



2009 Business Management

Higher

Finalised Marking Instructions

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Section 1

1. *Identify the problems faced by Fopp and the music industry. You should use the following headings. (Please identify problems only, solutions will not be credited.)*

- Marketing
- Finance
- Operations

Marketing

- Plagued by price deflation
- Stiff competition from e-tailers and supermarkets
- Global and UK sales of physical CDs fell
- Economic pressures in the market
- Downloads and illegal copies drove down margins (also finance)
- Past its sell by date

Finance

- Continual rise in interest rates put pressure on Fopp
- No financial backing from entrepreneurs due to lack of confidence in music industry
- Struggled to maintain revenue
- Pre-tax profits fell
- Purchase of Music Zone put added pressure on the firms cash flow
- Declined the offer from HBOS to extend the overdraft

Operations

- The music industry could not protect its legal rights
- Refused to accept a restructuring officer
- Loss of stock through theft by customers
- Source of cheap CDs dried up (also marketing)

Max of 4 per area.

(10)

2. (a) *Initially Gordon Montgomery was a sole trader, however, he eventually operated Fopp as a private limited company. Explain 3 reasons why an organisation would become a private limited company.*

- Has limited liability to shareholders/owners which would reduce the risk of personal loss to the shareholders
- Becomes larger organisation and should attract finance easier
- Allows for economies of scale
- Less risk of liquidation
- Control is still not lost to complete outsiders
- Experience and skills can be gained from shareholders

(When the command word explain is used then there must be a development to explain the reason. No marks are credited for merely identification.)

(3)

(b) *Describe how 5 different stakeholders of Fopp could influence the organisation.*

Any appropriate influence from a stakeholder.

- Manager – makes decisions on future plans of the organisation
- Worker – can produce a quality product or service by working hard
- Shareholder/Owners – purchase more shares
- Customer – buy the product or service
- Local Community – petition the organisation to make a change to environmental policies
- Government – alter legislation
- Banks – approves a loan
- Suppliers – alter the price of supplies

(No ID marks are awarded, a description of the influence on the organisation must be given.)

(5)

3. *The management of Fopp use financial budgets. Explain why managers use cash budgets.*

- Managers can compare actual budgets with planned budgets and if there are any deviations make corrective action where required
- Highlights periods where a negative cash flow is expected
- Allows for appropriate finance to be arranged for that period
- Allows for investment to be made in times of excess cash flow
- Corrective action can be planned in advance of cash deficits
- Allows managers to control expenditure
- Used to set targets for workers and managers
- Can be motivational for employees

(When the command word explain is used then there must be a development to explain the reason. No marks are credited for merely identification.)

(5)

Decision on expenses – max 1

Decision on purchasing capital expenditure/capital income – max 1

4. *Describe 3 pricing tactics that could be used when an organisation attempts to break into a new market.*

- High Price – price is set higher than competitors to give the image of quality and exclusiveness.
- Low Price – price is set lower than competitors to attract customers to their product/service.
- Skimming – price is set high initially when no competition exists, when competitors enter the market price is lowered to market price.
- Market/Competitive Pricing – price is set at the same level as competitors, normally used for products that are identical.
- Penetration Pricing – price is set slightly lower than competitors to attract customers, once a customer base has been created price is slowly increased to same as competitors.
- Promotional Pricing – a low price is set for a short period of time to boost sales in the short term, possibly even making a loss on the product.
- Destroyer Pricing – price is set very low compared to competitors and once there is no competition in the market the price is then put back up to the previous level or higher, used mainly by larger organisations to destroy competition, must have large reserves to sustain this over any length of time.
- Cost plus pricing

Max of 4 per area

(6)

If label given, must match description to gain award(s)

5. *The use of the most up-to-date technology is extremely important in the music industry. Describe the benefits to an organisation of investing in new technology.*

- Increases the speed of information handling
- Can make use of integrated systems such as fax, photocopier, e-mail, scanner all in one PC
- Improves production methods through use of robotics and CAD/CAM
- Improves efficiency in administrative functions
- Enhances reputation with potential customers
- Reduces staffing costs
- Allows for teleworking
- Allows for improved communications on a global scale
- Can mean e-commerce is possible

(The above list is not exhaustive, credit any relevant answer. Watch for repetition.)

