

MARKSCHEME

November 2007

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

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1. (a) Explain *two* advantages for *Gladrags Ltd* of changing from a partnership to a private limited company in 1992 (*lines 34 to 35*). [4 marks]

For many years, Tom and Naseem operated *Gladrags Ltd* as a partnership. However, in 1992, they decided to switch the nature of the business organization to become a private limited company. This would have had a number of advantages for them.

These may have included:

- as shareholders rather than partners, they would have limited liability and this would reduce the risks they faced in owning and operating the business
- as a limited company, the business has a separate legal identity and this may have made administration easier in many respects
- it could be argued that a limited company can access a wider range of sources of funds than sole traders including share sales (though **not** flotation of shares on a stock market) and a broader range of borrowing sources.

[3 to 4 marks]

Two advantages explained in detail.

[1 to 2 marks]

Two advantages lacking a detailed explanation or one advantage explained in detail.

- (b) (i) Identify *two* internal stakeholders of *Gladrags Ltd*. [2 marks]

Internal stakeholders of *Gladrags Ltd* may include:

- shareholders – Tom, Naseem and their families
- directors – directors other than the shareholders
- managers – including the human resource manager Jenny Boulton, the finance manager Colin Buckley and the production manager Stephen Moffat
- workers/employees
- *other relevant internal stakeholder groups.*

[1 mark] for each correctly identified internal stakeholder group. No credit for external stakeholders like customers and suppliers.

For [2 marks], answers must refer to stakeholder groups, *i.e.* Tom and Naseem should only be awarded [1 mark] as they are in the same stakeholder group.

- (ii) **Select *one* of the stakeholder groups identified in (b)(i) and examine whether they are likely to be in favour of the takeover bid from the Indian multinational corporation (lines 145 to 146).**

[6 marks]

For this question candidates need to choose one of the stakeholders identified in part (i) and examine their likely view of the proposed takeover *e.g.* response may choose “workers”. The view of workers about the takeover may be mixed.

Points could include:

- some workers may be in favour of the takeover as they may feel that the takeover offers them promotion opportunities and career progression
- some workers may also feel that their employment is more secure within a multinational that may enable greater growth in demand with the new marketing opportunities
- some workers may feel that the multinational will look for efficiency savings and this may contribute to feelings of job insecurity
- if any workers are also shareholders, they may be in favour of the takeover, which will enable them to realize their shareholding
- *any other relevant discussion point.*

N.B. If responses choose an external stakeholder group from their answer to part (b)(i), then they should be credited appropriately up to a maximum of [3 marks].

[5 to 6 marks]

A full balanced examination of the issues relating to the proposed takeover. The examination refers to the case study where relevant, uses business concepts and theories appropriately and is directly relevant to the stakeholder group selected.

[3 to 4 marks]

A reasonable examination of the issues relating to the proposed takeover. The examination may refer to the case study though this may be limited. The answer may tend to be general rather than specifically related to the stakeholder group chosen at the lower end of the range.

[1 to 2 marks]

Some issues relating to the takeover are raised but these may be limited or possibly listed. There may be little or no reference to the case study material.

2. (a) (i) **Define the term *labour turnover*.** **[2 marks]**

“Labour turnover” refers to the movement of employees in and out of a business; in a stricter sense, the phrase is usually applied to the number of employees leaving. (High labour turnover causes problems for businesses: it is costly, it lowers productivity as well as morale).

[2 marks]

A clear definition, including techniques used to calculate labour turnover.

[1 mark]

A reasonable definition but lacking clarity.

- (ii) **Explain *two possible reasons why labour turnover is starting to rise at Gladrags Ltd (lines 105 to 106)*.** **[4 marks]**

Labour turnover is starting to rise at *Gladrags Ltd* due to concerns about the proposed developments taking place. Stephen Moffat has a brief to increase efficiency and many workers may feel that their jobs are threatened as a result. There are also rumours that production may be moved overseas and this will also lead to concerns about job security. These concerns may result in people looking for other employment and therefore a larger number of employees leaving over a given time period. This will increase labour turnover.

[3 to 4 marks]

Two possible reasons for the increase in labour turnover are accurately explained. The explanation is related to the case study and relevant to the issue of labour turnover.

[1 to 2 marks]

One possible reason for the increase in labour turnover is explained in detail or two reasons are explained, but the explanations may lack depth or detail.

