



MARKSCHEME

November 2012

BUSINESS AND MANAGEMENT

Higher Level

Paper 2

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A		Section B			Level descriptors
Q1 (f)	Q2 (d)	Q3 (c)	Q4 (c)	Q5 (d)	
Marks 0–6					
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 reference is made to the information in the stimulus material. The response is mainly theoretical.
3–4					<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 stimulus material, not just to the name of the organization.
5–6					<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 stimulus material.

Section B			Level descriptors
(d) questions			
Q3 (d)	Q4 (d)	Q5 (e)	
Marks 0–9			
0			
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 stimulus material.
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 stimulus material, not just to the name of the organization. • The response is mainly theoretical.
5–7			<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 stimulus material are made at places in the response.
8–9			<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 stimulus material are made throughout the response.

SECTION A

1. (a) Describe *one* strength and *one* weakness of *EEB* using a straight line method of depreciation.

[4 marks]

The strength(s) of a straight line method of depreciation could include:

- it is a simple method provided Maia, the Finance Manager, knows the initial costs, the life expectancy of the asset and possibly the scrap value
- it assumes that the cost of an asset is written off in equal amounts over its life hence this method is easy to calculate.

The weakness(es) of a straight line method of depreciation could include:

- most assets, especially electronic ones like computers and also software depreciate more in the early part of their life
- therefore, writing off the same amount of money as opposed to the same percentage each year, can provide *EEB* with misleading figures of net book value (higher) and depreciation allowance (lower in the early years).

Accept any other relevant strength or weakness and description.

Mark as 2+2.

Award *[1 mark]* for a relevant and correct strength/weakness identified and *[1 mark]* for a relevant and correct description with application to *EEB*, up to a maximum of *[2 marks]*.

It is expected that the candidates refer to *EEB*. Award up to a maximum of *[3 marks]* if there is no reference to the stimulus/*EEB*.

- (b) Calculate the payback period for Option A (*show all your working*). [2 marks]

Cost of Option A: \$20 000

Net return:

\$1000 – \$500 for insurance=\$9500

\$20 000 – \$9500 (1 year) = \$10 500

$$\frac{10\,500}{11\,500} \times 365 = 333.26 \text{ days}$$

Accept 1 year and 333.26 days, or 1 year and 10.9 months, or 1 year and 11 months.

Award [1 mark] for correct method and [1 mark] for the correct answer up to a maximum of [2 marks].

Award [1 mark] if the net annual return is not calculated

- (c) Calculate the average rate of return (ARR) for Option B (*show all your working*). **[4 marks]**

In order to calculate the ARR, the net annual return has to be calculated.

Year	Expected revenue/return in \$
1	$14\ 000 - (12\ 000 + 2000) = 0$
2	$16\ 800 - (15\ 000 + 2000) = -200$
3	$23\ 800 - 2000 = 21\ 800$
4	$28\ 000 - 2000 = 26\ 000$

ARR for option B:

$$\$47\ 600 - \$40\ 000 = \frac{7600}{4} = \$1900$$

$$\frac{\$1900}{\$40\ 000} \times 100 = 4.75\%$$

Award up to a maximum of **[3 marks]** for working and **[1 mark]** for the correct answer up to a maximum of **[4 marks]**.

Award up to a maximum of **[2 marks]** if the **net** annual return is not calculated and the candidate used the raw figures.

- (d) For both Option A and Option B, calculate the net present value (NPV) using a discount rate of 4 % (show all your working). [5 marks]

Allow candidate Own Figure Rule (OFR) from calculations in part (c).

NPV for Option A:

Years	DCF/return in \$
1	$9500 \times 0.9615 = 9134.25$
2	$11\,500 \times 0.9246 = 10\,632.9$
3	$16\,500 \times 0.8890 = 14\,668.5$
4	$19\,500 \times 0.8548 = 16\,668.6$
Total DCF	51104.25
NPV	$51104.25 - 20\,000 = 31104.25$

NPV for Option B:

Years	DCF/return in \$
1	$0 \times 0.9615 = 0$
2	$-200 \times 0.9246 = -184.92$
3	$21\,800 \times 0.8890 = 19\,380.2$
4	$26\,000 \times 0.8548 = 22\,224.8$
Total DCF	41420.08
NPV	$41\,420.08 - 40\,000 = 1420.08$

Award [1 mark] if only the final answer is presented per option and the answer is correct.

Award [1 to 2 marks] for some relevant calculations which may include more than two mistakes. The calculations (workings) may not be clear.

Award [3 marks] for correct calculations (workings) and clear presentation of one option.

Award [3 to 4 marks] for mostly correct calculations (workings) and clear presentation of the NPV method for both years. Allow for one mistake per option.

