



MARKSCHEME

November 2009

BUSINESS AND MANAGEMENT

Higher Level

Paper 1

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The markbands on pages 3–5 should be used where indicated in the markscheme.

Section A			Section C	Level descriptors
(c) questions			Q5 (c)	
Q1 (c)	Q2 (c)	Q3 (c)	Marks 0–8	
Marks 0–7				
0			0	<ul style="list-style-type: none"> No knowledge or understanding of relevant issues, concepts and theories. No use of appropriate terminology.
1–2			1–3	<ul style="list-style-type: none"> Little knowledge and understanding of relevant issues, concepts and theories. Little use of appropriate terminology. No reference is made to the information in the case study.
3–5			4–6	<ul style="list-style-type: none"> A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. Some use of appropriate terminology. Some reference is made to the information in the case study, not just to the name of the organization. At the lower end of the markband responses are mainly theoretical.
6–7			7–8	<ul style="list-style-type: none"> A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. An analysis/examination that uses appropriate terminology throughout the response. Explicit references are made to the information in the case study.

Section B	Level descriptors
Q4 (c)	
Marks 0–8	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study.
3–4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the case study, not just to the name of the organization. • The response is mainly theoretical.
5–6	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the case study are made at places in the response.
7–8	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the case study are made throughout the response.

Section C	Level descriptors
Q5 (d)	
Marks 0–10	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of synthesis of information from the case study, the extension material in Section C and, where applicable, from other responses within Section C. Information is merely lifted and copied into the response. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study and the extension material within Section C.
3–5	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of synthesis of information from the case study, the extension material in Section C and, where applicable, from other responses within Section C. Information is merely lifted and copied into the response. • Evidence of judgments and/or conclusions that are no more than unsubstantiated statements. • Limited reference is made to the information in the case study and the extension material within Section C. • The response is mainly theoretical.
6–8	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology. • At places in the response information from the case study, the extension material in Section C and, where applicable, from other responses within Section C is (synthesised and) integrated to provide a basis for analysis and evaluation. • A response that includes judgments and/or conclusions that have limited support and are underpinned by a balanced analysis. • Explicit references to the information in the case study and the extension material within Section C are made at places in the response.
9–10	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • Information from the case study, the extension material in Section C and, where applicable, from other responses within Section C is proficiently (synthesised and) integrated to provide a basis for analysis and evaluation. • A response that includes judgments and/or conclusions that is well supported and underpinned by a thorough and balanced analysis. • Explicit references to the information in the case study and the extension material within Section C are made throughout the response.

SECTION A

1. (a) Identify *two* fixed costs and *two* variable costs for *Les Maisonnettes*. [4 marks]

Fixed costs for *Les Maisonnettes* include:

- loan repayment (the 25yr loan, see *lines 15–16*, or the 5yr bank loan, see *line 90*)
- marketing costs (*AFE* membership, *Logis de France* membership *etc.*)
- salaries and basic labour costs (especially for full-time staff)
- rates such as business licence, insurance.

Variable costs for *Les Maisonnettes* include:

- additional labour costs (if Sophie takes more staff in the peak season, *e.g.* more hours from the part-time staff, or for extra activities such as the guided tours)
- additional raw materials (for the restaurant or the cooking classes)
- utilities (*e.g.* heating cottages in winter).

Mark as 2+2.

Award [1 mark] for each relevant and correct fixed cost identified up to a maximum of [2 marks] and [1 mark] for each relevant variable cost identified up to a maximum of [2 marks].

- Candidates are not asked to define “fixed costs” and “variable costs”: they will not receive any extra marks just to provide definitions.
- In their answers, candidates must clearly indicate which costs are the fixed ones and which ones are the variable ones. If they do not: maximum [2 marks] for the question as a whole.
- Do not accept answers that are not relevant to the case study (*e.g.* “rent” as fixed cost or “delivery costs” as variable costs: these are “theoretical answers” that are not applied here).
- Candidates may come up with other original and precise ideas; these may be credited if relevant to the case study and acceptable as fixed costs or variable costs; examiners may need to use their professional judgment here.
- Labour costs are ambiguous: some sources (some textbooks and authors) consider them as fixed, others as variable, and others as “semi-variable”. Candidates may be given the benefit of the doubt in that respect.

