

MARKSCHEME

May 2002

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

1. (a) **Why does Joseph Obeng believe the best growth strategy for Open Views is organic growth, rather than going public or merging with other companies?** ***[3 marks]***

Organic growth is natural growth, funded by increased sales revenue, which is then reinvested in the business in the form of additional assets. Joseph wants to retain control of his business and is proud of the personalised and bespoke service offered. It would be difficult for a larger company to address this niche and to offer a similar service. Neither McGregor nor Blue Seas have found it possible to offer an exact service.

Joseph has a “hands-on” leadership style and wants to take all major decisions. If the business grows much bigger he will lose this control. Similarly, if growth is too quick it may result in a loss of financial control if the business overtrades.

He has rejected going public, because there is a risk that he will lose control of the business if shares are bought by other people, and possibly companies, wishing to launch a takeover. Similarly, a merger would involve a reduction of his control and decision making opportunities.

[3 marks]

Issues of personal and financial control are recognised and illustrated.

[1 to 2 marks]

One issue is explained, or two or more simply listed.

- (b) Analyse whether small and medium sized firms, such as Open Views, have commercial and competitive advantages over multinationals like McGregors and Blue Seas. [8 marks]**

Potential commercial / competitive advantages of small / medium sized firms:

- personal service: customers may be prepared to pay a higher price for a personal service
- flexibility: small firms can react more quickly to changing services as they often have less bureaucracy and quicker decision making
- innovation, dynamism and creativity: small firms are often more entrepreneurial and willing to be creative
- employment legislation only covers firms with larger numbers of employees. Wage rates may be lower and contracts may be restricted
- niche services and products: small firms may be able to cater for specialised demand. They may become monopoly suppliers within a niche as large firms could not survive on the low level of total demand
- many governments may offer financial assistance and grant aid to small firms
- large firms may suffer diseconomies of scale.

Potential disadvantages of small / medium sized firms:

- less economies of scale: increased unit cost
- restricted division of labour and lack of specialist advice
- problems raising finance and more costly loans
- less diversification and higher risk: reliance on single products or small markets may be dangerous if these markets contract
- capital is harder to obtain for future expansion
- recruitment of skilled personnel may be more difficult.

[6 to 8 marks]

A balanced analysis reflecting both advantages and disadvantages of small and medium sized firms supported by relevant examples and expansion of ideas.

[3 to 5 marks]

At the upper end of the band there is some analysis, but with limited illustration of ideas. At the bottom of the band the discussion may be unbalanced and essentially descriptive.

[1 to 2 marks]

A limited descriptive response.

- (c) **Examine Open Views’ present marketing approach and consider whether this needs reviewing and refining.** **[6 marks]**

Present marketing approach:

- minimal approach
- word of mouth, personal recommendation
- brochures and direct mail
- limited advertising.

The question is whether this is sufficient. There is an argument that the recent advertising methods are well focused and cost effective. Certainly the targeted mail drop seemed particularly efficient. Problems could arise if satisfaction levels continue to fall and less rebooking and recommendation occurs. Also as the firm grows, wider coverage may be necessary. It seems that the target audience may be different if either the commercial centre or the cottages are built and this may require a different promotional approach.

Another issue relates to the lower occupancy rates during the off peak months. This may require a new approach. Undifferentiated marketing for a small/medium sized firm is not appropriate and suggestions that TV advertising might be undertaken should be resisted. Reward answers that include imaginative PR exercises, the value of more direct mailing and more focused advertising in specialist publications.

[5 to 6 marks]

A clear examination of the existing marketing approach and review of potential options, reflecting appreciation of the existing cost effectiveness, but making intelligent refinements.

[3 to 4 marks]

At the upper end of the band there is some analysis, but with limited illustration of ideas. At the bottom of the band the discussion may be unbalanced and essentially descriptive.

[1 to 2 marks]

A limited descriptive response.

2. (a) **Explain what is meant by an autocratic manager (line 102).** **[2 marks]**

An autocratic manager is authoritarian. S/he does not consult their employees, but simply tells them what to do. Communication, therefore, tends to be one-way, and downwards. Feedback is not invited or encouraged. Often orders are backed up by threats of punishment should actions not be completed or completed successfully.

Award **[1 mark]** for a brief definition and **[2 marks]** if it is expanded upon and illustrated.

- (b) **Discuss the effectiveness of Joseph Obeng’s leadership approach and management style.** **[4 marks]**

Joseph’s management style is a strange mixture. Major decisions are centralised and when Joseph is present, his style is “hands-on” and paternalistic. When he is absent, the style is rather laissez faire. Staff can cope in most circumstances as they are relatively experienced. However, financial and performance indicators are suggesting that a lack of consistency and support is affecting staff efficiency and motivation.

His staff like his personal approach, but are becoming frustrated by his whirlwind visits, and the fact that he leaves tasks incomplete, simply a mess that needs clearing up after he has gone. Some of them recognise this is a symptom of stress. As the firm has grown he needs to relinquish some of the decision making, as making all major decisions is proving too big a task.

[3 to 4 marks]

The leadership approach and management style are accurately described and the effects on the firms operations intelligently discussed using examples from the case.

[1 to 2 marks]

The discussion is general, but essentially correct, with few or no examples.

- (c) (i) **Select *four* monetary and *two* non-monetary incentives that Joseph Obeng and Peter Storm could use to improve the productivity and/or motivation of their staff.** **[3 marks]**

Possible monetary rewards:

- overtime
- performance related pay / piece rates
- bonuses
- profit sharing
- share options
- discounts on products and services
- reduced interest mortgages and loans
- relocation payments
- company car
- promotion and higher salary.

Non-monetary rewards:

- club membership
- awards *e.g.* employee of the month
- praise
- job enrichment, enlargement, empowerment
- own parking spaces
- promotion.

