

# Markscheme

**May 2015**

**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 (f)	Q3 (d)	Q4 (e)	Q5 (c)	
<b>Marks 0–6</b>					
<b>0</b>					<ul style="list-style-type: none"> <li>• No knowledge or understanding of relevant issues, concepts and theories.</li> <li>• No use of appropriate terminology.</li> </ul>
<b>1–2</b>					<ul style="list-style-type: none"> <li>• Little knowledge and understanding of relevant issues, concepts and theories.</li> <li>• Little use of appropriate terminology.</li> <li>• No reference is made to the information in the stimulus material. The response is mainly theoretical.</li> </ul>
<b>3–4</b>					<ul style="list-style-type: none"> <li>• A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories.</li> <li>• Some use of appropriate terminology.</li> <li>• Some reference is made to the information in the stimulus material, not just to the name of the organization.</li> </ul>
<b>5–6</b>					<ul style="list-style-type: none"> <li>• A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories.</li> <li>• An analysis/examination that uses appropriate terminology throughout the response.</li> <li>• Explicit references are made to the information in the stimulus material.</li> </ul>

Section B			Level descriptors
Q3 (e)	Q4 (f)	Q5 (d)	
Marks 0–9			
0			<ul style="list-style-type: none"> <li>• No knowledge or understanding of relevant issues, concepts and theories.</li> <li>• No use of appropriate terminology.</li> </ul>
1–2			<ul style="list-style-type: none"> <li>• Little knowledge and understanding of relevant issues, concepts and theories.</li> <li>• Little use of appropriate terminology.</li> <li>• No evidence of judgments and/or conclusions.</li> <li>• No reference is made to the information in the stimulus material.</li> </ul>
3–4			<ul style="list-style-type: none"> <li>• A description with some knowledge and/or understanding of relevant issues, concepts and theories.</li> <li>• Some use of appropriate terminology.</li> <li>• No evidence of judgments and/or conclusions.</li> <li>• Some reference is made to the information in the stimulus material, not just to the name of the organization.</li> <li>• The response is mainly theoretical.</li> </ul>
5–7			<ul style="list-style-type: none"> <li>• A response with relevant knowledge and understanding of relevant issues, concepts and theories.</li> <li>• A response that uses relevant and appropriate terminology.</li> <li>• Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding.</li> <li>• Explicit references to the information in the stimulus material are made at places in the response.</li> </ul>
8–9			<ul style="list-style-type: none"> <li>• A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories.</li> <li>• A response that uses appropriate terminology competently throughout the response.</li> <li>• A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis.</li> <li>• Explicit references to the information in the stimulus material are made throughout the response.</li> </ul>

## Section A

1. (a) Identify **two** possible types of above the line promotion that *CT* could use. [2]

Two possible types of above the line promotion that *CT* could use include:

- paid for internet promotion on toy websites
- print (newspapers, magazines, trade journals, *etc* linked to the toy/games industry)
- advertisements during radio programmes aimed at children
- advertisements during television programmes aimed at children.

*Accept any other relevant type of above the line promotion.*

*Accept the use of Facebook / Twitter as forms of mass media.*

**N.B.** *specific application is not expected.*

*Award [1] for each correct and relevant form of above the line promotion identified that *CT* could use. Award a maximum of [2].*

- (b) Define the term *variance analysis*. [2]

Variance analysis refers to an analysis of differences between expected or budgeted outcome / amounts / figures (prices, costs, quantities, profit, revenue) and actual outcome / amounts. The analysis examines if the outcome is adverse (A) or favourable (F) and investigates why the differences occurred from the forecasted or budgeted amounts.

*Award [1] for the basic understanding that a variance analysis examines differences between actual and budgeted costs or any other figure.*

*Award a maximum of [2] for a thorough definition that goes beyond just a subtraction of figures. The response may demonstrate understanding of the process / rationale for carrying out a variance analysis, for example to enable management decision-making / identify adverse (A), favourable (F) and the possible reasons why.*

**N.B.** *it is not expected that the candidate uses the exact term of adverse (A) and/or favourable (F), but they should show understanding of the need of the analysis in order to make a decision / take corrective action etc.*

- (c) Explain **two** possible human resource implications for CT's management given the proposed change to introduce "toy parties" as an additional sales method. **[4]**

Possible implications for CT's management given the proposed changes to introduce "toy parties" as an additional sales method include:

- CT will have to recruit, train, and induct sales representatives. These processes will take time. CT will have to develop procedures to find people willing to sell at the toy parties.
- CT will now have to reorganize/restructure its business as the number of employees will increase. Human resource planning monitoring/rosters/schedules may become more complex, possibly requiring additional supervisors/managers.
- Given the above point, CT's management may have to review employee contracts. Full-time workers may be entitled by law to certain types of benefits (health, sick pay and pension for example) that they did not receive as temporary contract workers. Even if not required by law, full-time workers may want/need/demand these kinds of benefits. CT's management will have to react.
- It can possibly lead to unhealthy competition / conflicts between existing employees / sales representatives and newer ones that are paid by commission. This can reduce efficiency and can result in a fall in motivation for the management to deal with. It takes time and resources to solve conflicts.

*Accept a fall or increase in motivation, **only** if a full and relevant explanation is given as to why it is a possible HR implication and its effect on management.*

*Accept any other relevant human resource implication.*

**Mark as 2+2.**

*Award **[1]** for a relevant human resource implication of the proposed changes to introduce "toy parties" as an additional sales method identified and **[1]** for an explanation of this implication for CT up to a maximum of **[2]**.*

**N.B.** *if the explanation is generic and not applied to CT award **[1]** per implication.*

(d) Using information from **Table 1**:

- (i) calculate the break-even level of output for *CT*, for 2014 (*show all your working*);

**[2]**

All figures in Euros

$$\text{Price} = \frac{300\,000}{12\,500Q} = \text{€}24$$

$$\begin{aligned} \text{Break-even point} &= \frac{\text{fixed cost}}{\text{contribution}} \\ &= \frac{121\,800}{(24 - 10)} = 8700 \text{ toys} \end{aligned}$$

Allow candidate own figure rule (OFR) if the price is incorrect.

