



# **MARKSCHEME**

**May 2009**

**BUSINESS AND MANAGEMENT**

**Standard Level**

**Paper 2**

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A		Section B			Level descriptors
Q1 (c)	Q2 (d)	Q3 (c)	Q4 (c)	Q5 (c)	
Marks 0–6		Marks 0–5			
0		0			<ul style="list-style-type: none"> <li>• No knowledge or understanding of relevant issues, concepts and theories.</li> <li>• No use of appropriate terminology.</li> </ul>
1–2		1–2			<ul style="list-style-type: none"> <li>• Little knowledge and understanding of relevant issues, concepts and theories.</li> <li>• Little use of appropriate terminology.</li> <li>• No reference is made to the information in the stimulus material. The response is mainly theoretical.</li> </ul>
3–4		3–4			<ul style="list-style-type: none"> <li>• A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories.</li> <li>• Some use of appropriate terminology.</li> <li>• Some reference is made to the information in the stimulus material, not just to the name of the organization.</li> </ul>
5–6		5			<ul style="list-style-type: none"> <li>• A balanced analysis/examination with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories.</li> <li>• An analysis/examination that uses appropriate terminology throughout the response.</li> <li>• Explicit references are made to the information in the stimulus material.</li> </ul>

<b>Section B</b>			<b>Level descriptors</b>
<b>(d) questions</b>			
<b>Q3 (d)</b>	<b>Q4 (d)</b>	<b>Q5 (d)</b>	
<b>Marks 0–7</b>			
<b>0</b>			<ul style="list-style-type: none"> <li>• No knowledge or understanding of relevant issues, concepts and theories.</li> <li>• No use of appropriate terminology.</li> </ul>
<b>1–2</b>			<ul style="list-style-type: none"> <li>• Little knowledge and understanding of relevant issues, concepts and theories.</li> <li>• Little use of appropriate terminology.</li> <li>• No evidence of judgments and/or conclusions.</li> <li>• No reference is made to the information in the stimulus material.</li> </ul>
<b>3–4</b>			<ul style="list-style-type: none"> <li>• A description with some knowledge and/or understanding of issues and concepts.</li> <li>• Some use of appropriate terminology.</li> <li>• No evidence of judgments and/or conclusions.</li> <li>• Some reference is made to the information in the stimulus material, not just to the name of the organization.</li> <li>• The response is mainly theoretical.</li> </ul>
<b>5–6</b>			<ul style="list-style-type: none"> <li>• A response with relevant knowledge and understanding of relevant issues, concepts and theories.</li> <li>• A response that uses relevant and appropriate terminology.</li> <li>• Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding.</li> <li>• Explicit references to the information in the stimulus material are made at places in the response.</li> </ul>
<b>7</b>			<ul style="list-style-type: none"> <li>• A response with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories.</li> <li>• A response that uses appropriate terminology competently throughout the response.</li> <li>• A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis.</li> <li>• Explicit references to the information in the stimulus material are made throughout the response.</li> </ul>

**SECTION A**

**1. (a) Define the following terms:**

**(i) *franchise***

**[2 marks]**

In business, a franchise refers to an agreement whereby an organization (the franchisor) sells rights to other organizations (franchisees) that allow them to sell products or use or trade under the franchisor's name. Franchising typically involves either retail outlets that share a brand and central management or a right to sell branded merchandise.

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding such as simply mentioning a franchise refers to an agreement whereby an organization (the franchisor) sells rights to other organizations (franchisees).

Award **[2 marks]** for a full, clear definition, which would include both (a) drawing a distinction between the franchisor and the franchisee and (b) providing some characterization of what franchising typically involves (franchising typically involves either retail outlets that share a brand and central management or a right to sell branded merchandise) or an appropriate example of a well-known franchise operation.

**(ii) *economies of scale.***

**[2 marks]**

Economies of scale are the advantages in cost that firms obtain as they grow. In traditional manufacturing firms, this meant that in the long run, these cost advantages reduced the average unit cost of production. These advantages can include economies of scale in purchasing (buying of ever larger quantities of materials), in management (as firms grow they can afford larger numbers of ever more specialized managers), in financing (obtaining lower interest costs when borrowing from banks as well as having access to a more varied range of financial instruments), in marketing (when sales volume grows faster than marketing costs), and in production (fixed costs remain constant as sales volume/production increases).

Award **[1 mark]** for a basic definition that conveys partial knowledge and understanding such as it reduces costs as firms grow.

Award **[2 marks]** for a full, clear definition, which would include: an accurate statement of what economies of scale are (something along the lines of "economies of scale are the advantages in cost that firms obtain as they grow") **and** some sense of the idea that economies of scale reduce *average* cost (traditionally "per unit").

