



# **MARKSCHEME**

**November 2009**

**BUSINESS AND MANAGEMENT**

**Standard 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
(d) questions		(c) questions			
Q1 (d)	Q2 (d)	Q3 (c)	Q4 (c)	Q5 (c)	
Marks 0–6		Marks 0–5			
0		0			
1–2		1-2			<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>
3-4		3-4			<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>
5-6		5			<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 0–7</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 issues and concepts.</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>5-6</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>7</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) Define the following terms:**

- (i) *market share* *[2 marks]*

Market share is the proportion of total sales in a particular market for which one or more firms are responsible. It is usually expressed as a percentage. For example, *Toyota's* market share in the United States refers to the percentage of total car sales in a given period of time that were *Toyota* cars. Market share is calculated by the formula:

$$\frac{\text{Total sales of a particular company or companies}}{\text{Total sales of the market}} \times 100$$

Award *[1 mark]* for a basic definition referring to the sales of a particular company in a specific market. A properly labelled pie chart depicting the concept but without an explanation, formula, or express use of the term percentage shall earn only *[1 mark]*.

Award *[2 marks]* for a full, clear definition supported by a formula or a description of its elements using a proportion or percentage.

- (ii) *multinational company.* *[2 marks]*

The definition of a “multinational company” is a firm that operates, owns, or controls production or service facilities outside the country in which it is based. The connotation of multinational company is a very large company, typically with high operating leverage and significant market power.

Multinational companies often benefit from economies of scale and access to larger markets than companies operating in only one country. They are, however, exposed to additional risks, especially political risk and foreign exchange risk.

Award *[1 mark]* for a basic definition about large companies operating around the world (that is, getting more at the connotation than the definition).

Award *[2 marks]* for a full, clear definition that may provide additional descriptors, such as the connotations or providing example companies (*Mitsubishi, BMW, BP, Microsoft, etc.*).

**(b) Explain the value to *Mitsubishi Motors* of a vision statement.**

**[4 marks]**

Vision statements define the organization's purpose, doing so in terms of the organization's values (rather than concrete measures) – guiding beliefs about how things should be done. Vision statements communicate both the purpose and values of an organization. For employees, it gives direction about how they are expected to behave and, ideally, inspires them to their best possible performance. Whereas mission statements communicate where a company is now, a vision statement – sometimes called a picture of a company in the future – outlines where a company wants to be by concentrating on the future. It is a roadmap for strategic planning. In other words, it answers the question “Where do we want to go?”.

In *Mitsubishi Motors*' case, the value of a vision statement is especially great in light of the turbulence that the firm has been through in the last decade. In the highly competitive automobile markets, *Mitsubishi Motors* has had to significantly remake itself, its product, and its goals and image. In such a period of transition, having a clear vision, expressed in a short vision statement, can remind stakeholders and especially employees of the intended direction and priorities of the firm.

Award **[1 to 2 marks]** for a general or limited response and/or no reference to the stimulus.

Award **[3 to 4 marks]** for a thorough explanation of the importance of a vision statement to *Mitsubishi Motors* that includes meaningful reference to the stimulus.

(c) Calculate for 2004 and 2007 Mitsubishi Motors’:

(i) gearing ratio

[2 marks]

$$\text{Gearing ratio} = \frac{\text{Loan capital}}{\text{Total capital employed}} \times 100$$

$$\text{Total capital employed for 2004} = 13 + 432 + 17 = 462$$

$$\begin{aligned} \text{Gearing ratio for 2004} &= \frac{432}{462} \times 100 \\ &= 93.5\% \end{aligned}$$

$$\text{Total capital employed for 2007} = 153 + 360 + 156 = 669$$

$$\begin{aligned} \text{Gearing ratio for 2007} &= \frac{360}{669} \times 100 \\ &= 53.8\% \end{aligned}$$

Award [1 mark] for each correct calculation.

(ii) gross profit margin

[2 marks]

$$\text{Gross profit} = \text{Sales revenue} - \text{Cost of goods sold}$$

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Sales revenue}} \times 100$$

For 2004

$$\text{Gross profit} = 2519 - 2160 = 359$$

$$\text{Gross profit margin} = \frac{359}{2519} \times 100 = 14.3\%$$

For 2007

$$\text{Gross profit} = 2203 - 1789 = 414$$

$$\text{Gross profit margin} = \frac{414}{2203} \times 100 = 18.8\%$$

Award [1 mark] for each correct calculation.

