

Markscheme

May 2022

Business management

Higher level

Paper 2

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The markbands and assessment criteria on page 3 should be used where indicated in the markscheme.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"> • Little understanding of the demands of the question. • Few business management tools (where applicable), techniques and theories are explained or applied, and business management terminology is lacking. • Little reference to the stimulus material.
3–4	<ul style="list-style-type: none"> • Some understanding of the demands of the question. • Some relevant business management tools (where applicable), techniques and theories are explained or applied, and some appropriate terminology is used. • Some reference to the stimulus material but often not going beyond the name of a person(s) and/or the name of the organization.
5–6	<ul style="list-style-type: none"> • Understanding of most of the demands of the question. • Relevant business management tools (where applicable), techniques and theories are explained and applied, and appropriate terminology is used most of the time. • Some reference to the stimulus material that goes beyond the name of a person(s) and/or the name of the organization. • Some evidence of a balanced response. • Some judgments are relevant but not substantiated.
7–8	<ul style="list-style-type: none"> • Good understanding of the demands of the question. • Relevant business management tools (where applicable), techniques and theories are explained and applied well, and appropriate terminology is used. • Good reference to the stimulus material. • Good evidence of a balanced response. • The judgments are relevant but not always well substantiated.
9–10	<ul style="list-style-type: none"> • Good understanding of the demands of the question, including implications, where relevant. • Relevant business management tools (where applicable), techniques and theories are explained clearly and applied purposefully, and appropriate terminology is used throughout the response. • Effective use of the stimulus material in a way that significantly strengthens the response. • Evidence of balance is consistent throughout the response. • The judgments are relevant and well substantiated.

Section A

1. (a) Define the term *productivity rate*. [2]

Productivity rate is a measure of the efficiency of production and can be defined as the rate of output to input of production. It is also a measure of the added value of the business.

Award [1] for a basic definition that conveys partial knowledge and understanding.

Award [2] for a full definition that conveys knowledge and understanding similar to the above and refers to inputs and outputs or similar words such as resources and production.

N.B. no application required. Do not credit examples.

- (b) Using the information provided above and in **Table 1**, calculate:

- (i) the total contribution per month for the production of 20 000 chocolate-filled donuts (*show all your working*); [2]

$$\begin{aligned} \text{Total contribution} &= \text{contribution per unit} \times \text{number of units} \\ &= 3 \times 20\,000 = \mathbf{\$60\,000} \end{aligned}$$

OR

$$\begin{aligned} \text{Total contribution} &= \text{total revenue} - \text{total variable costs} \\ &= 100\,000 - (2 \times 20\,000) = \mathbf{\$60\,000} \end{aligned}$$

Award [1] for correct working and [1] for the correct answer. Award up to a maximum of [2].

Working should include some reference to the contribution calculation.

Award a maximum of [1] if \$ sign is omitted.

- (ii) the monthly profit if Roscas sells sugar donuts **and** chocolate-filled donuts (*show all your working*). [2]

$$\text{Profit} = \text{sales revenue} - \text{total costs}$$

$$\begin{aligned} \text{Monthly profit} &= (100\,000 + 70\,000) - (15\,000 + 1000) - (25\,000 \\ &\quad + 40\,000) = \mathbf{\$89\,000} \end{aligned}$$

Award [1] for correct working and [1] for the correct answer. Award up to a maximum of [2].

Award a maximum of [1] if \$ sign is omitted, however do NOT penalize more than once if repeated in any question part i.e. part (b)(i) and (b)(ii).

Award [1] if profit for only one of sugar or chocolate is provided.

Award [1] to incorrect answers where there is a single numerical error in what is otherwise correct working.