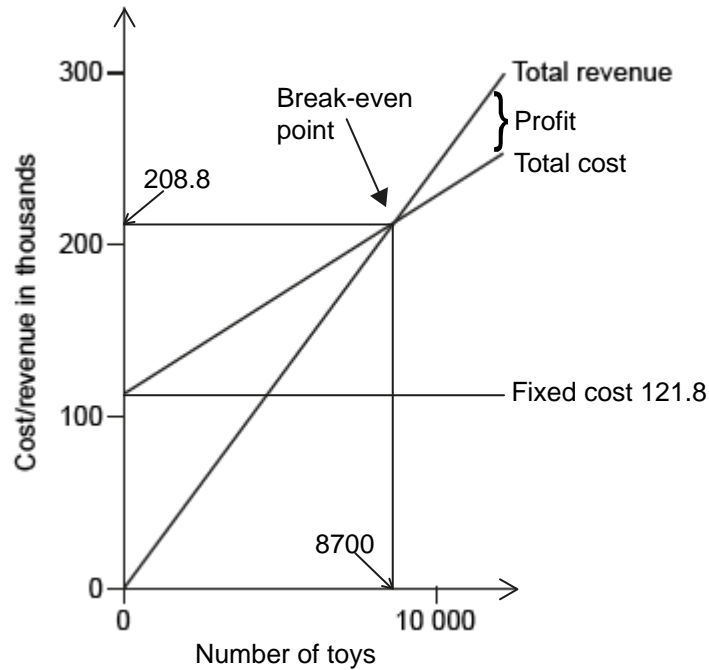
*Award [1] for a response that includes an error in calculation, but the method is correct and working is provided.*

*Award [1] for a response that includes the correct calculation of the price.*

*Award a maximum of [2] for the correct answer with full working.*

(ii) construct to scale a fully labelled break-even chart for CT, for 2014.

[5]



Award up to a maximum of [5] for any of the following:

[1] for appropriate labelling of **both** axes including clear reference to number of toys/units on the x-axis and cost/revenue on the y-axis.

[1] for an accurately drawn and labelled total revenue (TR) curve.

[1] for an accurately drawn and labelled total cost (TC) curve.

**N.B.** the exact figures for the break-even cost/revenue of 208.8 to be indicated clearly on the y-axis as evidence of accuracy of scale, or the scale has to be clear, neatly drawn and accurate so that the figures even if not stated on the axes can be seen. Just labelling TR and TC is not sufficient.

[1] for the identification of the break-even point or quantity (allow candidate own figure rule [OFR]).

[1] for a correctly drawn fixed cost (FC) curve with the relevant number / costs **or** a very clear / neat scale where the exact figure can be identified / understood.

Award [0] if a candidate produces a table, and award no more than [3] if the chart is not neat, not drawn with a straight edge, or is not to scale.

**N.B.** marks can be awarded for TR/TC if candidates show appropriate calculations and not indicate these figures on the graph which is drawn to scale.

If the candidate only shows accurate knowledge of a break-even chart with no values and application to CT award no more than [1].



- (e) Using information from **Table 2**, prepare an **annual** cash-flow forecast for CT, for 2015.

**[4]**

<b>Receipts</b>	
Cash sales revenue	€352 000
<b>Total receipts</b>	€352 000
<b>Payments</b>	
Fixed costs	€180 000
Raw materials	€128 000
Sales commissions	€32 000
Variable costs	€32 000
<b>Total payments</b>	€372 000
<b>Net cash flow</b>	<€20 000>
Opening balance	€37 000
<b>Closing balance</b>	€17 000

**N.B.** allow for alternative headings for receipts and payments, such as inflows and outflows.

Award **[1]** for a response that demonstrates some basic understanding of an annual cash-flow forecast but otherwise has numerous errors.

Award **[2]** if the cash-flow forecast has two, or up to three errors, or omissions either in structure or headings or calculations.

Award **[3]** for a largely correct format. Allow for one error or omission in structure / headings.

Award a maximum of **[4]** for a correctly formatted and mathematically accurate cash-flow forecast similar to above.

- (f) Analyse *CT*'s management plan to reduce the price of *CT*'s toys.

[6]

The management of *CT* "has estimated that the parent's demand for toys is price elastic", which means that for every percentage change in price the quantity demanded for toys will increase by a larger percentage. If this assessment of demand is accurate, *CT*'s plan to lower prices will increase sales volume and total revenue (TR) quite significantly to make up for the fall in price per toy / unit. Presumably management believes that the increase in volume will make up for the lower gross margin.

Profit should increase as TR will be higher and the sales representatives in the toy parties are to be paid on a commission-only basis anyway.

The discovery of the market research that the customers are price elastic indicates that *CT*'s current pricing decision is inappropriate as customers do not really see the toys as highly differentiated / better than the competitors. Otherwise, one would expect the price elasticity of demand to be lower. Therefore, the decision to reduce the price from a marketing point of view is also correct.

However, one negative impact of lowering prices is that it could change market perception about *CT*. Right now, *CT* charges more than its competitors with the intention of creating the perception that *CT*'s toys are better. Lowering prices could alter that quality perception of some of the customers who might see the toys as differentiated with a USP of being creative and *CT* could lose some of its existing customers.

A lower price might mitigate the brand name of *CT*.

By increasing volume, *CT* will have to find a new location / extra storage space, the former requiring more finance and the latter requiring extra costs. For much of the year, capacity utilization at *CT* is low.

*CT* may have the capacity to produce and hold enough toys for the new, higher-sales-volume holiday months, but *CT* will either have to make the toys earlier in the year and/or have to increase capacity – requiring more space and possibly more manufacturing equipment, which will increase costs.

Of course, with an increase in the scale of production, *CT* may be able to gain economies of scale, increase profit and this could possibly allow prices of its toys to fall further.

*Accept any other relevant analysis.*

*It is not expected that the candidates covers all of the above issues.*

*For one relevant issue that is one-sided, award up to [3]. For more than one relevant issue that is one-sided, award up to a maximum of [4].*

*For one relevant argument for and one relevant argument against award up to [4].*

*For [5] it is expected that the analysis is relevant and detailed, but it may lack some balance. For example, it includes only two detailed arguments for and one detailed argument against.*

*For [6] it is expected that the analysis will contain at least two detailed arguments for and at least two detailed arguments against the notion of CT reducing the price of its toys.*

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

2. (a) Identify **two** advantages of *Sleep Well Limited* being a private limited company. [2]

Two possible advantages of *Sleep Well Limited* being a private limited company could include:

- The owners, the family members, have limited liability.
- Selling shares to friends and family can raise funds for the expansion. This may be less costly and quicker to organize with a higher chance of being successful than fully subscribed share issue.
- The family members will not lose control of the business as shares are sold among friends and family members only, ensuring continuity of ownership.

*Award [1] for each relevant advantage correctly identified, up to a maximum of [2].*

***N.B.** it is not expected that the candidate applies to *Sleep Well Limited*.*

- (b) Define the term *capacity utilization*. [2]

Capacity utilization is the extent to which the maximum capacity of the firm is being used. It measure that actual output as a **percentage** of potential output.