If the answers for both years are incorrect, due to the inclusion of wrong data rather than the incorrect application of the formula, award [1 mark].

**(iii) net profit margin.****[2 marks]**

Net profit before interest and tax = Gross profit – Expenses –  
Non operating income

$$\text{Net profit margin} = \frac{\text{Net profit before interest and tax}}{\text{Sales revenue}} \times 100$$

For 2004

$$\text{Net profit before interest and tax} = 359 - 574 - 0 = -215$$

$$\text{Net profit margin} = \frac{-215}{2519} \times 100 = -8.5 \%$$

For 2007

$$\text{Net profit before interest and tax} = 414 - 405 - 0 = 9$$

$$\text{Net profit margin} = \frac{9}{2203} \times 100 = 0.4 \%$$

Award **[1 mark]** for each correct calculation.

If the answers for both years are incorrect, due to the inclusion of wrong data rather than the incorrect application of the formula, award **[1 mark]**.

Do not penalize follow through errors from the calculations of the gross profit margin. Therefore if:

- in 2004 the net profit margin is 22.8% lower than the gross profit margin award **[1 mark]**.
- in 2007 the net profit margin is 18.4% lower than the gross profit margin award **[1 mark]**.



- (d) Using ratio analysis and other relevant financial information, analyse the changes in the financial situation of *Mitsubishi Motors* between 2004 and 2007.

[6 marks]

	2004 (millions of yen)	Margins (%)	2007 (millions of yen)	Margins (%)
Sales revenue	2519	100	2203	100
Cost of goods sold	2160	85.7	1789	81.2
Gross profit	359	14.3	414	18.8
Expenses	574	22.8	405	18.4
Net profit before interest and tax	-215	-8.5	9	0.4

	2004	2007
Current ratio	$\frac{869}{1567} = 0.55$	$\frac{1061}{1111} = 0.95$
Return on capital employed	$\frac{-215}{462} \times 100 = -46.5\%$	$\frac{9}{669} \times 100 = 1.3\%$
Gearing	$\frac{432}{462} \times 100 = 93.5\%$	$\frac{360}{669} \times 100 = 53.8\%$

Based upon the information provided in the stimulus material, between 2004 and 2007 *Mitsubishi Motors* experienced important improvements to its balance sheet, seeing both improved liquidity and leverage. The income statement saw a decline in sales but the firm improved its margins considerably. Based upon the years shown, the firm has returned to profitability (barely), but further improvement is necessary.

Despite a significant decrease in sales from 2004 to 2007, falling 12.5%, the income statement reflects a real commitment to cost-cutting. Gross profit margins improved from 14.3% in 2004 to 18.8% in 2007, while expenses, as a percentage of sales revenue, fell from 22.8% in 2004 to 18.4% in 2007. As a result of these improvements, net profit improved from a -215 million Yen in 2004 to 9 million Yen in 2007. Net profit, however, is still low, both in absolute terms, 9 million Yen, and as a margin, 0.4%.

With what appears, possibly, to be the end of the major losses, *Mitsubishi Motors* has been able to shore up its balance sheet. The current ratio improved significantly, from 0.55 in 2004 to 0.95 in 2007. Gearing improved as well, from 93.5% in 2004 to 53.8% in 2007. Debt-to-worth, which was an alarming high 66.6 in 2004, had improved to 4.8 by 2007. This is still very high leverage, but an immense improvement from a few years earlier.

If *Mitsubishi Motors* can maintain control of costs while growing sales, the company could return to healthier income levels, which have been eluding the firm since the economic crisis in South-East Asia in the late 1990s. Higher profits would allow for further improvement to balance sheet, which is still not at healthy levels of liquidity or leverage (though much improved from 2004). The optimism of *Mitsubishi Motors* suggests this is what the firm is anticipating.

