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M02/370/S(2)M+

# **MARKSCHEME**

**May 2002**

**BUSINESS AND MANAGEMENT**

**Standard Level**

**Paper 2**

1. (a) State *two* objectives of a charity. *[2 marks]*

Objectives:

- to promote a cause
- to provide a service
- to be accountable to the stakeholders – government, community, board
- to appear altruistic
- to raise funds.

Award *[1 mark]* for each suitable objective to a maximum of *[2 marks]*.

- (b) Analyse the organization chart in terms of line-management responsibility and span of control. Use appropriate examples from the chart to illustrate your answer. *[4 marks]*

There are five levels of hierarchy in the organization, the line management structure is clear for most of the staff, except for the Community Administrative Assistants. The Administrative Assistants answer to both the Education Officer and the Health Officer, this may lead to confusion and problems with decision-making. The span of control is the number of subordinates controlled by the manager, for example the operations manager has a span of control of two. Generally the span of control in the organization is narrow. This aids the decision making process, making it easier to consult.

*[4 marks]*

The answer analyses the organization chart, in terms of line management responsibility and span of control. The analysis is detailed and uses appropriate examples from the chart.

*[2 to 3 marks]*

The answer attempts to analyse the organization chart, in terms of line management responsibility and span of control. The analysis may lack detail but uses examples from the chart.

*[1 mark]*

The answer is limited in terms of line management and span of control. There is no attempt to analyse the chart. Reference to the chart is limited.

- (c) (i) **Explain what is meant by an “ethical and socially responsible firm”.** **[2 marks]**

An “ethical and socially responsible firm” works to a code of behaviour which is acceptable for an organization and its employees to follow in a given society. Ethical businesses recognize the importance of social responsibility and that employees have broader responsibilities than just making a profit. An ethical firm that considers society as a whole and also considers the community within which it is based can be classified as socially responsible.

Award up to **[2 marks]** for a suitable explanation, explaining both ethical and socially responsible.

- (ii) **Write a memorandum (memo) from the Board of Directors to the Chief Executive outlining its concerns, and stating both positive and negative aspects of the decision to accept sponsorship from Deval.** **[6 marks]**

**Positive aspects**

The investment is massive in terms of enabling KNDC to equip the schools with state of the art IT equipment. This will enable the candidates to gain advantages that would not be offered to them otherwise. It will enable them to prepare for work using the latest equipment. The equipment will be available to the local community and local businesses as well.

**Negative aspects**

*Deval* is a tobacco company and is therefore not a good role model to adopt as a sponsor. The schools should be promoting a moral code that should inform students about the dangers of smoking. The sponsors may put pressure on the school to publicize it and promote its actions as positive, *e.g.* screen savers, logos on prospectuses. Negative publicity may result from the sponsorship deal that may have an adverse effect on the schools.

Award **[1 mark]** for a memorandum (memo) format, To, From, Subject, Date.

**[4 to 5 marks]**

Concerns are outlined and both positive and negative effects of the decision are stated.

**[2 to 3 marks]**

Concerns are outlined and both positive and negative effects are stated though the answer may be one sided.

**[1 mark]**

The response is limited.

- (d) **Discuss *three* constraints that KNDC might experience when implementing the project, distinguishing between those it can control and those beyond its control.** **[6 marks]**

*Internal:* those which the firm can control, but which restrict its ability to achieve its objectives:

Finance: e.g. cash flow, ability to raise more funding (business sponsorship), displaying good value for money;

Human resources: numbers of staff appointed, skills of the staff, motivation of those who work there;

Public Relations: maintaining good relations with the local community and raising the profile of KNDC;

Delivery: the community want results quickly to improve their way of life. KNDC however wish to consult, create their strategy and follow all the steps of the decision making process. This may lead to a conflict of interests.

*External:* beyond the immediate control of KNDC, which restrict its ability to achieve its objectives:

Political Factors: the government may change and new buildings may not be a priority. Funding may therefore be cut which would mean that KNDC would need to redistribute funds;

Economic: state of the economy;

Social factors: e.g. social trends, demographics, and attitudes;

Technology: e.g. rate of change.

