



# **MARKSCHEME**

**May 2013**

**BUSINESS AND MANAGEMENT**

**Higher Level**

**Paper 2**

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A		Section B			Level descriptors
Q1 (e)	Q2 (e)	Q3 (c)	Q4 (c)	Q5 (c)	
Marks 0–6					
<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 reference is made to the information in the stimulus material. The response is mainly theoretical.</li> </ul>
<b>3–4</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 stimulus material, not just to the name of the organization.</li> </ul>
<b>5–6</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 stimulus material.</li> </ul>

<b>Section B</b>			<b>Level descriptors</b>
<b>(d) questions</b>			
<b>Q3 (d)</b>	<b>Q4 (d)</b>	<b>Q5 (d)</b>	
<b>Marks 0–9</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 stimulus material.</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 stimulus material, not just to the name of the organization.</li> <li>• The response is mainly theoretical.</li> </ul>
<b>5–7</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 stimulus material are made at places in the response.</li> </ul>
<b>8–9</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 stimulus material are made throughout the response.</li> </ul>

**SECTION A**

1. (a) Describe *two* benefits for *LR* of using cell production. *[4 marks]*

Benefits of using cell production could include:

- Employees see the product and participate in the production process from beginning till the end thereby creating a sense of ownership, interest, creativity and motivation. That could allow *LR* to create new innovative farm/dairy products.
- Creates empowerment for *LR* workers, hence increasing motivation further in *LR*. Low staff turnover can decrease costs for *LR* hence more money will be available for the much needed fund for R&D in *LR*.
- Improved communication, avoiding confusion arising from misunderstood or non-received messages.
- Workers become multi-skilled and more adaptable to the future needs of *RL*.

*Accept any other relevant benefit with a description.*

*While the points above are rather generic, it is expected that candidates will make some reference to LR.*

**Mark as 2+2.**

Award *[1 mark]* for each relevant and correct benefit identified and *[1 mark]* for describing the benefit in context up to a maximum of *[2 marks]*.

- (b) Explain *two* benefits for *LR* of meeting quality standards. *[4 marks]*

By meeting quality standards *LR* could benefit from:

- A wider acceptance of its products both nationally and possibly internationally. The compliance with quality standards shows that *LR* produces internationally recognized / approved quality products. Customers regards quality of food as important as damage can be done to the body. The farm will be able to enhance its export and compete in many more markets, increase customer retention and attract new customers through an international presence. *LR* can use this as a USP.
- Higher prices. *LR* will be able to enter into demanding markets that are ready to pay higher prices for quality products.
- Enhanced marketing. *LR* will be able to advertise its compliance with quality standards to create business opportunities and attract new customers.
- An improvement in employee motivation and morale. A successful implementation of quality standards at *LR* will probably entail the inclusion and involvement of workers into the process, which could lead in turn to an increase in motivation and commitment among employees.

*Accept any other relevant benefit.*

**N.B.** Given that the question does not ask for international standards, do not penalize candidates who do not refer to international issues.

**Mark as 2+2.**

Award [**1 mark**] for each relevant and correct benefit identified and [**1 mark**] for explaining the benefit in context up to a maximum of [**2 marks**].

(c) **Calculate the following for LR (show all your working):**

(i) **the payback period.**

[2 marks]

Investment cost \$24m

$$2 + 5 + 9 + \left(\frac{8}{12}\right) \times 12 \text{ months}$$

Payback = 3 years and 8 months or 3.66 years

**N.B.** Do not penalize the absence of units (BOD).

Award [**1 mark**] for correct working and [**1 mark**] for the correct answer up to a maximum of [**2 marks**].

(ii) **the average rate of return (ARR).**

[2 marks]

Total net profit over 5 years:  $45 - 24 = \$21\text{m}$

Average annual profit:  $\frac{21}{5} = \$4.2 \text{ m per year}$

Average rate of return:  $\left(\frac{4.2}{24}\right) \times 100 = 17.5 \%$

**N.B.** Do not penalize the absence of % sign (BOD).

Award [**1 mark**] for correct working and [**1 mark**] for the correct answer up to a maximum of [**2 marks**].

(iii) **the net present value (NPV) using a discount value of 8%. [2 marks]**

Year 1  $2 \times 0.93 = \$1.86\text{m}$   
 Year 2  $5 \times 0.86 = \$4.3\text{m}$   
 Year 3  $9 \times 0.79 = \$7.11\text{m}$   
 Year 4  $12 \times 0.73 = \$8.76\text{m}$   
 Year 5  $17 \times 0.68 = \$11.56\text{m}$

Total present value \$33.59m

NPV = TPV – initial costs  
 NPV = 33.59 – 24 = **\$9.59m**

**Or**

Using figures from discount table:

Year 1  $2 \times 0.9259 = 1.8518\text{m}$   
 Year 2  $5 \times 0.8573 = 4.2865\text{m}$   
 Year 3  $9 \times 0.7938 = 7.1442\text{m}$   
 Year 4  $12 \times 0.7350 = 8.82\text{m}$   
 Year 5  $17 \times 0.6806 = 11.5702\text{m}$

Total present value = **\$33.67m** (to 2 d.p.)