- (b) Using data from appendix 4, calculate the current ratio and the acid test ratio of *Les Maisonnettes* in the financial years 2005 and 2008.

[4 marks]

Liquidity ratios

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Acid test (quick) ratio} = \frac{\text{Current assets} - \text{stock}}{\text{Current liabilities}}$$

	2005	2008
Current ratio	1.75	0.56
Acid test ratio	1.25	0.22

Award [1 mark] for each correct calculation.

- (c) **With reference to the figures calculated in part (b), analyse the reasons for the changes in the liquidity position of *Les Maisonnettes*.**

[7 marks]

Sophie’s situation in 2005 was “too liquid”, a sign of poor cash management as she could have used her finance in a more meaningful and beneficial way. She went from one extreme to the other: the liquidity ratios indicate that, in 2008 (and presumably from 2009 onwards) she may struggle to meet her short-term financial commitments. The main reason is the fact that she took up a short-term loan, which is substantially affecting her liabilities. She owes much less to her other creditors in 2008 than she did in 2005, but this short-term borrowing could be worrying (*line 151*) – although of course it is only short-term; as such, in the 2008 balance sheet, it could be interpreted as an understandable anomaly. Her stock has increased a lot: this is due to the investment in equipment and start-up costs for the new strand of the business. (*Lines 88–90*) according to Appendix 2, this new strand (“activities”) already represents almost 15% of the business in 2008, so the liquidity issue of 2008 might be redressed in the following years.

Candidates whose calculations were not correct may still properly analyse some of the changes. Candidate own figure rule applies.

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

2. (a) Describe *two* non-financial incentives that are being considered by Sophie. [4 marks]

(Lines 108–112) “(...) offering accommodation on-site to international students looking for work experience before university. Sophie believes that the combination of total immersion in French culture, the subsequent development of language skills for non-native speakers and greater understanding of the concepts and ideals of eco-tourism will compensate for the relatively low starting salary”.

Candidates should not just quote the sentences from the case study: they are expected to describe (see command term) those incentives. They may rephrase them or refer to the fact that they are “non-financial”: “payment in kind”, direct/practical support for international students who then do not have to pay for accommodation, experience *etc.*

Mark as 2+2.

Award [1 mark] for each relevant and correct non-financial incentive identified and [1 mark] for each clear description of the incentives up to a maximum of [2 marks].

- (b) With reference to Sophie, explain *two* features of a “paternalistic leadership style” (*lines 96–97*).

[4 marks]

A paternalistic leadership style typically sees the workforce as an extension of the family (paternal = fatherly). Respect and acceptance are gained through close supervision forms (comparable to a father’s traditional control over his children). This leadership style can be described as authoritarian; those who accept the leader and their style are rewarded, whilst those who do not are, at best, tolerated, and at worst, punished. Sophie’s paternalistic leadership style may be due to the personal relationship she has with her staff (*lines 94–97*): many are long-term family friends; in that rural environment marked by unemployment, Sophie is the local entrepreneurial woman who has a business and gives employment (and income) to people she grew up with. A particular oddity here is the fact that Sophie’s parents also work for her (although they are not formally employed), with a reversal of the usual paternalistic/family model (here: the parents work for their child, and not the other way around).

Mark as 2+2.

Award [1 mark] for each relevant and correct feature identified and [1 mark] for each appropriate explanation of the features, up to a maximum of [2 marks].

- (c) **Analyse how Sophie’s leadership style may need to change as *Les Maisonnettes* grows over time.**

[7 marks]

At the moment, the structure is quite small (Sophie, her parents, two full-time staff and several part-time staff) but as *Les Maisonnettes* grows, the structure will change and Sophie’s style too may need to change.

– On the one hand, Sophie may need to adopt a more autocratic style, especially if she employs more staff and needs to control them more closely (to overcome problems of reliability, absenteeism and punctuality, see *lines 98–99*). This is particularly the case for option 3: repositioning *Les Maisonnettes* as a luxurious eco-tourist retreat would require more staff (*line 176*) and a more professional attitude (possibly with several lines of management, chains of command *etc.*).

