It is emphasized that, although accuracy is expected in numerical answers, candidates are marked for the whole of the answer which is displayed. This enables the examiner to give credit for the knowledge revealed by the candidate's response to the question even though the answer may be incorrect.

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BUSINESS AND MANAGEMENT

Standard Level

Paper 1

10 pages

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1. (a) Identify *two* external sources of finance for *SunGen Ltd*. ***[2 marks]***

Suitable sources of external finances would be:
- a bank loan
- joint venture
- share issue
- mortgage
- franchising
- strategic alliance
- *other suitable suggestions.*

Award ***[1 mark]*** for each suitable external source of finance up to a maximum of ***[2 marks]***.

(b) Using the profitability, liquidity and efficiency ratios given in Appendix 3, discuss the changes in the financial performance of Electrical Solutions plc between 2003 and 2005. ***[10 marks]***

Profitability has reduced between 2003 and 2005. The gross profit margin has been reduced by 6 % meaning that either sales revenue has decreased or the cost of sales has increased. Net profit margin has only decreased by 1 % meaning that overheads have not increased significantly. Return on capital employed has reduced by 3 % meaning that the operational efficiency of the business has reduced. Electrical Solutions plc is not as liquid in 2005 as it was in 2003. The current ratio has reduced from 2.3 to 1.6, showing that the company is finding it more difficult to pay its debts, but it is still within an acceptable range. The acid test ratio has also reduced to 0.7 which is too low, showing that too much is tied up in stock and the company will face difficulty in the short term in paying its debts. In terms of efficiency, stock is turning over more slowly as the stock turnover ratio has increased from 91 to 105 days. Debtor days has not changed much showing that payment is being received from debtors, however creditor days have increased showing that it is taking longer for creditors to be paid. Overall the financial situation is not as healthy in 2005 as it was in 2003.

[8 to 10 marks]
Appropriate ratios are used to discuss, in detail, the performance of Electrical Solutions plc in terms of profitability, liquidity and efficiency in 2005, compared to 2003.

[4 to 7 marks]
Some of the ratios are used to discuss the performance of Electrical Solutions plc, but the discussion may lack some depth or detail. There is comparison between 2005 and 2003. The areas and ratios considered may be limited at the lower end of the band.

[1 to 3 marks]
An attempt to look at the financial performance of Electrical Solutions plc. The comparison between 2005 and 2003, number of ratios and areas considered are very limited.

2. (a) The market for solar power equipment is a niche market *(line 77)*. Define the term *niche market.* ***[2 marks]***

A niche market is a smaller portion of a larger market. It generally refers to a group whose needs are not being addressed by mainstream providers. The market for solar power is a smaller part of the larger electricity generation market.

Another definition of a niche market would be *a narrowly defined group of potential customers*.

[2 marks]
A niche market is accurately defined.

[1 mark]
There is an attempt to define a niche market that identifies some appropriate elements of the definition, but may not be complete.

(b) Produce a suitable marketing mix for free standing solar panels *(Appendix 1)*. Discuss how each element of your marketing mix can support *SunGen Ltd's* objective to be seen as environmentally and socially responsible. ***[12 marks]***

Candidates may produce a range of responses to this open-ended question. Appropriate points under each of the 4 Ps could include:

<u>Marketing mix</u>

Price
- fair for the product
- some of the price is used to support environmentally friendly causes
- discounting could be offered, buy one get one free would be appropriate
- special offers for early sales.

Product
- the nature of the product is environmentally sound
- minimal packaging
- materials can be recycled
- it's fit for purpose and good quality.

Promotion
- the company is socially and environmentally responsible, the promotion needs to reflect this
- this could take place in green magazines, new home guides, relevant house buying literature. Home exhibitions, trade shows
- it is unlikely that they will advertise on TV and Radio.
- Internet promotion is highly likely
- home owners who have systems may invite others to their homes to see the products in action. These showhomes could be dispersed throughout the area

Place
- distribution channels need to reflect the geographically dispersed market
- distributors used who are reliable and socially responsible
- fuel efficient transport
- location causes minimal impact on the environment

The marketing mix needs to focus on *SunGen Ltd's* environmental and social responsibility profile. Discussion of the elements needs to reflect this.

Candidates may also refer to other Ps – people, process and packaging and these can be credited as appropriate.

[10 to 12 marks]
An appropriate and detailed marketing mix is produced that covers all four elements. The discussion is detailed, balanced and reflects *SunGen Ltd's* objective to be seen as environmentally and socially responsible.

[7 to 9 marks]
An appropriate marketing mix is produced that covers all four elements but may not be completely balanced. The discussion generally reflects *SunGen Ltd's* objective to be seen as environmentally and socially responsible.

