

MARKSCHEME

November 2002

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

1. (a) Using the financial data, calculate the payback period for a car to the nearest month. *[2 marks]*

$$\text{Payback} = \frac{\$10\,000}{\$2\,700} = 3.7 \text{ years } 8 \text{ or } 9 \text{ months}$$

[2 marks]

For correct answers (either 3.7 years or 3 years 8 or 9 months).

[1 mark]

For correct method, but minor error or no working is shown.

- (b) Roger originally financed his business with his own savings. Compare and contrast this method of finance with alternative ways of raising the money. *[6 marks]*

| | Involves interest costs | Has an impact on control | Is relatively easy to organize |
|----------------------------|-------------------------|--------------------------|--------------------------------|
| loan | ✓ | x | ✓ |
| franchise | x | x | x |
| sell shares | x | ✓ | x |
| sell assets and lease back | x | x | x |
| partner | x | ✓ | ✓ |

Candidates may also suggest that a partnership may be appropriate.

[5 to 6 marks]

Compares and contrasts in detail, at least two different methods of financing the business. The methods chosen are appropriate and analysis includes discussion of interest costs, control and opportunity costs.

[3 to 4 marks]

Discusses alternative methods of finance and attempts to compare and contrast the methods.

[1 to 2 marks]

Identifies at least one alternative method of finance but may not discuss the similarities and/or differences.

- (c) (i) **Distinguish between fixed and variable costs.** **[2 marks]**

Fixed costs do not vary with the quantity produced (*e.g.* depreciation).

Variable costs do vary with the quantity produced (*e.g.* fuel).

Award up to **[2 marks]** for a suitable explanation of fixed and variable costs.

- (ii) **To what extent do you agree with Roger that “most of the costs are fixed”?** **[4 marks]**

- depreciation usually considered a fixed cost.
- fuel variable
- wage fixed
- admin mostly fixed
- maintenance elements of both, but usually fixed
- car tax fixed
- insurance fixed

Comment

In some countries the fixed costs of running a car may be huge (for example if car tax is very high), in other countries fuel may be very expensive. In other words the final answer depends on your assumptions.

N.B. If the candidates answer to (i) is limited beware of double penalizing.

[3 to 4 marks]

Discusses in detail the fixed and variable costs involved in this organization and a conclusion is produced that is justified.

[1 to 2 marks]

Describes the extent to which costs are fixed in relation to the organization, but it may be brief and lack detail. There may be no justification or a conclusion.

- (d) Analyse *three* additional pieces of information that a potential buyer would need to have, to decide if *The Roger Lewis School of Motoring* is worth buying.

[6 marks]

for example:

- petrol tax
- business plan
- financial details
- demographic factors
- replacement cost of cars
- opportunity cost
- competition
- changes in legislation, *etc.*
- market conditions

The question does not ask candidates to carry out SWOT or PEST but they may suggest it as a piece of information. Candidates may also suggest a business plan or financial information as well as wider answers. Reward if appropriate to a school of motoring.

[5 to 6 marks]

Analyses three pieces of information in detail and they are relevant. Reference is made to the case study.

[3 to 4 marks]

Explains additional information and attempts to analyse its usefulness in terms of the decision to buy the business.

[1 to 2 marks]

A limited and general response.

2. (a) **Assess the advantages and disadvantages to CSC of hiring labour on a casual basis.** **[4 marks]**

| Advantages | Disadvantages |
|---|--|
| <ul style="list-style-type: none"> • lower costs during a recession • easy to lay off • hire only when required • match employees to demand | <ul style="list-style-type: none"> • likely lack of labour loyalty • potential impact on quality • staff may not be available when required • poor communication between core and casual staff |

Relevance to the construction industry also needs to be considered e.g. in many countries construction work is cyclical and seasonal.

Candidates may suggest that they are easy to lay off.

[3 to 4 marks]

Assesses advantages and disadvantages of hiring labour on a casual basis (reference is made to CSC). Look for two advantages and disadvantages for **[4 marks]**.

[1 to 2 marks]

Describes at least one advantage and/or disadvantage of hiring labour on a casual basis. There may be limited reference to CSC.

- (b) **Outline the management ideas of Frederick W Taylor and explain why the company believes these methods to be effective.** **[6 marks]**

Comment

Candidates should emphasize the importance of such factors as:

- division of labour
- managerial control
- measurement
- standardization
- efficiency
- discipline
- workers motivated by money and self interest

[5 to 6 marks]

Outlines Taylor’s management ideas and explains their relevance to construction (e.g. standardized product, measurable outputs, specialist jobs, piece rate pay). The answer explains why CSC believes these methods to be effective.

[3 to 4 marks]

Shows some understanding of Taylor’s management ideas but they may be limited in number or depth. Their application to CSC is outlined.

[1 to 2 marks]

A limited and general response.

- (c) Use motivational theory to explain the resentment felt by the professional employees at CSC.