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

*Award [1] for a basic definition that conveys partial knowledge and understanding. Award [1] if only the formula is stated with no definition.*

*Award [2] for a full, clear definition that conveys knowledge and understanding similar to the answer above. An understanding of a percentage should be demonstrated for full marks.*

*For only a relevant example to the stimulus award [1]. However, do not award [1] if the candidate has only copied a sentence from the stimulus “95%” without showing understanding.*

- (c) Explain **one** advantage and **one** disadvantage of using the critical path analysis model as a project management tool, for the construction of SW's new building.

[4]

The possible **advantages** of using the model for SW:

- It enables the managers of SW better planning and coordination of the building project, which is a relatively large project for the hotel. The model will enable the Operation and possibly the Finance Manger to identify linkage, sequential and dependent relationships between activities. Resources can be allocated in a better way. Costs can be saved by better resources and more timely allocation.
- The critical activities can be identified and resources can be prioritized and allocated accordingly to ensure a timely completion – an important factor in the whole decision-making process for the managers as severe shortage of qualified labour is anticipated.
- Moreover, identifying the critical activities and finding ways of cutting its duration can minimize the disturbances to current guests. Something that the Marketing Manager is worried about.
- The floats can be calculated to anticipate delays if any of the activities are likely to overrun given the strict planning regulations.
- *Accept any other relevant advantage.*

The possible **disadvantages** of using the model for SW:

- The reliability of the data – especially task duration – given by the Operation Manager can affect the accuracy of the time taken to complete the project. Given the disruptions indicated in the stimulus it is important that the new building is completed on time. The model may not be useful if the data used is inaccurate.
- The managers of the new building construction might not have identified some activities in the construction process. This could lead to unanticipated delays and/or mistakes when completing the new building.
- Many unexpected internal and perhaps more relevant external variables/factors such as weather may affect the duration of individual tasks and of course the duration of the project. The new building could open much later than expected and this would put pressure on SW's cash flow.
- The model ignores many qualitative issues/factors like the effect on customer experience and the quality of service during the construction time despite reassurances from the management.
- *Accept any other relevant disadvantage.*

**Mark as 2+2.**

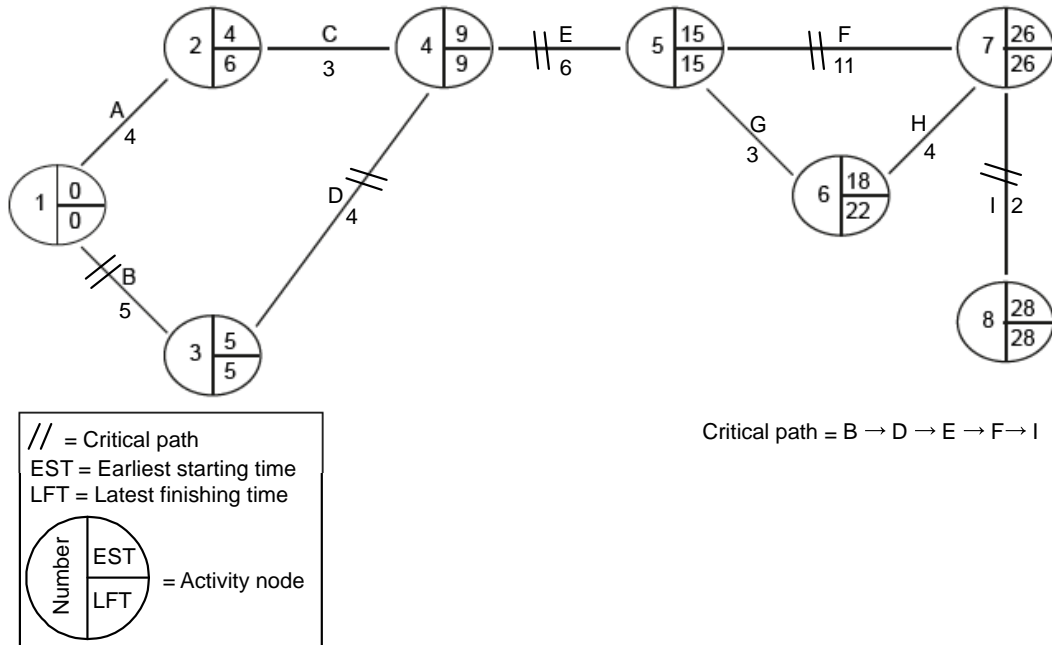
*Award [1] for each relevant and correct advantage / disadvantage identified.*

*Award [1] for explaining the advantage / disadvantage with reference to SW up to a maximum of [2].*

*Award a maximum of [1] if there is no application to SW even if there is some explanation for each advantage / disadvantage.*

- (d) Construct a fully labelled network diagram to represent the sequence of activities in the table. Show the earliest starting time (EST) and the latest finishing time (LFT) for each activity **and** identify the critical path.

[6]



For [1] there is some little evidence of understanding of the model and some attempt at construction with some ESTs and LFTs shown.

**Allow candidate own figure rule (OFR).**

For [6] the network is accurately constructed and well presented. The critical path is identified. A key is provided. The ESTs and LFTs are accurate.

Deduct [1] if the key is missing.

Deduct [1] if the critical path is not identified by **either** crossing the activities **or** writing the letters separately.

Deduct [1] for each error in either construction or calculation. Allow OFR.

**N.B.** any unnecessary dummy used for the construction of the network is to be judged as one error each.

- (e) (i) Identify any total float from the diagram constructed in part (d) (no working required).

[1]

LFT of the activity – Duration – EST of the activity

For example: C = 9 – 3 – 4 = 2

A = 6 – 4 – 0 = 2

Any activity that is not on the critical path will have a float. For example, activities A, C, G and H have a float.

**N.B.** working are not expected.

Award [1] for a correct answer (no working required).

- (ii) Using the total float you identified in part (i), calculate any free float (show all your working). [2]

Free float for an activity is calculated by:

**The EST (next activity) – Duration – EST (of that activity)**

Activity H has a free float of  $26 - 4 - 18 = 4$  months

Activity C has a free float of  $9 - 3 - 4 = 2$  months

Activity A has a free float of  $4 - 4 - 0 = 0$  months

Activity G has a float of  $18 - 3 - 15 = 0$  months

*Award a maximum of [2] for a correct answer with working shown for **any** of the activities above.*

*Award only [1] if a free float is indicated at any activity that is not on the critical path (A, C, G and H), but no working is given.*

**N.B.** only apply candidate own figure rule (OFR) if calculations are consistent with the diagram they constructed in part (d).