(c) Using the information provided above and in **Table 2**, calculate:

(i) the payback period for the new machine (*show all your working*); **[2]**

	Annual Net Cash Flow \$000	Cumulative Cash Flow \$000
0	-2000	-2000
1	600	-1400
2	650	-750
3	670	-80
4	700	620
5	710	1330

$$\frac{2000 - 1920}{700} \times 12 = 3 \text{ years and } 1.37 \text{ months or } 42 \text{ days}$$

*Award [1] for correct working and [1] for the correct answer.
Award up to a maximum of [2].
Accept any other method of calculation.
Accept answer discrepancies due to decimal rounding.*

(ii) the average rate of return (ARR) for the new machine (*show all your working*). **[2]**

$$\text{ARR} = ((\text{total returns} - \text{capital cost}) / \text{years of usage}) / \text{capital cost} \times 100$$

$$\text{Total returns} = \$3\,330\,000$$

$$\text{Net return per annum} = \frac{3\,330\,000 - 2\,000\,000}{5} = \$266\,000$$

$$\text{ARR} = \frac{266\,000}{2\,000\,000} \times 100 = \mathbf{13.3\%}$$

*Award [1] for correct working and [1] for the correct answer.
Award up to a maximum of [2].*

*Award a maximum of [1] if % sign is omitted.
Do not penalize if workings are left in 000's.*

2. (a) State **two** features of a cooperative. **[2]**

Two features include:

- A cooperative society works on the principle of sharing and welfare. If any surplus (or loss) is generated, it is distributed/shared amongst the members (***shared profits or losses of members***).
- An elected managing committee has the power to take decisions. Members have the right to vote, by which they elect the members who will constitute the managing committee (***shared decision making between members***).
- There is limited liability of the members of a cooperative society. Liability is limited to the extent of the amount contributed by members as capital (***limited liability of members***).

Accept any other relevant feature.

An explanation is not required.

*Award **[1]** for each correct feature stated. Award a maximum of **[2]**.*

Application is not expected.

N.B. *whilst the command term is “features” it is also true that some features may also be advantages.*

- (b) Using **Table 3** and the information provided above, prepare a monthly cash-flow forecast for *LLC* for the first four months of operations.

[6]

	January	February	March	April
Opening balance	5000	(1900)	(2400)	(900)
Cash inflows				
Cash sales	6000	8000	8000	8000
Credit sales	0	6000	8000	8000
Total inflows	6000	14 000	16 000	16 000
Outflows				
Rent	4500	4500	4500	4500
Labour	2500	2500	2500	2500
Cost of goods sold	4800	6400	6400	6400
Overheads	1100	1100	1100	1100
Total outflows	12 900	14 500	14 500	14 500
Net cash flow	(6900)	(500)	1500	1500
Closing balance	(1900)	(2400)	(900)	600

N.B. Allow candidate own figure rule (OFR): if a candidate makes an error in one row and carries it through the remainder of the forecast, that is only one error. This provision includes both mathematical errors and conceptual errors (for example, if a candidate includes the credit sales for January in this month, it is one error) and candidates should only lose **[1]** for that error.

Award **[1]** if the candidate has some idea of what a cash-flow forecast is and looks like.

Award **[2]** for a cash-flow forecast that has some problems in layout and wording and which has more than three errors/mistakes (apply OFR), which could include in addition to number placement problems and mathematical errors, or conceptual errors, or omissions, such as not having a line like “closing balance”.

Award **[3]** for a largely correct cash-flow forecast that has some minor problems with layout, wording and calculations, which has three mistakes (apply OFR).

Award **[4]** for a largely correct cash-flow forecast that has some minor problems with layout and wording and which has up to two mistakes (apply OFR) or the candidate does not produce a mathematically correct cash flow.

Award **[5]** for a mathematically correct cash-flow forecast that has up to one calculation error, or some omission of the wording above.

Award **[6]** for a fully correct cash-flow forecast with a generally accepted format and lines for total inflows/receipts, total outflows/payments (or some other acceptable wording), a line for net cash flow/inflow, etc., and lines for opening and closing balance.

Substituting the term “net profit” in the cash-flow forecast for “net cash-flow” is inaccurate and **[1]** should be deducted.

Cash sales and credit sales need not be separated.

