

MARKSCHEME

November 2003

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

- (c) **Discuss the potential human resource and marketing benefits to *Home Before Midnight* if they were to become a socially responsible organization.** **[6 marks]**

In some countries there is evidence to suggest that employees want to work in more ethically minded companies. In a similar way some consumers are demanding that ethical standards be met or they will purchase from other suppliers.

Human resource benefits

- recruitment of staff may be enhanced
- staff morale may be boosted
- public relations may be improved
- *any other suitable benefit.*

Marketing benefits

- premium pricing
- product positioning
- less effort will need to be directed towards defending (alleged) unethical behaviour
- may increase market share
- *any other suitable benefit.*

[4 to 6 marks]

Discusses in detail suitable potential human resource and marketing benefits if *Home Before Midnight* now appears more ethically minded than its rivals. Benefits are appropriate and relate to *Home Before Midnight*.

[2 to 3 marks]

Describes some of the potential benefits, but the answer may lack detail or may not fully recognise how this might assist marketing or human resources. Reference to *Home Before Midnight* may be limited.

[1 mark]

A limited and general response.

- (d) Discuss the potential personnel and marketing difficulties multinational companies may experience when establishing operations in Less Economically Developed Countries. Your answer should be from the perspective of the multinational. [6 marks]**

Personnel difficulties include:

- language
- culture
- communication
- health and safety – should local regulations be applied
- pay – should pay be based at local levels
- resentment – there may be inadequate numbers of suitably qualified local staff
- *any other suitable difficulty.*

Marketing difficulties include:

- possible lack of brand recognition
- infrastructure and distribution problems
- low level of income
- promotion – should advertisements feature internationally recognised stars
- *any other suitable difficulty.*

N.B. Credit should be given if candidates assume multinational companies base their operations in LEDCs and market to MEDCs.

[5 to 6 marks]

Discusses the potential personnel and marketing difficulties in detail with direct reference to the multi-national and the Less Economically Developed Country.

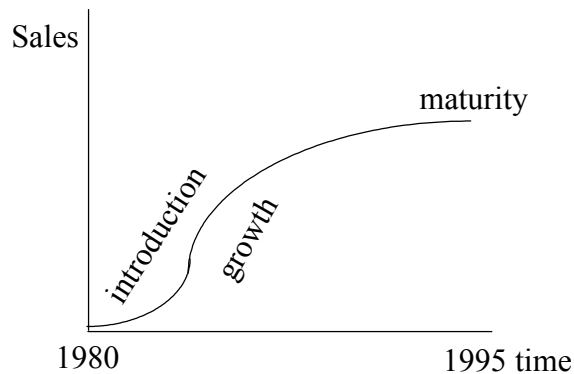
[3 to 4 marks]

Describes some of the difficulties though the answer may lack detail.

[1 to 2 marks]

A limited and general response.

2. (a) Draw and label a product life cycle for Fit and Well from launch in 1980 to the mid 1990s. [3 marks]



[3 marks]

Diagram and labelling is correct and consistent with the product life cycle for Fit and Well – note that sales growth has declined – but this does not mean that sales have declined.

[1 to 2 marks]

Attempts to draw a suitable diagram, but labelling may not all be correct or inconsistent with Fit and Well.

- (b) Explain *three* factors that could account for the decline in sales growth in the mid 1990s. [3 marks]

Factors include:

- level of competition
- age structure of the population
- change in state of the economy
- change in tastes

The question requires the above to be explained – so, for example “level of competition” may have increased because new entrants recognised that the market is profitable – or (for example) trade barriers have been reduced.

[3 marks]

Explains three relevant factors in detail. Reference is made to Fit and Well.

[1 to 2 marks]

Explains some relevant factors, though the explanation may lack detail. Reference to Fit and Well may be limited.

N.B. A list gains a maximum of [1 mark] for a list of factors only.

(c) Design an appropriate marketing strategy for Fit and Well which will enable it to be repositioned as a glucose energy drink for active and busy people.

[6 marks]

Suggestions include:

Price: consistent with perception	Product – examples could include: new ingredient	Packaging: easy to drink Bottles: various sizes
Promotion: sponsors major sports events advertisements to feature sports personality	Place – examples could include: sports centres supermarkets service stations	Physical evidence – examples could include: Fit and Well carrier bag

[4 to 6 marks]

A detailed strategy is produced which is consistent with repositioning Fit and Well and considers at least four elements of the marketing mix. Any examples given are suitable and relevant to Fit and Well.

[2 to 3 marks]

A strategy is presented which may lack coherence and detail and/or suggestions are not supported with convincing arguments. Relevance to Fit and Well is limited but some of the Ps are used.

