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M03/370/S(1)M+

MARKSCHEME

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BUSINESS AND MANAGEMENT

Standard Level

Paper 1

1. (a) **What is meant by the term high staff turnover in relation to *Rainbow Club Ltd*?** **[3 marks]**

Staff turnover measures the rate at which staff are leaving *Rainbow Club Ltd*. It is calculated by the formula:

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

In the case of *Rainbow Club Ltd* this is high compared to the average in the industry

[3 marks]

A definition supported by a formula **or** a description of its elements using a proportion or percentage, and comparing to competitors.

[2 marks]

A general statement, which contains the facts that many staff are leaving and this compares poorly to other businesses or is worrying.

[1 mark]

A statement that the club is losing staff.

- (b) **Discuss the possible consequences of a 30 % turnover of staff at *Rainbow Club Ltd*.** **[5 marks]**

Most of the consequences are likely to be negative:

- poor morale among remaining staff and possible increased workloads
- costs of recruiting and training new staff
- bad public relations possibly affecting the image of the club
- increased risks of legal action against the club.

There may, however, be some positive aspects:

- new blood and ideas may be introduced
- better staff than those presently at the club may be recruited
- restructuring of the existing workforce may be possible.

[3 to 5 marks]

A discussion of the consequence of high staff turnover, thorough at the upper end. For **[5 marks]** there should be a recognition that turnover may be beneficial in some circumstances.

[1 to 2 marks]

The consequences of high staff turnover tend to be listed rather than discussed and for **[1 mark]** may be very limited in number.

- (c) **Evaluate methods by which the present high staff turnover at *Rainbow Club Ltd* may be reduced.** **[10 marks]**

The high staff turnover appears to be the result of Joe's management style and autocratic approach and poor terms and conditions of employment.

As the director of administration and personnel George Swale has a responsibility to examine methods of reducing turnover. He could speak to his brother about his approach, but the effectiveness will depend on their relationship. Outside consultants could be used to advise on possible strategies and to provide training on management and leadership. Given Joe's autocratic nature, this strategy is unlikely to be successful.

Alternatively, George needs to look at both financial and non-financial motivation.

Possible monetary rewards include

- overtime
- bonuses and incentives
- performance / profit related pay
- share ownership
- profit sharing
- fringe benefits.

Possible non-monetary approaches include

- job design, job flexibility and job satisfaction
- job rotation
- job enlargement
- job enrichment
- group working
- empowerment
- training, multi-skilling and staff development
- recognition
- appraisal.

The balance of rewards will need to be judged against the likely costs and benefits and whether George sees the staff turnover as a problem. If staff members are relatively unskilled then the cost of replacement may be far lower than the additional reward package.

[8 to 10 marks]

Reasons for the high staff turnover are recognised and potential solutions presented and their effectiveness evaluated. Examples from the case study are used to support the evaluation.

[4 to 7 marks]

There is some understanding of the reasons for the high staff turnover, and some solutions are presented. The range of solutions and evaluation may be limited, or missing, at the bottom of the band.

[1 to 3 marks]

There is a generalized and limited discussion. Solutions, although relevant, tend to be brief and analysis if present, weak.

2. Identify *two* pressure groups in the case study and evaluate to what extent each of these pressure groups can influence decision making in *Rainbow Club Ltd.*

[10 marks]

Pressure groups in the case study

- the local community opposing the move of the stadium
- the trade union, PACKICE
- the authors of the team fan magazine, *The Roar*
- the *Rainbow Raider's* fans
- representatives of local commercial interests
- local environmental groups.

The greatest effect will be made by those pressure groups with the greatest financial impact on the club in the long run. This depends on the level of support for the group and whether it affects the club directly or indirectly. The local community may protest against a move, but here the only power relates to the immediate effect on the image of the club and possible short-term effects on attendance.

The fans may have more power than the local community. Their absence from games may affect players directly and performance on the ice. This in turn may affect profits and the willingness of advertisers to use the club in their campaigns.