NPV = 33.67 – 24 = **\$9.67m** (to 2 d.p.)

*N.B.* Do not penalize the absence of \$ sign (BOD).

Award [1 mark] for correct working and [1 mark] for the correct answer up to a maximum of [2 marks].

(iv) **the gearing ratio if the acquisition of *El Remanzo* by *LR* is financed by a loan. [2 marks]**

$$\begin{aligned} \text{Gearing ratio} &= \left( \frac{\text{loan capital}}{\text{total capital employed}} \right) \times 100 \\ &= \left( \frac{24}{45} \right) \times 100 = 53.33\% \end{aligned}$$

*N.B.* Do not penalize the absence of % sign (BOD). Candidates can give their response to 1 or 2 decimal places.

Award [1 mark] for correct working and [1 mark] for the correct answer up to a maximum of [2 marks].

(d) **Comment on your results to parts (c)(iii) and (c)(iv).**

**[3 marks]**

If *LR* acquires *El Remanzo*, the NPV over the five years would be of \$9.59m (or \$9.67m). This means that the acquisition of *El Remanzo* is a viable project and produces a positive return on the investment. On the other hand, the gearing ratio will increase to 53.33%. With a gearing ratio higher than 50%, *LR* will be highly geared as most of the capital will be borrowed. As the farm will have to pay interest on the loan, the acquisition will imply higher risks for *LR*.

*Accept any other relevant comment.*

Award **[1 mark]** for a relevant brief comment on **either** the NPV **or** on the gearing ratio.

Award **[2 marks]** for one relevant well-developed comment on **either** the NPV **or** on the gearing ratio.

Award a maximum of **[3 marks]** for a relevant comment on the NPV **and** on the gearing ratio.

If the candidate only repeats the figures award **[0 marks]**.



(e) Analyse *two* costs to *LR* resulting from the acquisition of *El Remanzo*. [6 marks]

The financial costs of the takeover will be \$24m. This financial cost will also lead to cuts of *LR*'s R&D budget to zero. Given that the company (*LR*) has a culture of innovation, *LR* may find that their current competitive advantage is eroded and that demotivation of workers occurs. If new markets are not developed, then redundancies may occur.

However, the benefits in terms of economies of scale are considerable and may allow *LK* to experience risk-bearing economies of scale – an essential ingredient for a company wishing to innovate. Other types of economies of scale may be experienced as well. The reduction in costs of production may enable *LR* to channel some funds for R&D and remain competitive.

Linked to the culture idea is that currently *LR* uses cell production. The acquisition of *El Remanzo* may lead to a company which is much larger and difficult to organize. Cells will need to be created from a much larger pool of workers and it may take time for *El Remanzo* to adjust to this new environment. There may be diseconomies of scale within the enlarged company.

However, a synergy may be created between the employees and the management of both organizations which could lead to efficient production and a supportive culture. More cells can be created to concentrate further on developing and producing new products.

Moreover, the much larger company may be able to lobby the government to overturn some of the legal constraints hampering innovation in the eyes of the Financial Manager. The new larger company will become a much larger presence in the market and will increase market share allowing the company to exercise much greater control over pricing.

*Accept any other relevant analysis.*

For one relevant cost that is one-sided, with no analysis, award **up to** a maximum of [3 marks]. For one relevant cost that is balanced, with analysis, award up to a maximum of [4 marks]. For two relevant costs that are one-sided, with no analysis award **up to** a maximum of [4 marks].

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

2. (a) Describe *two* advantages to *Icarus* of having a family brand. [4 marks]

Advantages of a family brand could include:

- It allows *Icarus* to offer new and or related products/services to customers under one family brand name, which is established and **positioned** in the minds of stakeholders, especially consumers, as innovative and most trusted. Thereby reducing promotional/advertising costs on creating brand awareness especially for such an innovative concept such as outer space hotel. Hence, it may allow *Icarus* to experience marketing economies of scale, as they need only to advertise the family brand, which is associated to their portfolio of products.
- Enable brand extension with low level of risk and costs and higher chance of success. *Icarus* might find it easier to attract investors for their new hotel venture to be built under the family brand.

Accept any other relevant advantage with a description.

For full marks candidates should describe the advantages of a **family** brand rather than just branding in general.

**Mark as 2+2.**

Award [1 mark] for each relevant and correct advantage of a family brand described and [1 mark] for application to *Icarus* (beyond the name) up to a maximum of [2 marks].

(b) Explain *one* advantage and *one* disadvantage to *Icarus* of using stratified samples in its market research. [4 marks]

The population is divided into segments that have some common characteristics; a number of respondents from each segment are chosen that is proportional to the population. The selection within the segment is done randomly.

Since *Icarus* caters to a niche segment, stratified sampling may reveal interesting and specific data which can then be used to focus and streamline marketing efforts.

As the sample is more representative, stratified sampling is likely to improve the accuracy of market research for potential guests interested in staying at the new outer space hotel given the very high cost.

Sampling (standard) errors are likely to be reduced. For *Icarus*, they will allow very accurate figures for forecasting potential revenues given the high risks of this project and a potential first-mover advantage can be gained.

