

INTERNATIONAL  
BACCALAURÉAT  
BACHILLERATO



BACCALAUREATE  
INTERNATIONAL  
INTERNACIONAL

N02/370/S(1)M+

# **MARKSCHEME**

**November 2002**

**BUSINESS & MANAGEMENT**

**Standard Level**

**Paper 1**

1. (a) **Outline *three* advantages of becoming a private limited company.** [3 marks]

Advantages:

- all actions taken by the company are actions of the *company* rather than actions of the individual *owners i.e.* it has a separate legal entity
- limited liability
- risk transferred from owners to creditors
- liable to pay corporation tax on profits
- shares are transferable in accordance with articles
- perpetual succession company not affected by death or retirement of member
- economies of scale
- easier to raise capital than sole trader or partnership.

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

- (b) **Examine the decision taken by Joseph Obeng to form a joint venture with Manjit Daswami, rather than to create a separate company.** [5 marks]

Joseph Obeng decided to form a joint venture in order to retain tight control of his business rather than lose operating and financial control. He likes to make the decisions. Creating a separate company would limit his control. He may find it easier to raise finance through a joint venture.

[4 to 5 marks]

The answer explains what is meant by a joint venture. The decision to form a joint venture rather than a separate company is examined in detail and is relevant to the case study.

[2 to 3 marks]

The answer attempts to explain what is meant by a joint venture. The decision is examined, but the answer may lack detail. Some reference should be made to the case study.

[1 mark]

A general and simplistic response.

2. (a) **Describe what is meant by a “niche market” and assess how successful Joseph has been in creating a niche market.** [4 marks]

“Niche marketing” is a strategy of concentrating on a particular segment or niche of the market – a small part of the market which major producers are not concerned with.

The resort proved to be popular with tourists and the extension into the wedding market proved to be popular. Marketing is minimal and half of bookings are repeats. Hotel room occupancy is fully booked from April to September and customers are turned away. Joseph and Manjit were able to charge a premium price, which suggests that the decision was a success. Major holiday companies are not necessarily interested in these markets.

[4 marks]

The answer describes what “niche marketing” means and the assessment of Joseph’s success is detailed and relevant.

[2 to 3 marks]

The answer attempts to describe what “niche marketing” means and the assessment of Joseph’s success generally is relevant but may lack detail.

[1 mark]

A general and simplistic response.

- (b) **McGregor’s and Blue Sea are attracting some of Joseph Obeng’s target market. Explain how a small business such as *Open Views* can offer a more client-centred service than a multinational company.** [4 marks]

Customers of *Open Views* will get to know the staff personally and not feel that they are talking to a different person each time. This is important to the customers who are spending a lot of money and wish to know that everything will be organized properly. Joseph has personal experience of the holiday experience and this will reassure customers. Joseph sees customers as individuals and this will come across in the service offered. *Open Views* has all the advantages of a small firm in responding to customers needs e.g. faster decision making.

[3 to 4 marks]

The answer explains the ability of *Open Views* to offer a more client centred service. It compares it with the multinationals. The answer is supported by evidence from the case study.

[1 to 2 marks]

A simplistic and general response.

3. (a) (i) Evaluate each of the *two* options suggested for increasing occupancy during the winter months (*lines 120 to 137*) in terms of their likely success. **[6 marks]**

**Option 1.** The team building weeks may conflict with the romantic nature of the resort and lead to groups wanting to party and have a wild time. The war game development does not match the company’s image and may attract the wrong sort of customer. The ethics of encouraging war games should be taken into account.

**Option 2.** The self-catering cottages would appeal to couples and would attract a similar type of customer. The exclusivity of the resort would however be lost and attract a different type of social class grouping. The appeal to celebrities for the exclusivity of the resort may be lost. However this would appear to be a more attractive option than the first one.

**[5 to 6 marks]**

The answer analyses each of the two options in detail and evaluates the likely success of each option. A conclusion is reached as to their success and evidence given from the case study to support the conclusion.

**[3 to 4 marks]**

The answer attempts to analyse each of the two options, though the analysis may lack detail and show a superficial evaluation of the likely success of each option. Alternatively one option is well analysed. A conclusion should be reached and evidence given from the case study to support the conclusion.

**[1 to 2 marks]**

A general and simplistic response.

- (ii) Suggest *one* other way in which occupancy rates could be improved in the winter months. **[2 marks]**

The responses given may cover a wide range of options and are only limited by the imagination of the candidate. The option should be relevant to an exclusive resort for couples and a premium price operation.

Examples could include:

- holidays for retired couples
- themed weeks, *e.g.* golf, watersports
- holidays for single people.

Award up to **[2 marks]** for a suitable suggestion, relevant to *Warm Breezes*.