**[5 to 6 marks]**

The answer discusses in detail three constraints experienced by KNDC. It distinguishes between those, which KNDC can control, and those beyond their immediate control.

**[3 to 4 marks]**

The answer discusses at least two constraints, though it may lack detail. There is some attempt to distinguish between those KNDC can control and those beyond its control.

**[1 to 2 marks]**

The answer is limited in terms of discussion, constraints and control. Some of the elements might be missing.

2. (a) (i) **Explain what is meant by a mission statement.** **[2 marks]**

A mission statement sets out the vision, values and beliefs of an organization to make the philosophy of the organization plain to all involved in the organization.

Award up to **[2 marks]** for a suitable explanation.

- (ii) **Analyse how *Missan Motorcare*'s commitment to achieving their mission statement has enabled them to be successful in Africa.** **[4 marks]**

“to be the leader in sales and distribution of automotive products and services in countries where we have distribution rights.”

The mission statement displays the vision for the company. It shows its ambition to be the leader in Africa in sales and distribution. This focuses the stakeholders on these aspects of the company. Their success can be attributed to their position as market leader in the development of franchises and distribution rights in Uganda and Mozambique.

**[4 marks]**

The answer is detailed and provides an analysis of the mission statement. Examples from the letter should be used to demonstrate the success of the company and should be clearly linked to the mission statement.

**[2 to 3 marks]**

The answer attempts to provide an analysis of the mission statement. The answer discusses the success of the company and links it to the mission statement.

**[1 mark]**

The answer is limited in terms of analysis and reference to the mission statement.

(b) *Missan Motorcare* in Mozambique is sold as a franchise operation.

(i) Explain what is meant by a franchise. **[2 marks]**

A franchisor sells the rights to use/sell a product to a franchisee in return for a fixed fee and/or a percentage of the turnover.

Award up to **[2 marks]** for a suitable explanation.

(ii) Discuss *three* advantages and *three* disadvantages for the distributor of this arrangement. **[6 marks]**

Advantages	Disadvantages
Day to day management is the franchisees responsibility	Loss of control
Quicker growth of distribution outlets	Poor management may affect other outlets
Can share costs <i>e.g.</i> marketing more widely	Quality control more difficult
Increases funds available for expansion	
Managers more motivated as they benefit from increased sales	

**[5 to 6 marks]**

Three advantages and disadvantages are discussed in detail with reference to *Missan Motorcare*. Any illustrations given are fully relevant to the question.

**[3 to 4 marks]**

Three advantages and disadvantages are discussed but the answer may lack detail and/or reference to *Missan Motorcare*. Any illustrations given may not be fully relevant to the question or two advantages and disadvantages are discussed in detail. There may be confusion that the franchiser is the distributor.

**[1 to 2 marks]**

Discussion of advantages and disadvantages is limited. Illustrations are not relevant to the question.

- (c) **Evaluate *three* ways in which *Missan Motorcare* can ensure that they maintain their position as market leader and their good reputation for customer care.** **[6 marks]**

*Missan Motorcare* need to ensure that they maintain customer satisfaction. This can be done by ensuring regular feedback from customers by questionnaires, phone calls and even focus groups. They must make sure that techniques used to promote the company are suitable to the intended audience. The price of motor vehicles and motor bikes must remain competitive. The distributors must ensure that they are located in places that are convenient to the customers. Quality of the product is important and must be maintained, as well as good customer service. Care must be taken to look at what is happening in the market and that the company keeps up with competitors. *Missan* need to ensure the careful selection of franchisees and need to set a standard for the monitoring of franchise operations.

**[5 to 6 marks]**

The answer evaluates in detail three ways in which *Missan Motorcare* can ensure that they maintain their position as market leader and a good reputation for customer care. Reference to market share and customer care is entirely appropriate.

**[3 to 4 marks]**

The answer attempts to evaluate at least two ways in which *Missan Motorcare* can ensure that they maintain their position as market leader and a good reputation for customer care, though detail may be brief in parts. Reference to market share and customer care is generally appropriate.