If the net annual return is not calculated award up to [4 marks].

Award [5 marks] for correct calculations of both options. The figures and the calculations are shown and are clearly presented. For full marks the candidates should have calculated the net annual return per option to start with.

- (e) Explain *one* advantage and *one* disadvantage for *EEB* of using the NPV method of investment appraisal.

[4 marks]

Possible advantages of the NPV method could include:

Maia, the Finance Director will incorporate future earnings into today's value. It is a more accurate method as the decision is made in the present while the return is predicted for the future. Normally money in the future is worth less than the current value, so Maia can calculate the present value of the return on investment taking into account the effect of interest rates and time. If the NPV is positive the investment should be taken on a financial basis. The other methods do not incorporate discounted cash flow. When comparing two or more options as in this case, Maia can clearly see that Option A gives the highest NPV. Maia can also compare the effects of different discount rates.

Possible disadvantages of the NPV method could include:

It might be difficult for Maia to decide on the most accurate discount factor especially if the inflation rate and interest rate fluctuate considerably. An accurate rate is crucial for *EEB*. The discount rate of 4% might not be accurate, which may lead to the wrong decision. As with the other methods Maia relies on estimated data on the return generated by the investment. Given changes in the external environment, especially technological changes, the figures are likely to be overestimated. The predicted/estimated figures are likely to make the decision taken in the present more favourable.

Accept any other relevant advantage or disadvantage and explanation.

Mark as 2+2.

Award [1 mark] for a relevant and correct advantage/disadvantage identified and [1 mark] for a relevant and correct explanation with application to *EEB*, up to a maximum of [2 marks].

Do not credit responses that are generic and refer to the advantages of investment appraisal rather than to the use of the NPV method.

(f) Examine Maia’s choice of Option B.

[6 marks]

Arguments in support of Maia’s decision to opt for Option B:

Financial considerations:

Although the ARR is considerably lower than Option A, 4.75% is still higher than the current discount factor of 4%, assuming that it is based on the current interest or inflation rate in the economy. It is therefore still financially viable.

The NPV for Option B is positive, hence the investment is viable. However, the figure is not very high and is significantly lower than the NPV of Option A. Moreover, Maia might have realized that the best investment appraisal method should have been the payback period given the rapid change in technology. Hence, the favourable financial result of investing in Option A might not have impressed Maia that much.

Non-financial considerations:

EEB may gain a competitive advantage in the market. The new system can potentially be used to develop a USP for *EEB*. It will enable the company to reach a larger volume of customers and to compete globally. *EEB* is currently profitable and has the cash to invest. The significant higher costs of Option B are not seen by Maia as a hindrance for *EEB*. System B is a secure one – a very important advantage for an online operator. Other operators reported some security issues with Option A. *EEB* will not have to face frequent breakdowns of the software that might endanger its reputation and reduce efficiency and quality of service.

Possible arguments against:

Option B will also last for 4 years only. *EEB* will have to update the computer system at a further considerable cost in 4 years time anyway. This is the same replacement time if Option A is chosen. The remaining employees might be unmotivated due to a fear of further redundancy. Given the fact that *EEB* operates in the service sector, employees’ effort and performance is of vital importance. A 15% reduction in employees is a significant one. *EEB* is known for its service quality. This USP may be eroded.

Accept any other relevant issue for and against.

It is not expected that the candidates will reach a final judgment. It does look, however, that the Finance Director’s attention was paid more to the non-financial issues given the comfortable financial situation that *EEB* is in.

To achieve the top markband candidates must give a balanced examination of two possible arguments for and two possible arguments against Maia’s choice.

For one relevant argument for and one relevant argument against award up to a maximum of **[3 marks]**.

If the response is a one-sided relevant approach which includes two issues or more with no balanced examination, award a maximum of **[4 marks]**.

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

2. (a) **Outline the importance of the balance sheet to *two* stakeholder groups of *BP*.**

[4 marks]

The balance sheet shows the asset structure and the liabilities both short and long term of *BP* and is also a measure of a company's liquidity and as such can be important to a number of stakeholder groups:

- potential shareholders/investors – this may affect their willingness to invest in the company. They will be interested in the liquidity position as well as the current share capital of *BP*.
- Management – The Operation Manager may be interested in the amount of stock being held, the Finance Manager may be interested in the working capital and cash position and will pay particular attention to the amount of debtors.
- pressure groups – the asset structure may affect the amount of any fines and compensation argued for.
- local community – may be interested in liquidity as the position may affect trade and employment possibilities.
- Financial institutions / creditors – the ability of *BP* to payback their liabilities / loans taken.
- *Accept any other relevant stakeholder group.*

Mark as 2+2.

