



MARKSCHEME

November 2007

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

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1. (a) (i) Describe what is meant by a *target market*. [2 marks]

A target market is the group (or groups) of consumers that an organization wishes to sell its products to. Once the organization knows its target group it can design an appropriate marketing mix for them.

Award up to [2 marks] for a suitable description.

- (ii) Explain *two* primary market research methods that *Creative Technology* could use to help them identify additional target markets for the MuVo. [4 marks]

Primary data is information that is original and has been gathered first hand. *Creative Technology* could either undertake primary research themselves or appoint a marketing agency. They could undertake surveys, observations or experiments. They could use consumer panels, interviews, face-to-face, postal, Internet or telephone surveys.

Award up to [2 marks] ([1 mark] for the method and [1 mark] for explaining it) up to a maximum of [4 marks].

- (b) Explain how market segmentation could help *Creative Technology* achieve a greater market share in the personal digital entertainment market. [6 marks]

Market segmentation is when a particular group of consumers has been identified within a market. Market segmentation can be based on income, socio-economic group, occupation, interests, lifestyle, geography, age and brand loyalty.

Creative Technology can use market segment data to ensure that the marketing mix for their various products is designed appropriately. This should ensure that their marketing resources are used efficiently and help *Creative Technology* identify market opportunities and gain competitive advantage in the markets where it is able to carve out a niche. It could also clarify which segments *Creative Technology* does not wish to target.

[4 to 6 marks]

Detailed understanding and explanation of market segmentation and how it could help *Creative Technology* to achieve a greater market share in the personal digital entertainment market.

[1 to 3 marks]

Some understanding and a limited explanation of market segmentation and how it could help *Creative Technology* to achieve a greater market share in the personal digital entertainment market.

- (c) **Discuss the importance of product branding in determining the success of the Zen.**

[8 marks]

Product branding is a name or design that identifies the product or service of a manufacturer. The purpose of branding is to distinguish a business from its competitors and to enable customers to recognize its products.

The Zen has created a reputation for sound quality and battery life and should build on these strengths, as well as the favourable reports from industry journals. They should also consider how important it is to address concerns about the bulkiness of the Zen.

Creative Technology is the worldwide leader in digital entertainment products for various market segments in the personal computer industry and should strive to take advantage of this position so that there is loyalty to the brand as well as to individual products. They can thus take advantage of any “halo” effect rubbing off on new products.

[6 to 8 marks]

Good understanding of product branding. Detailed discussion of how branding could help *Creative Technology* make the Zen successful. Several appropriate references are made to the case study.

[3 to 5 marks]

Some understanding of product branding evident. Some discussion of how branding could help *Creative Technology* make the Zen successful, but discussion may lack depth. Some references made to the case study.

[1 to 2 marks]

For a general and descriptive response.

2. (a) (i) **Describe *two* factors that influence the style of leadership adopted by a manager.** [4 marks]

Factors may include:

- nature of the individual (age, training, education, personality)
- nature of the group
- nature of the task
- history
- tradition
- organization structure.

Award [2 marks] for each factor identified and described.

- (ii) **Explain the difference between Tony's and Leila's leadership styles.** [4 marks]

Tony appears to subscribe to a democratic and participative style. His approach may be described as paternalistic. He values staff input and believes that they will contribute to the success of the business. Tony appears to be theory Y.

Leila does not like to deal directly with staff and is not a good communicator. She is prepared to delegate and trusts department managers. She appears to be bureaucratic. Leila appears to subscribe to theory X.

[3 to 4 marks]

A detailed comparison of the two styles of leadership. Reference is made to the case study.

[1 to 2 marks]

A description of the two styles of leadership is made but the answer may lack depth and little or no reference is made to the case study, or no comparison is made.

- (b) **Explain why using e-mail as the only source of communication could lead to communication problems.**

[4 marks]

Problems may include:

- encoding problems (*e.g.* use of jargon, verbosity, poor expression, lack of empathy, inaccurate use of terminology)
- transmission problems (*e.g.* failure for message to be delivered)
- decoding problems (*e.g.* distractions, failure to take in the message, lack of interest in the subject matter, information overload, emotional state of recipient).

[3 to 4 marks]

A detailed explanation of the problems that might arise from using e-mail as the only method of communication. Reference is made to the case study.

[1 to 2 marks]

An attempt to explain the problems that might arise from using e-mail as the only method of communication. Limited or no reference is made to the case study.

- (c) **Using relevant motivational theory, discuss *two* practical measures Leila could implement to reduce staff dissatisfaction.** **[8 marks]**

Relevant motivational theory may include:

- FW Taylor
- Maslow
- Herzberg
- Mayo.