(b) (i) Prepare a monthly cash flow forecast for the first 6 months of operation of the new store.

[6 marks]

Cash inflows	January	February	March	April	May	June
Cash from savings	25 000					
Cash from bank loan	50 000					
Sales	2000	2400	2880	3456	4147	4976
<b>Total inflow</b>	<b>77 000</b>	<b>2400</b>	<b>2880</b>	<b>3456</b>	<b>4147</b>	<b>4976</b>
Outflows						
Start-up expenses	15 000					
Rent	2000	2000	2000	2000	2000	2000
Manager's salary	2000	2000	2120	2120	2120	2120
Loan payment	1000	1000	1000	1000	1000	1000
Labour	1000	1200	1440	1728	2074	2489
<b>Total outflow</b>	<b>21 000</b>	<b>6200</b>	<b>6560</b>	<b>6848</b>	<b>7194</b>	<b>7609</b>
Net cashflow	56000	-3800	-3680	-3392	-3047	-2633
Opening balance	0	56000	52200	48520	45128	42081
<b>Closing balance</b>	<b>56 000</b>	<b>52 200</b>	<b>48 520</b>	<b>45 128</b>	<b>42 081</b>	<b>39 448</b>

**[1 mark]**

The student conveys some understanding of what a cash flow forecast is, but otherwise the forecast is largely inaccurate, incomplete, or illegible.

**[2 to 3 marks]**

A cash flow forecast is drawn, but either it is not in a generally accepted format or it is untidy, and the forecast contains two or more errors.

**[4 to 5 marks]**

The cash flow forecast is drawn essentially correctly and neatly in a generally accepted format. Award **[5 marks]** if there is one error, **[4 marks]** if there are two errors. Bear in mind the Own Figure Rule (OFR): if a candidate makes an error in one row and carries it through the remainder of the forecast, that is only one error. If the candidate produces an accurate cash flow forecast (that is, the final closing balance is correct and the means by which the student arrived at that figure is clear and logical) but does not use a generally accepted format, award **[5 marks]**.

**[6 marks]**

The cash flow forecast is drawn accurately and neatly in a generally accepted format, and is error free. Candidates may round figures, as is done here, but are not required to.

(ii) **Comment on the projected cash flow forecast of the new store.** **[4 marks]**

Based upon the projected cash flow, *Nails by Joomin* should not have difficulty in meeting its cash requirements. Because of both the bank loan and the injection of Joomin's personal savings, she will open the store with sufficient cash reserves until it has developed a customer base adequate to be cash flow positive on a monthly basis. If the projections prove accurate and trends continue, the new shop should be cash flow positive on a monthly basis beginning in the tenth month. If trends continue and there are no unexpected expenses, the firm's cash reserves should never dip below \$35 000. Cash flow projections, however, often do not materialize, and it is difficult to anticipate all expenses. As demand for the store's services grows, Joomin may not be able to find sufficient labour to meet customers' needs. If these unexpected circumstances occur, it will prove that it was beneficial to have opened the store with such a large cash reserve.

**[1 to 2 marks]**

The answer is basic and does not question the accuracy or reliability of cash flow projections or if the candidate fails to recognize that the trend of the cash flow forecast is positive.

**[3 to 4 marks]**

The candidate recognizes that the cash flow projections, and extrapolations there from for the months following, suggest that the firm will have more than enough cash to meet its requirements until the new store is cash flow positive on a month-to-month basis.



- (c) **Examine *two* difficulties that small businesses like *Nails by Joomin* face in obtaining sources of finance for expansion.**

**[6 marks]**

Reasons that small businesses such as Joomin’s may face difficulties in obtaining sources of finance for expansion may include:

- The borrowing need is for working capital, which requires an intermediate-term loan for which there is often no appropriate collateral (as is the case with Joomin’s shop and she secured a bank loan only because of the strength of her personal financial statement).
- Lenders may have difficulty overcoming their concerns over any of the following:
  - The new location is entirely untested, and rarely do small businesses have the resources to undertake the marketing research that can assuage the lenders’ concerns.
  - Regardless of legal structure, a business such as *Nails by Joomin* is almost entirely dependent on one person, the principal (Joomin). Her illness or death could cause significant disruption to the business and even force it to close.
- If Joomin restructures as a private limited company, in theory she can raise equity capital. However, raising meaningful amounts of equity capital for firms such as *Nails by Joomin* is easier in theory than practice. There may not be individuals interested in investing in her firm (projected return is not high enough or the venture is too risky), or, to make the investment attractive, they may ask for too high a percentage of ownership to be acceptable to Joomin.