Stratified samples can be difficult to identify appropriate strata for a study. It is more complex to organize and the cost of conducting this type of research is likely to be very high. It also takes time to identify suitable market research respondents.

Accept any other relevant advantage / disadvantage with an explanation.

**Mark as 2+2.**

Award **[1 mark]** for each relevant and correct advantage / disadvantage to *Icarus* of using stratified samples identified and **[1 mark]** for an appropriate explanation that directly refers to *Icarus* up to a maximum of **[2 marks]**.

- (c) (i) Using the *original* forecasted figures (in 2012), calculate *Icarus*' break-even point (*show all your working*). **[2 marks]**

$$\begin{aligned} \text{Fixed costs} &= 10\,000\,000 \\ \text{Contribution} &= 140\,000 - 100\,000 = \$40\,000 \end{aligned}$$

$$\text{Break-even point} = \frac{10\,000\,000}{40\,000} = 250 \text{ rooms}$$

*N.B.* Do not penalize the absence of quantity/rooms (BOD).

Award **[1 mark]** for the correct workings and **[1 mark]** for the correct answer up to a maximum of **[2 marks]**.

- (ii) Using the *revised* forecasted figures (in 2013), calculate *Icarus*' break-even point (*show all your working*). **[2 marks]**

$$\text{Fixed costs} + \text{target profit} = 12\,000\,000 + 2\,000\,000 = \$14\,000\,000$$

$$\text{Contribution} = 140\,000 - 108\,000 = \$32\,000$$

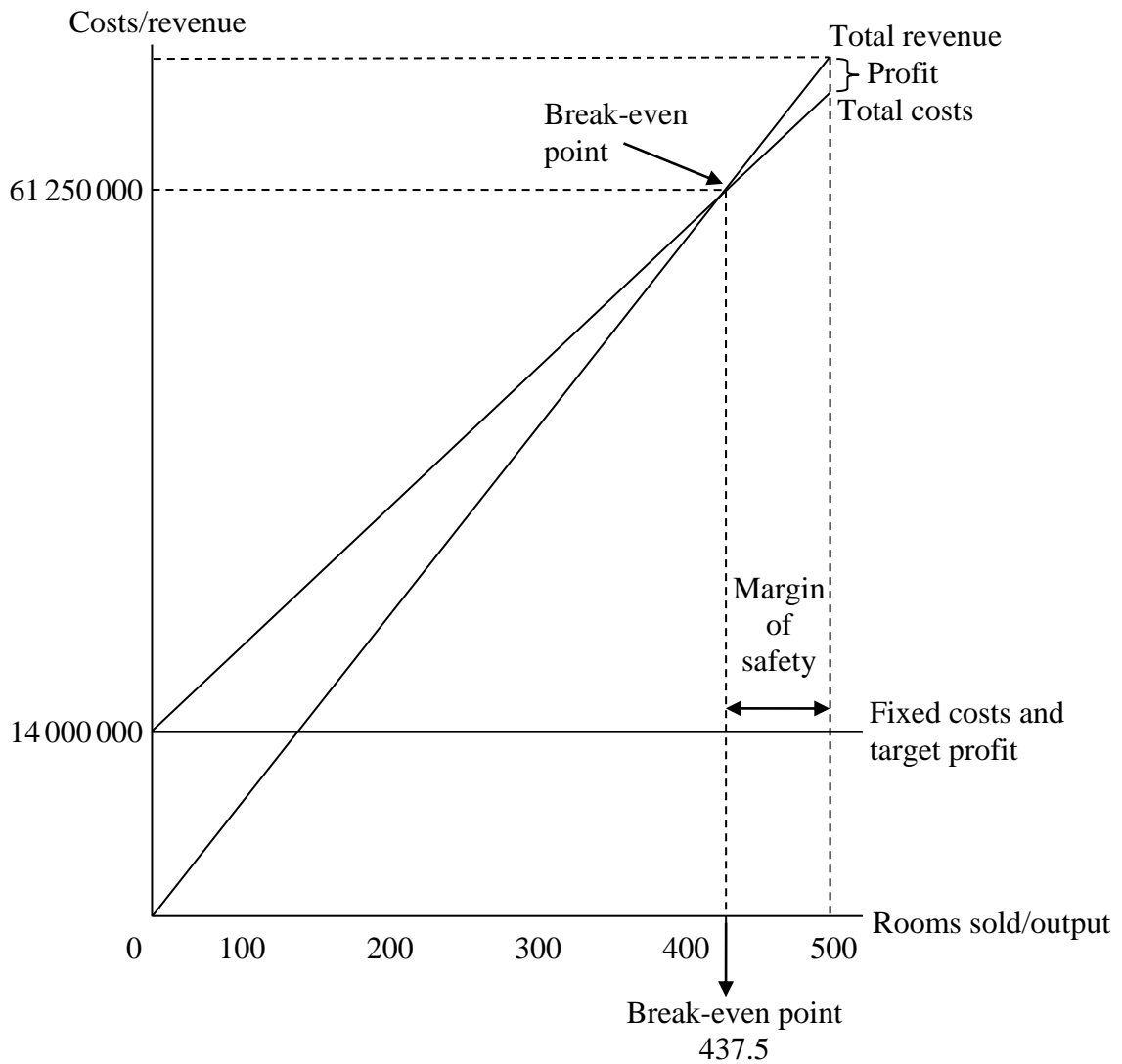
$$\text{Break-even point} = \frac{14\,000\,000}{32\,000} = 437.5 = 438 \text{ rooms}$$

*N.B.* Do not penalize the absence of quantity/rooms (BOD).