Award **[1 mark]** for a relevant and correct stakeholder group identified and **[1 mark]** for a correct outline of the importance of the balance sheet to the stakeholder group identified with application to *BP*, up to a maximum of **[2 marks]**.

- (b) (i) Using the information in the selected items from *BP*'s balance sheet, calculate the loan capital (figure X) and construct a balance sheet for *BP* as at 31 December 2009.

[5 marks]

Balance sheet for <i>BP</i> as at 31 December 2009		
	US\$m	US\$m
Fixed assets		250 000
Depreciation	40 000	
Total (net fixed assets)		210 000
Current assets		
Stock	25 000	
Debtors	35 000	
Cash	5 000	
Total assets		275 000
Current liabilities		
Creditors	30 000	
Short-term borrowing	29 000	
Total		59 000
Net assets		216 000
Share capital	100 000	
Loan capital	44 000	
Retained profit	72 000	
Capital employed		216 000

Apply candidate Own Figure Rule (OFR).

[0 marks]

An incorrect balance sheet and incorrect format and no title.

[1 mark]

An attempt to prepare a balance sheet, but there are a number of errors in the calculation, format or the title.

[2 to 3 marks]

A generally correct balance sheet with a number of minor errors in calculation, the format of the accounts or in the title.

[4 to 5 marks]

For [5 marks] the balance sheet is completely accurate, detailed and appropriately formatted and with the correct title. For [4 marks] there may be up to two minor errors, one in calculation, and the other may be a slight incorrect format or an incorrect title.

- (ii) Explain how *two* of the financial consequences of the disaster will appear on *BP's* balance sheet as at 31 December 2010.

[4 marks]

Candidates should consider the impact of two of the following events directly on the balance sheet:

- The loss of the oil drilling platform – depreciation of assets/loss of assets will increase under fixed assets. Net fixed asset will therefore be lower.
- The costs of stopping the leak 250 metres below the sea – increase in expenses on the P&L therefore a fall in retained profits for 2010 on the P/L and hence a smaller transfer to retain profit on the B/S, also possibly an increase in creditors, or any types of short-term debt as they have to pay for the extra expenses.
- The cost of the clean-up operations – increase in expenses on the P&L therefore a fall in retained profits for 2010, or possibly an increase in creditors as they have to pay for the extra expenses. Cash may also fall as *BP* might use cash to start with.
- The fall in share price – this would have no impact on the balance sheet. The balance sheet records the share capital raised by selling the shares initially. Any future share price movements affect the shareholder – not the business.
- The loss of brand image – a fall in intangible fixed assets balanced.
- Compensation to regional businesses – increased current liabilities and/or reduction in cash available.
- Compensation to the families of the workers killed – increased current liabilities and/or reduction in cash available.

Accept any other relevant effect and explanation.

N.B. Do not reward a response that refers to the P/L only without linking it to the B/S.

Mark as 2+2.

Award [1 mark] for a relevant and correct consequence identified on the balance sheet and [1 mark] for a relevant and correct description of why the item appears as it does on the balance sheet for *BP*, up to a maximum of [2 marks] per consequence.

- (c) Explain *three* possible ways in which *BP's* marketing department could have better managed the public relations (PR) crisis, to limit the damage to *BP's* reputation.

[6 marks]

Public relations (PR) play an important role in communicating messages. The perception of *BP's* ineffective actions and the subsequent loss of goodwill led to the PR crisis.

Possible ways in which *BP's* marketing department could have better managed the PR crisis, to limit the damage to *BP's* reputation include:

- By having a specialist media centre to communicate with the general public through various media. Care should have been taken to choose an appropriate channel and media of formal communication. For example, by having a specialist media centre to communicate with the general public. The enormity of the task been taken on should have been presented to the public.
- The CEO should have been briefed so as not to give misleading “quotes” to the media.
- The media team could have worked more closely with the politicians and media to ensure correct information was given.
- *BP* should have been seen to respond more quickly, not only to the drilling platform explosion, but also to the clean-up.

Accept any other appropriate PR method / suggestion to manage the crisis.

Mark as 2+2+2.

Award [1 mark] for a relevant and correct method / suggestion identified and [1 mark] for a relevant and correct explanation of that method / suggestion applied to *BP*, up to a maximum of [2 marks].

(d) The table below shows selected ratios for *BP* for 2008 to 2010:

Ratio	2008	2009	2010
Liquidity:			
Acid test (quick) ratio	0.7	0.8	0.4
Gearing (%)	19	20	35
Shareholder:			
Dividend yield (%)	5	5	0
Profitability:			
Net profit margin (%)	11.4	12.3	4.5

[Source: adapted from finance.yahoo.com, 18 August 2010]

Using relevant information and the ratios above, analyse the likely impacts of the disaster on *BP*'s future financial performance.