- (iii) Comment on how SW could use any free float as calculated in part (ii). [2]

When calculating the free float SW can see how long the activity can be delayed before affecting the next activity. If an activity like H has a free float of 4 months, it means that it can be delayed by such a duration without affecting the start of activity I. Otherwise, a larger delay than the free float will affect the duration of the project as I is on the critical path.

SW can therefore allow a slack of up to the duration of the free float and possible move some resources towards the critical activities if the aim is to reduce duration to minimize disturbances and reduce costs.

Similarly activity C can be delayed by up to 2 months without affecting the start of activity E which is on the critical path and therefore the overall duration of the project.

*Award [1] for a brief comment, such as a response that just describes what a **free float** is and its possible effect on the next activity.*

*Award [1] for application either in terms of figures / relationship between particular activities or to SW's particular issues / needs.*

**N.B.** candidates must specifically refer to **free** float and not simply generic "float" for full marks.

*It is not expected that the candidate provides such a detailed response.*

(f) Examine the option of the construction of the new building for SW.

[6]

**Arguments for** the construction of the new building:

- An economic recovery predicted after two years also supports the proposed strategy as the project is estimated to be completed in 28 months. As consumers' income grows with an income elasticity of demand over 1 for services / luxury products, SW is likely to see a significant increase in demand. SW will be ready with extra capacity and the most luxurious amenities and services to satisfy their customers' needs. Profits are likely to grow and the costs of the new building can be quickly recouped.
- Moreover, the need to increase the price for the new rooms is likely to be tolerated by customers given their price inelastic demand. Total revenue is likely to increase even if SW loses some customers to cover some of the investment costs and the running costs.

**Arguments against** the construction of the new building:

- The construction time as currently planned will last for over two years if everything goes to plan. SW's managers may put up with some noise and difficulties for such a time period, but will existing customers?
- The strong \$ might make the price of the new hotel even higher and possibly unaffordable for its international travellers. SW might not be able to fill the extra capacity built.
- The current lack of capacity during busy periods, combined with an increase in demand is likely to harm the reputable brand image with more customers turned away.
- Before the recovery a recession (deterioration in the economic environment) is forecasted. Although demand is price inelastic. A significant fall in customers' demand is likely for a luxury product given the income elasticity. Can SW sustain these potential losses and be able to finance the new building?
- The Finance Manager is concerned that time and money will be spent on legal processes to ensure building permission and or in the worst-case scenario, the actual building will not take place.

**N.B.** *it is not expected that the candidate develops a full examination of the issues regarding the legal status and the source of funds used.*

- The severe shortage of skilled labour is likely to reduce the profitability of the new building, as more staff will be needed to operate the extra capacity. Staff training may be required for the new level of service and wages will have to increase given the staff shortages.

*Accept any other relevant arguments for and against.*

*It is not expected that the candidate covers all of the above issues.*

*For one relevant issue that is one-sided, award up to [3]. For more than one relevant issue that is one-sided, award up to a maximum of [4].*

*For one relevant argument for and one relevant argument against award up to [4].*



*For [5] it is expected that the analysis is relevant and detailed, but it may lack some balance. For example, it includes only two detailed arguments for and one detailed argument against.*

*For [6] it is expected that the analysis will contain at least two detailed arguments for and at least two detailed arguments against.*

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

## Section B

**Note to examiners for question 3: do not penalize candidates for the use of “skincare” or “cosmetics” interchangeably in their responses.**

3. (a) Describe **one** internal factor and **one** external factor possibly affecting innovation at *Fujifilm*.

[4]

Possible **internal factors** affecting innovation at *Fujifilm*:

- Availability of finance needed to spend on the process of innovation, which is the successful commercial use of an invention. It is said that a large amount of money was spent on developing new product(s).
- Technological know-how and clearly an innovative culture, which allowed this to be applied to the creation of new products such as high-speed, colour photographic film.
- *Fujifilm*'s management might have been encouraged by past success. *Fujifilm* pioneered many products.
- Attitude to risk, clearly *Fujifilm* was historically a risk taker. A company who spent money on inventions to bring these products to the market.

Possible **external factors** affecting innovation at *Fujifilm*:

- The technological changes in the external environment have created new competitive forces/pressures. Digital photography and smart phones were causing a significant drop in sales of film, which was one of *Fujifilm*'s core competencies. *Fujifilm* had to react and innovate.
- *Fujifilm* understood changes in societal norms outside of its control like lifestyle and change in income, which allowed it to create new needs/products to meet changes in social trends.

*Accept any other relevant issue.*

**Mark as 2+2.**

*Award [1] for each relevant and correct internal / external factor identified and [1] for describing the factor in relation to Fujifilm, up to a maximum of [2].*

*Do not credit candidates twice for describing either two possible internal or two external factors affecting innovation at Fujifilm.*

(b) Explain **one** benefit of a patent for *Fujifilm*.

**[2]**

A patent is a legal right granted to an organization / a person to be the exclusive user of an invention for a specified period of time. *Fujifilm* was granted patents on the chemicals used in its traditional photographic film products. These are antioxidants that were used in the creation of new cosmetic/skincare products.

The possible benefits of patents for *Fujifilm*:

- For the duration of the patent given, *Fujifilm* can create a USP / competitive advantage that can also act as a barrier to entry for other competitors. In this case the use of the patented antioxidants enables *Fujifilm* to develop new, and be rewarded for, an innovative cosmetic/skincare product that competitors legally cannot copy.
- Given the high costs and the long duration of research and development (R&D) when no income was generated for *Fujifilm*, a patent can encourage *Fujifilm* to create future products.
- The patent may allow *Fujifilm* to charge a premium price to recover the R&D costs and to have funds available for further future research.

*Accept any other relevant benefit for Fujifilm with an explanation.*

**N.B.** *a definition of patent is not required for full marks.*

*Award [1] for a relevant benefit, with an additional [1] for application to Fujifilm. Award a maximum of [2].*

- (c) Explain **one** benefit and **one** cost of using research and development (R&D) for *Fujifilm*.

[4]

Given the changes in the external environment mentioned in the stimulus, research and development (R&D) enabled *Fujifilm* to develop highly innovative and differentiated products and to have a first mover advantage in many segments and markets. There is evidence that *Astalift*, as an example became one of the best selling brands in Japan.

R&D allowed *Fujifilm* to explore these options before bringing them to the market place as new innovations. Hence the risk of failure was much reduced.

R&D would also be helpful with the appropriate decision on the marketing mix of the new innovations.