If the response is a one-sided relevant approach with no examination award a maximum of **[4 marks]**. If only one difficulty is examined award a maximum of **[4 marks]**.

Marks should be allocated according to the markbands on page 3.

2. (a) Define the following terms:

(i) *fixed costs*

[2 marks]

Fixed costs refer to those costs that do not vary with output.

Award [1 mark] for a basic definition that conveys partial knowledge and understanding.

Award [2 marks] for a full, clear definition that is similar to the model answer above.

(ii) *variable costs.*

[2 marks]

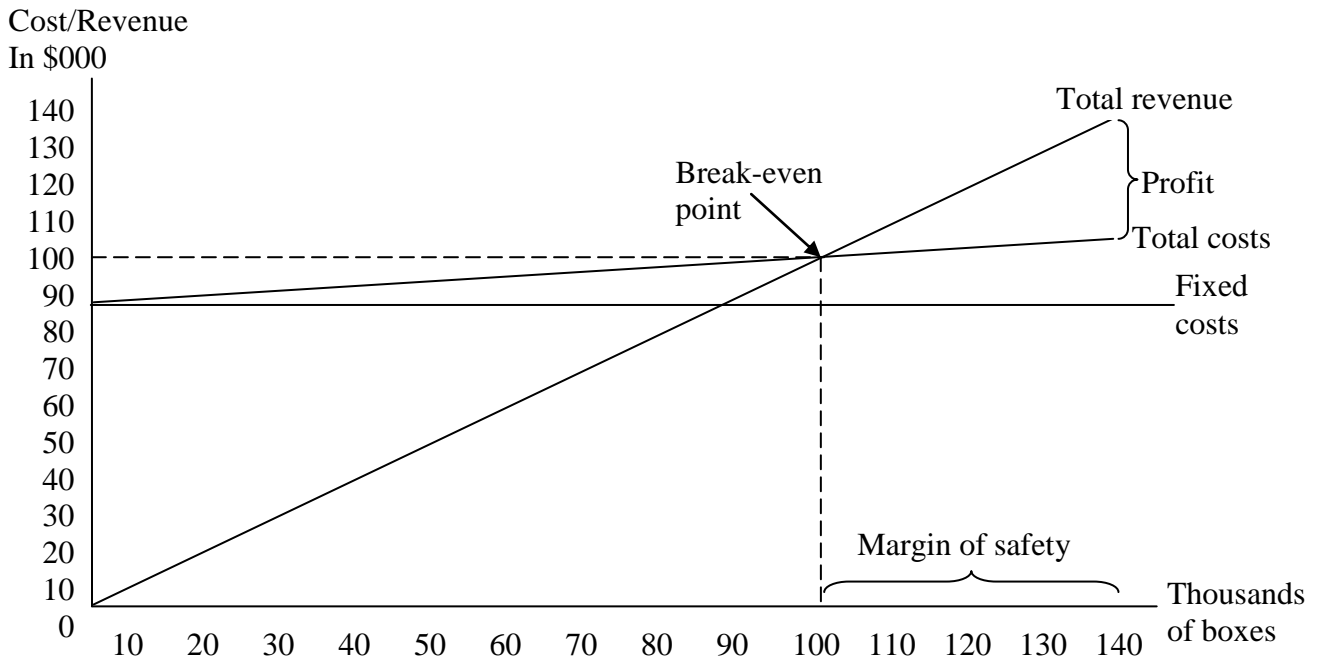
Variable costs refer to those costs that change according to the quantity/output of the firm.

Award [1 mark] for a basic definition that conveys partial knowledge and understanding.

Award [2 marks] for a full, clear definition that is similar to the model answer above.

(b) Prepare a fully labelled break-even chart for *Duranjaya Packaging*. [6 marks]

**Break-even chart: *Duranjaya Packaging***



Award marks as follows:

[1 mark] for each appropriately labelled axis – maximum of [2 marks].

[1 mark] for an accurately drawn total revenue curve.

[1 mark] for an accurately drawn total cost curve.

[1 mark] for the identification of the break-even level of output (whatever the value) and [1 mark] for showing the correct value of the break-even level of output.

If the break-even chart is accurately drawn but not neatly, using a ruler or straight-edge, or out of proportion, award a maximum of [3 marks].

If the candidate produces a table rather than a chart, award [0 marks].

- (c) **Comment on *two* factors that will determine whether Nirav adopts a new management style.**

[4 marks]

Relevant factors affecting Nirav's adoption of a new management style may include:

- the nature of the task
- the type of labour
- the time and cost required to complete a task
- the personality of the leader
- the culture of the organization.