Award **[1 mark]** for the correct workings and **[1 mark]** for the correct answer up to a maximum of **[2 marks]**.

Award **[1 mark]** if either the new contribution is calculated correctly, or the fixed cost + target profit is calculated correctly.

- (d) (i) Using the *revised* forecasted figures, construct a fully labelled break-even chart for 2013. [4 marks]



Award up to a maximum of [4 marks] in total for any of the following:

[1 mark] for appropriately labelled axes.

[1 mark] for an accurately drawn and labelled total revenue curve.

[1 mark] for an accurately drawn and labelled total costs curve.

Own Figure Rule (OFR) applies.

[1 mark] for the identification of the break-even **level of output** (whatever the value).

- (ii) Explain the limitations of the 2013 break-even chart from part (i) as a decision-making tool for *Icarus*. [3 marks]

Given the nature of this project being perceived as extremely risky and unique, break-even alone cannot provide enough information as a decision-making tool.

There are weaknesses in a break-even analysis model: the linear nature of the cost and revenue diagrams based on the assumption that costs and price are constant. New competition may reduce *Icarus*' ability to increase prices. We have limited information about how costs could further change, for example, due to economies of scale. There is the assumption that all rooms are sold-which might not be a realistic assumption given the potential risk/danger that consumers may perceive.

No probabilities or qualitative and quantitative risk are attached to the model as it might be difficult to predict some external influences that might impact on a trip to outer space.

The model ignores any qualitative issues like the reaction of the employees who need training, or new and future competition in this market. It would be wise for *Icarus* to examine other models and to use other marketing and business tools such as investment appraisal, before reaching its final decision.

Award [1 mark] for each relevant limitation explained.

Award [1 mark] for explaining each limitation in context / application to *Icarus* up to [2 marks] per limitation.

Award a maximum of [3 marks].

(e) Analyse *Icarus*' decision to open the first hotel in outer space. [6 marks]

The decision to open the first hotel in outer space will allow *Icarus* to exploit a new niche market. Given the stratified samples of families with incomes over \$10000000, it would appear that a price skimming method is being used. With price-skimming, the high market research costs and development will be recouped. *Icarus* has already invested significant funds into this project and would be unable to realize profits if they withdrew from the project or if it was incomplete. It will also allow *Icarus* to beat competitors as it will guarantee *Icarus* a first-mover advantage and cement in the minds of the consumers that *Icarus* is still being innovative.

Moreover, given the well established and reputable brand image combined with the use of family branding, *Icarus* is likely to be successful.

However, there are unexpected costs with the project, with three years until completion, these costs will impact on future profits.

Given the customer service and perception of *Icarus*, the issue on training becomes paramount. Intensive training will add to the costs considerably. Are there any other aspects of preparing for customer service in outer space, which have yet to be considered?

If the product/service fails, there is a great risk of negative effect on the other products under the family brand.

With future revenues and costs uncertain, the degree of risk in the project is considerable. Perhaps they could form a joint venture to share these? Moreover, other adventure tourism companies are considering entering this innovative and unique market. *Icarus*' potential USP may be eroded very quickly.

*Accept any other relevant analysis.*

It is **not** expected that candidates will include all of the above points in their answer.

A balanced response is one that covers at least **two** issues for and at least **two** issues against.

For one relevant issue that is one-sided, with no analysis, award up to a maximum of [3 marks]. For one relevant issue that is balanced, with analysis, award up to a maximum of [4 marks]. For more than one relevant issue that is one-sided, with no analysis award up to a maximum of [4 marks].

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

**SECTION B**

**3. (a) Define the following terms:**

- (i) *productivity* *[2 marks]*

Productivity is a measure of the efficiency of production. It makes reference to the amount of output per unit of input.

Candidates are **not** expected to word their definition **exactly** as above.

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

Award *[2 marks]* for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant example **or** application to the stimulus award *[1 mark]*.

- (ii) *pressure groups.* *[2 marks]*

A pressure group is an organized group of stakeholders who believe in the same cause and decide to join forces to act together by putting pressure on businesses. For example, lobbying governments to change laws and appealing directly to public opinion to advance the pressure group's interest. (for instance about pollution or about the ecological impacts of the new bridge).

Candidates are **not** expected to word their definition **exactly** as above.

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

Award *[2 marks]* for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant: example **or** application to the stimulus award *[1 mark]*.

- (b) Explain *two* non-financial rewards used at *Construir* to motivate workers. [6 marks]

**Empowerment:** is the process of enabling or authorizing an individual to think, behave, take action, and control work and decision-making in autonomous ways. It entails more freedom, autonomy and the power to make own decision. One may argue that empowerment shows respect, trust and level of delegation from the management and hence enable employees to feel competent, respected and trusted. This may in turn increase motivation and employee satisfaction.

