie would have to find shareholders (her parents? Old school friends?) willing to get involved financially, including one who would be the company secretary
- the owners (shareholders) of a private limited company have to prepare and publish each year a set of legal accounts (put another way, the legal/accounting side would be more complex and possibly more costly than it is at the moment for Sophie)
- it might later be more difficult to sell the business as a whole (**Option 4**).

Some other facts could be interpreted as an advantage or a disadvantage, depending on the perspective, for example the fact that Sophie herself would become a director, *i.e.* an employee of the company.

To achieve the top markband two advantages **and** two disadvantages need to be fully examined.

Marks should be allocated according to the markbands on page 3.

2. (a) (i) **Identify *two* appropriate sources of finance for *Les Maisonnettes* to fund the development of the barns (*Option 2 or 3*) (lines 162-177).** [2 marks]

Appropriate sources of finance include:

- a bank loan (capital loan) – the most likely answer
- selling shares (private limited company)
- grants from EU government, Chamber of Commerce or local authorities (*e.g.* as part of a scheme to support the development of eco-tourism)
- private investors such as business angels
- sale and lease back.

Short-term sources such as overdraft or retained profit are not appropriate to fund the expensive development of the barns.

Award [1 mark] for each relevant and correct source of finance identified, up to a maximum of [2 marks].

- (ii) **Define the term *gearing* (line 177).** [2 marks]

Gearing helps measure and understand the extent to which a business is dependent on borrowings (typically bank loans). The gearing rate corresponds to the percentage of capital employed that is financed by loan capital (long-term finance) as opposed to share capital. The higher the ratio, the higher the dependence on borrowings and long-term financing. A high gearing ratio will also mean that the firm incurs higher debt servicing costs and is much more exposed to changes in interest rates. (Conversely, a lower gearing ratio means more dependence on internal funding and less exposition to fluctuations in interest rates.)

Candidates are asked to define gearing, not to give the formula to calculate gearing. A copy of the formula is provided for students in the examination, so copying the formula cannot be credited. The formula may be included in the answer, but it will not result in any extra mark.

Award [1 mark] for a basic definition that conveys partial knowledge and understanding.

Award [2 marks] for a full, clear definition that is similar to the model answer above.

- (b) Using data from appendices 3 and 4, calculate the gearing ratio and return on capital employed (ROCE) of Sophie’s business in the financial years 2005 and 2008.

[4 marks]

The following formulae are provided to students in the examination:

$$\text{Gearing ratio} = \frac{\text{Loan capital}}{\text{Total capital employed}} \times 100$$

$$\text{Return on capital employed (ROCE)} = \frac{\text{Net profit before interest and tax}}{\text{Total capital employed}^*} \times 100$$

\*Capital employed = shareholder’s funds + reserves + long-term liabilities

So the expected results are:

	Gearing ratio	ROCE
2005	43.1 % (43 %)	13.04 %
2008	34.4 % (34 %)	10.05 %

Award [1 mark] for each correct calculation.

- (c) **Analyse the reasons for the changes in gearing ratio and return on capital employed (ROCE) you have identified in part (b).**

*[7 marks]*

Both the gearing ratio and the ROCE declined between 2005 and 2008.

- The gearing ratio is within an acceptable range. The slight fall is typical as the retained profits have increased as a result of the growth of the business. Retained profits have increased (as *Les Maisonnettes* is a successful business that made a retained profit of €60 890 in 2005, and Sophie has reinvested the money in the business); the relative part of the loan capital is decreasing as Sophie gradually pays back the 25-year loan.
- ROCE is a profitability ratio; the fall in ROCE shows that *Les Maisonnettes* is becoming less efficient and less profitable. Although the business is still profitable, sales revenues have decreased from 2005 to 2008; as shown in Appendix 1, the occupancy rate is decreasing in summer 2008 (after the peak of 100% in summer 2005). Although Sophie is diversifying her strands of income (*Appendix 2*), her gross profit has declined. Expenses have increased, notably with new activities, funded by a short-term loan, as explained in the case study. This problem is even more visible if one calculates net profit margins: 41.5% in 2005 but only 33.4% in 2008 (though candidates are not required to do so).

Candidates whose calculations in (b) were not accurate may still properly analyse the changes.

Marks should be allocated according to the markbands on page 3.

3. (a) (i) **Define the term *market share* (line 155).** [2 marks]

The market share of a business is the percentage or proportion of the total available market (or market segment) that is being serviced by that business. It enables a business to compare itself to its competitors in terms of sales quantity, *e.g.* a business that has a 100 % market share is in a situation of monopoly.

