



MARKSCHEME

November 2009

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

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

Section A			Level descriptors
(c) questions			
Q1 (c)	Q2 (c)	Q3 (c)	
Marks 0–7			
0			<ul style="list-style-type: none"> • No knowledge or understanding of issues and concepts. • No use of appropriate terminology.
1-2			<ul style="list-style-type: none"> • Little knowledge and understanding of issues and concepts. • Little use of appropriate terminology. • No reference is made to the information in the stimulus material. The response is theoretical.
3-5			<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of issues and concepts. • Some use of appropriate terminology. • Some reference is made to the information in the stimulus material.
6-7			<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of issues and concepts. • An analysis/examination that uses appropriate terminology. • Explicit references are made to the information in the stimulus material.

Section B	Level descriptors
Q4 (c)	
Marks 0–8	
0	<ul style="list-style-type: none"> • No knowledge or understanding of issues and concepts. • No use of appropriate terminology.
1-2	<ul style="list-style-type: none"> • Little knowledge and understanding of issues and concepts. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the stimulus material. The response is theoretical.
3-4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of issues and concepts. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Little or no reference is made to the information in the stimulus material.
5-6	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of issues and concepts. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the stimulus material are made at places in the response.
7–8	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of issues and concepts. • A response that uses appropriate terminology. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the stimulus material are made throughout the response.

SECTION A

1. (a) Identify *two* fixed costs and *two* variable costs for *Les Maisonnettes*. [4 marks]

Fixed costs for *Les Maisonnettes* include:

- loan repayment (the 25yr loan, see *lines 15–16*, or the 5yr bank loan, see *line 90*)
- marketing costs (*AFE* membership, *Logis de France* membership *etc.*)
- salaries and basic labour costs (especially for full-time staff)
- rates such as business licence, insurance.

Variable costs for *Les Maisonnettes* include:

- additional labour costs (if Sophie takes more staff in the peak season, *e.g.* more hours from the part-time staff, or for extra activities such as the guided tours)
- additional raw materials (for the restaurant or the cooking classes)
- utilities (*e.g.* heating cottages in winter).

Mark as 2+2.

Award [1 mark] for each relevant and correct fixed cost identified up to a maximum of [2 marks] and [1 mark] for each relevant variable cost identified up to a maximum of [2 marks].

- Candidates are not asked to define “fixed costs” and “variable costs”: they will not receive any extra marks just to provide definitions.
- In their answers, candidates must clearly indicate which costs are the fixed ones and which ones are the variable ones. If they do not: maximum [2 marks] for the question as a whole.
- Do not accept answers that are not relevant to the case study (*e.g.* “rent” as fixed cost or “delivery costs” as variable costs: these are “theoretical answers” that are not applied here).
- Candidates may come up with other original and precise ideas; these may be credited if relevant to the case study and acceptable as fixed costs or variable costs; examiners may need to use their professional judgment here.
- Labour costs are ambiguous: some sources (some textbooks and authors) consider them as fixed, others as variable, and others as “semi-variable”. Candidates may be given the benefit of the doubt in that respect.

- (b) Using data from appendix 4, calculate the current ratio and the acid test ratio of *Les Maisonnettes* in the financial years 2005 and 2008. *[4 marks]*

Liquidity ratios

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Acid test (quick) ratio} = \frac{\text{Current assets} - \text{stock}}{\text{Current liabilities}}$$

	2005	2008
Current ratio	1.75	0.56
Acid test ratio	1.25	0.22

Award *[1 mark]* for each correct calculation.

- (c) **With reference to the figures calculated in part (b), analyse the reasons for the changes in the liquidity position of *Les Maisonnettes*.**

[7 marks]

Sophie’s situation in 2005 was “too liquid”, a sign of poor cash management as she could have used her finance in a more meaningful and beneficial way. She went from one extreme to the next: the liquidity ratios indicate that, in 2008 (and presumably from 2009 onwards) she may struggle to meet her short-term financial commitments. The main reason is the fact that she took up a short-term loan in 2007 (*line 90*), which is substantially affecting her liabilities. She owes much less to her other creditors in 2008 than she did in 2005, but this short-term borrowing could be worrying (*line 151*) – although of course it is only short-term; as such, in the 2008 balance sheet, it could be interpreted as an understandable anomaly. Her stock has increased a lot: this is due to the investment in equipment and start-up costs for the new strand of the business. (*Lines 88–90*) according to Appendix 2, this new strand (“activities”) already represents almost 15% of the business in 2008, so the liquidity issue of 2008 might be redressed in the following years.

Candidates whose calculations were not correct may still properly analyse some of the changes. Candidate own figure rule applies.