**Teamwork:** means organizing the labour force into teams. It usually implies workers planning their own work or projects, and making their own decisions. Teams usually set targets to achieve and may receive rewards for doing so. Teamwork has proved to be a successful motivator at *Construir* as “commitment to quality is strong, and productivity is high”. Working in teams facilitate more social interaction and possibly support and friendship from team members

**Job enrichment:** implies increasing the depth of the job to include responsibilities that have traditionally been carried out at higher levels of the organization. As training is a crucial element to job enrichment, *Construir* is making substantial investment in the training and professional development of its workers to encourage it. Employees feel appreciated, supported and more confident

*Accept any other relevant explanation.*

**N.B.** the answer should focus on job enrichment not enlargement/or rotation.

*Accept training and/or appraisal as non-financial rewards.*

**Mark as 3+3.**

Award [1 mark] for identifying an appropriate non-financial reward, [1 mark] for an appropriate explanation and [1 mark] for a further development of this explanation with **some application** to *Construir* up to a maximum of [3 marks].



- (c) Analyse *two* benefits for *Construir* of a public-private partnership with the government. [6 marks]

A public-private partnership (PPP) is an agreement between the public sector and the private sector for the purpose of designing, planning, financing, constructing and/or operating projects which would traditionally be done by the public sector. The current government is considering the construction of a bridge through a PPP with *Construir*.

*Construir* could benefit from the PPP:

- *Construir* will share the construction costs with the government as the latter will pay half. *Construir* will then transfer some of its financial risks to the public sector.
- A source of income will be generated for *Construir* as the company will be given the right to charge drivers a fee for using the bridge. In addition, profits will possibly be higher.
- Due to the gains on experience and economies of scale, *Construir* may be offered new construction projects and hence more business opportunities may be created for the company on successful completion.
- Accept any other relevant benefit.

However, *Construir* will have to face several costs if the PPP with the government takes place:

- Opportunity cost: In order to build the bridge, *Construir* will have to turn down other construction projects and thus lose business opportunities.
- The project also entails important **risks** for *Construir*. As the current government is unpopular, there are chances that the project will be cancelled if another government is elected. In addition, operational and financial risks are also involved.
- *Construir*'s corporate image could be damaged due to the local environmental pressure groups campaigning against the bridge project. These groups would rather have government funds allocated to alternative social projects.
- Accept any other relevant cost.

Accept any other relevant analysis.

For one relevant benefit that is one-sided, with no analysis, award **up to** a maximum of [3 marks]. For one relevant benefit that is balanced, with analysis, award up to a maximum of [4 marks]. For two relevant benefits that are one-sided, with no analysis award **up to** a maximum of [4 marks].

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

**(d) Evaluate *Construir's* training and appraisal methods.**

**[9 marks]**

Training makes reference to the activity of imparting knowledge or skills to improve worker's performance. *Construir* makes substantial investment in the training and professional development of its workers who receive both external and internal training.

Workers at *Construir* are externally trained at a local university. *Construir* may then benefit from increased motivation and commitment among its workers as they would probably acknowledge the value of being trained externally, which is usually costly. External training could also bring fresh new ideas into *Construir*, as workers mix with people from outside the company; ideas could be exchanged and relationships developed. Concentration may also be enhanced as workers are sent out of their usual working environment. It could also be argued that external training at a university can be of a better quality as is provided by professional educators in facilities that were specially built for training purposes. On the other hand, university fees are increasing for *Construir*. Travelling to and from the university can increase costs for *Construir* in terms of lost productivity time. If staff training takes place during the day then there may be some disruption of the working day. This would not be the case if staff training was undertaken outside working hours.

*Construir* also conducts in-house or internal training which is led by the managers within each department. Internal training may be less expensive as fees are not paid. In addition, new skills could be applied quickly in the real working environment. On the other hand, it may narrow worker's perspectives as external contact and sharing experiences are not possible. In addition, it seems that managers conducting training at *Construir* do not feel comfortable doing this activity; this situation may lead to demotivation and generate conflict among managerial staff.

*Construir* also conducts appraisals. Benefits include the possibility of identifying worker's strengths and weaknesses to improve their performance, setting professional development targets to motivate them, rewarding success and enhancing communication. However, some of the managers have expressed their concerns about the appraisal process at *Construir*. They believe that it takes too much time and that it is very stressful for some workers. The impact on *Construir's* productivity and worker's motivation could then be negative. Alternatively, managers could be further trained on how to conduct appraisals efficiently; time may be saved and managers may feel more comfortable with appraising their subordinates. Workers in turn, should be told of the "constructive" intention of appraisal; anxiety about criticism could then be reduced and worker's productivity and motivation improved.

Training and appraisal are crucial components of human resources planning and hence the arguments for are very significant. It is not a question should they be stopped, but how to improve the process. The arguments against, while relevant are of less significance. Nevertheless, *Construir* should assess and adjust, when necessary, its current training and appraisal methods to reach the ultimate goal of remaining competitive in the construction market.

