



2012 Business Management

Intermediate 2

Finalised Marking Instructions

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**2012 Business Management
Intermediate 2
Section 1 Solutions**

1. *Option 3 is to close the business now.*

Identify 3 different stakeholders and describe the effect Option 3 would have on each of them.

Owners/Shareholders

- May lose their investment.
- May lose dividends.

Employees

- Will be made redundant.
- May find it difficult to find a new job.

Managers

- May find it difficult to find a new job.
- Loss of status.
- Loss of perks/benefits.

Customers

- Will have to find another organisation to give them the same service.
- May have to look further afield.

Suppliers

- Will lose out on a customer.
- May suffer financial difficulty with loss of orders.

Lenders

- May not get their money back.

Government

- May need to pay out more on benefits.
- May need to set up advice and counselling services to help workers who have been made redundant.
- Loss of tax revenue.

1 mark for identifying stakeholders (max 3)

1 mark for description of the effect (max 3)

(6)

If both managers and employees given – effect on managers must be managerial

Allow consequentiality

2. *The administrators will have analysed the accounts of Realtime Worlds.*

Describe 3 ratios that the administrators could use to analyse an organisation's accounts.

Gross Profit Ratio

- $\text{Gross Profit/Sales} \times 100$.
- The amount of gross profit made from every £ of sales.
- The percentage of profit made (before expenses are deducted) on sales.

Net Profit Ratio

- $\text{Net Profit/Sales} \times 100$.
- The amount of net profit made from every £ of sales.
- The percentage of real profit made (after expenses are deducted) on sales.

Mark-up Ratio

- $\text{Gross Profit/Cost of Goods Sold} \times 100$.
- The percentage of profit to be added to cost price to find selling price.

Return on Capital Employed

- $\text{Net Profit/Capital at Start} \times 100$.
- The percentage profit earned on the capital investment in the organisation.

Acid Test Ratio

- $\text{Current Assets} - \text{Stock} : \text{Current Liabilities}$.
- The ability of an organisation to pay off its short term debts in a crisis.
- Ideal 1:1.

Current Ratio

- $\text{Current Assets} : \text{Current Liabilities}$.
- The ability of an organisation to pay off its short term debts.
- Ideal 2:1.

Rate of Stock Turnover

- $\text{Cost of Goods Sold} : \text{Average Stock}$.
- The number of items an organisation buys in new stock in a year.

1 mark per described point

(3)

If both acid test and current ratio given – must be different to get both marks (eg acid test in a crisis)

3. *Dave Jones franchised his games to many different game producers.*

Explain the advantages and disadvantages of franchising.

Advantages

- More branches are opening all over the world therefore increased market share.
- Guaranteed income as the franchiser will receive a percentage share of the turnover taken by the franchisee.
- Shared risk as the franchiser will not be investing their money only their name and reputation.
- Whole brand benefits from collective ideas therefore if an individual franchise comes up with a new idea and it is agreed upon, it will be rolled out over all the branches.

Disadvantages

- Only receive a share of profits because the franchisee takes their share too.
- Reputation of whole franchise is dependent on individual franchisees therefore the whole organisation can be damaged by the problems of one branch.

1 mark per explained advantage or disadvantage

Max 4 for any section

(5)

4. *Realtime Worlds stores information electronically.*

(a) *Identify 2 pieces of legislation that cover information stored electronically.*

Data Protection Act 1998

Freedom of Information Act 2002

Computer Misuse Act 1990

Copyright, Designs and Patents Act 1988

Privacy and Electronic Communications Regulations 2011

1 mark for naming act – max 2

No need for date but name must be correct

(2)

Accept Copyright Act or Designs and Patents Act or Patents Act

Accept Privacy Act

Official Secrets Act

No dates required

(b) Describe features of each piece of legislation identified in 4(a).

Data Protection Act

- Information must be obtained fairly and lawfully.
- Information must be adequate and relevant.
- Information must be accurate and up-to date.
- Information must be kept secure.
- Information must not be disclosed to others.

Freedom of Information Act

- Covers information held by public organisations.
- Individuals must be told if the public organisation holds information.
- Organisation must disclose information held within a specific time period.

