

MARKSCHEME

November 2004

BUSINESS AND MANAGEMENT

Higher Level

Paper 2

*This markscheme is **confidential** and for the exclusive use of examiners in this examination session.*

*It is the property of the International Baccalaureate and must **not** be reproduced or distributed to any other person without the authorization of IBCA.*

1. (a) **Evaluate the likely success of a foreign business entering the Chinese telecommunications market. Use PEST analysis to structure your answer.** **[10 marks]**

The PEST analysis and the identification of opportunities and threats.

The political/legal environment – currently, the market is highly regulated/entry to China is difficult = a threat.

Future deregulation of the telecommunication market = opportunity.

The economic environment – high GDP growth rate/higher income, China to join the WTO = opportunities.

A large number of unemployed workers and urban poor find the service too expensive = threat.

The social environment – high population growth, more than 300 million young people who are seen as future consumers. High level of interest in “status” goods. Mobile phones have become a fashion accessory. Many segments of various income groups regard mobiles as a necessity. Migrants to rural areas require mobiles to keep in touch. All of the above can be seen as opportunities.

The technological environment – due to lack of advanced technology only one in five Chinese have access to a landline.

Technology introduced may be used/adopted by Chinese companies = a threat.

Given the above identification of opportunities and threats it is likely candidates will conclude that the opportunities outweigh the threats. Consequently, a foreign company entering the Chinese market is likely to succeed given the above analysis. However, the external environment might change very rapidly and unforeseen factors might reduce the chance of success.

[9 to 10 marks]

For a detailed and balanced PEST analysis. Candidate evaluates the likelihood of success, by reference to elements from their PEST analysis. A judgement is made.

[6 to 8 marks]

For a relevant PEST analysis with some omissions. The candidate may not evaluate the likelihood of success.

[3 to 5 marks]

For a limited PEST analysis with entries appropriate to the case. The candidate does not evaluate the likelihood of success or the evaluation is limited.

[1 to 2 marks]

For a limited, descriptive answer.

- (b) Examine how the objectives of a Chinese telecommunication company might change if it moved from the public to the private sector of the economy. [4 marks]**

A privately owned company will be likely to focus on costs, efficiency and profit. Objectives like provision of services for the community and providing employment are likely to be replaced by objectives like profit maximisation, revenue maximisation, increased market share, maximising shareholders' return.

[3 to 4 marks]

For a clear examination with reference to a Chinese telecommunications company.

[1 to 2 marks]

For a limited examination, or for a list of possible objectives.

- (c) Explain two possible costs and two possible benefits for Chinese companies resulting from free trade and deregulation of the telecommunications market. [6 marks]**

The possible costs resulting from deregulation and free trade

- a need to become more competitive, to improve efficiency – costs of investment and reorganization
- more competition – better domestic and international products. Cheaper prices – loss of market share, profit and even survival problems for less efficient companies
- bankruptcy and closure.

The possible benefits resulting from deregulation and free trade

- open markets – higher market share – economies of scale
- cheap and possibly more efficient suppliers of production inputs from abroad
- more opportunities for joint venture/strategic alliance = synergy
- technology transfers.

Essentially there are more long-term benefits versus short-term costs.

[5 to 6 marks]

A clear, relevant and well supported explanation, including two costs and two benefits.

[3 to 4 marks]

The explanation is relatively brief and tending towards a list for [3 marks]. The candidate may omit one cost and/or benefit.

[1 to 2 marks]

Fewer than two costs and two benefits are considered and explanation is limited, or a list is presented.

2. (a) **Examine how the poor performance of national airlines will impact on two of their stakeholder groups.**

[4 marks]

Stakeholder groups include

- suppliers
- employees
- shareholders
- customers
- local community
- creditors
- competitors
- governments.

The poor performance will generally have a negative effect on stakeholders, except on competitors. Suppliers, employees, shareholders and the government may see financial returns diminish. Employees may lose jobs and customers may be affected by reduced choice, poorer quality and price variations.