For one relevant issue that is one-sided, award up to **[3 marks]**. If the response is a one-sided relevant approach with no analysis, award a maximum of **[4 marks]**.

If the candidate analyses **either** training **or** appraisal award up to a maximum of **[4 marks]**.

Award a maximum of **[5 marks]** if the answer is of a standard that shows balanced analysis and understanding throughout the response, which includes appraisal **and** training with reference to the stimulus material, but there is no judgment/conclusion.

Candidates cannot reach the **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

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

4. (a) Describe *one* possible above the line and *one* possible below the line promotional method for OA. **[4 marks]**

OA could use the following tools.

Above the line:

- an advert of charging below market prices compared to competitor airlines could be included on the company web site
- TV commercials or radio advertising
- advertising in magazines targeted to business passengers, *eg* journals.

*The above is only a list, application to OA is expected.*

Below the line:

- point-of-sale material: such as a toy aircraft, T-shirts with the logo on *etc* to possibly include the mission statement, or excerpts from customer feedback indicating the level of customer service
- sales promotions could be used, although many of OA's flights are full
- public relations exercises where there is direct contact with customers
- public relation in the form of positive newspaper articles about an excellent experience of a guest
- coupons with direct mail to be redeemed when flights are booked.

*Accept any other relevant promotional method with a description.*

**Mark as 2+2.**

Award **[1 mark]** for each relevant above the line/below the line promotional method identified and **[1 mark]** for describing the characteristics of the method identified with application up to a maximum of **[2 marks]**.

If a candidate includes two types of above the line promotional methods such as advertise on TV and/or the cinema award a maximum of **[1 mark]**.

**(b) Explain *three* stakeholder conflicts at *OA*. [6 marks]**

There are a number of stakeholder conflicts present at *OA*:

- Obese passengers versus other passengers. The issue is a lack of space impacting on emergency evacuation procedures if the very obese passenger does not purchase an additional seat.
- Business passengers versus families travelling in business class (from the stimulus).
- Pressure groups and *OA*'s Board of Directors or Eythor (directly), over the issue of the credibility of *OA*'s ethical objectives.

*Accept any other relevant stakeholder conflict with an explanation.*

**Mark as 2+2+2.**

Award [*1 mark*] for correctly identifying a relevant stakeholder conflict and [*1 mark*] for an explanation of the nature of that conflict with application to *OA*.

**(c) Analyse how the *two* social changes could affect *OA*'s ability to fulfil its mission statement: "In the air, we care for everyone!". [6 marks]**

*OA*'s mission statement reads "In the air, we care for everyone!". The business aims to cater for both business and economy class passengers. However the two social changes will impact on the airlines ability to deliver on its mission.

The degree of obesity is increasing, some passengers complain about the lack of space. The business is trying to satisfy passengers who are not obese by charging those that are very obese for two seats. With *OA* flights mostly full, it is likely that obese passengers will have to pay twice. On the one hand one may argue that by doing so *OA* does not care for the obese passengers, *OA* is going to have to define what an obese passenger is. This could be regarded as culturally insensitive and unethical.

However, not only do the obese passengers affect the comfort of other passengers, they also create some safety issues that must be addressed by the airline as safety is the most important factor in the aviation industry.

To fulfill its mission, *OA* is going to have to spend time and resources determining appropriate criteria to indicate who has to pay twice. There may be some significant public relation issues here.

The issue is equally difficult for families travelling in business class. The mission is created to cater to both segments. It can be argued that families with children who can afford the service should not be discriminated against and that is what *OA* is trying to do. However, loyal business customers that do not like the children in the cabin may seek other airlines. The new proposed daily family-only service caters for this need. To separate the two markets is potentially a good solution. However, we must note the potential hostility from families who cannot afford the new "higher" prices for this service and may feel discriminated against by *OA*.

One is tempted to suggest that *OA* may need to alter its mission to “In the air, we care for everyone ... at the right price!”. It will be difficult to satisfy all stakeholders and the mission given the two social changes.

*Accept any other relevant analysis.*

For one relevant social change that is one-sided, with no analysis award **up to** a maximum of **[3 marks]**. For one social change that is balanced, with analysis award up to a maximum of **[4 marks]**. For two relevant social changes that are one-sided, with no analysis award **up to** a maximum of **[4 marks]**.

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

- (d) Discuss an appropriate marketing mix for *OA*'s proposed new “family-only service”.** **[9 marks]**

Although this is a service, the 7Ps marketing mix in its entirety is not expected. Candidates' answers should be in context and specific reference to the family-only service is expected to achieve the top two markbands. A judgment is expected at the top of the markband.

A discussion of pricing and promotion should be at the centre of the analysis as these are indicated in the stimulus, but answers should include reference to at least **two more** Ps to be allocated marks in the top markband under detailed analysis.

Candidates should refer to at least **one** advantage and **one** disadvantage of each of the recommended / proposed marketing mix.

Suggested responses with balance include:

**Product/service** – the proposed family-only service could lead to the creation of a new competitive strategy for *OA* if family friendly, through facilities such as a playing area, trained staff for children entertainment and special children menu. This augmented service is likely to attract the families who are likely to approve the segregation and the more bespoke service. With the right price, *OA* could increase demand significantly.