[7 to 10 marks]

Two pressure groups are selected and there is a well-supported evaluation of the influence each will have on decision-making in the club. Examples are selected from the case study.

[3 to 6 marks]

Two pressure groups are selected and their influence discussed. There may not be an evaluation of the impact on decision-making. If only one relevant pressure group is discussed, a maximum of **[4 marks]** should be awarded.

[1 to 2 marks]

There is a generalized and limited response.

3. (a) **Using relevant examples from the case study, explain the difference between advertising and public relations.** **[4 marks]**

Advertising

Advertising is a paid-for communication through media such as television or newspapers under clear sponsorship. Advertising is considered a promotion above-the-line as it is carried by independent media. The purpose of advertising is ultimately to raise the level of sales and profits, but may also be aimed at improving corporate and brand image. Messages are placed in the ice hockey stadium by advertisers, probably on boards around the rink.

Public Relations (PR)

PR is the process of improving the public image of a company or brand through favourable publicity using various communication channels and the media, such as newspapers and television. Every organisation has a variety of “publics” who have an interest in its operations. The idea of PR is to maximise the positives about a business and to minimise the negatives. This is done through the use of press releases, interviews and events. PR is generally free, although the cost is absorbed by the department or personnel generating the PR. Often the PR story appears to be a news item. Visits to children’s clubs by Nancy have already been praised in the local media.

PR is considered to be “below-the-line activity”, as the firm itself has a degree of control over it. Ultimately the purpose of PR is the same as all forms of promotion; to generate more sales and profits.

[3 to 4 marks]

The differences between public relations and advertising are clearly explained and relevant examples are selected from the case study to support discussion.

[1 to 2 marks]

There is an attempt to distinguish between public relations and advertising, but discussion may be limited and there may be few or no examples from the case study.

- (b) **Assume you are working for *Target Data* and have been asked to advise Nancy Swale on future marketing and growth strategies for *Rainbow Club Ltd*.**

Using Ansoff’s Grid *and/or* similar marketing tools, prepare a marketing plan to encourage more individuals and groups to support the *Rainbow Raiders* and to raise the profile of *Rainbow Club Ltd* in the community.

[12 marks]

There can be a range of responses to this question. Clearly, answers must include reference to the marketing mix with the use of illustrations from the case study itself.

Promotion

The better answers will include a range of promotional approaches such as public relations and even direct marketing. A community based club needs to take advantage of promotional activities generating a positive image, such as work with the handicapped or schools. A focus on advertising is not sufficient for highest grade answers.

Pricing

The case states that prices are relatively cheap and that demand for the better seats is relatively price inelastic. It might lend itself to differential pricing with examples of family ticketing and special promotions linked to other commercial ventures. Generally competitive based pricing would be likely.

Place

Obviously this is presently under review. The potential for higher gates is clear, whether on an expanded site or at Carlton. The marketing mix may have to be amended for different locations

Product

Most sports clubs are looking at ways to create a USP. This can be done by add-ons, such as additional entertainment, competitions and fan contribution.

References to Ansoff would probably emphasise either market development or market penetration. It would be difficult to substantially alter the product itself. However, brand extension is a possibility as shown by *Manchester United* and clubs in the United States, such as the *Yankees*.

[10 to 12 marks]

The marketing plan is thorough with discussion of all the marketing mix for ***[12 marks]***. Appropriate marketing concepts, terms and tools are applied and the issues discussed are relevant to the issues of future growth. The plan should be internally consistent and compatible with the resources and constraints on the firm.

[7 to 9 marks]

The marketing plan is sensible, although it may not contain reference to all the marketing mix. There is an attempt to apply some marketing concepts, terms and tools and issues of growth are addressed.

[3 to 6 marks]

A marketing plan is presented with some reference to the marketing mix, although this may be limited in places. The language is rather general and marketing terminology is used infrequently.

[1 to 2 marks]

There is a generalized and limited response.