At present, Nirav Duranjaya manages his firm in a very autocratic fashion. Given that the margins in this segment of his industry are low and the workers are unskilled, he may believe this is the best way for him to control costs by making all decisions himself and controlling operations tightly. If *Duranjaya Packaging* shifts to creative packaging solutions, the nature of the task will change, and he will probably have to shift his style to a much more democratic style to give the packaging designers the freedom to be creative.

The type of labour will also change. The new highly qualified packaging designers will be different from the low-paid, low-skilled workers who have traditionally worked for *Duranjaya Packaging*. They will presumably expect and need more autonomy.

The time and cost required to complete tasks will also change, not only with the design of the products, but also with their production. *Duranjaya Packaging* will have to be more flexible. Cost, which will remain important, will not factor as significantly. As purchasers of the packaging, the manufacturers seeking to sell their products to middle and upper class retail customers, will want to see flawless, high quality packaging. *Duranjaya Packaging* will probably need the input of his employees to deliver this type of product in a cost-effective manner. Thus, *Duranjaya Packaging* will probably need to shift from having an autocratic leader to a more democratic leader.

This shift may not come easily to Nirav or the firm. Operating with an autocratic style for twenty years, he may find it difficult to give his employees the autonomy they require. He would probably explain his past autocratic style as necessary given the nature of the sector in which *Duranjaya Packaging* operated. He may have chosen this type of business, however, because of the nature of his personality (**Examiners:** bear in mind that changing leadership style would typically not be a “factor” that will determine whether Nirav adopts a new leadership style. Rather, the adoption of a new leadership style will be one of his reactions to a factor.)

Furthermore, long-term employees may find the new management style difficult to accept. Some employees may actually prefer to work in an autocratic environment, as it relieves them of responsibility. Others, even if they would prefer a more democratic style, may be so acculturated to the historic norms at *Duranjaya Packaging* that they will have difficulty adjusting.

**Mark as 2 + 2.**

For **[1 mark]** the candidate identifies an appropriate factor that will determine whether Nirav adopts a new management style but provides no meaningful commentary.

For **[2 marks]** the commentary, which may be brief, if it is relevant to *Duranjiya Packaging* and addresses the potential impact of the factor.

- (d) Examine two elements in the marketing mix, other than price, that *Duranjiya Packaging* will need to adapt in order to move into the creative packaging solutions market.**

**[6 marks]**

The marketing mix is composed of numerous elements: Product, Place, Promotion, People, Process, Packaging, Physical evidence. *Duranjiya Packaging* will have to adapt each of these elements of the marketing mix. Possible adaptations may include:

**Product:**

- shift in virtually all aspects of paper packaging – higher quality cardboard, a variety of types of cardboard, as well as a variety of colours, shapes, and means of opening and closing the packaging
- *Duranjiya Packaging* may have to consider moving into packaging solutions that require materials other than cardboard – plastic, wood, etc.

**Place:**

At present, *Duranjiya Packaging* has no location other than its manufacturing facility. Its channels of distribution are extremely limited: customers reading its advertisements in specialized publications and, presumably, some direct efforts by Nirav to his larger customers or potential new customers. Physical distribution is direct from the factory to end-users. With the new types of packaging, retail shops would not be necessary – its potential customers are manufacturers of middle and high-end consumer products. Nevertheless, *Duranjiya Packaging* may want to consider a new location and with it a new channel of distribution: some high-end office space in central Mumbai, near where the administrative offices of manufacturers are located: rather than bring potential customers to a gritty, industrial section of town, the firm will need clean, fashionable offices where the designers can work and, practically speaking, function as a central element of the sales force. While, arguably, this is merely a change of location, rather than a new channel of distribution, having a centrally located office, where past designs can be showcased and where clients/potential clients can meet and work with designers does constitute a new channel of distribution for *Duranjiya Packaging*.

**Promotion:**

*Duranjaya Packaging* will have to modify significantly how it makes its customers aware of its products, to include:

- in new clean offices, successful past designs can be showcased
- advertising in a different variety of trade journals
- attendance at trade exhibitions and fairs
- hiring a sales force, or retaining a large number of independent sales representatives
- a web site showing a whole range of potential packaging solutions
- promotional literature, such as brochures.

**People:**

In addition to the fact that the firm will need a sales force, whether employees of the firm or independent sales agents, all employees who interact with customers will need sales and customer-relations training.

