

Markscheme

May 2017

Business management

















Standard level












Paper 1


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The following are the annotations available to use when marking responses.

Annotation	Explanation	Associated shortcut
	AE - Attempts Evaluation	Alt+7
	BOD - Benefit of the doubt	Alt+0
	CKS - Clear Knowledge Shown	
	Cross - Incorrect point	
	DES - Descriptive	Alt+2
	EE - Effective evaluation	Alt+4
	GA - Good Analysis	
	GD - Good Definition	
	GEXA - Good Example	
	GEXP - Good Explanation	Alt+9
GP	GP - Good Point	Alt+5
	H Line - Underline tool	
	Highlight - Highlight tool	
	IR - Irrelevant	
	IU - Inappropriate Use	
	LD - Lacks Depth	
	LLS - Lacks Logical Structure	

	NAQ - Not Answered Question	Alt+6
	NBOD - No benefit of the doubt	Alt+8
	NE - Not enough	
	On Page Comment - On page comment tool	Alt+3
	P - Paragraphing	
	PE - Poorly expressed	
	QuestionMark - Unclear	
	SEEN_Small - Seen	
	Tick Colourable	Alt+1
	TV - Too vague	
	UR - Unbalanced Response	

You **must** make sure you have looked at all pages. Please put the  annotation on any blank page, to indicate that you have seen it.

The markbands and assessment criteria on pages 5 –6 should be used where indicated in the markscheme.

Section A			Level descriptor
Q1 (b)	Q2 (b)	Q3 (b)	
Marks			
0			
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues and business management tools (where applicable), techniques and theories. • Little use of business management terminology. • Little reference to the stimulus material.
3–4			<ul style="list-style-type: none"> • A description or partial analysis of some relevant issues with some use of business management tools (where applicable), techniques and theories. • Some use of appropriate terminology. • Some reference to the stimulus material that goes beyond the name of a person(s) and/or the name of the organization. • At the lower end of the markband, responses are mainly theoretical.
5–6			<ul style="list-style-type: none"> • An analysis of the relevant issues with good use of business management tools (where applicable), techniques and theories. • Use of appropriate terminology throughout the response. • Effective use of the stimulus material.

Section B Q4 (d)	Level descriptor
Marks	
0	The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"> • Little understanding of the demands of the question. • Few business management tools (where applicable), techniques and theory are explained or applied and business management terminology is lacking. • Little reference to the stimulus material.
3–4	<ul style="list-style-type: none"> • Some understanding of the demands of the question. • Some relevant business management tools (where applicable), techniques and theories are explained or applied, and some appropriate terminology is used. • Some reference to the stimulus material but often not going beyond the name of a person(s) and/or the name of the organization.
5–6	<ul style="list-style-type: none"> • Understanding of most of the demands of the question. • Relevant business management tools (where applicable), techniques and theories are explained and applied, and appropriate terminology is used most of the time. • Some reference to the stimulus material that goes beyond the name of a person(s) and/or the name of the organization. • Some evidence of a balanced response. • Some judgments are relevant but not substantiated.
7–8	<ul style="list-style-type: none"> • Good understanding of the demands of the question. • Relevant business management tools (where applicable), techniques and theories are explained and applied well, and appropriate terminology is used. • Good reference to the stimulus material. • Good evidence of a balanced response. • The judgments are relevant but not always well substantiated.
9–10	<ul style="list-style-type: none"> • Good understanding of the demands of the question, including implications, where relevant. • Relevant business management tools (where applicable), techniques and theories are explained clearly and applied purposefully, and appropriate terminology is used throughout the response. • Effective use of the stimulus material in a way that significantly strengthens the response. • Evidence of balance is consistent throughout the response. • The judgments are relevant and well substantiated.

Section A

1. (a) With reference to *Utopia*, describe the importance of **two** external stakeholders (line 12). [4]

External stakeholders could be:

- Suppliers – the local business in particular and coffee suppliers. The business relies on the quality of these products
- Local craftsmen – can be considered different from suppliers
- Customers – this is in the service industry and customers are critical. Word-of-mouth is so important in this industry and these will tend to be influential people
- Banks, etc – unlikely to be important as the business does not use external finance
- The government – very important for regulations such as H&S. Also collects taxes so has an impact on profits.
- Local community – Utopia provides work, has focus on local suppliers
- Pressure groups/media – no obvious importance although bad publicity to be avoided
- Competitors are allowed as external stakeholders

N.b.: shareholders are **not** external. Do not reward comments about stakeholders in general – there has to be references to specific stakeholders

Mark as 2+2.

