

MARKSCHEME

May 2004

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

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Short-term finance: *Less than one year.* Used for day-to-day expenditure, *e.g.*

- overdraft – flexible, but the money may be demanded back. Interest is only payable on the overdrawn amount
- trade credit – payment for items delayed for say three months
- debt factoring – the firm sells its debtors to specialist companies for less than their face value, but for instant liquidity.

Medium-term finance: *One to five years, e.g.*

- bank loan repaid in instalments. Security may be required
- hire purchase – used to buy assets and equipment *e.g.* machinery. Instalment payments. Ownership changes at last payment
- leasing – equipment is rented with the option to buy later. Ownership remains with lessor, who is responsible for maintenance. Used for technology which needs updating, such as computers or cars.

Long-term finance: *5 years plus.* Used to purchase fixed assets, *e.g.*

- share capital – in the form of ordinary or preference shares. Ownership passes to the shareholders and the original founders may lose control. Shareholders receive a share of profits (dividend) decided on by the directors
- debentures – transferable IOUs. The buyer is paid annual interest, but is not an owner. The debenture may be sold on
- mortgages – loans using property as security or collateral
- government assistance – grants and subsidies
- venture capital – money lent to small, high risk ventures in return for a minority shareholding and a share of the profits.

Riveau Yachts has some significant long-term loans at \$43 650 000, which have noticeably increased over the years. The gearing ratio in 2003 is:

$$\frac{43\,650\,000}{73\,947\,000} = 59\%$$

This is relatively high, so more long term borrowing may be inadvisable as it may put the firm at risk should interest rates increase in the future. It may be better to raise additional finance through a share issue. Flotation of the business may raise significant additional finance but at the risk of losing control of the business. Alternatively they could look for partners or a possible merger with another yachting business or a firm wishing to diversify into new markets.

The firm may use its own savings and it does appear from a financial analysis that the firm is presently very liquid, although much of this is tied up in stock.

As a relatively small enterprise there may be venture capital available. The market has potential for further growth and venture capitalists may see *Riveau Yachts* as a good risk.

Other forms of finance such as debt factoring may not be appropriate as *Riveau Yachts* is in a fair financial position.

[9 to 10 marks]

Four possible sources of finance available to *Riveau Yachts* to fund new product development are identified and there is thorough assessment of the advantages and disadvantages of each source in relation to *Riveau Yachts*' needs and their present financial situation.

[6 to 8 marks]

Three to four sources of finance available to *Riveau Yachts* to fund new product development are identified and there is an assessment of the advantages and disadvantages of each source, which should be in relation to *Riveau Yachts*' needs and their present financial situation.

[3 to 5 marks]

Some sources are identified, but the assessment tends to be rather descriptive rather than assessment. The sources considered are limited, and increasingly inappropriate at the lower end of the band and/or assessment is poor.

[1 to 2 marks]

A brief and probably limited answer, which tends to description or listing.

2. (a) **Advise Danielle Jarman, the human resource manager, on methods to reduce staff turnover and improve recruitment and training.** **[8 marks]**

Labour turnover is starting to rise. The ability to recruit younger staff is being hampered by location and lack of skills and the average age of the workforce is increasing. The only increase in staffing levels is in management and administration.

Retention of staff could be improved by reviewing and revising financial rewards and considering profit sharing bonuses and/or share ownership schemes. Recruitment of younger staff could be improved by offering sponsorships through college or university, more access to schools through PR and attendance at careers fairs *etc.* Signing on bonuses or “golden hellos” could be considered. Links with junior sailing groups may encourage interest in the firm. The style of leadership could also be an issue and training of existing staff should be put into place. More communication with staff would be helpful, including questionnaires to identify any underlying issues regarding dissatisfactions. This may be the first move in a process of increased staff participation.

The introduction of team based or flexible production methods may reduce staff turnover by increasing motivation.

Many firms are finding it difficult to recruit in production. Materials sent out to potential recruits should be reassessed to see what messages they contain. Promotion should also be readjusted to ensure that young people would be attracted. Perhaps *Riveau Yachts* should look at the concept of apprenticeships. Other training could include the opportunity for external accreditation. If this doesn't work the firm may have to accept the situation and look to introduce further automation.

[6 to 8 marks]

There is detailed, supported and relevant advice given to Danielle Jarman on how she can reduce staff turnover and improve recruitment and training, using appropriate examples from the case study.