**[1 to 2 marks]**

The answer is limited in terms of evaluation, market leader and customer care.

3. (a) Explain the difference between fixed and variable costs. [2 marks]

Fixed costs do not change with output e.g. rent. Variable costs vary directly with output e.g. materials.

Award up to [2 marks] for a suitable answer that distinguishes between fixed and variable costs.

(b) Draw a break-even chart for *Party in a Box* and clearly mark the break-even point. [8 marks]

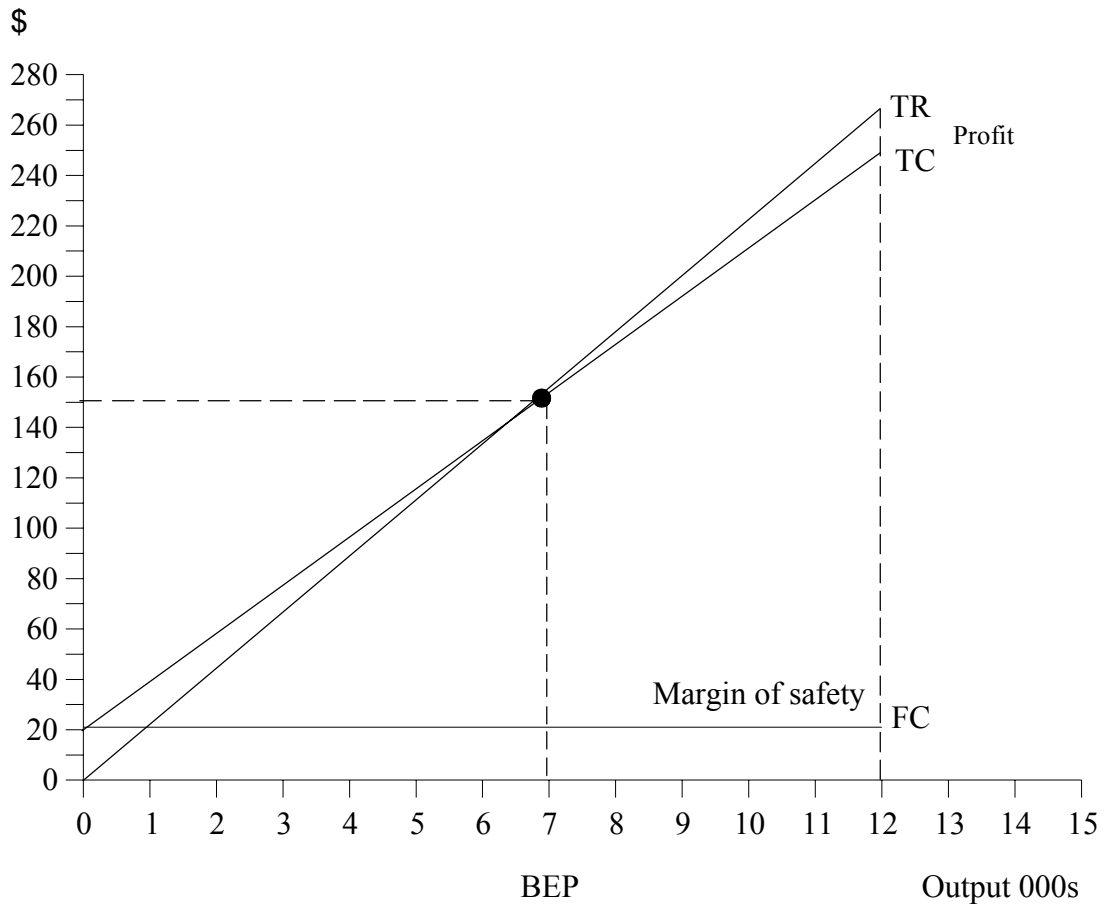
Quantity	Revenue	Fixed Costs	Variable Costs	Total Costs	Profit/Loss
\$	\$	\$	\$	\$	\$
0	0	21 000	0	21 000	(21 000)
1 000	22 000	21 000	19 000	40 000	(18 000)
2 000	44 000	21 000	38 000	59 000	(15 000)
3 000	66 000	21 000	57 000	78 000	(12 000)
4 000	88 000	21 000	76 000	97 000	(9 000)
5 000	110 000	21 000	95 000	116 000	(6 000)
6 000	132 000	21 000	114 000	135 000	(3 000)
7 000	154 000	21 000	133 000	154 000	0
8 000	176 000	21 000	152 000	173 000	3 000
9 000	198 000	21 000	171 000	192 000	6 000
10 000	220 000	21 000	190 000	211 000	9 000