Award [1 mark] for a basic definition that conveys partial knowledge and understanding.

Award [2 marks] for a full, clear definition that is similar to the model answer above.

(ii) **Identify *two* methods of secondary research available to Sophie.** [2 marks]

Secondary research available to Sophie includes:

- research findings, analysis and statistics produced by organizations mentioned in the case study: *Logis de France*, *Association Française d'Ecotourisme*, French Tourist Board, Chamber of Commerce, local bank, Saint-Germain council, even UK low cost airline (about the number of anticipated passengers)
- research findings, analysis and statistics from sources not mentioned in the case study but acceptable in this context (*professional judgment of the examiner*), for example from a local university, tourist office, Tourism Observatory, Office of National Statistics, professional association *etc.*

Candidates may interpret “methods of secondary research” in different ways: they may refer to quantitative data (published statistics) as opposed to qualitative data, or existing literature (professional literature versus academic literature) – all these answers may be acceptable, as long as they are secondary research (as opposed to primary research carried out by Sophie herself).

Award [1 mark] for each relevant and correct method of secondary research identified up to a maximum of [2 marks].

- (b) **Explain two ways in which *Les Maisonnettes* can differentiate themselves from *Sanctuary*.**

[4 marks]

*Les Maisonnettes* can differentiate themselves from *Sanctuary* in several ways. The 7 Ps of the marketing mix can help identify a range of ideas, for example:

- With regard to product, Sophie can offer holidays with a local cultural dimension (e.g. French language class to complement the French cooking class, *line 87*) whereas *Sanctuary*, as a global company, provides standardized products that would be similar in all its holiday centres irrespective of the location.
- With regard to physical evidence, *Les Maisonnettes* can strengthen the originality of its French style (*line 19*), contrasting with the uniform style of the holiday centre.
- With regard to promotion, Sophie can further stress the fact that her restaurant offers local cuisine with local products, whilst *Sanctuary* uses cheap imported produce (*line 79*). The possible joint-venture with a local winery (*line 33*) could give Sophie a competitive advantage.
- Any other relevant answer is acceptable.

Candidates are not expected to write about two different Ps of the marketing mix; for example they could write about two different aspects of the Product, as long as the differences are clear.

**Mark as 2+2.**

Award [1 mark] for each relevant and correct way in which *Les Maisonnettes* can differentiate themselves from *Sanctuary* and [1 mark] for each appropriate explanation, up to a maximum of [2 marks].

- (c) **Examine the importance to *Les Maisonnettes* of adopting a total quality management (TQM) approach.**

[7 marks]

Quality is already an important issue for Sophie (the high quality of her service has enabled her to gain two *Logis de France* fireplaces, she has won a number of regional awards for the quality of her food, and the quality of the décor made her feature in promotional tourism brochures). However, *Les Maisonnettes* also has a number of weaknesses and flaws with regard to human resources (“staff absence and poor punctuality”, lack of training to comply with the new legislation). An integrated TQM approach would help Sophie ensure that quality permeates the whole business, including areas where this might be more difficult to implement and control. As Sophie has many new ideas (development of a web site, partnership with a local winery, branding the name *Les Maisonnettes* as a socially responsible brand), it would be useful for her to have a quality framework in place to maximize customer satisfaction all across the organization (as opposed to only in some areas such as décor and food).

Marks should be allocated according to the markbands on page 3.



**SECTION B****4. (a) Comment on the appropriateness of Sophie's leadership style.****[4 marks]**

Sophie's leadership style is described as paternalistic. Paternalistic managers typically pay more attention to the social needs, views and happiness of their workers. Consciously or not, Sophie has adopted this style because she knows her workers very well (many are long-term family friends). It is appropriate to a certain extent: it creates a sense of belonging (*Les Maisonnettes* is not just a business but also a family); however, Sophie is not fully able to control (discipline, reprimand) her staff. This can become a problem with situations of staff absence and poor punctuality, as Sophie may not have the necessary distance or authority to manage them.

Candidates are not asked to define paternalistic leadership style; they cannot be penalised if they do not define it.

**[1 to 2 marks]**

For **[2 marks]**, the answer is superficial: it may explain what a paternalistic style is, yet without commenting on the appropriateness for the case study, or it might identify some generic advantages and disadvantages, yet without proper reference to the context. The answer may be theoretical only. For **[1 mark]**, the answer is limited, with little evidence of understanding of what a paternalistic leadership style implies.