– On the other hand, if Sophie further develops the eco-tourism dimension of her business (option 2) and stresses the “alternative experience” dimension (recruiting core staff with eco-tourism values, *lines 105–106*) she could develop a more democratic, participative leadership style, for ideological/political reasons.

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

3. (a) **Outline how writing a business plan (*line 92*) could help *Les Maisonnettes* achieve its growth objectives.**

[4 marks]

Sophie is very dynamic and entrepreneurial: she has many ideas, but she does not have a business plan for her business (see *line 92*). Her business has grown organically: she has developed ideas and projects, yet without any explicit long-term objectives and without a clear vision. A business plan would give Sophie an overall sense of direction as well as targets, benchmarks and priorities. This would also give her the opportunity to reflect on all key aspects of her business (from marketing to human resources) and to identify which aspects may need to be harnessed or modified in order to achieve precisely identified strategic objectives (for instance to increase the winter occupancy rates by 20% by designing and offering “Christmas on the Farm” holiday packages). A business plan would also help Sophie apply for more funding (especially as options 2 and 3 are very costly).

[1 to 2 marks]

For **[1 mark]** the answer shows some knowledge and understanding of what a business plan is/covers, yet without referring to Sophie and *Les Maisonnettes*. For **[2 marks]** the answer makes some links between the need for a business plan for *Les Maisonnettes* and the formulation of growth objectives.

[3 to 4 marks]

For **[3 marks]** the answer is clear but may contain some minor omissions (for example no reference to the exact contents of a business plan, or a marked absence of key concepts such as “vision” or “long-term objectives” or “strategic” or “growth” or development”). For **[4 marks]** the answer clearly outlines how writing a business plan would help Sophie, establishing clear links between the business plan itself and the need for *Les Maisonnettes* to formulate strategic objectives. The terminology of business planning is correctly used.

- (b) Explain *one* cost and *one* benefit to *Les Maisonnettes* of being a small organization.

[4 marks]

For *Les Maisonnettes* the costs of being a small organization include:

- limited capital/resources for internal growth and for spending in general (need to borrow money for any project, see *lines 15–16* and *line 90*)
- limited pool of ideas and limited experience (Sophie and her parents do not have previous knowledge and experience of running an eco-tourism business, see *line 6*).

For *Les Maisonnettes* the benefits of being a small organization include:

- full control and ownership (which is why Sophie does not favour option 4, *lines 181–182*)
- possibility to introduce new products rapidly (*e.g.* programme of outdoor activities *line 85*).

Mark as 2+2.

Award [1 mark] for each relevant and correct cost/benefit identified and [1 mark] for each appropriate explanation of the cost/benefit, up to a maximum of [2 marks].

- (c) **Analyse the effects of the introduction of e-commerce to future marketing strategies for *Les Maisonnettes*.**

[7 marks]

(Lines 128–134) “Changes in technology and e-commerce have combined to provide more opportunities for independent travellers booking holidays using websites. In order to respond to this trend, Sophie knows she must react by setting up a business website with online booking facilities. Published reports suggest that her target market is increasingly likely to book online. Sophie is also aware of the power of the Internet to help develop links with other eco-tourist providers. The Internet can offer a forum to strengthen the ideals of the eco-tourism movement and also to raise awareness of *Les Maisonnettes*”.

The case study already highlights why Sophie is considering e-commerce for *Les Maisonnettes*. Some of the marketing reasons are outlined in the text itself: her target market (mainly composed of middle class eco-tourists) tends to book online (they were probably some of the early adopters of that technology). This can be analysed as the P for “process” in the 7Ps marketing mix model for services; it could also be analysed in terms of distribution (the website as distribution channel for booking), communication (about the products and services Sophie offers) and promotion (not only direct advertising from her own website, but also indirectly through links to and from other websites, including the *AFE* and *Logis de France*). Complementing this marketing dimension, the Internet could help Sophie strengthen and develop her ideological project (about eco-tourism and sustainable development).

