

MARKSCHEME

May 2001

BUSINESS AND ORGANISATION

Standard Level

Paper 2

1. (a) **Explain the benefits of vertical integration.**

[4 marks]

Benefits:

economies of scale (marketing, technical, different ways of expressing benefits are welcome)

control of outlets quality of service

control of human resources, wages

lower final price

supply one's own firm, in the right place, in the right quantity and at the right price.

The better answers will distinguish backward from forward vertical integration

[4 marks]

Provides a very complete answer, identifying economies of scale and includes the concepts of backward and forward integration, though not necessarily by name.

[2 to 3 marks]

Considers benefits, although may not specifically include the term economies of scale. Understands that prices will go down and service will improve.

[1 mark]

A very limited response.

(b) **Analyse the advantages and disadvantages of financing growth with reinvested profit.**

[4 marks]

Advantages: no creditors, no explicit interest rate. Cheapest way to finance growth. Shareholders are owners and can't sue.

The alternative of borrowing from a banking institution is more expensive, creating creditors and taking away freedom from the firm.

Disadvantages: Dividend distribution falls. Short term discontent of shareholders. It is time consuming and bureaucratic to borrow from a bank. Bank credit needs collateral security and a business plan that requires time investment.

[4 marks]

Analyses at least two advantages and two disadvantages, including references to costs of different types (interest rates, shareholders discontent, time and management costs).

[2 to 3 marks]

Considers both advantages and disadvantages but analysis is either brief, or missing for *[2 marks]*.

[1 mark]

Produces a cursory response lacking detail and/or providing only one side of the argument.

- (c) **Explain why the three firms avoided price competition over the last five years.**

[3 marks]

There is an implicit or explicit agreement on price. As the market is oligopolistic, it is not in the interest of any firm to cause a price war. There should be some understanding as to the loss in sales that will take place if price is increased and the loss in revenue if all firms put their prices down. Firms prefer to use other methods of competition or other elements of the marketing mix that are more autonomous. The possibility of retaliation is present.

[3 marks]

Shows a good understanding of the interdependent nature of the firms in the market, although mentioning the term ‘oligopoly’ is not required. There is a recognition that branding and promotion can create differentiation.

[2 marks]

Identifies and explains either interdependence or differentiation.

[1 mark]

A brief and limited response.

- (d) **What is an international holding company and what benefits does the international holding company seek by purchasing clothes manufacturing firms in different countries?**

[3 marks]

An international holding company is a firm that holds shares in companies of diverse operations and with bases (subsidiaries, firms) in different countries.

They are interested in buying firms in different parts of the world to get the benefits of globalisation: produce where it is cheaper, sell where there is a market, *etc.* Costs fall, invoicing increases tremendously and profits soar.

Award [1 mark] for correct definition of international holding (the answer has to show understanding of the organisation of a holding). Award an additional [2 marks] for reasons for buying abroad that have to do with lower costs and higher sales, etc.

- (e) **Discuss *three* strategies that Top Trend Limited can implement to stay competitive.**

[6 marks]

This is an open question where the best candidates will do well. Top Trend Limited can try finding another international firm to buy it out, become a joint venture, or change its product portfolio.

It could issue more shares: go public and make it competitive with fresh investment.

It might consider selling out parts of the business, closing down inefficient shops and concentrating on the efficient sectors.

They could also use other marketing tools, reduce their prices and/or lower input costs.

[5 to 6 marks]

Explains three different and relevant strategies.

[3 to 4 marks]

Provides a more limited answer either discussing two strategies or tending to list rather than discuss three strategies.

[1 to 2 marks]

Only lists one or two strategies or produces strategies with limited relevance or application.

2. (a) **Define the public sector giving reasons for its existence.**

[4 marks]

The public sector is that part of society that is not in the private sector being owned, managed and controlled by the government. The public sector bases its existence on the fact that the private sector is imperfect in providing for the needs of society as a whole. The public sector fills the gaps; offering merit goods and public goods. It gives the legal framework for the private sector to function well and for the benefit of society as a whole.

[3 to 4 marks]

Defines the public sector and provides valid reasons for its existence.

