



MARKSCHEME

May 2006

BUSINESS AND MANAGEMENT

Higher Level

Paper 2

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1. (a) **Using examples, explain what is meant by economies of scale.** **[4 marks]**

Economies of scale are the internal and external factors that result in lower average (unit) costs for larger scale businesses, when compared to small firms.

Internal economies of scale relate to economies that arise as the firm itself grows in size. They can be classified into the following groups:

- commercial/purchasing economies
- managerial economies/specialisation
- marketing economies
- technical economies
- financial economies
- risk-bearing economies.

External economies are the cost advantages gained by any firm in an industry as that industry grows. These can be classified as concentration economies, which means that there is a local supply of skilled labour, suppliers and the support of local government. Firms may also share information.

[3 to 4 marks]

A clear explanation, which includes reference to lower cost. For **[4 marks]**, there should be reference to a range of economies. Some relevant examples of economies of scale should be presented. If external economies are not included, there should be more internal economies explained.

[1 to 2 marks]

The answer is generalized, but should include reference to lower costs and/or some examples of economies.

(b) **Analyse the driving and restraining forces on MNCs that are considering globalizing their sales, manufacturing and operations.** **[6 marks]**

Driving forces:

Sales: Globalization increases the size and scope of markets and offers opportunities for expansion of sales and the customer base. This should lead to higher profits and greater stakeholder satisfaction.

Manufacturing: Expanding into global markets allows for mass production and the advantages of economies of scale. Location overseas can provide advantages related to cheaper raw materials and costs. There are risk-bearing, managerial and purchasing economies. Joint ventures reduce costs and allow easier access. Agents or joint ventures may be used to ease the problems of setting up in new locations.

Operations: Improved ICT applications have allowed fast and accurate communications worldwide, which are relatively cheap. The pool of skilled labour is increasing globally, and wage costs are often lower when operations are outsourced. Decentralisation may make the business more flexible to local conditions.

Restraining forces:

Sales: Tastes and cultures vary worldwide and what is successful in domestic markets may not be the same globally. There is increased competition in new markets and a lack of experience, which may prove dangerous. There are many examples of failed diversification into new markets. It can be a high-risk strategy. There is inevitably a large investment required to put the necessary marketing in place and to develop new distribution networks.

Manufacturing: Outsourcing or moving manufacturing abroad may lead to lower controls on quality. There are also risks associated with exchange rate fluctuations and political instabilities. There may be little knowledge of local suppliers and associated higher costs of administration may offset the lower costs of production.

Organization: Although ICT applications have improved, reliability can still be an issue and communication may be problematic. Different cultural approaches may affect co-ordination and the implementation of corporate objectives. Decentralisation may damage the reputation of the entire business if it is unsuccessful.

[5 to 6 marks]

The analysis either examines all three areas of sales, manufacturing and operation (though these may be implied rather than explicitly stated) or two of the three areas in depth. The answer looks at both driving and restraining in a balanced manner.

[3 to 4 marks]

The analysis covers at least two of the three areas of sales, manufacturing and operation though may be lacking in depth in some areas. The answer looks at driving and restraining forces, although the coverage may not be balanced and may not refer to each of the areas. If only driving or restraining forces are covered, a maximum of ***[3 marks]*** should be awarded.

[1 to 2 marks]

A limited and general response that does not use the range of information available.

- (c) **Discuss how leadership and motivation in MNCs will be affected as they become increasingly global.** [10 marks]

Increasing globalisation is likely to have several organisational effects. Such as:

- the flattening of corporate hierarchies
- increasing decentralisation as regional offices are established
- increasing use of joint ventures and mergers, which will require the integration of two organisational structures
- more integration of senior managers of different nationalities.

