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MARKSCHEME

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BUSINESS AND MANAGEMENT

Standard Level

Paper 2

1. (a) **TCP are aiming to target the “Digger” brand at the market segment of professional males and females aged 22-35.**

(i) **Describe what is meant by *segmentation*.** **[2 marks]**

Identifying groups with relatively similar needs and wants within a market. The firm can then develop an appropriate marketing mix for each segment. The aim is to meet customers’ needs more precisely.

Award up to **[2 marks]** for a suitable description.

(ii) **Evaluate the segmentation factors TCP need to take into account to ensure success in this market.** **[6 marks]**

TCP need to take into account:

Age

Clothes should be designed with the 22-35 market in mind and appropriate clothing developed for this group rather than creating a range of universal clothes.

Gender

TCP should develop a range of clothing for men and a separate range for women rather than unisex clothes as this market segment is able to pay for quality clothes and is likely to want the benefits of clothing that are casual but will also expect them to fit well.

Socio economic groups

When pricing the clothing, the earning potential of the market segment should be taken into account and prices set accordingly.

Location

Appropriate venues should be found to sell the clothing in places that appeal to this market segment. TCP could consider mail order and internet sales as these are likely to appeal to busy executives. Up market shopping malls and shops should be used.

Lifestyle

Clothing design should take into account the type of places that busy professionals of this age group frequent as this will dictate the type of styles that are more likely to be successful.

Benefit

e.g. warmth, comfort, and style.

Motives for buying (pyschographical)

TCP need to understand why this age group buy clothes and ensure that the marketing and design they use are targeting these needs.

[5 to 6 marks]

The answer evaluates most of the segmentation factors that *TCP* need to take into account to ensure success in the market. Recommendations are made for each of the factors in terms of the market segment and the “Digger” label.

[3 to 4 marks]

The answer attempts to evaluate some of the segmentation factors that *TCP* need to take into account to ensure success in the market. Recommendations are made for each of the factors in terms of the market segment and the “Digger” label but may be limited in number or detail.

[1 to 2 marks]

The answer makes a limited response in terms of segmentation factors.

(b) Explain the purpose of branding and assess the likely success of the “Digger” brand for *TCP*.

[6 marks]

Branding is a name or design that identifies the products or services of a manufacturer. The purpose of branding is to distinguish a business from its competitors and to enable customers to recognize products.

TCP has created a strong brand awareness in its field and is hoping that this will rub off onto the clothing range.

The “rugged” look will appeal as casual wear and as it is hardworking it will appeal to customers who appreciate quality products.

The “Digger” label is trendy and likely to appeal to a professional market. It is likely to be successful as it is providing good quality clothing to professional people. Care must however be taken in ensuring that it is launched successfully and that it is marketed well.

[5 to 6 marks]

The answer fully explains the purpose of branding. The answer assesses the likely success of the brand and advantages and disadvantages are addressed in detail.

[3 to 4 marks]

The answer explains the purpose of branding but it may lack detail. The answer attempts to assess the likely success of the brand and advantages and disadvantages are addressed but may lack detail.

[1 to 2 marks]

The candidate makes a limited response in terms of the purpose of branding and the likely success of the “Digger” brand.

- (c) ***TCP* needs to research the market for their DIY clothes and powerful tools. Explain *three* techniques that they could use to best identify their target market.**

[6 marks]

Techniques suggested should include:

- primary and secondary methods, quantitative and qualitative. Analysis of information gathered from competitors, market research agencies and customers.
- observation — watching customers and assessing their buying habits.
- test marketing by limiting the products to one store(s) or region.
- surveys including postal, telephone and internet questionnaires, face to face and telephone interviews.
- focus groups.
- types of sampling that might be suitable are stratified, quota, cluster.

[5 to 6 marks]

The answer explains three suitable techniques to best research the market. They are entirely appropriate to *TCP*.

[3 to 4 marks]

The answer explains three suitable techniques to best research the market, but the answer may lack detail. They are generally appropriate to *TCP*.

OR

The answer explains two suitable techniques to best research the market. They are entirely appropriate to *TCP*.

[1 to 2 marks]

The answer makes a limited response in terms of research and techniques.