[6 marks]

Causes of Resentment include:

- no sense of belonging
- little involvement in decision making
- lack of communication
- poor company policy
- poor relations with senior management

Motivational theorists to quote include:

- Herzberg (Hygiene / motivators)
- Maslow (sense of achievement / belonging)
- McGregors (X & Y)
- McClelland (achievement, power, affiliation)
- Mayo (Hawthorne experiment)

[5 to 6 marks]

Applies appropriate motivation theory to the case study to account for the resentment. The theory is relevant and the explanation is detailed.

[3 to 4 marks]

Explains motivation theory though its application to the case study may lack relevance and detail.

[1 to 2 marks]

Demonstrates knowledge of motivation theory though this may not be by name but does not apply it to CSC or explains the resentment without using motivation theory.

- (d) Discuss the potential benefits that could arise at CSC from greater communication and participation in decision making.

[4 marks]

for example:

- enhanced motivation
- more sources of ideas
- reduction in mistakes
- reduced labour turnover

[3 to 4 marks]

The answer discusses at least two potential benefits that could arise from greater communication and participation in decision making with reference to CSC.

[1 to 2 marks]

The answer describes potential benefits but not in detail or with much reference and relevance to CSC.

3. (a) **Identify and explain primary and secondary sources of data that would help CMA to determine the strength of their brand and their target market.** **[4 marks]**

Primary data includes

- interviews / surveys with customers
- interviews / surveys with suppliers

Secondary sources include

- records
- industry journals
- external agencies

[3 to 4 marks]

Identifies and explains primary and secondary data sources relevant to CMA.

[1 to 2 marks]

Identifies primary and/or secondary sources but may not explain their relevance to CMA.

- (b) **Explain why a stratified random sample is more appropriate than a random sample for CMA.** **[4 marks]**

For example, the sample should be based on approximate proportions to the various market segments, e.g. public housing, private housing, business, hospitals. This ensures that the sample is more representative of the population as a whole.

A purely random sample would give everyone an equal chance of being asked and is unlikely to reflect the customer base of CMA.

[4 marks]

The answer explains why a stratified random sample is better than a random sample. Both methods are explained and there is reference to CMA.

[2 to 3 marks]

The answer attempts to describe a stratified random sample and a random sample. There may not be reference to CMA.

[1 mark]

A limited and general response.

- (c) **Analyse the factors *CMA* should consider when marketing its products internationally.** **[8 marks]**

Factors include:

- exchange rate fluctuations if price is affected
- product perception
- culture
- legal considerations
- global or multi domestic strategy (*i.e.* should there be a single strategy or should it be adapted for the various markets?)

[7 to 8 marks]

The answer shows a thorough understanding of the major issues and their relative importance to *CMA*. The analysis is detailed.

[4 to 6 marks]

The answer shows an understanding of the importance of some factors. An analysis is attempted. There is reference and relevance to *CMA*.

[2 to 3 marks]

The answer describes some factors though they may lack detail, relevance and reference to *CMA*.

[1 mark]

A limited and general response.

- (d) **Discuss the potential advantages and disadvantages for *CMA* of establishing joint ventures.** **[4 marks]**

Potential advantages include:

- cost savings (since resources may be shared)
- local knowledge (local conditions are likely to vary)
- maintain identity (since it is not a merger or takeover)
- may reduce competition (since those in the joint venture are co-operating)
- the exchange rate currently works to their advantage too.

Potential disadvantages include:

- lack of control (and subsequent damage to *CMA* brand)
- passing *CMA* product information to a competitor
- resolving disputes (for example cost allocation)
- profit sharing

[4 marks]

The answer discusses two advantages and two disadvantages of establishing joint ventures with reference to *CMA*.

[1 to 2 marks]

The answer describes some potential advantages and disadvantages of establishing joint ventures. There may be limited reference to *CMA*.

[1 mark]

A limited and general response.

4. (a) **Discuss how the objectives of *Extra Mozzarella* are likely to have changed from 1960 to 2000.** [5 marks]

Comment

The objectives are likely to change from:
survival
building a reputation
to control
and growth
and then status.

(And then back to control as the organizations experienced problems.)

[4 to 5 marks]

The answer discusses how and why the objectives are likely to change as the organization grows. They are relevant to *Extra Mozzarella* and appropriate to the time period.

[2 to 3 marks]

The answer describes how some of the objectives have changed over time and they are relevant. Reference to the case study may be limited.

[1 mark]

A limited and general response.

- (b) **Explain why organizations often have cash flow problems, especially in the first year of business.** [4 marks]

for example:

- start up costs
- low customer base
- poor credit terms
- few sources of finance, *etc.*
- low sales

The above are especially true in the first year of business.

[3 to 4 marks]

Explains the problems of a business in the first year of operation and why these are likely to cause cash flow problems. There should be reference to the case study.