Award [1] for each correct stakeholder identified and [1] for a description of how that stakeholder relates to Utopia. Award a maximum of [2] per stakeholder.

- (b) With reference to *Utopia*, explain the role of promotion (line 6). [6]

Promotion will have to be very focused to be effective.

Two aspects of promotion:

- **Providing information:** This is an upmarket business offering quite a different kind of tourist service. Potential customers will want to know a great deal about the specialities, such as locally produced goods and services, local cuisine, local culture, luxurious facilities and services
- **Persuasion:** Probably important early in the life of the business but less so as word-of-mouth promotion will now be a critical way to get new customers (C2C). How many customers are return visitors? Advertising through public relations may well be important, as tourist destinations often appear in travel pages of newspapers.

Creating, maintaining, reinforcing the ‘upmarket’ brand and image is important. Promotion may not be quite as important as for other tourist destinations because its focus is going to be on a niche market.

Accept any other relevant application.

Marks should be allocated according to the markbands on page 5.

Award a maximum of [3] for a theoretical answer.

*Award a maximum of **[5]** if the explanation of promotion is mainly descriptive but in context.*

For full marks the explanation needs to be developed and in context.

2. (a) With reference to *JAC*, describe **two** advantages of internal growth (line 52). [4]

Internal growth: selling more; widening product range; expanding facilities

- *JAC* is a relatively small enterprise relative to *Utopia* so it would not be too difficult to raise the resources to grow *JAC* internally.
- John Ariki's philosophy is for internal growth.
- Because of the emphasis on local culture, specialised coffee, etc, it is important for *JAC* to retain control – control might be diluted with external growth.
- With outside influences the vision for *JAC* might be diluted.
- *JAC* is part of *Utopia* so the vision for *Utopia* is relevant.
- *Gaining economies of scale e.g. bulk buying coffee for the whole business*
Remember: JAC is owned as a sole trader

Mark as 2+2.

Award [1] for each advantage identified, and [1] for the development of each of these key aspects in the context of JAC/Utopia/John, up to a maximum of [2].

- (b) With reference to John, explain the key functions of management. [6]

Key functions of management are:

- setting objectives and planning
- organising resources to meet objectives, including staff recruitment
- directing and motivating staff
- coordinating activities
- controlling and measuring performance.

With reference to John:

- He created the original business plan.
- He made decisions about reflecting local culture and resisting external stakeholders.
- He organises local suppliers.
- It was his decision to open café.
- He creates crisis management and contingency plans.
- He decides on options.
- He delegates to his children but keeps the reins.
- He organised and managed a meeting between himself, Liza and Paul.
- He monitors performance.
- He sets organisational structure and manages changes.
- He makes the final decision.

Accept any other relevant analysis.

Marks should be allocated according to the markbands on page 5.

Award a maximum of [3] for a theoretical answer.

Award a maximum of [5] if the explanation of functions is mainly descriptive but in context.

For full marks the explanation needs to be developed and in context.

3. (a) With reference to *Utopia*, describe **two** suitable sources of finance for the 3D printers (line 60). [4]

Relative to the size of *Utopia*, the cost of the printers is not large.

Sources could include:

- retained profits – but are these sufficient after the problems of 2016?
- sale of assets – but are there any? The villas are only just being rebuilt and the café is growing
- reductions in working capital – impossible to say but it does seem an efficient organization
- loans – although John does not want external influences, he is thinking that he will have to look outside. Loans would dilute his control the least. Debentures are unrealistic. Debt factoring
- joint ventures, strategic alliances, franchising would seem rather unsuitable for the 3D printing as it is a small project. Would anyone be interested?
- Shares: Unlikely to be suitable as John owns 100% of shares and does not want external influences
- Hire purchase/leasing – would this be available from 3D printer manufacturers?
- Can also consider grants

Shares not acceptable as John owns 100% of shares. Remember, *Utopia* is a private limited company

Accept any other relevant point.