4. (a) **Significant finance is raised from merchandising. Explain why the mark-up on replica shirts can be so high and discuss why this mark-up is expected to increase further when the deal with *DQ Sports Inc* is concluded.** **[6 marks]**

The mark-up is the amount of gross profit added on to the direct cost per unit. This is usually expressed as a percentage:

$$\frac{\text{Gross profit}}{\text{Cost of sales}} \times 100$$

The existing mark-up is presently 300 % on cost. The question has to be asked as to why the club can charge such a high rate. Sporting merchandise is aspirational and is promoted through celebrity endorsement. The image necessary demands a premium price and the fans are prepared to pay the price to be part of their “team”.

The mark-up is set to increase further once the deal with *DQ Sports Inc* is concluded, as they will be able to gain economies of scale through their large-scale operations. This will lower unit cost and allow a higher margin to be earned at the existing price level. It is conceivable that even price levels would increase as the *DQ Sports Inc* brand name and reputation merits an even larger premium price.

[5 to 6 marks]

The concept of mark-up is clearly understood and the reasons for its size is explained. The advantages of economies of scale in purchasing by *DQ Sports Inc* is discussed and the effect on profit margin identified.

[3 to 4 marks]

The concept of mark-up is understood in general terms. There is some discussion on its size, although this may be brief. The effect of economies of scale may or may not be recognised, but there should be some discussion on purchasing and/or manufacturing power.

[1 to 2 marks]

There is a generalized and limited response.

- (b) **Suggest and evaluate possible sources of finance to fund the future expansion of *Rainbow Club Ltd*.**

[10 marks]

Potential sources of finance to fund the expansion:

External include

- share capital
- loan capital
- overdraft
- joint ventures
- sponsorship
- government grants
- venture capital.

Internal include

- retained profit
- trade credit
- sale of assets.

The answer needs to relate the source to the perceived need and the nature of the organisation. At present *Rainbow Club Ltd* is a private limited company. One solution to lack of funds for expansion would be to float the business and raise additional share capital. This would be likely to result in the Swale family losing control and may, therefore, be unacceptable to them. This would, however, provide a genuine source of long-term funding.

Long-term loans or mortgages would also be appropriate. The problem is that the club has very few fixed assets against which a loan may be secured. It might be possible for the Swale family to use their own property as collateral, but of course this would be a high-risk strategy as a failure of the club may lead to personal property being sold by creditors.

Similarly, sale of assets would not provide sufficient funds, as their value is relatively low.

Members of the Swale family could invest more of their personal funds into the business. If they feel that the longer-term future of the club is good, this may be a suitable option.

A bank overdraft is not an acceptable way of funding a long-term development programme.

Partnerships through mergers and joint ventures are a possibility. In theory a joint venture with the *Jets* may work, but given Joe's vision it is highly unlikely. There are alternatives though. Other sports clubs or commercial enterprises may offer suitable business partnerships.

Sponsorship appears to provide the most likely source of long-term funding. However, sponsorship is not always reliable and may be withdrawn as evidenced by the ending of the relationship with *The Dominion Bank*.

Government grants are unlikely. *Rainbow Club Ltd* is neither a start up, nor is likely to provide a source of significant employment for the region.

Venture capital is also unlikely as the growth of the club is likely to be relatively slow and will not appeal to those seeking a potentially high return on investment.

Ultimately retained profit is very important, but given the nature of many sports clubs this may not be sufficient to finance large-scale growth.

[8 to 10 marks]

Several sources of finance are identified and the appropriateness of each is discussed. An evaluation of the choice of finance addresses the individual needs of *Rainbow Club Ltd* and its present financial situation.

[4 to 7 marks]

Several sources of finance are identified. There is an attempt to analyse the appropriateness, although this may be limited at the bottom of the band. A judgment may be missing or flawed.

[1 to 3 marks]

There is a generalized and limited discussion. Some sources must be identified, although the choice may be inappropriate to the club's needs.