Computer Misuse Act

- Organisations must protect information from unauthorised access.
- Organisations must protect information being taken and used to commit an offence.
- Organisations must protect information from being modified without consent.

Copyright, Designs and Patents Act

- Gives their creators control on how their media is used and distributed
- Covers music, books, videos and software
- Need a license to copy/Authorised to use it

Privacy and Electronic Communications Regulations

- Covers using stored information for marketing purposes
- Tracking cookies on websites
- Cannot use information for unsolicited marketing
- Information must be kept secure
- Must have permission to use information

1 mark per described feature

Max 3 per act

(4)

5. *When setting a price for a new game, Realtime Worlds could use a variety of methods.*

Compare 2 pricing methods an organisation could use.

Destroyer Pricing and Price Skimming

- Destroyer pricing initially set very low whereas price skimming set the price initially very high.
- Destroyer pricing is used to eliminate competitors from the market whereas price skimming is used in a market where there is very little competition.
- Prices will rise once competition is eliminated with destroyer pricing whereas in price skimming the price is lowered once competitors enter the market.

Penetration Pricing and Price Skimming

- Penetration pricing initially set the price low whereas price skimming set the price initially very high.
- Penetration pricing is used when trying to enter a very competitive market whereas price skimming is used in a market where there is very little competition.
- In penetration pricing prices will rise once brand loyalty has been established whereas in price skimming the price is lowered once competitors enter the market.

Cost-plus Pricing and Competitive Pricing

- Cost-plus pricing is the most commonly used method of pricing whereas competitive pricing is used by industries who wish to keep prices the same rather than start price wars.
- Cost-plus pricing adds up the cost of making a product and then adds on a percentage for profit whereas in competitive pricing prices are set in line with competitors.

Penetration Pricing and Destroyer Pricing

- Penetration pricing initially sets the price low whereas destroyer pricing sets the price initially very low/artificially low.
- Penetration pricing is used when trying to enter a very competitive market whereas destroyer pricing is used to eliminate competition.
- Both pricing methods rise their prices once they have achieved their aim.

**1 mark per compared point – both sides needed to get one mark
Accept any combination of methods**

(2)

6. *Describe the roles of Trade Unions in a workplace.*

- Represents employees with regard to pay negotiations.
- Represents employees with regard to working conditions.
- Represents employees with regards to other work-related issues eg dismissal, grievance etc.
- Undertake collective bargaining on behalf of employees.
- Have a more powerful negotiating position.
- Give legal advice to employees.
- Organise industrial action.
- Consult on redundancy.
- Consult with ACAS.

1 mark per described role

(3)

1 max for working conditions

[END OF SECTION ONE]

Section 2 Solutions

1. (a) (i) Describe the term flexi time.

- Workers choose their start and finish times at work/choosing working hours.
- All workers must be in work at set times during the day called core times.
- Can work +/- hours.

1 mark per description point

(2)

(ii) Explain the advantages and disadvantages of flexi time.

Advantages

- Improves absenteeism as workers can fit their personal arrangements around their work times.
- Improves staff turnover as workers will be happier to stay with an employer who allows more flexible forms of working.
- Improves productivity as workers will be working at times that suit them therefore be more efficient in that time.
- Improves motivation as workers will feel more trusted by their employers.

Disadvantages

- Higher customer complaints due to lack of consistency with members of staff being at work at set times.
- Higher overhead costs as the organisation needs to be open longer to accommodate the early/late start/finish times.

1 mark per explained advantage or disadvantage – max 3 per section

(4)

Can be from employee or employer point of view

(b) Describe methods that can be used to sell goods directly to customers.

Personal Selling

- Selling a product door-to-door.
- By telephone to encourage people to buy their products.
- Allows products to be demonstrated.
- Benefits and technical details can be explained.
- Feedback can be received from potential customers.

Mail Order

- Goods sold to customers through catalogues.
- Allows the convenience of shopping from home.
- Often credit facilities are available.
- Some products may be exclusive.
- Does however lack the personal contact gained from a retail outlet.
- Delivery charges can be high.
- High levels of bad debt can occur.

