

MARKSCHEME

November 2006

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

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1. (a) **Explain how the mission statement can help decision making at 3X.** [4 marks]

The mission statement explains in broad terms what 3X is attempting to achieve and gives an indication of the organization's values. When making relatively important decisions an employee or manager should therefore ask himself/herself if the decision is consistent with the mission statement, e.g. "accuracy, integrity and trust"/"vital business and financial news and information".

[3 to 4 marks]

Good understanding of a mission statement evident and an explanation of how it could help 3X make decisions. Reference is made to 3X.

[1 to 2 marks]

Some understanding of a mission statement evident but limited or no reference to 3X, or how decision-making might be helped.

(b) **Describe two potential benefits to 3X of setting ethical objectives.** [4 marks]

Potential benefits include:

- reduced litigation costs
- improved public relations
- improved morale
- recruitment benefits
- establishing a "niche" position
- greater understanding of employee rights and responsibilities
- *any other relevant benefit.*

[3 to 4 marks]

For a good description of two potential benefits. For [4 marks] direct reference is made to 3X.

[1 to 2 marks]

Some understanding of two potential benefits or a good description of one benefit. Limited or no reference to 3X.

(c) **Discuss the possible reasons why 3X chose to enter the Russian market via a joint venture rather than setting up there independently or acquiring a local publisher.** [6 marks]

The joint venture would involve 3X and Kalowski operating a separate business division in Russia.

This method avoids the need for a merger or takeover, or setting up independently, all of which could be costly, administratively complex, and difficult to pull out of. The joint venture enables 3X to exploit Kalowski's local knowledge and reputation without the potential risks and costs of a takeover, or the problems of setting up independently (such as language, cultural and marketing issues). The joint venture may be a prelude to a merger/takeover. National laws may make a joint venture the only option.

[5 to 6 marks]

A full and balanced discussion which reveals detailed understanding of the potential benefits of a joint venture (relative to a takeover/going independent). Direct reference is made to 3X.

[3 to 4 marks]

A limited discussion which reveals some understanding of the potential benefits of a joint venture (relative to a takeover/going independent) and some reference is made to 3X. The answer may tend to be descriptive at the bottom end of the range and may lack balance.

[1 to 2 marks]

A limited response with little or no reference to 3X.

- (d) **Analyse the role of primary and secondary sources of data in helping 3X develop its presence in the digital news and information market.**

[6 marks]

Primary Data	Secondary Data
First hand information from 3X's customers and non-customers <i>e.g.</i> interviews and informal discussion. Web based research (<i>e.g.</i> surveys) could also be used to gather primary data.	Second hand information from sources (including) company records, industry reports and government statistics.

3X would need to monitor sales of its paper and digital products to identify trends. It would also need to monitor technological developments since growing familiarity, mobility and trust of digital hardware (for example personal digital assistants/mobile telephones) would undermine resistance to digital news and information. They may also need to consider industry and other reports to try to assess the strategic choices being made by their competitors. Government statistics may be helpful in the analysis of external economic opportunities and threats and other government information may help identify external political issues.

Secondary data is likely to be helpful and is cheaper to source but it may be out of date and backward-looking which may mean it is of less value in a fast-moving market like the digital news and information market. Primary data will be more expensive and time-consuming to collect but may provide valuable qualitative data on social trends as well as consumer attitudes and perceptions.

[5 to 6 marks]

A full, detailed and balanced analysis of both primary and secondary sources with application to 3X. Business terminology is used appropriately where relevant.

[3 to 4 marks]

Some analysis of primary and/or secondary sources with some reference to 3X, though this may tend to be more general and descriptive at the lower end of the band.

[1 to 2 marks]

Identification of primary and/or secondary sources with limited application and little or no reference to 3X.

2. (a) **Explain the significance and role of “cash cows” for the future of *Essemo*.** [4 marks]

A cash cow has a high share of stagnant (or possibly declining) market. The funds from cash cows are often used (“milking”) to invest in newer products (or markets – in this case China and India) with greater growth prospects. It is unlikely that the future success of the business will be based on cash cows, but they can help secure the future by funding rising stars (Ben and Berry) or market development, or to transform a problem child (Dotty) to a rising star.

[3 to 4 marks]

A full explanation of the significance of cash cows with application of the concept to *Essemo*'s product range.

[1 to 2 marks]

Some understanding of cash cows is evident but significance for *Essemo* is not explained.