(5)

Do not accept improves communication, increase productivity, improves efficiency on its own

Software advantages – if features given only – max 1
If a clear advantage given – 1 mark each

6. *Fopp employed a large number of temporary and part-time staff. Discuss the effects on an organisation of employing staff on temporary contracts.*

- Allows for greater staffing flexibility
- Means there is no long term commitment from staff
- Eases the burden on HRM department as recruitment agencies can be used
- Reduces costs of items such as pensions and insurance payments
- Reduces the need for long term staff training
- Staff with the necessary qualifications can be found from an agency at short notice
- More induction training will be required
- Loss of continuity with customer services
- Increases staff turnover

(4)

7. (a) *A decision was made by Fopp's directors to purchase the Music Zone stores. Describe how a manager could assess the effectiveness of a decision.*

- Evaluate the decision with their staff to gain their views on the change and if it has been successful
- Issue questionnaires to customers to evaluate their response
- Have sales increased? If sales have increased then it could be assumed the decision was successful
- Have profits risen?
- Has the situation improved?
- Has absenteeism reduced amongst staff?
- Has staff morale improved?

(4)

Some comparison must be suggested

(b) *Explain the factors that could affect the quality of a decision made by a manager.*

- The ability and skill of the manager – if the manager has not had proper training or not skilled enough to make decisions then a poor decision may be made
- The appropriate use of decision making models
- The quality of the information used to make the decision
- The level of risk taken
- The managers own interests
- The finance available to implement the decision
- The time available to make the decision

(When the command word explain is used then there must be a development to explain the reason. No marks are credited for merely identification.)

(4)

PESTEC factors acceptable for external info given to make a decision – 1 max

8. *Discuss the importance of quality inputs in the operations process of an organisation.*

- Using high quality raw materials will lead to a quality product or service
- Highly skilled staff will result in good customer services
- Using up-to-date machinery will help standardise product quality
- Should result in less products being faulty or not of a proper standard
- Should result in less customer complaints
- Should result in repeat sales
- Should result in the organisation having a good reputation
- May mean higher purchasing costs for raw materials
- Can result in high staff training costs
- Expense of inputs – 1 max

(4)

Total 50 marks

[END OF SECTION ONE]

Section 2
SOLUTIONS

1. (a) *It is becoming more popular to purchase products online. Explain the advantages to an organisation of selling products over the Internet.*

- The full range of an organisations products can be shown on a website therefore the products are available for consumers to look at
- Customers can purchase online from their own home – increase sales
- Allows worldwide sales – global economy
- Sales can be made 24/7
- Reduces costs due to not requiring expensive premises or large amounts of staff
- Customers can leave comments on websites
- Can make use of customer details for market research purposes
- Customer satisfaction

(When the command word explain is used then there must be a development to explain the reason. No marks are credited for merely identification.)

(4)

(b) *Distinguish between the terms quantitative and qualitative information.*

- Quantitative information can be measured and is expressed in numerical format. Qualitative information is descriptive and expressed in words.
- Quantitative: easier to analyse, is factual, can be used to make forecasts or comparisons. Qualitative: can be used to find out customer opinions, can be used to make judgements on a product.

(2)

(c) *The introduction of new technology may cause unrest in the workplace. Describe 4 forms of industrial action.*

- Strike: employees refuse to carry out their work
- Overtime ban: employees refuse to work any overtime
- Go slow: employees work at a slower rate than normal
- Sit in: employees do no work while remaining at their workplace
- Work to rule: employees only undertake the tasks which is in their job description and do nothing else
- Picket: employees demonstrate outside the place of work
- Lock-out
- Boycott
- Sabotage

(4)

(d) Describe 4 methods of field research.

- Personal interview: face-to-face interview that can be held in the street or at a persons home.
- Focus group: selected individuals are involved in discussions about an organisations product or service.
- Telephone survey: individuals are telephoned at their home and asked specific questions.
- Postal survey: questionnaires are sent through the post to selected individuals.
- Consumer audit: continuous market research is carried out with a selected group of consumers who record their purchases in a diary which is then analysed.
- Hall test: individuals are invited to try out a product and then give their opinion on it.
- Observation: customers actions and purchasing patterns are observed by trained staff.
- EPOS: used to gain an insight into what products are selling in each store.
- Test Marketing: product is launched on a small area to gauge the consumers response.