[4 to 6 marks]
A marketing mix is attempted that would promote the environmental and social responsibility profile of *SunGen Ltd*. The discussion may be limited particularly at the lower end and/or there may be a lack of balance.

[1 to 3 marks]
An attempt at a marketing mix which is limited in terms of Ps and appropriateness to the environmental and social responsibility profile.

3. (a) Identify *two* methods of recruitment available to *SunGen Ltd*. ***[2 marks]***

- internal recruitment
- formal advertisement and external recruitment
- through recruitment agency
- headhunting
- graduate and job fairs
- apprenticeships
- *other suitable methods may be suggested.*

Award ***[1 mark]*** for each suitable method identified up to a maximum of ***[2 marks]***.

(b) Using appropriate motivational theory, evaluate how Greg and Catherine's suggestions *(lines 103-123)* could affect the workforce. *[12 marks]*

Greg and Catherine are proposing a flatter structure with fewer levels of hierarchy. A flatter structure with less hierarchy could be motivating as staff would feel more empowered and given more control over their own working. However, it could also be demotivating if spans of control increase and communication problems and management problems were to increase.

If decisions do not reach staff, then this will be demotivating, as will a lack of vision and leadership. Their feeling of not being involved in decision-making is highly demotivating and a lack of clarity regarding the company's direction will not help either.

Being part of a flexible and responsive workforce would be motivating to staff who like to operate in this way and those who thrive on change and unpredictable situations. It would, however, demotivate staff who like to know exactly where they stand and who like a routine.

Changes to workers' contracts and temporary contracts will be unsettling, reduced hours of working will be demotivating if workers do not receive enough pay to meet their commitments.

The uncertainty of strike action will be demotivating, as staff will worry about whether they will be paid and able to meet their commitments. Incentives however will be motivating, as will training and appraisal. Performance management will have different effects on different people, but if they are rewarded for meeting targets it will be motivating, provided targets are achievable. The payment of bonuses and other incentives will have a positive effect in the short-term.

Appropriate theory will include Maslow, Herzberg, McGregor, McClelland. This theory should be applied to the proposed change in structure.

[10 to 12 marks]
Appropriate motivational theory is used in detail to evaluate how the suggestions will affect the workforce. Both negative and positive aspects are discussed. The evaluation is directly linked to the case study and business terminology is used appropriately.

[7 to 9 marks]
Some motivational theory is used to consider how the suggestions will affect the workforce. At the lower end the response will tend to be discussion or explanation rather then evaluation.

[4 to 6 marks]
The impact of the proposed changes is considered and there may be some reference to and use of motivation theory, though this may be limited at the lower end of the range.

[1 to 3 marks]
A limited and general response.

4. (a) Produce a SWOT analysis to examine the current position of *SunGen Ltd*. ***[8 marks]***

Strengths
- Derek is an experienced entrepreneur.
- *SunGen Ltd* is a wholly owned subsidiary of Electrical Solutions Ltd
- significant growth of company
- custom made equipment
- just-in-time (JIT) stock levels
- market leader
- training programme

Weaknesses
- staff resentment of Tony McGregor
- significant overtime
- staff work unpredictable hours
- unreliable suppliers
- long delivery times
- dissatisfied customers
- quality of components
- duplication of production information
- communication problems and management control
- threat of strike action
- financial situation is worsening
- funding issues
- reaching plant capacity

Opportunities (must be external)
- niche market
- growing market
- increased construction of houses
- modification of planning regulations
- subsidies to householders for fitting renewable energy systems
- need for businesses to become more socially and ethically responsible

Threats (must be external)
- competition
- geographically dispersed market
- fall in house prices
- state of the economy
- increased inflation
- reduction in economic growth

Each point raised should be fully examined to show why it is a strength, weakness, opportunity or threat.

[8 marks]
A detailed SWOT analysis is produced covering at least four entries in all four areas. The analysis fully examines the current position of *SunGen Ltd*. S and W are internal and O and T are external. Each point is adequately explained to show why it is a S, W, O or T.

[6 to 7 marks]
A SWOT analysis is produced covering all four areas. The analysis examines the current position of *SunGen Ltd*. S and W are generally internal and O and T are generally external, but there may be some minor confusion.

[3 to 5 marks]
A SWOT analysis is produced that may not be balanced or cover all four areas. The analysis attempts to examine the current position of *SunGen Ltd*, but many points may be inadequately explained or not well related to *SunGen Ltd*.

[1 to 2 marks]
A limited SWOT in terms of areas and appropriateness.