[1 to 2 marks]

Either defines the public sector accurately, but fails to give reasons for its existence or fails to define it, but shows some understanding of the need for the public sector.

- (b) How is the public sector financed? [2 marks]**

The public sector is financed with taxes from the private sector, and by borrowing from domestic or overseas institutions.

Award [1 mark] for just the idea of taxes or idea of borrowing, or [2 marks] for taxes and borrowing.

- (c) (i) Identify how labour productivity improvements can be achieved. [3 marks]**

Labour Productivity improvements are increases in the output per worker per hour. They can be achieved by better training, equipment or motivation.

Award [1 mark] for each method identified up to a maximum of [3 marks].

- (ii) Explain the government decision to tie wage increases to productivity. [1 mark]**

The government do not want costs to increase to ensure the country remains competitive abroad. Tying wages to productivity means that any wage increase is self-funding.

Award [1 mark] for referring to either costs, competitiveness or self-funding.

- (d) Define the term ‘trade union’ and identify a union’s most important functions. [4 marks]**

An organisation of employees, with a common interest. These may be ‘blue’ or ‘white collared’. Functions: to try and get improvements for employees in terms and conditions. They may act as a pressure group to encourage government to pass legislation in their favour. Other functions include offering benefits to members such as financial benefits (pensions, insurance, savings) and education and training opportunities.

Award [1 mark] for an accurate definition of a union and [1 mark] for each function identified up to a maximum of [4 marks].

- (e) **Analyse why some unions have more power than others. Use examples from your own country to illustrate your answer.** [6 marks]

Powerful unions are those that have significant funds (high union fees from many members) and strong bargaining power since their actions affect other sectors in the system (public transport unions). They may have political links and lobbying capacity. For some there are historical or cultural reasons for their strength. Quality of leadership is important too.

Weak unions have little bargaining power (they have access to fewer funds and/or they do not influence anybody if they go on strike.). Examples will depend on country but the emphasis should be on the supporting discussion.

[5 to 6 marks]

Analyses why some unions are weak and others strong, providing relevant reasons for this and specific examples.

[3 to 4 marks]

Identifies reasons for strong and weak unions, although the reasoning may lack some detail. There should be an attempt to provide illustrations for [4 marks].

[1 to 2 marks]

The answer is limited and may not include details on strong/weak unions and omit illustration.

3. (a) **Assess the main type of research the firm should conduct to provide enough evidence to identify the cause/s of the down trend in sales.** [5 marks]

The firm should conduct primary and secondary research of different types. This may include customer questionnaires and measures of total market sales, sales of competitors *etc.*

Secondary sources may provide explanations of what is happening in the economy. Industrial indicators such as electricity consumption, demand in other sectors of the economy, GNP per capita, exchange rates, levels of imports and exports (balance of trade) offer relevant information. It could analyse the market to find out whether there is a new product (a substitute). It should compare its own sales with its sales of past years, to find out if there are seasonal trends, *etc.* A good candidate will consider external influences on a firm's performance.

[4 to 5 marks]

Assesses a range of research, both primary and secondary with an explanation of the information provided.

[2 to 3 marks]

Considers at least two or three relevant sources of information. Development of ideas may be limited.

[1 mark]

A limited response.

(b) Identify the main characteristics of a recession. [2 marks]

Recession is a decrease in the aggregate demand for more than two quarters in a row. There is a decrease in demand together with higher levels of unemployment so firms sell less and must produce less.

A decrease in demand and an increase in unemployment are the two characteristics that the candidate should identify as important for the business.

Award [1 mark] for each characteristic, up to a maximum of [2 marks].

(c) Discuss the position that each of the Managers took at the meeting. [6 marks]

Production Manager: Probably wants to reduce costs that are not directly related to the price of petrol. He would prefer labour cost reductions and administrative reductions.

Marketing Manager: Believes that if the price goes down demand will increase. He thinks changing the price will not affect his product negatively.

Human Resource Manager: Agrees with the Marketing Manager so there will be no reduction in the workforce.

For each Manager:

[5 to 6 marks]

The position that each of the managers took is discussed in detail. The advantages and disadvantages are fully explained.

