



# **MARKSCHEME**

**November 2011**

**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   |
|---------------|---------------|---|
| (d) questions | (c) questions |   |
| Marks 0–5     |               |   |
| 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           |               | <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           |               | <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             |               | <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>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 relevant 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) (i) **Identify *two* appropriate sources of finance for Fang to purchase a lorry.** **[2 marks]**

Appropriate sources of finance would include:

- a medium-term bank loan
- a hire-purchase (lease)
- personal savings.

Award **[1 mark]** for each relevant and applicable source of finance for Fang’s lorry purchase identified up to a maximum of **[2 marks]**.

- (ii) **Define the term *overhead costs*.** **[2 marks]**

Overhead costs are the indirect recurring costs of running a business that are not linked directly to the goods or service produced and sold. Overhead costs can include payments for the rent of premises, utility bills, and employees’ salaries.

Candidates are **not** expected to word their definition **exactly** as above.

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

Award **[2 marks]** for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant: example **or** application to the stimulus award **[1 mark]**.

- (b) Prepare a monthly cash-flow forecast for the first six months of operation of Fang’s business. *[6 marks]*

All figures are in US\$.

|                        | <b>September</b> | <b>October</b> | <b>November</b> | <b>December</b> | <b>January</b> | <b>February</b> |
|------------------------|------------------|----------------|-----------------|-----------------|----------------|-----------------|
| Cash sales             | 1000             | 1000           | 1000            | 1100            | 1200           | 1300            |
| Government loan        | 10 000           |                |                 |                 |                |                 |
| <b>Total receipts</b>  | <b>11 000</b>    | <b>1000</b>    | <b>1000</b>     | <b>1100</b>     | <b>1200</b>    | <b>1300</b>     |
| Payments               |                  |                |                 |                 |                |                 |
| Monthly rent           | 400              | 400            | 400             | 400             | 400            | 400             |
| Monthly salary         | 200              | 200            | 200             | 200             | 200            | 200             |
| Monthly supplies       | 50               | 50             | 50              | 50              | 50             | 50              |
| Monthly interest       | 42               | 42             | 42              | 42              | 42             | 42              |
| Overhead costs         | 0                | 200            | 0               | 200             | 0              | 200             |
| Purchases              | 0                | 1500           | 500             | 500             | 500            | 500             |
| <b>Total payments</b>  | <b>692</b>       | <b>2392</b>    | <b>1192</b>     | <b>1392</b>     | <b>1192</b>    | <b>1392</b>     |
| Net cash flow          | 10 308           | -1 392         | -192            | -292            | 8              | -92             |
| Opening balance        | 0                | 10 308         | 8916            | 8724            | 8432           | 8440            |
| <b>Closing balance</b> | <b>10 308</b>    | <b>8916</b>    | <b>8724</b>     | <b>8432</b>     | <b>8440</b>    | <b>8348</b>     |

Apply 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.

**[1 mark]**

The candidate 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. If the candidate produces an accurate cash-flow forecast (that is, the final closing balance is correct and the means by which the candidate 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.

- (c) **Explain XIAN Technology's requirement that Fang present them with financial accounts every three months.**

**[5 marks]**

Generally, the purpose of accounts is to provide information for stakeholders – shareholders/partners, lenders, suppliers, *etc.* who have a right or insist on seeing them. Accounts also allow businesses to monitor their own activities and prevent fraud. XIAN Technology insists on seeing Fang's accounts every three months for financial reasons as well as for reasons of public image.

Financial reasons could include:

XIAN Technology will be extending credit to Fang's franchise. Were Fang to mismanage her business and it fail, XIAN Technology could stand to take credit losses. Seeing the financial accounts would alert XIAN Technology to the possibility that Fang's business will not survive. In addition, typically a franchisee must pay a fee or percentage based upon sales to the franchisor. If this were the case, receiving financial accounts would allow XIAN Technology to monitor if Fang is paying the appropriate fee.

