



MARKSCHEME

May 2008

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

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1. (a) Describe *two* advantages and *two* disadvantages to *Organix* of “converting from a partnership to a limited company” (*line 155*). [8 marks]

Advantages include:

- limited liability
- capacity to raise capital through sale of shares
- legal entity (incorporation) ensures continuity
- tight control for Max and Terry if they keep the majority of the shares.

Disadvantages include:

- complex set up procedures
- it takes time and money to set up a company
- possible restriction on amount of capital raised
- loss of privacy – information about the firm becomes publicly available.
- if one shareholder wants to sell shares it might be difficult to find a buyer.

Other relevant advantages and disadvantages should be given credit.

Award [1 mark] for each correct advantage or disadvantage (with a maximum of two advantages and two disadvantages). Award an extra [1 mark] for a description/development of that advantage or disadvantage.

- (b) Evaluate *one* possible source of finance available to *Organix* to fund the construction of the holiday cottages and *one* source of finance for their day-to-day operations. [8 marks]

Potential sources of finance can be classified as internal or external and borrowed for a short, medium or long term. Finance required to fund the holiday cottages is likely to be of a long-term nature in that the useful life of the cottages will be many years and the funds they generate for repayment occur over an extended period of time. However, for the cottages, *Organix* will require furniture and appliances, the useful life of which will be medium term (approximately 3 to 5 years). *Organix* may also require an increase in the availability of working capital as well, to fund additional overheads and expenses, such as payment for engineers and craftsmen.

Internal:

- retained profit
- management of working capital *e.g.* reduction of stocks or sale of other assets, such as hectares of land.

External:

- capital investment by Terry and Max
- capital investment by a new partner or, if the organization becomes a limited company, sale of shares
- debentures
- mortgages
- loans or overdraft.

Long-term finance: *Five years plus.* Used to purchase long-term assets (holiday cabins).

- capital infusion – in the form of capital contribution of partners or sale of shares (if the organization becomes a limited company)
- 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
- *any other relevant point.*

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

- overdraft
- trade credit – payment for items delayed for one-to-three months
- debt factoring – the firm sells its debtors to specialist companies for less than their face value, but for instant liquidity
- *any other relevant point.*

Medium-term finance: *Three to five years.* Used to purchase assets such as furniture and equipment).

- bank loan repaid in instalments
- hire purchase – used to buy assets and equipment *e.g.* machinery
- leasing – equipment is rented with the option to buy later. Ownership remains with leaser, who is responsible for maintenance
- *any other relevant point.*

[7 to 8 marks]

Candidate identifies one appropriate source of long-term finance probably available to *Organix* to fund the holiday cottages and one appropriate source of finance probably available to fund day-to-day operations. Not only should these sources of finance be appropriate, the candidate thoroughly evaluates the advantages and disadvantages of these sources.

[5 to 6 marks]

Candidate identifies one appropriate source of long-term finance probably available to *Organix* to fund the holiday cottages and one appropriate source of finance probably available to fund day-to-day operations. Although these sources of finance are appropriate, the candidate's evaluation of them might not be complete or balanced.

[3 to 4 marks]

At the upper end, candidate identifies one appropriate source of long-term finance probably available to *Organix* to fund the holiday cottages and one appropriate source of finance probably available to fund day-to-day operations. However, the candidate's evaluation of the sources is limited and tends toward description or the evaluation lacks balance.

At the lower end, the candidate has correctly identified either an appropriate source of long-term finance probably available to *Organix* to fund the holiday cottages **or** one appropriate source of finance probably available to fund day-to-day operations, but with the other source of finance the candidate's answer response is not fully appropriate (a long-term source of finance not realistically available to *Organix*, like a bond issue, or some mismatch between borrowing need and finance source, like a three-to-five year loan for a seasonal borrowing need).

[1 to 2 marks]

The candidate's response indicates some understanding of the concept of "source of finance", but otherwise is a general and limited response indicating little understanding of various types of finance or their differing purposes.

2. (a) **Define the term *high staff turnover*.** **[2 marks]**

Staff turnover refers to the number of staff who leave an organisation in a given period of time, usually a year. It is calculated by the formula:

$$\frac{\text{Number of staff leaving per year}}{\text{Average number of staff}} \times 100$$

For *Organix*, as for any business, a high staff turnover rate is a worrying sign: it shows that an above-average number of staff regularly leave.