[4 marks]

The examination covers two stakeholder groups and is relevant and accurate.

[2 to 3 marks]

The examination covers two stakeholder groups in less detail or for **[2 marks]** one group is covered well.

[1 mark]

A limited response and/or reference to only one group.

(b) Explain with reference to the airline industry the terms:

(i) direct costs

(ii) indirect costs.

[4 marks]

Direct costs – costs that can be identified with a particular process, product, or cost centre – such as costs for meals onboard, the price of fuel, salaries of crew, and the cost of operating aircraft.

Indirect costs – costs that cannot be associated directly with a process or a product – these are often fixed costs and unrelated to output, *e.g.*

- the salaries of administrative members of staff
- airport fees
- advertising/marketing/maintenance/booking costs.

[4 marks]

For a correct definition of each type of cost with a relevant example.

[2 to 3 marks]

The definitions may lack some accuracy or one is defined correctly. Relevant examples may be provided.

[1 mark]

For a very limited response.

(c) Analyse *two* advantages and *two* disadvantages to smaller national airlines of focusing on niche markets.

[5 marks]

Niche marketing – a strategy of concentrating on a particular segment or niche of a small, specialist part of the market.

Possible benefits to small airlines may include

- the chosen niche may be of negligible interest to major competitors. A small airline can avoid competition
- small airlines can focus better on the particular needs of their chosen segments
- concentrated marketing effort enables a small company with rather limited resources to reduce marketing and other relevant costs.

Possible costs may include

- successful niche players may attract competition. A small niche market may not be able to sustain more players
- small airlines may rely heavily on one niche without being able to spread risk. Niche players are more vulnerable to change in consumer taste/demand or social changes.

[5 marks]

A clear understanding of a “niche market” is shown with a coherent and relevant analysis of two possible costs and two possible benefits.

[3 to 4 marks]

Evidence of some understanding of a niche market, although this may be through example, rather than definition. Relevant analysis of fewer than two possible costs and/or benefits, or a brief and possibly descriptive list of factors.

[1 to 2 marks]

For a limited response, which is mainly descriptive.

- (d) Evaluate possible pricing strategies airlines could adopt to increase their revenue.**

[7 marks]

Possible pricing strategies may include

- cost based strategies – mark-up pricing, cost plus pricing
- consumer oriented pricing: price discrimination, price differentiation, skim pricing, penetration pricing
- competitor-oriented pricing – competitive pricing, discount pricing, destroyer pricing
- *any other relevant pricing strategy.*

The candidates should discuss some of the above pricing strategies in relation to the airline industry and the information given in the case study.

[6 to 7 marks]

For a coherent and relevant discussion which incorporates suggestions from possible general pricing strategies. The relevancy of the suggested pricing strategies to the airlines mentioned in the case study is discussed. A judgement about the suitability of pricing strategies should be made.

[3 to 5 marks]

For a coherent and relevant discussion which concentrates on possible strategies. Limited reference is made to the case study. For a list of at least three possible pricing strategies. Judgements may be brief or missing **[3 marks]**.

[1 to 2 marks]

For a limited response.

For a list with fewer than three possible pricing strategies.

3. (a) **Describe the organizational culture of *Microsoft* as identified by Steve Ballmer.** [2 marks]

The current organizational culture in *Microsoft* can be described as: technological culture; dynamic and innovative culture; role culture.

[2 marks]

For an accurate description of *Microsoft's* organizational culture.

[1 mark]

For a limited description of *Microsoft's* organizational culture.

- (b) (i) **Explain the meaning of business aims, and their use in managing large organizations such as *Microsoft*.** [3 marks]

Aims – Statements of the general direction of the organisation. They provide the basis for planning and outline the ways the organisation wishes to move forwards. May provide aspiration for the employee and can be translated into objectives. They are usually qualitative and may be in the form of a Mission Statement.

Given the current problems in *Microsoft* and the changes required, aims can lay the foundation for planning. The use of resources and the development of operational activities. This should lead to more accountability cooperation and sharing among staff.