[3 to 5 marks]

Some relevant advice is given to Danielle Jarman on how she can reduce staff turnover and improve recruitment and training, although this may lack depth in one or more of the areas required. At the upper end of the band there should be some use of examples from the case study.

[1 to 2 marks]

A limited, descriptive answer.

- (b) **Explain the advantages and disadvantages for *Riveau Yachts* of creating a flatter organizational structure.**

[6 marks]

A flatter organizational structure will entail reducing the levels of hierarchy in the organization. The effect of this will be to increase the span of control.

Advantages

- delegation increases with each employee given more responsibility for their jobs – employees need to be more flexible
- empowerment of the workforce may lead to improved morale and motivation
- more opportunities for promotion
- communication may improve as there are shorter lines of communication from top to bottom
- delayering may result in lower salary and wage costs.

Disadvantages

- control over subordinates is reduced and this may have indirect effects on quality control
- training costs may increase
- stress levels may be higher with additional responsibilities
- *Riveau Yachts* may not be able to keep up with increasing demand
- more skills shortages.

[5 to 6 marks]

A detailed explanation of both advantages and disadvantages of creating a flatter organizational structure at *Riveau Yachts*. The answer highlights factors particularly relevant to *Riveau Yachts*.

[3 to 4 marks]

An explanation of some of the advantages and disadvantages of creating a flatter organizational structure at *Riveau Yachts*. The answer may not be related to *Riveau Yachts* at all for **[3 marks]**. There may be some imbalance in the discussion.

[1 to 2 marks]

The answer is limited in terms of breadth and depth, and unbalanced.

3. (a) **Analyse primary and secondary market research methods that *Riveau Yachts* can use to gather economic and market data in the Baltic States. Describe how this information will help their marketing strategy.** **[10 marks]**

The Baltic States are newly emerging markets, so that market information and access may be restricted. Market research may be primary or secondary.

Primary Questionnaires, observation, surveys, participation – first hand and gathered for a specific purpose

Secondary Government data *e.g.* census, company data, the media, Internet, trade organizations, past records, *e.g.* sales data, accounts – second hand data gathered for another purpose.

Primary data is more costly and time consuming to gather.

Riveau Yachts is a relatively small organization so is unlikely to be able to consider extensive research. It is improbable that there is significant research available except that gathered by the government and commercial trade organizations. This may be a useful start. Links with local Baltic organizations through joint ventures or local dealership arrangements may ensure sufficient market information. Primary data will be more difficult given that *Riveau Yachts* have a limited presence. It may be possible to use local market research organizations or try to survey potential customers, but finding suitable lists of names and addresses may not be easy.

Having gathered data on both the market and target customers, *Riveau Yachts* will be able to use this information as the basis for setting the marketing mix. This will include the location of outlets and dealerships, the level of pricing of products, the focus for promotion and suitable advertising media, and the specifications of the yachts themselves.

N.B. *Sampling is not part of the Standard Level curriculum but some credit may be given for its appropriate use.*

[9 to 10 marks]

There is a detailed analysis of the types of market research that *Riveau Yachts* can use to gather data in the Baltic states which identifies primary and secondary methods and their appropriateness to the situation. There is an accurate description of how this information will help their marketing strategy.

[6 to 8 marks]

There is some analysis of the types of market research that *Riveau Yachts* can use to gather data in the Baltic states which identifies primary and secondary methods. At the lower end of the band this tends more to description. There is an attempt to link market research to some aspects of marketing strategy.

[3 to 5 marks]

Some market research methods are considered, but this tends to description or listing. There should be a brief link to some aspects of marketing strategy.

[1 to 2 marks]

A brief and probably limited answer, which tends to description or listing, which may omit links to marketing strategy entirely.

(b) Assess the effects of external influences on the activities of *Riveau Yachts*.

[8 marks]

External influences include

- market for yachts (particularly larger yachts) set to grow considerably with high economic growth in Europe
- growth of markets in emerging countries in the Americas and Asia
- some weakness in economic recovery in Asia
- introduction of the euro in 2002
- customers are price sensitive
- strong competition especially in the market for smaller boats, where demand is shrinking
- growth of charter market
- younger people moving out to nearby terms
- new technologies
- new legislation on recycling.