However, *OA* needs to ensure the availability of spare capacity otherwise the business passengers will feel alienated and *OA* may danger the loyalty and custom of the business passengers.

The cost in terms of the provision of the service might be very expensive.

**Price** – *OA* is well known for its below market pricing method. Eythor expects that the new service will need to be priced above current market levels given a reduced number of seats and more space. Families travelling in business class will be able to pay, but the danger of price skimming is that they may raise the ire of pressure groups. What if families cannot afford this new service? Overcrowding may result on *OA*'s other flights, exacerbating the problems highlighted in the stimulus material.

**Promotion** – the new service will need a new promotional mix. Perhaps this could be through direct marketing to families through a loyalty scheme, or public demonstration of the new service? Or even open days at *OA* headquarters. Answers should be creative and in context.

The costs of promotion should be carefully looked at but given the fact that *OA* is likely to use promotion now, perhaps it is not a major issue. However, *OA*'s Marketing Manager has to take care not to neglect and alienate the business passengers and keep or even enhance the promotion for this segment. Costs may increase as *OA* is unlikely to enjoy advertising economies of scale.

**People** – appropriately trained staff will be required to staff the new service. This will raise costs, although it appears that *OA* has been successful and this may add value to the product and be used in future promotional activities.

**Physical evidence** – The costs of refitting the plane could be considerable but given the fact that *OA* is providing a service, the physical evidence is of paramount importance. Moreover, the tangibility of the service can be used in the promotion especially advertising.

**Place** – the distribution channels for the service include not only the flight, but the booking systems and the airport facilities. *OA* may be best advised to separate the family-only flights from the regular operations, possibly in specific waiting areas. Ticket sales may be offered in some more imaginative locations such as toy outlets. However, there may be cost implications and possible erosion of brand image if too much attention is given to children.

**Process** – may refer to waiting times, and customer services beyond the flight. For example, *OA* will need to consider activities during waiting periods and also redesign their customer satisfaction surveys. Again, there is the issue of costs, availability and training of staff *etc.*

**Conclusion/Judgement:**

The marketing mix should strategically fit / support each other. There is a danger that given the enhanced service, the price has to be increased significantly. This will erode *OA*'s current USP and reputation.

However, a market gap has been identified by Eythor so the assumption is that there will be a demand and that the needs for such a service exists.

By providing such a service *OA* can enjoy a first-mover advantage and create a **new USP** especially in the short run.

If successful, more competitors are likely to enter the market with similar services. This type of service cannot be patented. Hence the airlines might find themselves trying to fill the same gap with possibly lower price and better services hence less profit. Such a new service is unlikely to be sustainable in the long run.

One has to remember that the new service being offered is for one flight a day. In the short run *OA* is likely to manage and schedule the flight for the convenience of children and parents which is likely to be different from the requirements of the business passengers. Both segments are likely to be satisfied. *OA* is likely to create a win win situation.

In the long run, if the demand increases for any of the services and profit is made, *OA* can increase capacity.

It might be worthwhile for *OA* to try the new service.

*Accept any other substantiated judgment/conclusions.*

*Accept any other relevant discussion.*

It is not expected that the candidate writes about all the points above.

For one relevant issue that is one-sided, award up to **[3 marks]**. If the response is a one-sided relevant approach with no analysis award a maximum of **[4 marks]**.

Award a maximum of **[5 marks]** if the answer is of a standard that shows balanced analysis and understanding throughout the response with reference to the stimulus material but there is no judgment/conclusion.

Candidates cannot reach the **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

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

5. (a) (i) **Define the term *social marketing*.** [2 marks]

Activities that seek to influence social behavior in order to maintain or improve the consumers and society's well being through promoting activities that are regarded as being beneficial to a stakeholder community. In this stimulus material, *MT* is promoting healthy eating and youth sport participation.

Candidates are **not** expected to word their definition **exactly** as above.

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

Award [2 marks] for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant: example **or** application to the stimulus award [1 mark].

(ii) **Identify *two* characteristics of a matrix structure.** [2 marks]

Characteristics of a matrix structure (project teams) could include:

- project team will come from various departments/functions and will last for the duration of the project to be carried out and then workers return to their original teams
- flexible and high quality decision-making due to workers being qualified and high level of delegation and empowerment.

*Accept any other appropriate characteristic, which is related to organizations that are not organized along functional lines.*

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



- (b) Explain the role that budgets could play in solving the cash-flow problems at *MT*. *[6 marks]*

*MT* nearly faced bankruptcy in 2012 as the management did not adhere to the budget and overspent on social marketing.

Had the management of *MT* followed the budget, it would allow *MT* to exercise some financial discipline and avoid the financial crisis.

Moreover, a variance analysis could have been carried out to identify specific issues / lack of inflow and higher outflow. Corrective action should have been taken to avoid the crisis. In short, the management of *MT* should have created and followed the whole budgetary process.