**Process:**

- *Duranjaya Packaging* will also have to reconsider how it ships its product to users. Low-cost/low-priced cardboard boxes for industrial users easily fold flat, while the variety of products that will go into the new packaging will require different means of collapsing the packaging for shipment to purchasers. Considerable attention will have to go into the design of the packaging so that they can be collapsed easily, but also reopened easily for insertion of product before retail sale.
- Often the designing of packaging will require interaction with the customer – making sure that the customer is satisfied with the aesthetics of the packaging, testing how well the product fits in the packaging, determining whether plastic “windows” displaying the product within the packaging are properly placed, *etc.*

**Packaging:**

Development of packaging for the packaging (that is, for shipment of collapsed packaging to purchasers).

**Physical evidence:**

Physical evidence refers to the material part of service, and *Duranjaya Packaging* is much more of a service firm than previously (before restructuring the business, ability to deliver on time was perhaps the only aspects of *Duranjaya Packaging* that could be considered a “service”). Now that the firm will be selling itself as a design company, it must pay much greater attention to material cues that tell customers about the firm. These may include:

- packaging (of packaging), noted above
- Internet/web pages, noted above
- paperwork, such as invoices, tickets, and dispatch notes
- brochures, noted above
- signage
- uniforms
- business cards
- offices, noted above.

If the response is a one-sided relevant approach with no examination award a maximum of **[4 marks]**. If only one element *other than price* is examined award a maximum of **[4 marks]**.

Marks should be allocated according to the markbands on page 3.

**SECTION B**

3. (a) **With reference to stock control, define the term *just-in-time*.** [2 marks]

Just-in-time stock control refers to a method of maintaining stock whereby suppliers deliver materials shortly before (this, “just-in-time” for) their use by the purchaser (typically a manufacturer). Often suppliers’ deliveries will be made in as little as a few hours prior to their use by the purchaser. Just-in-time stands in contrast to just-in-case, the traditional method of stock control whereby manufacturers often maintained large quantities of stock on hand, which exposed the stock to spoilage or theft and which increased working capital requirements.

Award [1 mark] for a basic definition that conveys partial knowledge and understanding. For example, “just-in-time stock control is when a company receives its stock “just-in-time” for use”.

Award [2 marks] for a full, clear definition that is similar to the model answer above.

- (b) (i) **Distinguish between batch production and flow production.** [2 marks]

Batch production is a method of manufacturing whereby the manufacturer performs one operation at a time on all units in the production run (a batch of units) before performing the next operation, which might be a further process to the original batch or producing a new batch meeting different specifications. Flow production, characteristic of a very large-scale production of a standardized product, involves performing each operation on a unit continuously, one after the other, on a production line.

[1 mark]

Candidate accurately defines or describes either batch or flow production, but not the other and, as a result, was not able to distinguish clearly between the two.

[2 marks]

Candidate provides a sufficiently accurate definition or description of both batch and flow production techniques that the key difference is clear that one involves discrete stages and the other is continuous.



- (ii) Explain *two* economies of scale *Piston Modules LLC* could benefit from.

[4 marks]

Economies of scale generally refer to the unit cost reductions that firms experience as they grow. In this case, *Piston Modules LLC*, the joint venture between *PA* and *Continental Teves*, stands to benefit from certain economies of scale compared to the production of brake modules by either *PA* or *Continental Teves* alone. These economies may include:

- The joint venture will presumably have higher turnover in the brake module sector than either firm could have individually, so the firm will benefit from the principle of increased dimensions, which lowers per unit cost.
- It also means many varieties of fixed costs will not have to be duplicated (one general manager over brake modules at *Piston Modules* rather than two, one running a division of *PA* and one a division of *Continental Teves*).
- If certain stages of the brake module manufacturing process require expensive, highly specialized equipment, the higher turnover of the joint venture reduces the likelihood that any single piece of equipment will be underutilized or that there will be an imbalance in the team of machines in use (principle of multiples).
- Because of the larger scale of operations than at either *PA* or *Continental Teves* alone, the joint venture will have more leverage with suppliers and lenders, that is, they can bargain for lower prices or lower interest rates.
- The joint venture will require only one marketing strategy rather than if the venture had not been formed, one each by *PA* and *Continental Teves*. Thus, the joint venture is poised to enjoy standard internal economies of scale: technical, managerial, financial, purchasing and marketing.

**Mark as 2 + 2.**

Award [1 mark] for each appropriate economy of scale identified (which may be generic), and [1 mark] for each appropriate explanation of the economy of scale that directly refers to *Piston Modules LLC*, up to a maximum of [2 marks].

- (c) **Examine two human resource issues *Piston Modules LLC* may face as a result of creating 100 new manufacturing jobs.**

**[5 marks]**

For a small firm such as *Piston Modules*, hiring an additional 100 skilled employees will present many human resource issues, including:

- recruitment
- selection
- induction
- corporate culture
- training
- appointment
- appraisal
- termination
- health and safety protection
- management and supervision
- communication.