- (b) **With the use of appropriate motivation theory, evaluate *two* strategies to improve motivation at *Gladrags Ltd.***

[10 marks]

For this question candidates need to select two possible strategies to improve labour motivation and then evaluate their appropriateness.

Possible strategies could include:

- **job enrichment** – strategies could be put in place to offer more variety in the tasks carried out by workers day-to-day and, therefore, enrich their work
- **team-based approaches to production** – this would help to boost motivation through variety and may help people achieve higher levels in Maslow’s hierarchy of needs. It may also help reduce hygiene factors and increase motivators (as developed by Herzberg). However, this may not help to sufficiently reduce underlying concerns, and so the impact on labour turnover may be more questionable
- **increased pay** – an increase in pay may help improve motivation. This will reduce hygiene factors though may have a limited impact as a motivator (Herzberg). This type of strategy is unlikely to help people move to higher levels on Maslow’s hierarchy of needs
- **empowerment** – empowerment is a form of delegation and gives people more control over their working lives. This will help act as a motivator (Herzberg) but may have a limited impact on reducing concerns about employment security and therefore be of questionable effectiveness
- **information dissemination and worker representation** – managers and directors could put in place strategies to allow for worker involvement in decision-making. This may help reassure workers and allow for improved dissemination of information to workers. This may help reduce concerns and offer a greater level of confidence about the future and their role. This may act as a motivator (Herzberg) and may also enable workers to progress to a higher level on Maslow’s hierarchy of needs. However, if the concerns are justified and plans are in place to move production and downsize, this involvement may be counter-productive.

Most of these strategies could be effective in improving motivation and candidates should ensure they have evaluated the issues related to each particular strategy.

[8 to 10 marks]

A clear, thorough and balanced evaluation of two strategies. The analysis is related to the case study where relevant and motivation theory is consistently applied. Business concepts and theories are used appropriately where relevant.

[4 to 7 marks]

There is a sound examination of two possible strategies with some reference to the case study. The analysis of the two strategies may not be entirely balanced with the analysis of one strategy perhaps lacking detail. There is some application of motivation theory, though this may be limited and perhaps unrelated in nature at the lower end of the mark range.

[1 to 3 marks]

A limited and essentially descriptive answer.

3. (a) Identify the *two* main channels of distribution used by *Gladrags Ltd.* [2 marks]

Gladrags Ltd has two main channels of distribution. They have a factory shop based in Mile End, which sells directly to the public. They also sell through various department stores and other shops. One of their first major deals was with a chain of London department stores.

[1 mark] for each distribution channel identified up to a maximum of [2 marks]. A basic answer of “shops” is not precise enough for [1 mark].

- (b) Analyse whether *Gladrags Ltd* should make changes to the four elements of the marketing mix to increase sales in the factory shop. [12 marks]

Sales in the *Gladrags Ltd* factory shop have been falling in recent years and the shop is making up a smaller percentage of *Gladrags Ltd's* total turnover. The shop manager Sinita is keen to try to boost turnover.

Possible changes in the marketing mix that could help achieve this are:

1. **Price** – the shop sells just *Gladrags* own brand clothing and market research has shown that customer perceptions of the brand are that they are “value for money”. This may be an argument for price reductions not being required. However, the main target market is currently the lower socio-economic groups and demand from these groups may be more price elastic than for other groups. Price reductions may be difficult for the company to achieve as they are already selling at very low margins and given the overheads of the shop, they may already be close to or below break-even point. If production is outsourced, this may enable price reductions as it may reduce the cost of producing the clothing.
2. **Product** – Sinita has proposed to Anjay that they start selling other more western style clothing to appeal to a wider market. This would be an expansion of the product range and may help to boost demand. The nature of the new product range will need to be carefully considered to ensure that it meets the demand from the local target market. The shop may also consider stocking the new “Sassy” brand. This will enable them to sell at higher prices, as it is a “designer” brand and so will offer higher margins. However, the demand for this brand may be more limited if the local market is composed mainly of those from lower socio-economic groups.
3. **Place** – their options for any change in distribution channels are very limited for just the factory shop. While they may choose to open new shops in other locations, this is beyond the scope of this question.
4. **Promotion** – the main option available to the firm is below the line promotion. While they might perhaps advertise in local newspapers or other local media, the most effective promotional methods are likely to be in-store promotions, loyalty and other below the line promotion techniques. However, they will need to be careful to ensure the effectiveness of each promotional technique and ensure that they get value for money.