- (c) Calculate LLC’s forecasted net profit at the end of April (*show all your working*). **[2]**

Closing balance in April – opening balance in January + credit sales
 = 600 – 5000 + 8000 = \$3600

*Award [1] for working and [1] for the correct answer. Award up to a maximum of [2]. If the credit sales are not added, then this is one error and only [1] should be awarded.
 Award a maximum of [1] if \$ sign is omitted. If answer presented in a table as below with \$ sign in heading do NOT penalize.
 Candidates do not need to produce a table, but amounts should be labelled. Missing labels equal one error.*

Allow candidate own figure rule (OFR).

	\$	\$
Sales revenue		60 000
Cost of goods sold		24 000
Gross profit		36 000
Less rent	18 000	
Labour	10 000	
Overheads	4400	32 400
Net profit		3600

Do not penalise if response includes labour as part of cost of goods sold (COGS). The gross profit (GP) will differ but net profit (NP) should be the same.

If a candidate assumes question refers only to a single month of April as shown below and produces an answer similar to below, award a maximum of **[1]**.

	\$	\$
Sales revenue		16 000
Cost of goods sold		6400
Gross profit		9600
Less rent	4500	
Labour	2500	
Overheads	1100	8100
Net profit		1500

Section B

3. (a) Define the term *fixed cost*. [2]

Fixed cost is defined as those costs that do not vary through output or quantity produced.

Award [1] for a basic definition that conveys partial knowledge and understanding. e.g. fixed costs do not change.

Award [2] for a full definition that conveys knowledge and understanding similar to the answer above. e.g links directly to output. Output can also be sales for retail businesses.

N.B. no application required. Do not credit examples.

- (b) Explain **one** advantage **and one** disadvantage for *CD* of using a job/customized production method. [4]

Job/customized production refers to the production of a single or exclusive item specially designed for each customer.

Advantages:

- One benefit to *CD* of using a job production approach is that *CD* can design an exclusive dress for each client considering personal styles and preferences, resulting in high consumer satisfaction and thus increased sales for her business.
- As exclusively designed items, *CD* can charge high prices for the dresses.
- As all dresses are entirely designed and produced by *CD* and her assistants, job production can be highly motivating for them, as they can take pride in their designs and creations.

Disadvantages:

- One cost to *CD* of using job production is that it is labour intensive resulting in high unit costs. This is implied since Carol only has two employees, Carol and her assistants design and make the dresses as a whole by hand. Added value is high, so customers should be prepared to pay a high price for the dresses.
- Job production is time consuming. It will take time for Carol to design and make each ordered dress. Customers will have to be prepared to wait for their dresses. Carol could lose potential clients if they have to wait too much for her to finish other orders. The stimulus mentions that recently, some customers have complained about her delivery times.

Accept any other relevant advantage / disadvantage.

N.B. the response must reflect the advantage / disadvantage to *CD* and not customers.

Mark as [2] + [2].

*Award [1] for each correct advantage / disadvantage identified or described and [1] for a relevant explanation with application to *CD*. Award up to a maximum of [2].*

[2] cannot be awarded per advantage / disadvantage if the response lacks either explanation **and/or** application.

For example: For an identification or description of an advantage / disadvantage **with or without** application **[1]**. For explanation of an advantage / disadvantage with **no** application **[1]**.

For explanation of an advantage / disadvantage **and** application **[2]**.

- (c) Explain **one** advantage **and one** disadvantage for CD of forming a partnership.

[4]

Advantages:

- Juan as a business angel will inject some money to the business. Carol will be able to raise finance and solve her cash-flow shortages.
- Carol will be able to delegate some of her tasks and concentrate on the operations of the business, to meet deadlines and the increasing demand of dresses.
- Juan may bring new ideas for the operational side of the business.

Disadvantages:

- Carol will have to share all her decisions with Juan. As Carol is a designer, and Juan is an engineer, they may have a totally different approaches on how to run the business and conflict may arise. Juan has already suggested that Carol be less involved with design and more on operations. However, it could be argued that Carol's design skills underpins the brand.
- Carol will have to share profits with Juan who will own 50 % of the business.
- Juan has no knowledge of the dress business so may have little to contribute.