(b) Select *four* weaknesses you have identified from the SWOT analysis produced in part (a) and evaluate a possible strategy to address each of the weaknesses selected. ***[12 marks]***

Practical strategies to address weaknesses could include:

- **Staff resentment of Tony McGregor.** Meetings and discussions could take place to discuss issues and agree a way forward. These meetings and discussions could help to raise the relevant issues but there may be a degree of reluctance among staff to contribute fully to them. The issues could be raised through staff appraisals, but there may still be some reluctance to address the issues openly.
- **Significant overtime.** More flexible working patterns could be looked at. Future recruitment could appoint staff on different contracts. This would help keep overtime costs under control and allow the firm more flexibility in production planning, but there is significant staff disquiet about possible changes to their contracts and there may be a danger of industrial action.
- **Staff work unpredictable hours.** Working patterns and hours could be looked at and a new arrangement put in place. As with flexible working patterns, the advantages of this strategy may be more in the firm's favour and there may be some concern among the staff about the changes. These would need to be carefully negotiated and implemented to avoid the possibility of industrial action.
- **Unreliable suppliers.** Discussions could take place with suppliers to make new arrangements and overcome problems. Payment arrangements could be looked at to stop payments if problems arise. New suppliers could be sought. This may be a costly exercise for the firm and tie up resources in the short-term. However, in the long-term it may help them build relationships and allow for expansion.
- **Long delivery times.** Contracts could state penalties arising from failure to deliver on time. New suppliers could be sought. This would help ensure reliability of supplies, but punitive contracts are unlikely to prove popular with suppliers and so the firm may need to look at building closer relationships with suppliers.
- **Dissatisfied customers.** Complaints could be dealt with efficiently and problems overcome. Staff training could take place to improve service and overcome problems. These strategies would help the firm to improve customer service, but they may be costly

and take a considerable time to have an impact. They may also need to look closer at the reasons why customers are dissatisfied. If the dissatisfaction stems from the nature of the products, then they may need to look more carefully at other strategies, perhaps including closer attention to quality management.

- **Quality of components.** New suppliers could be sought to provide quality components. Contracts could penalise suppliers who send defective parts. This approach could help improve quality and may therefore reduce some of the dissatisfaction that has arisen amongst customers, but any arrangement that is just punitive may be costly to oversee. The firm also needs to build closer relationships with suppliers if they are to improve quality and keep costs down.
- **Duplication of production information.** The intended new computer system would overcome the duplication problem. The new production system will raise their fixed costs and require significant investment. It may even require considerable attention to staff training provision. However, it may help lower unit costs in the medium to long-term, particularly if it enables trouble-free expansion of production.
- **Communication problems and management control.** The introduction of a flatter structure and effective training would overcome the control and communication problems. However, the implementation of these approaches will be costly and may take some time to come into effect. The firm will need to accompany the flatter structure with appropriate communication strategies.
- **Financial situation is worsening.** Control measures need to be put in place to restrict spending. Areas where savings could be made need to be identified and measures put in place. However, the firm must ensure that any cost-saving measures do not have an impact on customer service or product quality as this may damage their reputation.
- **Reaching plant capacity.** A new production facility would overcome the capacity problem. However, this will require significant investment and may initially raise unit costs.
- *any other relevant strategy with appropriate evaluation of the strategy.*

N.B. *The points given above are possible weaknesses that candidates may identify. However, tthey should be credited for discussion of weaknesses that they identified in their SWOT analysis even if these were not necessarily appropriate internal weaknesses.*

Some limited discussion of each point is given above for illustration, but candidates should be expected to take a more detailed approach for the four weaknesses that they select.

Award up to ***[3 marks]*** for each suitable strategy discussed up to a maximum of ***[12 marks]***. For ***[3 marks]*** discussion should include advantages and disadvantages of the strategy.

[10 to 12 marks]
Four weaknesses are selected and there is detailed and balanced discussion of appropriate strategies to address them. The strategies are related to the case and business theory and terminology is used effectively and appropriately.

[7 to 9 marks]
At least three weaknesses are selected and there is a clear examination of appropriate strategies to address them though this may not be entirely balanced. The strategies are generally related to the case study and business theory and terminology is used to reasonable effect. The issues raised are generally appropriate to the case, though may tend to be more general at the bottom end of the mark range.

[4 to 6 marks]
At least two weaknesses are selected and there is some examination of appropriate strategies to address them. However, the examination of the strategies may tend to be a little general and descriptive particularly at the lower end of the band. The strategies may tend to be a little generic and not related to the case, but there is some occasional use of business theory and terminology.

[1 to 3 marks]
A limited and essentially descriptive answer.