

# **MARKSCHEME**

**November 2005**

**BUSINESS AND MANAGEMENT**

**Standard Level**

**Paper 1**

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1. (a) Identify the main stakeholders in *Gadgets2u.com*. [4 marks]

The main stakeholders in *Gadgets2u.com* include:

- the stockholders – Tom Figueredo, his brother Sam and the Venture Capital Company Four H
- the bank – provision of loan capital to the firm
- the local community – in the area around the firm
- employees of *Gadgets2u.com*
- customers of *Gadgets2u.com*
- local government in Seville where *Gadgets2u.com* is based
- any other relevant stakeholder group.

Award [1 mark] for each relevant stakeholder.

*N.B.* Award a maximum of [1 mark] for any shareholders listed i.e. Tom Figueredo and Sam Figueredo as two separate stockholders will gain only [1 mark]. The same is true for employees of the firm.

(b) Explain possible conflicts that may arise between any two of these stakeholders as a result of the proposed international expansion. [8 marks]

International expansion will be a risky move for the firm and will require careful planning and implementation. It may also result in some stakeholder conflict with some within the firm and differences have already emerged within the board of directors.

Possible stakeholder conflicts may include:

- local community and the firm – expansion may mean building work, increased traffic to cope with the extra volume of business and therefore more disruption and perhaps pollution (noise and air). However, the expansion will also mean more local employment and perhaps more work for associated businesses and suppliers and therefore result in increased local incomes.
- stockholders and employees – though there may be some conflict within the stockholder group, there may also be conflict between stockholders and employees. Rapid expansion can be disruptive and many employees may resist change. However, many will also be highly motivated by change and expansion and the firm will need to ensure that they carefully appraise employees needs if they are to maintain motivation.
- any other reasonable stakeholder conflict.

*N.B.* Candidates are asked only for conflict between two stakeholders and so should not be given further credit for looking at other possible stakeholder conflicts.

**[6 to 8 marks]**

A detailed explanation of possible areas of conflict between two stakeholders. The answer refers clearly to *Gadgets2u.com* and is balanced, looking at the issue in detail from the perspective of both stakeholders.

**[3 to 5 marks]**

A reasonable explanation of the possible areas of conflict, though this may not be entirely balanced at the bottom end of the range. There is some reference to *Gadgets2u.com* with the conflict related to their position.

**[1 to 2 marks]**

An essentially descriptive answer or a list of problems without any or perhaps limited explanation.

**2. (a) Prepare a PEST/STEP analysis for *Gadgets2u.com*.**

**[8 marks]**

In their PEST (or STEP) analysis, candidates should look at external factors that may impact on the firm's operations. They may look at some of the following areas:

**Political**

The firm may face changes in regulations in some of its markets. One of its suppliers has already been selling phones outside the EU that do not meet EU requirements. If regulations are changed in the EU or other countries, then this may impact on the firm.

**Economic**

The firm is very exposed to exchange rate risk as it buys most of its stock in Japan and the US and pays most of its expenses in Euros. Significant fluctuations in exchange rates could affect its margins considerably. The products it sells are also income-sensitive and so changes in fiscal or monetary policy in its markets may also have a considerable impact on its sales growth. Higher inflation rates are forecast and this may mean deflationary policy. High levels of personal debt and interest rate changes will also be of interest to it in its planning. The firm also needs to be aware of any changes in tax regulations in any of its markets. The single market and single currency offer opportunities for expansion, particularly given the enlargement of the EU.

**Social**

The firm is very dependent on a particular demographic – young, high income males who are classified as “innovators” or “early adopters”. Changes in population structures and social attitudes may have an exaggerated impact on them and they need to be aware of any social changes. Any changes in “consumer” attitudes (“consumerism”) is also likely to have a significant effect given the niche nature of the *Gadgets2u.com* market.

### **Technological**

The firm's products are at the leading edge of technology and it needs to be constantly aware of technological developments. This is true on the sales side of the business, but also on the supply-side. Both its sales and distribution are highly dependent on state of the art technology and it needs to ensure it keeps up with technological change if it is to maintain its competitive advantage. This is particularly true of any e-commerce and Internet developments.

*Any other relevant points under each heading should also be credited.* Reference to legal and environmental factors should also be given appropriate credit.

#### ***[6 to 8 marks]***

A detailed and balanced PEST analysis with an explanation of how each factor identified will impact on the firm. The external factors identified are appropriate and relevant to the situation of *Gadgets2u.com*.