[3 marks]

The six incentives selected are relevant and appropriate

[2 marks]

Less than six incentives are selected or some are inappropriate.

[1 mark]

A limited answer in terms of relevance or numbers of incentives selected.

- (ii) **Evaluate the likely success of your selected incentives, *either* individually *or* in combination, at Warm Breezes and the Head Office.** **[5 marks]**

Judgements about the incentives are made by reference to the economic position of the business, its operational objectives and its need to motivate and retain its personnel. Clearly, any additional expenditure needs to result in improved results. A discussion needs to relate to the present targets and the link with payment.

[4 to 5 marks]

Relevant monetary and non-monetary rewards are identified and evaluated against the firms financial position, its operational objectives and its need to retain and motivate personnel.

[2 to 3 marks]

There is an attempt to judge the likely success of the selected incentives, but there is a tendency to be descriptive rather than analytical or evaluative.

[1 mark]

A limited response.

3. (a) Calculate the average (mean) room occupancy at Warm Breezes for each of the years 1999 to 2001 (*appendix 4*). **[3 marks]**

$$\text{Mean} = \frac{\text{Total of a group of numbers}}{\text{Number in the group}}$$

	1999	2000	2001
Mean:	$\frac{904}{12} = 75.3 \%$	$\frac{912}{12} = 76 \%$	$\frac{898}{12} = 74.8 \%$

Award **[1 mark]** for each correct calculation up to a maximum of **[3 marks]**.

- (b) Assess whether the proposals, put forward by Manjit and Joseph to improve occupancy levels through the year, fit with Open Views’ target customer profile (*appendix 1*), and whether Joseph is correct to be concerned. **[6 marks]**

Open Views’ target customer is clearly laid out in *appendix 1*. The description fits the Yuppy (Young Urban Professionals), Yummy (Young Upwardly Mobile) and Dinky (Dual Income, No Kids) categories. The present focus of targeting and positioning of Open Views is to these groups. The new developments and suggested ideas, and even to some extent the clientele of Warm Breezes are not quite the same. They are targeting slightly lower income, less adventurous groups, with a less exclusive, individualised and luxurious experience. There are certainly dangers in this new direction, especially to the corporate image and branding opportunities of the organisation. If the core customer perceives that the image is being diluted, they may go elsewhere, especially as their purchasing behaviour is classified as “conspicuous consumption”. However, it is possible that candidates could make a case for the overlapping of groups.

[5 to 6 marks]

The target customer is accurately defined and the mismatch with potential new customers recognised and assessed.

[3 to 4 marks]

The target customer is described in general terms and some problems identified.

[1 to 2 marks]

A limited and general answer.

4. (a) Prepare a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis for Open Views. *[8 marks]*

Strengths:

- exclusive image
- high customer satisfaction
- customer loyalty and repeat bookings
- experienced management
- beneficial joint ventures
- celebrity endorsement
- high value added services
- success of Warm Breezes
- good links to business community
- high mark up and good return on capital and assets.

Weaknesses:

- growth limited by legal structure as private limited company
- limited marketing
- off season occupancy rates in Warm Breezes
- staff dissatisfaction in head office and Warm Breezes
- poor working conditions in Warm Breezes
- Joseph under stress
- poor management
- strained relationships with the local community
- falling net profit and increasing costs
- lack of corporate identity
- cash flow problems
- poor industrial relations
- high staff turnover.

Opportunities:

- further joint ventures
- expansion into other resorts and islands
- government tax breaks and subsidies
- commercial opportunities
- more holiday makers looking for unusual, individualised holidays
- higher incomes leading to higher demand
- lack of competition in niche.

Threats:

- possible slowdown of the United States' and European economies
- increasing competition forcing lower profit margins
- industrial action by staff
- income sensitivity
- legal action over working environment.

[7 to 8 marks]

A detailed and balanced SWOT analysis with at least **twelve** relevant points with at least two in each section, highlighting major issues from the case supported by some relevant illustrations.

[3 to 6 marks]

A balanced SWOT analysis, highlighting major issues from the case study.

[1 to 2 marks]

A limited SWOT analysis with some issues in the wrong sections. For **[1 mark]** the candidate might not use a SWOT format.

- (b) Using the information from your SWOT analysis, produce a report from Marc Leroux to Joseph and Manjit outlining future operating and growth strategies for the next five years. [12 marks]**

Future operating strategies need to:

- develop perceived strengths, e.g. image, customer loyalty, joint ventures, developing external links and refining marketing strategies such as celebrity endorsements
- address perceived weaknesses, e.g. occupancy rates out of season, personnel dissatisfaction and staff turnover, management styles and stresses, net profit and liquidity.

Growth Strategies need to:

- relate to market penetration and extension and product development. (An excellent candidate may apply growth models, such as Ansoff's matrix)
- address potential threats, such as the trade cycle, cash flow and liquidity issues, staff relations and motivation and increased competition.

Practical activities might be to:

- expand the Warm Breezes concept into other exotic locations, taking advantage of countries desire to attract inward investment
- break into the business sales and training sector
- court new business partners, especially those willing to inject additional capital
- examine staff training, recruitment and retention issues.

Many other practical approaches may be suggested.

Allow up to **[2 marks]** for a correct report format including “to, from, reference, date, introduction, main body, conclusions and recommendations”.

[9 to 10 marks]

A detailed and coherent approach suggesting practical and relevant operating and growth strategies. The answer needs to include issues from the candidate's SWOT analysis.

[6 to 8 marks]

Intelligent suggestions, possibly lacking some structure. Issues from the SWOT analysis are included.

[3 to 5 marks]

Descriptive and rather limited suggestions, but of relevance and value.

[1 to 2 marks]

A limited and general answer.