2. (a) Explain what is meant by a *strategic alliance*? [2 marks]

A strategic alliance is formed by firms working together on specific projects. They can share costs and profits and benefit from economies of scale, marketing and purchasing power.

The businesses do not lose their legal status and do not form new companies.

Award up to **[2 marks]** for a suitable answer.

(b) Analyse why the airlines decided to join together to form a strategic alliance. [5 marks]

The airlines joined together to form a strategic alliance to enable them to keep their independence but to also benefit from economies of scale in terms of purchasing power and marketing. They were also able to target customers collectively by encouraging them to collect loyalty points by flying with airlines in the group of companies. This is particularly useful for airlines which may cover more destinations if they join together strategically.

[4 to 5 marks]

The answer provides an analysis of the decision to form a strategic alliance and discusses the benefits of economies of scale and maintaining their independence.

[2 to 3 marks]

The answer provides some analysis of the decision to form a strategic alliance but it may be limited in terms of the benefits of economies of scale and maintaining their independence.

[1 mark]

The answer is limited in terms of the decision to form a strategic alliance.

(c) How should the airlines deal with issues of overcapacity and impending loss of jobs? [4 marks]

The company should ensure that they target customers and persuade them to fly *e.g.* offers and rewards. They should assess the capacity of different routes and regularity of flights. Adaptations to the schedules could be made and strategic use of planes to ensure that they only own the number of planes required and there is no spare capacity. The group could look at flight routes and work together to operate their planes, carrying passengers for each other and ensuring optimum use of routes collectively.

The need to reduce jobs should be looked at sensitively and use made of voluntary redundancies and early retirement to avoid adverse publicity.

[4 marks]

The answer explains ways of dealing with overcapacity and job losses and the suggestions given are appropriate to the information given on *Star Alliance*.

[2 to 3 marks]

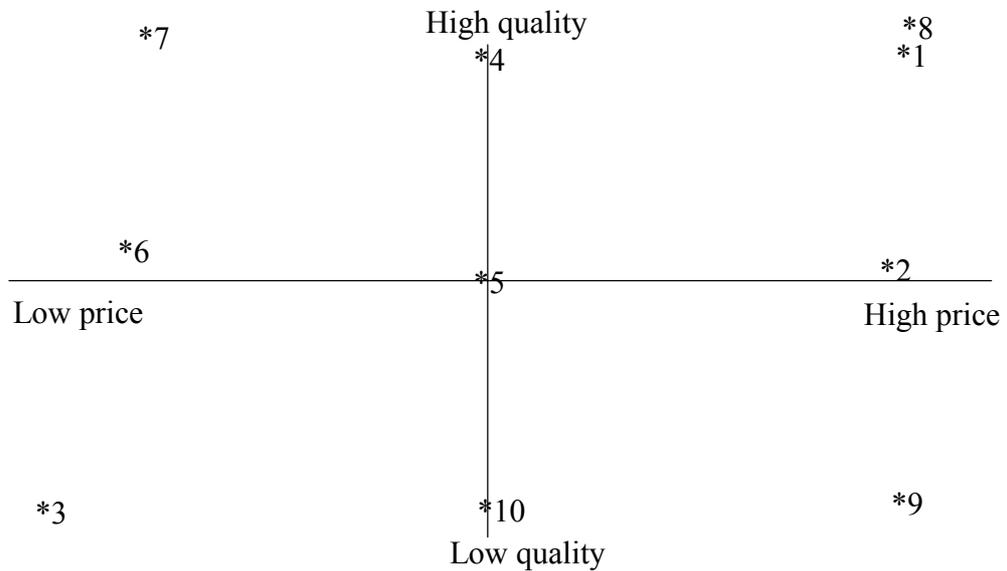
The answer attempts to explain ways of dealing with overcapacity and job losses and the suggestions given are generally appropriate to the information given on *Star Alliance*.

[1 mark]

The answer is limited in response.

- (d) Draw a product position map for the airlines within *Star Alliance* (shown in table 1).

[6 marks]



N.B. Candidates may also use efficiency record as one of the axes.

