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M03/370/H(1)M+

# **MARKSCHEME**

**May 2003**

**BUSINESS AND MANAGEMENT**

**Higher Level**

**Paper 1**

**SECTION A**

*Answer all questions in this section.*

- 1. (a) Define the term stakeholder, and give four examples of major stakeholders in *Rainbow Club Ltd.* [6 marks]**

A stakeholder is an individual or group with a direct interest in an organization's success and performance.

Major stakeholders include

- suppliers
- employees
- management
- shareholders
- club supporters
- creditors
- the local community
- the local government.

Award up to [2 marks] for a suitable definition and [1 mark] for each stakeholder identified for *Rainbow Club Ltd.* Credit for individual members of the Swale family should not be given. The Swale family is a single stakeholder group.

- (b) **Explain, using examples from the case study, how the interests of these stakeholders may conflict and assess to what extent these conflicts may be reduced.**

**[8 marks]**

Stakeholder objectives are different and may conflict, *e.g.*

- suppliers want secure and regular orders which provide a good profit margin
- employees want good terms and conditions plus job security
- managers want high earnings and power to make unfettered decisions
- shareholders want regular and high dividends, share appreciation and decision making powers
- club supporters want a successful team, low prices and good facilities
- creditors want swift and full payment
- the local community want a club they can be proud of, but also one that doesn't create many negative externalities
- the local government wants good tenants, regular rent and a successful club that boosts the commerce of the area and the popularity of the local government.

Clearly, a successful club will help reduce the potential conflicts among the groups. As the club's performance falls, then the conflicts are likely to increase. Financial difficulties may delay or prevent supplier payments and may mean that players are not paid or vice versa. Shareholders will see dividends and share price fall and may call on the club to freeze or reduce players' wages. The local government may expect expenditure on safety and congestion problems. The games themselves will, by their very nature, inconvenience the public.

However, as the club grows in size the negative externalities may also increase, *e.g.* congestion and disturbances, which may cause conflict with the local community. All stakeholders may argue over their share of the spoils.

Conflicts may possibly be reduced by improving communications with, and between, groups. Actions by the club should be explained in terms of both short and long-term advantages. The conflicts could also be reduced by ensuring that none of the stakeholders are disadvantaged or advantaged unfairly. Ultimately it would be impossible for the conflicts to be completely resolved as some interests, in the short-term at least, are diametrically opposed.

**[6 to 8 marks]**

There is an accurate and detailed assessment of the potential conflicts between stakeholders and a relevant example discussion on whether conflicts can be reduced.

**[3 to 5 marks]**

There is some understanding of the nature of possible conflict and an attempt to illustrate these. Discussion may be brief.

**[1 to 2 marks]**

There is a generalized and limited response.

2. (a) Explain how the demographic profiles and trends identified by *Target Data* may affect the future operations of *Rainbow Club Ltd*. [6 marks]

Demographic profiles and trends refer to the size, structure, location and distribution of the population and how this will change over time. The population is important to *Rainbow Club Ltd* as it provides the potential workforce, future players and the supporters, both present and future.

An ageing population is dangerous in that the club may find it difficult to recruit cheaper younger casual labour. In addition the fan base needs to be topped up on a regular basis by encouraging new young fans to join the club. This may affect marketing approaches and techniques.

Similarly many of the existing players have come up through the junior ranks. This pool may be reduced as the young population falls in number.

Decisions on location may well be made on the basis of future revenues and commercial opportunities. The Carlton area, for instance, may be regarded as providing a more viable future.

Nancy's confused promotional strategies could be improved.

**[5 to 6 marks]**

There is an explanation of how demographic trends and profiles will affect *Rainbow Club Ltd* in at least two areas.

**[3 to 4 marks]**

There is some understanding of demographic trends and profiles, but this may lack detail or specific application.

**[1 to 2 marks]**

There is a generalized and limited response.

- (b) **Discuss how precise segmentation and targeting of *Rainbow Raiders*' fan base could result in more cost effective promotional activities.**

***[10 marks]***

Segmentation is breaking the market for a good or service down into different groups or types of consumers. Each segment has its own distinct customer profile and buyer characteristics. Each segment can then be targeted separately from others with different marketing messages, possibly through different marketing channels and media.