Moreover, the process of granting a patent after R&D has been carried out also involves costs for the organization. The granting of a patent can possibly enable *Fujifilm* to charge a premium price that is likely to satisfy the shareholders if they are concerned about increasing costs of R&D.

**However**, the process of R&D, as well as ensuring a patent for *Fujifilm* and other pharmaceutical or high technology industries is particularly expensive and time consuming. Without granting a patent, these costs may not be recouped.

Apart from the direct costs of R&D we must also note the opportunity costs to *Fujifilm*. Research in itself is no guarantee of commercial success. Would these funds for R&D be better spent on supporting other products in the *Fujifilm* portfolio? We must also note the time costs / delays involved in researching and developing a new product and bringing this to market. Working capital could be tied up in a product's R&D idea, which might only remain an invention and therefore not generate any future sales or profits.

*Fujifilm*'s success can be short lived as competitors can eventually imitate its innovation.

*Accept any other relevant issue.*

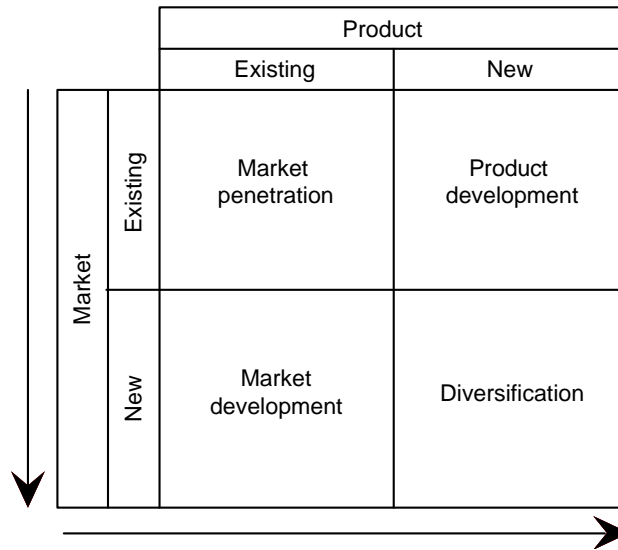
**Mark as 2+2.**

*Award [1] for a relevant and correct benefit / cost and [1] for an explanation of this benefit / cost in relation to Fujifilm, up to a maximum of [2].*

**N.B.** *if the explanation is generic and not applied to Fujifilm award [1] per benefit / cost, up to a maximum of [2]. Despite the fact that the examples of costs are rather generic, some attempt at application must be evident.*

(d) Using the Ansoff matrix, examine *Fujifilm's* decision to diversify.

[6]



One may argue that **diversification**, as one of the four strategic growth options suggested by Ansoff is the most risky one. *Fujifilm* ventured into unknown new markets – cosmetics and new targeted customers/segments, which they had no experience of targeting before. *Fujifilm* had no security of knowing the industry as well as knowing customers, hence a very risky strategy, the most risky one among the four. Similarly, the diversification into medical equipment can also be seen as diversification albeit perhaps a more related one.

**However**, by pursuing unrelated diversification (or diversification) into the cosmetic industry and the creation of the brand *Astalift*, one may argue that *Fujifilm* actually reduces the risk of relying on their film / core product that gradually became obsolete. The researchers at *Fujifilm* were competent enough to see the possible synergy, the common “know how” and were able to build on its existing knowledge in the film industry and transfer patents to a new industry - the skincare industry. Hence the risk of using diversification as a growth strategy has been much reduced. An appropriate strategy especially in the short run until the patent expires.

Moreover, *Fujifilm* acquired pharmaceutical companies and developed R&D facilities to support this high risk strategy with successful results.

Diversification can also be seen as the most expensive option as new markets have to be researched, product to be created and marketed. Nevertheless, it looks as if *Astalift* was successful as a diversification strategy.

*Accept any other relevant examination.*

*It is not expected that the candidates covers all of the above issues*

*If the candidate merely states the Ansoff matrix with no application to Fujifilm award a maximum of [1].*

*For one relevant issue that is one-sided, award up to [3]. For more than one relevant issue that is one-sided, award up to a maximum of [4].*

*For one relevant argument for and one relevant argument against award up to **[4]**.*

*For **[5]** it is expected that the analysis is relevant and detailed, but it may lack some balance. For example, it includes only two detailed arguments for and one detailed argument against.*

*For **[6]** candidates must give a balanced examination of two possible arguments for and two possible arguments against the decision to diversify. The model is drawn accurately **or** the explanation of diversification in terms of new product / new market is clear.*

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

- (e) Discuss the decision of *Fujifilm* to create the **new brand**, *Astalift*.

[9]

It is expected that candidates will discuss the decision of *Fujifilm* to create the **new brand** as opposed to just discussing the creation of a new product.

Consumers view a brand as an important part of the product and branding can add value to the product and can help with the positioning of the product.

The company brand name *Fujifilm* was not used for the cosmetic/skincare product. One may argue that *Fujifilm* management took a chance, as the *Fujifilm* brand has been very reputable, highly recognizable and successful. Throughout its history, *Fujifilm* kept on enhancing the company brand.

We assume that the management at *Fujifilm* were aware of the possibility that if *Fujifilm* operates under the same brand name and used a family branding strategy for the new cosmetic/skincare products, current customers and the targeted potential customers may be confused.

Despite creating a strong technical synergy between the new cosmetic line and the current product – by using its patented antioxidants chemicals from *Fujifilm*'s traditional film products – the management understood that the targeted customers might be reluctant to buy a new cosmetic/skincare line branded by the same name as other unrelated products. Hence a new brand name and a new and separate identity was created.

Product / individual branding was used. *Fujifilm*'s management invested heavily in creating the new, separated and distinctive brand name *Astalift*. Clearly this choice is much more expensive for an organization rather than just extending a successful brand name. Hence, it can be argued that *Fujifilm* took unnecessary risk given the reputation of their brand. It definitely spent a considerable amount of money on creating and developing the brand. **However**, given the success of the new skincare/cosmetic product, this argument cannot be judged as a significant one. The risk paid off. *Astalift* became one of the bestselling in Japan's skincare product market.

Figures suggest that the strategy of entering the Japanese market first to establish brand awareness and test the new brand was a successful strategy. The positioning, market share in Japan and the increase in revenue as stated in the stimulus, provides the evidence.

The above are very significant arguments with strong evidence of a great strategic response and success of creating a separate brand.

Moreover, brand erosion of *Fujifilm* might have occurred if the cosmetic / skincare line was not successful and branded under *Fujifilm*. (The medical equipment is traded under the original brand name).