Accept any other relevant advantage / disadvantage.

Award **[1]** for each correct advantage / disadvantage identified or described and **[1]** for a relevant explanation with application to Carol. Award up to a maximum of **[2]**.

[2] cannot be awarded per advantage / disadvantage if the response lacks either explanation **and/or** application.

For example: For an identification or description of a disadvantage **with or without** application **[1]**. For explanation of a disadvantage with **no** application **[1]**. For explanation of a disadvantage **and** application **[2]**.

- (d) Discuss Carol's decision to use e-commerce.

[10]

Through e-commerce Carol can reach a larger and global audience with relatively low investment. As an emergent talent, she cannot afford the fixed costs of an expensive physical retailer. E-commerce, with lower fixed costs, seems to be the only alternative for her to sell the dresses to a large global audience. E-commerce is increasing worldwide and consumers are more likely to buy goods and services online. Carol who already has a B2C approach could take advantage of the world-changing consuming patterns to take her business to another level. Through e-commerce, Carol can interact with her clients who can leave on her web page important information and valuable opinion. She could then use this data for marketing purposes, such as offering new products and services.

Carol could also use e-commerce for promotion purposes as promotional costs of using social media and e-platforms are relatively low cost compared to other traditional forms of promotion. As an emerging designer, she cannot afford traditional and expensive promotional techniques. However, through social media marketing, Carol will be able to promote her dresses to a large global audience with minimum investment. She could also make a deal with Alexia Bros to promote her dresses during the cinema festivals and upload her pictures to social media for promotion.

However, e-commerce also has disadvantages. Delayed delivery times could affect the reliability and satisfaction of the purchase. Carol has received some complaints about delivery delays which could erode her brand image among customers. Arguably if e-commerce has the effect of attracting more customers then the current operational difficulties are only likely to be made worse. In addition, party dresses are difficult to sell online as many customers will probably prefer to try them on before buying.

E-commerce needs maintenance and it takes time to manage it. If it is not properly done it can damage the business reputation. Carol has not been able to answer to negative feedback and comments which could be a bad sign for customers that may not trust the business and refuse to buy online. Carol will have to hire a suitable qualified employee to work on this if she does not want to put at risk her brand image and compromise her future business growth.

All in all, even if there are some disadvantages to Carol of using e-commerce, it seems the only viable alternative for Carol to make her business grow.

Marks should be allocated according to the markbands on page 3 with further guidance below.

For one relevant argument that is one-sided, award up to [3]. For more than one relevant argument that is one-sided, award up to a maximum of [4].

If a candidate evaluates/addresses only the advantages or disadvantages, award a maximum of [5].

Award a maximum of [6] if the answer is of a standard that shows balanced analysis and understanding throughout the response with reference to the stimulus material but there is no judgment/conclusion.

Candidates cannot reach the [7–8] markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

4. (a) Describe **one** feature of a mission statement. [2]

Features include:

- It provides a sense of direction to the entire organization in terms of what to accomplish or pursue and which markets the organization will serve and how.
- It reflects the corporate philosophy, identity, character, and image of the organization which can be used to communicate with external stakeholders such as customers, pressure group *etc.*
- It could act as a motivator for employees by providing them with goals and a feeling of belonging to the organization.
- It defines the overall aims and objectives of an organization.

Accept any other relevant feature.

N.B. *no application required. Do not credit examples.*

*Award [1] for a basic description of **one** feature that conveys partial knowledge and understanding.*

*Award [2] for a full description of **one** feature that conveys knowledge and understanding similar to the answer above.*

- (b) Explain **two** advantages of *BM*'s unique selling point/proposition (USP). [4]

A unique selling point/proposition (USP) is a feature that differentiates a product or an organization from its rival products and competitors. *BM*'s USP is based on the production of specialist food for unhealthy dogs.

