



2009 Business Management

Intermediate 2

Finalised Marking Instructions

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**2009 Business Management
Intermediate 2
Section 1 Solutions**

1. *Option 2 was chosen*

- (a) *Identify 3 methods of advertising that Tunnock's could use.* (3)
 (b) *For each of the methods you have identified, describe a different advantage and disadvantage.* (6)

Method of advertising	Advantage	Disadvantage
Television	<ul style="list-style-type: none"> • Adverts can be targeted at a large audience. • Products can be made appealing using catchy tunes, colour, movement, etc. 	<ul style="list-style-type: none"> • Can be expensive. • Many viewers change channels when adverts come on.
National Newspapers	<ul style="list-style-type: none"> • Wide audience can be reached. • Products can be aimed at certain segments of the market. • Readers can cut out and keep adverts. 	<ul style="list-style-type: none"> • No sound or movement can be shown. • Can be expensive way of advertising. • Adverts have to be big in size for people to really notice them. • People tend to throw newspaper inserts away so adverts often unread/read only certain sections
Magazines	<ul style="list-style-type: none"> • As magazines tend to use colour when advertising, this can have a high impact. • Can target a particular segment of the market. • People tend to keep magazines so adverts can be referred to later. 	<ul style="list-style-type: none"> • Can be an expensive way to advertise. • People tend to get annoyed with too many adverts in a magazine especially if a feature is interrupted by an advert and reader is referred to another page to finish reading special feature.
Internet	<ul style="list-style-type: none"> • Reaches world-wide audience. • Special sound effects can be used to make it appealing. 	<ul style="list-style-type: none"> • Many people get fed up with adverts popping up. • Can be expensive to have advert specially designed.

Credit all relevant answers.

No labels in (b) – take in order as given in (a)

Accept any method as cheaper (max 1) or expensive (max 1)

Do not accept direct flips – advantage in one becomes a disadvantage in the other

Promotion rather than advertising – 0 marks in (a), mark (b) marked consequentially – no repetition

2. A takeover is a method of growth. Describe the following methods of growth:

• horizontal integration	This is when firms producing the same type of product or offering the same type of service join together.
• vertical integration	Businesses at different stages of production in the same industry join together (eg an oil refinery and a petrol station).
• diversification (conglomerate integration)	Businesses operating in different markets eg airline and a supermarket chain.
• franchising	A business agreement that allows one business to use another business's name and sell the other business's products. It allows the franchiser (person who owns the business) to increase their market share and receive a percentage of the profits.

(4)

No labels – assume order as given in question

3. (a) Describe 2 of the following terms:

• delayering	When layers of management are removed from an organisation's structure. Changing from a tall structure to a flat structure.
• downsizing	Removing certain areas of the organisation by closing factories or departments.
• outsourcing	When work is passed to outside specialists.
• span of control	The number of people a manager or supervisor has working directly for them and is responsible for.

(2)

(b) *Describe 2 advantages and 2 disadvantages of organising a firm into functional departments.*

Advantages

- Staff with similar expertise can work together allowing specialisation.
- Organisation has a clear structure.
- Management can easily identify the departments that are performing well or not.

Disadvantages

- Staff can become bored doing the same thing all the time and production may suffer as a result.
- Rivalry can occur between departments if one department is allocated more money to spend than another.
- It may not give individuals the opportunity to use their individual talents and experience.

Credit all relevant answers.

(4)

Watch for communication points – need distinction between outwith the department (difficult) and within the department (good)

4. *Tunnock's experienced a few problems with the business. Identify 2 of these problems and explain why each of these was a concern to them.*

- **A fall in profits.**
 - This is a concern because they are losing money so might not be able to pay all their expenses.
- **Bad publicity due to errors on labels of its products.**
 - People may not buy their products because they may feel they are unsafe for consumption (ie loss of sales).
- **Stiff competition from other leading brands.**
 - Other brands may be better value for money. This will result in lower sales for Tunnock's.
- **Saudi Arabian ban on imported milk products.**
 - This will result in lower sales for Tunnock's.
- **Lower spending on advertising.**
 - Less competitive so lower sales.

Credit all relevant answers.