Revenue = \$ 22 per copy

Total fixed costs = \$ 4000 + \$ 3000 + \$ 14000 = \$ 21000

Variable cost per pack = \$ 2 + \$ 2 + \$ 8 + \$ 7 = \$ 19





**[6 to 8 marks]**

A break-even chart has been drawn correctly and the break-even point is correct. The axes are correctly labelled. The chart is clearly drawn and fully labelled. At the lower end, presentation may need improvement, there may be one error.

**[3 to 5 marks]**

There is an attempt to draw the break-even chart but there may be some errors. Presentation may be lacking. Labels may be missing.

**[1 to 2 marks]**

The answer is limited in terms of drawing the chart, finding the break-even point and presentation.

If a candidate does not draw a break-even chart but calculates the BEP award a maximum of **[3 marks]**.

- (c) Calculate the margin of safety and profit at 12 000 packs. Clearly show your method of calculation. **[4 marks]**

Margin of safety = 12000 – 7000 packs = 5000

Award **[1 mark]** for correct margin of safety and **[1 mark]** for clear working out.

Total revenue at 12 000 packs = 22 × 12 000 = \$ 264 000

Total fixed costs = \$ 21000 Total variable costs = 19 × 12 000 = \$ 228 000

**Profit** = Revenue – Total costs = 264 000 – (228 000 + 21 000) = \$15 000

Award **[1 mark]** for correct calculation of profit and **[1 mark]** for showing clear working.

- (d) Analyse three advantages and three disadvantages for Emma of expanding *Party in a Box*, and diversifying into a new product. **[6 marks]**

Potential advantages and disadvantages include:

**Expansion**

Advantages	Disadvantages
May lead to increased profits	The business may suffer as it grows, it may take all Emma’s time
Uses existing skills	Emma will have to look after another member of staff
New challenge	A loan may be needed from the bank which will increase liability

**Diversifying**

Advantages	Disadvantages
May lead to new markets	If product is not popular may affect core business
Would appeal to new customers	Emma may lack expertise e.g. marketing packs
New product will complement existing service	Extra costs may affect cash flow and profit
Spreads risk	
Opportunity to increase profits	

**[5 to 6 marks]**

The answer provides a detailed analysis of three advantages and disadvantages of expanding the business, and diversifying into personalized stationery. The answer is fully related to *Party in a Box*.

**[3 to 4 marks]**

The answer attempts to provide an analysis of advantages and disadvantages of developing the business and diversifying. The answer attempts to relate to *Party in a Box*.

**[1 to 2 marks]**

The answer is limited in terms of analysis and advantages and disadvantages of expansion and diversification.

4. (a) (i) Analyse the product portfolio of *Wheels on Fire*, using Figures 1 and Figure 2 to support your answer. **[9 marks]**

Boston Matrix Position	Product	Launched	Price	Share of Market	Market Growth	Quality
Star	Mountain Magic	2000	Low	High	High	High
Cash Cow	Rugged Rider	1995	Low	High	Low	Low
Question Mark	Gryphon	2002	High	Low	High	High
Dog	Town Tourer	1981	High	Low	Low	Low