Advantages include:

- *BM* sells a differentiated product; *BM* could benefit from more sales opportunities compared to other dog food brands that only sell generic food for dogs.
- *BM* could benefit from dominating a niche market.
- *BM* could use their USP for promotion. For example, *BM* already promote the brand through veterinarians that recommend *BM* food for their patients.
- *BM* can benefit from improved brand image and brand loyalty as they reach the market segment of unhealthy dogs that needs exactly what *BM* offers.
- *BM* may benefit from being able to charge higher prices for its product.

Accept any other relevant advantage.

Mark as [2] + [2].

*Award [1] for each correct advantage identified or described and [1] for a relevant explanation with application to *BM*. Award up to a maximum of [2].*

*[2] cannot be awarded per advantage if the response lacks either explanation **and/or** application. For example: For an identification or description of an advantage **with or without** application [1]. For explanation of an advantage with **no** application [1].*

*For explanation of an advantage **and** application [2].*

- (c) Explain **one** advantage **and one** disadvantage for *BM* of using a cost-plus (mark-up) pricing strategy.

[4]

A cost-plus pricing is a strategy by which the selling price is calculated by adding a profit margin to the full cost of product.

Advantages to *BM* include:

- This strategy is especially helpful for *BM* as they do not have direct competitors in the market, and they can charge the mark-up to costs that they want.
- It is an easy pricing strategy for *BM* to apply, as they do not have to consider, customers preferences or do further market research.
- It's a valid pricing strategy for *BM*, as pet owners would be prepared to pay a high price for such specialist pet food.
- It can cover the full cost of production. Given that raw material costs are rising, *BM* can ensure a profit is made and all costs are covered when a product is sold.

Disadvantages to *BM* include:

- *BM*'s costs of raw materials are increasing, a cost-plus pricing strategy could lead to a very high price that *BM* customers may not be willing to pay
- A cost-plus pricing strategy could be highly inefficient for *BM*, as it gives very little incentive to reduce costs.
- *BM* sales are stagnant which means that, probably due to the uncompetitive market, *BM* is not paying sufficient attention to customer needs.

Accept any other relevant advantage / disadvantage.

Mark as [2] + [2].

*Award [1] for each correct advantage / disadvantage identified and [1] for a relevant explanation with application to *BM*. Award up to a maximum of [2].*

*[2] cannot be awarded per advantage / disadvantage if the response lacks either explanation **and/or** application. For example: For an identification or description of an advantage disadvantage / **with or without** application [1]. For explanation of an advantage / disadvantage with **no** application [1]. For explanation of an advantage/ disadvantage **and** application [2].*

- (d) Discuss whether *BM* should diversify into specialist cat food **or** introduce a new distribution channel for dog food. **[10]**

If *BM* diversifies into specialist food for cats, it will open up to a larger and growing new market. The demand for cats is increasing, *BM* could also take advantage of its brand image as customers already know *BM*'s high quality. *BM*'s excellent brand image is an asset that can be capitalized in the development of new specialist food for cats. Vets who already recommend *BM*'s dog food would presumably recommend *BM*'s specialist cat food.

In addition, *BM* has experience in developing new products. Even if the costs of building its own research facilities are high, *BM* could get the necessary finance by becoming a private limited company.

However, introducing a new product into an existing market (Product Development) is a risky move. However, *BM* has the know-how of producing and selling specialist dog food. If *BM* becomes a private limited company to get the necessary finance, ownership will be diluted. Dr. Jones and Dr. Morris could lose some control of their business as decisions will have to be shared. *BM*'s current focus on quality could be compromised if the new partners prioritize profit maximization. What is more, the finance raised through the private limited company may not be enough to fund *BM*'s research facilities and the warehouse that will need refurbishing to stock more products.

N.B. with reference to Ansoff, cat owners might be considered a different market to dog owners hence Market Development.

As an alternative *BM* could introduce a new channel of distribution for the specialist dog food. A two intermediary distribution channel is one that includes a wholesaler that buys the goods from the producer and sells to the retailers.