For **[6 marks]** the candidate must demonstrate thorough analysis through the use of margins, liquidity ratios, and one of the leverage ratios (gearing, debt-to-worth, *etc.*) and make some connection between improvements in the income statement and improvements to the balance sheet (thus, demonstrating in some fashion an understanding of the dynamic relationship between the two). Deduct **[1 to 2 marks]** in instances when the candidate largely recognizes the improvements in the income statement and to the balance sheet, but does not support the assertion fully with ratios or does not recognize that the company is still not yet fully healthy.

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

2. (a) Define the following terms:

(i) *private limited company*

[2 marks]

A private limited company is usually a small business, though that is not always the case. Shares of such companies can only be transferred privately, and all shareholders must agree on the sale/transfer. The shares may not be advertised for sale. Typically, private limited companies are family companies or are owned by close friends, with shareholders also serving as directors.

Award [1 mark] for a basic definition getting chiefly at the common characteristics (small “family” business), but without any legal requirements/limitations.

Award [2 marks] for a full, clear definition that includes legal criteria and general characteristics.

(ii) *economies of scale.*

[2 marks]

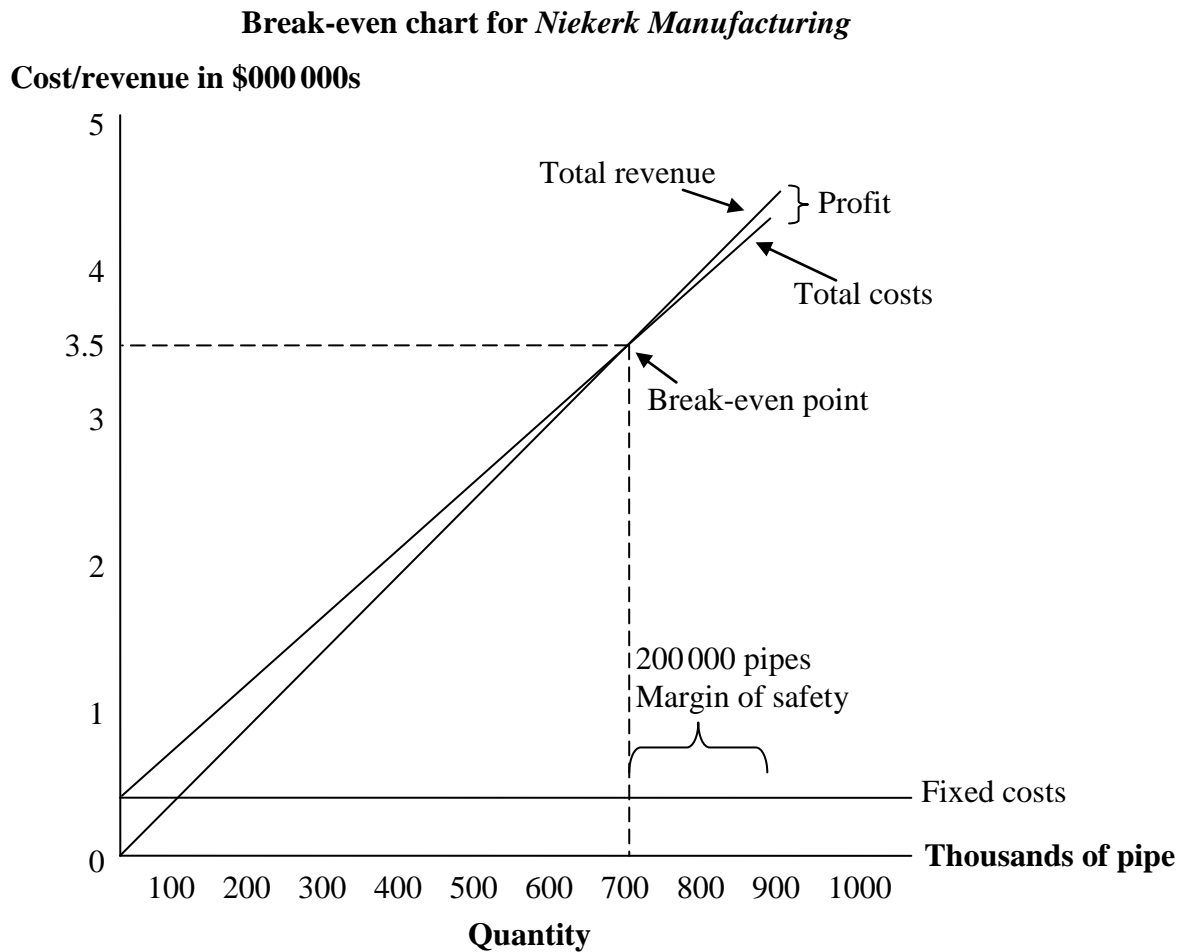
Economies of scale refer to the unit cost reductions that companies experience as they grow. There can be both internal and external economies of scale. Internal economies of scale refer to the unit cost reductions that a single company experiences as it grows, while external economies of scale refer to the unit cost reductions available to all companies within an industry as the industry grows.