[6 marks]

Liquidity:

It is clear that given the ratio, *BP* is having a financial crisis. The acid test ratio is very low as it should be around 1. One may argue that liquidity crisis is the main cause of financial ruin and the priority of the management should be on solving the liquidity crisis. The company is likely to see a further decline, especially if the downward trend continues, which could lead to further cash-flow problems in the future. Overall the business is in danger if a further untoward event happens.

However, one may argue that given the nature of the organization, the current ratio is perhaps more significant as oil is stocked and is likely to be sold even if demand falls. Moreover, the low acid test ratio may force the management to take more immediate action to solve the problem now. Given the low gearing ratio and the fact that it is still profitable, *BP* is likely to be able to secure a loan from the bank.

Gearing:

Gearing indicates that whilst the amount of borrowing compared to issuing shares is almost double that of 2008 some banks may be reluctant to lend funds to *BP* given the pressures from the media and pressure groups. However, *BP* is still a low geared organization. The management will need to monitor this ratio carefully.

Shareholder:

The fall in dividends can be attributed to the loss of assets and would worry future investors as well as existing shareholders. *BP* may lose out especially in the long term as the loss of potential in particular US investors may harm the growth of the business. Also it may encourage institutional investors to sell *BP* shares, pushing *BP*'s share price downwards and would also make a possible "rights issue" less attractive.

However, with the appropriate PR and possibly through holding a shareholders' meeting, the CEO and other top management could explain the reasons for the zero dividend and reassure investors of the future direction of the organization.

Profitability:

There appears to be a major decline in profitability as *BP* is likely to see a sharp fall in custom – particularly from US customers. Also the writing off of assets will have a major impact on expenses and therefore net profit, thus leaving less funds for reinvestment. Whilst this sharp rise in expenses is likely to be short term, the fall in sales may reflect a significant change in consumer buying patterns and so should worry *BP*.

Nevertheless, *BP* is still profitable and with the right financial and marketing strategy to pacify investors, pressure groups and the media, the fall in demand for such a price elastic good might not be as large as expected. Still, one may argue that the dangerously low acid test ratio is much more significant for *BP* and highly likely to negatively affect their financial performance.

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

To reach the top markband all four ratios (liquidity, gearing, shareholder and profitability) should be analysed.

N.B. If a candidate only describes the changes in the ratios award a maximum of [***3 marks***].

SECTION B

3. (a) **Describe *two* practices of a Kaizen approach to manufacturing.** **[4 marks]**

Some of the practices of a Kaizen (continuous improvement) approach to manufacturing may include:

- just-in-time (JIT) production and stock management, whereby the stock is ordered and production begins when an order has been made
- shorter development time
- zero defect policy that aims to prevent defect rather than correct defects
- the use of quality circles where employees are encouraged to suggest practices to improve quality
- group/team work with flexible specialization.

Accept any other relevant practice.

N.B. It is expected that the candidate describes, rather than just lists, the nature of each of the chosen practices.

Mark as 2+2.

Award **[1 mark]** for each correct practice identified and **[1 mark]** for each relevant and correct description, up to a maximum of **[2 marks]**.

- (b) Explain *two* methods of research that *Toyota's* marketing department could use to improve its relationship with customers.

[6 marks]

The answer is largely about market research in order to become a more customer-focused organization and the development of relationship marketing.

Some of the methods may include the following:

Toyota's marketing department can make use of primary research to build relationship marketing.

Modern technology could be used to build a constant relationship with customers and create a database of information of the customers purchasing habits, with constant communications about their experiences from using their car. Customers could be sent a post-purchase online questionnaire to ask for feedback on the quality of their current car purchased. Suggestions could be collected regarding improvement, needs, taste and preference. Through listening, models can be adapted accordingly and information can be used to change future models.

Other primary research methods to achieve the above:

- use focus groups and/or consumer panels
- test marketing to monitor reaction before a full launch of a new model
- postal survey of customers needs, feedback, reaction, *etc.*

Secondary research can also be used by *Toyota*:

- the use of internal and external data like: past customer complaints, existing reports on past defects
- industry reports on taste/preference/safety issues/advanced technology.

Accept any other relevant suggestion/method and explanation.

It is expected the candidate fully explains the nature of each of the chosen method of research and how each method actually enables *Toyota* to improve the relationship with its customers.

It is not expected the response will cover both primary and secondary research.

Mark as 3+3.

Award [1 mark] for identifying each appropriate method of research, [1 mark] for an appropriate explanation that directly refers to *Toyota* in the car industry and [1 mark] for a further development of this explanation up to a maximum of [3 marks].