- (b) **Identify *two* potential benefits and *two* potential costs to the Indian economy if *Essemo* enters the Indian market.** [4 marks]

Potential benefits may include:

- jobs gained
- technology transfer
- skills transfer
- greater domestic choice
- *any other relevant benefit.*

Potential costs may include:

- impact on domestic producers
- impact on domestic culture
- repatriation of profits
- impact on the environment
- jobs lost
- *any other relevant cost.*

[1 mark] awarded for each relevant potential benefit and each relevant potential cost up to a maximum of [4 marks].

- (c) **With reference to the Ansoff Matrix and the product life cycle, discuss *Essemo's* chosen growth strategy.** **[6 marks]**

		Products	
		Existing	New
Markets	Existing	Market Penetration	Product Development
	New	Market Development	Diversification

There is a suggestion that sales have reached maturity and that new product developments have been exhausted. Diversification is notoriously risky since *Essemo* would have little knowledge of the products or markets. Penetration would be difficult since rivals are strong and competition is intensive. Market development seems to offer a suitable growth strategy since sales have greater potential for growth and this is the market *Essemo* understands. Demand for ice cream in India and China appears to be in the early stages of the product life cycle, whereas in Europe/America it seems to have matured or be in decline.

[5 to 6 marks]

A detailed and balanced discussion with reference to *Essemo* and appropriate application of the relevant parts of the Ansoff Matrix.

[3 to 4 marks]

Some discussion of the growth strategy though it may lack detail and/or balance and may tend towards explanation with limited reference to *Essemo*.

[1 to 2 marks]

For a limited and essentially descriptive response.

- (d) **Evaluate the choice of different pricing strategies for *Essemo's* product range.** **[6 marks]**

Essemo has chosen different pricing strategies for the different products. The Dotty, for example, has a low price suggesting a penetration pricing strategy and elastic demand whereas the Ben & Berry has a high premium price suggesting more inelastic demand.

Possible reasons for these different pricing strategies include:

- direct cost differences between products (of ingredient, production, marketing)
- level of competition in the different market segments
- customer expectations
- customer's ability to pay (a factor affecting price elasticity value)
- consistency with the brand image and the brand perception among the target market

[5 to 6 marks]

A detailed evaluation of the reasons for different pricing strategies with reference to *Essemo's* product range.

[3 to 4 marks]

Some analysis of the reasons for different pricing strategies though the evaluation maybe limited and tend towards explanation. There may be limited reference to *Essemo's* product range.

[1 to 2 marks]

For a limited and essentially descriptive response.

3. (a) Describe Tom Jones' leadership style. [2 marks]

Tom's leadership style is autocratic. He appears to make decisions with little or no consultation and has "complete control over the board of governors". Candidates do not have to use the term "autocratic" to be awarded **[2 marks]**, but need to show a clear understanding that this is the leadership approach.

[2 marks]

Tom's leadership style is accurately described with reference to *Overseas School*.

[1 mark]

A vague description of Tom's leadership style.

(b) Using Herzberg's theory of motivation examine the likely effects on teacher motivation of Tom Jones' proposals. [6 marks]

Factors leading to dissatisfaction at work:

- security
- status
- relationship with subordinates
- personal life
- relationship with peers
- salary
- work conditions
- relationship with supervisors
- supervision
- company policy and administration.

Factors leading to satisfaction:

- growth
- advancement
- responsibility
- work itself
- recognition
- achievement.

The major sources of dissatisfaction (according to Herzberg) would be the company policy and administration and the degree of supervision which would also impact on relationships. There seems to be little evidence of any focus on “satisfiers” and many hygiene factors are being neglected. Tom’s changes are therefore likely to result in extreme dissatisfaction.

[5 to 6 marks]

A detailed examination of sources of dissatisfaction at *Overseas School* as suggested by Herzberg’s theory of motivation, with appropriate application.

[3 to 4 marks]

Some examination of sources of dissatisfaction at *Overseas School* though there maybe limited reference to Herzberg’s theory of motivation.

[1 to 2 marks]

For a limited and general response.

- (c) **Identify the interests of two stakeholder groups at *Overseas School* and explain how potential conflict between them could be resolved.** **[6 marks]**

A stakeholder is an individual or group with a direct interest in an organization’s performance.

The main stakeholders (and their interests) include:

- teachers – pay/security/representation
- managers – meeting targets (academic and budget), control, authority
- parents – safe and successful learning environment, acceptable fees, representation
- students – quality education, representation
- employers – source of labour/education for employees children
- the local community – e.g. shops/bus service/builders.