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

Award [2 marks] for a full, clear definition that includes the idea of declining average unit cost.

(b) Construct a fully labelled break-even chart for *Niekerk Manufacturing* at the current capacity prior to the expansion.

[6 marks]



Award marks as follows:

[1 mark] for each appropriately labelled axis – maximum of [2 marks].

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

[1 mark] for an accurately drawn total cost curve.

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

If the break-even chart is accurately drawn but not neatly, using a ruler or straight-edge, or out of proportion, award a maximum of [3 marks].

If the candidate produces a table rather than a chart, award [0 marks].

(c) Assuming *Niekerk Manufacturing* sells 1 200 000 pipes in the first year in the expanded factory, calculate:

(i) the net profit

[2 marks]

Revenue	1 200 000 pipes at \$5 per pipe	6 000 000
Variable costs	1 200 000 pipes at \$4.25 per pipe	-5 100 000
Fixed costs		<u>-570 000</u>
Profit		330 000

Profit with the expansion and assuming sales of 1 200 000 pipes in the first year is \$330 000.

[1 mark]

If a candidate **who has shown workings** provides a correct procedure (thus, demonstrates an understanding of the underlying concepts) but has made an error in calculation.

[2 marks]

Candidate provides the correct answer. Workings not required.

(ii) the margin of safety.

[2 marks]

$$\text{Break-even point: } \frac{\text{fixed costs}}{\text{contribution}} = \frac{570\,000}{(\$5 - 4.25)} = 760\,000 \text{ units}$$

1 200 000 units per year (projected sales) minus 760 000 = margin of safety = **440 000 units**.

[1 mark]

If a candidate **who has shown workings** provides a correct procedure (thus, demonstrates an understanding of the underlying concepts) but has made an error in calculation.

[2 marks]

Candidate provides the correct answer. Workings not required.

- (d) Analyse *two* appropriate sources of finance to fund the expansion of the factory and any additional equipment.

[6 marks]

*Niekerk Manufacturing* will need additional funds to finance both the expansion of the facility and to acquire additional industrial equipment to support the added sales volume. These funds could be generated internally and externally.

Internal sources of finance: At the existing location, *Niekerk Manufacturing* has an annual profit of \$100 000 per annum, some of which could be retained and used to support either the expansion of the building or the new equipment. From the stimulus material, it is not evident what dividend payout requirements the firm has, if any.

An additional requirement for funds will be for increased working capital. The company anticipates its sales volume to increase substantially. Inventory and trade receivables will also increase substantially, which will be offset only partially by an increase in trade payables. Since this increased working capital is **not** a seasonal requirement, short-term loans of less than one year would be an inappropriate source of finance. However, since the increased working capital requirements do not represent any fixed assets, most lenders will be disinclined to lend money for this purpose. Thus, even if the firm has no dividend payout requirements, the firm would be ill-advised to allocate too much of current earnings to the building expansion and new equipment. Earnings should be reserved for increased working capital requirements.

External sources of finance: more appropriate for the building and equipment would likely be external sources of finance, of which there are several options:

- issuance/sale of ordinary shares of stock
- loan capital, such as a bank loan, for the equipment (and possibly the expansion of the building), or an insurance company for the building and a bank loan for the equipment
- leasing, for the additional equipment.

The issuance/sale of stock would dilute *Niekerk Manufacturing's* ownership in the company and, in fact, Jan might have difficulty finding investors interested in a minority position in a private limited company.