- (c) **Examine *Toyota*'s decision to outsource "production activities of some car parts to overseas manufacturers".**

[6 marks]

Possible arguments in favour of *Toyota* "outsourcing production activities of some car parts to overseas manufacturers":

Toyota is a multinational company operating in many countries around the world. One can assume that *Toyota*'s managers wanted to take advantage of the outsourcing practice to local businesses with expertise/know-how in order to:

- use the "know how" of a specialist subcontractor
- reduce production costs due to specialist producers gaining economies of scale, using cheap labour, or using any relevant local advantages
- increase the speed of global expansion and entry into different countries
- get some government approval and develop a better relationship with the host government and the customers given the employment / revenue opportunities created
- reduce the lead time for the arrival of the components/parts given the close proximity
- avoid different methods of protectionism especially import tax
- allow *Toyota* to concentrate on its core competencies like design, technology, marketing *etc.*

Accept any other relevant point.

However, as stated in the stimulus material, the quality of some of the car components was compromised. *Toyota* was not able to control the quality of the outsourced parts. The outsourcing of production activities resulted in inconsistent quality, defects and damage to its reputation / market share / profit. On top of reputation and branding costs, the recall actually cost *Toyota* \$2 billion. This is probably as significant if not more significant than the saving made by outsourcing.

Once an activity is outsourced; it is often difficult to start reproducing a particular part if *Toyota* scaled down production facilities.

Accept any other relevant applicable issue and any relevant examination.

To achieve the top markband candidates must give a balanced examination of two possible arguments for and two possible arguments against outsourcing production activities.

For one relevant argument for and one relevant argument against award up to a maximum of **[3 marks]**.

If the response is a one-sided relevant approach with no balanced examination, award a maximum of **[4 marks]**.

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

- (d) **To what extent will *Toyota* be able to recover its reputation, core values and brand image?**

[9 marks]

As stated in the stimulus material, *Toyota's* ignored its core values of “safety first, quality second and volume third”. On the one hand one can argue that *Toyota* suffered irreversible damage to its brand image and customers’ trust in its core values. *Toyota* is perceived as a profit seeker that was willing to compromise on safety and quality.

The staff morale is low – their concerns were ignored. It might take years of investment in order to regain the trust of its customers. Such investment may result in short-term further loss or a fall in profit, market share and a possible further fall in share price. However, as presented in the stimulus, one can argue that the negative effects are largely short term.

Analysts believe that the president is the right person to deal with the problem. He has personal stake in the business. The crisis made *Toyota* realize how its strategic objectives changed for the worse. In crisis, it is often easier to implement changes without resistance. *Toyota* is likely to succeed in implementing some urgent and possibly imposed changes – as mentioned in the stimulus material.

Toyota already responded by pledging to implement new quality control standards, and set up a response team to investigate within 24 hours every defect reported. *Toyota* is going to pay close attention to customers’ feedback with its new procedures. Moreover, *Toyota* has some reserve of US\$23 billion to deal with the problem and to implement the required procedures. *Toyota* can probably withstand the current expenses / loss of revenue / fall in profit in the short term. Moreover, other car manufacturers have also experienced some defects which resulted in product recall. Such occurrences may enable *Toyota* to somewhat restore its brand image.

One may judge that *Toyota's* new practices to restore its reputation and core values are quite tangible and are truly genuine. These practices should enable the organization to improve the currently deflated brand image. Sales have already started to recover in America – they went up by 6 %, which is a relatively significant figure and demonstrates the fact that perhaps customers believe in *Toyota's* attempt to refocus and recreate the core values.

Despite some short-term difficulties, the actions taken increase the likelihood of recovering. *Toyota* is to a large extent likely to recover in the medium to long term. The newly established core values are highly likely to restore and improve its reputation and brand image. *Toyota* is likely to resume its leading position in the car industry.

Accept any other relevant substantiated judgment and discussion.

Candidates might argue that the damage done to *Toyota's* reputation and brand image is very significant and *Toyota* is unlikely to be able to overcome its current difficulties even by restoring its core values.

A balanced response is one that covers at least two arguments in favour and at least two arguments against and incorporates the significance of the arguments.

If the response is a one-sided relevant approach with no discussion, award a maximum of **[4 marks]**.

Award a maximum of **[5 marks]** if the answer is of a standard that shows balanced analysis and understanding throughout the response with reference to the stimulus material but there is no judgment/conclusion.

Candidates cannot reach the **[5 to 7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

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

4. (a) Describe *two* possible factors that have contributed to the growth of globalization.

