



2012 Business Management

Higher

Finalised Marking Instructions

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Higher**

Section 1

1. *Identify the problems faced by Peter Scott & Co. You should use the following headings. (Please identify problems only, solutions will not be credited.)*

- *Marketing*
- *Finance*
- *Operations*
- *External Factors*

Marketing

- Expensive promotional activities were needed to keep the exclusive brand image
- High quality materials used meant high prices needed to be charged
- Increase in overseas competition
- Lower overseas pricing policies
- Spending on luxury items in UK reduced

Finance

- Could not raise the finance needed through sale of shares on stock market/Number of potential investors greatly limited
- Discussions with interested investors fell through
- No government funds available to save struggling companies
- Extravagant spending
- Went into administration

Operations

- High costs of production
- Workforce was decimated/120 redundancies
- No knitters or production staff/need to employ 60 workers in 2 months
- Old building was not suitable for modern manufacturing
- Existing machinery needed to be updated to incorporate the latest technology

External Factors

- Worldwide economic downturn
- Overseas competition
- Lower wages paid by overseas competitors
- Savage cuts in National Budget

Max 3 per heading

(10)

2. *Other than funds, describe the types of assistance a Local Enterprise Company could provide for an organisation.*

- Provide training for start-up businesses
- Business managers will give advice on financial planning
- Preparing a business plan
- Can give advice on the type of business organisation to choose
- Provide useful local contacts
- Provide free office/accommodation for a period of time
- Advice on location
- Advice on local market/competitors

(4)

3. *Describe 2 pricing tactics that an organisation could use when selling an exclusive product.*

Premium Pricing

- Choose a high price to sell the product
- This will give the customer an image of quality

Market Skimming

- Start off with a high price to sell the product
- This will appeal to a certain market segment who want the product in the introductory stage
- Allows the business to make high profits prior to competitors entering the market
- As competitors enter the market the price is reduced
- This allows people on lower income to purchase the product

Max 3 per tactic

(4)

Do Not Accept Destroyer pricing, Penetration pricing

4. Describe the 3 main types of decision that an organisation could make.

Operational

- Day-to-day decisions
- All staff including lower level managers
- Low financial risk decision

Tactical

- Medium term
- Made by middle managers
- Are taken to achieve strategic decisions

Strategic

- Long term decisions
- Shaping the objectives of an organisation
- Taken only by very senior managers
- Carry a large financial risk

(3)

5. *Distinguish between centralised and de-centralised decision making.*

- In a decentralised structure decision making is delegated to departments whereas in a centralised structure decision making lies with senior managers
- A decentralised structure relieves senior managers of a lot of the daily tasks but in a centralised structure managers carry the whole burden of decision making
- In a decentralised structure subordinates are given responsibility to make decisions which is motivational whereas in a centralised structure subordinates are less motivated as decision making is made only by senior managers
- In a decentralised structure decision making is faster than in a centralised structure as local managers do not have to consult national managers prior to making a decision
- In a centralised structure procedures tend to be standardised throughout the organisation but in a decentralised structure procedures will be decided by local managers
- In a centralised structure decisions are taken for the organisation as a whole whereas in a decentralised structure decisions take into account local arrangements/customers
- In a centralised structure a high degree of corporate identity exists whereas in a decentralised structure corporate culture is harder to impose

(5)

6. *Explain the benefits to an organisation of introducing ICT.*

- ICT increases productivity due to the use of machinery which can allow for more products made
 - unit costs reduced
- Reduces waste as technology makes fewer mistakes and this increases profit
- A consistent quality of product is made which can increase customer satisfaction
- Can mean less staff needed which reduces overall staffing costs/increases profits
- Improves the speed of communication due to the use of e-mail or intranets which makes decision making quicker
- Increases the access to information which should result in a more informed, better decision being made
- Technology can be used in situations that are hazardous to workers which results in less accidents to the workforce
- Accuracy should be increased as technology results in less mistakes especially when carrying out large calculations resulting in improved customer satisfaction

(5)

7. (a) *Describe the purposes of sales and production targets.*

- To plan ahead for production/sales
- Provides targets for staff to aim for
- Actual figures can be compared to target figures
- Allows co-ordination of production quantities to match anticipated sales
- May highlight areas requiring improvement if targets not met
- Targets from budgets can be used as motivational tools for sales staff

(3)

(b) *Describe the actions that could be taken to overcome cash flow problems*

- Use marketing measures to move unwanted stock **(max 1)**
- Reduce the length of time given to customers to pay for goods
- Have a maximum amount owners can withdraw/reduce drawings
- Try to get increased credit terms
- Find a cheaper supplier
- Reduce wages/any other expenses **(max 1)**
- Take out a short term overdraft
- Increase owners own capital
- Reduce repayment of loans **(max 1)**