- (b) **Evaluate the likely impact on the image of the company of introducing a war game development (lines 125 to 127).** **[4 marks]**

The average customers for the resort are upper middle class couples aged 24 to 36. They enjoy the peace and quiet of the resort and come to relax and get away from it all. The image of the company is “a total sensory experience to provide client delight”. This clearly conflicts with the war game development. The image of the company will be damaged and repeat and potential customers may be lost. The groups attracted to the development will be looking for excitement and not necessarily to relax. It will lead to negative publicity and harm the image of the company.

**[4 marks]**

The answer evaluates in detail the impact of introducing a war game development into the resort on the image of the company. The answer includes reference to the case study.

**[2 to 3 marks]**

The answer attempts to evaluate the impact of introducing a war game development into the resort on the image of the company. For **[3 marks]** the evaluation may lack detail but should include reference to the case study.

**[1 mark]**

A general and simplistic response.

- (c) **Manjit has concerns about the criticisms from the government (lines 144 to 164).**

**You work for the public relations department of *Open Views*:**

- **Produce a report to Manjit Daswami, addressing each of the six criticisms in turn and allaying fears of the government.**
- **Make recommendations as to how *Open Views* can ensure they overcome the concerns in implementing either of the two options, ethically and with respect for the environment.** **[10 marks]**

### **Criticisms**

- No senior managers despite 70 % local recruitment – a training package could be put in place to support the development of local workers, including a fast track programme for suitable employees. The ethical programme could specify a percentage of senior managers that are local to the resort. Sponsorship could be provided to enable suitable local people to train overseas as managers and return to the resort.
- No local flavour to nightly entertainment – the company could hold at least one Caribbean night. This should not be a problem with customers as this is one of the reasons why they go abroad. Again, support could be given to develop local talent and local music.
- No use of local bars and restaurants – the company could extend the “all inclusive” package to local restaurants and bars and agree a price with the owners. Excursions could take place and the owners of bars and restaurants paid to provide refreshments and/or the customers could buy their own meals and drink on those nights. Guests could be encouraged to absorb the local flavour of the country by providing transport from the resort to local places.
- Uniforms not purchased locally – research could be done to find local suppliers. If none were available locally the company could agree a commitment to training local people to produce the garments at a fair price.
- Felling of twenty palms and dredging the beach – the company could try to build the palms and the beach into the plan without harming the environment. If this was not possible they could agree a scheme to replant the trees or provide new ones and do as little to the beach as possible. Involving the government in the plans could help to allay their fears.
- Profits do not go into the local economy – the company could use some of the profits to support local projects, e.g. schools, local community. They could use some of the profits to build up new businesses to support the resort, e.g. fashion stores, gifts. They could agree a compromise with the government as to use of profits locally.

### **Recommendations**

- Involve the government
- Put a training package in place to support the development of local workers.
- Specify a percentage of senior managers to be employed who are local to the resort.
- Provide sponsorship to train local people overseas as managers.
- Hold at least one Caribbean night. Develop local talent and local music.
- Extend the “all-inclusive” package to local restaurants and bars and agree a price with the owners
- Research local suppliers for uniform and/or train local people
- Build the palms and the beach into the plan without harming the environment.
- Agree a compromise with the government as to use of profits locally.

Award **[1 mark]** for a correct report format, To, From, Title, Date, Introduction, Main Body, Recommendations, Conclusion.

**[7 to 9 marks]**

Each of the six criticisms is addressed and the answers give suitable justification to allay the fears of the government. Suitable recommendations are made as to how *Open Views* can ensure they overcome the concerns of the government. The answer makes reference to implementing the ethical and environment programme. Reference is made to the case study and the information given is relevant.

**[4 to 6 marks]**

At least four of the criticisms are addressed and the answer gives some justification to allay the fears of the government. Recommendations are made to overcome the concerns of the government; they contain some relevance to *Open Views*, but may lack detail, though there is some reference to implementing the ethical and environment programme.

**[2 to 3 marks]**

Some of the criticisms are addressed and suggestions made to allay the fears of the government. Recommendations are made to overcome the concerns of the government, but they may lack detail and reference to *Open Views*. Vague reference is made to implementing the ethical and environment programme.

**[1 mark]**

A general and simplistic response.

4. (a) Using, *four ratios for each of the years, 1999, 2000, 2001 evaluate the performance of Open Views in terms of profitability and liquidity. (Appendix 3).* **[12 marks]**

	1999	2000	2001
<b>Profitability</b>			
Gross profit = $\frac{GP}{Sales\ Revenue} \times 100$	$\frac{24.8}{28.6} \times 100 = 86.71\%$	$\frac{29.6}{34.5} \times 100 = 85.8\%$	$\frac{34.1}{40.2} \times 100 = 84.83\%$
Net profit = $\frac{NP}{Sales\ Revenue} \times 100$	$\frac{3.6}{28.6} \times 100 = 12.59\%$	$\frac{3.8}{34.5} \times 100 = 11.01\%$	$\frac{3.5}{40.2} \times 100 = 8.71\%$
ROCE = $\frac{NP}{Capital\ employed} \times 100$	$\frac{3.6}{44.1} \times 100 = 8.16\%$	$\frac{3.8}{44.7} \times 100 = 8.5\%$	$\frac{3.5}{47.8} \times 100 = 7.32\%$
<b>Liquidity</b>			
Current Ratio = $\frac{CA}{CL}$	$\frac{3.4}{2.1} = 1.62$	$\frac{3.8}{2.5} = 1.52$	$\frac{4.1}{2.9} = 1.41$