*Piston Modules* requires highly skilled workers. Given the turmoil in the United States (US) auto industry and *Piston's* location in Detroit, the centre of the US auto industry, the firm should have little difficulty attracting applicants. Nonetheless, there will be two significant challenges that cut across all of the human resources issues related to the expansion. First, in contrast to the traditional means of operation of American automobile manufacturing, from where most of the new recruits will come, *Piston Modules* is small and has a highly flexible style of operations. Thus, *Piston Modules* must find workers who are not only skilled as machine toolists, but also well suited to small-scale, highly flexible operations. This concern will especially challenge the firm in recruitment, selection, induction, corporate culture, training, appointment, and termination.

Second, even though *Piston Modules* is extremely small compared to large manufacturing firms like *Ford* or *General Motors*, an increase in 100 employees will represent a significant expansion of its workforce and will challenge the firm at an organizational and operational level. The larger number of employees in such a small location will increase the potential for health and safety concerns. The firm may have to modify its procedures for and style of management and supervision and may have to consider revising its communication procedures.

If the response is a one-sided relevant approach with no examination award a maximum of **[3 marks]**. If only one human resource issue is examined award a maximum of **[3 marks]**.

Marks should be allocated according to the markbands on page 3.

- (d) **Discuss the appropriateness of the bank loan to *PA* as a source of finance for the \$10 million in equipment.**

[7 marks]

Ideally, financing sources “match” financing uses, that is, long-term assets or requirements are financed by long-term sources of funds, short-term assets are matched by short-term sources of funds (except when there is an increased need in working capital, which is a long-term requirement of short-term assets). Here, *PA* has an intermediate asset requirement – equipment – which, if “typical”, has perhaps a useful life of five to seven years, and the firm is planning on financing the equipment with a bank loan, which is typically intermediate in length (typical also is that when bank loans are not intermediate in length, they are labelled differently, like “overdraft” or “mortgage”). Thus, from the point of view of finance, *PA* has appropriately “matched” its borrowing need to a source of finance. Any financing structure other than an intermediate-term loan would probably be inappropriate (a short-term loan would almost certainly have to be regularly renegotiated, thus creating an administrative burden, and financing the equipment with equity capital would probably lower return on equity to unacceptable levels).

There are also legal and administrative benefits to *PA* borrowing the funds rather than *Piston Modules*. *PA* presumably borrowed the funds from its principal bank or a bank with which it has some established relationship. In this structure, both the lender and the borrower know each other, and the lender can be absolutely confident it knows the borrowing entity. Had the financing been arranged through *Piston Modules*, the circumstances of the joint venture would have added a layer of complexity: a legally new borrowing entity with which either the bank of *PA* or the bank of *Continental Teves* would have had to become familiar.

Structured as a loan to *PA*, this financing arrangement is more straight-forward than if it were done to the joint venture. *PA* knows, regardless of the success of *Piston Modules*, that it is legally responsible for the full amount of the loan and the bank knows that, regardless of the success of *PA*'s relationship with *Continental Teves*, *PA* is fully legally liable. If the relationship between *PA* and *Continental Teves* were to be unsuccessful, the final disposition of the equipment would legally rest in the hands of *PA*, which could keep the equipment and pay for it out of its own cashflow or dispose of the equipment if it were not needed and if a suitable purchaser were available. In addition, the owner of the equipment (*PA*) also owns the space where the equipment is located, which makes for a simpler, less expensive resolution if the joint venture fails (that is, there would not be some costly relocation and storage expense for the equipment until all issues were resolved).

The legal and administrative benefits can be overemphasized. The leasing arrangements between *PA* and *Piston Modules* would have legal force, and presumably if the joint venture were unsuccessful, *PA* would still expect some remuneration from *Piston Modules/Continental Teves*. However, as structured, *PA* could legally take/dispose of the equipment and seek a settlement through arbitration among lawyers and/or the courts.

Marks should be allocated according to the markbands on page 4.

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

Market research is the process of systematically gathering, recording and analysing data and information about customers, competitors and the market. Market research can be used to determine which portion of the population will purchase a product or service, based on variables like age, gender, location and income level. It is generally either primary or secondary.

Award [1 mark] for a basic definition that conveys partial knowledge and understanding.

Award [2 marks] for a full, clear definition that is similar to the model answer above.

(b) **Distinguish between *three* different market segments for *Coolibar*®'s products.** [6 marks]

The two clearest examples of market segments for *Coolibar*®'s products are (1) fashion and health conscious Americans and (2) Baby Boomers. Candidates could reasonably infer other markets segments, including:

- fashion-conscious Americans (consumers aware of the trend of sun protective clothing and want to wear it to be “hip”)
- health-conscious Americans (Americans who are sensitive to the health benefits of sun protective clothing and will wear it regardless of style)
- Americans who spend time out-of-doors
- Americans with skin cancer.