Public image reasons could include:

Xian Technology certainly has an interest in a more general sense in seeing Fang's business survive. Were it to fail, it would reflect negatively on XIAN Technology. Presumably with greater business expertise than Fang, XIAN Technology could step in to provide Fang with support on the first sign of trouble, which the accounts would reveal.

*Accept any other relevant explanation.*

**[1 to 2 marks]**

The answer displays some basic knowledge and understanding of the requirements for Fang's accounts – the answer is mainly theoretical. There is no reference to *Xian Technology*.

**[3 to 4 marks]**

The requirement for Fang's accounts is explained with reference to *Xian Technology*. Only one aspect of finance **or** public image is clearly presented.

**[5 marks]**

The requirement for Fang's accounts is explained with reference to *Xian Technology*. The two main aspects of finance **and** public image are clearly presented.

- (d) Analyse the impact on Fang's business if new competition leads to a decrease in her gross profit margin. [5 marks]**

Were increased competition to reduce Fang's gross profit margin, she would either have to sell more ovens to have the same gross profit **or** would, in all likelihood, experience a loss of overall profitability and profits. If she had lower profitability and profits, her return on investment would decline and, if serious enough, could have a major negative impact on the business. Promotional expenses might be cut, which could reduce sales. Cash flow could be strained, perhaps to the point of hurting her relationship with *Xian Technology*. If that occurred, the balance sheet would deteriorate. In a worse case scenario, Fang could no longer make a profit, eventually leading to a closure of the business.

If Fang could offset the decline in margins with higher sales volume, that would, nevertheless put additional strain on the business. There would be an increased need for working capital to support the larger volume of trading. More ovens would have to be ordered, sold, and delivered, all of which add to the complexity of the business. Ineffectiveness or lack of capacity for these more complex activities could prevent Fang's business from executing its business model.

*Accept any other relevant analysis.*

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



2. (a) (i) **Define the term *competition-based pricing*.** [2 marks]

Competition-based pricing is a price set by a company for a product to compete with another company's pricing. Production and distribution costs are ignored to drive demand towards another brand. This method of pricing can cause a long-term decrease in product perception and decrease a product's value for future profits.

Candidates are **not** expected to word their definition **exactly** as above.

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

Award [2 marks] for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant: example **or** application to the stimulus award [1 mark].

- (ii) **Identify *two* increases in fixed costs that *AM* would incur to meet the new EU quality standards.** [2 marks]

The two increases in fixed costs are (1) salaries for the quality experts and (2) lease payments on new equipment.

**N.B.** Do not accept the increase in the higher quality materials because it is not a fixed cost.

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

(b) Calculate for 2010 (*show all your working*):

(i) the contribution to AM's fixed costs of a wheelchair sold in Europe [1 mark]

$$\begin{aligned} & \text{US\$200 (sales price) - US\$60 (variable cost per wheelchair)} \\ & = \text{US\$140 (contribution)} \end{aligned}$$

Award [1 mark] for the correct workings and [1 mark] for the correct calculation.

(ii) AM's overall net profit for both markets. [3 marks]

$$\begin{aligned} & 3\,090\,000 \text{ total sales} \\ & -1\,242\,000 \text{ variable costs} = (60 \times 10\,200) + (60 \times 10\,500) \\ & \underline{-1\,500\,000 \text{ fixed costs}} \end{aligned}$$

**US\$348 000 = 2010 net profit**

Award [1 mark] for the correct variable cost calculation.

Award [1 mark] for the correct answer.

Award [1 mark] for the correct workings.

- (c) Using an appropriate layout, prepare a report showing the increase in costs and the impacts on profitability for AM if Aaliyah decides to proceed with *Option 1*. [7 marks]

To: Aaliyah Ashrafuzzman  
 From: Candidate  
 Re: Decision to improve the quality of all wheelchairs and continue to sell in Europe

The decision to continue to sell in Europe will involve the following cost increases:

- A 20% increase in variable costs per wheelchair, from US\$60 to US\$72 (US\$60×1.2)
- An increase in fixed costs of US\$220 000 = (4×(quality experts salary) US\$22 000 + (new equipment lease) US\$132 000).