(4)

No penalty for repetition in explanation

5. *Distinguish between an operational decision and a strategic decision.*

	Strategic	Operational	
Time period	long	short (day-to-day)	1 mark
Nature	overall purpose and direction of organisation	routine	1 mark
Made by	directors/senior managers	all staff of any level	1 mark

Credit all other relevant answers.

Do not credit examples.

(2)

Not connected in answer – use letters to join the 2 distinction points for one mark

Section 2 Solutions

1. (a) Describe the 3 sectors of activity and give an example of an activity that takes place in each sector.

Primary Sector	Grow products or extract resources from the land eg mining, farming, forestry.
Secondary Sector	Manufacture products eg construction, car factories.
Tertiary Sector	Provide a service eg banking, railways, bus companies.

(6)

(b) (i) Describe 3 forms of industrial action.

- **Strike** – Employees refuse to enter work.
- **Go slow** – Employees work at a slower rate than normal.
- **Sit in** – Employees remain at the workplace but refuse to work.
- **Work to rule** – Employees only carry out tasks stated in their job description
- **Overtime ban** – Employees refuse to work overtime.
- **Lock out** – Management don't allow workers access to premises

Note – I/D not needed

(3)

If I/D given – must match description to gain mark

- (ii) *Explain the effects that industrial action has on both an organisation and its employees.*

Effects on organisation

- Reduced productivity. This means that less goods are being produced so organisation may not be able to keep up with demand.
- Unrest in the workplace. As employees are unhappy with their conditions they may not carry out their duties in a responsible manner. This may result in badly produced goods that have to be discarded causing management and employee disagreements.
- Loss of sales/profit/money as deadlines cannot be met. This means less profit for organisation.
- Permanent loss of customers as they may go elsewhere during strike and decide to stay with new supplier.

Effects on employees

- Can cause stress to employees due to the uncertainty of the situation so affecting morale.
- Employees will not be paid when on strike. This will be a worry for them as they have personal commitments to meet.
- Some may lose their jobs if organisation forced to cut costs or close down.

Max 3 marks per area (organisation or employees).

(4)

Explain – need 2 parts – show the effect AND explain what this means

- (c) *Describe batch production and give an example of a product that is likely to be produced in this way.*

Batch production is where a number of products are produced at the same time. Products may vary from one batch to another.

Examples: Bread, tins of soup, newspapers.

(3)

(d) *ICT is widely used by many organisations.*

(i) *Describe how the following software packages could be used in the management of stock.*

Word processing	Writing letters to suppliers requesting supplies of stock.
Database	Can be used to store names and addresses of suppliers, discounts etc.
Spreadsheet	Can calculate up-to-date balance when stock is received and issued. Payment of stock.

Credit all relevant answers.

(3)

Must relate to management of stock

(ii) *Describe 2 advantages and 2 disadvantages to an organisation of using the Internet.*

Advantages

- Can advertise world-wide.
- Sell to consumers online.
- Can check information about competitors.
- Can check information about new products on market.

Disadvantages

- Can result in overload of information as vast amounts can be researched.
- Staff may use it for personal matters in the organisation's time.
- Vulnerable to hacking.

(4)

(e) *Name 2 conditions of service contained in a Contract of Employment.*

- Hours of work
- Salary
- Holiday entitlement
- Period of notice required

Credit all relevant answers.

(2)

2. (a) Describe the following types of business organisation:

Sole trader A business owned/controlled by one person.

Partnership A business that has 2 or more partners who own/control the business.

(2)

Accept features as part of description

(b) A charity and public limited company differ in many ways. Explain these differences in relation to:

	Charity	Plc	
Objectives	Main objectives are to provide a service to the needy, to relieve poverty.	Main objectives to maximise profits, to expand, to dominate market and to have a strong image.	1 mark
Human resources	Staffed mainly by volunteers, (although there may be some paid workers who organise the charity).	Staffed by paid staff.	1 mark
Methods of raising finance*	Financed by donations from public, government, lottery grants and fund raising events.	Financed by selling shares to the public, bank loans and profits from previous years.	1 mark
Control	Controlled by a committee of elected volunteers.	Controlled by Board of Directors.	1 mark

(4)

Method of finance – must be different and one side must be unique to that type of organisation

Look at each item independently if used public sector they may get some of marks eg staffing

(c) *Suggest methods used by manufacturers to extend the life cycle of a product.*

