



MARKSCHEME

November 2008

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

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1. (a) **Define the term *mission statement*.** [2 marks]

A mission statement is a clear and succinct representation of the enterprise's purpose for existence. It should incorporate socially meaningful and measurable criteria addressing concepts such as the moral/ethical position of the enterprise, public image, the target market, products/services, the geographic domain and expectations of growth and profitability.

The intent of the mission statement should be the first consideration for any employee who is evaluating a strategic decision. The statement can range from a very simple to a very complex set of ideas.

Award [2 marks] for a clear definition. Award [1 mark] if some understanding is evident.

(b) **Explain *two* human resource benefits for *Temasek Holdings* of ethical and socially responsible conduct.** [4 marks]

Potential benefits include:

- **Recruitment:** employees may feel more inclined to work for a socially responsible organization
- **Retention:** employees may feel more inclined to stay with a socially responsible organization
- **Motivation:** employees may feel more motivated working for a socially responsible organization
- **Decision making:** employees may feel decision making is easier/clearer if they know what the organization stands for
- **Goodwill:** employees may feel more inclined to participate in fund raising events or may speak highly of their employer, providing good Public Relations.

The above factors will lower costs and/or increase productivity or increase sales of their products.

Award [1 mark] for each identified benefit up to a maximum of [2 marks] and [1 mark] for explaining how it could benefit *Temasek Holdings* up to a maximum of [2 marks]. Maximum mark is [4 marks].

- (c) **With reference to *Temasek Holdings*, explain how objectives, strategies and tactics interrelate.**

[6 marks]

Objectives are what the organization is trying to achieve; “create and maximize shareholder value”.

Strategies are broadly the ways and means of achieving those objectives: “manage a global portfolio of shares”.

Tactics are the smaller details – day-to-day ways and means of achieving objectives: “buy and sell shares on a daily basis”.

Clearly the strategies and tactics are ways of achieving the business objectives.

[5 to 6 marks]

Concepts clearly understood. Correct application to *Temasek Holdings* and explanation of how objectives, strategies and tactics interrelate.

[3 to 4 marks]

Good understanding of concepts evident, but application to *Temasek Holdings* and explanation of how objectives, strategies and tactics interrelate may lack some accuracy or detail.

[1 to 2 marks]

Some understanding of concepts evident. Application to *Temasek Holdings* and explanation of how objectives, strategies and tactics interrelate is attempted but is vague or confused.

- (d) **Discuss how *Temasek Holdings* could maximize shareholder value through the management of its portfolio. Your answer should consider how *Temasek Holdings* identifies attractive industries and successful enterprises.**

[8 marks]

Temasek Holdings could identify attractive industries based on:

- market size
- market growth rate
- market profitability
- pricing trends
- rivalry
- risk
- entry barriers
- opportunities for product differentiation
- demand variability
- segmentation
- distribution structure
- technology development.

Temasek Holdings could identify successful enterprises based on:

- strength of assets
- brand strength
- market share
- market share growth
- customer loyalty
- relative cost position
- relative profit margins
- distribution strengths
- record of innovation
- quality
- access to financial resources
- management strength.

Candidates should discuss several of the above factors in a balanced fashion.

[6 to 8 marks]

Detailed discussion of how *Temasek Holdings* could maximize shareholder value through the management of its portfolio. The answer considers how *Temasek Holdings* could identify attractive industries and successful enterprises using several of the above factors in a balanced way.

[3 to 5 marks]

Discussion of how *Temasek Holdings* could maximize shareholder value through the management of its portfolio, but the answer may lack detail or balance. The answer considers how *Temasek Holdings* could identify attractive industries and successful enterprises using several of the above factors.

[1 to 2 marks]

Some understanding of how *Temasek Holdings* could maximize shareholder value through the management of its portfolio, but the answer lacks detail. The answer may have some idea how *Temasek Holdings* could identify attractive industries and/or successful enterprises.