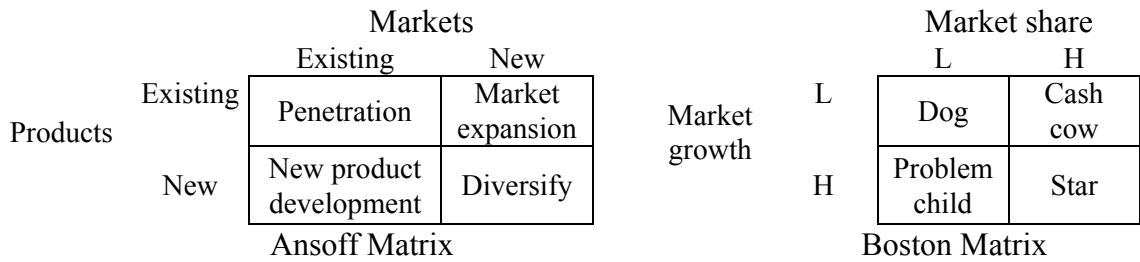
[1 mark]

A limited and general response.

(d) Use product portfolio techniques such as Ansoff’s Matrix and Boston Consulting Group Matrix to:

- (i) identify growth strategies and
- (ii) analyse the existing product range.

[8 marks]



Growth

Strategies available include:

- penetration
- market expansion
- new Product Development
- diversification

A good answer will recognise that (for example):

- (i) the directors have chosen market expansion, and that this is a less risky option than, for example, diversification.
- (ii) the company should consider abandoning any products that fit into the dog category (Yogi Milk) and refocus energy on potential rising stars (Fresh and Fruity) – or protecting cash cows (Fit and Well). Problem child (Grubble Tea) may need resources to fend off competitors.

[6 to 8 marks]

A suitable application of product portfolio techniques is used to identify the growth strategies available and to analyse the existing product range. The analysis is detailed and relevant.

[3 to 5 marks]

Uses product portfolio techniques to identify growth strategies available to Fit and Well. The product range is also analysed, though the analysis may be limited. At the lower end of the range product portfolio techniques may be limited.

[1 to 2 marks]

A limited and general response.

3. (a) What is the annual percentage rate of labour turnover for manual labour at *Singh and Patel Ltd* in an average year? [2 marks]

$$\frac{60}{200} = 30 \% \text{ per year or } \frac{200}{60} = 3.3$$

(i.e. the workforce turns over approximately every 3.3 years.)

[2 marks] for correct calculation of annual rate of labour turnover.

[1 mark] if some understanding of calculation of annual rate of labour turnover is evident.

- (b) Assess the potential disadvantages of high labour turnover for an organization such as *Singh and Patel Ltd*. [4 marks]

Potential disadvantages include:

- lost production whilst post is not filled
- lost production during training
- cost of recruitment and training
- break up of work groups
- cost of mistakes made by trainee
- payment of bonuses to other workers (e.g. overtime)
- lack of continuity between staff.
- lower productivity of less experienced workers

Note that high labour turnover amongst core staff is likely to be a major problem. Whilst high turnover amongst unskilled staff is an irritation, it is likely to be a fact of life.

[3 to 4 marks]

Assesses the potential disadvantages of high labour turnover in detail. At the top of the band the assessment is relevant to *Singh and Patel Ltd*.

[1 to 2 marks]

Some mention of the potential disadvantages, but no attempt is made at assessment. At the lower end there may be a limited and general response.

- (c) Analyse the potential advantages and disadvantages for *Singh and Patel Ltd* of introducing a piece rate system of pay to replace the time rate system. **[6 marks]**

Potential advantages (piece rate)	Potential disadvantages (piece rate)
<ul style="list-style-type: none">stimulates effortencourages workers to devise improved methodssimplifies costing	<ul style="list-style-type: none">encourages workers to cut corners – may affect qualityoutput may not be attributable to own individual effortoutput may be outside the workers control (e.g. if a machine breaks down)can be divisive in a team situation

[5 to 6 marks]

Analyses the potential advantages / disadvantages with reference to *Singh and Patel Ltd*. For example, workers are going to be less inclined to train new recruits if this takes up their time and directly reduces their pay.

[3 to 4 marks]

Attempts to analyse the potential advantages and disadvantages, though it may be limited in parts. Application to *Singh and Patel Ltd* may be limited.

[1 to 2 marks]

A limited and general response.