In the case of *Rainbow Club Ltd*, segmentation could be by geography, by income or social class, age, gender or ethnic background.

It is essential that the club targets its existing and potential fans, but not waste money on sending promotional materials to people who are not interested in ice hockey. By understanding who the target market is, *Rainbow Club Ltd* can ensure that its marketing is both cost effective and relevant. Given the current parlous state that the club finds itself in, this is vital. Irrelevant literature sent to people uninterested in ice hockey is wasteful. Communications should go to existing or potential fans, stakeholders or purchasers of merchandising.

In addition, knowing the characteristics of the target market should ensure a more consistent message being projected about the club. Examples could be given in terms of the kinds of message that could be sent to different groups and the uses that could arise in terms of merchandising.

***[8 to 10 marks]***

There is a clear understanding of the concepts of segmentation and targeting and how these apply to *Rainbow Club Ltd*. Appropriate terminology is used and relevant examples provided to discuss and illustrate cost-effective promotional activities.

***[3 to 7 marks]***

There is understanding of the concepts of segmentation and/or targeting, although there may be some lack of clarity. Discussion is brief, but does outline at least one clear promotional activity.

***[1 to 2 marks]***

There is a little understanding of segmentation and/or targeting, and the discussion is limited with few examples.

3. (a) **Discuss the effectiveness of Joe Swale’s leadership approach and management style and assess its likely implications for *Rainbow Club Ltd* and its future success.** **[8 marks]**

Joe’s style is autocratic, but also adaptable to the situation. It may be argued that his style has become increasingly laissez faire as he is spending little time at the club recently. It appears to be successful in retaining the support of the club’s fans as his style is charismatic. It is less successful with employees as it contributes to a high staff turnover, which may threaten the effective administration of the club. It may also affect performance and be expensive in terms of recruiting and training replacements.

The style is in some ways in tune with some of the aggression exhibited by the players and has attracted some players to the club who might not otherwise have come.

In the long run the club may find it increasingly difficult to recruit, motivate and retain new staff. The club may also be open to legal action for constructive dismissal and harassment. The club may become less successful in the long run.

**[7 to 8 marks]**

There is a clear and illustrated discussion on Joe’s style, which recognises its primarily autocratic qualities and provides cogent assessment of its likely implications for *Rainbow Club Ltd* and its future success. There is some recognition of the positive elements of Joe Swale’s style and passion.

**[3 to 6 marks]**

There is some discussion of Joe’s style, which is recognised as primarily autocratic. The assessment attempts to identify some implications.

**[1 to 2 marks]**

There is a generalized and limited response.

- (b) **Advise George Swale on the use of both monetary and non-monetary rewards to improve the morale of administrative staff.**

**[10 marks]**

Possible monetary rewards include

- overtime
- bonuses and incentives
- performance/profit related pay
- share ownership
- profit sharing
- fringe benefits.

Possible non-monetary approaches include

- job design, job flexibility and job satisfaction
- job rotation
- job enlargement
- job enrichment
- group working
- empowerment
- training, multi-skilling and staff development
- recognition
- appraisal.

All rewards need to be balanced against their potential costs and benefits. It may be that rewards lead to greater motivation and output, but the benefits must exceed the costs of implementing the systems. The advantages of performance related rewards are clear in that they are flexible and reflect performance and profit levels. Increased benefits, which become part of the standard package may be far more costly and impossible to remove in the long run. Fringe benefits such as tickets for the game may be beneficial as they encourage loyalty and may have a lower cost to the club, but are of value to the employee.

Non-monetary rewards are possibly cheaper and more effective in improving motivation, morale and performance. In simple terms recognition and respect cost nothing. Perhaps Joe will need to reflect on his present management style. Other methods of job redesign and employee skilling are likely to have longer-term positive effects.

A suitable combination of these rewards needs to be identified and judgements made by reference to the economic position of the business, its operational objectives and its need to motivate and retain its personnel. In the case of *Rainbow Club Ltd* staff it is likely that the solution is to adjust leadership style and to offer a financial package, which is comparable to other similar ice hockey clubs.

**[7 to 10 marks]**

A range of monetary and non-monetary rewards is identified and their use and effectiveness in improving morale is assessed. Rewards may be related to motivation theory. There is clear advice given as to the value of the rewards identified for *Rainbow Club Ltd*.

