MARKSCHEME

November 2005

BUSINESS AND MANAGEMENT

Higher Level

Paper 2

21 pages

1. (a) Define *a private limited company*. ***[2 marks]***

A private limited company tends to be a small company, often a family business, where shares are not sold to the public. Instead, the shares are transferred privately and all shareholders must agree on the transfer. The shareholders have limited liability and so can only lose the original amount they have invested into the business.

[2 marks]
The terms "private" and "limited" are defined.

[1 mark]
The terms "private" or "limited" are defined.

(b) Explain the importance of setting objectives in managing an organization like *Comfort*. ***[4 marks]***

Objectives set out what the organization seeks to achieve. Objectives state where the organization would like to be. Objectives are important because they:

- determine strategies
- provide a basis and a framework for decision making
- provide a guide to action and a sense of direction and unity
- facilitate prioritization
- motivate employees
- provide a basis for measuring and controlling performance
- *any other relevant point.*

By stating its objectives *Comfort* will be able to benefit in these ways especially given the increase in the size of the company and increased competition.

[3 to 4 marks]
Clear and thorough explanation of the importance of setting objectives with reference to the case study.

[1 to 2 marks]
Some explanation of the importance of setting objectives, though there may be little or no reference to the case study or for ***[1 mark]*** there may simply be a list.

(c) Evaluate the *two* growth options being considered by *Comfort* and recommend which of them is most suitable for the company. ***[10 marks]***

***Option One – set up a franchising operation*.**
Possible **advantages** for *Comfort*:

- a rapid expansion and greater national presence can be achieved without heavy investment
- a relatively inexpensive option of expansion as *Comfort* can save on capital costs/fixed costs
- *Comfort* can also save on running/variable costs. The franchisee finances most of the expansion
- local managers will have local knowledge and incentives to make the business successful. *Comfort's* reputation can be enhanced
- *Comfort* can get a one-off initial payment, a yearly fee and a share of the profits from the franchisees. This will ensure vital extra sources of income.

Possible **disadvantages** for *Comfort*:

- uniformity in service and quality might not be achieved due to different operational methods of some franchisees. The brand image might be eroded
- *Comfort* is likely to incur "policing" costs as well as training and consultancy costs.

Option Two – float 49 % of the company.
Possible **advantages** for *Comfort*:

- *Comfort* can raise the £10 million required to fund five new stores.

Possible **disadvantages** for *Comfort*:

- high costs of flotation. *Comfort* lacks sufficient capital
- *Comfort* may become very vulnerable to a takeover bid and a loss of control – shareholders can exert power to sell their shares if unsatisfied with the company's performance
- directors will have to satisfy many more shareholders in terms of profit distribution/dividends
- *Comfort's* accounts will be available to any member of the public including competitors
- conflict of objectives and disputes among various shareholders. Shareholders might have short-term objectives – profit – to maximize their return/dividends. *Comfort's* current objective is a rapid growth/an increase in its market share. The conflict can result in the inability for management to make decisions or inefficiency or a loss of profit.

Given the above advantages and disadvantages of each option, the company's objective for a rapid growth of 10 % in the next two years and a lack of sufficient initial capital, the candidates should recommend Option One. The advantages seem to outweigh the disadvantages.

However, this suggestion is not conclusive. Either option should be accepted provided that relevant factors are analysed and evaluated in a logical manner.

[8 to 10 marks]
For an answer which clearly and logically discusses several possible advantages and disadvantages of each option in a balanced manner. There is relevant evaluation and a recommendation is given.

[5 to 7 marks]
For an answer which discusses some of the above possible advantages and disadvantages of each option. The analysis may be carried out in a slightly unbalanced manner. There is some evaluation though a final recommendation may be missing.

[3 to 4 marks]
For an answer with some discussion of options or just a list of a few of the above advantages and disadvantages. The answer may be unbalanced and/or there may be no evaluation. There may be no recommendation or an insubstantial recommendation is provided.

[1 to 2 marks]
For a limited and generalized answer.

(d) Examine *one* other possible method of growth available to *Comfort*. ***[4 marks]***

Some other methods of growth:

- **Internal/organic growth:**
  Borrowing more money from financial institutions. Borrowing will affect the gearing ratio, finance may be limited, the loan will have to be repaid and interest will have to be paid monthly. Control will remain among the family members.