It is suggested that the changes noted above will inevitably lead to a change in **management and leadership styles** for a number of reasons:

- the flattening of hierarchies will lead to wider spans of control and an increasing need to delegate responsibility for tasks. This will require managers to employ a more democratic or Theory Y approach to employees. There will be training and recruitment implications
- increasing decentralisation will also require a transfer of power and authority from the centre to the regions. Regional offices must be allowed to be flexible to the specific requirements of local markets
- joint ventures and mergers will require an adjustment of corporate leadership to integrate the approaches of the partner firm. This may be either more democratic or autocratic
- the integration of different nationalities will affect leadership styles as diverse cultures and approaches merge. Sensitivity to the opinions, cultures and norms of different nationalities is crucial. Some cultures will be more traditional and some will be more liberal or progressive. Some cultures, especially Asian cultures, revere age and equate this to seniority, whereas many western cultures relate youth to enthusiasm and entrepreneurship.

There will be similar implications for **motivation**, potentially both negative and positive:

- motivational tools will differ across different nationalities and cultures. Some employees will expect a level of freedom and democracy, unheard of in other cultures. Expectations of managers and leadership may vary
- research on motivation suggested a hierarchy of needs, but this is cultural specific and varies according to the functions of the individual and the status level
- inevitably different incentives will have different values globally. Some cultures will react positively to incentives based on a family or group approach; others would prefer an individual approach
- higher profits may offer greater opportunities for financial incentives.

There may be some universal rules on motivation and human relations, but it is clear that globalization has significant implications for leadership and management styles and the relationship to motivational techniques. Better communications resulting from ICT and media may, after a while, lead to a greater harmonisation of approach, but significant differences exist relating to socialization, culture, religion and tradition *etc.*

[8 to 10 marks]

The discussion is comprehensive and shows evidence of critical, reflective thinking and employs examples appropriate to the information provided in the text. There is a clear understanding of leadership and motivation.

[6 to 7 marks]

The discussion is balanced with an assessment of both leadership and motivation, although it may not be thorough.

[3 to 5 marks]

The discussion tends to be rather descriptive and the content is limited. Towards the bottom of the band the answer may only refer to leadership or motivation.

[1 to 2 marks]

A brief, generalised and probably unbalanced answer.

2. (a) Identify the following for *Coffee-Cool*

- (i) lead time**
- (ii) buffer stock**
- (iii) reorder quantity.**

[3 marks]

The lead time is one week.
 The buffer stock is 100 kg.
 The reorder quantity is 300 kg of coffee.

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

(b) (i) Construct a cash flow forecast for *Coffee-Cool* for each month from July 2006 to December 2006 assuming a loan is taken for renovation.

[6 marks]

	July	Aug	Sep	Oct	Nov	Dec
	\$	\$	\$	\$	\$	\$
Inflow						
Sales	4000	4000	4000	4000	4000	4000
Outflow						
Costs of buying and holding stock	700	700	700	700	400	400
Costs of ordering stock	100	100	100	100	200	200
Promotion	200	200	200	200	200	200
Electricity	400	–	–	–	–	–
Drawings	2400	2400	2400	2400	2400	2400
Finance charge	100	100	100	100	100	100
Repayment of loan	–	–	2 500	–	–	–
Total outflow	(3900)	(3500)	(6000)	(3500)	(3300)	(3300)
Net Cash flow	100	500	(2000)	500	700	700
Opening balance	400	500	1000	(1000)	(500)	200
Closing balance	500	1000	(1000)	(500)	200	900

[5 to 6 marks]

The cash flow forecast is entirely accurate and well presented. The correct format is used.

[3 to 4 marks]

The cash flow forecast is largely accurate. Allow up to two mistakes. The format may not be entirely accurate or well presented.

[1 to 2 marks]

The cash flow forecast is simplistic and incorporates some mistakes. The format may be inaccurate.

(ii) Comment on *Coffee-Cool's* liquidity position.

[4 marks]

The loan from the bank and its service will create some cash flow problems for *Coffee-Cool*.

In September and October the company will be short of cash due to the first repayment of part of the loan. The short-term liquidity problem, however, will be considerably improved by December and, therefore, should not be seen as significant. Moreover, Fernando and Marco can temporarily reduce the relatively generous salaries that they pay themselves to avoid being short of company cash. The net gain of \$200 a month for using Just-in-time (JIT) seems to help *Coffee-Cool* to improve its liquidity position.

Overall, *Coffee-Cool's* liquidity position is good and has improved over the six months.