**[3 to 6 marks]**

Some rewards are identified, although they may not be clearly ordered. The effect on morale is addressed, but advice may be omitted at the bottom of the band.

**[1 to 2 marks]**

There is a generalized and limited response.

**4. Joe Swale is planning significant changes in the scale and nature of *Rainbow Club Ltd* and its activities.**

**Assess the internal and external forces driving and restraining these changes and evaluate the club's potential options. Recommend whether it should redevelop its existing premises or move to Carlton.**

**[12 marks]**

Internal forces are those forces, which are controllable by the club itself. They include pressure from

- the fans not to relocate the stadium
- sponsors to maximize their exposure
- the players and their union
- the management and shareholders

External forces are those forces from outside of the club, which are beyond its control. They could be regarded as PEST forces. They include pressures from

- demographic changes
- environmental and local pressure groups
- competing ice hockey clubs, such as the *Jets*
- public and media opinion
- *The New Dominion Bank* to repay the overdraft
- the local government to stay in the area
- local commercial interests

At present the main restraining forces are from the bank and the fans. Without suitable funding the club may collapse and any plans to redevelop may have to be shelved. The fans are vital in that they provide the revenues to run the club and the basis for the sponsorship. The local government may restrain change in that they wish to protect the interests of the local community its voters.

The strongest possible restraining force relates to the poor financial situation of the club and pressures from *The New Dominion Bank* to repay its overdraft. This may prevent any possibility of raising additional finance to support redevelopment. In addition the power of the fans may be sufficient to block any move out of the area, as might opposition from local business.

The main forces driving the change are the needs of the club to grow to fund future success. The sponsors wish to maximize the return on their investment; a successful, larger club will ensure greater coverage. Joe Swale and his vision is clearly underpinning any change. The fears of demographic changes, which may harm the club may also drive it to relocate or reconstruct. The fans, or at least elements of them may also embrace change if they see this as a way of achieving greater success.

The performance of the players and the attitude to any move may prove of paramount importance. A poorly performing club may lose its sponsorship and audience. Justification for a move would therefore be reduced.



However, the power of the sponsors and the sums being invested suggest that the poor financial position of the club is only temporary. Joe's burning ambition, zeal and vision backed by the financial clout of the sponsors and other commercial supporters will probably carry the day. It is likely that the option to relocate in Carlton will simply be too strong

The restrictions of the present site may mean that a longer-term solution is to be found elsewhere. It appears that the club in its present form is unlikely to offer a consistent threat to the *Jets*. It is also important that the club acquires some fixed assets. At the moment it is operating only on its players and what can be generated from sponsorship and merchandising. The addition of other commercial ventures will strengthen its long-term position. There is no correct answer, however.

***[11 to 12 marks]***

There is an accurate and detailed assessment of driving and restraining forces and a comprehensive evaluation of the club's options. Examples are taken from the case study to support discussion. A clear and supported recommendation is made.

***[8 to 10 marks]***

There is a general assessment of driving and restraining forces and a reasonable evaluation of the club's options. Some examples are employed from the case study. For ***[10 marks]*** a specific, rather than an implied recommendation, is made.

***[4 to 7 marks]***

There is some assessment of driving and restraining forces, although these may not be detailed. There is some discussion of the options facing the club, but this may go little further than listing at the bottom end of the band.

***[1 to 3 marks]***

There is a generalized and limited response, which tends to list reasons for a move or not, and/or provides an unbalanced and unstructured response.

**SECTION B**

5. (a) **Define the term sponsorship and explain why *DQ Sports Inc* is prepared to invest so much money sponsoring the *Rainbow Raiders* ice hockey team.**

***[5 marks]***

Sponsorship is a form of promotion and may possibly underpin public relations opportunities. In this case the support is given primarily in financial terms, but it may also include the provision of equipment and/or services. *DQ Sports Inc* is hoping that its association with a successful ice hockey team will help raise corporate and brand awareness and create brand loyalty among fans. The merchandising opportunities that may arise may be lucrative and exposure on television and other media will help sales of other items. Celebrity endorsement, such as that by Brad Mansell, may also raise the brand appeal and allow premium pricing strategies to be employed.

***[3 to 5 marks]***

There is a clear understanding of the term sponsorship and an effective analysis of why *DQ Sports Inc* is prepared to sponsor the *Rainbow Raiders*. For ***[5 marks]*** there are several references to the case study.