[3 to 4 marks]

The tasks of each manager are discussed but they lack detail and the reason suggested for their position may not be fully appropriate.

[1 to 2 marks]

Candidate offers a more limited answer.

- (d) **As the General Manager of the firm, analyse measures that you consider would best deal with the problems of a recession and justify your choices.**

[7 marks]

Purchases may have to be adjusted to address lower sales.

If the recession is long-term measures may have to be taken to reduce costs. These could include: reducing the workforce, finding new suppliers, examining energy savings, moving premises.

Prices may need to be lowered to increase sales, although competitors may follow suit, negating the measure.

The product can be redesigned, marketing ideas can be put forward. Offer products such as services for free with the gas (washing cars, special offers *etc.*) The product needs to be associated with some differentiating factor or unique selling proposition.

Bargaining at government level could be another idea, (lower indirect taxes for the gasoline, or for the cars, maybe lower tariffs if the gas is imported, *etc.*)

[6 to 7 marks]

Analyses a range of measures to address the problem of recession. The impact of the measures is analysed in some detail.

[3 to 5 marks]

Attempts to analyse a limited number of options probably concentrating on cutting costs. There is an attempt to justify the choices made for ***[5 marks]***.

[1 to 2 marks]

For a generalised answer. Ideas are not analysed nor justified.

4. (a) (i) **What trend does the above chart show?** **[1 mark]**

The chart shows an increase of self-employed from nearly 20% of the labour force to nearly 30 %.

Award [1 mark] for a correct observation.

- (ii) **Give possible reasons to explain the causes for the trend.** **[3 marks]**

The explanation may include some reference to de-industrialisation. (Decrease in manpower in the manufacturing industry.) Reference to globalisation is necessary to understand why it is becoming harder to stay competitive. To stay competitive firms are reducing their labour force, cutting overheads as much as possible. Each dependent worker costs the firm a large amount. Firms subcontract the self-employed. Most of the people today are employed in the tertiary sector, where it is easy to offer oneself as an independent worker.

Technology changes, such as access to the Internet, has allowed more flexible work patterns.

[3 marks]

Identifies three reasons or two reasons well developed and illustrated.

[2 marks]

Identifies two reason or one reason well developed or illustrated.

[1 mark]

Only identifies one reason without development.

- (b) **From the point of view of a worker, identify the advantages and disadvantages of being self-employed.** **[4 marks]**

Advantages of the self employed person: enjoys freedom, and flexibility not necessarily being attached to one firm or boss. If the economy does well there are larger profits possibilities. Reduction in travel times are possible.

Disadvantages: no stability; higher degree of risk; employment tied with the booms and busts of the economy.

Award [2 marks] for each side of the argument.

- (c) **From the point of view of a business, analyse the advantages and disadvantages of subcontracting jobs.**

[6 marks]

Advantages

Subcontracting workers allows for lower costs with less dependent workers. It gives the firm more flexibility: when demand is low, output can be adjusted without creating redundancies. When demand is high, then the firm increases the output by subcontracting people who can do the job.

Disadvantages

no security for jobs done at the right time and at a known price. The firms have to subcontract people to do jobs, so they have to compete for a scarce resource. If the worker were employed then the firm would have the certainty of the time and price for the job. Subcontractors may not share the firm's values or quality standards.

Award up to [3 marks] for analysing each side of the argument.

- (d) (i) **Show how the organisation structure of Ads & Such will have to change if the firm decides to subcontract a large percentage of its workers.**

[3 marks]

The organisation will become flatter, with less employees. Old hierarchical structures may disappear to be replaced by matrix or project team structures.

[3 marks]

Shows knowledge of organisation structures and more modern variants to meet flexible working patterns.

[2 marks]

Merely identifies some changes such as flattening and reduced numbers without addressing modern variants.

[1 mark]

Provides a simplistic response.

- (ii) **Explain how the job of the Personnel Department at Ads & Such will change to adjust to the above structure.**

[3 marks]

The Personnel Department will now spend less of time on conventional jobs such as: recruitment training, induction, salary payments, motivation. Co-ordination functions may now predominate. Less staff may be required.