There are also some costs, especially financial costs. As Sophie herself does not have the knowledge and skills to develop an e-commerce website, she would need the professional services of a specialist (a consultant, a web designer – someone who understands the needs of small businesses such as Sophie’s). This could be a financial burden, notably as her current budget is very tight (especially in terms of cash and liquidity, Appendix 4). She would also need to employ someone to maintain the website, to process the online bookings *etc.* It could later be the responsibility of one of her international students (*line 109*), but at first Sophie would need to set up a system to implement e-commerce. The idea may be appealing, but in practice it may prove complex. It is also a new type of marketing for her, with a steep learning curve (as marketing and e-marketing are different: she would need, for example, to adapt her promotional activities and her booking procedures).

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

SECTION B

4. (a) Describe *two* differences between the marketing of goods and the marketing of services (*lines 65–66*).

[4 marks]

The marketing of services builds upon the marketing of products: it includes the same elements (the 4Ps of the marketing mix: Product, Price, Place and Promotion) but three others are added (Process, People and Physical evidence) resulting in the so-called 7Ps model. This is because services have some particular characteristics (that products, *i.e.* “goods” and “objects”, do not have): services are intangible, inseparable, perishable and variable. Sophie offers services rather than products: *Les Maisonnettes* is an experience as opposed to just the material aspects (the food eaten in the restaurant). She has come to realise that she needs to change her marketing approach (*line 65*), paying more attention to aspects such as process developing online booking, *line 130*), people (her staff who may require extra training) and physical evidence (using the fact that her buildings and setting present a real asset, *lines 17–18*). According to marketing experts, marketing a service is more difficult than marketing a tangible product, so Sophie’s task (reviewing her marketing strategy) is not an easy one.

Mark as 2+2.

Award [1 mark] for each relevant and correct difference identified and [1 mark] for each difference described up to a maximum of [2 marks].

- (b) (i) Explain *two* disadvantages for *Les Maisonnettes* of operating in a niche market (*line 40*).

[4 marks]

The disadvantages for *Les Maisonnettes* of operating in a niche market include the following:

– “Eco-tourism is a relatively small niche market but is growing rapidly” (*lines 39–40*): as there are few barriers to entry, new businesses may enter the market and compete directly with Sophie. She is lucky as the main local competitor (*Sanctuary*) does not target the same customers – but there is a high risk of competition that would seriously endanger *Les Maisonnettes*. Sophie needs to make sure she keeps differentiating her products; it is not the case at the moment (*lines 82–83*), but she has good ideas (*e.g.* a new USP about offsetting travellers carbon footprints, *lines 140–141*).

– A lot of work (market research and analysis) is spent focusing on the eco-tourism niche market, in order to understand its specific needs to learn to serve them better, including the ongoing evolution of their demands and expectations. Being part of professional organizations such as the *AFE* can help Sophie keep learning about the eco-tourists she targets (*lines 60–62*), but, should the fashion for eco-tourism change, Sophie would not be able to start targeting other potential customers straightaway (*e.g.* elderly tourists “grey tourism” or gay and lesbian tourists “gay tourism” are increasingly lucrative and relatively untapped market segments).

– Her niche market limits her possibilities for expansion and extension (in the Ansoff matrix, she cannot develop new products, which limits her strategic options to market penetration and market development). She runs the risks of constraining herself too much. Statistics are promising (a 25% annual growth rate in the sector, *line 136*) but Sophie could end up limiting her strategic options too much. Sophie is dependent on eco-tourism, yet all tourism niches are subject to change: tourism is a fickle and fragile industry. The presence of the airport and motorway may ruin her image, which is why she regards them as threats (*line 144*).

Mark as 2+2.

Award [*1 mark*] for each relevant and appropriate disadvantage identified and [*1 mark*] for each relevant and appropriate explanation of the disadvantage, up to a maximum of [*2 marks*].

- (ii) **Explain how Sophie could develop her human resource requirements to cope with variations in demand for accommodation.**

[4 marks]

The seasonal influences at *Les Maisonnettes* follow a regular, cyclical and predictable pattern. Based on 2008, there is very low occupancy in winter (French winter: November to February), medium occupancy in spring (March to May) and autumn (October), and high peak in summer/autumn (June to September). In the high season, Sophie would logically need to hire more staff (both part-time and full-time) whereas in the low season she could run and manage the business on a very low staffing basis. Planning human resources is particularly complex with regard to these part-time workers, for several reasons: they may not feel as committed to the business, training and retraining them may prove expensive, not to mention the competition from *Sanctuary* (line 113). Even the option of offering accommodation to international students may not be entirely satisfactory: they would live on-site but would have little to do in winter (unless Sophie decides to develop new products to attract customers then, knowing that she has the human resources available).