(5)

8. *Explain the problems that can arise from “under” and “over” stocking.*

Understocking

- Becomes harder to cope with unexpected changes in demand which means customers may go elsewhere to purchase the product if the firm doesn't have it in stock
 - If customers go elsewhere they may lose them completely and not just the one time
- Production may have to stop completely as there are no raw materials to use in production which can mean paying for workers who aren't producing any goods
- Continually ordering or restocking can mean increased administration costs.
 - Increased transport costs
 - Increased unit costs due to not bulk buying

Overstocking

- Carry large amounts of stock will increase the cost of storage reducing profit
 - May result in having to pay larger insurance costs
 - Increased security costs

(Max 2 on stock storage costs)
- Capital is tied up in stock which means that the money cannot be used elsewhere such as advertising
- The stock may deteriorate resulting in larger wastage costs
- Changes in trends and fashion will mean that stock might become obsolete and not be able to be sold
- Higher risk of pilfering

Max 4 in any area

(5)

9. *Discuss the effects of introducing “flexible working practices”.*

- Can save employees on travel time if they are allowed to work from home
- Allows employees to cater for family or childcare commitments
- Employees can choose the hours that suit them to work/work at a pace which suits
- Means that the employee won't be late as they can use flexitime when needed
- Can work flexitime to cover doctor or dentist appointments
- Can save an organisation on cost of office space as less space is needed if employees work from home
- Is motivational to staff
- Can cost the organisation for staff equipment to use at home
- May mean that at certain times there are limited staff in the office
- Social barriers breakdown due to not being in the office
- Can be harder to arrange formal meetings

(6)

[END OF SECTION ONE]

Total 50 marks

Section 2
SOLUTIONS

1. (a) *Describe the advantages and disadvantages of product endorsement.*

Advantages

- Consumers buy the product in an attempt to be the same as the celebrity
- Photographs of the celebrities are used to create visual connections to the product
- Higher prices can be charged due to the endorsement
- Brand loyalty may be created due to the endorsement
- Statements can be used in promotions to further enhance the product e.g. the official hair product of David Beckham

Disadvantages

- Can cost vast amounts of money to retain the celebrity
- If the celebrity gains bad publicity the product is also tarnished
- Product endorsement does not guarantee a quality product

Max 5 per area

(6)

(b) *Discuss the use of customer grouping for an organisation.*

- Marketing can be tailored to specific customers needs
- Customer loyalty can be easily built up
- There is a high level of customer care given
- The organisation can respond to the needs of customers quickly
- Can be expensive due to high staffing costs to meet customer needs
- New staff are needed if there is a new customer grouping or product created
- Competition between customer groupings/departments can exist

(4)

Do not give the definition a mark

(c) *Describe and justify 3 sources of finance that could be used by a partnership. (A different justification must be used each time)*

- Partners increase their own investment by putting more of their own money into the business. This would mean the partners retain the same control without having to dilute control by bringing in a new partner.
- Bank loan – loan over a set period of time with interest paid back. Is a simple way of increasing finance without having to alter any partnership agreement.
- Government Grant – finance into the business from the government that does not have to be paid back
- Bring in a new partner who invests their own money into the business. This brings in fresh finance that does not stretch the original partners OR mean the original partners have to find the funds.
- Trade Credit – increasing credit terms with suppliers. Allows for an increase in finance without bringing in a new partner
- Debt Factoring
- Bank Overdraft
- Hire Purchase
- Leasing

(6)

(d) *Describe the advantages of e-commerce to an organisation.*

- The full range of an organisation's products can be shown on a website
- Saves the firm having to have large outlets or costly high street shops to display them.
- Reduces costs due to not requiring large amounts of staff.
- Customers can purchase online from their own home
- Allows worldwide sales – access to global economy
- Sales can be made 24/7
- Customers can leave comments on websites
- Can make use of customer details for market research purposes by email to contact customers with promotions

(5)

(e) *Describe the features of high quality information.*

- Timely – information is available when required and is up-to-date
- Accurate – information does not contain errors
- Appropriate – information is suitable to the task required
- Objective – information is free from bias
- Available – information is there when needed
- Complete – information contains all the required parts
- Concise – information is brief and to the point
- Cost effective – information is not more expensive than it needs to be
- Reliable – the source can be verified

(4)

Total 25 marks

2. (a) *Describe different types of organisational relationships that can exist within a business.*