[3 marks]

Shows knowledge of the responsibilities of a Personnel Department. Explains how the job of the Personal Department will change or disappear, to meet the new flexible structures.

[2 marks]

Shows some knowledge of the functions of a Personnel Department and attempts to identify changes.

[1 mark]

A simplistic response.

5. (a) How do firms measure their market share? [2 marks]

Firms measure their market share by comparing their sales to total market sales. The percentage they control is their market share.

Award [1 mark] for reference to sales and an additional [1 mark] for discussing percentage or showing a formula.

(b) Assess the benefits for Tavanna SA of having products that fit into some or all of the different boxes of the matrix? [5 marks]

Interpretation of what the chart shows is needed e.g. a fast growing market and a successful product are a good combination. Firms need products in three boxes to keep the cash flowing. Reference to product life cycle is necessary. While one product is bringing the cash in, another is acting as the star (success product) waiting for growth. Question marks are risks. Dogs should be avoided or dumped, although they may be retained if a firm wants full market coverage or they wish to keep existing customers happy.

[4 to 5 marks]

Interprets the matrix properly and relates it to cash flow and the strategic needs of the firm.

[2 to 3 marks]

Shows a clear understanding of the matrix, but does not link this well to cash flow or strategic needs of the firm.

[1 mark]

A limited response.

(c) Using the concept of Product Life Cycle illustrate and explain the product life of Mellow. [5 marks]

Candidates are expected to draw a life cycle graph and to be able to place Mellow at the saturation or decline phase.

[4 to 5 marks]

The product life cycle, clearly identifies all the stages of a product. Mellow is placed in the right place (Saturation or Decline) and its progress is explained over the years.

[2 to 3 marks]

The major stages of the PLC are explained and there is an attempt to place Mellow accurately.

[1 mark]

A poor product life cycle is explained. Mellow may not be placed correctly.

- (d) Give *one* advantage and *one* disadvantage of distributing more profits to shareholders?

[2 marks]

If profits are distributed shareholders are happy, keen to buy shares and market price will be influenced positively. A disadvantage is that the opportunity cost is high as less funds are available for reinvestment or improving wages of employees.

Award [1 mark] for each side of the argument.

- (e) Prepare a strategic plan to help Tavanna SA restore its position in the market.

[6 marks]

Many ideas are acceptable: revamping the product, with marketing elements like a new advertising campaign, or investment in research and development. The profits should be used to finance new products. A star should be produced with the money that comes in from the cash cow product. Good answers will create a new product portfolio.

[5 to 6 marks]

A response that gives a variety of actions which show a capacity to integrate different business concepts: organisation production, marketing, *etc.* Cash flow should be considered.

[3 to 4 marks]

Identifies relevant approaches though these may not be fully related to the product portfolio.

[1 to 2 marks]

Concentrates on improving Mellow, without reference to a suitable product portfolio.

6. (a) Write a paragraph discussing *three* issues the four friends should consider before deciding the type of business to set up. [3 marks]

Advice should be based on principle of liability, permanence, growth, capital accumulation. Candidates might choose a type of business organisation but what is important is whether the answer contains business reasons.

Award [3 marks] for three good reasons. Firms chosen could be cooperative partnership, limited partnership, limited company. The importance lies in the reasons.

- (b) Using the above information calculate:

- (i) the break-even point of output [2 marks]

$$FC \div \text{Contribution} = \$750 \div \$10 = 75 \text{ meals}$$

Award [1 mark] for showing contribution working and [1 mark] for calculation showing break-even point.

- (ii) the profit/loss if they had 40 customers a week [2 marks]

$$\begin{array}{l} \text{TR} = 40 \text{ customers} \times \$15 = \$600 \\ \text{FC} = \$750 \\ \text{VC} = \underline{\$200} \\ \text{TC} = \qquad \qquad \qquad \$950 \end{array} \qquad \text{Loss of } \$350$$

Award [1 mark] for the correct answer and [1 mark] for working.