- (d) To what extent will Andrew’s proposals help *Singh and Patel Ltd* achieve their objectives? Use appropriate motivational theory to support your answer. **[8 marks]**

Theorists	e.g. Potential Motivator(s)
Herzberg	hygiene and motivators (e.g. changes ⑥ and ③)
Maslow	link to hierarchy of needs (e.g. changes ⑤ and ①)
Taylor	link to standardised output and piece rate (e.g. change ②)
McGregor	link to theory X and theory Y (e.g. changes ② and ③)

[7 to 8 marks]

Applies motivation theory appropriately to explain how the proposals could help *Singh and Patel Ltd* achieve their objectives. Explains in detail the extent to which the proposals will help *Singh and Patel Ltd* achieve their objectives.

[5 to 6 marks]

Uses motivation theory and discusses how some of Andrew’s proposals may help *Singh and Patel Ltd* achieve their objectives.

[3 to 4 marks]

Attempts to use motivation theory and refers to some of the management proposals. At the lower end there may be no motivation theory **[3 marks]**.

[1 to 2 marks]

A limited and general response.

4. (a) Use the data in Table 1 to calculate the payback period for the \$500 000 investment. [2 marks]

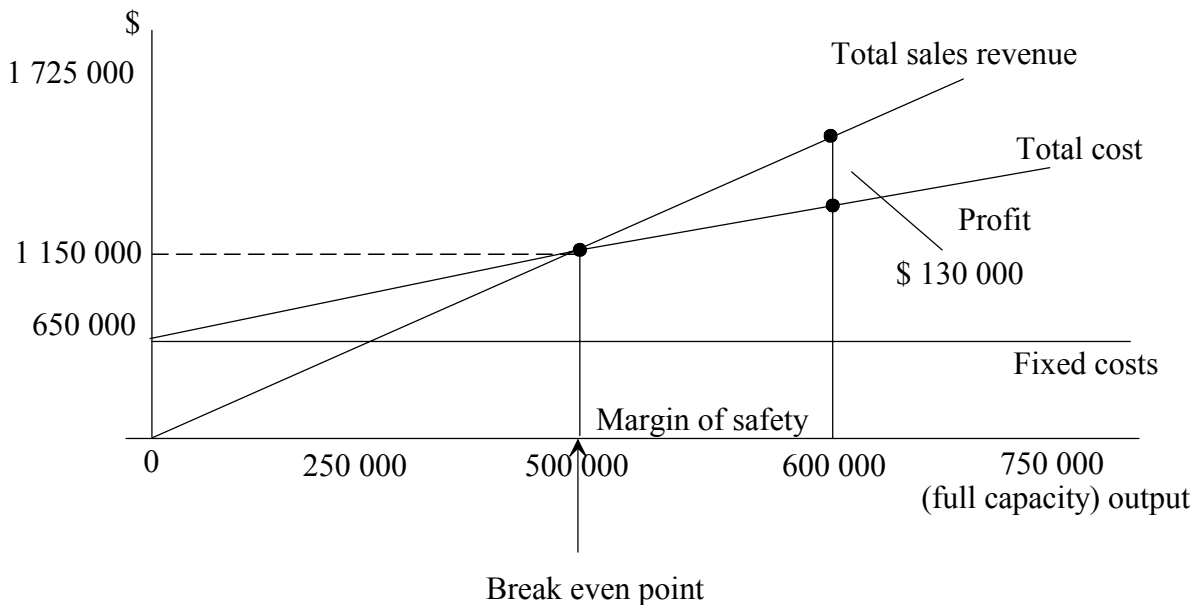
Year	Income (\$000)	Cumulative net income (\$000)
1	100	100
2	125	225
3	125	350
4	150	500

The payback period is 4 years.

Award [2 marks] for correct answer, indicating method.

[1 mark] if some understanding of payback is evident.

- (b) Using the data in Table 2, draw a break even chart for Stefan showing the break even point and the margin of safety and profit for the whole farm if it operates at 80 % capacity. [6 marks]



$$\text{Break even Qty} = \frac{650000}{1.3} = 500000 \text{ units}$$

$$80 \% \text{ capacity} = 600000 \text{ units}$$

$$\text{margin of safety} = 600000 - 500000 = 100000 \text{ units}$$

$$\text{profit at } 600000 \text{ units} = (600000 \times 2.3) - (650000 + (600000 \times 1.00))$$

$$(1380000 - 1250000) = \$130000$$

$$\text{or } 100000 \times \$1.30 \text{ (contribution)} = \$130000$$

[5 to 6 marks]

Break even chart is correct and break even point, margin of safety and profit are correct. The chart is fully labelled and is well laid out and presented. At the lower end there may be one or two errors.

[3 to 4 marks]

Break even chart is generally correct, margin of safety and profit may be labelled although these may be inaccurate. However there may be some errors and break even chart may be poorly presented.

[1 to 2 marks]

A poor chart, but some evidence of knowledge.