***[1 to 2 marks]***

There is some understanding of the term sponsorship and/or a limited attempt to analyse why *DQ Sports Inc* is prepared to sponsor the *Rainbow Raiders*.

- (b) (i) Prepare a cash flow forecast for *Rainbow Club Ltd* for the months June to November 2003 [8 marks]

*cash flow forecast for Rainbow Club Ltd for June to November 2003*

	\$000s					
	June	July	Aug	Sept	Oct	Nov
<b>Receipts</b>						
Ticket Sales	0	350	700	680	710	710
Sponsorship	950	950	950	950	950	550
Loan	400					
Advertising	0	35	70	68	71	71
Merchandise and catering	0	154	215	204	240	245
Total receipts	1350	1489	1935	1902	1971	1576
<b>Payments</b>						
Rent	162	162	162	162	162	162
Marketing and publicity	42	42	42	42	42	42
Administration and salaries	252	252	252	252	252	252
Players' salaries and bonuses	1200	1200	800	800	800	800
Overheads and cost of goods	46	46	46	46	46	46
Maintenance	85	85	85	85	85	85
League fees	40	40	40	40	40	40
Kit and equipment	15	15	12	12	12	12
Total payments	1842	1842	1439	1439	1439	1439
Net cash flow	(492)	(353)	496	463	532	137
Opening balance	(836)	(1328)	(1681)	(1185)	(722)	(190)
Closing balance	(1328)	(1681)	(1185)	(722)	(190)	(53)

**[7 to 8 marks]**

The cashflow is completely accurate in terms of additions and in a totally appropriate format for [8 marks]. For [7 marks] there may be one addition error or less than perfect layout.

**[4 to 6 marks]**

The cashflow is essentially accurate with only minor errors in calculation and layout.

**[1 to 3 marks]**

The cashflow is poorly presented and there are several omissions and/or errors in calculation. For [3 marks] the answer must resemble a cashflow.

- (ii) **from your forecast assess whether *Rainbow Club Ltd* will be able to clear its overdraft by December as required by *The New Dominion Bank*.** [3 marks]

By the end of November, *Rainbow Club Ltd* still has an overdraft of \$53 000. However, the monthly net cashflow is now positive at around about \$400 000 to \$500 000. It is likely that the Christmas period would offer higher revenues, as was the case in December 2002. Therefore, it is probable that the club will be able to clear its overdraft by December.

[3 marks]

A clear assessment on *Rainbow Club Ltd*'s financial and cashflow position and a statement that the club will probably be able to clear its overdraft by December, using relevant information from the data in the cashflow

[2 marks]

A limited assessment or one that merely states the November cashflow position and the club's ability to clear its overdraft by December.

[1 mark]

A statement that *Rainbow Club Ltd* will be able to pay off its overdraft.

***N.B. The candidate must not be double penalised. The answer will relate to the candidate's own cashflow and the interpretation must be marked as so.***

- (c) **Discuss how the use of budgets and a cash flow forecast will help Robert Graves maintain financial control of the *Rainbow Club Ltd*.** [4 marks]

Budgeting is a form of financial planning involving the process of preparing budgets and exercising budgetary control. This encourages forward thinking by managers, helping to co-ordinate different functions and departments. The budgets provide a framework for accountability and for delegating responsibility. It also provides a system of control for indicating where corrective action is required and identifying where plans need review and modification. Clearly, in the case of the *Rainbow Raiders*, the use of a cash budget highlights the need for an overdraft facility.