[3 marks]

For clear explanation of aims and relevant application to *Microsoft*.

[2 marks]

For clear explanation of aims with limited application.

[1 mark]

For a limited explanation and/or without application to *Microsoft*.

- (ii) Analyse *four* practical strategies *Microsoft* could implement to help it achieve its aims. [8 marks]

Some practical suggestions so as to achieve the aims of

Building industry trust – cooperation/strategic alliance/joint venture in area like R&D with similar companies within the industry.

FDI in developing countries – the provision of knowledge, infrastructure, technology.

Becoming a more socially responsible organization in areas like employment; investing money into the local communities where the organization operates.

Any other relevant suggestion.

The above suggestions, despite the short term costs involve, should enable *Microsoft* to restore industry trust.

Building customer loyalty – improves marketing and especially marketing research. With the use of secondary data, *Microsoft* can detect new trends regarding customer taste, preference and response.

Primary research methods: use customer focus groups; focus on relationship marketing – constant communication with the customers during the design process, before and after the purchase of their products.

Create/improve the customer relations department.

Improve on-line help.

Any other relevant suggestions.

The suggestions above should enable *Microsoft* to become a more responsive, proactive and customer focused company.

Encouraging internal cooperation – change organizational structure. The matrix structure might be appropriate for such an organization.

Appraise and reward group and organizational effort and achievement – not individuals.

Provide training in group/team building and cooperation.

Other variables of HRM – like recruitment and promotion – should also change to accommodate the new culture and structure.

The implementation of TQM.

Any other relevant suggestion.

The above should create cross-fertilization between departments and within departments culminating in collective rewards for collective efforts.

Devolving power from the top – change structure – add layers of middle management who are empowered to make decisions.

Improve communication channels – build a multi-ways communication system. Ensure employee participation in decision-making by delegation, trust and empowerment.

Any other relevant suggestion.

The above should ensure more committed and motivated employees enabling the top management to concentrate on more strategic decisions.

[7 to 8 marks]

Four relevant suggestions/strategies which are clearly explained and coherently analysed.

[5 to 6 marks]

Three relevant suggestions/strategies which are clearly explained and coherently analysed, or four strategies not fully developed or analysed.

[3 to 4 marks]

For three or more suggestions/strategies not developed or fewer suggestions/strategies which may be explained and/or analysed.

[1 to 2 marks]

For a limited response which might include a list of some relevant suggestions.

- (c) **Discuss how the process of change can be managed effectively in *Microsoft*.** **[7 marks]**

In order to manage change effectively, rather than assessing employees' ability to adapt, which can be de-motivating, threatening and demoralizing, managers in *Microsoft* should

- try to predict and plan for change as far ahead as possible
- be proactive rather than reactive; create a change culture, challenge current assumptions constantly
- inform people of planned changes in a variety of ways as soon as possible
- encourage queries, inputs and challenges from employees
- encourage consultation and participation in various ways: working groups, open meetings, group meetings, discussion groups *etc.*
- provide clarity, reassurance and support as much as possible regarding the possible negative effects of the change – such as redundancies, demotion *etc.*
- emphasize the positive effects of the proposed change
- allocate responsibility to employees
- provide training when possible
- *any other relevant suggestion.*

A process of change which is managed effectively will reduce employees' resistance to change and create identification with and acceptance of the company's new aims/objectives. The success of the process reflects the willingness of staff to adapt and be flexible. This will happen if they feel involved and share the vision of the business.

[6 to 7 marks]

For an identification of the proposed process of change and its limitations. The candidate provides at least four clearly explained and coherent suggestions listed above. The answer includes some judgment on effective management.

[3 to 5 marks]

The candidate provides at least three clearly explained and coherent suggestions listed above. The proposed process of change has not been identified for **[3 marks]**.

[1 to 2 marks]

For a short list of some suggestions or for one or two point clearly explained.