		Price	Quality
1	Air Canada	high	high
2	All Nippon Airways	high	medium
3	Ansett Australian	low	low
4	Austrian Airlines Group	medium	high
5	bmi British Midland	medium	medium
6	Lufthansa	low	medium
7	Mexicana	low	high
8	Singapore Airlines	high	high
9	Thai International	high	low
10	Varig Brazilian airlines	medium	low

[5 to 6 marks]

The position map is correct, including axes labelled and all airlines correctly placed. The map is well drawn, is neat and makes best use of space.

[3 to 4 marks]

The position map is largely correct, there may be one or two errors, at the lower end the axes may not be fully labelled. The map could be neater or make better use of space.

[1 to 2 marks]

The map is limited in content or layout and use of space.

(e) What type of customer should be targeted by Lufthansa airline? *[3 marks]*

Lufthansa is classed as a low price, medium quality, medium efficiency airline. Targeted customers should be those who are willing to sacrifice comfort and efficiency for value for money. They are not as interested in frills and service as ensuring that they access cheaper flights.

[2 to 3 marks]

The answer recognizes that Lufthansa is a low price, medium quality airline and the type of customer suggested fits into a suitable market segment.

[1 mark]

The answer is limited in terms of response and type of customer.

3. (a) (i) Calculate the working capital for 2000 and 2001. [2 marks]

working capital = current assets – current liabilities

2000 WC = 1.12 – 0.47 = \$ 0.65m

2001 WC = 0.81 – 0.58 = \$ 0.23m

Award [1 mark] for a correct calculation and [1 mark] for an indication of calculation / method for each year up to a maximum of [2 marks].

Award [1 mark] if only correct answers for both years given.

Award [1 mark] if correct answer calculated for one year with indication of method.

(ii) Produce a balance sheet for 2000 and 2001. [6 marks]

Balance Sheet	2000	2001
	\$ m	\$ m
Fixed assets	1.6	1.7
Current Assets		
Cash	0.02	0.01
Stock	0.4	0.2
Debtors	<u>0.7</u>	<u>0.6</u>
	1.12	0.81
Current Liabilities		
Creditors	0.24	0.43
Bank overdraft	<u>0.23</u>	<u>0.15</u>
	0.47	0.58
Net Assets	2.25	1.93
Financed by		
Share capital	2.24	1.01
Long term liabilities	1.44	1.44
Accumulated profit / loss	(1.43)	(0.52)
	2.25	1.93

[6 marks]

The balance sheet is produced in an appropriate format and all entries are entirely correct.

[5 marks]

The balance sheet is produced in an appropriate format though there may be one or two errors in calculation. One or two entries may be in the wrong place but the layout is generally correct.

[3 to 4 marks]

The balance sheet shows an understanding of the layout though some of the entries may be in the wrong place and some of the entries may be incorrect.

[1 to 2 marks]

A simplistic and general response.

(b) Produce a profit and loss account for 2000 and 2001.

[5 marks]

Profit and loss account

	2000 \$ m	2001 \$ m
Sales revenue	0.832	1.08
Cost of sales	0.477	0.49
Gross profit	0.355	0.59
Less overheads	0.41	0.442
Net profit	(0.055)	0.148

[5 marks]

The profit and loss accounts are entirely correct and use a suitable layout. The gross profit and net profit are calculated correctly.

[3 to 4 marks]

The profit and loss accounts use a suitable format but may not be entirely correct. At the upper end there is one error in layout or calculation.

[1 to 2 marks]

A simplistic and general approach.

(c) Calculate *four* ratios for each of the years 2000 and 2001 and comment on the efficiency, liquidity and profitability of the company. [7 marks]