**However**, the medical equipment created by *Fujifilm* was successful. Perhaps there was no need to invest heavily on creating a new brand and identity and save on marketing costs. **However**, these products were closer to *Fujifilm*'s past core products.

Still *Fujifilm* evidently made a commercial success of the new product line given their global ambition and the current market development strategy used. Perhaps the challenge of using the *Astalift* brand name will be more of a challenge in Europe.

One has to remember that while diversifying into the skincare/cosmetics market, *Fujifilm* competes in Asia and in Europe with many well-established companies. Perhaps in Europe a strong and well-established brand name of *Fujifilm* and not *Astalift* might be more appropriate? Perhaps, regardless of the chosen name, *Fujifilm*'s success is going to be reduced given the intensive competition in the European markets.

Moreover, it looks like other companies such as *Suntory* are also diversifying into cosmetic/skincare products. Hence the competitive advantage and the USP created by *Fujifilm* may be short lived. *Fujifilm* has been very successful in the short run but its long-term success might be less certain with the new brand.

**Possible judgment/substantiated conclusion:**

As well as understanding the needs and aspiration of women, *Fujifilm* after undisputed success in Japan, is well on its way to creating a global cosmetic brand, that supports well the strategic option of diversification. 20% of its sales come from abroad. However, some of the patents are likely to expire and other companies can copy some of the ingredients and the technology used when producing the cosmetic/skincare products. Perhaps it can be an advantage if customers associate the product line with *Fujifilm* – sort of family branding.

However, financially, the new brand was a commercial success and *Fujifilm* has the infrastructure, the financial ability and the impetuous to continue to develop innovative products.

*Accept any other substantiated discussion and conclusions.*

*It is not expected that the candidates incorporate all of the above arguments.*

*A balanced analysis incorporates at least two arguments for and two arguments against.*

*For one relevant issue that is one-sided, award up to [3]. For more than one relevant issue that is one-sided, award up to a maximum of [4].*

*If the candidate covers the issue of new product **only** rather than brand award a maximum of [5].*

*Award a maximum of [5] 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 [5–7] 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) Define the term *internal growth*. [2]

Internal growth occurs when a business expands without merging, acquiring, partnering or otherwise being involved with other businesses. Sometimes referred to as organic growth, internal growth involves increasing sales or investment in capacity. It is a growth from within.

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

Candidates are not expected to provide an example.

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

Award **[2]** for a full, clear definition that conveys knowledge and understanding similar to the answer above. A comparison to external growth or an explanation of what internal growth is not required for full marks.

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

- (b) Identify **two** features of e-commerce. [2]

Two features of e-commerce are that it allows for:

- the business, goods and services it sells are available electronically eg via the internet, 24 hours per day
- national or global reach of customers beyond local borders
- instant / quick / cheap two-way communication between businesses and customers without the need for face-to-face meetings
- targeting of marketing messages to personal customer requirements
- *accept any other relevant feature.*

Award **[1]** for each feature of e-commerce identified up to a maximum of **[2]**.

- (c) Calculate the debtor days ratio (*show all your working*). [2]

$$\frac{\text{Debtors}}{\text{Total sales revenue}} \times 365 = \text{Debtor days ratio}$$

$$\frac{\$2176000}{\$24000000} \times 365 = 33.09 \text{ days (Accept 33 days or 34 days)}$$

Award **[1]** for correct working and **[1]** for the correct answer. Award up to a maximum of **[2]**. There must be some indication in the answer that **days** are calculated for full marks.

- (d) Explain **two** problems, **other than** liquidity, for *BDM*, of rapid sales growth. **[4]**

When sales grow rapidly; the demand on a firm's stock inventory increases. There are risks of "overtrading" (although this term is not expected).

The demand on firms stock (inventory) increases and unless *BDM* is able to re-stock quickly, it may find that it does not have enough goods to sell to meet demand and customers may become dissatisfied and may choose competitors if deliveries fail to keep up. Customers' patience will be tested and even though *BDM*'s USP keeps customers loyal, this "lack of stock" aspect may make customers move to competitors.

*BDM* is to reach full capacity within a few years. Working at full or near full capacity can exert extra pressure on employees and managers, higher costs for the maintenance as well as depreciation of the machines. Moreover, extra pressure can result in a fall in quality. Its USP may be eroded.

Rapid sales growth must also be accompanied with increased managerial efficiency and improved customer service to maintain their loyalty in the latter.

There will also be pressure on their supply chains and distribution channels to ensure that deliveries are on time. *BDM* may have to find new channels especially as B2B e-commerce grows further.

**Mark as 2+2.**

*Award [1] for an appropriate identification of a problem from rapid sales growth and an additional [1] for explanation and application to BDM. Award a maximum of [2]. If there is no application, award a maximum of [1].*

- (e) Analyse the possible impact on pricing and place in the marketing mix, if *BDM* moves from its current location (**Option 1**).

[6]

Location has importance to *BDM*'s pricing element in the marketing mix. At present *BDM*'s unique selling point (USP) is lower price than producers of similar products of comparable quality. Thus, at present, many of *BDM*'s customers get the product they want at a better price than other similar manufacturers' offerings and at a convenient location.

**Some possible issues regarding place:**

Currently, **the location** is very convenient to most of its customers who are located nearby in the city centre location. If *BDM* moves 27 kilometres away as Option 1 suggests, its location will be less convenient for its customers who may move to competitors.

5% of *BDM*'s sales are online – **a place** and that percentage is growing. To these customers, where *BDM* is located is less important. At present, the percentage of customers who purchase online is low enough not to be a significant factor in the analysis of place in *BDM*'s marketing mix. Over time, however, that will change.

**Some possible issues regarding pricing:**

Additional costs might occur that might be passed on to its customers for more expensive product delivery. *BDM* may have to find new supply chain partners. The **prices** for delivered products may rise which conflicts with *BDM*'s USP. Especially if one of *BDM*'s competitors is located in the city centre.

**However**, the new factory will result in significantly lower costs. Hence *BDM* will be able to maintain **the price** / its competitiveness or even enhance its competitiveness by reducing the price.

If Option 1 leads to an increase in growth, further economies of scale are likely and price reductions could be possible. **However**, if the additional delivery costs increase prices and outweigh these economies of scale, the price differential that *BDM* currently enjoys over competitors, would be reduced. The move could hurt *BDM*'s USP and lead to a reduction in sales volume and revenue.

Also older skilled workers may rather retire than commute. New workers could be hired which may affect motivation, productivity and staff turnover resulting in increased costs which consequently might increase the price or reduce profit.