The Financial Manager should now pay very close attention to creation and execution of the budget especially to the issue of cash flow. Attention should be made to forecast as accurately as possible the possible inflow and outflow of cash as well as other revenue, income and expenditure. The cup success is not certain for next year so additional cash coming into *MT* is not guaranteed. Therefore having tighter budgets in place is useful to discipline Dave to not repeat mistakes of the past.

The club now has funds in which to repair the stadium which may reduce cash outflows in the future. A budget could be set for spending less on social marketing activities, which could bring in additional cash in the future through increased attendances and therefore improving the cash flow of *MT*.

It is expected that two roles will be explained. Hence **mark as 3+3**.

Award *[1 mark]* for a relevant role with an additional *[1 mark]* for application to *MT*. Award an additional *[1 mark]* for a developed explanation up to a maximum of *[3 marks]* per role.

Credit the candidate that explains more than two relevant roles and therefore the explanation of each role may lack some depth and detail.

(c) Using *two* appropriate motivation theories, analyse player motivation at *MT*. [6 marks]

Herzberg two factor theory / Maslow's hierarchy of needs and some influence of Taylorism are appropriate theories, but please be aware that candidates may use others.

Assuming salaries are paid and sufficient, one can assume that the lower level needs is being satisfied.

Being part of a team can be used to explain love and belonging.

Hygiene needs are being satisfied to an extent at *MT*. The cup win has paid salaries and with fresh working capital, *MT* may be able to invest some funds in making the club run smoother after they were threatened with bankruptcy. *MT*'s open culture may also leave workers feeling satisfied giving them a chance to have a positive working environment. According to Herzberg, the above will not motivate, but prevent the players from being dissatisfied.

The possible joint venture with *Dynamo* may provide the opportunity for all *MT*'s players to improve their skills through job enrichment. Moreover, the tournaments, games / cup games itself clearly challenge the players. Job enrichment and challenging tasks according to Herzberg motivate employees.

The cup win may be regarded as a self-actualization point (Maslow) for some of the players at *MT*, but more information is required before it could be extended to all. There is evidence that love and belonging is a strong driver for motivation as player turnover at the club has been very low.

Before the cup win, the club has faced the possibility of bankruptcy and some players have threatened to leave until a possible "joint venture with another club (has) encouraged them to stay". This has links to Taylorism as financial motivation seems to be paramount.

There is evidence that the matrix structure and open culture is not motivating some players who may be more inclined toward a Taylorist approach of financial motivation.

If Maslow's hierarchy of needs theory is in operation, then again the theory is not a perfect fit for player motivation at *MT*. The financial difficulties could undermine psychological or security needs.

The issues around motivation become more complex if the proposed joint venture with *Dynamo* takes place. Culture clashes may impact on the love and belonging needs but the new bigger club may allow personal growth and other yet to be defined "job enrichment" activities. However, we must note that the centralized and authoritarian culture at *Dynamo* may be more Taylorist than some of the *MT* players would be used to.

*Accept any other relevant analysis.*

For one relevant issue that is one-sided, with no analysis, award up to a maximum of **[3 marks]**. For one relevant issue that is balanced, with analysis, award up to a maximum of **[4 marks]**. For more than one relevant issue that is one-sided, with no analysis award up to a maximum of **[4 marks]**.

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

**(d) Advise Dave on the proposal for a joint venture with *Dynamo*. [9 marks]**

Dave has a dilemma.

By joining with *Dynamo* his players will have access to modern training facilities that should improve performance and keep *MT* financially sustainable. The chance of further cup success will mean that he can keep this group of players together. A synergy can be created between the players and the managers and performance will be further improved. The loss of his son Wayne will be felt, but it does provide an opportunity for Dave to promote one of his high profile players to the captaincy thus possibly defusing any dissatisfaction.

*Dynamo* however has had an unsuccessful season and attendances are falling. The *Dynamo* culture is in direct contrast to *MT*'s. Although they will be sharing the new stadium which will take time to build, it will not solve the short-term financial difficulties. Inevitably both sets of managers will need to work with each other, and conflict could undermine the goodwill generated from the social marketing work that *MT* has already undertaken. (Will Gary Driver be interested?) The contrasting management styles could be judged as a very significant argument against the joint venture as it is highly unlikely that any of the managers will be able to change their style. Perhaps a decision should be made as to who is going to manage overall. However, what will the other manager do?

*Accept any other relevant arguments.*

In conclusion:

From reading the stimulus material it appears that after their cup success, *MT* do not need *Dynamo*, but *Dynamo* needs *MT*. The joint venture may not be an equal partnership. Wayne's transfer may also cause problems and Dave may need to not take up the joint venture to show supporters that his interest lies solely with *MT*. Falling attendances at both clubs would do little to improve motivation at either. Perhaps Dave should wait to see how the football season develops.

*Accept any other relevant advice.*

For one relevant issue that is one-sided, award up to *[3 marks]*. If the response is a one-sided relevant approach with no analysis award a maximum of *[4 marks]*.

Award a maximum of *[5 marks]* if the answer is of a standard that shows balanced analysis and understanding throughout the response with reference to the stimulus material but there is no judgment/conclusion.

Candidates cannot reach the *[5–7]* markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

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

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