4. (a) Identify *two* sources of primary data and *two* sources of secondary data that are available to *Keep-Fit*. [4 marks]

Primary data may include

- the use of focus groups
- questionnaires to current members and to nonmembers
- observation
- telephone surveys
- the use of competitors facilities/services might also be considered – participation.
- suggestion boxes

Secondary data

- government and any other relevant statistics from specialized publications and Internet sites on demography
- social trends
- lifestyle habits/leisure activities of various potential segments
- economic forecasts such as change in income, employment, interest rates
- “*Mintel*” survey of the leisure industry/health club industry
- Information about the competitors
- *any other relevant suggestions for both primary and secondary data.*

[1 mark] for each correct identification of primary (up to [2 marks] in total) and secondary sources (up to [2 marks] in total). Sources selected should be appropriate to keep-fit.

- (b) Explain how *Keep-Fit* could use the sources identified in part (a) to develop new market segments. [6 marks]

With the use of primary data *Keep-Fit* can get first hand information about the needs of the current and potential users. The current level of satisfaction can also be analysed.

Based on such information *Keep-Fit* can decide on the product/service to be produced. With the use of secondary sources, *Keep-Fit* can assess and evaluate the potential size and economic power of any chosen segments.

Segments could be classified by age, income, class, gender, family life cycle, etc. The selected segments should relate to the data gathered through the market research identified in part (a).

[5 to 6 marks]

For a coherent answer that explains how at least three sources can be used. Both primary and secondary sources are included and are directly related to the sources identified in 4(a).

[3 to 4 marks]

For an explanation of fewer than three sources.

For an explanation of either primary or secondary sources. There should be some reference to 4(a).

[1 to 2 marks]

For a limited answer that may be little more than a list.

- (c) **Using relevant marketing concepts, such as Ansoff’s Matrix, design a marketing plan aimed at attracting mothers with young children as additional members.**

[10 marks]

This is an open question, but candidates are expected to use and apply marketing models, concepts and tools. These may include Ansoff’s Matrix, BCG Matrix and the marketing mix.

Objectives

Segmentation

- Ansoff Matrix of strategic growth options – market development
- product life cycle, product portfolio, product positioning, branding.

Candidates are expected to discuss the specific application and adaptation of the marketing mix – to the chosen segment. Specific attention should be given that are specifically relevant to the service industry and can enable *Keep-Fit*, via training and development and other HR elements, to improve the service quality for current and new users alike.

[8 to 10 marks]

For a well justified/appropriate chosen segment which is followed by a coherent marketing strategy and plan. Reference has been made to the company’s objectives. The Ansoff Matrix of strategic growth options or other relevant marketing concepts are applied and clearly laid out.

The marketing mix, is coherently, consistently and logically used – as well as adapted to the needs of the segment. Suggestions on how to improve the service quality for current uses are made.

[5 to 7 marks]

For a coherent marketing strategy and plan. The company’s objectives may have been mentioned. At the upper end of the band, the Ansoff Matrix of strategic growth options or other relevant marketing concepts, are applied and clearly laid out.

The marketing mix, logically used, as well as adapted to the needs of the segment.

[3 to 4 marks]

For a limited marketing plan which includes a very limited use of relevant marketing concepts. Only a few elements of the marketing mix are used or applied.

[1 to 2 marks]

For a very descriptive, superficial answer. Some elements of the marketing mix may be applied but not necessarily to the chosen segment and/or in coherent manner.

5. (a) Describe *two* advantages of forming a partnership. [2 marks]

Possible advantages

- shared responsibilities
- shared expertise and knowledge
- shared risk
- shared finance
- *any other relevant advantages.*

Allocate [1 mark] for any relevant advantage described up to [2 marks].

For a list without explanation [1 mark].