- Line – the relationship that exists between a manager and their subordinates
- Lateral – this exists between staff on the same managerial level within an organisation
- Functional – this is a specialist relationship where an expert has the responsibility to manage the function for the whole organisation
- Staff – this is an advisory relationship to staff within an organisation
- Informal – exists between an level of management or staff outwith the normal working arrangements/conditions

(4)

Accept Formal

(b) (i) *Describe quality management systems that can be used within an organisation.*

- Benchmarking – using best methods identified through best practice in industry would help raise the quality of products/services
- Quality assurance – products are checked at certain points in the production process
 - Unacceptable products are discarded
- Quality circles – groups of workers including managers and grass root workers. Meet to discuss the best methods and where improvements can be made
 - Allows the actual workers doing the job to make the suggestions
- TQM – focuses on quality products every time
 - Zero defects are aimed for
 - Must have commitment of whole organisation and all workers
 - Clearly defined standards and policies are implemented to ensure quality at all times
 - Products are scrutinised at all stages of the production process
- Quality standards/marks – BSI awards are used to show quality has been approved
 - Use of trade logos – such as red Lion Mark on eggs, or woolmark, show that products have met industry standards
- Quality control – products are checked at the end of the process
- Kiazen

(7)

(b) **(ii)** *Describe 3 different types of production that could be used by an organisation*

- Job – is where a one off specialist product is made
- Batch - is when groups of similar products are produced
- Flow – is when a continuous process is used and goods move along a production line from beginning to end.

(3)

(c) Describe 3 accounting ratios and justify their use. (A different justification must be used each time)

- Current ratio: current assets/current liabilities, answer of 2:1 is the accepted ratio. Allows managers to monitor liquidity levels of the business and shows the ability to pay short term debts
- Acid test ratio: current assets – stock/current liabilities, 1:1 is the accepted ratio. Allows managers to know that they can pay off debts quickly
- Gross profit ratio: gross profit/sales x 100 measures the percentage profit made from buying and selling stock. Can be used by managers to compare to the industry standard.
- Net profit ratio: net profit/sales x 100 measure the percentage profit after expenses have been paid. Can be used by managers to control expenses or analyse expenses
- ROCE: net profit/opening capital x 100 measures the return on capital for investors in a business. Can be compared to other organisations or a safe investment such as using a building society to invest in.
- Mark Up: gross profit/cost of goods sold x 100 measures how much is added to the cost of goods for profit. Used to ensure a satisfactory level of profit is made
- Rate of stock turnover: Cost of goods sold/average stock. Used to analyse how quickly the stock is sold. Useful for sales of perishable items

(6)

(d) *Explain how different methods of growth can lead to increased sales or profits*

- Horizontal integration – firms producing the same products combine together. This allows for greater economies of scale which allows for lower unit costs and increased profits
 - By becoming larger they should become better known in the market and this should lead to brand loyalty and increased sales
 - They might dominate the market due to the greater size of the organisation and can then set prices and encourage customers to purchase from them through large promotional activities
 - By removing competitors they will increase sales
- Vertical integration – firms at different stages in the production process combine together. This can cut out middle men and allow the organisation to retain all profits made in the chain themselves
- Backward vertical – when a firm combines with a supplier which ensures that there is constant and consistent supplies of raw materials at appropriate prices
- Forward vertical – when a firm combines with a customer which ensures that sales are constant and can increase profits
- Conglomerate – when a firm combines with another firm in a completely different market. This means that profits can be made from a variety of markets and sales do not rely on just one industry
- Divestment
- Demerger
- Asset stripping
- Internal growth

(5)

3. (a) *Describe the benefits of different types of information*

- Oral – spoken word which would be used at a meeting and can be a quick method of communicating
- Written – information in the form of text, letters, memos which can be referred back to at a later date
- Numerical – information in the form of numbers or statistics which can be useful to show comparisons or exact figures
- Pictorial – information in the form of pictures can make a presentation/situation look more appealing or attractive
- Graphical – information in the form of graphs or charts can be used to make comparisons from one year to another/show trends clearly
- Quantitative – information which is measurable and can be used to give percentages/or ratings such as 5* hotels
- Qualitative – information which shows someone's opinion or thoughts and is useful when judgements or a description is needed

(4)

Repeat benefits not accepted

Do not give a description mark

(b) *Describe 5 stages of the recruitment process used by most organisations.*

- Identify the vacancy
- Carry out a job analysis – identify the tasks and duties required in the post to be filled
- Prepare a job description – draft a description of the post being filled stating the job title, location and duties
- Draw up a person specification – this shows the qualifications and experience required by the ideal candidate.
- Advertise the vacancy – place an advert either internally on staff newsletters or externally in jobcentres or newspapers.
- Send out application forms to candidates – application forms are completed by applicants

(5)

(c) Describe 3 different employment contracts and justify their use. (A different justification must be used each time.