- Reduce the price.
- Increase the price.
- Alter the packaging.
- Change the product (add different ingredients. (Max – 1 mark))
- Introduce a new variety.
- Find new uses for the product.
- Introduce special offers – (BOGOF. (Max – 1 mark))
- Offer the product in different places (eg online)
- Change name of product.
- Change methods of advertising (eg Internet, television, magazines, etc)

(6)

Suggestion must allude to a change/something different happening

(d) *Outline actions an organisation could take to address cash flow problems.*

- Encourage customers to pay overdue bills.
- Offer cash discounts (to encourage cash sales)
- (Increase sales) by special offers etc. (max – 1 mark)
- Sell any unnecessary fixed assets.
- Arrange credit terms with suppliers.
- Reduce expenses. (max – 1 mark)
- Reduce drawings.

(4)

Finance must be short term – eg selling shares long term

Accept increase price and decrease price as 2 separate points

(e) (i) *Define the term “just in time” production.*

- Just in time production involves keeping stock levels to a minimum.
- Stock arrives just in time to be used to produce goods.
- Goods are not produced unless the organisation has a firm order for them.

(1)

Not just production could relate to selling

(ii) *Outline 2 advantages and 2 disadvantages of “just in time” production.*

Advantages

- Money is not tied up in stock.
- Less space required to store stock.
- Reduces deterioration of stock.
- Close relationship with suppliers.

Disadvantages

- If supplies do not arrive on time, this can disrupt production.
- Can result in lost sales if supplies are late.
- Highly dependent on suppliers.
- May lose bulk-buying discounts.
- Wrong items/amounts (max 1)

(4)

(f) Describe the following methods of market research and give an example of each.

Desk research	Research carried out at a researcher's desk using secondary (second-hand) information. eg newspaper articles, government statistics, staff records, old surveys etc	(2)
Field research	Research carried out 'in the field' in order to obtain primary (first hand) information. eg questionnaires, telephone surveys, face to face interviews etc	(2)

If description is weak but eg is detailed enough to clarify the description, then 2 marks may be awarded

3. (a) *Organisations present and receive information in a number of ways. Describe a different advantage for each of the following types of information:*

<ul style="list-style-type: none">• oral	<ul style="list-style-type: none">• Good for discussing and clarification.• Immediate response possible.
<ul style="list-style-type: none">• pictorial	<ul style="list-style-type: none">• Can be easily remembered.• Can make information more attractive.• Can highlight important points.
<ul style="list-style-type: none">• graphical	<ul style="list-style-type: none">• Information can be displayed clearly.• Can emphasise points.• Can see comparisons (eg between monthly sales, etc).
<ul style="list-style-type: none">• numerical	<ul style="list-style-type: none">• Good for making financial predictions.• Good for performing calculations.• Good for analysing its financial performance.
<ul style="list-style-type: none">• written	<ul style="list-style-type: none">• Good for passing on information.• Information can be kept and used at a later date.

(5)

Watch for “easy” – needs to be quantified – “easier than ...” “easy to.....”

(c) Identify and describe 3 types of training used to train staff.

Induction training	<ul style="list-style-type: none">• Given to new employees.• This usually covers background information about the organisation, meeting colleagues, health and safety, departmental procedures and an introduction to the job.
On the job training	<ul style="list-style-type: none">• Takes place within the workplace.• Output still produced.
Off the job training	<ul style="list-style-type: none">• Takes place outside the workplace, eg at a training centre, college or university.• No output produced.

(6)

In-house/outhouse – accept as I/D but watch description

I (i) *Explain how each of the following departments may assist the Operations department.*

Marketing By creating a suitable image for the product, eg attractive packaging – because this may ensure steady production.

Finance Ensuring sufficient allocation of money is available to purchase materials and cover labour costs for production of goods – because shortage of money may result in purchasing inferior materials to make goods (or unhappy staff if not paid on time).

Human Resources Ensuring suitably qualified workers are employed to perform tasks involved in the production of goods – because inexperienced staff may result in poor quality goods being produced.

Credit all relevant answers.

(3)

(d) Describe each of the following:

Maximum (economic) stock level	The highest level of stock which should be held for the organisation to minimise costs.
Minimum stock level	The level that stock should not fall below.
Re-order level	The level at which new stock should be ordered.
Re-order quantity	The amount of stock needed to bring the level up to the maximum stock level.