More realistic and attractive, from *Niekerk Manufacturing's* point of view, is borrowing funds from a bank or an insurance company or some combination thereof (finance the equipment with a bank loan and finance the building with an insurance company or some other long-term lender). Given the anticipated profitability of the company, this is presumably the most attractive option. The high levels of anticipated profits should allow for a rapid reduction in debt. However, if those profits do not materialize, *Niekerk Manufacturing* could find itself with more debt than it wants or, potentially, can service.

Leasing is often an option with industrial equipment. However, without additional information, it is difficult to make any specific judgments of feasibility. The advantages of leasing are that (1) there usually is little or no downpayment and (2) lease payments are paid with pre-tax dollars. The disadvantage of leasing is that, at the end of the lease, the lessor owns the equipment. If well made and well maintained, industrial equipment often will outlast the anticipated useful life, which typically determines the length of the lease or loan. Thus, lessees often have to give up “paid for” equipment with some remaining useful life. Had the equipment been purchased outright instead, the company would still possess it.

If the response is a one-sided relevant approach with no analysis, award a maximum of *[4 marks]*. If only **one** source of finance is analysed, the analysis is partial, award a maximum of *[4 marks]*.

For *[6 marks]* the candidate recognizes that the internal source of funds of profits is probably an inappropriate source of funds and thus discusses the other options, appropriately matching the financing need to an appropriate source of funds. Candidates demonstrate an understanding that the financing need must be matched with an appropriate source of funds.

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

**SECTION B**

**3. (a) Define the term *market segment*.**

**[2 marks]**

A market segment is a sub-group – people with similar characteristics – within a larger market. Market segments are often identified by age, gender, level of education or occupation, social class, income, ethnic group, geographical region, religion, or political affiliation.

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

Award **[2 marks]** for a full, clear definition that includes some specific characteristics of typical market segments.

**(b) (i) Explain how the online travel business can have “growing revenue but with fewer customers”.**

**[2 marks]**

If online travel booking firms have “growing revenue but with fewer customers”, it means that some customers especially like booking their tickets online and are purchasing more online (greater number of tickets and/or more expensive tickets). Many customers, however, are apparently not finding that the online booking service meets their needs. As a result, these customers, or some of them, are not going back to the online travel firms to arrange their travel plans. In other words, some customers are purchasing more and more in dollar amount, while a number of customers are **not** returning to online booking companies.

Award **[1 mark]** for a general answer that conveys partial knowledge and understanding.

Award **[2 marks]** where the candidate precisely explains that online booking companies have fewer customers who are purchasing more online, either a greater number of tickets and/or more expensive tickets.



- (ii) Explain *two* primary market research techniques that could have been used by *LeisureLogix* to obtain its market research results. [4 marks]

Types of primary research that might have been used include:

- questionnaires
- personal interviews
- telephone interviews
- postal surveys
- focus groups
- consumer panels.

Or any other appropriate primary research technique.

**Mark as 2 + 2.**

Award [1 mark] for each type of relevant and appropriate primary research technique identified, and [1 mark] for each relevant and appropriate explanation of the technique, up to [2 marks].

- (c) **With reference to Road Trip Wizard, analyse the usefulness of market segmentation.**

*[5 marks]*

Overall the purpose of market segmentation is to allow firms to generate greater sales volume or generate higher profits. Market segmentation, by providing companies with more knowledge about their customers, allows variation in products or the marketing mix to better suit customers' needs. Segmentation also allows companies to target particular sub-groups suitable for the marketing mix and, therefore, not waste resources by marketing to inappropriate sub-groups. Market segmentation can also allow companies to offer differentiated products to different groups.

Important characteristics of the market that Road Trip Wizard will serve include:

- those who like leisure travel (as opposed to those planning itineraries for business travel)
- Americans who travel by road
- those with access to the Internet
- those in a hurry (Customers "are tired of spending two or three hours trying to find the airline, hotel or vacation package that meets their needs")
- those who are well-off ("85 % of road travellers in the US book mid-range or expensive hotels").

Market segmentation is useful to Road Trip Wizard, allowing it to modify its marketing mix to best suit certain market segments. For example, much of the promotion might be via the Internet, a chief characteristic of the market it will serve. Additionally, computer software which determines the product should do much of the decision-making for customers, who do not want to spend several hours on the computer planning their trips. The software should book mid-range to expensive accommodation and tourist attractions (the desired locations of its target customers).