Conflict seems to have arisen because decision-making at the school lacks balance. Tom Jones has placed his perception of the organization’s needs above those of the other stakeholders, and this has generated conflict. A successful resolution of the conflict would emerge if each stakeholder’s interest were thoroughly considered before decisions were made. It may be appropriate to remove Tom Jones and arrange for a more balanced representation of stakeholders so that conflict can be resolved rather than fester. Other conflicts may be explained, for example between teachers and parents.

[5 to 6 marks]

Two stakeholder groups at *Overseas School* are correctly identified and the nature of their interests is explained in detail. A realistic suggestion for conflict resolution is explained.

[3 to 4 marks]

Up to two stakeholder groups are identified and the nature of their interests is explained. The answer may lack breadth/detail. A suggestion for conflict resolution has been explained but may be unrealistic or lacking detail.

[1 to 2 marks]

A limited and general response.

- (d) **Evaluate the proposal to reward the director of administration on a performance related pay basis.** **[6 marks]**

Performance related pay may be appropriate when:

- performance can be measured objectively
- performance can be assigned to an individual (rather than a team)
- the individual has considerable control over the results.

In the areas of catering, transport and cleaning the above are likely to be applicable to a considerable degree, although external influences (*e.g.* traffic congestion which could result in delays) could occasionally affect performance. The director of administration would have a financial incentive to meet targets and to cut costs and this is likely to have a negative impact on morale. However, it may be very difficult to quantify the performance of the director himself and to differentiate his performance from that of the staff he oversees. It may also be debateable the extent to which he personally can influence results. Other advantages and disadvantages of performance related pay could be considered.

[5 to 6 marks]

A detailed and balanced evaluation of the performance-related pay proposal with reference to *Overseas School*, and the situation of the administration director. Business terminology is used appropriately where relevant.

[3 to 4 marks]

Some consideration of the performance-related pay proposal with some reference to *Overseas School*, and the situation of the administration director though this may be limited at the lower end of the range.

[1 to 2 marks]

For a limited and essentially descriptive response.

4. (a) **Explain the need for working capital.** **[3 marks]**

Working capital is the day-to-day finance for running a business. It is used to pay for raw materials and running costs, and also funds the credit offered to customers when making a sale. If a firm has too little working capital available it may struggle to pay immediate debts (such as pay for raw material supplies). If an organization has poor liquidity it may find it difficult to buy items on credit terms (and this, in itself, worsens the situation).

If an organization continues to operate without sufficient working capital it may go out of business. Indeed poor liquidity is the cause of the majority of business failures.

Equally “too much” working capital may be viewed as wasteful since the money could be more productively employed as a fixed asset, or perhaps invested in other ways to earn a return.

[3 marks]

A clear understanding of the concept of working capital is shown with a detailed explanation of the need to maintain adequate working capital.

[2 marks]

An explanation of the need for working capital is given, although this may lack some depth, and may simply define/explain working capital rather than explain the need for it.

[1 mark]

A generalized response showing limited understanding of working capital.

(b) (i) Identify *three* reasons for drawing up a cash flow forecast. [3 marks]

The following reasons may be identified:

- a forecast is required by the bank, or other potential lenders
- the forecast enables the business to identify periods of problem cash flow and to address these before they arise
- cash flow forecasts enhance the planning process, clarifying aims and objectives and forming part of a general planning process
- the cash flow forecast may form part of the budgeting process in that the forecast can be compared to actual performance

Award **[1 mark]** for each relevant reason identified up to a maximum of **[3 marks]**.

(ii) Prepare a cash flow forecast for the proposed new clothing venture covering the first six months of operations (January to June), using the financial data provided by the financial director. [8 marks]

	January	February	March	April	May	June
	\$	\$	\$	\$	\$	\$
Cash flow sales			40 000	42 000	44 100	46 305
Cash outflows			40 000	42 000	44 100	46 305
Start up costs	150 000					
Overheads	15 000	15 000	15 000	15 000	15 000	15 000
Interest	3 000	3 000	3 000	3 000	3 000	3 000
Stock purchases	18 000	18 900	19 845	20 837	21 879	22 973
	186 000	36 900	37 845	38 837	39 879	40 973
Net cash flow	(186 000)	(36 900)	2 155	3 163	4 221	5 332
Opening bank balance	300 000	114 000	77 100	79 255	82 418	86 639
Closing bank balance	114 000	77 100	79 255	82 418	86 639	91 971

[7 to 8 marks]

A well laid out and accurate cash flow forecast. Award **[7 marks]** for a maximum of one error and/or a slight limitation in layout.