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

2. (a) Describe *two* non-financial incentives that are being considered by Sophie. [4 marks]

(Lines 108–112) “(...) offering accommodation on-site to international students looking for work experience before university. Sophie believes that the combination of total immersion in French culture, the subsequent development of language skills for non-native speakers and greater understanding of the concepts and ideals of eco-tourism will compensate for the relatively low starting salary”.

Candidates should not just quote the sentences from the case study: they are expected to describe (see command term) those incentives. They may rephrase them or refer to the fact that they are “non-financial”: “payment in kind”, direct/practical support for international students who then do not have to pay for accommodation, experience *etc.*

Mark as 2+2.

Award [1 mark] for each relevant and correct non-financial incentive identified and [1 mark] for each clear description of the incentives up to a maximum of [2 marks].

- (b) With reference to Sophie, explain *two* features of a “paternalistic leadership style” (*lines 96–97*).

[4 marks]

A paternalistic leadership style typically sees the workforce as an extension of the family (paternal = fatherly). Respect and acceptance are gained through close supervision forms (comparable to a father’s traditional control over his children). This leadership style can be described as authoritarian; those who accept the leader and their style are rewarded, whilst those who do not are, at best, tolerated, and at worst, punished. Sophie’s paternalistic leadership style may be due to the personal relationship she has with her staff (*lines 94–97*): many are long-term family friends; in that rural environment marked by unemployment, Sophie is the local entrepreneurial woman who has a business and gives employment (and income) to people she grew up with. A particular oddity here is the fact that Sophie’s parents also work for her (although they are not formally employed), with a reversal of the usual paternalistic/family model (here: the parents work for their child, and not the other way around).

Mark as 2+2.

Award [1 mark] for each relevant and correct feature identified and [1 mark] for each appropriate explanation of the features, up to a maximum of [2 marks].

- (c) **Analyse how Sophie’s leadership style may need to change as *Les Maisonnettes* grows over time.**

[7 marks]

At the moment, the structure is quite small (Sophie, her parents, two full-time staff and several part-time staff) but as *Les Maisonnettes* grows, the structure will change and Sophie’s style too may need to change.

– On the one hand, Sophie may need to adopt a more autocratic style, especially if she employs more staff and needs to control them more closely (to overcome problems of reliability, absenteeism and punctuality, see *lines 98–99*). This is particularly the case for option 3: repositioning *Les Maisonnettes* as a luxurious eco-tourist retreat would require more staff (*line 176*) and a more professional attitude (possibly with several lines of management, chains of command *etc.*, see *line 100*).

– On the other hand, if Sophie further develops the eco-tourism dimension of her business (option 2) and stresses the “alternative experience” dimension (recruiting core staff with eco-tourism values, *lines 105–6*) she could develop a more democratic, participative leadership style, for ideological/political reasons.

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

3. (a) **Outline how writing a business plan could help *Les Maisonnettes* achieve its growth objectives (*line 92*).**

[4 marks]

Sophie is very dynamic and entrepreneurial: she has many ideas, but she does not have a business plan for her business (see *line 92*). Her business has grown organically: she has developed ideas and projects, yet without any explicit long-term objectives and without a clear vision. A business plan would give Sophie an overall sense of direction as well as targets, benchmarks and priorities. This would also give her the opportunity to reflect on all key aspects of her business (from marketing to human resources) and to identify which aspects may need to be harnessed or modified in order to achieve precisely identified strategic objectives (for instance to increase the winter occupancy rates by 20% by designing and offering “Christmas on the Farm” holiday packages). A business plan would also help Sophie apply for more funding (especially as options 2 and 3 are very costly).

[1 to 2 marks]

For **[2 marks]** the answer makes some links between the need for a business plan for *Les Maisonnettes* and the formulation of growth objectives. For **[1 mark]** the answer shows some knowledge and understanding of what a business plan is/covers, yet without referring to Sophie and *Les Maisonnettes*.

[3 to 4 marks]

For **[4 marks]** the answer clearly outlines how writing a business plan would help Sophie, establishing clear links between the business plan itself and the need for *Les Maisonnettes* to formulate strategic objectives. The terminology of business planning is correctly used. For **[3 marks]** the answer is clear but may contain some minor omissions (for example no reference to the exact contents of a business plan, or a marked absence of key concepts such as “vision” or “long-term objectives” or “strategic” or “growth” or “development”).

- (b) Explain *one* cost and *one* benefit to *Les Maisonnettes* of being a small organization.

[4 marks]

For *Les Maisonnettes* the costs of being a small organization include:

- limited capital/resources for internal growth and for spending in general (need to borrow money for any project, see *lines 15–16* and *line 90*)
- limited pool of ideas and limited experience (Sophie and her parents do not have previous knowledge and experience of running an eco-tourism business, see *line 6*).