Mark as 2+2.

Award [1] for each source identified, and [1] for the development of each of these sources in the context of the project, up to a maximum of [2].

- (b) Explain the role of ethics in John's businesses. [6]

Ethical objectives are difficult to define and vary from culture to culture; however, the following might be regarded as ethical/socially responsible:

- using local craftsmen
- focussing on local culture
- using local ingredients
- using ethically produced fair trade coffee and paying above market prices.

Importance relates to:

- maintaining the goodwill of the community
- maintaining the goodwill of suppliers, employees
- maintaining the brand image (perhaps the most important).
- Aiming to improve long term success and profitability of the business

Accept any other relevant analysis.

Marks should be allocated according to the markbands on page 5.

Award a maximum of [3] for a theoretical answer.

Award a maximum of [5] if the analysis is mainly descriptive but in context.

For full marks the explanation needs to be developed and in context.

Section B

- 4. (a) Define the term *variable cost*. [2]

Variable costs are costs that vary in direct proportion to change in output/level of production.

Candidates are **not** expected to word their definition **exactly** as above.

Award [1] for a basic definition that conveys partial knowledge and understanding.
Award [2] for a full, clear definition that conveys knowledge and understanding similar to the answer above.

- (b) With reference to *Utopia*, explain the differences between secondary sector activities and tertiary sector activities. [4]

Secondary sector: manufacturing – converting raw materials. Usually capital intensive, often B2B – 3D printing.
Tertiary sector activities – providing services. Usually labour intensive, often B2C. Predominant in developed economies – serving coffee, providing resort facilities.

Award [1] for each difference identified, and [1] for the development of this difference in the context of *Utopia*.

Award a maximum of [2] if the answer is not about differences but only provides definitions.

- (c) Using the information above, calculate the payback period and the average rate of return (ARR) for the 3D printing project (*show all your working*). [4]

Year	Net cash flow (\$000)	Cumulative net cash flow (\$000)
0	-10	-10
1	2	-8
2	3	-5
3	4	-1
4	4	+3
5	4	+7

The project breaks even after 3 years and 3 months (3 ¼ years).

$$ARR = \frac{(\text{total returns} - \text{capital cost}) / \text{years of use}}{\text{capital cost}} \times 100$$

$$= \frac{(17 - 10) / 5}{10} \times 100 = 14\%$$

Mark as 2+2.

For each calculation:
Award [2] for correct answer with working and correct unit.
Award [1] for correct answer with working but incorrect unit or no unit, or for correct answer with correct unit but no working.

- (d) Using information from the case study, additional information above **and** your results from part (c), recommend whether *Utopia* should proceed with the 3D printing project. **[10]**

For:

- Paul likes the idea
- Unique souvenirs
- Cost reductions
- \$10k is not large in the scale of the operation
- Use of recycled materials fits in with *Utopia's* ethos and image
- ARR reasonable (14 %) – allow OFR

Against:

- Payback period quite long (OFR) for such a small project
- Does this market really do souvenirs?
- Liza does not like
- Recruitment difficulties
- Impact on local people – part of the ethos
- Costs of recycling unclear
- Not suited to niche market?
- This is a very small investment (10K) and the returns at 14% actually amount to quite a small sum – if it is a success it actually adds very little to annual revenue streams. For such a small return is the risk that it perhaps cheapens the image of the business worthwhile? Such souvenirs could be regarded as “tacky” and do not fit the profile of the target market.

Decision depends on John and whether other alternatives are better, eg doing nothing, leaving the money in the bank, etc. John believes the technology will bring other benefits, which may swing him that way; however, the impact on local craftsman would weigh heavily.

Marks should be allocated according to the markbands on page 6.

Award a maximum of [4] for a purely theoretical answer or with no effective use of case material.

Award a maximum of [5] if only one side of argument is considered in context.

Award a maximum of [6] if both sides are considered but there is limited use of data.

Award a maximum of [8] if both sides considered, and there is good use of data.

For full marks two sides of the argument should be considered, data used effectively, and the recommendation supported.

Note – a recommendation that a decision cannot be made due to lack of information (eg market research) can be regarded as a decision provided the arguments are supported.