[3 to 4 marks]

Relevant comments are made regarding the general good liquidity position and the short-term nature of some possible liquidity problems. For ***[4 marks]*** there is awareness of some possible immediate solutions as to avoid such short-term difficulties.

[1 to 2 marks]

Some general comments are made.

The comments are one-sided and simplistic.

- (c) Evaluate Marco's proposal to change to a Just-in-time (JIT) stock management system. **[7 marks]**

Marco's proposal to change to a JIT stock management system may result in the following benefits:

- improved cash flow since money is not tied up in stocks. *Coffee-Cool* currently is in need of extra cash to finance expansion. The reduction in the cost of buying and holding stock is greater (by \$200) than the increase in the administration cost of buying stock under JIT
- less waste and damaged stock. Coffee is likely to lose its flavour if it is stored for a long period
- more space is available for operation and expansion. Given the current liquidity position of the business, an extra \$1000 payment for renting nearby premises will result in liquidity problems
- *any other relevant point.*

However, Marco's proposal to change to a JIT stock management system may result in the following disadvantages:

- heavy reliance on the reliability and flexibility of the supplier
- out of stock issues. *Coffee-Cool's* reputation might be lost if customers are let down by late delivery of coffee – the main ingredient for the operation of *Coffee-Cool*. An hour leeway from the outskirts of a city to central location might be risky
- difficult to cope with a sudden increase in demand. Again, the flexibility, responsiveness and reputation of *Coffee-Cool* may be reduced
- increased ordering and administration costs by \$100 per month. The advantages of bulk buying and central administration may be lost
- *any other relevant point.*

Given the current cash flow situation and the partners' desire for expansion, the arguments in favour of JIT probably outweigh the arguments against. However, any substantiated evaluation should be accepted.

[6 to 7 marks]

The evaluation is clear, balanced, logical and fully substantiated with specific application to *Coffee-Cool*. Some judgments about the suitability of JIT are made.

[3 to 5 marks]

An examination of the proposed change, which is generally clear and relevant with some application to *Coffee-Cool* for **[4 to 5 marks]**. An overall judgment may be omitted. The answer is increasingly unbalanced towards the bottom of the band.

[1 to 2 marks]

The answer is essentially limited and descriptive.

3. (a) Describe *four* consequences for global businesses arising from different rates of regional economic growth in the world. *[4 marks]*

Economic growth determines the extent to which standards of living can improve in a country. It is an increase in the value of goods and services produced in a nation's economy, usually measured by an increase in GDP. This will have some of the following consequences:

- the levels of employment may increase, which may lead to higher wage levels as shortages occur. Firms may look for lower wages in other countries
- improved standards of living will lead to improved education levels, which may make employees more productive. This may encourage inward investment
- demand in an economy tends to increase. There will be an effect on the structure of demand. As economic growth improves, then demand for luxury items may increase and the demand for necessities and basics may fall. Product ranges may differ from country to country
- economic growth can be associated with inflation, which is likely to be negative for firms if governments react with higher interest rates of taxation. Inflation in raw material prices might have to be absorbed in the profit margin
- different rates of economic growth between countries will influence the rate of exchange between countries. Companies may be influenced to transfer goods and services between parts of their business or transfer production to lower inflation economies
- different rates of economic growth will lead to differing profit levels across different countries. This may attract inward investment by businesses.

Award *[1 mark]* per relevant point up to a maximum of *[4 marks]*.

(b) Examine the reasons for firms moving towards more flexible working patterns and the likely consequences for workforce planning, recruitment and training.

[8 marks]

As population structures change and birth rates fall, the working population is falling in many western countries. They are aging at the same time. This is creating shortages of labour and so firms are seeking to appoint and retain older workers and to create more flexible and attractive employment patterns that may appeal to women and part time employees. Firms will be able to match their demand for labour more closely to the supply of labour.

There are many consequences of these changes in working patterns, including some of the following:

- recruiting more mature workers who have existing skills and using these profitably in the firm
- offering training opportunities to develop the skills of existing employees, so that they can move up the internal promotional ladders
- providing the technologies and skills to work remotely from locations other than the office
- reducing the core staff and employing more peripheral and part time workers (like Handy's Shamrock organisation)
- redrawing or re-engineering organisational structures. These become more complicated and workforce planning more complex as firms try to match supply and demand more carefully by using a combination of core, peripheral and part time staff
- creating a more flexible working pattern, with longer opening/working hours, but allowing staff to work hours that suit their individual needs
- outsourcing activities that are not seen as core to the business.