Without market segmentation, Road Trip Wizard's marketing mix might be inappropriately shaped for its potential market (promotion might not be via the best media, or the software making the itineraries might book the wrong quality of hotels).

To achieve the top markband the candidate provides a detailed discussion with reference to the marketing mix (not just product or some other singular aspect of the marketing mix) and specifics of Road Trip Wizard's market's characteristics.

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

- (d) **Discuss promotional strategies that *LeisureLogix* could implement to increase the use of Road Trip Wizard by American (US) consumers.** **[7 marks]**

Above-the-line promotion available to *LeisureLogix* may include advertising through various media, especially:

- travel magazines
- the Internet (*e.g.* pop-up windows triggered by access to travel websites)
- newspapers
- various travel websites, such as *Travelocity* or *Expedia* or rental car companies' homepages.

Below-the-line promotion available to *LeisureLogix* may include:

- direct mailing (either regular post or e-mail) to target audiences
- coupons, reward cards for frequent users
- exhibitions and trade fairs
- public relations.

If only below- **or** above-the-line promotion is discussed the analysis is unbalanced.

To achieve the top markband the candidate provides a detailed and balanced consideration of various promotional strategies that *LeisureLogix* could implement. The response includes examples from both above-the-line and below-the-line promotion (though the candidate does not have to refer to these labels).

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

4. (a) **Define the term *quality assurance*.** [2 marks]

Quality assurance is a means of ensuring quality that considers customers' views of the product or service. Companies may undertake marketing research before a service is provided or a product is produced. Companies may also ask customers to be involved during the design and manufacturing stages. Often, as part of quality assurance, companies have various codes of practice that inform customers of the quality procedures and specifications.

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

Award [2 marks] for a full, clear definition that explicitly recognizes that quality assurance considers customers' views of the product or service.

(b) **Distinguish between *two* different views that firms, such as *Mattel*, may take of their social responsibility in an international context.** [6 marks]

The way companies respond to questions of social responsibility depend on their morals and ethics. These are the values and beliefs that govern how individuals or groups behave in a particular culture or society. Multinational companies, such as *Mattel*, face a complicated situation because, operating in two or more countries, they may have stakeholders from different social and cultural contexts and, thus, who adhere to different values and beliefs.

Multinational companies headquartered in a developed country, such as *Mattel*, often want to adhere to certain norms of social responsibility consistent with the values of most developed countries. These typically include making safe products in an environmentally sustainable manner and adhering to regulatory expectations. One challenge of these expectations, however, is that the financial cost, which is immediate and "real", can often have an impact on the income statement of the firm, thus creating pressure to cut corners on their social responsibility where possible.

If a multinational company is operating in a location where the norms of social responsibility are different, the company may, practically speaking, take a different view of their own social responsibility. Operating in a less environmentally safe manner, hiring subcontractors who do not adhere to either the multinational company's expectations or even the limited state regulations, or using materials or following procedures that are less safe for workers or end users of their products (all charges lodged against *Mattel*) may be viewed as socially irresponsible in the country in which a company is headquartered. These issues, however, may be viewed differently in other countries (such as China), which are eager for economic growth and will get it at (almost) any cost. Companies can justify this "compromise" in their own standards on the grounds that it is not inconsistent with the values where their branch or distant operation is doing business.

Companies can also justify these circumstances partly in that the lower standards of pay and safety may nonetheless provide better material circumstances than the workers would otherwise have available. Working in a dangerous “sweat shop” in a developing country may provide more material prosperity and physical and psychological safety than would otherwise be available.

**[1 to 2 marks]**

Candidate conveys some understanding of how firms, such as *Mattel*, may act in a socially responsible way and, for **[2 marks]** refer to at least one specific way socially responsible behaviour might be measured.

**[3 to 4 marks]**

The candidate distinguishes between two different views that companies, such as *Mattel*, may take of their social responsibility in an international context. References to the stimulus are limited and the answers provide few details about how social responsibility is measured.

**[5 to 6 marks]**

In a detailed fashion, the candidate distinguishes between two different views that firms, such as *Mattel*, may take of their social responsibility in an international context. Explanation includes references to the stimulus and several different aspects of how social responsibility is typically measured (compensation, working conditions, producing safe products, *etc.*). The candidate recognizes that meeting socially responsible objectives has real costs and that different levels of material prosperity in different parts of the world influence what might be considered social responsibility.