The Boston Matrix shows what percentage of the market each product has and the rate at which the market as a whole is growing. The “Star – Mountain Magic” (relatively new in the market) has a high share of a fast growing market. It may require a large investment to keep it competitive. Mountain Magic is a low price bike but as it is high quality it should prove popular in the market. The “Cash Cow – Rugged Rider” has a large share of a slow growing market. It has already been developed and promoted, and generates relatively high levels of cash. It can be used to develop and protect the “Star” and the “Question Mark/Problem Child”. Rugged Rider is a low price, low quality bike, launched quite a few years ago. You get what you pay for. The “Question Mark/Problem Child – Gryphon” has a small share of a fast growing market; it has the potential to be successful but needs protection and investment. It has only recently been launched on the market, has a high price but is high quality, it may therefore appeal to specialist cyclists, or more well-off customers. Its high price may not prove popular, it could become a “Star” or could become pushed out. The “Dog – Town Tourer” has a small share of a slow growing market. It is a very old model, low quality and high price and may take up more time and investment than it is worth. It could be revived but may be it is more likely to be dropped.

**[7 to 9 marks]**

The answer analyses each of the four products, using the Boston Consulting Group Matrix and position map. The products are analysed in terms of age, price, quality, market share and growth rate. The answer provides good illustrations using Figures 1 and 2.

**[4 to 6 marks]**

The answer attempts to analyse each of the four products, using the Boston Consulting Group Matrix and position map. The products are analysed but not in all areas of age, price, quality, market share and growth rate. The answer provides illustrations using Figures 1 and 2.

**[2 to 3 marks]**

The answer explains the four products, using the Boston Consulting Group Matrix and position map, though the answer may be limited in some areas. Analysis is superficial and lacks depth. Illustrations from Figures 1 and 2, may not be used entirely appropriately.

**[1 mark]**

The answer is limited in terms of analysis, explanation and illustrations from Figures 1 and 2.

- (ii) **Make recommendations to the company as to how they should develop each product.** **[4 marks]**

Star	Mountain Magic	“Build” – Invest to develop
Cash Cow	Rugged Rider	“Hold” – attempt to maintain existing market position
Dog	Town Tourer	“Divest” – get rid of this product unless it is making a profit
Question Mark/ Problem Child	Gryphon	“Harvest” – aim for short term profits, high price may go against long term investment of effort

Award **[1 mark]** for each correct development suggested up to a maximum of **[4 marks]**.

- (b) **Prepare a marketing strategy for Gryphon.** **[7 marks]**

Suitable market research needs to be carried out among potential customers. Their views should be taken into account and the product developed to suit their needs.

Product	Gryphon is a newly launched, high price, high quality product. It has a low market share in a rapid growth market. It may be a specialist bicycle hence the price. The product should be designed to appeal to that market.
Price	It is a high price product and so should be targeted at the upper end of the market, including specialist cyclists and well-off customers. The quality should be emphasized to warrant the price charged.
Place	The Gryphon should be sold in specialist outlets and catalogues. It could also be sold on specialist internet sites.
Promotion	Promotion should be by means of advertising in specialist magazines and web sites. It is unlikely that TV and radio advertising would be suitable.

**[6 to 7 marks]**

The marketing strategy prepared provides a detailed application of the marketing mix using at least 4Ps. The application is fully suitable for Gryphon. The answer may go beyond the 4Ps and include market research and product development.

**[4 to 5 marks]**

The market strategy applies the marketing mix to Gryphon but does not go beyond this. One of the elements may not be suitable to Gryphon.

**[2 to 3 marks]**

The strategy applies to the marketing mix but more than one element may be missing. The suitability for Gryphon may not be appropriate.

**[1 mark]**

The answer is limited in terms of the marketing mix and its suitability for Gryphon.

5. (a) Define

(i) profitability

(ii) liquidity and

(iii) efficiency.

[3 marks]

**Profitability** – how profitable the firm is in relation to sales and assets.

**Liquidity** – ability of a company to pay its creditors and meet its debts.

**Efficiency** – how well the firm is using its resources.

Award [1 mark] for each definition up to a maximum of [3 marks].

(b) (i) Calculate two profitability, two liquidity and two efficiency ratios for 2000 and 2001.