So far, *BM* dog food was only distributed through veterinarians and large pet shops and *BM* food was not available for customers in certain areas. A two intermediary distribution channel that includes a larger supermarket chain, a wholesaler and many small pet shops, will enable *BM* to reach a larger customer base. Now, potential customers in different areas will be able to buy *BM*. *BM* will still pay for transport costs to the delivery to veterinarians and large pet shops, but they will not have to add transport costs to distribute to other small retailers around the country as the wholesaler will pay for transport costs.

In addition, the wholesaler and the supermarket chain could store the food and help *BM* to reduce stocks. This could be very convenient for *BM* as it would not need to refurbish the warehouse.

However, a major disadvantage is that *BM*'s selling price will be more expensive to final customers as a wholesaler is introduced. *BM*'s price is probably already high and a higher markup could lead to a very high price to final customers. Alternatively, *BM* could accept reduced profit margins and keep the price stable.

Another disadvantage is that in supermarkets and small pet shops, *BM* food will probably be sold without sales advice and recommendation from veterinarians and large pet shops owners. *BM* food will be sold among cheaper brands of lower quality, without specialist features. Competition could be strong as customers may not be well informed. *BM* could lose potential sales.

BM could lose control over the marketing mix. In addition, the supermarket chain could use promotions or change other elements of the marketing mix that *BM* would not be able to control.

Candidates could apply the Ansoff matrix model. For instance:

If *BM* diversifies into specialist cat food, it will be marketing a new product in a new market. This alternative entails several risks as *BM* will be moving into a market in which it has no experience at all. Diversifying into specialist cat food can also be seen as an expensive option as new food will have to be researched and developed. New premises will also be needed. However, if *BM* is successful, it will be growing in sales and spreading its product portfolio. Synergies and common know-how could help to reduce costs to produce a successful new product for cats.

N.B. reward candidates that understand the distinction between related and unrelated diversification, with the former representing considerably less risk.

If *BM* chooses to open a new distribution channel for the food for dogs, it will be adopting a market development strategy and will be selling into unreached areas. New customers will be able to access *BM*'s food and sales will probably increase. Costs and risks seem to be lower for this option, however, if *BM* increases its price due to more intermediaries, sales could remain stagnant. Even if diversifying appears to be risky and costly, *BM* should consider the right balance between risk and reward when choosing what to do. A new distribution channel could be safer in the short run; however, diversifying can be highly rewarding and strategically speaking a better option for *BM*'s future.

Accept product development strategy as it could also be seen as a new product (cat food) in the existing broader market of pet food.

Accept any other relevant and applicable argument for and against each option.

To sum up: candidates can provide a judgment, a conclusion or recommend any option provided it is well substantiated.

Marks should be allocated according to the markbands on page 3 with further guidance below.

For one relevant argument that is one-sided, award up to [3]. For more than one relevant argument that is one-sided, award up to a maximum of [4].

If a candidate evaluates/addresses only one option, award a maximum of [5].

A balanced response is one that provides one argument for and one against for each option.

Candidates may contrast one option with another for a balance, as long as at least two arguments are given for each option.

*Award a maximum of **[6]** if the answer is of a standard that shows balanced analysis and understanding throughout the response with reference to the stimulus material but there is no judgment/conclusion.*

*Candidates cannot reach the **[7–8]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.*

5. (a) State **two** features of a public limited company. **[2]**

The main features of a public limited company, some of which may apply to a private limited company, include:

- Government rules, laws, and regulations strictly govern public limited companies.
- Shareholders do not participate in the day-to-day management of the business of a company.
- Shareholders' liability is limited to their investment in the company.
- The board of directors has decision-making power, most of which it delegates to the chief executive officer. The board, nonetheless, makes policy and strategic decision by majority rule.
- The company has separate legal existence from its owners (shareholders).
- The company raises capital by selling shares.
- The shares of a company are freely transferable and do not require consent of other shareholders.
- Shares can be bought-sold only via a stock exchange.
- Anyone can purchase shares.
- Financial statements/accounts are made public and are easily accessible.
- Legal continuity.