- (c) Examine *one* opportunity and *one* threat for *Mattel* in doing business in China.

[5 marks]

Opportunities may include:

- possibilities for continued inexpensive sourcing of toys made by companies that focus on high-volume, low-cost manufacturing
- growth of understanding of Chinese market, with the possibility that eventually *Mattel* could develop products for sale in China and other large Asian markets
- the opportunity to be a leader in ensuring that its suppliers in China adhere to ethical standards of developed countries
- the opportunity to develop higher value-added toy products, such as those possibly made by Chinese companies competing at higher levels of technology and which take advantage of economies of scale, and still offer comparatively inexpensive prices.

Threats may include:

- shoddy or dangerous practices by high-volume, low-cost manufacturing companies, currently a weakness for *Mattel*, could eventually threaten to do significant or irreparable damage to *Mattel's* reputation with consumers
- failure to develop adequate compliance-monitoring procedures could undermine *Mattel's* reputation for a commitment to toy safety
- as the practices of professionally-managed companies become more commonplace in China, such firms could either purchase/restructure Chinese toy manufacturing companies and become direct competitors to *Mattel* or go directly into high value-added toy manufacturing themselves.

If only one opportunity **or** one threat is examined, the analysis is unbalanced. Award a maximum [3 marks].

To achieve the top markband the response exhibits a competent, detailed, and balanced examination of both one opportunity and one threat. The candidate demonstrates an understanding that opportunities and threats are external and examines a realistic opportunity and realistic threat with consistent and explicit reference to the stimulus material. At the lower end of the markband, the examination may lack depth or some balance or some references to the stimulus may be implicit.

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

- (d) **Discuss *two* possible areas of conflict between *Mattel's* stakeholders that may arise from doing business in China.**

**[7 marks]**

Possible areas of conflict between stakeholders may include:

- between *Mattel's* customers and its management over the use of Chinese manufacturers (regarding safety and/or quality)
- between *Mattel's* management and its suppliers in China over cost and/or safety record
- between top management and managers in China over costs
- between *Mattel's* shareholders and its management over the use of Chinese suppliers (to increase profits or as a source of shoddy products).

If the response is a one-sided relevant approach with no discussion, award a maximum of **[4 marks]**. If only one possible area of conflict is discussed the maximum is **[4 marks]**.

To achieve the top markband two possible areas of conflict are fully discussed, those listed above or other plausible areas of conflict, between *Mattel's* stakeholders that may arise from outsourcing production to China. A detailed discussion includes consideration of the point of view of at least two stakeholders per area of conflict.

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

5. (a) **Define the term *commission*.** [2 marks]

A commission is the payment an employee receives when he or she sells a good or service. Commissions are typically a percentage of the value of the good or service sold, which encourages employees to sell more products.

Companies sometimes pay their employees a base salary plus commission; other companies (where permitted by law) pay only commission.

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

Award [2 marks] for a full, clear definition of commission which must explicitly state that commission is based upon the quantity or value sold.

(b) (i) **Explain how the greater availability of credit cards enabled *Casas Carreras* to increase its sales.** [2 marks]

*Casas Carreras* sells many large household items such as stoves, refrigerators, and washing machines, items that cost more than most Brazilian consumers can pay for all at once out of monthly earnings. Credit cards enable consumers to make these large purchases and then repay the credit card company over time. Consumers would probably be better served by saving small amounts each month and purchasing large items with cash, as interest can add considerably to the cost of an item. The greater availability of credit cards in Brazil has meant, for *Casas Carreras*, a significantly larger number of people have the resources, via credit, to purchase large household items.

Award [1 mark] for a general explanation that the availability of credit increases consumer flexibility.

Award [2 marks] for a clear explanation that the availability of credit gives consumers the opportunity to purchase large items, which allows them to spread the outlay of cash over more than one month.