[1 to 2 marks]

For **[1 mark]** the answer is limited and not developed beyond the obvious. For **[2 marks]** the answer shows obvious understanding of the issue, yet it is rather descriptive.

[3 to 4 marks]

For **[3 marks]** the answer shows a good understanding of the issues (the relationship between the variation in demand and the variation in staffing needs/level) but with minor omission or a lack of detail or terminology. For **[4 marks]** the answer is a clear explanation with precise references to the case study, with evidence of use of business terminology.

- (c) **Recommend changes to *two* elements of the existing marketing mix to help Sophie minimize the effects of fluctuations in demand for accommodation at *Les Maisonnettes*.**

[8 marks]

The seasonal fluctuations in demand have detrimental effects on Sophie because of the “lost income” (or rather: “potential income not earned”). To minimize these effects, the seven elements of the marketing mix (Product, Price, Place, Promotion, Process, Physical Evidence and People) could be modified, for example:

- With regard to Product, Sophie could introduce new products in winter (“Christmas on the Farm”) to attract more customers in the low season, especially as weather conditions get better, with milder winters (*line 145*) as a consequence of global warming. She could also offer more activities in the summer so as to maximize her summer income as a counterpart for the winter low.
- With regard to Price, Sophie could adopt a more sophisticated pricing strategy, especially with differentiated prices per season (especially ensuring higher revenue in summer which would indirectly compensate for the effects of seasonal fluctuations). At the moment, she charges the same amount throughout the year (*line 63*); lower prices in winter could attract other customers (maybe some who are less well-off than the typical customer).
- With regard to Place, (which does not refer to the location of the *Les Maisonnettes* but to distribution channels!) Sophie could work with tour operators specialized in eco-tourism in order to find ways to attract customers in the off-peak seasons.
- With regard to Promotion, Sophie could concentrate her promotional efforts on the months when occupancy is low, either directly (especially if she develops her own website, *line 130*) or indirectly (through the *AFE*).
- With regard to Process, Sophie could improve her reservation systems (the online booking system could be very useful in that respect, *line 130*); she could ask for deposits online or other tactics to earn slightly more on all fronts (indirectly minimizing the effects of seasonal fluctuations).
- With regard to Physical Evidence, Sophie could ensure that *Les Maisonnettes* is as welcoming in winter as it is in summer. As she offers a combination of “goods” and “services” (*lines 65–66*) she could further enhance the ethical/ideological message and develop a USP justifying higher prices and attracting more customers off-season.
- With regard to People, Sophie could employ specialized staff for existing activities (outdoor activities, *line 85*) or even new ones (*e.g.* French classes), especially in winter.

Candidates are asked to write about two elements – their recommendations may be linked (as the 7Ps are related) but the two elements must be precisely identified.

If the response is a one-sided relevant approach with no recommendation, award a maximum of *[4 marks]*. If only one element is addressed the maximum is *[5 marks]*.

Marks should be allocated according to the markbands on page 4.

SECTION C

5. (a) **Identify *two* driving forces for, and *two* restraining forces on, Sophie’s proposals to change the operations of the business.** **[4 marks]**

Driving Forces:

- Sophie’s eco-tourism ideals and vision for the business
- a surplus of holiday accommodation in the region
- potential competition from *Sanctuary* and need to differentiate her business
- a lack of staff reliability and poor punctuality at *Les Maisonnettes*
- high levels of staff turnover in the shop
- a desire to grow her business
- new EU legislation on health and safety
- more independent travellers using online booking
- the new airport and the arrival of the Budget airline *Air-Fare*
- falling profit margins and room occupancy.

Restraining forces:

- the relatively small size of the business and lack of economies of scale
- poor economic forecasts and the effect of income elasticity of demand
- difficulty in retaining staff and poor reliability
- local labour shortages
- few barriers to entry and future poor profit levels to fund expansion
- possible cash flow and liquidity problems
- need for retraining of staff to be compliant with EU regulations
- poor e-commerce presence.