**[1 to 2 marks]**

For [2 marks] the candidate identifies three market segments, but the response demonstrates a limited understanding of the topic, and the candidates makes only a limited attempt to compare the segments. There is little or no use of business terminology, and there is no reference to the stimulus material to support the comparisons. If the candidate identifies two or fewer markets segments but otherwise provides a response of this calibre, award [1 mark].

**[3 to 4 marks]**

The candidate identifies three different market segments but does not provide a clear explanation distinguishing all three. The response provides some explanation of market segmentation, but the response has only some appropriate use of the relevant business terminology. If all three markets segments are based upon information provided in the stimulus, award [4 marks]. If the candidate identifies two different markets segments, but otherwise provides a strong response, award [3 marks].

**[5 to 6 marks]**

The candidate identifies three different market segments and provides a clear explanation distinguishing all three. The response has clear, appropriate use of relevant business terminology, and market segments are based upon information provided in the stimulus.

- (c) **Analyse the role that primary market research played in *Coolibar*®'s redesign of their clothing for the American market.**

**[5 marks]**

Several types of primary market research were mentioned in the case:

- “focus groups indicated that many American consumers disliked designs popular in Australia”
- “surveys indicated that certain Americans would pay a premium price for sun protective clothing”.

Market research played a key role in at least two major elements of the redesign of its clothing (in effect, of the marketing mix): product and price. Although a dimension of *Coolibar*®'s strategy is product orientation, the firm also had to consider consumer tastes in fashion. The firm used focus groups to consider many styles popular in Australia, and other primary research techniques could have been used as well.

The second major way that primary market research influenced the redesign of *Coolibar*®'s clothing was the finding that many Americans would pay a premium price; although this “premium price” presumably was for the sun protective feature, it speaks to the type of purchaser – those with an ability or willingness to pay extra – which almost certainly had an impact on clothing design (style), as well. Many factors go into the price of a product, including the firm's objectives, marketing mix, its costs, competition, consumer expectations, the market segment that the firm was aiming at, and legal constraints.

*Coolibar*® did not rely solely on primary research, however. The firm was not in a position to determine that aging Baby Boomers are increasingly concerned about protection against skin cancer. Nor was the firm in a position to gather data on rates of melanoma, which the firm obtained from the *National Cancer Institute*. Presumably the firm used many other types of secondary research as well.

Thus, though *Coolibar*® relied heavily on primary research for the actual redesign and pricing of its product for the American market, its decision to enter the American market, and probably many other decisions, was influenced by secondary research as well.

Marks should be allocated according to the markbands on page 3.

- (d) **Discuss the importance and role of branding for *Coolibar*® when launching their clothing in the American market.**

*[7 marks]*

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

*Coolibar*®'s name and the company logo are derived from the Australian eucalyptus tree, which the firm hopes will become equated in the American mind with sun protective clothing. Already, the firm has developed a reputation for the UPF in its clothing, as well as fashionable styling suitable for the American market. The firm needs to build on these strengths and on the favourable reporting the company is getting in the media, including mainstream media.

If *Coolibar*® is successful in establishing its brand – to the point that large numbers of consumers know the name and logo – the firm will have a much easier time when introducing new products. The firm will also enjoy the “free advertising” that comes with consumers wearing *Coolibar*® clothing with its easily identifiable logo. Obtaining a registered trademark and using proprietary fabrics is another means whereby *Coolibar*® can develop a branded identity in the marketplace.

Marks should be allocated according to the markbands on page 4.

**5. (a) Define the term *e-commerce*. [2 marks]**

E-commerce is generally regarded as the trading/exchange of goods and services over online electronic systems such as the Internet and other computer networks.

Award [1 mark] for a basic definition that conveys partial knowledge and understanding.

Award [2 marks] for a full, clear definition that is similar to the model answer above.

**(b) (i) Explain the difference between internal and external growth. [2 marks]**

Internal growth occurs when a firm expands without involving other firms. It can occur by increasing market share in existing markets with existing products, or can involve introducing new products or entering new markets. External growth involves other businesses: mergers, acquisitions, and takeovers. There are forms of growth that are hybrids: franchising and joint ventures. These are hybrids because they have some of the characteristics of internal growth and some of the characteristics of external growth.

Award [1 mark] for identifying the difference between internal and external growth but not being able to explain it in more depth than one is internal to the organization and the other is external, and [1 mark] for greater clarity in the explanation of the difference between the two terms.