- (ii) **Comment on *two* causes of the communication problems that resulted from Paolo's autocratic leadership style.**

**[4 marks]**

Potential causes of communication problems coming from Paolo's autocratic leadership style include:

- managers, accustomed to taking orders from Paolo, may feel intimidated about two-way communication
- managers, if unaccustomed to two-way dialogue or who were hired for other qualities (executing Paolo's orders), may lack the skill to communicate effectively
- Paolo's autocratic style has led to managers having a narrow span of control and, thus, the firm has a long chain of command – communications can, at the worst, become distorted and, at the least, take a long time to filter up or down the organization
- employees, who are often dissatisfied with autocratic leaders, may develop negative perceptions and attitudes, which could influence how they receive messages.

**Mark as 2 + 2.**

Award **[1 mark]** for each type of appropriate cause of the communication problems identified, and **[1 mark]** for an appropriate comment on each, up to **[2 marks]**.

- (c) **Analyse *one* advantage and *one* disadvantage of changing the organization of *Casas Carreras* from a tall to a flatter structure.**

**[5 marks]**

A narrow span of control has the advantage of tight control and close supervision. Subordinates' activities can be better coordinated. This is because managers in a tall organization with a narrow span of control supervise directly only a limited number of people, they often have time to reflect on their responsibilities without too many day-to-day distractions. The narrower the span of control, the easier it is to have quality communication with direct subordinates.

A narrow span of control, however, leads to long chains of command. Orders pass down the levels and information passes up. Communication loses its effectiveness with each additional level in the organization. Additionally, over time, employees in tall organizations grow less accustomed to making decisions and more accustomed to passing information along. This may generate employee dissatisfaction.

A wider span of control, which makes an organization "flatter", offers greater decision-making authority for subordinates and may improve their job performance. Wider spans of control mean fewer managers, which lowers the cost of supervision.

The advantages to *Casas Carreras* of shifting to a flatter organization are that store managers and regional managers will have greater flexibility to “make deals” as long as they are meeting their revenue and profit targets. Store managers and regional managers will probably feel more motivated by the greater responsibility and possible higher financial rewards, and it could well result in heightened sales and profits in stores and regions with strong managers. Having a greater voice in the marketing strategy (the ability to modify price), the flatter organization might motivate the sales and managerial force to be attentive to marketing trends.

The disadvantages to *Casas Carreras* is that some managers may not effectively manage the additional responsibility. While in the long run, such managers would presumably be re-assigned or let go, in the short run it could lead to lower margins on sales without improving overall profits. Turnover in management, while potentially bringing in new, more effective management, can also be disruptive.

To achieve the top markband the candidate analyses one advantage and one disadvantage of changing the organization of *Casas Carreras* from a tall to a flatter structure, with specific reference to the stimulus.

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

- (d) **Evaluate the impact of the proposed payment scheme for salespeople on their job satisfaction, motivation and productivity.**

[7 marks]

The shift in compensation from one salary of only (\$350 per month) to salary (\$200 per month), plus 5 % commission on sales will be appreciated by the better salespeople, who can expect their new salary to increase to at least \$500 per month, a 43 % increase. Those who appreciate the security of the former system, or who are not high-producing salespeople, may not like the system, which could mean a decrease in salary. If Suzanna is correct that, overall, this shift will enhance the performance of *Casas Carreras*, it should also mean increased job satisfaction, improved employee motivation, and increased productivity.

A commission system is an easy way for a company to make sure that salespeople are paid according to their effectiveness and hard work. The more salespeople sell, the more they earn. For those who take great pride in “getting the sale” and being recognized for it, either with more money or merely recognition, job satisfaction will probably increase noticeably with the new system. Others, however, may be put off by the increased pressure to sell, pressure that may lead salespeople to try to sell goods to people who do not need, want, or can pay for certain items. They may also be put off by the potential prospect of a lower salary. Overall, though, a shift to a salary plus commission system is likely to increase employee motivation, as employees can increase their salary with increased sales, which would increase employee productivity as well.

Candidates may expand upon the above ideas by drawing on comparisons of different compensation systems and theories of motivation, such as Maslow’s hierarchy of needs, McGregor’s Theory X and Theory Y, and Herzberg’s two-factor theory.

To achieve the top markbands the response is detailed and balanced, uses appropriate subject terminology, and considers job satisfaction, motivation, and productivity. There is a good understanding of advantages and disadvantages of the new compensation approach and the candidate considers the potential impact on *Casas Carreras* of changing the compensation system.

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

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