**[3 to 4 marks]**

For **[4 marks]**, the appropriateness of Sophie's paternalistic style is presented in a balanced way: the answer explains what it means, and also covers both advantages and disadvantages. For **[3 marks]**, the answer is clear but it may lack balance or precision.

- (b) Explain the impact of the external environment on *Les Maisonnettes*' workforce planning.

[8 marks]

Candidates are not expected to refer to a particular number of external factors/forces. Please note that this is a HR question: candidates are not just asked to write about the external environment, but to link their answer to workforce planning.

Aspects of the external environment which are particularly important for workforce planning for *Les Maisonnettes* include:

- Political environment: because of the new legislation, Sophie needs to review her staffing, as currently some of her staff are not adequately trained, which is not acceptable as *Les Maisonnettes* must comply with the legislation. (Sophie could sponsor their training or she could instead employ properly trained staff, both kitchen staff with food hygiene qualifications, and horse-riding instructors trained with regard to safety.)
- Social environment: Because of the ongoing rural exodus, it is increasingly difficult to find young staff in areas such as Saint-Germain, as they prefer to move to urban areas, such as Lyon. Sophie needs to find extra incentives and/or to attract non-local workers (*e.g.* international students).
- Competition: *Sanctuary* is looking to recruit additional part-time staff for its holiday complex so there might be some local labour shortages.
- Other external factors may be acceptable if they are relevant.

Marks should be allocated according to the markbands on page 4.

- (c) **With reference to the external environment, to what extent will the proposed rewards package of *Les Maisonnettes* ensure successful recruitment and motivation of employees?**

*[8 marks]*

The proposed rewards package includes both financial incentives (fringe payments such as on-site accommodation) and non-financial incentives (such as the experience of immersion in rural French culture, language development, life skills and the ideals of eco-tourism). It particularly targets international workers with a strong interest in eco-tourism values, as the aim is twofold: (a) to recruit non-local staff (as there is a decline in the number of potential local employees, because of the rural exodus and the competition from *Sanctuary*), (b) to motivate them to stay working at *Les Maisonnettes* and to deliver the high quality service customers expect. The package is designed as a counterpart to some of the negative factors that employment at *Les Maisonnettes* may present for a foreign workforce: relative isolation (rural France), harsh conditions (semi-mountainous environment, very hot summers) and limited pay (as the business is less profitable than it used to be). For core staff, Sophie proposes an enhanced pay structure and loyalty bonus; it is important as some staff may otherwise prefer to work for *Sanctuary*. When designing the rewards package, Sophie paid close attention to the external environment; as she does not require a large workforce (only a handful of staff), she is likely to be successful.

Candidates who apply relevant theory should be rewarded. To achieve the top markband candidates must cover **both** issues of recruitment and motivation.

Marks should be allocated according to the markbands on page 5.

**SECTION C**

5. (a) Identify *two* strengths and *two* weaknesses of the present business operations of *Les Maisonnettes*.

*[4 marks]*

**Strengths:**

- low gearing and secure finances
- attractive traditional French style buildings
- good quality reputation *e.g.* fireplace award and customer referrals
- offers “value for money” holidays – 88% of customers rate overall satisfaction at *Les Maisonnettes* as good to excellent – see *Item 1*
- well established record on eco-tourism – early adopter
- range of activities – cooking and outdoor
- membership of regional groups such as the *AFE*
- enthusiasm and energy of Sophie
- support of parents and friends
- use of high quality local products
- *any other relevant identified internal strength.*

**Weaknesses:**

- falling profit margins – less finance for development
- high level of staff turnover in shop
- relatively small size
- no business plan
- no web site presence
- poor staff training
- failure to attract younger clientele
- pricing policy – flat rate
- satisfaction with service levels is lower than other aspects of the *Les Maisonnettes* experience – see *Item 1*
- *any other relevant identified internal weakness.*

**Mark as 2+2.**

Award *[1 mark]* for each appropriate strength identified up to a maximum of *[2 marks]* and *[1 mark]* for each appropriate weakness identified up to a maximum of *[2 marks]*.