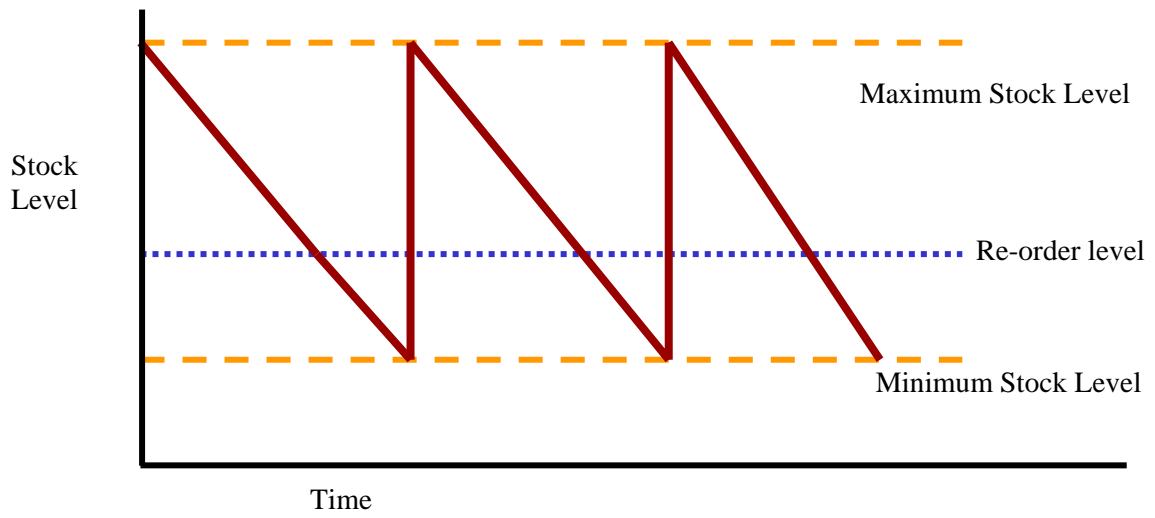
(8)

2 marks per area

Accept any feature, advantage and disadvantage as part of description

Watch – less time consuming than ...; cheaper than ...

- (e) (i) Draw a diagram to illustrate how you would manage stock control effectively (your diagram should be correctly labelled).



(3)

1 mark for axes labels

1 mark for max/min/reorder labels

1 mark for shape

(ii) *Describe different stages involved in setting an appropriate stock level.*

- Maximum stock level: The level of stock that should be held to minimise costs and involves examining storage space available and finance required for this level.
- Minimum stock level: level that stock should not fall below as shortages could result and production could be halted.
- Re-order level: the level which stock should be re-ordered at, takes into account usage and lead times.
- Re-order quantity: the amount that is ordered to take the stock back up to maximum level once it is delivered.
- Lead time: the time taken between ordering new stock and it arriving at the organisation.

(4)

Factors they would take into account before deciding on a stock control system – 1 mark max

Minimum 2 stages

2. (a) *Most organisations group their activities by function. Describe the advantages and disadvantages of functional grouping.*

Advantages

- Allows for specialisation in each functional area
- There is a clear structure to the organisation
- Clear lines of authority exist
- Staff can seek support from colleagues if required
- No duplication of resources

Disadvantages

- Organisational aims can be lost due to departments pursuing their own aims
- Can be unresponsive to change in the market
- Can produce large and unwieldy organisations

Max of 4 for advantage or disadvantage.

(5)

Accept advantages and disadvantages for both the employee and the organisation

(b) *Discuss the effects of outsourcing on an organisation.*

- Specialists can be used to do the work
- Reduces staff costs in the area that has been outsourced
- Outsourced companies will have specialist equipment
- The service can be provided cheaper – needs development
- The service can be more expensive – needs development
- The service needs only to be paid for when required
- Organisations can concentrate on core activities
- Organisations can lose control over outsourced work
- Sensitive information may need to be passed to the organisation
- Communication needs to be very clear or mistakes can arise

(5)

(c) *Explain how external factors may affect an organisation.*

- Political – legislation and regulations will affect an organisation in that they need to comply with the laws of the country they operate in.
- Economic – factors such as inflation, recession/boom periods, interest rates will affect organisations in a number of ways.
- Social – changes in trends and fashions mean that organisations must continually carry out market research to see what products will sell or new products are desired.
- Technological – as technology changes organisations must keep up-to-date and this will involve a large financial cost.
- Environmental – organisations now need to attempt to be socially responsible and environmentally friendly both to comply with legislation and satisfy consumer groups.
- Competitive – organisations must continually monitor their competitors prices and alter theirs accordingly.

(When the command word explain is used then there must be a development to explain the reason. No marks are credited for merely identification.)

(6)

Max 4 per area

(d) (i) *Describe the recruitment process that may used by a Human Resource Department.*

- Identify a job vacancy
- Carry out a job analysis
- Prepare a job description
- Draw up a person specification
- Advertise the vacancy
- Send out application forms to candidates

(No ID marks are awarded, a description of the process must be given.)