[2 marks]

A clear definition which shows a good understanding of the concept of ‘high staff turnover’. The definition may be supported by a formula or a description of its elements using a proportion or percentage, and indication of the analytical usefulness of the concept.

[1 mark]

A general statement indicating that many staff are leaving *Organix*. Reference to the formula is not necessary.

(b) **Explain *two* consequences of a high staff turnover at *Organix*.** **[6 marks]**

Most of the consequences are likely to be negative:

- poor morale among remaining staff and possible increased workloads
- costs of recruiting and training new staff
- bad public relations possibly affecting the image of *Organix*
- increased risks of legal action against *Organix*.

There may, however, be some positive aspects:

- new blood and ideas may be introduced
- better staff than those presently at *Organix* may be recruited
- restructuring the existing workforce may be possible.

[5 to 6 marks]

Candidate thoroughly explains two consequences of high staff turnover relevant to the circumstances at *Organix*.

[3 to 4 marks]

Candidate explains two consequences of high staff turnover. Although the consequences are relevant to *Organix*, the candidate’s explanation is incomplete. At the lower end, the candidate has correctly identified two consequences of high staff turnover but only explained one of them.

[1 to 2 marks]

Award **[1 mark]** for each correctly identified consequence of high staff turnover, up to **[2 marks]**. Consequences may be listed rather than explained and consequences may lack relevance.

- (c) **Analyse possible non-monetary approaches available to Alison Moldano, Human Resource Manager, to reduce the high staff turnover in the restaurant.**

[8 marks]

The high staff turnover could be the result of Terry's autocratic style and the poor terms and conditions of employment. While changes to style of leadership in the organization might make an impact on staff turnover, it seems unlikely that Terry, at least, will change his assumptions about their workers or his autocratic leadership style. Given the strained financial condition of the firm at present and Max's skepticism that financial rewards are the answer, it seems that Alison Moldano needs to consider non-monetary approaches to reduce staff turnover.

Non-monetary approaches include:

- job design, job flexibility, and job satisfaction
- job rotation
- job enlargement
- job enrichment
- group working
- empowerment
- training, multi-skilling and staff development
- recognition
- appraisal.

The balance of rewards will need to be judged against the likely costs and benefits and whether Max sees the staff turnover as a problem. If staff members are relatively unskilled, then the cost of replacement may be far lower than the additional reward package.

[7 to 8 marks]

A range of possible non-monetary approaches are presented and analysed. They are both appropriate and applied. Examples from the case study are used to support the response.

[5 to 6 marks]

Some possible non-monetary approaches are presented and analysed. They are appropriate, but not clearly applied, or the range may be limited.

[3 to 4 marks]

Some non-monetary approaches are identified. They may be generic, theoretical or hardly appropriate for *Organix*.

[1 to 2 marks]

The answer shows a limited understanding of the concept of "non-monetary approaches" or some confusion.

3. (a) (i) Define the term *branding*. [2 marks]

Branding is an essential part of marketing. A brand is an identifying symbol, words, or mark that distinguishes a product or company from its competitors. The brand will have its own related customer perception as customers associate the brand with certain qualities. Usually brands are registered (trademarked) with a regulatory authority and so cannot be used freely by other parties.

[2 marks]

A clear definition of the term that shows a good understanding of its meaning, for example by referring to brand characteristics or brand identity.

[1 mark]

A definition that shows some understanding of the term but may lack in detail or depth.

(ii) Explain *one* advantage and *one* disadvantage for *Organix* of marketing all its products under a single brand. [4 marks]

Advantages include:

- Customers can develop brand loyalty
- Promotion may be easier, with economies of scale.

Disadvantages include:

- A bad experience with any product from the brand may deter consumers from buying any other product from that brand
- Diversification may be more difficult.

Other relevant advantages and disadvantages should be given credit.

[4 marks]

Identification and explanation of both one advantage and one disadvantage of marketing the products under a single brand. There must be a clear reference to *Organix* for both.

[3 marks]

Identification of one advantage and one disadvantage with a good explanation of one of them; some reference to *Organix*.

[1 to 2 marks]

[1 mark] for identification of an advantage and *[1 mark]* for identification of a disadvantage, but no explanation is provided. If a candidate identifies an advantage *or* a disadvantage and explains it thoroughly, award *[2 marks]*.