Firms will need to adjust the way that they recruit, train and organise their staff. New technologies have allowed flexible working patterns to develop. Retention of staff is more crucial, so recruitment needs to be well managed. Training needs will vary more to cater for different skill levels and experience. Older workers may require more refreshment training, rather than the teaching of core skills.

[6 to 8 marks]

The examination covers the areas of workforce planning, recruitment and training with recognition of the changes required to adapt to new flexible working practices. There is use of information from the stimulus material and its implications are well understood.

[3 to 5 marks]

The examination covers at least two areas of workforce planning, recruitment and training. There is some understanding of the consequences of more flexible working practices. At the lower end one area may be covered in detail.

[1 to 2 marks]

The examination is brief and limited in scope.

- (c) **To what extent will firms have to adapt their marketing strategies in response to changes in population structures worldwide?** **[8 marks]**

The purpose of marketing is to identify and anticipate customer needs and then to satisfy them in a profitable manner. Most products and services are targeted to a particular market segment or niche. As population structures change so do the characteristics of the market and the segments within it.

With birth rates falling in most developed countries, populations are ageing. The working population is reducing and those in retirement are increasing in numbers.

Products aimed at the younger age groups are faced with potentially declining sales, although this may be compensated for by increased wealth and purchasing power.

Already, it is recognised that the larger, older segments of the market spend larger sums and are prepared to buy more expensive products. As health improves, the type of products and services among these groups also changes. The article identifies a growing “grey market”. Marketing will need to adapt to the needs and wants of this increasing market segment.

Adaptations to marketing strategies will include

- different product ranges and mixes *e.g.* holidays designed for older clients
- aiming products at different target groups or following a particular market segment as it ages
- target overseas markets if domestic markets are declining or saturated
- different marketing mixes
- pricing may be higher to reflect different images and quantities
- packaging and design will be adapted to the target group; the article refers to Braille and extra large buttons
- the distribution channel may change to target customers who wish to buy their products in different outlets or through different channels
- promotion will need to target different age groups

Firms will need to adapt if the nature of their target market is changing. However, there are firms that have undifferentiated marketing strategies, or aim at segments unaffected by demographic changes, where change may not be necessary. However, in most circumstances marketing approaches need to adapt to all changes, including demographic changes, to ensure survival. The rewards are also potentially significant. The article mentions “pensioner friendly” goods to the value of \$18 billion.

[6 to 8 marks]

Changes to population structures are identified, illustrated and linked to the success of the firms marketing strategies. Appropriate marketing theory and terminology is used. There is an evaluation of the need to adapt.

[3 to 5 marks]

Some changes to population structures are identified and illustrated. There is an attempt to use relevant marketing theory and/or terminology, but this may be limited.

[1 to 2 marks]

Some marketing changes are identified, although these may not be applied and may tend to be little more than a list.

4. (a) **Examine reasons why new firms, especially those set up by younger people, find it difficult to raise start-up capital.** [3 marks]

New firms often lack the experience and track record to support their bid for a loan from a commercial company, such as a bank. Banks are often risk-averse and want to see a previous success in a similar venture.

New firms may lack the funds to pay for professional help to prepare cash flows and financial documents and to undertake the necessary market research to act as evidence of a business with serious intent.

Similarly, younger people may lack not only experience, but also the collateral necessary to guarantee a loan.

The track record of new firms is not good with 8 out of 10 new businesses failing within the first two years of operation, which may not be very reassuring for lenders of capital.

[2 to 3 marks]

Problems are clearly identified and related to young people with supporting explanation.

[1 mark]

The answer is brief with limited reasons. Those that are identified may merely be listed.