- **Issue more private shares:**
  This will also affect the gearing ratio of the company and dilute control. No interest and repayment of loan will be required.

- **External growth** – via an acquisition or merger with another company that specializes in garden furniture:
  Comfort will gain market power and may benefit from economies of scale. However, a synergy may not be created and some cultural and managerial conflict may arise. Also the company may experience diseconomies of scale.

- *Any other relevant point.*

[3 to 4 marks]
A clear and detailed examination of one relevant method. The answer should include a positive and a negative issue.

[1 to 2 marks]
A superficial and limited examination of one relevant method.

2. (a) (i) Calculate the break-even level of output for *Stay in Touch*. ***[2 marks]***

BEP for *Stay in Touch*:

$$\frac{\$5\,000\,000}{25-\$10}=333\,333.3 \text{ units}$$

[2 marks]
For a clear use of the formula and a correct answer.

[1 mark]
For a correct use of the formula and incorrect answer.
For a correct answer without working.

(ii) Calculate the number of phones that *Stay in Touch* will have to sell to achieve their target level of profit of $15 million. ***[2 marks]***

$$\frac{\text{FC } + \text{target rate of profit}}{\text{contribution}}=\frac{\$\,5\,000\,000\ +\$\,15\,000\,000}{\$\,25\ -\$\,10}=1\,333\,333.33$$

[2 marks]
For a correct answer.

[1 marks]
For an incorrect answer, but with evidence of an appropriate method of calculation.

(b) Using appropriate calculations, evaluate whether *Stay in Touch* should contract out production to Speedy. ***[8 marks]***

Calculations:

Stay in Touch:
If contracting out, it will lose the current contribution of
$25 – $10 = $15 contribution per unit × 1 000 000 units = $15 000 000 total contribution

Contribution after contracting out:
$25 – $13 = $12 per unit × 1 000 000 units = $12 000 000

A loss of: $3 000 000 contribution
But a saving of: $5 000 000 on overheads. Therefore, a net gain of $2 000 000

Arguments in favour of contracting out:
- looking at contribution and profit *Stay in Touch* will be financially better off
- given the very competitive market, both nationally and internationally, cutting production costs and concentrating on marketing can enable the company to become more focused and competitive
- given the short life cycle of such products and the nature of the industry, *Stay in Touch* needs to continuously innovate to remain competitive. Concentrating on R&D can enable the company to do so
- Speedy will be able to double the production capacity of *Stay in Touch*
- *any other relevant argument*.

Arguments against contracting out:
- closing down the production floor may result in redundancy costs and have a poor motivation effect on the remaining members of staff.
- *Stay in Touch* will rely on a manufacturing company that is already dealing with other companies worldwide. Speedy's inability to meet orders, production faults *etc.* can erode *Stay in Touch's* brand image.
- Speedy might increase the price in the future. The current calculation of a $2 million gain might not be relevant.
- once a production facility is closed, it might be very difficult to reopen again
- *any other relevant argument*.

[7 to 8 marks]
For clear and correct calculations of the option and a logical analysis that incorporates financial and non-financial issues. Analysis is related to information in the case study as well as to some general points. Evaluation is provided and well substantiated, and for ***[8 marks]*** a judgment is given.

[5 to 6 marks]
For clear and substantially correct calculations of the option and a logical analysis that incorporates some financial and non-financial issues. Evaluation is provided but may not be well substantiated.

[3 to 4 marks]
For some calculations relating to the option and somewhat more limited analysis, that incorporates financial and/or non-financial issues possibly in an unbalanced manner. Candidates do not fully relate the information to the case study. Evaluation may not be provided.

[1 to 2 marks]
For a limited and generalized response.

(c) Using appropriate calculations, evaluate whether Speedy should accept the order from *Stay in Touch*. ***[8 marks]***

Calculations: Speedy profit before acceptance of order from *Stay in Touch*.
Contribution = \$20 – \$12 = \$8 per unit

Bep: $\dfrac{\$60\ 000\ 000}{\$8} = 7\ 500\ 000$ units

Profit = 2 500 000 units × \$8 = \$20 000 000 (margin of safety × contribution per unit)

Accepting extra order will not result in an increase in fixed costs. Speedy will get \$1 million in extra contribution = extra profit.