Accept any other relevant feature.

Award [1] for each relevant feature stated up to [2]. Maximum award: [2].

- (b) (i) Explain, with reference to Maslow's motivation theory, how teleworking may damage employee motivation at FR's head office. **[2]**

Maslow's 3rd level, social needs / teamworking, will not be met as employees that choose teleworking will be working from home for all but **one day per month** and therefore will have little opportunities to meet with colleagues, to work as part of a face to face team.

Maslow's 4th level may also not be met due to the typical lack of a formal workplace among teleworkers. It may be difficult for remote workers to experience formal recognition of their accomplishments. In addition, the virtual nature of their jobs reduces direct / face to face input that signifies goal achievement and personal development, which affect employees' esteem. This may be further exacerbated by the fact that **40% of workers who chose not to telework** will continue to enjoy these benefits. This may cause resentment among teleworkers leading to problems with teamworking (3rd level).

*Award **[1]** for demonstrating an understanding of Maslow's motivation theory and a further **[1]** for a development with respect to FR. Award a maximum of **[2]**.*

***[2]** cannot be awarded if the response lacks either explanation and / or application.*

For example:

*For an identification or a description of one of Maslow's hierarchy of needs with or without application **[1]**.*

*For an identification or a description of one of Maslow's hierarchy of needs with no application award **[1]**.*

*For an identification or a description of one of Maslow's hierarchy of needs and application award **[2]**.*

N.B. *For application, candidates do not have to say "only one day per month" but they do need to convey the idea that teleworking employees are not coming to the office often.*

- (ii) Explain **one** disadvantage for *FR*, **other than** the impact on employee motivation, of introducing teleworking. **[2]**

Other disadvantages include:

- It will be more difficult for the business to complete **360-degree feedback appraisals**, which have been a factor in improving staff morale and retention.
- It will be more difficult for line managers to assess the performance of their employees as they will not see them on a day-to-day basis as some employees are working from home for all but **one day per month**.
- Teleworking may introduce inefficiencies. For example, with 40% of workers still at head office and 60% working from home, communication may be more difficult.
- Communication issues may arise if workers have poor IT facilities at home. Informal communication will be more difficult as **40% of workers are still in head office**.
- The business may need to provide teleworking employees with improved IT facilities at home which will increase the business costs. This would reduce cost savings made by head office from introducing teleworking.

Accept any other relevant disadvantage.

*Award **[1]** for identifying or describing the disadvantage to *FR* and a further **[1]** for a development with respect to *FR*. Award a maximum of **[2]**.*

***[2]** cannot be awarded if the response lacks either explanation or application.*

*For example: For an identification or a description of the disadvantage without application, such as “productivity may decline as teleworkers have family distractions at home” award **[1]**.*

- (c) Explain **two** disadvantages for *FR* if it extends its 360-degree feedback appraisal system to its supermarket employees. **[4]**

Disadvantages with potential for application include:

- It will increase the business costs as collecting data and performing the appraisals for all employees will mean additional paper work and possibly hiring more managers and/or paying overtime for the extra work. Department managers are already complaining about their workload and this will make it worse. This is particularly relevant as there are far more supermarket employees **(6000) than head office employees (250)**.
- It will increase workload on department managers particularly as the business has hired an additional **1000 part-time staff**. Department managers already have concerns about workload and doing 360-degree feedback appraisals on all employees will increase workload even more.
- The whole process is time-consuming for everyone involved and could reduce the efficiency of *FR*'s core activity, running supermarkets. (For application, candidates must refer to the number of employees).

Disadvantage where opportunity for application is limited include:
Employees may select "raters" that are "fans". This can lead to skewed results and department managers may disagree with an employee's choice of raters, which may further increase staff **turnover of departmental managers**.

Accept any other relevant disadvantage.

Award [1] for identifying or describing the disadvantage for FR and a further [1] for a development with respect to FR. Award a maximum of [2].

[2] cannot be awarded per disadvantage if the response lacks either explanation or application.