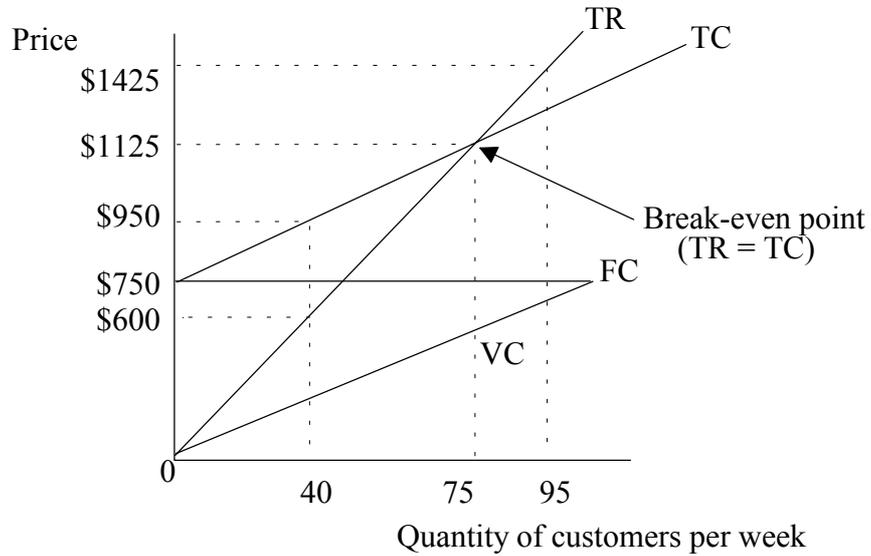
- (iii) the profit/loss if they had 95 customers a week. [2 marks]

$$\begin{array}{l} \text{Break-even} = 75 \text{ customers} \\ \text{additional customers} = 20 \\ \text{TR} = 20 \times \$15 = \$300 \\ \text{TC} = 20 \times \$5 = \underline{\$100} \\ \text{Profit} \qquad \qquad = \underline{\$200} \end{array}$$

Award [1 mark] for the correct answer and [1 mark] for working.

(c) Draw a break-even graph to illustrate the above points (i), (ii) and (iii). (Use the squared or graph paper provided.)

[6 marks]



[5 to 6 marks]

Produces an accurate break-even chart, properly labelled and titled.

[3 to 4 marks]

Produces an accurate break-even chart, but it may be poorly presented and/or axes not labelled.

[1 to 2 marks]

Produces a chart which is not accurate and/or poorly presented, but is clearly a break-even chart.

- (d) (i) **What are cash flow problems and why are the friends likely to have them?** **[3 marks]**

Cash flow problems have to do with inflows and outflows of cash and their timing. They are bound to have cash flow problems at the beginning of their business, since customers are not going to come into the restaurant until it opens and expenses will start to accrue from the start.

Award [1 mark] for defining cash flows and up to [2 marks] for explaining why they are likely to arise.

- (ii) **What is an overdraft facility? Why is this facility necessary?** **[2 marks]**

An overdraft facility is where a customer is given permission to debit a current account even though there are no funds to meet the debits. The overdraft is subject to a limit agreed with the bank manager. The facility is often required when cash inflows are erratic or seasonal.

Award [1 mark] for definition and [1 mark] for explanation of the need.

7. (a) (i) **Calculate the operating profit and the profit before tax for Year 1 and 2.** **[4 marks]**

	<u>Year 1</u>	<u>Year 2</u>
Operating profit	\$750	\$650
Profit before tax	\$875	\$725

- (ii) **Calculate the corporation tax and profit after tax for Year 1 and 2.** **[4 marks]**

	<u>Year 1</u>	<u>Year 2</u>
Corporation Tax	\$175	\$145
Profit after tax	\$700	\$580

Award [2 marks] for each correct answer up to [8 marks] maximum.

- (b) Give *three* reasons to explain the difference between Operating Profit and Profit before Tax.

[3 marks]

The firm has subsidiaries and it also has shares in other firms overseas, which means that they have diversified. It also owns investments that generate income.

Award [1 mark] for each reason: up to a maximum of [3 marks].

- (c) Explain the term ‘costs of goods sold’, and provide the formula a firm will use to calculate its value.