Efficiency	2000	2001
$\text{Debtors} = \frac{\text{debtors} \times 365}{\text{Sales revenue}}$	$\frac{0.7 \times 365}{0.832} = 307$	$\frac{0.6 \times 365}{1.08} = 202.78$
$\text{Creditors} = \frac{\text{creditors} \times 365}{\text{Purchases}}$	$\frac{0.24 \times 365}{0.832} = 105$	$\frac{0.43 \times 365}{1.08} = 145$
$\text{Stock turnover} = \frac{\text{COGS}}{\text{Stock}}$	$\frac{0.477}{0.4} = 1.19$	$\frac{0.49}{0.2} = 2.45$
 Liquidity		
$\text{Current} = \frac{\text{CA}}{\text{CL}}$	$\frac{1.12}{0.47} = 2.38$	$\frac{0.81}{0.58} = 1.40$
$\text{Acid test} = \frac{\text{CA-stock}}{\text{CL}}$	$\frac{1.12 - 0.4}{0.47} = 1.53$	$\frac{0.81 - 0.2}{0.58} = 1.05$
 Profitability		
$\text{Gross profit} = \frac{\text{GP} \times 100}{\text{Sales revenue}}$	$\frac{0.355 \times 100}{0.832} = 42.67$	$\frac{0.59 \times 100}{1.08} = 54.63$
$\text{Net profit} = \frac{\text{NP} \times 100}{\text{Sales revenue}}$	$\frac{(0.055) \times 100}{0.832} = -6.61\%$	$\frac{0.148 \times 100}{1.08} = +13.7\%$
$\text{ROCE} = \frac{\text{NP} \times 100}{\text{Capital employed}}$	$\frac{(0.055) \times 100}{2.25} = -2.44$	$\frac{0.148 \times 100}{1.93} = 7.67$

Gross profit margin has increased and net profit margin has decreased indicating that overheads have increased. Return on capital employed has also increased. Current and acid test ratios have decreased indicating that the company is experiencing liquidity problems. Ratios for efficiency indicate that debtor days have reduced showing that the company is more efficient at collecting debts and creditor days have increased showing that the company is taking longer to pay its bills. Stock is also turning over more slowly.

[6 to 7 marks]

Four ratios are calculated correctly for 2000 and 2001. The analysis of the efficiency, liquidity and profitability of the company is detailed, appropriate and uses ratios to support the answer.

[4 to 5 marks]

Ratios are calculated for 2000 and 2001, but there may be one or two errors and the number calculated may be limited. The analysis of the efficiency, liquidity and profitability of the company may lack detail, and may not be entirely appropriate. Ratios are used to support the answer.

[2 to 3 marks]

Ratios may not be calculated for 2000 and 2001. The analysis of the efficiency, liquidity and profitability of the company may lack detail, and may not be entirely appropriate.

[1 mark]

A simplistic and general answer.

N.B. Do not double penalize candidates for using their own figures calculated earlier.

4. (a) Explain the benefits to *Stylish* of restructuring the company to ensure that the customer service team work from home, rather than from a central office. **[4 marks]**

Stylish will save the running costs for the office. They may achieve better productivity from the team by enabling them to work separately. The quality of service to customers may improve if staff feel more motivated.

[3 to 4 marks]

The benefits to *Stylish* are explained and are relevant.

[1 to 2 marks]

The answer is limited in response.

- (b) Outline *two* advantages and *two* disadvantages for Natalia and her team of working from home. **[4 marks]**

Advantages	Disadvantages
Save travelling time and costs	Cannot spin ideas off fellow workers easily
Can develop a work pattern to suit own lifestyle, e.g. around children	May get distracted by household
No need to wear special clothes for work	Difficult to switch off from work/home
May get tax advantages	May be lonely and miss social aspects
May be able to develop own work patterns	Employer may not realize the hours worked
	Costs of electricity <i>etc.</i> transferred to employee

[4 marks]

The answer outlines two appropriate advantages and disadvantages and relates them to the question.

[2 to 3 marks]

The answer outlines two advantages and disadvantages that are generally relevant; at the lower end they may be restricted in number.

[1 mark]

The answer is limited in terms of advantages and disadvantages and relevance to Natalia.

- (c) **Assess the communication barriers that might result from working at home rather than working as a core team and suggest *three* ways in which Natalia could improve communication.** **[6 marks]**

Barriers

Barriers to communication may result from Natalia not meeting the team face to face and the understanding of messages that she is hoping to convey may be affected. Information that might be passed on quickly or verbally might be lost and Natalia will not have a full picture of what is happening. The team may lead Natalia to believe that they are working well and that there are no problems but this may not be true and deadlines/work may be missed.

The team does not meet together and opportunities for collaborative thinking and working may be lost.

Ways to improve communication:

- e-mail
- tele and/or video-conferencing
- visiting employees in their own homes
- arranging meetings so that the team can meet regularly.

[5 to 6 marks]

The answer assesses in detail the communication barriers that might result and suggests three suitable ways to improve communication. The answer is related to *Stylish*.