Responses may also consider other P's and should be rewarded appropriately.

[10 to 12 marks]

A detailed analysis of possible changes to all four elements of the marketing mix with appropriate recommendations for the factory shop. The analysis is balanced where relevant and the answer considers a range of options. Recommendations are substantiated with arguments that are relevant to the case study. Business theory and terminology is used appropriately throughout.

[7 to 9 marks]

A reasonable analysis of possible changes to the marketing mix. Recommendations may be given, though these may not always be substantiated, particularly at the lower end of the band. The answer is generally related to the case study and to the factory shop, though this may be more limited at the lower end of the band. The answer may not be as detailed on all elements of the marketing mix.

[4 to 6 marks]

A brief examination of possible changes to the marketing mix, though this may tend to be descriptive. There is some consideration of the case study and of the factory shop, although at the bottom end of the band this may be limited.

[1 to 3 marks]

A limited and general response, which tends to be descriptive or simply list points, with no reference to the factory shop.

4. (a) (i) Calculate the gross profit margin and the net profit margin for the years ended 31 May 2006 (see Appendix 1 in the case study) and 31 May 2007.

[4 marks]

	Year ended 31 May 2006 (%)	Year ended 31 May 2007 (%)
Gross profit margin	21.7	19.1
Net profit margin	7.5	6.9

Award [1 mark] for each correct figure calculated.

- (ii) Explain two possible reasons for the change in the net profit margin between 31 May 2006 and 31 May 2007.

[4 marks]

The net profit margin has fallen. The lower margin is a continuation of a trend.

Factors that may have led to the fall in gross and net margins may include:

- *Gladrags Ltd* faces increasing competition in their main markets from overseas and domestic competitors. This will have put pressure on them to keep prices down and may have led to pressure on the net margin
- higher overheads and difficulties controlling fixed costs may have led to a decrease in the net profit margin
- higher costs – labour or materials costs may have raised the cost of sales and led to pressure on the gross profit margin and, consequently, the net profit margin
- outsourcing – a trend for outsourcing in the industry with production shifting to the far east may have led to lower costs for other firms and therefore put pressure on *Gladrags Ltd* to keep prices down with a resultant impact on the net profit margin
- the main target market for *Gladrags Ltd* is a price-sensitive market and this may have put pressure on them to keep prices down and therefore impacted on the net profit margin
- any other relevant point.

[3 to 4 marks]

Two factors leading to the changes in the net profit margin are clearly explained. The explanation is related to the case study where appropriate.

[1 to 2 marks]

Two factors leading to the changes in the net profit margin are explained, though the explanation may be lacking in detail or clarity. One factor is explained in detail.

- (b) Use the figures above to construct a full profit and loss account *and* balance sheet for the year ended 31 May 2007 (N.B. Use the same layout for the accounts as in Appendix 1).

[10 marks]

Balance sheet as at 31 May 2007		
	\$000	\$000
Fixed assets		1250
Current assets		
Cash	50	
Debtors	350	
Stock	<u>505</u>	
Total current assets		905
Current liabilities		
Creditors	450	
Short-term borrowing	<u>135</u>	
Total current liabilities		<u>585</u>
Net assets		<u>1570</u>
Share capital		350
Loan capital		550
Retained profit		<u>670</u>
Capital employed		<u>1570</u>
 Profit and loss account for the year ended 31 May 2007		
	\$000	
Turnover	2750	
Cost of goods sold	<u>2225</u>	
Gross profit	525	
Expenses	<u>335</u>	
Net profit	190	
Interest	35	
Tax	<u>25</u>	
Profit after tax and interest	130	
Dividends	<u>100</u>	
Retained profit	30	

[8 to 10 marks]

The balance sheet and profit and loss account are essentially accurate with up to two minor errors for ***[8 marks]***. They are laid out in the format required.

[4 to 7 marks]

The balance sheet and profit and loss account may have a number of minor errors in calculation and/or presentation. For just a balance sheet or a profit and loss account, award a maximum of ***[5 marks]***.

[1 to 3 marks]

The answer shows some understanding of balance sheets and profit and loss accounts, but may have a significant number of errors.

In general, deduct one mark for each new error. Apply the own figure rule so that where errors are followed through, do not penalize further if the subsequent figures are consistent with the error.