\$13 – \$12 = \$1 extra contribution
\$1 × 100 000 units = \$1 000 000 extra profit

Arguments in favour of accepting the order:

- financially Speedy will be better off given its spare capacity. Accepting extra orders will result in a higher level of profit
- the order that *Stay in Touch* is likely to place, especially initially, is only a small proportion of Speedy's total output. Speedy is, therefore, unlikely to develop a dependency on *Stay in Touch*

Arguments against accepting the order:

- the special cheaper price offered to *Stay in Touch* is likely to upset more significant and larger clients. Speedy might be put under pressure to reduce prices or lose some contracts
- the level of the extra profit might not be significant for Speedy especially if the cost of setting up the agreement is likely to be high
- Speedy should ensure that a better offer is not available somewhere else.

It appears that the significance of the arguments in favour outweigh the arguments against. However, there is no one prescribed answer.

[7 to 8 marks]
For clear and correct calculations of the option and a logical analysis, which incorporates financial and non-financial issues. Analysis is related to information in the case study as well as to some general points. Evaluation is provided and is well substantiated, and for ***[8 marks]*** a judgment is given.

[5 to 6 marks]
For clear and substantially correct calculations relating to the option and a logical analysis that incorporates some financial and non-financial issues. Evaluation is provided but may be rather limited.

[3 to 4 marks]
For some calculations relating to the option and somewhat more limited analysis that incorporates financial and/or non-financial issues possibly in an unbalanced manner. Evaluation may not be provided.

[1 to 2 marks]
For a limited and generalized response.

3. (a) Explain what is meant by the "company went public in 1975". *[2 marks]*

"To go public" is to launch/float the company on the stock market by the offer of shares to the public. When *Fast Eater* went public it became a Public Limited Company.

[2 marks]
For a correct explanation.

[1 mark]
For an incomplete or unclear explanation.

(b) (i) Use the Ansoff Matrix to identify and explain *Fast Eater's* past and current growth strategies. *[4 marks]*

		Product: Existing	Product: New
Markets	Existing	Market penetration	Product development
	New	Market development	Diversification

The Ansoff Matrix

Fast Eater's past growth strategy was largely market development. *Fast Eater* took its existing products to new international markets.

To a lesser extent, *Fast Eater* also used a product development strategy (pizza and chicken roll).

Currently, *Fast Eater* is concentrating more on a market penetration strategy – getting more customers into existing outlets.

[3 to 4 marks]
For an accurate identification and explanation of both past and current growth strategies, related to the case study. The relevant Ansoff growth strategies are accurately explained and well applied.

[1 to 2 marks]
For some relevant identification of past and/or current growth strategies, though these may simply be listed or not related to the case study. The Ansoff growth strategies are not fully used, explained or applied.

(ii) Use the Boston Consulting Group Matrix to analyse *Fast Eater's* product portfolio. ***[6 marks]***

Market Share

Market growth	High	Stars	Question marks
	Low	Cash cows	Dogs
		High	Low

The BCG Matrix

Burger rolls and fried potatoes – can be placed between "cash cows" and "dogs". These products are in decline. Fried potatoes should be placed closer to the "dog" position than burger rolls.

Cheese and tomato pizza and chicken roll – can be classified as products which could turn into dogs very quickly.

Toasted bacon sandwich – can be classified as a "cash cow".

From the above classification and information provided in the case study it looks as if *Fast Eater*'s product portfolio is rather unbalanced and not well managed. The cash cow will rapidly decline. *Fast Eater* lacks new healthy products, that is "questions marks" and "stars" that can become the much needed cash/profit generators for the company.

[5 to 6 marks]
For an accurate analysis of the five products and an overall analysis of *Fast Eater*'s product portfolio. The classification of the products according to the BCG matrix is clearly explained and well applied.

[3 to 4 marks]
For some analysis of at least two products. The overall analysis of *Fast Eater*'s product portfolio may be limited or missing. The classification of the products according to the BCG matrix is not always clearly explained or accurately applied.

[1 to 2 marks]
For a limited and generalized response.