2. (a) **Identify *two* types of primary market research.**

[2 marks]

Primary market research involves getting original data directly about a product and market. Primary research data is data that did not exist before. It is designed to answer specific questions of interest to the business, for example:

- **Face-to-face interviews** – interviewers ask people on the street or on their doorstep a series of questions.
- **Telephone interviews** – similar questions to face-to-face interviews, although often shorter.
- **Online surveys** – using email or the Internet. This is an increasingly popular way of obtaining primary data and much less costly than face-to-face or telephone interviews.
- **Questionnaires** – sent in the post (for example a customer feedback form sent to people who have recently bought a product or service).
- **Focus groups and consumer panels** – a small group of people meet together with a researcher and provide an insight into consumer attitudes.

Award **[1 mark]** for each correct type of primary research identified up to a maximum of **[2 marks]**. No development is needed.

(b) **Explain the role of market research when setting up a new fast food business.**

[4 marks]

Market research is the process of systematically gathering, recording and analysing data about customers, competitors and the market. Market research can help create a business plan, launch a new product or service, fine tune existing products and services, expand into new markets *etc.* It can be used to determine which portion of the population will purchase the product/service, based on variables like age, gender, location and income level. It can be found out what market characteristics a target market has. With market research *Burger Bar* can learn more about current and potential customers.

The purpose of market research is to help *Burger Bar* make better business decisions about the development and marketing of new products. Market research represents the voice of the consumer in a company.

A list of questions that can be answered through market research:

- What is happening in the market? What are the trends? Who are the competitors?
- How do consumers talk about the products in the market?
- Which needs are important? Are the needs being met by current products?

[3 to 4 marks]

The answer explains the role of market research when setting up a new fast food business.

[1 to 2 marks]

Some understanding of the role of market research when setting up a new fast food business.

(c) **Construct a break-even chart based on the above information. Your chart should show:**

- the break-even output
- the margin of safety if 150 000 burgers are sold.

[6 marks]

[5 to 6 marks]

Clear break-even chart showing:

- the break-even output
- the margin of safety (50 000 burgers).

The chart is correctly labelled, neat and accurate.

[3 to 4 marks]

Break-even chart showing:

- the break-even output
- the margin of safety may not be identified at all or is incorrect.

The chart may not be correctly labelled, or is not neat or accurate.

[1 to 2 marks]

Some attempt to draw a break-even chart:

- the break-even output may not be identified at all or is incorrect
- the margin of safety may not be identified at all or is incorrect.

The candidate may have worked out the correct answers but has not drawn the chart.

(d) **To what extent can this break-even analysis *alone* be used to support the application for a bank loan?**

[8 marks]

- Most small start-ups are funded through personal resources: savings, loans from family, friends, other investors; home equity loans; cash value of life insurance.
- Banks will lend to some business start-ups if they are satisfied with the business plan; the level of experience; credit history of owners; and the collateral you have to pledge to the loan. The bank will also require that the owners put up a significant proportion of the funds themselves.

[6 to 8 marks]

Candidate has considered the various factors listed above that the bank will consider. Clearly the break-even analysis alone will not count for much. The bank will base their decision on the above factors; especially the business plan and collateral. The answer considers the extent to which this break-even analysis alone can be used to support the application for a bank loan. The answer is detailed and balanced. A conclusion is made based on logic and reason.

[3 to 5 marks]

Candidate has considers some of the factors that the bank will consider. The answer considers the extent to which this break-even analysis alone can be used to support the application for a bank loan. The answer is detailed and balanced. A conclusion is reached, which is consistent with the discussion.

[1 to 2 marks]

The answer identifies some of the factors that the bank will consider to support the application for a bank loan. The answer may lack detail and balance. A conclusion may be made but may not be supported.

3. (a) Define the term *market segment*. [2 marks]

A market segment is a subgroup within a market – for example the car market has subgroups, including family cars, sports cars, luxury cars *etc.*

Award [2 marks] for a clear definition. Award [1 mark] if some understanding is evident.