Mark as 2+2.

Award **[1 mark]** for each relevant and appropriate driving force identified up to a maximum of **[2 marks]** and **[1 mark]** for each relevant and appropriate restraining force identified up to a maximum of **[2 marks]**.

- (b) Explain how the proposed strategy for developing the human resources of *Les Maisonnettes* may affect employee motivation and performance and staff turnover.**

[8 marks]

A clear problem for the business is staffing. This relates to:

- unreliability
- poor training
- reliance on friends
- low wages offered
- fear of staff moving to competitors and away from the region.

All these problems point to lack of motivation, performance and retention. The key is how the proposed strategy can address these problems.

The proposed strategy for developing human resources involves:

- a more formal organizational structure
- the offer of share options and performance bonuses
- promoting a shared vision for the business.

A more formal organizational structure will mean that staff have a clearer idea of responsibilities and accountability. They will know what their duties are and who they are responsible to and for. Being given a specific role should allow Sophie to appraise performance more easily and allow her to delegate specific functions.

The offer of share options and performance bonuses links reward to efficiency and performance; it should create a shared motivation to see the business grow. This should result in the holiday experience improving for clients. The basic salary can be kept relatively low, but the incentive of a share of profits and ownership should allow Sophie to retain more staff with a more professional and focused approach.

Promoting a shared vision for the business should mean that employees feel involved and respected, which should also impact on their performance and their willingness to be loyal to the business and its ideals.

It is possible that the proposals may not be significant enough to improve staff retention if alternative employers offer greater benefits.

[1 to 2 marks]

A limited response, but with some understanding of the effects of the proposals on motivation, performance and retention.

[3 to 5 marks]

The explanation is relevant with some understanding of the concepts and an attempt to illustrate how the proposed strategy for developing the human resources of *Les Maisonnettes* may affect employee motivation, performance and retention. At the top of the band there is more detail and development of concepts. A maximum of **[4 marks]** should be awarded if the answer is completely generic.

[6 to 8 marks]

A clear, relevant and developed explanation of how the proposed strategy for developing the human resources of *Les Maisonnettes* may affect employee motivation, performance and retention. The concepts are well explained and linked to issues in the case study and supplementary materials. At the top of the band motivational theory may be used.

(c) **Analyse the role and importance of own-branding to *Les Maisonnettes*.** [8 marks]

Eco-Strat have helped Sophie develop her strategic options. Included in these is the proposal to own-brand a range of local produce under the family brand name, *Les Maisonnettes*. Own-branding exists where products are branded with the seller's name rather than that of the producer or manufacturer.

A brand is a name or design that differentiates the product from its competition. It is designed to:

- create and maintain brand loyalty and familiarity which encourages repeat purchasing
- allow the expansion of the brand because customers trust the existing brand
- to create added value by offering the consumer a perceived advantage over competition
- to aid recognition when customers are purchasing products
- focus on the needs of the target market by providing the image required
- prevent copying of producers by competition if the brand is legally registered.

An own-brand is a form of family brand and can become a distinct element of *Les Maisonnettes*' marketing mix. By creating the *Les Maisonnettes* brand, Sophie will hope to develop her ecological credentials. She will be able to use the brand as part of her marketing mix and should have the potential to charge a premium price. By own-branding *Les Maisonnettes* becomes associated with the best local products and this image should be transferable to all aspects of her operations. Clearly this will depend on her ability to select appropriate products and to maintain the quality and credentials she wants for her brand. *Les Maisonnettes* will not have the expense of production themselves and can source from other suppliers if problems occur with a particular supplier.

Own-branding should also allow Sophie to differentiate her shop from competitors.

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

- (d) Using information contained in the case study and Items 1 to 7, and with reference to *Eco-Strat's* proposals, to what extent can Sophie achieve her strategic goal to market and operate the business more effectively (Option 1)?

[10 marks]

It should be recognized that, given time constraints, answers are likely to include a **much** narrower range of issues and concepts than identified below. There is no “correct” answer.

Examiners **must** be prepared to award full marks to answers which synthesise and evaluate even if they do not examine all the stimulus materials.