#### ***[3 to 5 marks]***

A reasonable number of external factors are identified and explained though there may not be balanced coverage of all four areas of the PEST analysis. The factors identified are generally appropriate and relevant to the firm, though some may be more general in nature at the lower end of the band.

#### ***[1 to 2 marks]***

An essentially descriptive answer with a limited number of factors perhaps not adequately explained or relevant.

- (b) Use the PEST analysis to investigate the threats that *Gadgets2u.com* may face if it decides to expand internationally to “broaden the sales base” (*line 160*).

***[10 marks]***

International expansion may result in a range of threats. These may include:

- **Political problems** – stability, civil society and the general state of the political map within a country can all impact on the confidence of prospective purchasers and marketing and other operations need to reflect these problems.
- **Culture** – this can also cause problems. Firms need to be aware of the cultural context they are operating in and ensure that none of their marketing or other operations will cause offence.
- **Laws** – different countries legislate in different ways and they need to be sure to meet all legislative requirements in their operations.
- **Economic differences** – the position the economy is in the economic cycle, the rates of tax or average income levels can all influence the success of the expansion. Again – the marketing and product range needs to reflect income levels and other economic differences. The firm must also be aware of other potential economic threats.
- **Social issues** – the firm will also need to be aware of pertinent social issues in the country it is planning to enter – think of the role of women or the literacy rates – the product range, marketing and other operations have to reflect the nature of the society.

- **“Ways of doing things”** – accounting techniques, ownership, land tenure and many other parts of business life do differ from one country to another and this may affect the firm’s overseas expansion. These issues may cause problems for the firm in marketing overseas, though the nature of the problems will depend on how they choose to manage the expansion.

For a small firm like *Gadgets2u.com*, many of these problems will be difficult to overcome. It is not sufficiently large to open offices or distribution centres in other countries and may have to rely on consultants, agencies and other experts to give it this information.

**[8 to 10 marks]**

A detailed, thorough and balanced investigation of the threats they may face with international expansion. The answer refers closely to the case study where relevant and uses subject concepts and/or theories appropriately.

**[5 to 7 marks]**

A reasonable investigation of the threats it may face with international expansion though it may not be completely balanced in approach. The answer refers generally to the case study though may be a little descriptive at the lower end of the range. There is some reference to subject concepts or theories though this may be limited at the bottom end of the range.

**[3 to 4 marks]**

Some threats relating to international expansion are examined but these may have limited description. There may be little or no reference to the case study material.

**[1 to 2 marks]**

A limited and essentially descriptive answer.

3. (a) Evaluate *three* strategies to help *Gadgets2u.com* improve communication within the firm. **[9 marks]**

Strategies for improving communication may include:

- use management by objectives – this would make objectives clearer and perhaps enable clearer communication
- set up further formal communication systems – regular meetings of project teams or related groups and closer line management reporting methods
- limit information dissemination – make information available only to those who need it through technology. Helps avoid information overload
- further empowerment of project teams – this may help ensure teams take responsibility for all their activities
- develop a taller hierarchy with a smaller span of control to try to make responsibilities and information flows clearer
- training may help raise awareness of communication systems
- team building activities
- *any other relevant point.*

**[7 to 9 marks]**

A detailed and balanced evaluation of three appropriate strategies. The answer is related to the situation of *Gadgets2u.com* and includes appropriate theories and/or concepts.

**[4 to 6 marks]**

A reasonable consideration of three generally appropriate strategies/or detailed evaluation of two though this may not be entirely balanced in coverage, and may tend to be more descriptive at the lower end of the range. The evaluation is generally related to *Gadgets2u.com* with some reference to subject theories or concepts where appropriate.

**[1 to 3 marks]**

An essentially descriptive answer with limited explanation of appropriate strategies or perhaps just a list of strategies.

- (b) Outline the problems that *Gadgets2u.com* may face if it follows Juan Alvarez's suggestion "to reduce the span of control and make the hierarchy taller to improve efficiency" (lines 47-48).**

**[7 marks]**

A taller hierarchy and lower span of control may have some advantages for the firm, but it may also result in a number of problems including:

- higher costs of supervision of staff and therefore higher indirect costs. However, this may also make it easier for new staff induction as the firm expands, as they will be more closely supervised.
- there is likely to be less opportunity for delegation and the ultimate empowerment of employees.
- those at the top can keep a tight control over employees, but this may cause some resentment among employees who are used to taking responsibility for themselves.
- a distance can become apparent between those at the top and bottom of the organization – again, this may cause some resentment and lack of motivation given the current flat structure.
- a narrow span might encourage greater communication between layers of the management structure, but might also increase the costs associated with communication.
- training opportunities and personnel development can be more easily managed and attached to promotional opportunities, but this may be counteracted by employees having less direct responsibility.
- *any other relevant point.*

**[5 to 7 marks]**

A detailed outline of a number of problems relating to implementing the change in organizational structure. The answer refers closely to the case study where relevant and uses subject concepts and theories extensively and appropriately.