For example: For an identification or a description of a disadvantage without application award [1]. For an explanation of a disadvantage with no application award [1].

For explanation of a disadvantage and application [2].

Mark as [2] + [2]. Maximum award: [4]

N.B. *the disadvantage has to be specific to a 360-degree feedback appraisal system, not to appraisal in general.*

- (d) Recommend whether *FR* should choose **Option 1** or **Option 2**. **[10]**

There is no “correct answer”. Answers could include:

Option 1

Pros

This option is less expensive in the long-term. The business will need to raise \$17m (500 x \$34 000). Currently, interest rates are very low and therefore the interest charges will only raise the business costs by a relatively small amount. *E.g.* 3 % per annum (\$510 000 in year 1).

At the end of the five-year period, the business intends to replace the vans – as it owns them it can sell them to raise some finance towards their replacement.

As *FR* already has a \$50m bank loan it might be assumed they have a good relationship with their bank and further borrowing would not be a problem.

Cons

The business will need to negotiate an additional loan from its bank and may need to provide the bank with additional financial documents and possibly collateral. (see comment above) Should the business fail to repay the loan then the collateral would be seized by the bank.

It is not a cost-free option even when interest rates are low, as a \$17m loan would incur interest charges of 3 % per annum (\$510 000 in year 1). If using simple interest this totals \$19.55m over five years.

If the trend to buying online is not maintained and shoppers gradually return to shopping face to face, then *FR* may have a large number of vans that it no longer needs but is paying for over five years. Whilst these could be re-sold there would be a significant loss made as second-hand prices will be a lot lower than the \$34 000 purchase price.

FR would be liable for the maintenance and repair of vans.

N.B. candidates might attempt to use a gearing argument. Without any data on the capital base of the company we have no way to know whether the existing loan of \$50m gives rise to high gearing or not. All we can say is that borrowing \$17m would increase gearing.

Option 2

Pros

Leasing is more flexible. The business will need to lease the vans for at least 24 months. At that point if it finds that consumer trends have changed then it can either not renew the leases on 500 vans or lease a much smaller number, say 200. This will save the business money in the long run e.g. leasing just 200 vans will cost only \$2.6m per year.

If after 24 months demand is not seen to be there then the business could end the lease and purchase vans, saving money in the long run.

One of the tax advantages to leasing a van could include claiming up to 100% sales tax back on the monthly payments. Also, leasing payments are expenses and, thus, lower pre-tax profits and income tax expense.

In addition, lessors are usually liable for maintenance and servicing of the vans on a regular basis.

***N.B.** Terms and conditions of fleet leasing vary. In some instances, lessors are not responsible for maintenance or service. In other cases, fleet lessors are responsible for service and maintenance, though they often contract out the management of the service and maintenance to a third company for a monthly fee.*

Given the limited experience of our candidates, which could well inform their knowledge about vehicle leases, candidates can argue that FR will not be responsible for maintenance and servicing (a pro of leasing) or that FR might still be responsible for maintenance and servicing (a con of leasing).

Cons

This may have higher long-term costs. A lease of 500 vans will cost the business \$6.5m annually (500 x \$13 000). Over five years this would be \$32.5m which is almost twice the cost of the option A. This is a significant difference in terms of costs.

At the end of each lease period the business does not own the vans and has to negotiate a new leasing agreement.

The business will pay penalties at the end of the lease agreement if the leased vans are damaged in any way.

It is expected that candidates provide a conclusion with a substantiated judgment.

Marks should be allocated according to the markbands on page 3.

If a candidate evaluates / addresses only one option, award a maximum of [5].

A balanced response is one that provides at least one argument for and one argument against each option.

Candidates may contrast one option with another for a balance, as long as at least two arguments are given for each option.

Award a maximum of [6] if the answer is of a standard that shows balanced analysis and understanding throughout the response with reference to the stimulus material but there is no judgment/conclusion.

Candidates cannot reach the [7–8] markband if they give judgment/conclusions that are not based on analysis/explanation already given in the answer.