- (b) **Analyse primary and secondary sources of market research that *Organix* can use to gather additional information on people’s attitudes toward organic produce.**

[8 marks]

The market for organic products is relatively new, so economic and market information is needed to determine people’s attitudes toward organic produce. Market research may be primary or secondary.

Primary

Questionnaires, observation, surveys, focus groups – 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.

Organix 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 trade associations and organic farmer cooperatives may provide some information. Primary data will be more difficult to gather given that *Organix* is a small, family-owned and operated organization. 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, *Organix* will be able to use this information as the basis for setting the marketing mix. This will include advisability of marketing all of the different arms of the business under one brand, the locations of new farms shops, the level of pricing of products, the focus for promotion and suitable advertising media, and the specifications of the products themselves.

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

[7 to 8 marks]

There is a detailed analysis of the types of market research that *Organix* can use to gather data to determine people's attitudes toward organic produce. Candidate identifies primary and secondary methods and their appropriateness to the situation. The answer is precisely applied to the case study.

[5 to 6 marks]

There is some analysis of the types of market research that *Organix* can use to determine people's attitudes toward organic produce. The candidate identifies primary and secondary methods of market research methods. The answer includes relevant references to the case study. At the lower end of the band the response tends more to description.

[3 to 4 marks]

Some market research methods are considered, but the response tends to description or listing or just theory. There is limited or inappropriate reference to the case study.

[1 to 2 marks]

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

4. (a) Prepare a SWOT analysis for *Organix*.

[6 marks]

Strengths

- *Organix* meets organic quality standards and can use the term “organic” officially
- organic label permits selling products at a premium
- breadth of product range
- core business activity suitable for asset-based marketing approach
- high margins on products sold directly to retail customers
- piloted farm shop is successful.

Weaknesses

- seasonal products
- unpredictability of selling prices
- two principals have significantly different attitudes toward risk
- restaurant operation deteriorating
- insufficient managerial accounts to analyse by cost centres
- high staff turnover
- weak financial condition
- the partnership is a liability.

Opportunities

- growing interest in fresh, organic produce
- increase in local and global demand for fresh, organic produce
- planning permission has already been granted so they could expand
- changes in lifestyle and consumer behaviour: more health-conscious customers ready to pay premium price.

Threats

- large supermarket chains are lobbying the government to make acquisition of “organic” label easier
- increased demand for organic foods could attract major farm operations to the market, increasing competition
- banks reluctant to lend
- volatile market prices and conditions.

This list is not exhaustive. Other appropriate and relevant reasons should also be credited.

[5 to 6 marks]

A relevant SWOT analysis covering all four areas. At least one point per section is raised, adequately explained and related to the case study. (Strengths and weaknesses are internal and opportunities and threats relate to the external environment only).

[3 to 4 marks]

The SWOT analysis is appropriate to *Organix*, but less detailed and balanced towards the lower end of the band, and there may be some misclassification.

[1 to 2 marks]

A limited and general response.

- (b) **Using your SWOT analysis, discuss the options available to Max and Terry as they consider the farm's future.**

[8 marks]

Max proposes diversification of products and going into a range of operations (restaurants, farm shops, vacation destination). Risk-averse, Terry wants to focus on core activities.

The arguments in favour of expansion/diversification are:

- spreading the risk over more income streams
- diversification will increase consumer awareness
- the retail shop(s) will allow them to target different markets
- lines of operation are complementary, allowing for vertical integration and synergies
- retail shop(s) allow selling products other than their own, increasing the potential size of the firm.

The arguments against expansion/diversification are:

- risk of spreading too thin
- lack of expertise (for example, in the restaurant business)
- loss of focus
- loss of identity.

N.B. Candidates should be credited where they have assessed points raised in the SWOT in the part (a) even if these were misclassified or inappropriate to that part.

[7 to 8 marks]

The discussion is detailed, relevant, and complete. Drawing on issues raised in the SWOT analysis, the candidate addresses both reasons for and against the major options available to Terry and Max.

[5 to 6 marks]

The assessment is generally relevant though at the lower end of the band it may be less balanced (heavy emphasis on a limited range of options for future or emphasis on only the positives or negatives). There may be limited reference to the SWOT.

[3 to 4 marks]

The assessment has some relevance, but the candidate does not refer to the issues raised in the SWOT analysis. The answer tends toward the description of a limited range of options and conveys limited understanding of choices available to Terry and Max.

[1 to 2 marks]

A limited and general response.