(b) Construct a cash flow forecast for *Quick Fix* for each month from January to June 2005. [6 marks]

Cash flow forecast for *Quick-Fix* – January-June 2005 in \$

	Jan	Feb	March	April	May	June
Cash inflow						
Consultancy fees	600	600	600	600	600	600
Credit		400	400	400	400	400
Total cash inflow:	600	1 000	1 000	1 000	1 000	1 000
Cash outflow						
Electricity	100	100	100	100	100	100
Telephone		125		125		
Advertising	150	150	150	150	150	150
Rent			3 000			
Finance	50	50	50	50	50	50
Own drawings	500	500	500	500	500	500
Total cash outflow	800	925	3 800	925	800	800
Net cash flow	(200)	75	(2 800)	75	200	200
Opening balance	500	300	375	(2 425)	(2 350)	(2 150)
Closing balance	300	375	(2 425)	(2 350)	(2 150)	(1 950)

[5 to 6 marks]

For an accurate cash flow forecast. The format is correct and clearly presented.

[3 to 4 marks]

For a cash flow forecast with some errors. The format may not be clear and/or well presented.

[1 to 2 marks]

For a confused, inaccurate and poorly presented cash flow forecast.

- (c) **Explain the difference between *Quick Fix's* cash flow and its profit and why Abby wants John to produce a cash flow forecast.** [4 marks]

Profit can be calculated by subtracting total costs from total sales/revenue.

A sale is recorded when an invoice is issued regardless of whether a payment has been made or not. Potential profit may be held up in assets other than cash.

Cash flow is to do with the total inflow and outflow of cash. Cashflow represents a firm's liquidity and its ability to meet day-to-day expenses.

Therefore, *Quick Fix* can be profitable, but unable to meet its short term liabilities because of a cash shortage and consequently go into receivership. This explains why Abby is interested in a cash flow statement before she commits her personal capital.

[3 to 4 marks]

For an accurate explanation of and distinction between *Quick Fix's* profit and its cash flow and the importance of cash flow to Abby.

[1 to 2 marks]

For some explanation of the two terms. The answer does not refer to the possibility of a firm being profitable, but illiquid.

- (d) **Evaluate *three* strategies John Wise could implement to improve *Quick Fix's* cash flow position.** [8 marks]

Possible ways of improving the *Quick-Fix's* cash flow position and evaluation:

The most obvious option is to **renegotiate the rent** as it is a significant payment and is the major cause of the cash flow problem. If \$3 000 is to spread over 12 months, John will have to pay \$250 per month. Consequently, the negative cash flow in March will fall significantly to (\$50) with positive implications on the negative cash flow for the following months.

Reduce own drawings – John, in conjunction with renegotiation of rent, can marginally reduce his own drawing with little implication for his standard of living. However, reducing own drawing as a sole option will not solve the negative cash flow problem and may result in a significant drop in John's standard of living.

Negotiate bank overdraft – Can be seen as a suitable option. However, interest has to be paid. Finance/cash outflow will, therefore, increase.

Form a partnership with Abby who will put in her \$3 000 – This option can solve the cash flow problem (extra \$3 000 to be recorded as cash inflow in Jan). However, drawing will have to increase as Abby will require a return for her contribution to the company (drawing might have to increase to \$1 000 a month).

Some discussion is expected here about the advantages and disadvantages of forming a partnership.

Any other relevant option.

Candidates, in their evaluation, should realize that John will have to combine some options to improve the *Quick-Fix's* cash flow position.

[7 to 8 marks]

For an effective evaluation of three strategies identified.

[5 to 6 marks]

For a suggestion of three strategies. These may be examined in some detail, but evaluation may be limited or missing ***[5 marks]***.

[3 to 4 marks]

Answers may consider fewer than three strategies or the strategies may lack any detailed explanation. For ***[3 marks]*** the answer may be little more than a list.

[1 to 2 marks]

For a very superficial/limited response, or a list of suggestions.

6. (a) Using the FIFO (first in first out) method of stock valuation:

(i) calculate the value of the closing stock at the end of June 2004.

(Show all your working.)