- (b) **Explain how the increased economies of scale of *Sanctuary* may provide competitive advantage over smaller operations such as *Les Maisonnettes*.**

**[8 marks]**

*Sanctuary* can realise many economies of scale because it is a very large organization; one can imagine that they promote all their holiday centres at the same time, in the same promotional documents, from brochures to websites. They probably also have their own centralized reservation system and well established management procedures for all their operations, from accounting to human resources. Their economies of scale enable them to further strengthen the many competitive advantages they have over small businesses, notably the following points:

- customers tend to be attracted to bigger names in the travel trade as they “trust” these names more. The risk of large firms failing may be perceived as lower
- larger firms may offer lower prices as they have lower costs arising from economies of scale and may offer more choice as they may operate in many destinations. The *Sanctuary* is able to import cheaper produce and buy in bulk
- payment may be easier to arrange with bigger operators who may take credit cards and may allow deferred payment. Small firms may require upfront booking payment
- large firms may market and advertise more fully offering the impression of better quality and raising awareness of the holidays on offer
- larger firms may offer a wider range of additional activities and options, such as links with transport companies *e.g.* airlines, car hire *etc.* *Sanctuary* has a link with a low cost airline offering discounts. Both *Le Soleil* and *Sanctuary* have activities for all ages such as sports and entertainment
- larger firms may attract better trained and experienced staff with more specialist skills, as they can offer a better reward package and career development.

Marks should be allocated according to the markbands on page 6.

(c) **Analyse the role of budgets and variances in the strategic planning of *Les Maisonnettes*.**

[8 marks]

Budgets are plans of relevant costs and revenues to ensure the business is able to achieve its objectives in the coming financial year and to turn its strategy into practice. In the case of *Les Maisonnettes*, it may help Sophie to choose between the two options under consideration. It is clear from the budgets for 2010–2011 (*Item 5*), that Option 3 should provide higher profit levels. However, there may be more risk as the budget identifies higher fixed and variable costs. If revenues are not as great as predicted the forecasted profit may quickly turn into a loss. These budgets may be at corporate level or set for individual departments/functions *e.g.* restaurant, activities, accommodation. Sophie may split her business into separate profit and cost centres as recommended by the financial advisor. Each of these will require a separate budget.

Types of budgets include:

- sales revenue budget
- marketing budget
- capital expenditure
- cash flow budget.

At a strategic level, Sophie would draw up a master budget to itemise revenues and costs at a corporate or group level.

A variance is the difference between planned level of revenue/expenditure and actual level of expenditure/revenue. If there is a positive or favourable variance, revenues are higher than planned and/or costs are lower than planned. A negative or unfavourable variance is the opposite.

Setting budgets provides the business with:

- a way to control and monitor costs. The use of variance analysis allows management to see whether targets are being met
- the opportunity to “manage by exception” – control only when variances highlight issues that need attention – especially unfavourable variances
- a link between departmental objectives to budgets. Targets may be set for every department
- a basis for measurement of success or failure of its strategy
- a form of motivation by providing management with the authority and trust to run their own finances. Budgets are a relatively simple tool
- the ability to coordinate the various departments whose budgets may require inputs from other functional areas
- link incentives to financial performance.

However, budgets and variances do not, on their own, ensure successful financial operations. Although they are a useful monitoring tool, they are based on assumptions that may prove wildly inaccurate. In the case of *Les Maisonnettes*, it will be difficult to put figures on occupancy, for example. There are many external variables that may change in the course of a year, especially in a volatile market such as the tourism industry. Short-term impacts may also affect the costs and revenues – weather for instance.

There may be a temptation to adhere too strictly to a budget when circumstances change. The use of flexible budgets may mitigate this weakness.

In addition, for a small business such as *Les Maisonnettes*, the setting of a budget may be time consuming and costly if, like Sophie they do not have a strong financial background. Accountants and financial advisors tend to be relatively expensive. However, failure to set accurate budgets may lead to the failure of the business; for instance, Sophie might miscalculate her working capital requirements.

Budgets are only financial in nature. Sophie will need to keep in touch with non-financial issues such as motivation and service levels, which in the short run may not show up in the budgets as an unfavourable variance.

Marks should be allocated according to the markbands on page 7.

- (d) **Applying suitable tools such as Ansoff’s growth matrix and Porter’s generic strategies, and using information contained in the case study and Items 1 to 7, evaluate *the two* expansion alternatives (*Options 2 and 3*) proposed by Sophie.**

[10 marks]

It should be recognized that, given time constraints, answers are likely to include a **much** narrower range of issues and concepts than identified below. There is no “correct” answer.

Examiners **must** be prepared to award full marks to answers which synthesise and evaluate even if they do not examine all the stimulus materials.