[2 marks]

Costs of goods sold = opening stock plus purchases, less closing stock. This provided the cost of purchasing the items the firm has sold over this trading period.

Award [1 mark] for the correct formula and an additional [1 mark] for explaining the meaning.

- (d) Using relevant ratios analyse the profitability of the firm during both years. Give possible reasons to explain the changes that took place in Year 2.

[5 marks]

Gross Profit Margin Year 1 = 60%; Year 2 = 57.8%
Net Profit Margin Year 1 = 30%; Year 2 = 28.8%

Sales have gone down by 10%. Gross profit has gone down by 13% and interest operating profit by 13% and profit after tax by 17%.

The firm is paying more for its inputs. Its overheads remain at 50% of Gross Profit. Additional new operating revenue has fallen.

[4 to 5 marks]

Calculates at least the Gross Profit and Net Profit margins and makes cogent comments about changes. A recognition that costs have risen whilst sales and additional income has fallen is required.

[2 to 3 marks]

Makes relevant use of data to reach sensible conclusions. For [3 marks] there must be at least one accurate ratio calculated.

[1 mark]

A brief description of the figures without analysis or calculation of accurate ratios.

- (e) **Explain *two* difficulties that will arise when comparing the financial data of different businesses.**

[2 marks]

Knowledge about type of firm, capital investment employed, gearing, *etc.* will be missing or ill interpreted when the firms are different. Differences may also relate to standard industry practice and between countries.

Award [1 mark] for each difficulty accurately explained.

8. (a) **Explain the difficulties that a firm faces when deciding to enter a foreign market.**

[5 marks]

Difficulties faced when exporting: language barriers, cultural differences exchange rate fluctuations (lack of security), political and economic instability, *etc.*

[3 to 5 marks]

Either for two to three problems explained in detail or for a complete list of problems with some attempt at explanation.

[1 to 2 marks]

For an answer that only considers one or two problems, not developed.

- (b) (i) **Explain the difference between decision nodes and chance nodes.** [2 marks]

A: Decision nodes: Points where there is control or choice by a firm over future action.

B/C: Chance nodes: Points where there are different possible outcomes, which are not controllable by the firm. Chance nodes are associated with probabilities as to outcomes.

Award [1 mark] for each correct answer.

- (ii) **Work out the expected values of each decision.** [2 marks]

Enter overseas markets

$$= \$640\,000 (\$800\,000 \times 0.8) - \$40\,000 (\$200\,000 \times 0.2)$$

$$= \underline{\$600\,000}$$

Remain in Canada

$$= \$350\,000 (\$500\,000 \times 0.7) - \$180\,000 (\$600\,000 \times 0.3)$$

$$= \underline{\$170\,000}$$

Award [1 mark] for each correct answer.

- (iii) **What decision should the firm take?** [1 mark]

The firm should enter the overseas market as it provides the higher expected return.

- (c) **Explain two advantages and two disadvantages of using decision trees to solve business problems.** [4 marks]

Advantages

Possible courses of action have to be thought out.

Force managers to think of risk

Force managers to give numerical values to problems

Disadvantages

Not always realistic.

Problems which are not of a numerical nature have to be ignored.

The probabilities used are fictitious.

Award [1 mark] for each relevant advantage/disadvantage explained.

- (d) **Outline a marketing plan for the sports drink to support its entry into overseas market.**

[6 marks]

Clearly entry into new markets will require extensive market research. The Drink Company Limited must ensure that the product meets anticipated needs of new markets. Emphasis must be placed on positioning and targeting. They may not be able to change premium prices until brand loyalty and images is established.

Promotion will need to match the needs of the target segments and the products perceived quality. Clearly the nature of the competition and the market will influence the nature of the marketing mix selected. Candidates may well provide a range of suitable plans.

[5 to 6 marks]

Identifies the need for market research prior to entry and details a suitable marketing mix reflecting upon the different market and competitive nature of overseas markets.

[3 to 4 marks]

Mentions market research for ***[4 marks]*** and attempts a marketing mix although some elements may be missing or generalised.

[1 to 2 marks]

Attempts to produce a market plan but only covers some elements of the marketing mix and may omit market research totally.