- (c) **Explain the potential advantages and disadvantages of funding the purchase of the new machine through a bank loan or investment by a family friend as an equal partner.** **[4 marks]**

	Advantages	Disadvantages
Family friend investment	more funds (interest free)	limited funds share profits
Loan	maintain control greater funds	interest payments security

[4 marks]

The advantages and disadvantages of both methods are explained in detail with reference to the farm and Stefan Smith.

[2 to 3 marks]

Some of the potential advantages and disadvantages are explained, though they may be limited in number and/or reference to Stefan Smith.

[1 mark]

A simplistic and general answer.

- (d) **Identify the various stakeholders associated with Stefan’s business and discuss whether conflict between them is inevitable.** **[8 marks]**

Stakeholders include.....

- local community
- suppliers
- employees (e.g. job security)
- partner
- interest groups (e.g. environmental groups)
- creditors
- government (e.g. tax revenue)

Major areas of conflict are likely to be.....

between labour and capital. The capital intensive techniques will have a significant impact on the local economy and environment.

Conflict is inevitable between some groups because the interests of the stakeholders clash.

[6 to 8 marks]

Identifies the various stakeholders associated with Stefan's business and discusses in detail whether conflict between them is inevitable. Good candidates will directly address the question. They may also identify areas of common interest. Reference is relevant to the farm.

[3 to 5 marks]

Identifies some stakeholders associated with Stefan's business and discusses areas of potential conflict though the response may lack detail. Whether conflict between them is inevitable is largely overlooked.

[1 to 2 marks]

A limited and general response.

5. (a) From the data given in Table 1 construct a balance sheet for *Ashley Gardener Ltd.* [6 marks]

	\$		
Fixed assets	000		
Land and buildings	420		
Machinery	360		
Fixture and fittings	53		
	—		
 Total fixed assets			 833
 Current assets			
Stock	12		
Debtors	38		
Cash at bank	22		
	—		
		72	
 <i>less</i> current liabilities			
Creditors		68	
Working capital			4
			—
Net assets			837
Financed by:			
Share capital		600	
Reserves		237	
			—
			837

[5 to 6 marks]

Layout, presentation and calculations are appropriate and correct, though there may be one error for [5 marks].

[3 to 4 marks]

Some errors in calculation. Layout and presentation could be improved.

[1 to 2 marks]

A limited attempt at a balance sheet.

- (b) Explain why organizations such as *Ashley Gardener Ltd* need working capital. **[2 marks]**

Working capital is needed for the day to day smooth operation of a firm. Without cash or stock a business would be unable to function for very long. The fact that some suppliers are demanding cash terms highlights the need for cash.

[2 marks] for a full explanation.

[1 mark] for an attempt to explain why organizations need working capital.

- (c) Using appropriate financial ratios comment on the profitability, efficiency and liquidity of *Ashley Gardener Ltd*. **[8 marks]**

Profitability ratios include:

Return on net assets $= \frac{100}{837} \times 100 = 12 \% (11.95 \%)$

Net profit margin $= \frac{100}{1300} \times 100 = 7.7 \%$

ROCE $= \frac{100}{905} \times 100 = 11.05 \%$

Efficiency ratios include:

Fixed asset turnover $= \frac{1300}{833} \times 100 = 1.56 \%$

Debt collection period $= \frac{\text{debtors}}{\text{sales}} \times 365 = \frac{38}{1300} \times 365 = 10.67 \text{ days}$

(each \$ of fixed assets generates \$1.56 of sales revenues)

Liquidity ratios include:

Current ratio $= \frac{72}{68} = 1.058$ (“ideal” is 1.5 to 2)

Acid test ratio $= \frac{72-12}{68} = 0.88:1$ (“ideal” is 1 to 1.5)

[6 to 8 marks]

Appropriate and sufficient financial ratios are correctly calculated. Comments are detailed about profitability, efficiency and liquidity and linked to the ratios.

[3 to 5 marks]

Some appropriate ratios are calculated correctly. Comments are made about profitability, efficiency and liquidity, though their application to the ratios may be limited.

[1 to 2 marks]

Limited and general response in terms of ratios and comments.

- (d) **What are the potential implications for *Ashley Gardener Ltd* if it has a large proportion of loan compared to share capital?** **[4 marks]**

A more highly geared business will have more interest bearing capital. A more highly geared company may be vulnerable to an increase in interest rates (interest costs will rise) or a recession (sales revenue could fall, but interest costs would remain).

[4 marks]

The potential implications of high gearing are clearly understood, though the term “high gearing” may not be used. The answer is relevant to *Ashley Gardener Ltd*.

[2 to 3 marks]

Some understanding of the potential implications of high gearing are understood. At the top end of the band there is some relevance to *Ashley Gardener Ltd*.

[1 mark]

A limited and general response.