(5)

Needs a verb not just a list

(ii) *Discuss methods that an organisation could use to ensure their staff stay motivated.*

- Use of staff training to motivate staff
- Give bonuses or financial rewards
- Make use of profit sharing schemes
- Organise team building days or social events
- Have staff involvement in works councils/quality circles
- Have regular consultation with staff
- Job enlargement or enrichment schemes
- Financial implications can be high

(4)

Appraisal – max 1

3. (a) *Describe the problems that can occur when using only accounting information to analyse performance.*

- Items such as new products are not shown in the accounts
- Information is immediately historical and therefore out of date
- Comparisons are limited to firms of similar size and similar industry
- External pestec factors are not taken into account – max 1
- Staff morale, turnover or skills are not taken into account – max 1
- Financial information can be slightly altered to suit an organisations needs
- It is difficult to compare against other firms finances as only limited accounts need be published
- Different methods of valuing stock, depreciation etc

(No ID marks given when the command word “describe” is used.)

(4)

(b) Describe the actions an organisation could take to improve the following ratios:

- Net Profit Percentage
- Current Ratio

Net Profit Ratio

- Increase selling price
- Find cheaper suppliers
- Negotiate discounts with suppliers
- Try to reduce theft
- Also reduce wages/staff redundancies
- Reduce any particular expense
- Improve their gross profit percentage

Current Ratio

- Decrease current liabilities (pay off creditors)
- Increase current assets such as cash or bank
- If Current Ratio is too high reduce bank balance to invest in a long term investment

(6)

Max 5 per area

(c) *Discuss the effects on an organisation of branding their products.*

- Products in the brand range are instantly recognisable
- Brand loyalty can be built up
- Repeat purchases increase sales
- Is perceived to be of high quality
- Premium prices can be charged
- Can be used as a marketing tool for advertising purposes
- Makes it easier to launch new products onto the market
- Brands names can be expensive to build up
- Bad publicity can affect the whole brand
- Imitator and fake products are common

(6)

(d) *Some organisations still sell their original product a number of years after it was first launched. Explain how extension strategies can prolong the life of a product.*

- Increased advertising of the product will increase awareness, or persuasive advertising techniques, might mean consumers may purchase more of the product or service
- Reduce the price to increase sales therefore people will buy more frequently/in larger volume
- Change the market for the product
- Re-launch the product
- Alter the products packaging
- Change the products name
- Find a new use for the product
- Develop a range of the same product in different sizes or shapes
- Use promotional techniques to stimulate demand

(When the command word explain is used then there must be a development to explain the reason. No marks are credited for merely identification.)

(6)

(e) *Justify why strategic decisions are made by senior managers.*

- They are long term and only senior managers would make decisions
- They have far reaching or lengthy consequences
- They shape the objectives/direction of the organisation
- They have a high financial risk
- Require a knowledge of the whole organisation and its policies

(3)

4. (a) *Discuss the effects of widening the span of control.*

- Will also mean more empowerment is possible – can give for both employee and management (1 mark each)
- Allows for delegation to staff as they should be reasonably skilled
- Managers time to deal with staff problems will be at a premium
- Can place managers under stress
- Can mean workers rarely have time to meet with their line manager to discuss ideas
- Subordinates may resent having to make all the decisions
- Managers will have less time for planning
- Can result in poor decisions – both employee and organisation (1 mark each)
- Managers are in charge of more staff
- Can be motivational to managers as can be seen as greater power

(7)

Do not accept an answer on delayering

- (b) (i) *Describe the different forms of training that an organisation could use.*

Induction Training:

- training that takes place at the start of employment
- covers items such as health and safety procedures – max 1
- background information on the organisation and job to be undertaken – max 1
- meeting colleagues
- makes a worker feel more comfortable when starting their job.

On The Job:

- where training takes place at the place of work OR while doing the job
- can be by demonstration or coaching
- job rotation can be used to train staff in the workplace.

Off The Job:

- training takes place away from the normal workplace OR at a training centre, college etc
- allows the trainee to experience the training without interference from work or colleagues
- can be more costly than on the job.

(Credit different types of on-the-job training such as coaching or apprenticeships.)