[3 to 4 marks]

The answer attempts to assess the communication barriers but the assessment may be limited. The answer suggests at least two suitable ways of improving communication.

[1 to 2 marks]

The answer is limited in terms of assessment and improvements to communication.

- (d) **Evaluate the current and proposed methods of payment in terms of quality and meeting targets.** **[6 marks]**

Currently the teams' wages are based on a flat monthly payment regardless of the number of orders processed. This means that no matter how hard they work they will receive the same pay; this might lead to a loss of motivation and may not be an incentive to the worker. This may be particularly important as they are working from home. The method relies on the worker using their time productively.

Stylish is considering changing the system so that wages are based on the number of orders placed each day and targets set by Natalia monthly. The more orders processed and targets reached, the higher the wages received by the staff. This may cause workers who believe that they can achieve the targets to work harder. Frustration may be caused if workers cannot achieve their targets because customers cannot get through to them. However it may motivate the workers to work harder, though Natalia cannot assess if this is because they are improving their productivity or if they are simply working longer hours, in which case this may be counter productive. Quality may suffer as they may spend less time on each order.

[5 to 6 marks]

The answer fully evaluates the methods of payment in detail and addresses both quality and meeting targets.

[3 to 4 marks]

The answer attempts to evaluate the methods of payment but may not address fully quality and/or meeting targets.

[1 to 2 marks]

The answer is limited in terms of detail and does not address quality and meeting targets.

5. (a) Explain what is meant by a *franchise*. [2 marks]

A franchisor sells the right to use/sell a product or service to a franchisee in return for a fixed fee and or percentage of the turnover

Award up to [2 marks] for a suitable explanation.

- (b) Assess the advantages *and* disadvantages of the decision to take up a franchise rather than to operate as a sole trader. [6 marks]

Advantages	Disadvantages
Existing established brand name / product or service	Have to pay royalty to franchisor
Cheaper market research and advertising costs	Rules usually be set in terms of layout, products, marketing and franchisee has to comply with these
May receive help and training from franchisor	May only receive supplies from franchisor and may therefore not be able to shop around for best value
Can share marketing costs, research findings, new product development costs	May lose trade if reputation of other franchisees causes dissatisfaction
Lower start up costs	Degree of control of franchisor

[5 to 6 marks]

The answer fully assesses the advantages and disadvantages of becoming a franchise rather than a sole trader.

[3 to 4 marks]

The answer assesses the advantages and disadvantages of becoming a franchise rather than a sole trader but may lack detail in parts.

[1 to 2 marks]

The answer is limited in terms of advantages and disadvantages of franchises and sole trader.

- (c) Using appropriate examples distinguish between objectives, strategies and tactics and describe how these interrelate. [6 marks]

Objectives — medium term goals which the organization strives to achieve.

Strategies — General outlines of how the organization is to achieve its goals.

Tactics — Modes of operation used to achieve strategic goals.

Example

The corporate objective is to increase profit through a strategy of increasing market share. For the marketing department the objective is to increase market share, this may be achieved through a strategy of market penetration. The tactic may be to change the price.

[5 to 6 marks]

The answer distinguishes clearly between objectives, strategies and tactics. The description of how these interrelate is detailed and the answer uses appropriate examples.

[3 to 4 marks]

The answer distinguishes between objectives, strategies and tactics but the answer may lack clarity. The description of how these interrelate may lack detail but the answer should use at least one appropriate example.

[1 to 2 marks]

The answer is limited in terms of examples, interrelation and differentiation.

(d) Evaluate the role of market research in making business decisions. [6 marks]

Market research may be seen as a risk reducing activity. It informs the decision making process and enables the business to make informed decisions. This can avoid mistakes and save money. Product development and marketing is targeted and likely to be more successful. The opinions of customers provide a health check for the business to ensure that they are listening to their customers and are proactive in ensuring that they remain up to date in terms of needs and wants of their customers.

[5 to 6 marks]

The answer evaluates the role of market research in making business decisions.

[3 to 4 marks]

The answer attempts to evaluate the role of market research in making business decisions.

[1 to 2 marks]

The answer is limited in terms of evaluation and reference to market research.