(c) Suggest a new product for *Fast Eater* and devise a marketing mix (7Ps) to support your chosen product. ***[8 marks]***

This is a rather open ended question but reference should be made to the information given in the case study. Give credit for a logical answer, which incorporates a product that caters for the needs of health conscious customers. The elements of the marketing mix should fit the suggested product and should be both logical and interdependent. It is also expected that the answer include direct reference to the fact that *Fast Eater* operates within the service sector – hence the request in the question to use the 7Ps.

The marketing mix should be devised to support the introductory stage of the product. For example:

Product: "salad with low calorie sauce", "real fruit shake".
See above comments.

Price: Given the competitive environment and the economic downturn, a penetration pricing policy can be used to create awareness and trial. Accept "price skimming" if the product suggested is truly an innovative one.

Place: Through the current distribution channel – *Fast Eater* outlets.
Home/office delivery-service can be an option to increase the distribution of the product. Advanced orders via the Internet can be another new option.

Promotion: The aim of the chosen promotional activities is to create awareness, interest and then to encourage the first purchase of the product. *Fast Eater* should invest heavily on its promotional activities. Coupons to be collected in health magazines that can be used in *Fast Eater* outlets. "Buy a salad get a drink…" can also be used to encourage customers to buy the product.

Poster advertisements in health clubs and TV commercials can be suggested with a message that communicates the health benefits of the product. Endorsement of sport events *etc.* can also be suggested.

Process/People: Provide training for the employees to enhance service quality, speed access and delivery and knowledge of the new product quality and benefits.

[7 to 8 marks]
For a relevant choice and clear justification of a new product.
For the use of at least five elements of the marketing mix in a logical and interdependent manner. Direct reference is made to the service sector and to relevant information mentioned in the case study.

[5 to 6 marks]
For a relevant choice and some justification of a new product.
For use of at least four elements of the marketing mix in a logical and integrated manner. Some reference is made to the service sector and to relevant information mentioned in the case study.

[3 to 4 marks]
For a reasonable choice of a new product.
For the use of at least two other elements of the marketing mix in a logical and interdependent manner. Direct reference to the service section is not made.

[1 to 2 marks]
For a limited and generalized response.

4. (a) Explain the difference between a merger and a strategic alliance. ***[4 marks]***

A merger takes place when businesses (directors, shareholders and managers) agree to join together to operate as **one organization** under a common board of directors. Merger implies voluntary agreement and share exchange.

An alliance/joint-venture is formed when two or more companies share the costs, responsibilities and profit but avoid a full merger. No share exchange is involved and each company retains its name and its board of directors. It therefore manifests a lesser degree of cooperation/involvement.

[3 to 4 marks]
For an accurate explanation of differences between a merger and a strategic alliance.

[1 to 2 marks]
For a limited answer with some relevant ideas.

(b) (i) Define *economies of scale*. ***[2 marks]***

Economies of scale/economies of large-scale production can be defined as a fall in average (or unit) cost of production as the scale of production rises.

[2 marks]
For a correct definition.

[1 mark]
For a less accurate definition – *e.g.* when a fall in cost is mentioned but not specifically a fall in the AC.

(ii) Examine *two* types of economies of scale that *KLM* may benefit from after forming an alliance. ***[4 marks]***

The possible economies of scale that *KLM* might benefit from are:

- **Specialization/labour economies:** with a large workforce it is possible to divide up the work process according to specific skills that match the job requirements. The combination of flights and coordination of schedules will increase efficiency and reduce costs.
- **Managerial economies:** the employment of different skilled managers for different functions/departments.
- For both of the above types, efficiency and productivity will increase and, therefore unit costs will fall.
- **Purchasing economies:** the benefit of bulk buying – obtaining supplies of materials and components at lower unit costs (*e.g.* fuel, food with regard to materials and entertainment systems, spare parts with regard to components).
- **Financial economies:** these stem from a lower cost of capital charged by the provider of finance. KLM may be able to raise cheaper sources of finance in order to cover its debt.
- **Marketing economies:** the costs of marketing will spread over a larger output and therefore unit marketing costs will be reduced, for example, through combined promotions.
- *any other relevant economies of scale.*

[3 to 4 marks]
For a clear examination and specific application of two types economies of scale that *KLM* (an airline) might benefit from.

