

MARKSCHEME

November 2004

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

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1. Assess the reasons why *Riveau Yachts* “decided to convert the partnership into a private limited company” (*lines 13 to 14*). **[6 marks]**

Reasons for conversion

- all private limited companies have limited liability, partnerships may not
- more capital could be raised through shareholders of private limited companies as there are no limits on number of shareholders, partnerships are limited
- private limited companies continue after the death of an owner, partnerships may not.

Reasons not to convert

- private limited companies may have to share their profits with a larger number of members
- legal procedures for private limited companies can be costly and time consuming
- information filed for private limited companies may be inspected by the public.

[5 to 6 marks]

The reasons why they chose to convert are assessed in detail, the reasons are appropriate and relevant to *Riveau Yachts*. Assessment must include some negative aspects at the upper end.

[3 to 4 marks]

The reasons why they chose to convert are assessed but one or two reasons may not be appropriate and the answer may lack detail in one or two areas.

[1 to 2 marks]

A limited and general response in terms of assessment and conversion.

2. (a) Calculate the following ratios for 2001 and 2003:

- return on capital employed (ROCE)
- gross profit margin
- net profit margin
- current ratio
- acid test ratio
- stock turnover.

[12 marks]

Ratio	2001	2003
ROCE		
$\frac{\text{Net profit before interest and tax}}{\text{Capital employed}} \times 100$	$\frac{6\,175\,500}{55\,140\,450} \times 100 = 11.2\%$	$\frac{13\,477\,550}{73\,947\,000} \times 100 = 18.23\%$
Gross profit margin		
$\frac{\text{Gross profit}}{\text{Total sales revenue}} \times 100$	$\frac{14\,921\,500}{109\,703\,500} \times 100 = 13.6\%$	$\frac{24\,235\,550}{156\,777\,550} \times 100 = 15.46\%$
Net profit margin		
$\frac{\text{Net profit}}{\text{Total sales revenue}} \times 100$	$\frac{6\,175\,500}{109\,703\,500} \times 100 = 5.63\%$	$\frac{13\,477\,550}{156\,777\,550} \times 100 = 8.6\%$
Current ratio		
$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{40\,694\,000}{21\,138\,550} = 1.93:1$	$\frac{48\,644\,000}{17\,286\,000} = 2.81:1$
Acid test ratio		
$\frac{\text{Current assets} - \text{stock}}{\text{Current liabilities}}$	$\frac{40\,694\,000 - 21\,586\,000}{21\,138\,550} = 0.9:1$	$\frac{48\,644\,000 - 26\,542\,000}{17\,286\,000} = 1.28:1$

Stock turnover - N.B *Candidates will be credited for using stocks from the balance sheet (appendix 3) as average stock is not available.*

$$\frac{\text{Total sales revenue}}{\text{Stock}} \qquad \frac{109\,703\,500}{21\,586\,000} = 5.08 \text{ times} \qquad \frac{156\,777\,550}{26\,542\,000} = 5.91 \text{ times}$$

Or

$$\frac{\text{Cost of Goods Sold}}{\text{Stock}} \qquad \frac{94\,782\,000}{21\,586\,000} = 4.39 \qquad \frac{132\,542\,000}{26\,542\,000} = 4.99$$

Award **[1 mark]** for each correct ratio, for both years, up to a maximum of **[12 marks]**. If the answers for a ratio for both years are incorrect but the right method has been used award **[1 mark]** instead of the **[2 marks]** available for each ratio.

- (b) **Using the ratios calculated in part (a) evaluate the change in the financial position of *Riveau Yachts* between 2001 and 2003.** **[10 marks]**

Everything is better. ROCE has improved due to improved gross and net profit. Cost control – direct and indirect have improved. Good asset management could imply they have invested more effectively to give better rate of return. This makes the company an attractive investment. Increase in retained funds would enable more investment internally. Gross profit margin increased, due to better cost control in terms of direct costs. Could be due to improved productivity, better stock control, lower wage settlements for production staff; economies of scale may be reducing unit cost. Net profit margin increased significantly which may be due to improved cost control in terms of indirect costs. May also be due to low wage settlements for non-production staff and/or economies of scale; dealership costs are now spread over a higher volume of sales.

Current asset ratio increased quite significantly. Perhaps it is too high. However yachts are a luxury item and the current asset ratio may be higher than traditionally reported. They may be building stock in anticipation of higher demand.

Acid test ratio increased reasonably, indicating a strong level of immediately realizable current assets. Could have improved due to better credit control and/or stock control. Stock turnover increased significantly. Stock is turning over more rapidly, this may be due to better stock control, implementation of better stock management system and/or more orders.

Overall the company is in a significantly healthier position in 2003 compared to 2001.

N.B. Do not double penalize. Give credit to relevant responses to incorrect ratios calculated in (a).

[8 to 10 marks]

The change in financial position is evaluated in detail. Links are made between ratios and a number of possible reasons for change are identified. Reasons given are relevant. The evaluation is balanced with reference to ratios calculated. An appropriate judgment is made as to the overall change in financial position.