[5 to 6 marks]

A well laid out cash flow forecast with a few minor errors.

[3 to 4 marks]

A poorly laid-out cash flow forecast with a number of errors.

[1 to 2 marks]

Many errors and/or a poor layout.

- N.B.** (i) An error that “carries forward” should only be penalized once.
(ii) It is acceptable for candidates to round answers up or down to the nearest \$.

(c) Evaluate the proposal that *Aries* forms a strategic alliance with Scharp. [6 marks]

A strategic alliance would involve the organizations remaining separate but Scharp would take responsibility for production of the new women’s wear garments. The two organizations would also share marketing data and explore opportunities to complement each others brands.

Potential advantages of a strategic alliance include:

- improved liquidity at *Aries* (e.g. there is an opportunity for *Aries* to reduce need for factory space)
- concentrate on core competence
- reduced costs if Scharp’s production is more efficient
- possible synergies (and subsequent increases in revenue)
- Scharp’s reputation for quality

Potential disadvantages of a strategic alliance include:

- dependence on Scharp and reliance on their production facility
- dilution of brands
- culture clash between the two companies

Given that *Aries* has poor liquidity and Scharp has an excellent reputation for quality it seems a prudent way to enter the market initially. Naturally the success of the strategic alliance will be reviewed at a later stage. A strategic alliance may be less of an issue in terms of organizational and cultural differences than a merger, and in the short run should prove beneficial. Further information may be required and it is possible that the strategic alliance is found to be unworkable after negotiations.

[5 to 6 marks]

A detailed and balanced evaluation of the strategic alliance with for **[6 marks]** a considered and supported judgment. Appropriate reference is made to *Aries* and Scharp.

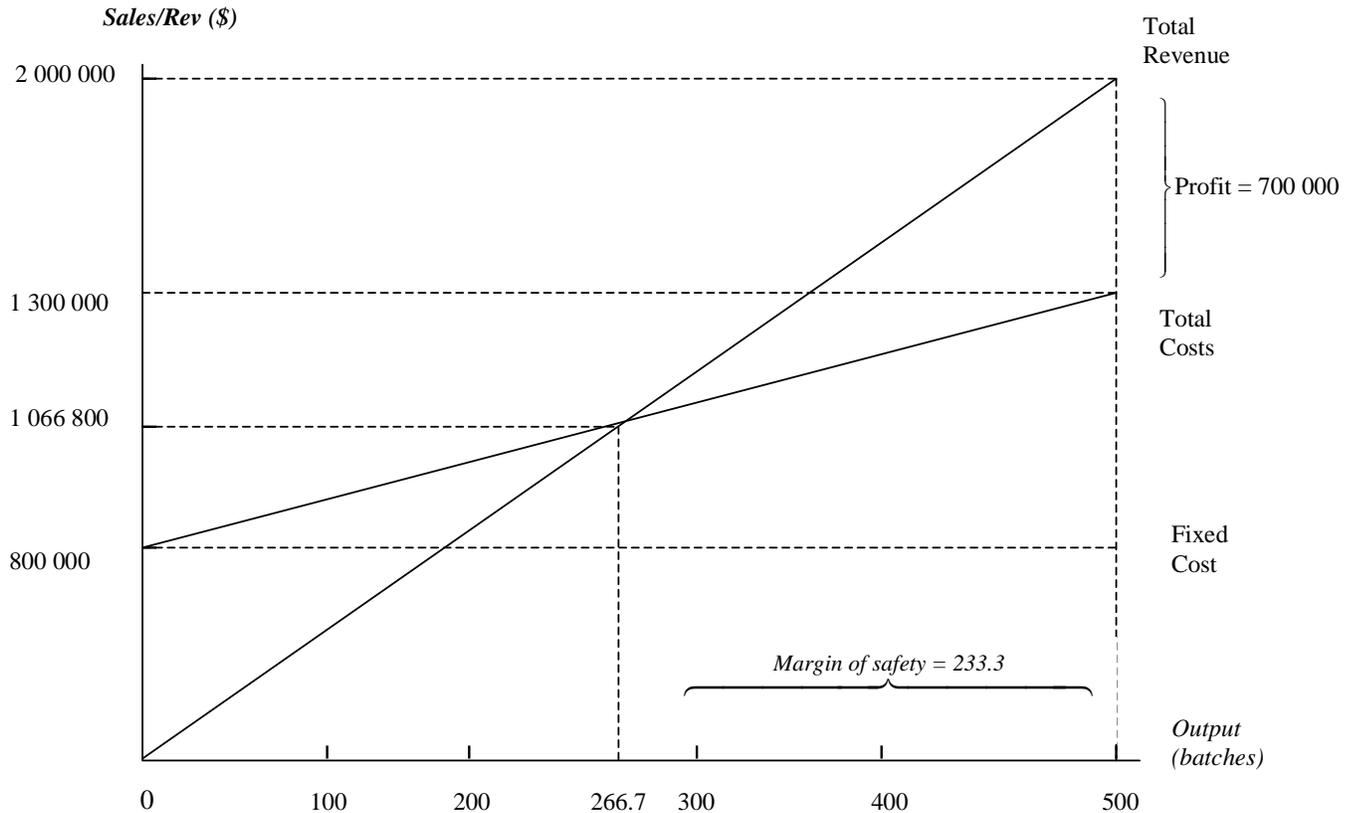
[3 to 4 marks]