[1 to 2 marks]
For an examination of one type of economy of scale or for a relevant list of economies of scale. The answer may not be directly related to the airline industry. For some relevant examples but no identification of specific types of economies of scale.

(c) Analyse *three* possible problems that *KLM* might experience after joining the *Sky Team Alliance*. ***[6 marks]***

Some of the possible problems that *KLM* might experience after forming an alliance are:

- Operational issues:
  - the increased size might lead to diseconomies of scale.

- Human resource issues:
  - redundancy due to reorganization – the effects on trust, morale, costs due to redundancy payments.
  - managerial problems – due to different management styles, experience and culture of senior managers from the different companies.
  - general cultural and linguistic problems as the employees will come from different countries.

- Marketing issues:
  - a loss of *KLM* national and international brand-image and other intangible assets.

- *Any other relevant point.*

[5 to 6 marks]
For a clear and relevant analysis of three possible problems. Direct reference is made to *KLM*.

[3 to 4 marks]
For some analysis of at least two possible problems. Direct reference to *KLM* might not have been made.

[1 to 2 marks]
For an analysis of at least one possible problem, or simply a list of problems with little or no analysis.

(d) Explain why the European Union regulatory body on competition may be concerned by the reduction in competition as a result of the *Sky Team Alliance*. ***[4 marks]***

The EU regulatory body on competition may be concerned at the reduction in competition as the proposed alliance might increase *KLM* and *Air France* market power and market domination.

With increased market power, smaller competitors may be unable to compete and leave the industry. This will further increase the alliance market power in terms of price and service quality determination.

The role of the EU regulatory body on competition is to ensure that the competitive nature of the industry will not change if a strategic alliance is formed.

[3 to 4 marks]
For a clear explanation of the possible negative effects on the market of a strategic alliance. The answer should include some explanation of the role of the EU regulatory body on competition for ***[4 marks]***.

[1 to 2 marks]
For some explanation of the possible negative effects on the market of a strategic alliance. It is possible that no explanation of the role of the EU regulatory body on competition is provided.

5. (a) Calculate the level of working capital for 2003 and 2004. ***[2 marks]***

Working capital = current assets – current liabilities

	2003	2004
Working capital ($ 000)	820	1150

Award ***[1 mark]*** for each correct answer.

(b) Assess the likely impact on *CU Ltd* of increasing worldwide Internet access. ***[4 marks]***

With the Internet technological change tends to be faster than it is for companies involved in other areas and so *CU Ltd* must be flexible and prepared to adapt rapidly to changes in technology. This is likely to mean higher spending on research and development than in many other sectors and is also likely to require much shorter lead times for production. Product life cycles are shorter and the firm will need to look carefully at their product portfolio to ensure that they always have enough "stars" coming up to become cash cows to fund R&D.

As world-wide Internet access grows *CU Ltd* should see a rise in demand for their web cameras which are complementary goods. Goods like web cameras will tend to have a high income elasticity of demand and so demand is likely to grow faster than GDP growth. The extent of the growth will also depend on the parts of the world where the increased Internet access is occurring. If it is in developing countries with a less highly developed infrastructure then there may not be such rapid growth in demand for items like web cameras which require rapid, high bandwidth connection. However, they are also likely to see increasing competition and with a number of heavily branded competitors, they will need to work hard to maintain a competitive advantage and build their brand. If they can grow further then they may be able to access greater economies of scale which will help them stay competitive. This will help spread the high fixed costs resulting from the need for R&D.

Candidates may also choose to discuss other effects of the growth on *CU Ltd* and should be credited appropriately.

Not all of the above points/issues are required to be mentioned for ***[4 marks]***.

[3 to 4 marks]
A full assessment of the impact of growing Internet access with appropriate reference to the firm's situation. Business theory and terminology are used appropriately. The answer uses negative and positive points in a balanced manner.

[1 to 2 marks]
Some assessment of the impact of growing Internet access, though this may tend to be a little descriptive and not refer to the situation of *CU Ltd*. Limited use of business theory and terminology.