(b) Construct a fully labelled product life cycle diagram for *Dr. Martens* from 1947 to the present day. [4 marks]

The main stages of the product life cycle are:

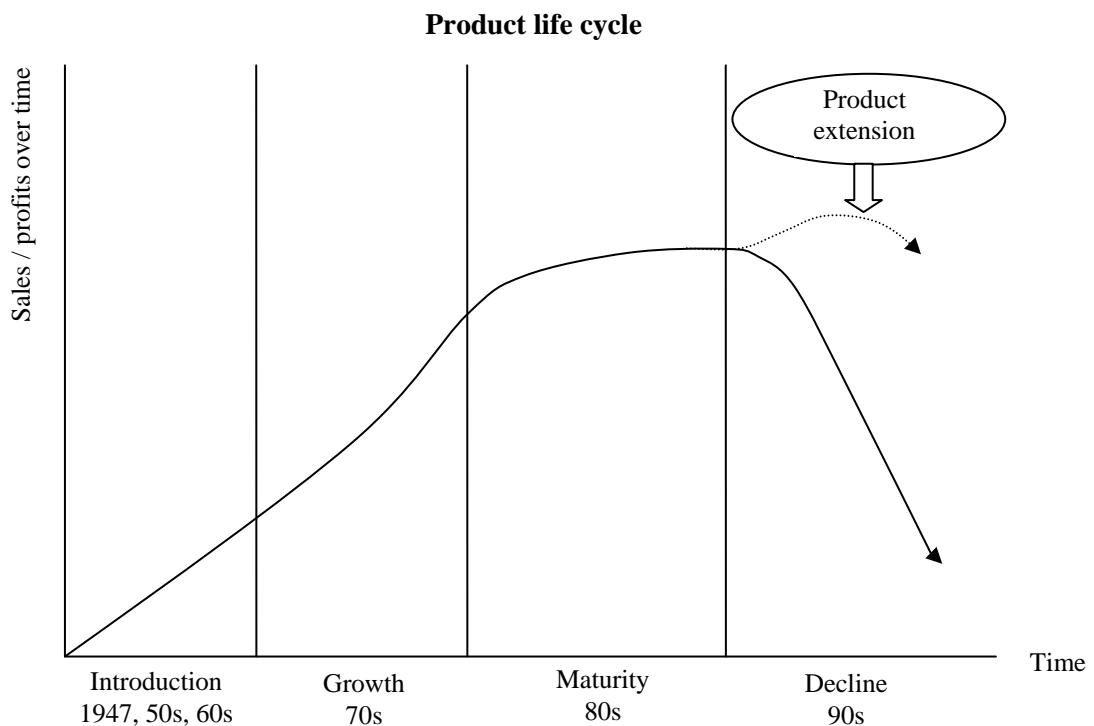
- Introduction – researching, developing and then launching the product.
- Growth – when sales are increasing at their fastest rate.
- Maturity – sales are near their highest, but the rate of growth is slowing down, *e.g.* new competitors in market or saturation.
- Decline – final stage of the cycle, when sales begin to fall.

[3 to 4 marks]

A fully labelled product life cycle diagram for *Dr. Martens* from 1947 to the present day is constructed with the correct dates. Diagram identifies early stages as slow growth then steady growth in the 50s. 60s and 70s: rapid growth. In the 80s and 90s: the beginning of the decline.

[1 to 2 marks]

A product life cycle diagram for *Dr. Martens* from 1947 to the present day is constructed but there may be several errors/omissions.



- (c) **With reference to *Dr. Martens*, comment on the value of market segmentation.**

[6 marks]

Market segmentation is the process in marketing of dividing a market into distinct subsets (segments) that behave in the same way or have similar needs. Because each segment is fairly homogeneous in their needs and attitudes, they are likely to respond similarly to a given marketing strategy. That is, they are likely to have similar feelings and ideas about a marketing mix comprised of a given product or service, sold at a given price, distributed in a certain way and promoted in a certain way.

The potential benefits of market segmentation for *Dr. Martens* are:

- price discrimination
- establish a unique selling proposition
- target markets and selling efforts
- tailor the marketing mix for each segment.

[5 to 6 marks]

A detailed commentary on the value of market segmentation. Meaningful reference is made to the different markets *Dr. Martens* caters to – or could cater to.