For *Les Maisonnettes* the benefits of being a small organization include:

- full control and ownership (which is why Sophie does not favour option 4, *lines 181–182*)
- possibility to introduce new products rapidly (*e.g.* programme of outdoor activities *line 85*).

Mark as 2+2.

Award [1 mark] for each relevant and correct cost/benefit identified and [1 mark] for each appropriate explanation of the cost/benefit, up to a maximum of [2 marks].

- (c) **Analyse the effects of the introduction of e-commerce to future marketing strategies for *Les Maisonnettes*.**

[7 marks]

(Lines 128–134) “Changes in technology and e-commerce have combined to provide more opportunities for independent travellers booking holidays using websites. In order to respond to this trend, Sophie knows she must react by setting up a business website with online booking facilities. Published reports suggest that her target market is increasingly likely to book online. Sophie is also aware of the power of the Internet to help develop links with other eco-tourist providers. The Internet can offer a forum to strengthen the ideals of the eco-tourism movement and also to raise awareness of *Les Maisonnettes*”.

The case study already highlights why Sophie is considering e-commerce for *Les Maisonnettes*. Some of the marketing reasons are outlined in the text itself: her target market (mainly composed of middle class eco-tourists) tends to book online (they were probably some of the early adopters of that technology). This can be analysed as the P for “process” in the 7Ps marketing mix model for services; it could also be analysed in terms of distribution (the website as distribution channel for booking), communication (about the products and services Sophie offers) and promotion (not only direct advertising from her own website, but also indirectly through links to and from other websites, including the *AFE* and *Logis de France*). Complementing this marketing dimension, the Internet could help Sophie strengthen and develop her ideological project (about eco-tourism and sustainable development).

There are also some costs, especially financial costs. As Sophie herself does not have the knowledge and skills to develop an e-commerce website, she would need the professional services of a specialist (a consultant, a web designer – someone who understands the needs of small businesses such as Sophie’s). This could be a financial burden, notably as her current budget is very tight (especially in terms of cash and liquidity, Appendix 4). She would also need to employ someone to maintain the website, to process the online bookings *etc.* It could later be the responsibility of one of her international students (*line 109*), but at first Sophie would need to set up a system to implement e-commerce. The idea may be appealing, but in practice it may prove complex. It is also a new type of marketing for her, with a steep learning curve (as marketing and e-marketing are different: she would need, for example, to adapt her promotional activities and her booking procedures).

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

SECTION B

4. (a) Describe *two* differences between the marketing of goods and the marketing of services (*lines 65–66*).

[4 marks]

The marketing of services builds upon the marketing of products: it includes the same elements (the 4Ps of the marketing mix: Product, Price, Place and Promotion) but three others are added (Process, People and Physical evidence) resulting in the so-called 7Ps model. This is because services have some particular characteristics (that products, *i.e.* “goods” and “objects”, do not have): services are intangible, inseparable, perishable and variable. Sophie offers services rather than products: *Les Maisonnettes* is an experience as opposed to just the material aspects (the food eaten in the restaurant). She has come to realise that she needs to change her marketing approach (*line 65*), paying more attention to aspects such as process developing online booking, *line 130*), people (her staff who may require extra training) and physical evidence (using the fact that her buildings and setting present a real asset, *lines 17–18*). According to marketing experts, marketing a service is more difficult than marketing a tangible product, so Sophie’s task (reviewing her marketing strategy) is not an easy one.

Mark as 2+2.

Award [1 mark] for each relevant and correct difference identified and [1 mark] for each difference described up to a maximum of [2 marks].

- (b) (i) Explain *two* disadvantages for *Les Maisonnettes* of operating in a niche market (*line 40*).

[4 marks]

The disadvantages for *Les Maisonnettes* of operating in a niche market include the following:

– “Eco-tourism is a relatively small niche market but is growing rapidly” (*lines 39–40*): as there are few barriers to entry, new businesses may enter the market and compete directly with Sophie. She is lucky as the main local competitor (*Sanctuary*) does not target the same customers – but there is a high risk of competition that would seriously endanger *Les Maisonnettes*. Sophie needs to make sure she keeps differentiating her products; it is not the case at the moment (*lines 82–83*), but she has good ideas (*e.g.* a new USP about offsetting travellers carbon footprints, *lines 140–141*).

– A lot of work (market research and analysis) is spent focusing on the eco-tourism niche market, in order to understand its specific needs to learn to serve them better, including the ongoing evolution of their demands and expectations. Being part of professional organizations such as the *AFE* can help Sophie keep learning about the eco-tourists she targets (*lines 60–62*), but, should the fashion for eco-tourism change, Sophie would not be able to start targeting other potential customers straightaway (*e.g.* elderly tourists “grey tourism” or gay and lesbian tourists “gay tourism” are increasingly lucrative and relatively untapped market segments).