- Temporary – is usually for a set period of time to fill a vacancy such as a maternity leave. Allows organisations to employ workers only during the time that is required until the full time worker returns
- Full time – employed for the standard number of hours. Allows an organisation to know they will have workers in during a set period of hours each week.
- Part-time – working less than the full time employees of that organisation. Is suitable for some organisations who only require workers on certain days or at certain times of the week
- Permanent – a contract of employment which runs until either the employer or the employee gives the required notice of termination. Is with the organisation continually without a specified end period
 - Allows an organisation to have a core workforce which is reliable
- Fixed term – This is a contract which stipulates a fixed and definite period that the contract will run for. Allows organisations to terminate an employees contract whenever a job is completed or the time scale is over without any legal issues
- Annualised – a specified number of hours per year are contracted to the employee/salary is paid monthly or weekly. Allows employers to have more flexibility in matching workflow to fluctuations in demand.
 - Reduces the need for overtime payments
- Seasonal – can be taken as either temporary or fixed term depending on how it is described

(6)

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

- Specialists can be used to do the work meaning the work should be of a high standard
- Could increase costs to provide the specialisation
- However it might reduce staff costs in the area that has been outsourced as the organisation does not need to pay employees continuously
- Outsourced companies will have specialist equipment again allowing for a high degree of specialisation and a better quality product.
- The service needs only to be paid for when required
- Organisations can concentrate on core activities
- Organisations can lose control over outsourced work
- Loss of confidentiality
- Cheaper/dearer to outsource the work

(5)

Can have both cheaper and dearer to outsource work if they are developed

(e) *Explain the advantages and disadvantages of using a wholesaler.*

Advantages

- Saves the manufacturer from making lots of smaller deliveries which saves them on transport costs
 - Administration costs
- Saves the manufacturer from having high stockholding costs as a lot of the stock is held by the wholesaler
- If there are changes in trends and fashions the manufacturer will not be left with unsold stock
- Wholesalers can help label and package the product for the manufacturer which is less time consuming/less work for the manufacturer.
- Retailers can buy from wholesalers in smaller amounts which can help increase overall sales of the manufacturers product

Disadvantages

- By using wholesalers manufacturers lose control over the image of their product which could mean the product not being presented the way the manufacturer would want
- Profits are lost to the wholesaler which could be kept by the manufacturer improving their financial position.

Any other appropriate advantage or disadvantage that is fully explained

(5)

Total 25 marks

Max 1 for financial stock holding cost

4. (a) Describe different forms of industrial action that an employee could take.

- 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 not 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

(5)

(b) *Describe the main features of the Equality Act 2010*

- The Equality Act 2010 simplifies the current discrimination laws and puts them all together in one piece of legislation
- The act makes it more difficult for disabled people to be unfairly screened out when applying for jobs, by restricting the circumstances in which employers can ask job applicants questions about disability or health.
- Any mention of the 9 protected characteristics
- Now includes workplace victimisation, harassment and bullying
- Makes pay secrecy clauses illegal
- Any mention about types of discrimination – 7 types

(3)

(c) *Describe the features of an effective stock control system.*

- Maximum stock level: The level of stock that should be held to minimise costs
 - involves examining storage space available and finance required for this level
- Minimum stock level: level that stock should not fall below
 - shortages could result and production could be halted if this is not accurate
- Re-order level: the level which stock should be re-ordered at, takes into account usage
 - and lead times, which is the time taken between the order being placed and the delivery of the stock
- Re-order quantity: the amount that is ordered to take the stock back up to maximum level once it is delivered.
- Accept an appropriate description of JIT system (no max)
- Stock rotation
- Computerised stock control
- Warehousing

(5)

Max 2 for diagram – 1 mark for axes and labels; 1 for shape

- (d) (i) *Compare the use of “time rate” with “piece rate” for paying employees.*
- With time rate workers are paid per hour but in piece rate they are paid for the amount of items they produce
 - Both time rate and piece rate are mainly used in manual jobs
 - Time rate is simple to calculate whereas piece rate is harder to calculate due to the amount per item calculation
 - Piece rate is an incentive to produce more items whereas time rate is an incentive to work longer hours
 - Both systems can sacrifice quality for output if workers work more hours or try to produce more products

(3)

- (d) (ii) *Describe other employee payment systems that could be used by an organisation*

Commission

- Is a reward for the amount of a product or service sold to customers
- Can be paid on top of a basic salary.
- Paid as a percentage of the product's sale value

Overtime.