**[3 to 4 marks]**

An outline of some of the problems of changing the organizational structure. The answer refers generally to the case study and there is some reference to subject concepts and theories though this may be limited at the bottom end of the range.

*[1 to 2 marks]*

Some problems relating to a change in organizational structure are raised but these may be very limited or perhaps listed. There is little or no reference to the case study material.

4. **With reference to profitability, efficiency and liquidity ratios analyse the changes that have taken place in the financial position of *Gadgets2u.com* between 2003 and 2004.**

*[14 marks]*

#### **Profitability**

Both profit margins have improved, indicating an improvement in performance of *Gadgets2u.com*. This has been caused by both cost of goods sold and overheads falling as a proportion of turnover. This may have been caused by

- better prices negotiated with suppliers as sales have grown enabling them to cut the cost of goods sold
- overheads being spread over a greater level of sales, hence reducing the unit cost
- improved systems being developed to help improve productivity and therefore lower costs

However, the net margin has improved by considerably more than the gross margin and this may indicate

- overheads being spread over a higher level of turnover. Overheads associated with the new e-commerce system may have stayed fairly steady as the system has spare capacity for growth. This would help reduce overheads per unit.
- the case study mentions higher staff workloads and this may reduce sales and admin overheads per unit.
- the growth in sales has not been accompanied by an increase in space used for admin and sales or stock storage and so they may have been able to spread these overheads over a higher level of sales, reducing overhead cost per unit.

The ROCE has improved considerably. Sales growth having been faster than the rise in capital has contributed to this, but it also reflects the sharp rise in the net profit. This is also due to the reasons above.

#### **Efficiency**

The stock turnover ratio has fallen and this is not a positive indication. It is likely to be due to a significant rise in the level of stocks as a proportion of current assets (2003 – 51 %, 2004 – 63 %). The lower figure means that stocks are being turned over fewer times and this may be due to:

- higher stock levels
- less control over purchasing
- large amounts of slow-moving or obsolete stock (as indicated by the case).

The gearing ratio has fallen significantly with a lower proportion of capital as loan capital. This will help leave the firm less exposed to changes in interest rates and other economic shocks, but it is still high and will impose significant costs on the firm in the servicing of the debt.

The debtor days ratio has fallen by three days and this is a positive change indicating improved credit control and management of debtors. However, given that much of the

firm's business is conducted online with immediate payment clearance, this may perhaps still be considered high. However, much depends on how their payments are cleared.

**Liquidity**

The current ratio has risen significantly and could now be considered high. This may indicate that some of their current assets are not being used as productively as they could. However, stock has risen significantly as a proportion of overall current assets.

The acid test ratio is close to a desirable level of 1:1 and so could be regarded as adequate. However, as indicated, the proportion of current assets which is stock has risen and the acid test ratio may only be acceptable because of much slower growth in current liabilities than current assets.

*Candidates should also be rewarded for other relevant points that they raise in their answers.*

**[11 to 14 marks]**

A detailed analysis of the change in financial position which covers profitability, liquidity and efficiency and the reasons for the changes in the values of all the ratios given in the question. The answer refers clearly to *Gadgets2u.com* and its situation and shows a clear understanding of all the ratios.

**[7 to 10 marks]**

A reasonable analysis of the changes in the financial position with reference to most of the ratios given in the question, though this may not have detailed coverage of profitability, liquidity and efficiency. There is reference to *Gadgets2u.com* and the answer shows a clear understanding of most of the ratios referred to.

**[4 to 6 marks]**

Some analysis of the change in the financial position with reference to the majority of the ratios though this may not be entirely balanced and cover all the ratios. The answer refers to *Gadgets2u.com*, but may not always relate the ratio values to the case fully. Some understanding of ratio analysis is generally evident, though this may be limited at the bottom end of the band.

**[1 to 3 marks]**

A limited and general response that may simply describe ratios rather than analyse the changes in their values.

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