Direct Mail

- Promotional letters, brochures or leaflets sent directly to homes.
- Targets specific market segments.
- Can reach customers in a wide geographical area.
- Many customers view this as junk mail.

Newspapers/magazines

- Companies place adverts in these showing their products.
- Customers respond by filling in coupons or by telephone.

Shopping Channels on TV

- TV programmes dedicated to selling goods to consumers.
- Consumers telephone to place a bid for the items shown.
- Can reach a wide audience.

Internet Selling

- Selling the product through a company website.
- Allows organisations to reach a global market.
- Customer information is easily gathered so that offers and promotions can be targeted to them.
- Save the customer time and hassle of shopping.

Mobile Phone Apps

Minimum of 2 methods required

Max 3 per method

Watch for repetition of features

(4)

(c) Identify **3** causes of cash flow problems.

- Poor sales.
- Too much money tied up in stock.
- Allowing customers too much credit.
- Allowing customers too long to pay.
- Borrowing too much money at high interest rates.
- Owners taking too much drawings.
- Purchase of large items outright.
- Expenses too high.

1 mark per identified cause

(3)

(d) (i) *Distinguish between a takeover and a merger.*

- In a takeover, one firm takes control of another whereas in a merger, two firms share control of the new organisation.
- A takeover can be either friendly or hostile whereas a merger must be friendly

1 mark per distinguished point – both sides needed to get one mark (2)

(ii) *Identify and describe 3 other methods of integration.*

Horizontal Integration

- When two firms on the same stage of production join together.

Vertical Integration

- When two firm at different stages of production join together.

Backwards Vertical Integration

- When one firm joins with another at an earlier stage of production.

Forwards Vertical Integration

- When one firm joins with another at a later stage of production.

Conglomerate Integration

- Firm in completely different markets join together.

Lateral

- When two firms in similar industries join together.

1 mark for identifying type of integration – max 3

1 mark for correct description – max 3

Accept Vertical and either Forward or Backwards – not all 3 (6)

Award description mark if a clear example is given

- (e) (i) Describe **one** line relationship and **one** lateral relationship that may exist in the workplace.

Line

- Relationship between a manager and their subordinates.
- A vertical relationship – one showing authority over subordinates.
- Accept an example.

Lateral

- Relationship between staff of the same level in the organisation.
- A horizontal relationship between equals.
- Accept an example.

1 mark per correct description

(2)

- (ii) Outline the advantages of outsourcing for an organisation.

- Organisation can concentrate on core activity.
- Organisation does not have the expense of buying the specialist equipment.
- Organisation does not need to train the staff in this area.
- Specialists do the work.

1 mark per advantage

(2)

2. (a) Describe the costs and benefits to an organisation of using ICT.

Costs

- Cost of purchasing equipment (installing) – max 1.
- Financial cost of training staff to use the equipment.
- Work time lost when ICT is being installed and staff trained – max 1.
- May lead to redundancy – demotivating staff.
- ICT will constantly need upgraded/maintain therefore higher costs.

Benefits

- Computer controlled machinery can make production faster.
- Can also give a standardised quality to goods.
- Information can be stored and accessed more efficiently.
- Quality of information available increases eg Internet.
- Communication is almost instant even over long distances.

1 mark per described cost or benefit – max 3 per section

(4)

Accept quicker than writing by hand

(b) (i) *Identify 3 different types of industrial action that an employee could take.*

- Strike.
- Go Slow.
- Work to Rule.
- Overtime Ban.
- Sit In.
- Peaceful protest/Rally.
- Boycott.
- Petition.

1 mark per correct identification

(3)

Accept a description for an ID

(ii) *Explain the impact of industrial action on an organisation and its employees.*

Organisation

- Can reduce productivity which means that the organisation will be unable to keep up with customer orders.
- Customers may decide to take their business elsewhere due to them being unable to get their supplies when they need them.
- Unrest in the workplace will mean that goods may be made to a poorer standard causing a lot of waste.
- Loss of sales due to lack of stock and customers.

Employees

- Uncertainty in the workplace can cause stress to the employee.
- Employees will lose out on money which may make it difficult for them to cope financially.
- If organisation decides to close then workers may eventually be unemployed.