Tony enabled employees to satisfy some of their belonging, social and esteem needs. He provided motivating factors such as recognition, responsibility and job satisfaction. They felt empowered and valued. Under Leila, employees feel ignored and their hygiene needs are not being met, *e.g.* company policy, relationship with supervisors and status. The opportunity for advancement appears to have been blocked. The firm is providing good pay and this could be equated with a Taylorist or theory X approach.

Practical measures Leila could implement include:

- job enrichment and job enlargement to satisfy higher level needs. This would enable original employees to use their full abilities
- the culture of the business could be altered to be less formal and bureaucratic and to allow employees to feel valued
- financial incentives could be linked to performance and opportunities for promotion could be made clearer
- team-working opportunities could be explored.

[6 to 8 marks]

Relevant motivational theory is used. Discusses in detail two practical measures that Leila could implement to reduce staff dissatisfaction. Several appropriate references are made to the case study.

[3 to 5 marks]

Relevant motivational theory is identified, but may not be applied appropriately. Some discussion of up to two practical measures that Leila could implement to reduce staff dissatisfaction, but discussion may lack depth. Limited or no reference may be made to the case study.

[1 to 2 marks]

For a general and descriptive response.

3. (a) (i) **Describe what is meant by a *franchise*.** [2 marks]

This is a type of business organization where the owner keeps control. Each outlet of the business is owned by an individual who is allowed to use the name. The franchisee will usually receive a number of support services in return for paying royalties and fees to the franchisor.

Award [1 mark] for each reason identified plus [1 mark] for the development/explanation.

(ii) **Explain *one* advantage and *one* disadvantage of expanding through franchising.** [4 marks]

The advantages of being a franchisor include:

- large companies see it as a means of rapid expansion with the franchisee providing most of the finance
- if the franchise model works, then there are large profits to made from
 - selling franchises
 - royalty payments
 - selling raw materials and equipment.

The advantages of setting up as a franchisee include:

- the franchisee is given support by the franchisor. This includes marketing and staff training, so starting a business in this way requires less expertise and is less lonely
- the franchisee may benefit from national advertising and being part of a well-known organization with an established brand name, format and product
- less investment is required at the start-up stage since the franchise business idea has already been developed
- a franchise allows people to start and run their own business with less risk. The chance of failure among new franchises is lower as their product is a proven success and has a secure place in the market.

The disadvantages of setting up as a franchisee are:

- cost to buy franchise – can be very expensive (hundreds of thousands of pounds)
- you have to pay a percentage of your revenue to the business you have bought the franchise from
- you have to follow the franchise model, so less flexible. You would probably be told what prices to set, what advertising to use and what type of staff to employ.

Award [1 mark] for one advantage identified plus [1 mark] for the development/explanation and award [1 mark] for one disadvantage identified plus [1 mark] for the development/explanation.

- (b) **Using appropriate examples from the case distinguish between *objectives, strategies and tactics.*** **[6 marks]**

Objectives are the outcome(s) that you are trying to achieve; “Sue wanted her business to be recognized as the most socially responsible business on the planet”.

Strategies are, in a broad sense, how you are going to try to achieve your objective; using the franchise system.

Tactics are the day-to-day ways of supporting your strategy to achieve your objective; “constantly reviewed and modified the product range, and the campaigns that they supported so that it catered to consumer tastes”.

[4 to 6 marks]

Good understanding of all three concepts and the distinctions are made clear. Appropriate examples are provided.

[1 to 3 marks]

Some understanding of the concepts but the descriptions are unbalanced or vague. Distinctions are not made clear and examples are not appropriate or are not given at all.

- (c) **Analyse the advantages *and* disadvantages for *Clean Living* of setting ethical objectives.** **[8 marks]**

Potential advantages include:

- developing resources and capabilities that other firms do not have
- unique selling point
- public relations
- advertising
- consumer loyalty
- motivation
- recruitment
- fewer litigation claims.

Potential disadvantages:

- may not live up to consumer expectations or your own claims, which could lead to a consumer backlash
- higher costs (*e.g.* materials)
- may act as a constraint in decision-making
- objectives may be unrealistic/unachievable.

[6 to 8 marks]

Relevant advantages and disadvantages are analysed. The analysis is thorough and balanced. Several appropriate references are made to the case study.

[3 to 5 marks]

Relevant advantages and disadvantages are analysed. The analysis may lack detail and/or balance. Limited or no reference is made to the case study.

[1 to 2 marks]

For a general and descriptive response.