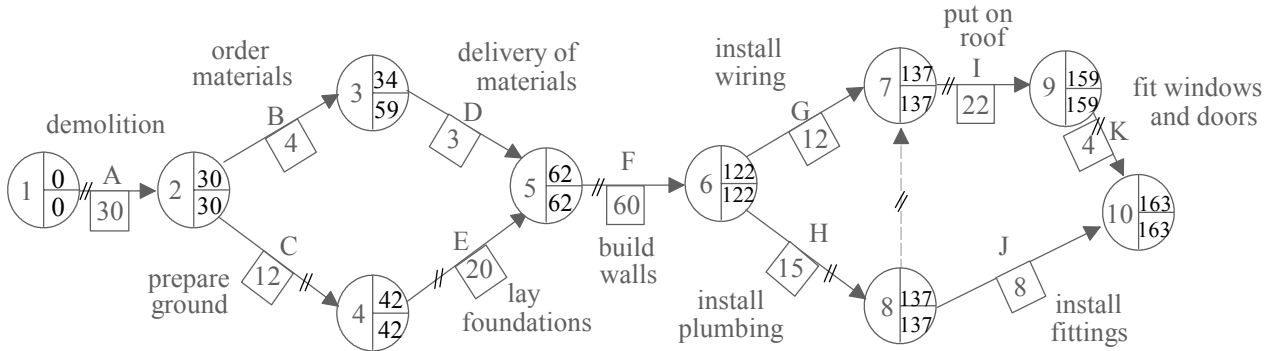
[3 to 4 marks]

There is a clear discussion of the use of budgets and cashflow in the process of financial control. The answer relates to *Rainbow Club Ltd*.

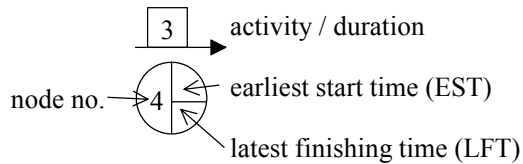
[1 to 2 marks]

There is some discussion of the use of budgets and cashflow in the process of financial control. The answer may not refer to *Rainbow Club Ltd*.

6. (a) Complete the critical path diagram by calculating the earliest starting time (EST) and latest finishing time (LFT) for each activity, identifying the critical path and adding an appropriate key. **[8 marks]**



**Key:**



answer:

critical path = A G E F H dummy I K

**[8 marks]**

A completely accurate, well presented critical path diagram, showing all ESTs and LFTs with the critical path clearly labelled and keyed.

**[7 marks]**

A diagram with only one error and/or minor omissions in presentations.

**[3 to 6 marks]**

A diagram with only minor errors and/or some omissions in presentation.

**[1 to 2 marks]**

A diagram with several or many errors, omissions and poor presentation.

- (b) **Discuss how *Millennium Construction* can use this critical path network to produce budget and costing calculations in support of its bid for the redevelopment contract.** **[5 marks]**

A critical path network identifies the resources required and the time needed to complete a project. This encourages forward planning. The level of working capital required may be minimised by ordering materials just-in-time and bringing machinery and equipment onto site only when required. This will have a positive effect on cash flow. The identification of critical activities and floats will allow for the effective management of the project.

By knowing the timing and utilisation of resources *Millennium Construction* will be able to forecast accurately its financial, physical, material and human resource needs. Budget managers will be able to forecast more accurately their future expenditures. *Millennium Construction* will be able to identify costs and target profit before making their bid for the contract.

**[3 to 5 marks]**

A clear discussion of how the CPA diagram will aid *Millennium Construction*, improve its efficiency and prepare its bid. The discussion is supported by appropriate terminology.

**[1 to 2 marks]**

Some discussion of how the CPA diagram will aid *Millennium Construction*, improve its efficiency and prepare its bid.

- (c) **Using suitable examples, assess how *Millennium Construction's* commitment to quality will influence its activities in practice and analyse the advantages this commitment will bring for *Rainbow Club Ltd.*** **[7 marks]**

A TQM approach is part of lean production and should ensure that costs are minimised through production efficiencies, reduced wastage and better utilisation of resources. The quality of the finished product should be higher and part of TQM is a commitment to the consumer, which in this case will be *Rainbow Club Ltd.* This will affect the planning of the project, the materials used, the recruitment and training of employees and the final design of the Stadium.

The purpose of the exercise is to achieve zero defects and the use of benchmarking to maximise customer satisfaction. However, quality often comes at a cost and this may mean that the price of the final product may be higher than that of the competing companies in the bidding process. Long-term costs, however, such as maintenance may be lower and the experience for spectators may be improved, increasing satisfaction ratings.

***[6 to 7 marks]***

A perceptive assessment of the important role of quality in practice and a detailed analysis of the advantages of this approach for *Rainbow Club Ltd.*

***[3 to 5 marks]***

The assessment is more descriptive than analytical, but the relevance of a TQM approach is evident.

***[1 to 2 marks]***

A limited and generalised approach, but with an example or some examples of quality practices.

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