1 mark per explained impact – max 2 per section

(3)

(c) (i) *Define the term just-in-time production.*

- Stock arrives just in time to be used in the production process.
- Finished just in time to be sold

1 mark per correct definition

(1)

(ii) *Describe the advantages and disadvantages to an organisation of using just-in-time.*

Advantages

- Money is not tied up in stock.
- Less space is required – 1 max for any stock holding advantage
- Less wastage of stock.
- Close working relationship with suppliers.

Disadvantages

- Close working relationship with suppliers (need a clear distinction from the advantage)
- If suppliers do not arrive on time then production may stop or be disrupted.
- If suppliers are late then may lead to cancelled orders and loss or sales.
- Could miss out on bulk-buying discounts.

1 mark per advantage and disadvantage – max 3 per section

(4)

(d) *Identify and describe 2 methods of field research.*

Personal Interview

- Face to face interview in the street or home.
- Respondent encouraged to answer.
- Misunderstandings dealt with immediately.

Postal Survey

- Series of questions posted to consumers.
- Inexpensive method of field research.

Telephone survey

- Consumer telephoned at home and asked questions.
- Response is immediate.
- Large numbers surveyed quickly.

Hall Test

- Consumers look at/try product and give feedback.
- Used often in supermarket when trialling new products.

Focus Groups

- Selected groups of people gather to discuss a product.
- People's actual opinions/feelings are gathered.

1 mark per method (max 2)

1 mark per description (max 2)

(4)

No mark for questionnaire or survey on its own

Can get description mark if not given already for another method

(e) Describe ways each of the following departments may assist the Operations department.

- *Marketing*
- *Human Resources*
- *Finance*

Marketing

- Research to find out what products are popular.
- Develop the products the operations department will make.
- Create a suitable image for the product eg packaging.
- Make decision on where to distribute the product.

Human Resources

- Recruit suitably skilled staff to work in the operations department.
- Organise training for operations staff.
- Deal with work-related issues from the operations department.

Finance

- Ensure finance is available to make the products.
- Create a departmental budget for the operations department.
- Pay the operations department's staff.

1 mark per described point – max 2 per department

(6)

3. (a) *Identify and describe 3 different stock levels that could be set.*

Maximum Stock Level

- The highest amount of stock that the organisation should hold.
- The maximum amount of stock that should be held.

Minimum Stock Level

- The lowest amount of stock that the organisation should hold.
- The minimum amount of stock that should be held.

Re-order Level

- The level at which stock should be re-ordered.

Re-order Quantity

- The amount of stock that is required to bring the stock level back to its maximum.

1 mark for identifying a level – max 3

1 mark per description – max 3

(6)

(b) (i) *Define the term market share.*

- The number of consumers the organisation attracts as a percentage of the whole market.

1 mark for definition

(1)

(ii) *Suggest 3 ways an organisation could segment its market.*

- By age.
- By gender.
- By level of income.
- By social class.
- By religion.
- By occupation.
- By geographical location.

1 mark per segment

(3)

(c) *Compare the features of a sole trader with a public sector organisation.*

- Sole trader is owned by a single person whereas a public sector organisation is owned by the government.
- Sole trader is controlled by the owner whereas a public sector organisation is controlled by elected councillors/government departments.
- Sole trader is financed from personal savings etc whereas a public sector organisation is financed from public taxes.
- Sole trader's aim is to make a profit whereas a public sector organisation aims to provide a public service.

1 mark per compared point – both sides needed to get one mark

(3)

- (d) (i) *Explain the advantages and disadvantages, for an organisation, of recruiting internally.*

Advantages

- Gives existing employees the opportunity to develop their careers which raises their morale and motivation.
- Induction training is reduced as employees are familiar with the business.
- Vacancies are filled quickly as no notice needs to be given.
- Employees' strengths and weaknesses are known therefore the organisation knows what they are getting.

Disadvantages

- Organisation may miss out on quality applicants as they are excluded from applying.
- Creates another vacancy in the job the person left which can lead to higher costs.
- Limits the ideas brought into the organisation therefore opportunities could be missed out on.
- May cause jealousy and rivalry within the organisation if others are overlooked for the position – can be demotivating.