(c) Examine the value of these accounts to the board of directors of *CU Ltd*. ***[4 marks]***

Final accounts for a firm are backward-looking documents that are often produced some time after the year end. This historical nature may limit the value of the accounts to the board of directors. The accounts may also be produced to ensure optimum figures for tax and other purposes limiting their value to the firm's management. The company will normally produce regular management accounts and perhaps forecast accounts to support the planning and decision-making process. However, the board of directors may find these final accounts useful to enable comparison with their competitors. The final accounts are the basis for decision-making and identification of problems.

[3 to 4 marks]
A reasonably balanced examination of the value of final accounts. Business theory and terminology are used appropriately.

[1 to 2 marks]
Some examination of the value of final accounts, though this may be unbalanced or essentially descriptive. Limited use of business theory or terminology. Credit candidates that make some relevant general comments on the Value (figures) that appear on *CU Ltd* accounts.

(d) Using appropriate liquidity, efficiency and profitability ratios analyse the financial position of *CU Ltd* from the perspective of a potential investor. ***[10 marks]***

Candidates should calculate appropriate ratios to support their analysis. These should include liquidity, efficiency and profitability ratios. These ratios may include:

	2003	**2004**
ROCE (%)	14.01	1.96
Gross margin (%)	27.39	22.13
Net margin (%)	5.65	0.82
Current ratio (times)	2.26	2.59
Acid test ratio (times)	0.86	0.90
Debtor days (days)	34.91	38.89
Creditor days (days)	26.22	19.21
Stock turnover (days)	79.56	93.75
Gearing ratio (%)	75.43	76.47

N.B. *Candidates should also be credited for the use of different formulae in the calculation of these ratios e.g. the stock turnover may be expressed as number of times rather than in days or may use cost of sales as the basis for calculation.*

When looking at the financial performance of the company candidates should be analysing it from the perspective of a prospective investor. They may raise a number of issues and these may include:

- there is evidence of poor credit control. The number of debtor days has risen (indicating poor collection of debts) and creditors seem to have been paid even quicker. There may be some scope for renegotiating terms with many suppliers or delaying payment wherever possible. This would help restore the cash position
- there is a clear problem with excess stock and the stock turnover (in days) has risen fast indicating deteriorating stock control
- gearing has risen slightly and is quite high. This will leave the firm vulnerable to external shocks and changes in interest rates. A rise in interest rates could hit margins quite hard
- profitability has deteriorated sharply despite growth in sales. This appears to be mainly due to a rise in cost of goods sold – perhaps input prices have risen sharply and the firm has not raised their own prices to restore the gross margin. Is this because of increased competition?
- gross and net margins have both deteriorated – reasons may be as above or perhaps poor cost control
- the current ratio is very high and on first appearance may even be considered too high, but when compared with the acid test ratio, it is clear that there is a problem with the liquidity of the current assets with the vast majority held as debtors and stock. Their overdraft has also grown considerably, perhaps due to poor credit and stock control
- *any other relevant point.*

Given an analysis from the perspective of an investor, candidates should not necessarily be wholly negative in their analysis. The firm appears to have grown consistently and has a good reputation for quality and reliability. Given that many of the issues raised can be solved with improved management, *CU Ltd* may represent a potentially good investment. However, a possible investor would want to look closely at what management proposes and also compare the ratios with other similar firms in the industry.

[8 to 10 marks]
A detailed analysis of the financial position of the firm using liquidity, efficiency and profitability ratios. The ratios are mostly correctly calculated and the analysis is balanced and from the perspective of an investor. Business theory and terminology are used extensively and appropriately.

[5 to 7 marks]
A reasonable analysis of the financial position of the firm though the analysis may not include all types of ratio at the lower end of the band. There may also be some minor errors in calculation of the ratios. The analysis is generally balanced and some elements consider the perspective of an investor. Business terminology and theory are used in many areas.

[3 to 4 marks]
There is some analysis of the financial position of the firm and some ratios are calculated though these may not always be correct. The answer may tend to be descriptive and lack interpretation of the ratio values. There is limited reference to business theory and terminology.

[1 to 2 marks]
An essentially limited and descriptive answer. There may be some attempt to calculate values of ratios, but with little analysis of them.