### **Profitability**

The gross profit ratio has reduced during the three-year period, but is still very healthy at almost 85 %. This shows that there is a good profit gained by the use of premium pricing. The revenue and cost of sales are both increasing proportionately. The company may wish to consider discounts in the winter months provided they can reduce overheads. The net profit margin is reducing and shows that compared to the gross profit margin overheads are very high. Also the overheads are increasing. The company should look for ways to reduce the overheads without losing their reputation for quality. The overheads appear to be increasing at a faster rate than the revenue is increasing which is a worrying trend.

The return on capital employed is decreasing and is worrying, as share capital might be better tied up in a high interest account to give a higher return.

### **Liquidity**

The current ratio has decreased during the three-year period. This may indicate that the business is finding it more difficult to pay its debts. The ratio is within the general rule of 1.5 to 2 for the first two years but has dropped below this in 2001. The company needs to take steps to increase the level of current assets and/or reduce the current liabilities. The second is the more favoured option, and the company should seek ways to reduce its creditors and convince debtors to pay more quickly. The payment for holidays should be looked at so that holidays are not paid for too far in advance of receiving money from customers. The low occupancy of the winter months should be addressed in order to increase cash flow and create more business. There is not enough evidence in the case study to look at the acid test ratio.

#### ***[11 to 12 marks]***

Four (profitability and liquidity) ratios are calculated for each of the years, 1999, 2000 and 2001. There may be one error at the lower end. The evaluation of the performance of the company is detailed and refers to profitability and liquidity. The evaluation is relevant to the case study.

#### ***[8 to 10 marks]***

Four (profitability and liquidity) ratios are calculated for each of the years, 1999, 2000 and 2001. There may be some errors but the answer shows understanding. The evaluation of the performance of the company may lack detail but refers to profitability and liquidity. The evaluation should be relevant to the case study.

#### ***[5 to 7 marks]***

Some (profitability and liquidity) ratios are calculated for each of the years, 1999, 2000 and 2001. There may be some errors but the answer shows understanding. The evaluation of the performance of the company may lack detail but refers to profitability and liquidity. The evaluation may not be relevant to the case study.

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

Some (profitability and liquidity) ratios may be calculated but possibly not for all years. There may be no evaluation of the performance of the company or alternatively a fair evaluation but no ratios.

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

A general and simplistic response.



- (b) **Staff turnover at *Warm Breezes* is high. Discuss the likely impact of Peter Storm's autocratic management style on staff motivation and retention.** **[4 marks]**

The staff do not like working for Peter Storm who is an autocratic manager. They find him patronizing and unapproachable. He shows no interest in them personally and this will lower the self-esteem of the employees and lead to demotivation. It is likely that he is not interested in their ideas but wishes them to do the job his way. He is not satisfying their safety needs and while they are dissatisfied with their equipment they will not make an effort to work. Staff who are demotivated may seek employment elsewhere where they feel valued and worthwhile. They do not appear to be rewarded for hard work and there is no incentive therefore to work hard or to show loyalty to the company. The local staff are likely to be low paid and therefore do not have Peter's loyalty to the company. They may resent working with foreign students when unemployment in their region is significant.

**[4 marks]**

The answer discusses in detail the impact of an autocratic leader on staff motivation and retention. The answer makes reference to the case study.

**[2 to 3 marks]**

The answer discusses the impact of an autocratic leader on staff motivation and retention, though it may lack detail or direct reference to the case study.

**[1 mark]**

A general and simplistic response.

- (c) **The employment of foreign students, as untrained casual staff, is leading to complaints about slow service and rude staff. Outline a training plan and rewards package that could be introduced to overcome these problems.** **[6 marks]**

**Training Plan**

- Needs to be cost effective if students are not intending to stay very long.
- The company would be better investing in the training of local people who will work hard. Individual training needs analysis.
- Continuing process of training, leading to qualifications, especially for local people.
- Training to include off the job and on the job training.
- Some of the employees could become trainers themselves and work to support other employees.
- Manuals could be used to inform new recruits of procedures to ensure consistent practice.

### **Rewards Package**

Examples could include:

- appraisal system linked to performance reward
- bonus payments
- discounts in resort
- extra holidays
- employee of the week / month
- incentives could be offered to encourage students to return
- “sandwich” courses would benefit both students and resort.

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

A training plan is outlined that includes most of the important factors. A rewards package is suggested that is relevant to the case study and achievable for the company.

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

A training plan is outlined that includes some of the important factors. A rewards package is suggested. It should be relevant to the case study and achievable for the company.

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

A general and simplistic response.

---