1 mark per explained advantage and disadvantage – max 2 per section (3)

- (ii) *Describe 2 benefits of formal appraisal.*

- Can identify areas of strength in an employee.
- Can identify areas that an employee needs training in.
- Can motivate staff.
- Can help build better working relationships between workers and management.
- Can help pinpoint employees who are suitable for promotion.

1 mark per described benefit (2)

(e) (i) *Define the following accounting terms.*

- *Net Profit*
- *Liquidity*
- *Dividend*

Net Profit

- The final profit made after all expenses have been deducted.

Liquidity

- The ability of an organisation to pay off its debts.

Dividend

- The share of profit given to shareholders at the end of the year.

1 mark per definition

(3)

(ii) *Describe the limitations of using ratios to analyse accounts.*

- Information is historical.
- Comparisons can only be made between organisations of like size, same industry etc.
- Findings do not take into account staff morale or turnover.
- Findings do not show which stage of the product life cycle a product is at.
- Findings do not take into account external factors.
- May not be completely accurate.

1 mark per limitation

(4)

4. (a) *Many employees are paid by time rate.*

Identify and describe 3 other employee payment systems.

Flat Rate/Annualised [Salary]

- Employees are paid a fixed salary per year.
- Salary is divided into 12 equal monthly payments.

Piece Rate

- Workers are paid for the number of items they produce.

Overtime

- Payment for working extra hours above their set working week.
- Normal hourly rate may be increased for any extra hours worked.

Bonus Rate

- Worker being paid extra when they reach a target eg productivity, time-keeping etc.
- Often paid at key times eg Christmas if the organisation is making a profit.

Commission

- Sales personnel earn a percentage of the products' sales value.
- Can be the sole method of paying workers or on top of a basic wage/ salary.

1 mark per identified method of paying – max 3

1 mark per description point – max 3

(6)

(b) (i) *Distinguish between operational and tactical decisions.*

- Operational decisions are short-term decisions whereas tactical decisions are medium-term decisions.
- Operational decisions are made by all staff whereas tactical decisions are made by junior or middle managers.
- Operational decisions are day-to-day decisions whereas tactical decisions are based on how an organisation achieves its strategic decisions.

1 mark per distinguished point – both sides needed to get mark (2)

(ii) *Give an example of each.*

Operational

- Change to a staff rota at short notice.

Tactical

- To recruit new staff for a new branch opening.

1 mark per appropriate example (2)

Accept consequentiality between (i) and (ii)

(c) (i) *A common channel of distribution is by using a retailer.*

Outline the role of the retailer.

- Local outlet for a business's products where consumers can buy actual goods and services
- Offer a variety of goods and services from different producers
- Store the goods in their premises – incurring the costs
- Prepare and display the goods for sale
- Advertise the goods to consumers
- Offer consumers credit facilities, guarantees, after sales service and delivery services
- Set final prices for sale to consumers

1 mark per outlined role

(3)

(ii) *Describe 4 ways of extending the life of a product.*

- Change the price by either reducing or increasing it.
- Alter the packing eg shape, size.
- Change the product eg new ingredients, new attachments.
- Introduce a new variety.
- Find a new use for the product eg Lucozade as a sports drink.
- Introduce special offers eg BOGOF, 3 for 2.
- Offer the product in different place eg online.
- Change the name of the product.
- Change methods of advertising eg Internet, TV.

1 mark per described strategy

(4)

(d) (i) *Define quantitative and qualitative information.*

Quantitative

- Is expressed in numbers.
- Can be measured.
- Can be used to make forecasts.

Qualitative

- Is expressed in words.
- Is descriptive.
- Can be used to make judgements.

1 mark per described term

(2)

(ii) *Give an example of each.*

Quantitative

- Sales down by 5%.
- Average house price is £180,000.
- 10 people voted yes.

Qualitative

- I like the bright red car best.
- The garden had a beautiful floral display.
- The man wore a blue shirt and black trousers.