[3 to 4 marks]

A commentary on the value of market segmentation. Appropriate reference is made to the different markets *Dr. Martens* caters to – or could cater to.

[1 to 2 marks]

Some understanding of the value of market segmentation is evident. Some reference may be made to the different markets *Dr. Martens* caters to – or could cater to.

- (d) **With reference to the product life cycle, evaluate *two* alternative extension strategies that *Dr. Martens* could introduce.**

[8 marks]

Extension strategies extend the life of a product before it goes into decline. Businesses use marketing techniques to improve sales. Examples of the marketing techniques include:

- **Advertising** – try to gain a new audience or remind the current audience. However, success will depend on factors such as the consumer loyalty to sports footwear brands.
- **Price reduction** – more attractive to customers, but the success will depend upon the price elasticity of demand.
- **Adding value** – add new features to the current product. However, there may not be a great deal of scope to do this with footwear.
- **Explore new markets** – try selling abroad. However, it may take time and effort to establish a position.
- **Brand Ambassadors** – try to get famous sports, fashion, music celebrities to adopt/endorse your product. This is likely to be costly, and long-term. It is likely that your rivals are already doing this (especially *Nike* and *Adidas*).
- **New packaging** – brightening up old packaging, or subtle changes. However, this is unlikely to have a major impact on *Dr. Martens*.

[6 to 8 marks]

Candidate evaluates alternative extension strategies *Dr. Martens* can introduce. Specific reference is made to the particular challenges *Dr. Martens* faces.

[3 to 5 marks]

Candidate identifies and discusses alternative extension strategies *Dr. Martens* can introduce. However, specific reference is not made to the particular challenges *Dr. Martens* faces.

[1 to 2 marks]

Candidate identifies alternative extension strategies *Dr. Martens* can introduce. The strategies are described and little or no attempt is made to relate the strategies to the challenges faced by *Dr. Martens*.

4. (a) **Define the term *globalization*.** **[2 marks]**

Globalization refers to increasing global connectivity, integration and interdependence in the economic, social, technological, cultural, political, and ecological spheres.

Award **[2 marks]** for a clear definition. Award **[1 mark]** if some understanding is evident.

- (b) **Explain *two* consequences of globalization for *Tata Group*.** **[4 marks]**

Consequences include:

Wages – supply and demand for labour will increase (*e.g. Tata Group* employees can go and work overseas, and overseas employees can work for *Tata Group*).

Competition – intensifies, especially in formerly protected markets.

Marketing issues – (price/product/promotion/distribution).

Materials – more sources, but also greater demand.

Technology – access to better, faster and cheaper technology.

Award **[1 mark]** for each consequence up to a maximum of **[2 marks]** and a further mark for each explanation up to a maximum of **[2 marks]**. Maximum mark is **[4 marks]**.

- (c) **Comment on *two* consequences for the Bangladesh economy as a result of *Tata Group's* “\$2.5 billion investment in the country”.** **[6 marks]**

Possible consequences for the Bangladesh economy include:

- growth
- employment
- inflation
- balance of payments.

Other issues include supply side factors (improved factors of production) and/or demand side factors (higher aggregate demand).

Award **[1 mark]** for each consequence up to a maximum of **[2 marks]** and up to an additional **[2 marks]** for each commentary on the consequence up to a maximum of **[4 marks]**.

- (d) Evaluate *two* strategies available to *Tata Group* to enter international markets.

[8 marks]

Answers may include:

- evolutionary
- takeover
- merger
- joint venture
- strategic alliance
- franchise
- licensing.

Each method would need to be evaluated in terms of the speed, cost, degree of control, importance of local knowledge, impact of local laws as well as ease of withdrawing should the strategy fail. It is also worth considering ethical issues given that *Tata Group* donates two thirds of its profits to charities.

[6 to 8 marks]

Evaluates two strategies available to *Tata Group* to enter international markets. The evaluation is thorough and detailed. Specific reference is made to *Tata Group*.

[3 to 5 marks]

Candidate identifies and discusses two strategies. The answer may lack an evaluation, or the evaluation is not supported with reasons.