- (b) (i) **Explain the advantages *and* disadvantages for *Subway* of using franchising as its main method of expansion.** [5 marks]

Advantages of franchising

- the expansion is facilitated without the high capital cost of direct ownership of all the new businesses
- *Subway* receives 8 % of an outlet's turnover and a \$10 000 membership fee
- growth rates may be much quicker than internal expansion. *Subway* has opened thousands of new stores in a relatively short time
- *Subway* would save on running costs including wages and salaries, rent, stock purchase and administration
- local franchisees will have greater local knowledge of market conditions, legal requirements and cultural/social differences
- franchisees may be more committed and motivated than local managers who only work for a salary as the franchisee's return is based on performance.

Disadvantages of franchising

- franchisees may have different priorities and objectives to *Subway*
- franchisees may break the conditions of their contract by selling additional products or not maintaining required quality levels
- there is a risk that at a later time, the franchisee may leave the business and use their experience and knowledge to set up a rival operation in the locality.

[5 marks]

A balanced clear explanation of several advantages and disadvantages of using franchising as a means of expansion, appropriate to *Subway*.

[3 to 4 marks]

An explanation of some advantages and disadvantages of using franchising. The explanation is quite limited at the lower end of the band and may not be applied to *Subway*.

[1 to 2 marks]

A brief and probably unbalanced answer or covering only advantages or disadvantages.

- (ii) Examine the potential operational problems that *Subway* may face as a result of its planned rapid expansion. [4 marks]**

Rapid expansion of *Subway* may lead to a situation of overtrading. The control mechanisms set up when *Subway* was a smaller national chain in the USA may not be adequate for the enlarged organisation. Diseconomies of scale may arise.

Some of the dangers include:

- liquidity problems arise as the firm is constantly tying up its spare cash in new stores. Borrowing may be increasing rapidly and it may be less efficient in repaying its debts. *Subway* may not be able to raise additional finance and may face liquidation
- coordination becomes more difficult as it becomes impossible to ensure that all *Subway* branches are following company policy
- communication becomes less effective, reducing the firms flexibility and response to market change
- sales may be increasing rapidly, but costs may be outstripping the increase, negatively affecting profit levels
- increasing levels of stock.

[3 to 4 marks]

The examination identifies a range of operational problems as a result of planned rapid expansion with relevance and reference to *Subway*.

[1 to 2 marks]

A more limited coverage of potential problems, which may be a brief examination and/or list.

- (c) Evaluate possible market research available to *Subway* when expanding its operations in Europe. [8 marks]

Marketing research can be classified as:

- primary – first hand data gathered by *Subway* for its own needs
- secondary – second hand data previously collected by other organisations.

Primary and secondary research may be:

- quantitative – data consisting of numbers which can be easily manipulated and presented diagrammatically
- qualitative – opinions expressed which may explain behaviour but may be difficult to categorise or classify.

Primary data will be more accurate and up-to-date and may furnish *Subway* with considerable knowledge about the market and customers. Primary research tends to be expensive and time-consuming, which may not fit with *Subway's* desire to expand rapidly. Primary data is relatively easy to gather in the retail trade as customers are quite accessible for interviews and observation is quite possible.

Possible sources of **secondary data** could include:

- company records/database of previous purchasers of fast food
- European Government statistics on social trends and family expenditure
- retail and market audits
- analysis of competitors such as *McDonald's* and their commercial success in their present locations
- trade information – trade press, trade associations, specialist publications
- economic forecasts.

Secondary data is quicker and cheaper to collect. Planning new outlets close to other large fast food chains like *McDonald's* may mean that the value of secondary and primary data is easier and more relevant as it refers to existing food outlets, which are quite homogeneous in operations. If a formula has succeeded for one firm in an area it may prove successful again.

Clearly combinations of primary and secondary research would be advisable. Crucial will be information on the market and whether it is sufficiently large to accommodate a new, but similar business. Research on customer loyalty may be important to assess the ease with which customers may be enticed into new shops by, for example, free food offers. As the product is not a necessity item, retail audits and market reports are likely to be useful as is data on social attitudes and trends linked to economic data. This would allow *Subway* to judge whether sufficient demand for their product exists, and to examine factors like elasticity of demand and pricing sensitivity.