1 mark per appropriate example

(2)

Accept consequentiality

DNA "information from questionnaires/surveys" unless it is clear the type

(e) *Explain the benefits of growth to an organisation.*

- Increased market share because as the business grows then they will attract more customers.
- Greater brand loyalty because as an organisation grows they will become more recognised world wide.
- Become less of a risk of takeover as they are too large to be easily taken over.
- More control over their supplies as they may have taken over their suppliers guaranteeing them stock.
- Can benefit from economies of scale because as they grow they will be in better position to buy in bulk.
- More control over the distribution of their products as they may have taken over a retailer given them direct access to customers.
- Banks will see them as a better risk as they are bigger they will be more financially secure.

1 mark per explained benefit

(4)

5. (a) (i) *Identify 4 different types of ICT that could be used by a Human Resources department.*

- Video Conferencing
- Internet/E-commerce
- Intranet
- Email
- Ediary
- Networks
- Word Processor/MS Word
- Database/MS Access
- Presentation Packages
- Mobile/Smart Phone Apps

1 mark per type of ICT

(4)

Accept any hardware or software

(ii) Describe ways that the Human Resources department could use each type of ICT identified in 5a(i).

(A different use must be given for each type).

Video Conferencing

- To carry out training across branches in different areas.

Internet

- To place job adverts online.

Intranet

- To put dates of training meetings on to give to staff.

Email

- To notify staff when their annual appraisal is taking place.

Ediary

- To arrange a meeting between department managers regarding Health and Safety.

Networks

- To place the organisation staff absence policies into a shared area for all to use.

Word Processor

- To key in job adverts.
- To key in letters of interview to candidates for a job.

Database

- To store staff details.

Presentation Packages

- To create a presentation to staff on the new staff development programme.

1 mark per described use – must relate to Human Resources to gain mark (4)

(b) *Parts of the role of management are to delegate and to motivate their workers.*

(i) *Define the terms delegation and motivation.*

Delegation

- To give subordinates the authority to carry out tasks.

Motivation

- To get workers to work harder.
- To get workers to want to achieve a common goal.

1 mark per description

(2)

(ii) *Describe 2 decision making techniques.*

- Use SWOT analysis to identify the strengths, weaknesses, opportunities and threats of a decision.
- Brainstorm ideas to come up with a range of ideas that can be discussed.
- Use a structured decision making model to give a structured approach to decision making.
- Use PEST analysis to identify the external factors that can affect the decision.
- Gather quality information in order to make the best decision possible.
- Devise a range of possible solutions and then look at the pros and cons of each.

1 mark per described technique

(2)

Accept any stage in the decision making model

(c) (i) *Describe internal factors that affect an organisation.*

- Lack of new technology to manufacture products more efficiently.
- Lack of finance to enhance the business.
- Staff being resistant to change.
- Staff may need more training in order to be more effective.
- Lack of experience in manager in order to carry out the decisions made.
- Lack of staff.

1 mark per described internal pressure

(3)

(ii) *Explain the advantages to an organisation of delayering.*

- Faster communication due to fewer layers for the information to go through.
- Quicker decision making due to fewer managers to consult.
- Fewer management levels which will save costs on salaries.
- Organisation can respond quicker to change due to faster communication and decision making.
- Managers have more subordinates to delegate work to which will prepare subordinates for promotion.

1 mark per explained advantage

(4)

- (d) *Identify and describe 3 documents that could be used by the Human Resources department in the recruitment and selection of an employee.*

Job Description

- A description of the job including its title, tasks, duties and responsibilities.

Person Specification

- A description of the type of person that would be suitable for the job.
- Describes the qualifications, qualities and skills the ideal candidate should have.

CV

- A form the candidate generates with their personal details, work history and a personal statement regarding their suitability for the job.

Application Form

- Also contains personal details but may have specific questions the organisation may wish to ask.

Job Adverts

- Details about a job which allows a potential candidate to look at and apply for the job.
- Adverts can be placed in newspapers, job centres etc.

Reference

- Given by someone who knows the applicant eg previous employer.
- Comments on their skills, qualities, suitability etc.

Skillscan

- A list of the skills a candidate identifies from criteria/questions which can then be used to match against the person specification.

1 mark per document – max 3

1 mark per description point – max 3

(6)

Accept – Contract of Employment/Certificates of qualifications

[END OF MARKING INSTRUCTIONS]