[6 marks]

		Year 2000 \$ 000s	Year 2001 \$ 000s
Profitability	Return on capital employed $\frac{\text{NP}}{\text{Capital Employed}} \times 100$	$\frac{40}{400} \times 100 = 10\%$	$\frac{38}{412} \times 100 = 9.22\%$
Profitability	Gross profit margin $\frac{\text{GP}}{\text{TR}} \times 100$	$\frac{200}{800} \times 100 = 25\%$	$\frac{250}{1000} \times 100 = 25\%$
Profitability	Net profit margin $\frac{\text{NP}}{\text{TR}} \times 100$	$\frac{40}{800} \times 100 = 5\%$	$\frac{38}{1000} \times 100 = 3.8\%$
Liquidity	Asset turnover $\frac{\text{TR}}{\text{Net Assets}}$	$\frac{800}{400} = 2$	$\frac{1000}{412} = 2.43$
Liquidity	Current ratio $\frac{\text{CA}}{\text{CL}}$	$\frac{40}{20} = 2$	$\frac{62}{30} = 2.06$
Liquidity	Acid test $\frac{\text{CA} - \text{Stock}}{\text{CL}}$	$\frac{40 - 20}{20} = 1$	$\frac{62 - 40}{30} = 0.73$
Efficiency	Debtor days $\frac{\text{Debtors} \times 365}{\text{TR}}$	$\frac{12}{800} \times 365 = 5.5 \text{ days}$	$\frac{18}{1000} \times 365 = 6.6 \text{ days}$
Efficiency	Stock Turnover $\frac{\text{Cost of sales}}{\text{Stock}}$	$\frac{600}{20} = 30$	$\frac{750}{40} = 18.75$

Award [1 mark] for each pair of ratios (2000 and 2001) calculated correctly, up to a maximum of [6 marks]. Do not award more than [2 marks] for each area – profitability, liquidity and efficiency.

- (ii) Use the ratios to evaluate the performance of the company in 2001, compared to 2000. **[5 marks]**

Profitability – Return on capital employed has decreased. This means that the rate of return is slower. Gross profit margin has not changed, but net profit margin has decreased, showing that overheads have increased. The company needs to take steps to stop this. The value of sales compared to net assets has increased.

Liquidity – Current ratio has increased. It is quite high for both years and attention needs to be paid to reducing it. The Acid Test ratio has decreased. However, both years are within a suitable range. This means that money is not tied up in stock unnecessarily. The company can however meet its short-term debts.

Efficiency – Debt collection period has increased. This means that the company is taking longer to collect its debts. Stock turnover has decreased. Stock is turning over more slowly, meaning that the company is not as efficient as it was. The company is not as efficient in 2001, as it was in 2000.

If suitable comments are made, but are based on candidates incorrect figures, then they must be credited.

**[5 marks]**

The answer evaluates in detail the performance of the company in 2001, compared to 2000. Two profitability, two liquidity and two efficiency ratios are all used to support the answer.

**[3 to 4 marks]**

The answer attempts to evaluate the performance of the company in 2001, compared to 2000, though in parts the answer may lack detail. Some of the profitability, liquidity and efficiency ratios may not be used to support the answer.

**[1 to 2 marks]**

The answer is limited in terms of evaluation and use of ratios to compare the performance of the company.

- (c) **Analyse how the appointment of a new Managing Director will affect the performance of the company, in terms of productivity and making cost savings.** ***[6 marks]***

The managing director needs to make changes. Productivity needs to increase which may decrease motivation. Changes in working practice may also cause employees to fear change and lead to lower motivation. It is important that employees are informed of changes and that they are consulted if possible at all stages. Cost savings also threaten the work force and may lead to insecurity that they may lose jobs. Cost savings in other areas may make it more difficult for staff to work.

***[5 to 6 marks]***

The answer is detailed in its analysis of the way in which changes will affect productivity. Making cost savings are discussed in terms of Apex Systems.

***[3 to 4 marks]***

The answer attempts to analyse the way in which changes will improve productivity. Making cost savings should be discussed in terms of Apex Systems. The answer may be limited in one area.

***[1 to 2 marks]***

The answer is limited in terms of analysis and omits at least one of the areas.

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