4. (a) Construct a cash flow forecast for the period January to April. [6 marks]

| | January | February | March | April |
|-------------------------------|------------------|------------------|-------------------|------------------|
| Sales – cash | 3 000 000 | 3 200 000 | 3 450 000 | 3 550 000 |
| Total inflow | 3 000 000 | 3 200 000 | 3 450 000 | 3 550 000 |
| Stock | 4 000 000 | 1 000 000 | 1 000 000 | 1 000 000 |
| Wages | 1 000 000 | 1 000 000 | 1 000 000 | 1 000 000 |
| Electricity | 200 000 | 200 000 | 200 000 | 200 000 |
| Rent | 100 000 | 100 000 | 100 000 | 100 000 |
| Other | 150 000 | 150 000 | 150 000 | 150 000 |
| Purchase of capital equipment | | | 4 000 000 | |
| Total outflow | 5 450 000 | 2 450 000 | 6 450 000 | 2 450 000 |
| Net cash flow | -2 450 000 | 750 000 | -3 000 000 | 1 100 000 |
| Opening balance | 3 500 000 | 1 050 000 | 1 800 000 | -1 200 000 |
| Closing balance | 1 050 000 | 1 800 000 | -1 200 000 | -100 000 |

[4 to 6 marks]

For a detailed and accurate cash flow, which has an appropriate layout.

[1 to 3 marks]

For a cash flow which has an appropriate layout, but has several errors and/or may lack detail.

Do not penalize a response more than once for errors that carry forward.

(b) Calculate the payback period for the project. [2 marks]

| | | | | | |
|--------------------|---------|---------|-----------|-----------|-----------|
| Project cost | | | | | |
| \$4 000 000 | | | | | |
| Net cash flow (\$) | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| | 500 000 | 500 000 | 2 400 000 | 2 000 000 | 2 000 000 |

The payback period is three years and $\left(\frac{600\,000}{2\,000\,000}\right) \times 12 = 3.6$ months or **3 years 4 months**

[2 marks]

For the correct answer.

[1 mark]

If the answer recognizes that the payback will occur in the third year.

- (c) **Explain how *Rodda plc* can be profitable but still experience cash flow difficulties.**

[4 marks]

A company will be profitable if the revenue is greater than the costs over a period of time *e.g.* one year. Cash flow difficulties arise if the outgoings are greater than the inflows and there is a shortage of cash. A cash flow problem arises in March and April, yet this project is very profitable over the five-year period. The problem arises because the firm has a short-term liquidity problem associated with the high cost of the capital expenditure, yet in the long-term seems very profitable.

[3 to 4 marks]

Clear understanding of the difference between cash flow and profit. Clear explanation linked to the case study.

[1 to 2 marks]

Some understanding of the difference between cash flow and profit. Limited or no reference is made to the case study.

- (d) **Discuss whether *Rodda plc* should take out a bank loan to fund the new project.**

[8 marks]

The problem with a bank loan is that it will expose the company to increases in interest rates. This issue could be addressed if they secure a fixed interest loan. The company is also highly geared, meaning that an increase in interest rates could expose them to a considerable increase in costs. The advantage of the bank loan is that they will not dilute their ownership and thus expose themselves to a takeover. One possibility would be to issue non-voting capital on the stock market, but this could be difficult in the climate described in the case study. The new project does seem very profitable so even though the loan would add to gearing, the marginal benefits seem greater than the marginal costs. One other option would be to sell assets, but this may seem drastic in this context.

[6 to 8 marks]

For a detailed and balanced discussion of whether *Rodda plc* should take out a bank loan to fund the new project. For **[8 marks]** a decision is made and the decision is consistent with the argument. Alternatively, the response may argue that the outcome depends on certain factors and their relative importance.

[3 to 5 marks]

For a limited discussion of the issues involved. Answer may lack depth and/or balance.

[1 to 2 marks]

For a general and descriptive response.

5. (a) **With reference to *Stir Fry*, explain the difference between *fixed costs* and *variable costs*.** **[4 marks]**

Fixed costs are those costs that do not vary with the quantity produced
e.g. rent, van and staff.

Variable costs are those costs that do vary directly with the quantity produced
e.g. electricity and paper plates.