[4 marks]

Some of the factors that have contributed to the growth of globalization are:

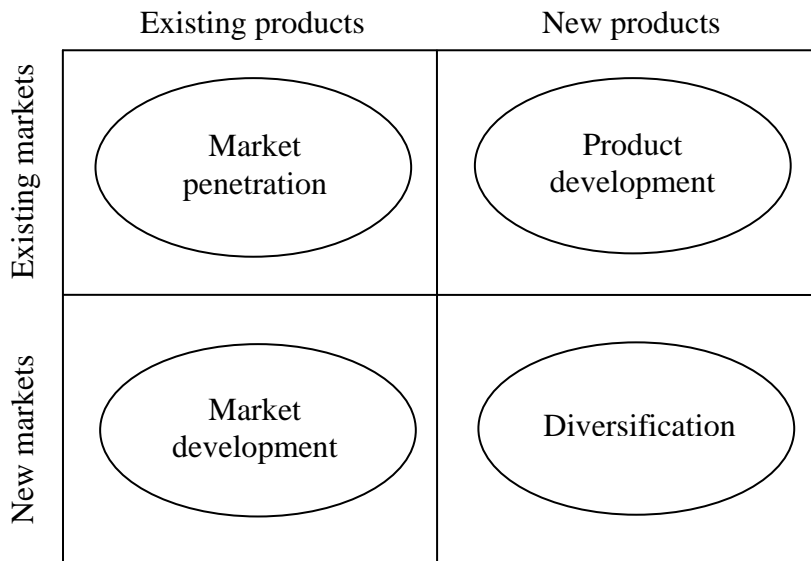
- rapid technological changes
- lower transportation costs
- lower cost and higher efficiency of communication
- deregulation of the financial markets
- the liberalization of trade
- the growth of emerging markets
- the convergence of consumers' tastes
- *accept any other relevant factor.*

The above is a list. It is expected that candidates describe the two factors that they identify.

Mark as 2+2.

Award **[1 mark]** for each correct factor identified and **[1 mark]** for each relevant and correct description, up to a maximum of **[2 marks]**.

(b) Draw the Ansoff matrix and use it to explain *two* of the growth strategies used by *McDonald's*[®]. [6 marks]



[Source: http://tutor2u.net/business/strategy/ansoff_matrix.htm, accessed 20 July 2012]

McDonald's[®] strategic growth can be classified as:

Product development:

- different products with different ingredients / different size for the same / current / existing national/international markets.

Market development:

- targeting new segments like young mothers who did not eat at *McDonald's*[®] before due to the large portions of its meals
- attracting health-conscious customers with more chicken-based products (an assumption is made that very few chicken products were offered before).

Market penetration:

- the upgrade of facilities for the existing and any new customers that previously have not used *McDonald's*[®] in the current / existing markets
- offering good value items to recession-prone existing and new customers.

Award candidates who see targeting new segments like young mothers with the “Little Tasters[®]” menu and possibly attracting health-conscious customers with chicken-based products as related diversification.

[1 to 2 marks]

A list is provided. The answer lacks considerable depth and application. No reference is made to the information in the stimulus material.

If the Ansoff matrix is accurately drawn but the growth strategies are just placed on it, award a maximum of **[2 marks]**.

[3 to 4 marks]

One relevant growth strategy is fully explained and applied. The Ansoff matrix is accurately drawn and labelled. Reference is made to the information in the stimulus material.

Or:

Two relevant growth strategies are identified or described, but the response lacks explanation and/or lacks constant reference to the information in the stimulus material.

If the Ansoff matrix is not drawn, award a maximum of **[4 marks]** even if an appropriate explanation is given for the two growth strategies.

[5 to 6 marks]

Two relevant growth strategies are fully explained and applied. The Ansoff matrix is accurately drawn and labelled. Reference is made to the information in the stimulus material.

(c) Analyse the possible impacts of multinational companies like *McDonald's*[®] on the host countries.

[6 marks]

Although the question may seem rather theoretical, nevertheless, it is expected that candidates make some reference to *McDonald's*[®] as a multinational company (MNC) and use information from the stimulus material.

Some of the positive impacts may include the following:

- *McDonald's*[®] provides employment and training to its employees in its restaurants. The quality of the labour force can increase.
- *McDonald's*[®] improved the menu choice: healthier food, local food so customers do not have to rely only on local food providers. Hence more choice is provided for the citizens.
- Global competition clearly exists in this market. Competition between *McDonald's*[®] and other food and drink suppliers like *KFC*[®] and *Starbucks*[®] can lead to reduced prices, an improvement in choice as well as improvements to the service to customers. Transfer of knowledge/ know-how (is done through franchising).
- It is mentioned in the stimulus material that *McDonald's*[®] (and other MNCs) source local construction material and local labour – more revenue in terms of expenditure and wages is injected into the economy. Wider economic benefits can be gained (the multiplier effect).
- *McDonald's*[®] tends to be profitable and is taxed by the host governments. Revenue is hence generated for host governments providing further positive consequences for the host economies.