*It is not expected that the candidate covers all of the above issues.*

*It is not expected that the candidate divides the answer into the two separate issues as above.*

**N.B.** HR issues are not part of the marketing mix. Award only if there is a direct link made to the effect on price, or the methods of distribution (less people are needed when using e-commerce).

*A reference to costs or profit, without a link to the effect on the price should not be regarded as complete coverage and application.*

*For one relevant issue that refers to **either** price **or** place but is one-sided, award up to [3].*

*For one relevant argument for and one relevant argument against **either** price **or** place award up to **[4]**.*

*If the response is a one-sided relevant approach with no analysis / balance but refers to **both** price **and** place award a maximum of **[4]**.*

*To achieve **[6]** candidates must give a balanced examination of **both** price **and** place with one argument for and one argument against each.*

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

- (f) Discuss *BDM*'s **Option 2** to solve its liquidity problem.

[9]

Option 2 includes three strategies / actions. Sell the factory and lease it back from the purchaser, change to a just-in-time stock control management and shorten the credit terms given to customers from 30 to 15 days.

Option 2, especially **selling the factory** provides a one-off short-term windfall / cash injection to the company, but leasing costs will need to be considered over the longer term and there is no information in the stimulus to say how significant this could be.

The liquidity problem may be solved when the first aspect of Option 2 is completed, but *BDM* loses its most valuable asset in a prime city centre location. One may judge this point as a very significant argument as *BDM* will have an uncertain expense in the future when and if the lease costs increases.

Other aspects / strategies of Option 2 could help *BDM* solve its liquidity problem as both **just in time** and **shorter credit terms** for customers would reduce cash outflow and increase cash inflow. **However**, just-in-time stock control can be difficult and expensive to set up and manage. It makes *BDM* more dependent on reliable and timely delivery of raw materials. Cash may be needed to implement the new system including training.

If suppliers are not timely and reliable, *BDM* could end up not meeting its schedules and irritating customers – reducing cash inflows and making the liquidity problem worse.

**However**, with reduced funds tied-up in stock, compared to the current just-in-case method, cash outflows would be better managed and *BDM* will not have unproductive assets / money tied up in stock. The cash outflow could be smaller, although more frequent, depending on the nature of the new supplier relationships to create just-in-time. Still, *BDM* can negotiate better credit with its suppliers instead of changing the stock management system.

As for **shorter credit terms**, *BDM*'s customers may object to the shorter credit terms, which would not align with industry standards. Changing credit terms at short notice may not be possible given that *BDM*'s customers may also have to renegotiate with their own customers. (Goodwill in the whole industry may be reduced given the interdependence of cash flow.)

With a considerably shorter credit terms of 15 days only which is below the industry average, *BDM*'s customers' may not have the finance to pay. Customers might go to *BDM*'s competitors just for the more favourable credit terms despite *BDM*'s USP. Again customer loyalty for *BDM* will be tested given rise to future liquidity issues. **However**, if customers are willing and able to pay, especially if the quality is perceived higher than the competitors, a reduction from 30 days to 15 days is a significant one and would enable *BDM* to have the cash quicker, hence the liquidity problem might be reduced.

In conclusion, it is expected that the candidate will come up with a substantiated conclusion. The candidate may suggest that further negotiation and discussion of credit terms will be needed as well as investigating and forming new supply chain relationships for just-in-time to operate. This will take time for *BDM* to achieve.

*Accept any other relevant discussion and arguments.*

*It is not expected that the candidate incorporates all of the above arguments.*

**N.B.** *it is expected that the candidate refers to **all of the strategies / actions**: sell and lease back, reduce credit terms/time and change to just in time, with one argument for and one argument against **each strategy / action** for a balanced response.*

**N.B.** *for one relevant argument for one **strategy / action** that is one-sided, award up to [2]. For more than one relevant argument for one **strategy / action** that is one-sided, award up to a maximum of [3].*

*For two balanced **strategies / actions** with a judgment award up to [6].*

*Award a maximum of [5] 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 [5–7] markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.*

*For the top markband it is expected that the candidate provides a balanced analysis of the three **strategies / actions** with a substantiated judgment.*

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

5. (a) Describe **two** stakeholder conflicts at C2G. **[4]**

- One conflict is between the current and potential investors and Charles due to his risky outside activities that he presumably believes attracts positive attention / publicity. Investors welcome Charles's attempts at free publicity through his adventures, but are concerned about the impact on the company if he was to have a serious accident. Shareholder value would be affected with no natural leader in waiting and minimal consultation from Charles.
- The second conflict exists between the marketing department (and/or Marketing Manager) and the Production Manager over the creation of a zero-fat chip. From a marketing point of view, they are very excited about the idea of creating a new zero-fat chip as being further evidence of C2G's innovation. Clearly, though the practical applications of creating this chip have been overlooked as the Production Manager has indicated that this cannot be achieved.
- There is a further implied conflict between Charles's intuitive decisions and his senior managers given that Charles rarely consults. The senior managers also seem very wary of bringing Charles difficult news such as the technology does not exist to create the zero-fat chip.

*Accept any other relevant description.*

**Mark as 2+2.**

*Award [1] for an appropriate identification of two stakeholders, award an additional [1] for a description of the conflict with reference to C2G up to a maximum of [2].*

- (b) Explain **two** reasons why it may be difficult to value C2G's intangible assets. **[6]**

From the stimulus, it appears that the intangible value of C2G as a company in the form of goodwill, brand value, reputation and so on is tied to the personality and lifestyle of Charles, as he is very popular with the younger generation. It appears that Charles is responsible for creating some of the innovative flavours, which have made the company so successful.

The difficulties of this for C2G's intangible assets is that it can be hard to objectively value the contribution of Charles's personality and lifestyle as well as his innovative attitude while the company is still operating. This can have a true positive impact on the brand value and effectively brand loyalty of customers, but the value can either be estimated or proven when the company is sold for a price above its tangible assets. Until then, the intangible assets can only be estimated if at all. Perhaps C2G can research the value of family branding more easily measured in terms of research on brand recognition, but the effects on personality factors can be very difficult to accurately measure.

Moreover, the success of the brand (and hence intangible asset) could also be down to very good promotion or targeting. Other companies without personality cults also have successful brands.

Innovation as a contributor to C2G's tangible assets can also be very difficult to measure due to the fact that one factor can be difficult to isolate in terms of its contribution to the intangibles.

Moreover inconsistencies of reporting systems between companies exist. Current financial statements provide very little information about these assets and there is not a standardized / unified method of valuation of the intangible assets. Therefore, the Financial Manager is unlikely to insert a figure that is no more than estimated.