(6)

Max 5 in any area

(ii) *Describe the costs of staff training.*

- The actual financial cost of the training
- Production can decrease while staff are being trained
- Posts may need to be covered while staff are away on training courses
- Some training can be a waste of time and not beneficial to the employee
- With more skills employees can demand a pay rise
- Employees may leave as soon as they are trained and work elsewhere

(4)

(c) (i) *Describe 3 types of production available to organisations.*

- Batch – a group of similar products are made at the same time
- Flow – each product moves continuously along a production line from one process to the next
- Job – an individual product is made to a customers specification
- Lean production (JIT)
- Capital intensive
- Labour intensive

(No ID marks are awarded, a description of the production method must be given.)

(3)

(ii) *Explain the factors that would affect the choice of production method used.*

- The skills of the workforce – where low skilled labour is employed, a mechanised process may prove more effective
- The finance that the organisation has available
- The technology available to be used in the production method
- The size of the business
- The actual product being made
- The number of the product required for the market
- Standard of quality required

(When the command word explain is used, there must be a development to explain the factor. No marks are credited for identification.)

(5)

Max 1 per factor

5. (a) Explain how the following legislation could impact on an organisation:

- Freedom of Information Act 2002
- National Minimum Wage Regulation 1999
- Employment Rights Act 1996

Freedom of Information Act 2002

- Gives individuals the right of access to information held by public authorities therefore organisations must be prepared to accept requests for information
- Means organisations covered by the act must be careful what information they now hold
- Must provide the information within the specified timescale

National Minimum Wage Regulation 1999

- States the minimum wage that organisations must now pay workers at different ages
- Employees can take action if they are not paid the appropriate minimum wage
- Has become more complicated to calculate wages
- May mean younger members of staff are employed to reduce wages

Employment Rights Act 1996

- An employee must be given a written contract of employment within 2 months of starting
- Itemised pay slips must be given to employees
- Maternity leave must be given to workers

(When the command word explain is used, there must be a development of the impact. No marks are credited for identification.)

(6)

Max 4 per act

Sanction must be stated

(b) (i) *Describe 3 different methods of growth.*

- Vertical Integration – organisations at a different stage in the same industry combine together.
- Horizontal Integration – organisations at the same stage of production combine together.
- Backward Vertical Integration – when a business takes over a supplier.
- Forward Vertical Integration – when a business takes over a customer.
- Diversification – organisations in completely different industries combine together.
- De-integration/demerger – organisations cut back and concentrate on only their core activities.
- Divestment – sell off assets or subsidiary companies to raise finance for growth.
- Organic growth – organisations increase the number of products sold or number of outlets – max 1

(No ID marks are awarded – a description of the method must be given.)

(3)

(ii) *Describe and justify 3 sources of finance that could be used to expand a business.*

- Government Grant - does not need to be paid back if criteria for giving grant is carried out. Can be fairly large and does not need to be paid back.
- Bank loan – paid back over a number of years with interest. Can be fairly easily obtained and can supply large amounts of funds for growth.
- Share issues – shares are sold to raise finance either privately or publicly on stock market. Can raise large amounts of finance that does not need to be paid back immediately.
- Venture Capitalist – provides finance for more risky ventures. Can raise finance for risky ventures and can be offset against a percentage of the firms ownership.
- Debentures – a loan where set interest is paid back over a period of time. Is normally paid back after a very long period of time, eg 25 years.
- Sale of assets – assets can be sold to gain the necessary finance.
- Retained Profits – organisations can use retained profits and invest them to allow the expansion to take place.

(No ID marks are awarded, a description of the source must be given.)

(6)

1 mark per description, 1 mark per justification – max 3 each

(c) *Describe the advantages and disadvantages of gaining approval from the British Standards Institution (BSI).*

- A specific standard can then be met for all the organisations products
- Levels of quality can be guaranteed to customers
- The kitemark symbol can be used as a marketing tool
- Can allow for a higher price to be charged
- Is an expensive process to go through
- Is time consuming to go through initially
- Rigorous checks and paperwork must be kept

(4)

Max 3 per advantage/disadvantage

- (d) *Many organisations segment their market by gender eg male or female. Describe 6 other methods that an organisation could use to segment a market.*

An appropriate description of any 6 of the following methods:

- age – different age groupings are used such as young or old, under 12, 13-19, 20-35, over 35.
- occupation – the market is segmented into different types of occupation.
- education – segmented according to the level of education attained.
- socio-economic – socio-economic groupings are used to group customers in different economic classifications.
- geographical – customers are segmented by area they live in.
- cultural/religious background – various religions are used to segment the market.
- family lifestyle – customers can be segmented into either married or single.

(No ID marks awarded.)

(6)

Must show one example in description to gain award

END OF MARKING INSTRUCTIONS]