Accept any other relevant positive impact.

However, being a dominating global company, one may argue that companies like *McDonald's*[®] encourage Western consumption of fast food around the world. Local competitors cannot compete with its resources/expertise and have to close down especially now when these MNCs actually adapt to local taste – Maharaja Mac[™], McLobster[®] *etc.* There is a danger that companies like *McDonald's*[®] actually monopolize a market rather than encourage healthy competition and choice. One may also argue that they destroy local ways of life. Local unemployment may increase if local businesses cannot compete. Due to some practices of transfer pricing and/or local government support, not much taxes on profit are paid to the host government.

Accept any other relevant analysis.

To achieve the top markband candidates must give a balanced analysis of two positives and two negatives of the impacts of MNCs like *McDonald's*[®] on the host countries.

For one relevant positive impact and one relevant negative impact award up to a maximum of **[3 marks]**.

If the response is a one-sided relevant approach with no balanced analysis, award a maximum of **[4 marks]**.

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

(d) Discuss the effectiveness of the “think locally, grow globally” strategy used by *McDonald's*[®].

[9 marks]

Based on the information in the stimulus material, it appears that the *McDonald's*[®] strategy of “think locally, grow globally” can be seen as successful. The evidence:

- Business has been booming in the UK – 13 million more customers visited *McDonald's*[®] in the UK in 2010 despite an economic recession.
- It achieved other local commercial success in Canada, India and Japan with its adaptation to local needs/taste/eating habits. It successfully launched products made from local produce and suited to local tastes such as the Maharaja Mac[™] in India, the McLobster[™] in Canada and the Ebi Filet-O[™] (a shrimp burger) in Japan. It is said in the stimulus “proved successful in the UK and beyond”. The above arguments can be judged as very significant ones.

However, *McDonald's*[®] has launched a global uniform initiative to redecorate its restaurant with uniform appearance. *McDonald's*[®] still tries to maintain the global recognition and the quality of its global brand. Perhaps *McDonald's*[®] will revert to more global unified strategies.

No information is provided in the stimulus material on costs and profit of such local initiatives. Only the number of consumers is given. *McDonald's*[®] might not have increased profit, only its market share. Perhaps the product adaptation

strategy, which is generally expensive, will not be sustainable in the long run if profit does not increase. Still, the increase in market share of *McDonald's*[®] is a commendable achievement during an economic recession in the UK.

More worrying for *McDonald's*[®] is the fact that other MNC companies that serve/sell similar products/services are now using the same idea of localization in their expansion. *McDonald's*[®] success may only be short term. *McDonald's*[®] will have to become even more innovative in its approach and that might create significant extra costs. Unless the overall market is growing (no information in the stimulus material) the success of *McDonald's*[®] may be short lived. Perhaps the arguments against can be judged as less significant ones as they are more on the speculative side, albeit important.

Accept any other substantiated discussion with a conclusion.

A balanced response is one that covers at least two arguments in favour and at least two arguments against.

If the response is a one-sided relevant approach with no discussion, award a maximum of **[4 marks]**.

Award a maximum of **[5 marks]** if the answer is of a standard that shows balanced analysis and understanding throughout the response with reference to the stimulus material but there is no judgment/conclusion.

Candidates cannot reach the **[5 to 7]** markband if they give judgment/conclusions that are not based on analysis already given in their answer.

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

5. (a) **Define the term *corporate social responsibility*.** [2 marks]

Corporate social responsibility is when a business recognizes that it has an obligation and continuing commitment to behave ethically and responsibly towards various stakeholders like improving the quality of life of the workforce and their families as well as the local community at large.

Candidates are **not** expected to word their definition **exactly** as above.

Award [1 mark] for a basic definition that conveys partial knowledge and understanding.

Award [2 marks] for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant: example **or** application to the stimulus award [1 mark].

(b) **Identify *two* possible causes of a liquidity problem.** [2 marks]

Possible causes of a liquidity problem include:

- poor collection of cash from debtors
- overstocking of items which are not selling
- debtor day and creditor day cycles may be inappropriate for a particular business
- *accept any other possible cause of a liquidity problem.*

Award [1 mark] for each correct possible cause of a liquidity problem, up to a maximum of [2 marks].

Award [1 mark] for a list of 2 relevant possible causes of liquidity. Some description is expected.

(c) Explain how the following may have contributed to *IM*'s financial problems:

(i) its mission statement.