(4)

Avoids overstocking (max)/understocking (min)

Accept 'drops below' for reorder level

- (e) Describe the advantages and disadvantages **to an organisation** of changing from a tall structure to a flat structure. Use diagrams to support your answer.

Diagrams – One mark only for diagrams which clearly show a flat structure as having **less layers** than a tall structure.

Advantages

- Information can be communicated to departments easily.
- Decisions can be reached quicker.
- Staff are better motivated.
- Less rivalry between departments.
- Organisation can respond to changes in the market quicker.

Disadvantages

- Less staff may increase the workload of remaining staff.
- Tasks may be delegated to staff who cannot carry out effectively the tasks allocated to them.
- Managers may have problems controlling their staff as they now have a bigger span of control.

Credit all relevant answers.

Note – only 6 marks for advantages and disadvantages; max 4 marks per area (advantage/disadvantage).

(7)

Less staff – must say why this is an advantage

4. (a) (i) Define the following Balance Sheet terms and give an example of each.

	Definition	Example
Fixed Assets	Items that a business owns and will keep for more than 1 year/long term.	premises, equipment
Current Assets	Items that a business owns and will keep for less than 1 year/short term.	debtors, cash/ bank, stock
Liabilities	Items that a business owes.	creditors

(6)

(ii) *Outline 3 ways an organisation would use accounting ratios.*

Ratios are used to:

- compare current performance with that of previous years
- compare performance with that of similar organisations
- identify differences in performance to help decide on future action
- highlight trends over a period of time.

(3)

Calculating profitability/liquidity/efficiency – 1 mark max

Any expansion on each term – may gain a mark each

(b) *Describe how shareholders could influence a supermarket.*

- Vote to replace directors.
- Vote to accept a takeover bid.
- Vote for higher dividends.
- Sell shares.
- Buy more shares.

(2)

(c) *Job vacancies are often filled using internal recruitment.*

(i) *Define the term internal recruitment.*

This is when jobs are advertised within an organisation through staff newsletters, notices, email, etc.

Credit all relevant answers.

(1)

(ii) *Explain 2 advantages and 2 disadvantages of this method of recruitment.*

Advantages

- Vacancy can be filled quickly because staff already within organisation as no need for notice to be given.
- Employees will feel their hard work is being noticed and rewarded which can improve morale within organisation.
- Less likely to appoint wrong person because employer knows applicants.
- Can save on induction training costs because employees already familiar with organisation.

Disadvantages

- Applicants are drawn from a limited pool of potential candidates whereas outside applicants may have more experience that could benefit the organisation.
- If vacancy filled from within then another vacancy has to be filled so further costs.
- May cause jealousy within organisation if there are a number of internal applicants and one gets the position. This may mean the other applicants may decide to apply for outside positions because they are unhappy and disappointed.

(4)

(iii) Describe the following human resource terms:

- **Works Council** – A group consisting of both employees and management who meet to discuss suggestions on any changes within the workplace.
- **Aptitude Test** – Tests that assess the abilities of candidates and their suitability for job vacancies.
- **Appraisal** – This is a review of an employee's performance over a period of time.
 - Special skills of employee may be identified.
 - Training needs may also be identified.
- **Person Specification** – A description of the type of person suitable for the post, eg qualifications, experience and personal qualities candidate should possess.

(4)

(d) *Distinguish between market-led organisations and product-led organisations.*

- Market-led organisations put the needs of customers at the centre of their decision-making process and are therefore more likely to produce goods that customers want. They will carry out market research in order to do this.
- Product-led organisations manufacture a product and then try to persuade customers to buy it. They do not conduct market research before producing the product.

(1)

(e) *Many organisations segment their market by age. Name 4 other ways of segmenting markets.*

- Socio-economic group A, B, C1, C2, D and E
- Religion
- Occupation
- Gender
- Geographical location
- Income

Credit all relevant answers.

(4)

5 (a) Describe the following quality measures used by organisations.

- **Benchmarking** – A process that uses the best performers in a particular industry to set standards for other firms to meet.
- **Quality Control** – Products checked at beginning/end of the production process.
 - Unsatisfactory products discarded.
- **Quality Circles** – A small group of workers who meet at regular intervals to discuss how improvements can be made.