- Normal hourly rate plus an increase for extra hours worked
- Can be paid at a higher rate
- Is an incentive to work more than the contracted hours

Bonus Rate

- Employees are paid a basic rate with a bonus on top for meeting agreed targets
- Is an incentive to produce more or work harder

Annualised Hours

- Employees are paid assuming a basic working week of 37.5 hours
- Employees receive the same amount each week/month
- May have to work longer some weeks/months or less in others depending on demand

Accept any other such as salary etc.
Watch repetition.

(4)

(e) *Explain the advantages and disadvantages of using a structured decision making model*

- By taking the time to gather information
 - No rash decisions are made
 - Decisions are based on gathered facts and not just opinions.
 - Alternative solutions are found
- By following the SWOT process ideas should be enhanced and more innovative ideas produced
- By building on the strengths and eliminating weaknesses the organisation should be in a more efficient/profitable position
- By following the process opportunities may be grasped which could have been missed
- By following the process threats are recognised and managers can be proactive in dealing with them
- It can be difficult to choose from many alternative solutions and the wrong or less effective one may be chosen
- By following the structured process ideas and initiative are stifled meaning creative opportunities may be lost
- It is time consuming to follow the process and this may cause delays in decision making
 - slower to respond to any changes in the market

(5)

Total 25 marks

5. (a) *Describe the main characteristics of a multi-national corporation.*

- Will involve operations in several different countries
- Has a distinct 'home' base country
- Has a global brand
- Can dominate markets across many countries
- Can have budgets that are larger than many individual countries
- Can greatly influence local economies
- Cultural variations

(4)

(b) *Describe the possible objectives of a private limited company.*

- Profit maximisation
- Sales maximisation
- Survival – to continue to be in business, especially important in a recession
- Provision of a service
- Growth – to have more outlets, staff and higher turnover
- Socially responsible – to have a good image in the eyes of consumers or local communities

(4)

(c) (i) *Describe the final accounts that would be produced by an organisation*

- Trading account – shows the gross profit over a period of time
 - Is the difference between the cost of goods sold and sales
- Profit and loss account – shows the net profit or loss over a specified period of time and takes into account all expenses
- Appropriation account – shows what has been done with the total funds available to a company. It shows the division of total funds between tax payments, investment, external loans, retention of cash balances and the distribution to shareholders
- Balance sheet – shows the value of a business at a specific date
 - Contains items such as fixed and current assets, liabilities and capital

(3)

(c) (ii) *Describe reasons why a competitor would make use of another organisation's final accounts.*

- To check to ensure they are making a similar percentage profit. GP% or NP%
- To look at costs eg expenses
- To see if they are ripe for a takeover
- To measure the other organisations market share
- To aid decision making.

Accept any other valid accounting or managerial reason for using a competitor's accounts

(2)

(d) (i) *Describe the 4 main stages of the product life cycle*

- Introduction – the product is launched onto the market. At this stage sales will be low and costs of advertising may be high
- Growth – customers awareness of the product increases and sales start to grow sharply
- Maturity – the product is commonplace in the market and sales are at the highest and constant.
- Decline – the product has many competitors and new products will be forcing sales to decline.

Accept development and saturation as stages

(4)

No marks for a diagram

(d) **(ii)** *Describe the effect of each stage on profits.*

- Introduction – Profits will still be low, if any at all
- Growth – Profits should start to rise at this stage
- Maturity – Profits should be steady at this stage although the industry profits as a whole will be shared between many competitors
- Decline – Profits will start to fall unless efficiency is improved in distribution and production.
 - May even be making a loss before the product is withdrawn altogether

Accept development and saturation as stages

(4)

(e) *Distinguish between:*

- *Quota sampling and random sampling.* (2)
- *Product led and market led organisations.* (2)

- Quota sampling is when an interviewer is left to find the people who fit certain categories whereas random sampling pre-selected individuals, these individuals must be interviewed.
- Random sampling is an expensive technique to carry out whereas quota sampling is less expensive as the interviewer can use their judgement to find people to interview
- Random sampling limits the amount of bias that can occur whereas interviewer bias can occur in quota sampling due to being able to choose who to interview
- Product led is when an organisation produces a product first and then tries to sell it to customers whereas a market led focuses on customer wants and produces a product to satisfy them
- Very little market research is carried out with product led but in market led there is a lot of market research carried out before production starts
- In product led the organisation focuses on product testing but in market led the organisation focuses on market testing (4)

Total 25 marks

[END OF SECTION TWO]

[END OF MARKING INSTRUCTIONS]