6. (a) Explain what is meant by a co-operative. ***[2 marks]***

A co-operative is a form of business organization which is run and owned jointly by the members who have equal voting rights. It may be either a retail co-operative (owned by the customers) or a workers co-operative (owned by the workers).

[2 marks] for a full explanation, ***[1 mark]*** for a more limited explanation.

(b) Assess possible conflicts that may arise between any *two* of the stakeholders of the *Co-operative Bank*. ***[4 marks]***

Candidates should identify two possible stakeholders of the *Co-operative Bank*. These may include:
- customers (including consumers and firms)
- employees – managers and others
- local community
- pressure groups (in some circumstances)
- government – both local and national.

Candidates should pick any two and assess conflicts that may arise. For example, they may choose to look at how the interests of customers and pressure groups may come into conflict. Given the record of the *Co-operative Bank* as a socially responsible firm, pressure groups may lobby the firm for further change and improvement or perhaps more rapid change. This may conflict with the interests of customers who may not all be quite as ethically minded and may not want to pay higher costs resulting from greater social responsibility.

N.B. *Candidates may refer to owners, but it would be inappropriate for them to discuss "shareholders". This is likely to limit the level they achieve.*

[3 to 4 marks]
A detailed assessment of possible conflict between two appropriate stakeholder groups. There is appropriate reference to the *Co-operative Bank* and their position.

[1 to 2 marks]
Some assessment of possible conflict though the identification of stakeholders may not be appropriate or the assessment may not be appropriate to the position of the *Co-operative Bank*.

(c) Explain how the *Co-operative Bank* may use its Ecological Mission Statement to create competitive advantage. ***[6 marks]***

The *Co-operative Bank* can use their Ecological Mission Statement to create competitive advantage in a number of ways:

- it can enable them to develop a USP for their services to broaden their customer base
- it can help them to target market segments that consider ecological issues important – these may be niche markets or perhaps broad market segments
- it can help to motivate staff, increasing productivity and reducing staff turnover
- it can help create wider brand awareness and a positive brand association – this is likely to help build customer loyalty
- *any other relevant point.*

[5 to 6 marks]
A detailed explanation of the use of the mission statement, looking at a range of areas of business activity. Business theory and terminology used appropriately throughout.

[3 to 4 marks]
A reasonable explanation of the use of the mission statement, looking at more than one area of business activity. Business theory and terminology are generally used appropriately.

[1 to 2 marks]
A limited and essentially descriptive answer.

(d) Analyse the problems the *Co-operative Bank* may face in meeting the "77 new improvement targets" they have set for next year. ***[8 marks]***

The targets that the bank have set themselves are clearly ambitious as revealed by the fact that they failed to fully meet many of the targets in the previous year. This indicates that there may be some problems in meeting the targets. Possible problems might include:

- **staff commitment.** Meeting improvement targets will require the co-operation and commitment of all staff. There may perhaps be some resistance to constant change and this may slow down the process of meeting the targets.
- **resources.** Meeting targets of this nature will require considerable resources – both in terms of staff and equipment (as with the target to achieve "green branches"). This cost will need to be absorbed by the firm.
- **negative publicity.** Failure to fully meet the targets or overoptimistic targets may result in criticism from some stakeholder groups.
- **productivity changes.** Some of the targets may mean changes in systems and procedures that may reduce the level of productivity. This may simply be a short-term change while staff get used to the new systems or may be a long-term change in productivity.
- **loss of further customers.** By setting gradually higher standards and more ambitious targets for social responsibility, the bank may find that they need to turn away increasing numbers of customers who breach their guidelines.
- *any other relevant point.*

[7 to 8 marks]
A detailed analysis of the problems that the bank is likely to face in meeting the targets. The analysis is relevant to and related to the situation of the bank. Business theory and terminology is appropriately used.

[5 to 6 marks]
Reasonable analysis of the problems that the bank is likely to face. The analysis is generally relevant to the situation of the bank, though may tend to be a little general at the lower end of the range. Business theory and terminology is generally used effectively.

[3 to 4 marks]
Some analysis of the problems they may face, though this may be general and tend to be more descriptive at the lower end of the range. There is some relevance to the situation of the bank with limited use of business theory and terminology.

[1 to 2 marks]
An essentially limited and descriptive answer.