– Her niche market limits her possibilities for expansion and extension (in the Ansoff matrix, she cannot develop new products, which limits her strategic options to market penetration and market development). She runs the risks of constraining herself too much. Statistics are promising (a 25% annual growth rate in the sector, *line 136*) but Sophie could end up limiting her strategic options too much. Sophie is dependent on eco-tourism, yet all tourism niches are subject to change: tourism is a fickle and fragile industry. The presence of the airport and motorway may ruin her image, which is why she regards them as threats (*line 144*).

Mark as 2+2.

Award [*1 mark*] for each relevant and appropriate disadvantage identified and [*1 mark*] for each relevant and appropriate explanation of the disadvantage, up to a maximum of [*2 marks*].

- (ii) **Explain how Sophie could develop her human resource requirements to cope with variations in demand for accommodation.**

[4 marks]

The seasonal influences at *Les Maisonnettes* follow a regular, cyclical and predictable pattern. Based on 2008, there is very low occupancy in winter (French winter: November to February), medium occupancy in spring (March to May) and autumn (October), and high peak in summer (June to August). In the high season, Sophie would logically need to hire more staff (both part-time and full-time) whereas in the low season she could run and manage the business on a very low staffing basis. Planning human resources is particularly complex with regard to these part-time workers, for several reasons: they may not feel as committed to the business, training and retraining them may prove expensive, not to mention the competition from *Sanctuary* (line 113). Even the option of offering accommodation to international students may not be entirely satisfactory: they would live on-site but would have little to do in winter (unless Sophie decides to develop new products to attract customers then, knowing that she has the human resources available).

[1 to 2 marks]

For **[2 marks]** the answer shows obvious understanding of the issue, yet it is rather descriptive. For **[1 mark]** the answer is limited and not developed beyond the obvious.

[3 to 4 marks]

For **[4 marks]** the answer is a clear explanation with precise references to the case study, with evidence of use of business terminology. For **[3 marks]** the answer shows a good understanding of the issues (the relationship between the variation in demand and the variation in staffing needs/level) but with minor omission or a lack of detail or terminology.

- (c) **Recommend changes to *two* elements of the existing marketing mix to help Sophie minimize the effects of fluctuations in demand for accommodation at *Les Maissonnettes*.**

[8 marks]

The seasonal fluctuations in demand have detrimental effects on Sophie because of the “lost income” (or rather: “potential income not earned”). To minimize these effects, the seven elements of the marketing mix (Product, Price, Place, Promotion, Process, Physical Evidence and People) could be modified, for example:

- With regard to Product, Sophie could introduce new products in winter (“Christmas on the Farm”) to attract more customers in the low season, especially as weather conditions get better, with milder winters (*line 145*) as a consequence of global warming. She could also offer more activities in the summer so as to maximize her summer income as a counterpart for the winter low.
- With regard to Price, Sophie could adopt a more sophisticated pricing strategy, especially with differentiated prices per season (especially ensuring higher revenue in summer which would indirectly compensate for the effects of seasonal fluctuations). At the moment, she charges the same amount throughout the year (*line 63*); lower prices in winter could attract other customers (maybe some who are less well-off than the typical customers).
- With regard to Place, (which does not refer to the location of the *Les Maissonnettes* but to distribution channels!) Sophie could work with tour operators specialized in eco-tourism in order to find ways to attract customers in the off-peak seasons.
- With regard to Promotion, Sophie could concentrate her promotional efforts on the lower months, either directly (especially if she develops her own website, *line 130*) or indirectly (through the *AFE*).
- With regard to Process, Sophie could improve her reservation systems (the online booking system could be very useful in that respect, *line 130*); she could ask for deposits online or other tactics to earn slightly more on all fronts (indirectly minimizing the effects of seasonal fluctuations).
- With regard to Physical Evidence, Sophie could ensure that *Les Maissonnettes* is as welcoming in winter as it is in summer. As she offers a combination of “goods” and “services” (*lines 65–66*) she could further enhance the ethical/ideological message and develop a USP justifying higher prices and attracting more customers off-season.
- With regard to People, Sophie could employ specialized staff for existing activities (outdoor activities, *line 85*) or even new ones (*e.g.* French classes), especially in winter.

Candidates are asked to write about two elements – their recommendations may be linked (as the 7Ps are related) but the two elements must be precisely identified.

A strong recommendation of changes to one element of the existing marketing mix might well compensate for a weaker recommendation of changes to another element of the existing marketing mix. If only one element is addressed the maximum is *[5 marks]*.

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