[1 to 2 marks]

Some understanding of two strategies available to *Tata Group* is evident. Answer tends to be descriptive, with little or no assessment of the relative merits of each strategy.

5. (a) **Define the term *product branding*.** [2 marks]

Product branding is the process undertaking activities that establish a brand or brand identity.

A brand is a name, logo, slogan, and/or design scheme associated with a product or service. Brand recognition and other reactions are created by the use of the product or service and through the influence of advertising, design, and media commentary. A brand is a symbolic embodiment of all the information connected to the product and serves to create associations and expectations around it. A brand often includes a logo, fonts, colour schemes, symbols, and sound, which may be developed to represent implicit values, ideas, and even personality.

Award [2 marks] for a clear definition. Award [1 mark] if some understanding is evident.

(b) **Explain why *Rizzo Fashions* needs working capital.** [4 marks]

The working capital of a business is:

Working Capital = Current Assets – Liabilities

Positive working capital means that the company is able to pay off its short-term liabilities. Negative working capital means that a company currently is unable to meet its short-term liabilities with its current assets (cash, accounts receivable, inventory).

If *Rizzo Fashions* has low working capital it may struggle to make its day-to-day payments such as wages, electricity bills or suppliers bills. This could have very serious consequences for the day-to-day operations of the business.

[3 to 4 marks]

A good understanding of working capital is evident and the answer clearly explains why *Rizzo Fashions* needs working capital.

[1 to 2 marks]

Some understanding of working capital is evident. The answer attempts to explain why *Rizzo Fashions* needs working capital.

(c) Use the data above to construct a cash flow forecast from January to June 2009.

[6 marks]

	January	February	March	April	May	June
Sales	100 000	110 000	121 000	133 100	146 410	161 051
Cash received	60 000	66 000	72 600	79 860	87 846	96 630.6
40% received one month later	0	40 000	44 000	48 400	53 240	58 564
Total cash	60 000	106 000	116 600	128 260	141 086	155 195
Electricity	10 000	10 000	10 000	10 000	10 000	10 000
Telephone		22 500		22 500		
Advertising	15 000	15 000	15 000	15 000	15 000	15 000
Office rent			30 000			
Finance charge	5 000	5 000	5 000	5 000	5 000	5 000
Opening balance	50 000	80 000	133 500	190 100	265 860	376 946
Total cash inflow	60 000	106 000	116 600	128 260	141 086	155 195
Outflows	30 000	52 500	60 000	52 500	30 000	30 000
Net cashflow	30 000	53 500	56 600	75 760	111 086	125 195
Closing balance	80 000	133 500	190 100	265 860	376 946	502 141

[5 to 6 marks]

For an accurate and neatly presented cash flow forecast. Award [5 marks] for up to two minor miscalculations or omissions.

[3 to 4 marks]

For a cash flow forecast that is essentially correct. Several errors may be present, but the general idea and presentation are correct. Do not “double penalize” a candidate if the mistake carries forward.

[1 to 2 marks]

An attempt is made to construct a cash flow forecast. Many errors may be present, do not “double penalize” a candidate if the mistake carries forward.

- (d) **Discuss the advantages *and* disadvantages of the alternative forms of financing the new product range that Antonio is considering.**

[8 marks]

The methods of financing under consideration are:

- bank loan secured against family home
- issue new shares.

Each method needs to be discussed with reference to:

- **risk** (*e.g.* using the family home as collateral)
- **cost** (*e.g.* variable interest charges)
- **control** (at the moment all shares are owned by the family)
- **administration** (*e.g.* how long will it take to get a loan)
- **gearing** (what is the current level of gearing).

[6 to 8 marks]

The advantages and disadvantages of the alternative forms of financing are both fully discussed.

[3 to 5 marks]

The advantages and disadvantages of the alternative forms of financing are discussed, but the discussion may lack breadth and/or depth and balance.

[1 to 2 marks]

The advantages and/or disadvantages of the alternative forms of financing are considered, but the discussion tends to be descriptive.