[1 to 2 marks]

The answer explains some cash flow problems. There may be limited reference to the first year of the business and case study.

- (c) **Assess the potential benefits for Vitella of expanding *Extra Mozzarella* via the franchise system.** **[6 marks]**

Comment

Potential benefits to Vitella include:

- funding - Franchisees provide funds when they join and when they pay royalties. Gearing can thus be kept at a relatively lower level. Expansion without a huge injection of capital.
- control - the franchisor still has the ability to control the direction the business takes via the franchise agreement *i.e.* franchiser does not run each business.
- entrepreneurship - owners are more motivated

Franchise and franchisor have an incentive to make the business a success. This can help generate ideas.

[5 to 6 marks]

The answer assesses the main potential benefits of expanding via a franchise system. The reference to the case study is appropriate.

[3 to 4 marks]

The answer shows an understanding of the relative importance of some benefits of the franchise arrangement. There is some reference to the case study.

[1 to 2 marks]

The answer describes some benefits of expanding via the franchise system. The number of benefits may be limited and lack relevance and reference to the case study.

- (d) Explain how an understanding of product portfolio technique (for example Ansoff Matrix and Boston Matrix) could help *Extra Mozzarella* to overcome the problems they are experiencing. **[5 marks]**

Comment

For example, the existence of too many “Problem Children” and excessive New Product Development seems apparent (*lines 8-11*). Recognition of this could encourage rationalisation and avoid excessive NPD in the future.

High scoring candidates will identify the appropriate segments.

| | | | |
|----------|----------|-------------------------|------------------|
| Products | Existing | Existing | New |
| | | Penetration | Market expansion |
| | New | New Product Development | Diversify |

Ansoff Matrix

| | | | |
|---------------|---|---------------|----------|
| Market growth | L | L | H |
| | | Dog | Cash cow |
| | H | Problem child | Star |

Boston Matrix

[4 to 5 marks]

The answer explains how product portfolio technique could help overcome problems with reference and appropriateness to *Extra Mozzarella*. At the upper end there may be application.

[2 to 3 marks]

The answer attempts to explain how product portfolio technique could help overcome problems. Reference and appropriateness to *Extra Mozzarella* may be limited.

[1 mark]

A limited and general response.

5. (a) Calculate

(i) the net profit (before interest and tax) margin [2 marks]

and

(ii) return on capital employed. [2 marks]

$$\begin{array}{l} \text{Net Profit} \\ \text{before tax} \\ \text{and insurance} \end{array} = \frac{1120}{1900} \times 100 = 59 \%$$

$$\text{ROCE} = \frac{1120}{4000} \times 100 = 28 \%$$

Award up to [2 marks] for each correct answer and working.

(b) Discuss the information you would need to determine whether “NPF makes excessive profits”. [6 marks]

Comment

Information includes:

- inflation
- interest rates
- tax rates
- competitors data
- profits in earlier years
- wage payments
- other ratios

[6 marks]

The answer discusses in detail relevant information needed and explains how it would help determine whether NPF makes “excessive profits”. Reference is made to NPF.

[4 to 5 marks]

The answer discusses information needed and explains how it would help determine whether NPF makes “excessive profits”.

[2 to 3 marks]

The answer describes information needed, though it may lack relevance and reference to NPF. The answer may not explain how it would help determine whether NPF makes “excessive profits”.

[1 mark]

A limited and general response.

- (c) Compare the different strategies that *NPF* could use to enter overseas markets. **[6 marks]**

Strategies include:

- licensing
- franchising
- joint venture
- direct marketing
- direct investment

[5 to 6 marks]

The answer compares at least three different strategies *NPF* could use to enter overseas markets. They are relevant to overseas market opportunities and to *NPF*.

[3 to 4 marks]

The answer attempts to compare some different strategies that *NPF* could use to enter overseas markets. They should have relevance to overseas market opportunities and to *NPF*.

[1 to 2 marks]

A limited and general response.

- (d) Identify *four* stakeholders associated with *NPF* and explain the nature of any conflict between them that may arise. **[4 marks]**

| Stakeholder | Example of interests | Potential conflict |
|--------------|--|---------------------------------|
| customers | high quality, low/fair prices, ethical conduct | with environmental inspectors |
| government | tax revenue, jobs, inward investment, environmental protection | employees demanding higher pay |
| employees | employment, job security | profits |
| citizens | environmental / human rights issues | low prices |
| suppliers | sources of income / jobs | purchasers who want lower costs |
| shareholders | dividend (high profits) | fair prices to customers |
| management | high productivity / low costs | job security (employees) |

[4 marks]

The answer identifies four appropriate stakeholders and explains in detail the nature of conflict between them. Reference is made to *NPF*.

[2 to 3 marks]

The answer identifies some appropriate stakeholders and explains the nature of conflict between them, but the explanation may be limited.

[1 mark]

A limited and general response.