[6 to 8 marks]

Types of market research are identified, categorised, illustrated and linked to the needs of *Subway* and its expansion into Europe. Appropriate research terminology is used. There is an evaluation of the usefulness of these to *Subway*.

[3 to 5 marks]

Some research methods and types are identified. At the upper end of the band there are links to *Subway* and some attempt to identify research and categorise it as primary or secondary.

[1 to 2 marks]

A limited and general response.

5. (a) **Using a PEST framework, identify the external factors that led to crisis at *Alitalia*.**

[4 marks]

External factors are those factors beyond the control of the *Alitalia* and include:

Political factors: more than 50 % ownership of *Alitalia* by the Italian government has delayed necessary commercial reform.

Economic factors: competition in the market increased especially from low cost operators. Domestic travellers fell by 11 %. Fuel costs rose substantially.

Social/cultural factors: A confrontational attitude between trade unions and management existed in Italian culture. A culture opposing change. Some passengers will be afraid to fly following terrorist attacks.

Technological factors: *Alitalia* were unable to purchase newer and more technologically superior planes flown by some competitors.

[3 to 4 marks]

External factors are classified within a PEST framework, with one entry in every category for **[4 marks]**. The factors identified must be relevant to *Alitalia*.

[1 to 2 marks]

External factors identified may be limited and not presented in a PEST framework. The factors identified must be relevant to *Alitalia*.

- (b) **Discuss the methods that unions at *Alitalia* can employ to protect their members' interests.**

[7 marks]

Unions can use a range of methods to protect their members' interests:

- negotiations with management on a regular basis. The union may agree to compromises in areas related, for example, to terms and conditions necessary to cut costs, while trying to protect levels of employment. Compromise, however, may not be possible in a time of crisis when large cuts may be necessary to keep the business solvent
- the unions may lobby decision-makers in the European Union to grant the loans necessary to keep *Alitalia* afloat. This could take the form of negotiations, demonstrations, petitions *etc.*
- the unions may instruct their members to take disruptive action, such as “go-slows” or “work-to-rules”. In a normal commercial situation when a firm is successful, such actions may damage profitability and may force the company to review redundancies and cutbacks. In this situation, *Alitalia's* hands may be tied. Government may refuse the management flexibility to negotiate
- the union can call strike action. The effect will be to close *Alitalia's* operations. This will only add to the airline's losses and may not be popular with travellers and other stakeholders of the business. They may put pressure on the government to intervene, but this is unlikely
- the union may appeal directly to the public and/or media to support their members in demonstrations or by petitioning politicians or the company.

In a crisis situation the unions may have no option and so they have to accept unpalatable solutions. It may be difficult, or even impossible to protect their members' interests. They may only be able to protect some of their members and be willing to sacrifice others for the greater good. Nonetheless, they can still use a range of approaches to try to get public opinion on their side or to persuade holders of finance to lend this to *Alitalia*.

[6 to 7 marks]

A detailed discussion of a range of actions available to the unions, which take into account the crisis situation. Some conclusions are reached.

[3 to 5 marks]

Some discussion of actions available to the unions with an attempt to apply these to *Alitalia*, although there may not be full recognition of the crisis situation, which may reduce the choices available to the union. A conclusion may not be reached.

[1 to 2 marks]

A limited and general response.

(c) Evaluate strategies for dealing with the financial crisis and cash flow problems at *Alitalia*. [9 marks]

The following strategies can be used to improve the liquidity or cash flow position of *Alitalia*:

- reducing stock levels – this will only be of marginal importance to *Alitalia* as they offer a service and carry few stocks of goods, except items for maintenance, catering, administration *etc.* Nevertheless, savings may be possible in some areas
- collect debts earlier – this can be lowering the debtor period allowed. This may affect sales, especially if competitor's airlines are offering longer periods
- offer discounts for early payment for flight tickets
- factoring – here all the debts (as shown in the debtor's book) are sold to a factoring organization. The factoring organization will pay less than the face value of the debts, but *Alitalia* will receive the money immediately. However, would any company be prepared to accept the value of debts that have been accrued? It is unlikely
- asking creditors to postpone or delay collection of debts. Creditors may accept a proportion of a debt, rather than forcing a company into liquidation and receiving nothing
- selling fixed assets *e.g.* unused offices or buildings, planes or even subsidiary companies, such as ground maintenance and bookings
- sale and leaseback – *Alitalia* could sell property like its head office, but then lease it back on a long-term basis
- *Alitalia* could find alternative sources of cash. This could come from partnerships, joint ventures, mergers, bank loans and additional sales of shares. It is difficult to imagine that many firms would view *Alitalia* in its present position as an enticing partner
- Italian government and/or EU grants and loans
- strategic alliances or mergers, notably with other airlines
- to sell the business
- redundancy or restructuring
- remove loss-making flights and services.