External influences are those beyond the control of the firm. A PEST analysis will allow the firm to identify these. The influences will affect new product development decisions, production techniques and location, marketing mix, distribution, recruitment and finance. The main external changes indicate that the focus of the firm should be in the production of larger yachts. Recruitment is difficult, so the firm may need to look at introducing more capital-intensive processes. The location of the firm may need to be re-assessed and distribution channels will need to be reviewed in light of new growing markets. Marketing approaches will also need to be refocused as the nature and location of customers, change.

[6 to 8 marks]

A range of relevant external influences are identified and it is clear that the concept is well understood. The effects of the activities on *Riveau Yachts* are assessed using appropriate examples from the case study.

[3 to 5 marks]

Some external influences are identified and the concept is understood. The effects on the activities of *Riveau Yachts* are considered but this may be brief and not linked to the case study at the bottom end of the band.

[1 to 2 marks]

A limited answer with some understanding of the concepts, which tends to description or listing.

4. Using ratio analysis evaluate the changes in profitability and liquidity of *Riveau Yachts* between 2001 and 2003. [12 marks]

Profitability

Profitability ratios

1. Return on Capital Employed

$$\text{ROCE} = \frac{\text{Net profit before tax and interest}}{\text{Total Capital Employed}} \times 100$$

2. Gross Profit Margin

$$\text{GPM} = \frac{\text{Gross Profit}}{\text{Sales revenue}} \times 100$$

3. Net Profit Margin

$$\text{NPM} = \frac{\text{Net Profit}}{\text{Sales revenue}} \times 100$$

		<i>2001</i>		<i>2003</i>
ROCE	$\frac{6175500}{55140450} \times 100$	11.2 %	$\frac{13477550}{73947000} \times 100$	18.23 %
GPM	$\frac{14921500}{109703500} \times 100$	13.6 %	$\frac{24235550}{156777550} \times 100$	15.46 %
NPM	$\frac{6175500}{109703500} \times 100$	5.63 %	$\frac{13477550}{156777550} \times 100$	8.6 %

Liquidity ratios

1. Current ratio

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

2. Acid test ratio

$$\text{ATR} = \frac{\text{Current assets minus stock}}{\text{Current liabilities}}$$

	<i>2001</i>			<i>2003</i>
CR	$\frac{40694000}{21138550}$	1.93	$\frac{48644000}{17286000}$	2.81
ATR	$\frac{40694000 - 21586000}{21138550}$	0.90	$\frac{48644000 - 26542000}{17286000}$	1.28

Commentary

- The ROCE has risen from 11.2 % to 18.23 %. This increase in profitability appears to have coincided with the introduction of the firm’s larger, premium boats into the fastest growing sector. This may indicate the way forward. 18.23 % appears to be a good return on capital employed, as is likely to be better than many other alternative investments although an interfirm comparison would be necessary.
- Both gross profit and net profit margins have improved, indicating better control of costs and/or higher revenues. There could be economies of scale in operation. Again the premium products and their image may allow premium pricing.
- The firm appears to have significantly improved its profitability over the last two years, possibly reflecting improving economic conditions and growing markets.
- Current ratio has increased from 1.3 to 2.81. The rule of thumb is between 1.5 and 2 to 1. This ratio appears too large with too many assets being kept in a liquid form. This may provide a source for further re-investment or new product development. Cross industry comparison would be helpful to judge appropriate liquidity levels.
- The acid test ratio in 2001 was slightly worrying as it was below the rule of thumb of 1:1 at 0.9, but in line with the current ratio this has increased to 1.28 in 2003. Even this may be considered to be slightly high, so *Riveau Yachts* may look to use this spare liquidity for future funding. The acid test ratio may be slightly worrying.

[10 to 12 marks]

The calculations are accurate. The evaluation shows evidence of critical, reflective thinking and employs examples appropriate to *Riveau Yachts*. Trends are recognized and judgments are made.

[7 to 9 marks]

The calculations are mostly accurate, although the ratios calculated may be fewer in number. The evaluation shows some evidence of critical, reflective thinking and is sometimes applied to *Riveau Yachts*. Some trends are recognized and judgments are made.

[3 to 6 marks]

The calculations are mostly accurate, but the ratios used are few in number. The interpretation is limited particularly at the bottom end of the band. There is a tendency to description.

[1 to 2 marks]

A limited answer, with inaccurate calculation and/or limited ratios. Any interpretation is brief and unfocused.