(ii) **Comment on the nature of *NetShops*' growth.**

**[4 marks]**

*NetShops*' growth has been rapid and has involved both internal and external growth. Its model for internal growth is the opening of new stores – the equivalent of a traditional business starting a new division, introducing a new product line, or opening a new outlet. The other means of growth is its *NetShops*' affiliate program, which, because it involves other businesses, is a form of external growth (though of a different nature than traditionally conceived external growth, which is not uncommon with e-commerce).

Because *NetShops*' business model is identifying niche markets, there are limits to how large each single "store" is likely to grow. *NetShops* is able to obtain its rapid growth overall, however, because the e-commerce structure does not require physical, "bricks-and-mortar" stores for each new virtual store. Thus, *NetShops* can identify a market niche, quickly move to fill it, and, if it is not an especially successful "store", close it quickly.

*NetShops* is also able to propel growth because of its online database on all purchasers. This allows the firm to identify trends (which reduces the likelihood it will have an unsuccessful store) and to target new product promotions to particular consumers, among other benefits.

**[1 mark]**

The growth is commented on as rapid but with little or no detail.

**[2 to 3 marks]**

The growth is commented on. Attention is paid either to (1) its growth via internal and external means **or** (2) the benefits of e-commerce, which allows the firm to grow rapidly despite targeting small niche markets.

**[4 marks]**

The growth is commented on. Attention is paid to both (1) its growth via internal and external means **and** (2) the benefits of e-commerce, which allows the firm to grow rapidly despite targeting small niche markets.

(c) **Examine the usefulness of consumer profiles to *NetShops*.**

**[5 marks]**

E-commerce businesses such as *NetShops* are constantly gathering data about their customers, everything from select personal data (where they live), to their purchasing habits at *NetShops*, to their browsing habits at *NetShops*. This information can be supplemented with online customer surveys. Using these types of data, *NetShops* can make adjustments in its marketing mix.

The information is especially important for promotion and product. *NetShops* can develop profiles of their customers and send them emails and other e-promotions (as well as traditional mailings) of products fitting their consumer profile. Based upon customers' purchasing and browsing histories, *NetShops* can offer products or styles of products that fit their customers' taste (If, for example, certain customers consistently purchased "mission style" household items, when opening a new store or offering a new product at an existing store, *NetShops* might develop a "mission style" version of the new product).

*NetShops* can also develop product promotions for entire groups of consumers. For specific customers, based on their purchasing and browsing history, *NetShops* can also bundle complementary but distinct products and promote them with discounts if purchased together. For example, if two distinct product lines nonetheless have the same style/aesthetic that particular customers have repeatedly purchased or looked at, *NetShops* could offer products from each product line together at a 10% discount. Knowing their customers, *NetShops* can use urgency-strategies to generate sales; they can e-mail customers with specific interests to notify them that certain products will soon be out of stock and they need to purchase now.

Other aspects of the marketing mix might be influenced by the consumer profiles.

There are some limits to the usefulness of consumer profiles, as they track past habits and do not predict the future.

Marks should be allocated according to the markbands on page 3.

- (d) Discuss the costs *and* benefits to consumers of *NetShops*' e-commerce approach.

[7 marks]

Benefits include:

- consumers can shop 24 hours a day, seven days a week, 365 days a year
- consumers benefit from *NetShops*' ability to identify quickly a niche market and fill it (because entry into the market place is inexpensive for *NetShops*, thus there is little lag time between when *NetShops* identifies a niche and when it is offering products to fill it compared to traditional retail commerce)
- consumers from around the globe can shop at *NetShops* the firm has access to the global market place
- consumers can communicate with the firm instantaneously
- because e-commerce allows *NetShops* to avoid many expenses of traditional “brick-and-mortar” retail shops, consumers benefit from its lower prices
- consumers can access *NetShops*' “customer service” 24 hours a day.

Costs include:

- time is required for the delivery of the purchased product
- consumers do not know the condition of the product
- consumers often question the legitimacy of online businesses
- purchased items can get lost in delivery
- many consumers like to “experience” a product first hand, with full sensory experience
- for consumers, returning goods purchased online is difficult
- consumers have many concerns over privacy and security when dealing with online businesses
- when issues arise, consumers can get frustrated with an e-business because “there is no one to talk to”
- consumers may dislike the lack of personal service.

To achieve the top markband both the costs **and** benefits need to be discussed.

If the response is a one-sided relevant approach with no discussion award a maximum of [4 marks]. If only the costs **or** the benefits are discussed award a maximum of [4 marks]. To obtain a full [7 marks], a candidate must have an explicit conclusion.

Marks should be allocated according to the markbands on page 4.

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