The answer should be considered within a strategic framework of:

- where *Les Maisonnettes* is at present (strategic analysis)
- the option selected by Sophie to improve the operations and marketing of the *Les Maisonnettes* over the coming few years (strategic choice)
- whether *Les Maisonnettes* will be able to achieve its objectives (strategic implementation).

It is to be expected that the answer will include relevant information from the case study, extension material and Items 1 to 7 and employ a range of business concepts, tools and terminology.

Better answers will compare the options on a number of levels including:

- risk
- Sophie’s aims and ambitions and external factors such as her parents’ wishes and needs
- the nature of the market place and the likelihood of change
- strategic focus and the nature of the target market.

Item 1 provides information about the proposed organizational chart. This clearly shows that individuals have specific roles and clear responsibilities. It also brings the shop into the main organizational structure and shows an increase in staffing levels with the corresponding increases in costs.

The economic data (Item 2) indicates:

- a slowdown in the French and UK economies in 2011, in conjunction with higher inflation. However, it also raises the return to higher growth levels in 2012 which offers the prospect of improved future prospects if the business can survive.
- higher interest rates in 2011 which may affect Sophie’s return on investment and the ability of tourists to borrow to fund their break. This may reduce the tourist market, but it will depend on the price and income elasticity of demand for the two types of holiday.
- the weakening of the pound against the Euro, which will make Sophie’s holidays appear to be more expensive to UK customers.

The memo (Item 3) identifies that Sophie has a clear vision for the business and is pursuing the recommendation to involve staff in its development and implementation. The corporate objectives should provide a sound foundation for future strategic planning. It also provides the business with potential competitive advantage. Firms that possess strong core values tend to perform better in the market place and this approach offers a real opportunity to develop a USP.

The ability to operate the business effectively may be compromised by liquidity and cash flow problems. The forecast cash flow for *Les Maisonnnettes* (Item 4) for March to August 2010, indicates that the business will have negative cash flow and an overdraft between April and July rising to €15 000 in June. Clearly this will need to be managed and Sophie will need to clear this with her bank. However, in the context of the business's financial strength and the fact that the business has positive cash in July and August, means that this is manageable in the context of a seasonal business.

Item 5 shows a competitive analysis (Porter) of the eco-tourism industry in the region. The important features for the business are that potential competition is increasing and there are few barriers to entry in the market. It is quite clear that *Les Maisonnnettes* must persuade customers that its "offer" is different to other holiday options or it will surely fail.

The estimated elasticities of demand for eco-tourism (Item 6) indicate that the business is quite price inelastic which provides the opportunity for premium pricing. However, the business is more income elastic, particularly where the French are concerned. Interestingly, the product appears responsive to increased advertising. It may well pay Sophie to examine promotional opportunities as a means of increasing overall revenues and profits.

Projected visitor numbers (Item 7), show that the region will be increasingly popular amongst the French, but there will be a dip in visitors from the UK in 2011. This may affect Sophie's planning in terms of her marketing mix. She will need to decide who her target audience is.

Whether or not Sophie can achieve her strategic goals to improve marketing and operations will depend highly on the response of the parties with whom she is hoping to create joint ventures. If she can persuade them of the benefits there are certainly improved revenue opportunities. The idea of promoting local products and being environmentally sensitive will probably appeal to customer and firms wishing to reduce their "carbon footprint". The airline, *Fly-Fare*, for instance may have a vested interest in trying to promote itself as "eco-aware". Clearly Sophie's proposals should position *Les Maisonnnettes* as a genuine and credible eco-tourist destination.

The idea of creating the shop as a separate profit centre will make Sophie focus on the contribution of this to her business and improve financial control. Strategically, she may be able to use this as a valuable extension opportunity for her brand.

Given the volatile nature of the market and the relatively small size of the business, *Les Maisonnettes* is vulnerable especially as the external environment is unstable. Nonetheless, the proposals offer the business a potential opportunity for growth.

Discussion may be supported by financial data and the use of relevant financial ratios. Some supported conclusions should be reached, such as a recommendation on a particular approach. Candidates may conclude whether the business is likely to be successful.

Marks should be allocated according to the markbands on page 5.