*Accept any other relevant explanation.*

**Mark as a 3+3.**

**N.B.** the question is about the difficulties of the measurement – the difficulties of the process and methods of measuring. The question is not about if and how Charles is an intangible asset.

Award **[1]** for identifying a relevant difficulty in valuing intangible assets. Award an additional **[1]** for development of this point. Award an additional **[1]** for the application of the difficulty directly to C2G. Award up to a maximum of **[3]**.

For **[6]** two difficulties of valuing intangible assets must be linked and explained with reference to C2G.

**N.B.** it is expected that apart from the personality / lifestyle of the CEO, one more issue is identified, explained and applied.



- (c) With reference to C2G, compare and contrast intuitive and scientific decision-making.

[6]

Features of **intuitive decision-making** include:

- the use of “gut feeling”/emotion based on life, or work experiences to make a decision for a business
- a reluctance to use market research or financial data, (which would be used by a more scientific style of management). For example, to decide whether to launch a new product or service into a new market.

There is evidence from the stimulus that Charles relies on his own “natural abilities” to make decisions and he rarely consults. This has led to a number of very successful and innovative snack products appealing to British culture.

Given his success, it is fair to argue that intuitive decision-making has been instrumental in C2G’s financial performance and given that Charles is very much in control of the organization, scientific methods may be inappropriate as it will hinder its creativity / innovation and free spirit. His intuitive decision-making enables C2G to create a competitive advantage in the British market in an industry that is probably saturated. There are many potato chip producers.

**However**, his lack of consultation with senior managers (such as the Finance, Marketing and Production Managers) may result in less than effective decisions in the future.

**Scientific management** however, requires a much more analytical and considered approach to decision-making based not only on financial and market research data, but also the application of tools and techniques such as decision-trees, networks or force-field analysis. The stimulus indicates that for C2G to successfully penetrate a new international market with a different cultural makeup considered market research (or sometimes referred to as cultural intelligence [CQ]) is required. The contrast with Charles’s own thinking could not be more marked. **However**, for the successful entry into this new unknown market he will have to consider adopting more scientific methods as his closest adviser admits given the fact that his strengths are in and for the British market.

It appears that Charles’s intuitive decision-making might frustrate the Marketing department / Manager as well as the Production Manager. Conflicts between internal stakeholders can reduce the efficiency of the organization as well as its reputation.

Both are relevant approaches to decision-making, but in this example it would be foolish of Charles to ignore scientific and rely just on his intuition given that he is thinking of taking C2G into a completely new untried market.

**The similarities** between the methods can be explained as both methods result in a decision and both methods can be effective or otherwise. One may also argue that for each decision making, especially the scientific one, some degree of intuition and especially experience is being used as the decision is made by humans. It might be unrealistic to assume that senior managers such as the Finance or the Marketing Manager do not rely on their interpretation, experience, background and so on when using a more scientific decision-making method.

*Accept any other relevant analysis.*

*It is not expected that the candidates covers all of the above issues*

*It is expected that the candidate provides, even briefly, the main characteristics / features of the different decision making methods with reference to some advantages and disadvantages of each with application.*

*Candidates may refer to the similarities, however do not penalize if they do not do this in their response.*

*For one relevant issue that is one-sided, award up to [3]. For more than one relevant issue that is one-sided, award up to a maximum of [4].*

*For one relevant argument for and one relevant argument against one decision-making method award up to [4].*

*For [5] it is expected that the analysis is relevant and detailed, but it may lack some balance. For example, one argument is missing.*

*For [6] it is expected that the analysis will contain at least one detailed argument for and at least one detailed argument against **each** decision-making method with application to C2G.*

*Accept mirror image arguments.*

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

- (d) Evaluate the strategic decision to launch C2G's potato chips into a new international market.

[9]

The decision to launch C2G's potato chips into a new international market would seem suitable given the increasingly competitive snack market at home. The Production Manager rejected the first and possibly the more favourable decision to launch a new type of potato chip, Charles would appear confident that his current products, yet unique chip flavours would provide C2G with a market gap to be exploited.

Assuming that suitable resources would be made available to finance the strategic move, the decision could be viewed as a market development opportunity in the Ansoff matrix as a growth strategy and as an internal growth strategy. Using well received concept products and taking it to a new market is a medium risk strategy which the candidate may judge as an advantage or a disadvantage.

**However**, internal growth is a slower method of growth, but in this case may be more suitable than any other form of external growth like takeover / mergers where Charles might have to modify his leadership style.

Both current and potential investors should be content with this decision.

**N.B.** *an application of Ansoff matrix is not required and is given as an illustration of a strategic tool a candidate may wish to use in their response.*

To ensure the success of the decision, additional finance will be required to adapt some if not all of C2G's marketing mix as suggested by Charles's closest advisers. Especially the promotion and the product to ensure that there are no misunderstandings about their products or Charles's personality and lifestyle choices.

A carefully considered public relations campaign will need to be created so that the brand value of C2G is not diluted. Translators / marketing consultants at the new overseas market will need to be employed so that potential consumers are not confused by “banana and sour cream” and other flavours which may not translate well into local media or other above-the-line promotional methods. Finance will also need to be found to fund further “cultural intelligence” information and of course further market research to see if the growth strategy is on track, once C2G enters the market. Clearly, given that knowledge of this new market may be developing, on top of the extra costs of the suggested need for marketing mix adaptation, Charles will need to review his intuitive decision-making style in a market in which he is unfamiliar.

Moving into a new international market will take time. Initial sales may be small and with further promotional support, it is hoped that the product life cycle will enter the growth phase. Given that C2G’s success is linked to the personality of Charles, patience will be critical and it is indicated in the stimulus that Charles may lack this.

The decision to move into a new international market is justified from the stimulus given competitive pressures in domestic markets. The creation of a zero-fat chip (although currently not possible) given increasing concerns about obesity could prove to be a potential “cash cow” for C2G.

**However**, given the conflicts outlined in the stimulus and the associated challenges of entry into a new international market, the decision to move into a new market will still be risky unless Charles is willing to modify his leadership style and communication between departments within C2G improves.

It is expected that the candidate will provide some conclusions and judgment. It appears that the arguments for, based on some of the above arguments / reasons, especially C2G’s past success and the current market conditions are stronger than the arguments against. Provided some attention is paid to the market research and product adaptation, C2G should launch the chips into a new international market.

*Accept any other relevant evaluation with substantiated judgment.*

*It is not expected that the candidate incorporates all of the above arguments.*

*For one relevant issue that is one-sided, award up to [3]. For more than one relevant issue that is one-sided, award up to a maximum of [4].*

*Award a maximum of [5] 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 [5–7] 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.*

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