Some consideration of the strategic alliance, though at the lower end of the range the answer may lack detail and/or balance. At the lower end of the range the answer may be general and lack reference to *Aries* and Scharp.

[1 to 2 marks]

A limited and essentially descriptive response.

5. (a) Use the data in Table 1 to prepare a break-even chart for *Seifert Sawmill*. [6 marks]



$$\text{Break-even quantity} = \frac{\text{Fixed cost}}{\text{Contribution}} = \frac{800\,000}{3000} = 266.7 \text{ batches}$$

[5 to 6 marks]

A detailed and accurate break-even chart showing:

- total revenue
- total cost
- break-even quantity
- axes labelled (revenue/output)

[3 to 4 marks]

A generally correct break-even chart. There may be minor errors and/or the lines may be plotted incorrectly.

[1 to 2 marks]

An attempt to construct a break-even chart, but there are a number of errors.

- (b) **Identify on your chart the margin of safety and profit if 500 batches are sold.** **[2 marks]**

Award **[1 mark]** for correct identification of the profit and **[1 mark]** for correct identification of the margin of safety on the graph.

N.B. If an error “carries forward” from Q1 the candidate should receive credit for a correctly identified answer for their chart.

$$\begin{aligned} \text{Profit @ 500 units} &= 2\,000\,000 - (800\,000 + 500\,000) = \$700\,000 \\ \text{Margin of safety} &= 500 - 267 = 233 \text{ units} \end{aligned}$$

See part (a) for identification on the graph.

- (c) **Assuming 500 batches are sold, construct a forecast profit and loss account using the data provided in Table 2.** **[6 marks]**

Sales revenue	2 000 000
Cost of sales	
direct labour	150 000
direct machinery	50 000
direct electricity	50 000
direct vehicle running cost	50 000
direct materials	200 000
Gross profit	1 500 000
Expenses	
directors fee	200 000
rent	250 000
licence	100 000
depreciation	70 000
interest	150 000
others	30 000
Net profit	700 000

[5 to 6 marks]

The layout of the profit and loss account and calculations are correct.

[3 to 4 marks]

The layout is generally correct, there may be a few errors in calculation.

[1 to 2 marks]

There is an attempt to construct a profit and loss account but the layout is poor and there are significant errors.

- (d) Use a PEST/STEP framework to evaluate *two* external factors which might influence *Seifert Sawmill's* decision to set up a sawmill in Latin America.

[6 marks]

<p style="text-align: center;">Political</p> <ul style="list-style-type: none"> • pro-business PBP party re-elected • environmental groups gaining popularity and influence 	<p style="text-align: center;">Economics</p> <ul style="list-style-type: none"> • recovering construction industry may boost demand • pegged currency may contain inflation and improve business confidence
<p style="text-align: center;">Social</p> <ul style="list-style-type: none"> • inequality of income • rising union power may increase wages and social activism 	<p style="text-align: center;">Technological</p> <ul style="list-style-type: none"> • emergence of plastics/synthetic materials for use in construction

Discussion should elaborate on the points raised in the above table. Better answers will recognise that (for example) a currency peg can collapse and that the time horizon *Seifert Sawmills* are looking at needs to be factored in. The final decision will be influenced by the relative importance of each factor.

[5 to 6 marks]

A PEST/STEP framework is used and there is a detailed and balanced evaluation of two external factors. Appropriate reference is made to *Seifert Sawmill* and their situation.

[3 to 4 marks]

A PEST/STEP framework is used and there is evaluation of at least one external factor, though this may lack detail or depth at the lower end of the range. If only one external factor is evaluated, a maximum of [3 marks] should be awarded.

[1 to 2 marks]

A limited and essentially descriptive response.