[3 marks]

- The mission statement “Action not words” is too vague to be useful to the business and its stakeholders. Without a stronger statement stakeholders are left without a sense of direction or purpose. The mission is actually just a vision and as such may lead to an inability to secure funding.
- Using the title of the CD as the mission may seem a good link, but it also may lead to confusion about whether Rox, or *IM*, are the focus of the business and could lead to a lack of support for the business financially.

Accept any other relevant consequence of the vague mission statement.

Award [1 mark] for an issue with the mission statement identified and [1 mark] for an explanation of the impact of that issue. Award an additional [1 mark] for a full explanation of the impact that is directly applied to the financial problems of *IM*, up to a maximum of [3 marks].

(ii) its limited marketing budget.

[3 marks]

- The limited marketing budget means that promotion will be constrained and there would be little chance of above the line promotion, which would naturally limit its effect on financial support.
- The limited marketing budget resulted in a lack of market research which is a key factor here in showing whether the market is actually sustainable. Is it possible to run a non-profit business in this market?
- *IM* might not have sufficient funds to run a PR department to counter negative publicity as a result of Louis' dismissal and Michel's autocratic leadership.

Accept any other relevant consequence of the limited marketing budget.

Award [1 mark] for an issue with the limited marketing budget identified and [1 mark] for an explanation of the impact of that issue. Award an additional [1 mark] for a full explanation of the impact that is directly applied to the financial problems of *IM*, up to a maximum of [3 marks].

- (d) Analyse the appropriateness of Michel’s autocratic leadership style, for the running of an organization such as *IM*.

[6 marks]

Arguments for an autocratic leadership style include:

- the laissez-faire leadership style is clearly not appropriate for *IM* as evidence of students attendance, stolen instruments demonstrate. There needs to be some form of control
- autocratic leaders can make quick decisions – this is necessary for *IM* if the business is to be rescued
- should *IM* need to change direction then this is a lot easier if one person makes the decisions
- *accept any other relevant argument for.*

Arguments against an autocratic leadership style include:

- too much control can be counterproductive in the long term especially for businesses relying on goodwill as well as creativity for support
- businesses that seek to nurture artistic talent may not work well with autocratic leaders
- this type of leadership style does not nurture future leaders and initiative among employees
- *accept any other relevant argument against.*

Accept any other relevant analysis.

It is **not** expected that candidates will include all of the above points in their answer.

A balanced response is one that covers at least **two** issues for and at least **two** issues against.

To achieve the top markband candidates must give a balanced analysis.

If the response is a one-sided relevant approach with no balanced analysis, award a maximum of **[4 marks]**.

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

- (e) **Discuss two possible medium- to long-term external sources of finance that *IM* could use to help solve its financial problems.**

[9 marks]

Possible medium- to long-term external sources of finance include:

- Seek new funding/finance from philanthropic investors/business angels. However, new business angels may demand greater scrutiny, or ask for control in the organization. This could have an impact on *IM*'s mission statement.
- Bank loan secured against future royalties from Rox. However, a bank may impose a high interest rate if it thinks that the risk is high.
- Rox to invest further in *IM* to demonstrate their commitment to CSR. However, will Rox be willing to bail out *IM*? It is already invested in the organization and is holding a concert. There is an indication in the stimulus material that the group has insufficient funds.
- Share capital (probably private and restricted to businesses/musicians in the music industry) sufficient funds could be raised. However, financial controls demanded by the new investors may inhibit some forms of creativity. Michel will have to justify this strategy to the shareholders and seek approval; moreover, issuing shares may be expensive. New investors may demand a quick return for their involvement and this adds additional pressure on *IM* at a time of falling revenue.
- Government grants/subsidies. On the positive side, this money does not have to be paid back. However, is the government likely to offer a subsidy for such a luxurious product?

However, as the business is quite a new venture it may be difficult to source external finance. Michel will have to present *IM* as a viable business venture which may be difficult given its questionable success ("low attendance", "student missing lessons"). It already says in the stimulus that he has been unable to attract external sources of finance. This is a difficult decision for Michel given his leadership style. He would have to give up some form of control of the organization.

It is expected that the candidates provide substantiated conclusions which incorporate the significance of the arguments presented which are prioritized.

*Accept any judgment, provided it is well substantiated/supported and relevant to *IM*.*

Accept any other substantiated discussion with a conclusion.

If the candidate does not discuss **two** possible sources of external finance then they can only achieve up to a maximum of **[3 to 4 marks]**.

If the response is a one-sided relevant approach with no discussion, award a maximum of **[4 marks]**.

Award a maximum of *[5 marks]* if the answer is of a standard that shows balanced analysis and understanding throughout the response with reference to the stimulus material but there is no judgment/conclusion.

Candidates cannot reach the *[5 to 7]* markband if they give judgment/conclusions that are not based on analysis already given in their answer.

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