[6 marks]

Months	Stock in/units/ sq m	costs of sales	stock valuation
January	<u>5 000 @ \$3</u>	<u>2 000 @ \$3 = \$6 000</u>	<u>3 000 @ \$3 = \$9 000</u>
February		<u>2 000 @ \$3 = \$6 000</u>	<u>1 000 @ \$3 = \$3 000</u>
March	<u>5 000 @ \$4</u>	<u>1 000 @ \$4 = \$4 000</u>	<u>4 000 @ \$4 = \$16 000</u>
April		<u>1 000 @ \$4 = \$4 000</u>	<u>3 000 @ \$4 = \$12 000</u>
May	<u>5 000 @ \$4</u>	<u>500 @ \$4 = \$2 000</u>	2 500 @ \$4 <u>5 000 @ \$4 = \$30 000</u>
June		<u>500 @ \$4 = \$2 000</u>	<u>7 000 @ \$4 = \$28 000</u>

The closing stock = \$28 000.

[5 to 6 marks]

For an accurate answer, which is clearly presented and calculations are clear.

[3 to 4 marks]

For a largely correct answer. Allow for up to two mistakes.

[1 to 2 marks]

For a largely inaccurate answer. The candidate showed only a superficial understanding of the FIFO method. Answers may be correct, but no working may be shown.

(ii) prepare a profit and loss account for the period of January to June 2004. (Show all your working.)

[5 marks]

GP for *Trend-Setter* Jan-Jun 2004.

Total Revenue

2000 × \$20 = \$40 000 3 = 50 % drop in units sold

1000 × \$16 = \$16 000 3 = 20 % price reduction

\$168 000

Costs of sales

Purchased \$55 000

Less closing Stock \$28 000 = \$27 000

GP \$141 000

[5 marks]

An accurate answer. The trading account is clearly constructed. Working is clear.

[3 to 4 marks]

A generally accurate answer. The trading account is not clearly displayed and calculations are not always shown.

[1 to 2 marks]

For a largely inaccurate answer. The trading account is not presented and calculations are largely missing.

- (b) **Explain how the use of the alternative LIFO (last in first out) method of stock valuation will affect gross profit. (Calculations are not required.)** **[3 marks]**

The LIFO method of stock valuation results in lower closing stock as the older, normally cheaper stock remains. Lower closing stock figure results in higher cost of sales and therefore lower gross profit.

[3 marks]

For an accurate explanation of the relationship between stock valuation method, cost of sales and GP.

[1 to 2 marks]

For an less detailed or simplistic explanation of the relationship of the above.

- (c) **Evaluate whether *Trend-Setter* should introduce a JIT (just-in-time) method of production and stock control.** **[6 marks]**

If *Trend-Setter* is to use JIT, the possible advantages are

- reduced costs of storage, stockpile, opportunity cost, spoilage, ordering/administration
- *Trend-Setter* will not have to commit itself to purchasing an agreed amount of material at a given interval. The need for a high level of working capital is reduced. Cash flow position can improve
- the customers are fashion sensitive ladies: therefore, material cannot really be stored for the coming new seasons
- flexibility and responsiveness to the fashion sensitive clients' needs
- more motivation for employees who are given the responsibility of ordering.

The possible disadvantages are

- *Trend-Setter* might find it difficult to cope with a sudden and sharp increase in demand
- *Trend-Setter* could become over-reliant on its suppliers and might become more vulnerable as regards cost and quality
- new local and reliable suppliers will have to be found
- *Trend-Setter* will lose the good relationship and trust it has with its current suppliers
- loss of discounts for bulk purchases.

Given falling sales and high levels of stock, JIT may be appropriate, but *Trend-Setter* may lose economies of scale and possible discounts. They could merely review stock orders and link these more carefully to sales. However, cash flow control may justify JIT although it may be argued that sales values are not sufficient.

[5 to 6 marks]

The candidate shows a clear understanding of JIT and evaluates its introduction with particular reference to the information given about *Trend-Setter*.

[3 to 4 marks]

The candidate examines the advantages and disadvantages of JIT with some reference to the information given about *Trend-Setter*. The answer may not include a judgment.

[1 to 2 marks]

Few advantages and/or disadvantages are outlined. No reference may be made to *Trend-Setter*.