[3 to 4 marks]

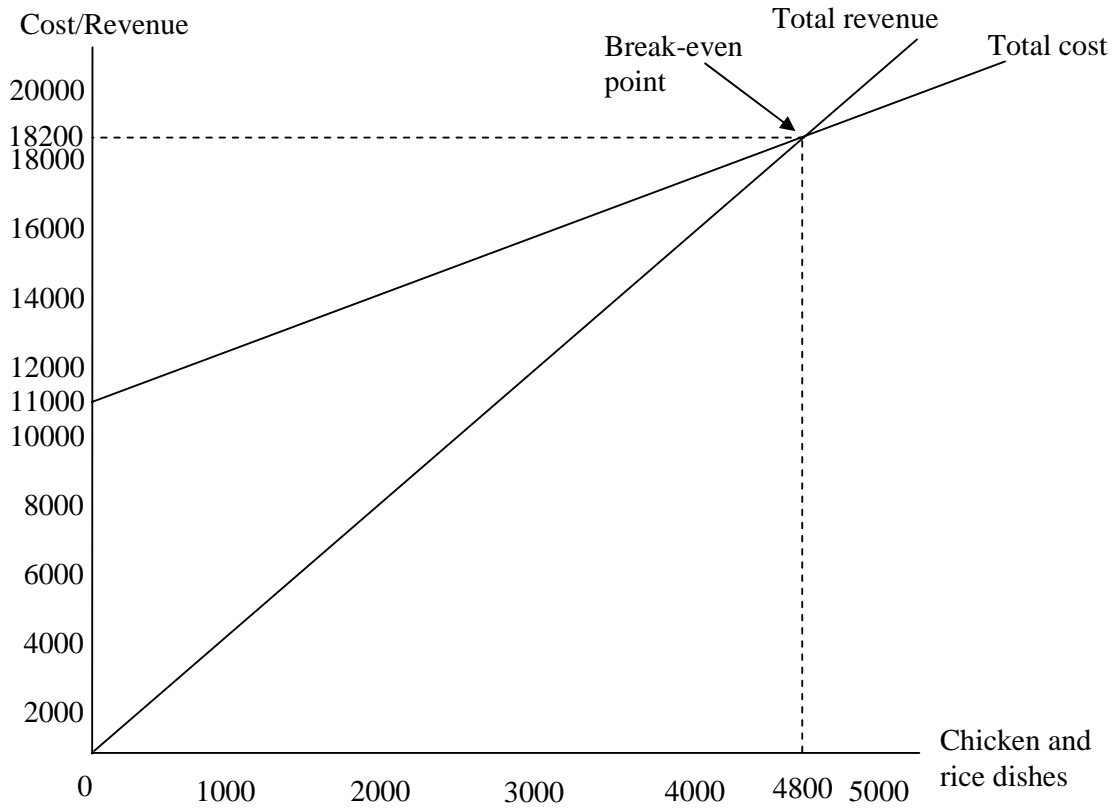
The difference between fixed and variable costs is explained. For **[4 marks]** reference is made to *Stir Fry*.

[1 to 2 marks]

The difference between fixed and variable costs is understood but the answer lacks detail. There may be little or no reference made to *Stir Fry*. There may be no reference to quantity.

- (b) Construct a break-even chart for *Stir Fry* and show the break-even level of output per month. [6 marks]

Break-even chart for *Stir Fry*



[4 to 6 marks]

For a detailed, neat and accurate break-even chart. The break-even level of output is identified correctly.

[1 to 3 marks]

For a generally correct answer. The chart may lack detail, neatness or accuracy and/or the break-even level of output is identified incorrectly.

- (c) **Calculate the margin of safety if 6000 dishes of chicken and rice are sold per month. (Show your working)** **[2 marks]**

The break-even level is:
fixed costs divided by contribution

$$\frac{12\,000}{(4-1.5)} = 4800 \text{ dishes}$$

margin of safety is therefore $6000 - 4800 = 1200$ dishes.

Award **[2 marks]** for correct answer. Award **[1 mark]** if there is evidence of some understanding of margin of safety.

- (d) **Based on the information provided, recommend which strategy Mr Tong should adopt to expand the business.** **[8 marks]**

The problem with market expansion is that Mr Tong will need to set up new stalls away from his current location. This will present logistical problems. The advantage is that he will be able to use his current expertise albeit in a new location(s) closer to some of their loyal customers. If he cuts the price, he may not see revenue rise – especially if demand is inelastic.

The problem with new product development is that he has no real expertise and no evidence that customers will want to buy the new product offering. There is, however, a stall available nearby, so logistical problems are less.

The final outcome depends on how important these relevant factors are.

[6 to 8 marks]

For a detailed and balanced discussion of the issues involved and direct reference to the case study. For **[8 marks]** a decision is made and is consistent with the argument. Alternatively, the response may argue that the outcome will depend on the relative importance of the factors identified.

[3 to 5 marks]

Some understanding and discussion of the issues involved and some reference to the case study though this may be limited at the lower end of the band. Answer may lack balance and/or depth.

[1 to 2 marks]

For a limited and general response.