The potential sources of finance to address *Alitalia's* financial crisis are many. However, it is difficult to imagine many of these strategies as being available given their position. The best hope may be a short-term rescue by government or EU grants followed by a financial restructuring and reduction of costs.

[7 to 9 marks]

The evaluation is comprehensive and shows evidence of critical, reflective thinking and employs examples appropriate to *Alitalia*. There is a clear understanding of cash flow management and an appreciation of the difficulty of solving *Alitalia's* financial crisis. There are appropriate judgments.

[5 to 6 marks]

Evaluation/discussion is balanced with an assessment of the potential solutions to *Alitalia*'s financial problems, although it may not be thorough. For **[6 marks]**, there are some judgments in the discussion.

[3 to 4 marks]

Discussion tends to be descriptive rather than analytical and the content is limited. Judgments may not be attempted.

[1 to 2 marks]

A brief, generalised and probably unbalanced answer, which tends to description or listing.

6. (a) **Describe two advantages and two disadvantages of using job production as a method of producing the *Jetstream Hot Tubs Premier 12*.**

[4 marks]

Advantages

- products may be made to customer specifications
- customisation is possible improving customer satisfaction
- employees may be motivated by the variety of tasks
- there may be a sense of craftsmanship and pride in the final product

Disadvantages

- production tends to be relatively expensive and time consuming
- products cannot be produced in bulk and economies of scale are not attainable
- production is labour intensive and therefore expensive
- labour force needs to be highly skilled
- equipment may be costly

Award **[1 mark]** for each advantage described up to a maximum of **[2 marks]**, and **[1 mark]** for each disadvantage, up to a maximum of **[2 marks]**.

When a candidate writes a list of four relevant points without description award a maximum of **[2 marks]**.

(b) Using both LIFO and FIFO methods of stock valuation for the Premier 12, calculate the following for the first six months of operation:

(i) the value of the closing stock

[7 marks]

Premier stock purchases and sales:

Month (2005)	Purchases (units)	Cost per unit (\$)	Sales (units)
July	20	6300	25
August	35	6150	32
September	28	6400	30
October	20	6300	18
November	52	6200	50
December	54	6500	56

FIFO

Date	Purchases		Issues/sales		Balance	
	Quantity	Price Value	Quantity	Price Value	Quantity	Price Value
		\$ \$		\$ \$		\$ \$
July Opening Stock					8 @ 6 200	49 600
July	20 @ 6 300	126 000	8 @ 6 200 17 @ 6 150	49 600 104 550	3 @ 6 300	18 900
August	35 @ 6 150	215 250	3 @ 6 300 29 @ 6 150	18 900 178 350	6 @ 6 150	36 900
September	28 @ 6 400	179 200	6 @ 6 150 24 @ 6 400	36 900 153 600	4 @ 6 400	25 600
October	20 @ 6 300	126 000	4 @ 6 400 14 @ 6 300	25 600 88 200	6 @ 6 300	37 800
November	52 @ 6 200	322 400	6 @ 6 300 44 @ 6 200	37 800 272 800	8 @ 6 200	49 600
December	54 @ 6 500	351 000	8 @ 6 200 48 @ 6 500	49 600 312 000	6 @ 6 500	<u>39 000</u>