[5 to 7 marks]

The change in financial position is evaluated though the evaluation may lack detail and not be specific in a few areas. Some links are made between the ratios and some possible reasons for change are identified, though they may not all be relevant. The evaluation may not be balanced with regard to ratios discussed, though a judgment is made, even though it may not be entirely appropriate.

[3 to 4 marks]

The reasons for change are described but not evaluated in any detail. The description is limited and may not relate to ratios calculated but does relate to the financial position. A judgment may not be made but the description relates to the improved situation of the company.

[1 to 2 marks]

A limited and general response in terms of evaluation, reasons identified, ratios discussed and judgment.

3. *Riveau Yachts* needs “to develop new products, and will require access to further sources of finance” (line 148 to 149). Choose *two* suitable forms of finance, outline the positive and negative aspects of each and assess their suitability for the needs of *Riveau Yachts*. [10 marks]

Source of finance	Positive aspect	Negative aspect	Suitability for needs of <i>Riveau Yachts</i>
Conversion to plc	<ul style="list-style-type: none"> • does not increase debt 	<ul style="list-style-type: none"> • will involve more owners • lack of control • expensive 	highly suitable
Bank loan	<ul style="list-style-type: none"> • short to medium term implications 	<ul style="list-style-type: none"> • represents debt • interest is an expense • power to force liquidation • increases gearing 	may be suitable
Internal funds	<ul style="list-style-type: none"> • does not increase debt 	<ul style="list-style-type: none"> • less available for shareholders • may be needed for other areas 	not suitable in the short term
Joint venture	<ul style="list-style-type: none"> • enjoy advantages of merger without losing identity • may eliminate competition 	<ul style="list-style-type: none"> • may fail to achieve results • may be a control struggle • profit split 	not suitable in the short term

N.B. Candidates may choose another form of finance. If it is suitable it must be rewarded.

[8 to 10 marks]

Two suitable forms of finance are chosen and most of the positive and negative aspects of each are outlined. An assessment is provided as to their suitability which is relevant to the needs of *Riveau Yachts*.

[5 to 7 marks]

Two suitable forms of finance are chosen and some of the positive and negative aspects of each are outlined. An assessment is attempted as to their suitability which is relevant to the needs of *Riveau Yachts*.

[3 to 4 marks]

At least one suitable form of finance is chosen and at least one positive and negative aspect of each is outlined. An assessment should be attempted as to their suitability but it may not be totally relevant to the needs of *Riveau Yachts*.

[1 to 2 marks]

A limited and general response.

4. (a) **How will *Riveau Yachts* need to adapt its marketing policies to support its expansion into overseas markets?** **[10 marks]**

Riveau Yachts current marketing policy is to focus on building the reputation of the *Riveau Yachts* brand as a high quality but still price competitive product. Repeat sales and recommendations from existing customers are very important. Part of the marketing policy for expansion into overseas markets will be to develop new products. The consultancy Future Strat have emphasized that *Riveau Yachts* needs to sell existing products to new markets *i.e.* the Americas and Asia, and to diversify. New product development in a new market would mean diversification and existing product development in a new market would mean market development. Marketing policies need to adapt to consider language, culture of overseas customers. Other factors such as stability, legal differences, economic factors and political use of agents need to be considered.

[9 to 10 marks]

An explanation of how *Riveau Yachts* will adapt its marketing policies is given in detail. It is relevant to *Riveau Yachts* and its expansion into overseas markets.

[6 to 8 marks]

An explanation of how marketing policies need to adapt is given but it may not be entirely relevant to expansion into overseas markets.

[3 to 5 marks]

An explanation is given but it may lack detail and relevance in terms of adapting marketing policies and expansion into overseas markets.

[1 to 2 marks]

A limited and general response.

- (b) **Develop a marketing strategy for *Riveau Yachts* for the S1200 model.** **[12 marks]**

S1200 – market share 26 %, market growth 17.5 % per year. Available in two versions – basic and luxury. Options for personalization by the owner on the luxury version. Appeals mainly to those in mid-40s and above. S1200 is a “star” in the Boston Matrix and may require considerable amounts of cash to keep competitive. In growth stage of product life cycle.

A marketing strategy should be aimed at 40+ market who have an income that would enable them to buy a yacht. Strategies need to develop for basic version aimed more at a “mass” market and lower income (comparatively).

The luxury version should be aimed at the discerning customer. Promotion should be through luxury magazines and boat shows. Price should be competitive but also reflect quality.

[9 to 12 marks]

A marketing strategy is developed for *Riveau Yachts* for the S1200 model. It is detailed, covers at least 4Ps and is relevant to *Riveau Yachts*. At the upper end the strategy is entirely appropriate.

[6 to 8 marks]

A marketing strategy is given but it may be limited in one area. It may lack detail but should be relevant to the S1200 model.

[3 to 5 marks]

A marketing strategy is given but it is limited in terms of Ps and examples given. It is generally relevant to the S1200 model.

[1 to 2 marks]

A limited and general response in terms of marketing strategy.