**Examiner notes:** It is likely that the answer is considered within a strategic framework of:

- where *Les Maisonnettes* is at present (strategic analysis)
- the two options available to *Les Maisonnettes* over the coming few years (strategic choice)

**and**

- whether *Les Maisonnettes* will be able to achieve its objectives (strategic implementation).

The answer is expected to include relevant information from the case study, the question stimulus and Items 1 to 7, and to employ business concepts, tools and terminology. It is **not** expected that students necessarily use information from all the items, or that they use the Ansoff growth matrix and Porter’s generic strategies in their answer. They may choose to use any appropriate strategic tools.

The best answers will compare the options on a number of levels including:

- risk
- Sophie’s aims and ambitions and external factors such as her parents’ wishes and needs
- the nature of the market place and the likelihood of change
- strategic focus and the nature of the target market.

*Item 1* provides some information about the existing business. It is clear that satisfaction levels are good on most measures, although there are areas of relative concern, such as service levels in the restaurant and the comfort of the accommodation. The issues should influence Sophie in her future planning, when considering the levels and quality of accommodation and the recruitment and training of staff. If she selects **Option 3**, she will need to raise some of these satisfaction levels significantly.



The economic forecasts (*Item 2*) indicate:

- a slowdown in the French and UK economies in 2011, in conjunction with higher inflation.
- higher interest rates in 2011, which may affect Sophie's return on investment. This may negatively influence the tourist market, but it will depend on the price and income elasticity of demand for the two types of holiday.
- the weakening of the pound against the euro in 2011, which will make Sophie's holidays appear to be more expensive to UK customers.

### **Option 2 – developing the education centre**

This option most closely matches Sophie's aspirations and beliefs. It will offer product development for existing customers although it may attract more radical visitors. The focus on eco-tourism provides a narrow focus as defined by Porter and differentiation because there are few competitors.

- customers already recognize her eco-tourist credentials and believe the quality of facilities is good (*Item 4*)
- the newspaper report (*Item 3*) and the British Tourist Authority survey (*Item 6*) provide concrete figures to support the existence of a growing minority of socially responsible and ethical tourists
- the inclusion of an education centre suggests that a younger audience may be the target, but the statistics suggest that this is not the age group most likely to purchase an eco-tourist holiday (*Item 3*).

The disadvantage of this option is that the financial potential is below that of Option 3.

- the decision tree extract (*Item 7*) suggests that there will be an expected value of €164 000 in revenues, which will cost €100 000 in investment
- for Sophie's parents this may be a bad option as it has risk, yet delivers limited growth prospects. It relies on eco-tourism not being a fad.

The risks of this option are likely to be lower than for Option 3. The target market reflects *Les Maisonnettes'* existing core market and Sophie has shown considerable competence in satisfying their needs. She understands this market and has experience and connections with the local community. She will be able to put forward a good case for a grant/subsidy.

### **Option 3 – repositioning as a luxury eco-tourist resort**

It is likely that Sophie will see this option as a compromise as it satisfies some of her eco-tourist beliefs, but could also be seen as selling out for higher profits.

The customer perception map (*Item 4*) also suggests there is a clear gap in the market for a higher price, eco-tourist resort. It would depend on the plans of *Le Soleil* as there might be competition for these richer eco-tourists.

In a sense this option will be a diversification for the business as the service offered is quite different in nature to the present business, and the customers are likely to be very different to the existing customer base. There are high risks associated with this option:

- the cost of this option is above that of the available grants and will probably require the mortgaging of the shop as well
- there is still a narrow focus on eco-tourism as defined by Porter and differentiation because there are few competitors
- *Les Maisonnettes*' reputation for quality and the aesthetics of the site may attract the new target market, but customer requirements will be far higher, especially on the service and comfort front.

The advantage of this option is that the financial potential is higher than for Option 2.

- the decision tree extract (*Item 7*) suggests that there will be an expected value of €578 000 in revenues, which will cost €400 000 in investment. This will offer a good retirement fund for Sophie's parents and a good income for Sophie
- however, there are high fixed costs and if revenues do not reach budgeted levels, the business could make high losses or even fail.

Sophie's links with local suppliers of goods will help her develop her brand as a high quality, socially responsible brand.

Discussion may be supported by financial data and the use of relevant financial ratios. Some supported conclusions should be reached, such as a recommendation to select one option over the other.

Marks should be allocated according to the markbands on page 8.

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