LIFO

Date	Purchases			Issues/sales			Balance		
	Quantity	Price	Value	Quantity	Price	Value	Quantity	Price	Value
		\$	\$		\$	\$		\$	\$
July									
Opening Stock							8 @	6 200	49 600
July	20 @	6 300	126 000	20 @	6 300	126 000	5 @	6 200	31 000
							3 @	6 200	18 600
August	35 @	6 150	215 250	32 @	6 150	196 800	3 @	6 200	18 600
							3 @	6 150	18 450
September	28 @	6 400	179 200	28 @	6 400	179 200	2 @	6 150	12 300
							1 @	6 150	6 150
October	20 @	6 300	126 000	18 @	6 300	113 400	3 @	6 200	18 600
							1 @	6 150	6 150
							2 @	6 300	12 600
November	52 @	6 200	322 400	50 @	6 200	310 000	3 @	6 200	18 600
							1 @	6 150	6 150
							2 @	6 300	12 600
							2 @	6 200	12 600
December	54 @	6 500	351 000	54 @	6 500	351 000	2 @	6 200	12 400
							3 @	6 200	18 600
							1 @	6 150	6 150
							2 @	6 300	12 600
									<u>37 350</u>

[6 to 7 marks]

The layout and working is clear and the calculations are accurate. Two errors may be allowed for **[6 marks]**.

[3 to 5 marks]

The calculations contain several errors. At the top end, the layout and workings are clear.

[1 to 2 marks]

There are many inaccuracies and the layout and working are poor. For **[1 mark]** there must be some understanding of the process.

(ii) the half-year gross profit.

[3 marks]

	FIFO	LIFO
Sales: 211 hot tubs units @ \$8 500	1 793 500	1 793 500
Opening stock: 8 @ \$6 200	49 600	49 600
Purchases	<u>1 319 850</u>	<u>1 319 850</u>
	1 369 450	1 369 450
Less closing stock	<u>39 000</u>	<u>37 350</u>
Cost of goods sold	1 330 450	1 332 100
Gross Profit	<u>463 050</u>	<u>461 400</u>

[3 marks]

Both the layout and working are clear and the calculations are accurate.

[2 marks]

There is a maximum of one error. There is logic in the layout. Correct answers, but no working shown, or one correct answer with working.

[1 mark]

There are several errors, but the answer contains some accuracy and logic.

(c) Evaluate the marketing, human resource and finance implications for Bubbleflow if it introduces mass and cell production.

[6 marks]

Marketing:

The products will need to be standardised to a greater extent, although modern technologies do allow for greater variation given the flexible nature of automated machinery. The product itself is likely to be produced to a higher quality, which will help marketing through customer satisfaction and recommendation. Prices may be reduced. The image of the product may be less exclusive so other factors such as value may need to be emphasised. It is important that Jetstream 6 and Jetstream 8 do not undermine a premium image required to sell the Jetstream Premier 12.

Mass production will allow for greater economies of scale and profit, which may fund larger scale marketing. Clearly mass production requires a mass market and this must be established through market research and promotion targeted to appropriate groups. Mass production will open up opportunities such as supplying new customers and meeting the expanding needs of firms such as *Jetstream*.

Human Resources:

The change to mass and cell production may lead to redundancies of some staff if automation takes place. However, mass production may lead to a demand for additional jobs in other sectors of the firm. The nature of tasks may be different and probably less skilled which may affect motivation. However, the introduction of cell production will create teamwork, more flexibility and opportunities for empowerment. As a result management styles must be less directive.

Finance:

Transfer to mass and cell production will have significant implications in terms of investment. Not only will new machinery and technology be required, but also re-skilling of the workforce and recruitment costs will be needed. The firm will have to consider the cost of finance and payback periods.

The introduction of mass and cell production will have profound effects on Bubbleflow. Although it may make the firm more competitive and lead to higher productivity and greater profits, the introduction needs to be handled carefully. Such a significant change could lead to the failure of the firm, especially if mass markets do not exist for the final product, and/or, the investment leads to significant cash flow and liquidity implications.

[5 to 6 marks]

The evaluation considers all three aspects of marketing, human resources and finance. The answer relates to the issues facing Bubbleflow and employs suitable business terminology. Conclusions are reached.

[3 to 4 marks]

The answer considers at least two aspects of marketing, human resources and finance. Answers may be rather descriptive and conclusions may not be reached.

[1 to 2 marks]

A limited and general response.