(3)

(b) Describe 4 stages in a product's life cycle.

- | | |
|----------------------|---|
| Development | <ul style="list-style-type: none">• A product is planned, designed and tested before being introduced to the market. |
| Introduction | <ul style="list-style-type: none">• The product is introduced to the market. |
| Growth | <ul style="list-style-type: none">• Sales of product increase as consumers become aware of it. |
| Maturity | <ul style="list-style-type: none">• Product is well known in the market and growth begins to slow down.• Competition increases and the price of product falls. |
| Saturation | <ul style="list-style-type: none">• Competition becomes fierce and price falls significantly.• Sales level off. |
| Decline Stage | <ul style="list-style-type: none">• Sales and profits start to fall as new and more advanced products enter the market. |

(4)

If labels given – description must match label to gain mark

No ID marks

(c) *The environment in which organisations operate is constantly changing.*

(i) *Identify 4 external factors that may cause change.*

- Political
- Economic
- Social
- Technological
- Environmental
- Competitive.

Credit examples of external factors even if not identified as one of the above (no limit – even if from same factor eg laws, taxes, availability of grants would all gain a mark).

If a mixture of PESTEC labels and examples given eg Political, Laws, Taxes, Social – award 3 marks – 2 marks for the examples of political, one mark for the label of social.

(4)

(ii) Explain an effect each factor identified in (i) might have on the organisation.

Political	Change in law – because this would mean that organisation would have to comply with any new laws that affect their products/services. This may result in extra cost if premises have to be upgraded.
Economic	If interest rate is increased, the cost of borrowing will increase – resulting in increased expenditure for organisations. If there is a recession then unemployment increases. People have less money to spend so organisation’s sales will decrease.
Social	Changes in peoples’ tastes mean that organisation has to be aware of this and produce products to suit changes in tastes, lifestyles, etc because if they do not adapt to changes customers may go elsewhere.
Technological	New inventions or processes making it more difficult to compete or giving a competitive edge if adopted or causing funding problems.
Environmental	Storms, floods, pollution etc. Storms or floods may mean that an organisation may have to close due to damage caused. This will result in decrease in sales because no goods being sold while premises closed. Also organisation may have to refurbish which would result in unexpected expenditure.
Competitive	Competition from businesses offering similar products may mean that organisation may have to lower prices because if they do not lower their prices they may lose customers to competitors.

(4)

If PESTEC labels given in (ci) – need 2 parts – example of PESTEC factor AND an explanation of its effect

If an example of a PESTEC factor already given in (ci) – need only give an explanation of its effect

If they discuss a factor not identified in part (i) then no marks

(d) Outline how each of the following might use an organisation's financial information.

• Management	Interested in organisation's performance as they want it to make a profit so that their overall management of it looks good. Allows them to identify where costs/expenses have increased so they can take measures to remedy this.
• Owners	Interested in the liquidity of an organisation as it allows them to decide whether or not to expand.
• Creditors	Interested in the profitability of an organisation so that they will receive payment for goods they have supplied and also further orders.
• Employees	Interested in liquidity of an organisation to ensure their jobs are secure and they receive payment of any wage increases they are entitled to.
• Citizens	If an organisation closes down it affects many people in the community; those who were employed there will now be unemployed and customers of the organisation may have to travel further afield to purchase certain goods. Accept examples that show customer use eg choice of place to shop

Credit all relevant answers.

(5)

No repetition

Use must match the stakeholder

(e) *Managers have many roles in an organisation. Outline 5 of these roles.*

Planning	Setting a plan of action for the future.
Organising	Collecting and arranging resources to meet plans.
Commanding	Ensuring duties are done properly by informing staff what they have to do.
Co-ordinating	Organising staff and resources to achieve the plan.
Controlling	Making sure that everything works according to plan.
Delegation	Passing responsibility of tasks to a subordinate
Decision Making	Making different kinds of decisions.
Motivating	Encouraging staff.

Credit all relevant answers.

(5)

Reporting to line manager (max 1)

Dealing with staff needs eg appraisal (max 1)

Max 3 for list (POCCC DM)

[END OF MARKING INSTRUCTIONS]