Sales revenue will increase from US\$200 per chair sold in Europe to US\$212. Sale price and sales revenue per chair will remain the same in Bangladesh.

AM will see the following changes in its profit and loss, assuming sales volume remains the same as last year:

| Year           | Last Year |        | New Year  |        |
|----------------|-----------|--------|-----------|--------|
| Sales revenue  | 3 090 000 |        | 3 212 400 |        |
| Variable costs | 1 242 000 | 40.2 % | 1 490 400 | 46.4 % |
| Fixed costs    | 1 500 000 | 48.5 % | 1 720 000 | 53.5 % |
| Net profit     | 348 000   | 11.3 % | 2000      | 0.06 % |

The impact of the increase in costs, both variable and fixed, will be a significant decrease in net profit. Because of the increase in variable costs, the already low contribution from sales in Bangladesh will contract from US\$40 to US\$28 (in Bangladesh wheelchair sells for US\$100 and variable cost with **Option 1** is US\$72). Although the contribution in Europe will remain the same, the higher fixed costs can only be made up for by increased sales. (It would take sales of an additional 1572 wheelchairs (wheelchairs in Europe sell for US\$212, contribution is (212 – 72) = US\$140) in Europe to equal the increase in fixed costs in Europe (220 000/140) and more sales in Europe to compensate for the reduced contribution from sales in Bangladesh.)

These figures have not taken into account any increases in selling expenses, which we should anticipate if we are to realize any increases in sales. Given that the projected profits, without an increase in sales, are virtually zero, any increase in selling expenses would result in negative profit if those sales do not materialize.

These data strongly suggest that we need immediately to begin formulating a sales strategy for Europe.

Accept other valid components of the report. It is not expected that the candidates answer will look exactly as above or contain all the above points.

**N.B.** Candidates are not expected to make any recommendation.

**[1 to 2 mark]**

The candidate conveys a basic understanding of some of the impacts of the increase in costs for *AM*, but otherwise the report mainly quotes from the stimulus.

**[3 to 4 marks]**

The candidate conveys some understanding of the impacts of the increase in costs for *AM*. Some calculations may be present but the answer is mainly qualitative.

**[5 to 6 marks]**

The answer shows a clear understanding of the impacts of the increase in costs and decline in profitability for *AM*. Quantitative data is included. For **[6 marks]**, the answer must be written in the style of a report.

**[7 marks]**

The answer is written in the style of a report and shows a clear and detailed understanding of the impacts of the increase in costs and decline in profitability for *AM*. Quantitative data is included and is all correct and includes a calculation of net profit for strategic **Option 1**.

**(d) Analyse the two growth options facing *AM* by applying the Ansoff matrix. [5 marks]**

Using the Ansoff matrix, *AM* has four options: market penetration, product development, market development, and diversification. Of the four, the evidence from the stimulus material suggests that market penetration is the best option: existing market (Europe and Bangladesh) and existing product (wheelchair – although it will be slightly improved, it is not a new product).

|                        | <b>Existing products</b> | <b>New products</b> |
|------------------------|--------------------------|---------------------|
| <b>Existing market</b> | Market penetration       | Product development |
| <b>New market</b>      | Market development       | Diversification     |

For several reasons, this appears to be the best decision that the company can make. Its alternatives do not offer the same benefits:

*Product development:* the company has a steady and solid customer base with its current (slightly upgraded) product. To develop a new product would be expensive, requiring both market research and designing a new product. Given that *AM* is in the wheelchair business and already has considerable knowledge of the market, it seems unlikely that there is some large, unfilled gap that would yield large profits quickly. Rather, product development would likely be a long-term proposition.

*Market development:* market development always has inherent risks, especially when the market being developed is foreign. To enter a foreign market requires market research to make sure that the marketing mix is suitable for the market. Even then, there are risks about operating in a foreign market, where a culture can be different. Furthermore, a new distribution system has to be developed. While these risks can be overstated, especially when the market *AM* is considering is neighbouring India, with which it has many cultural similarities, compared to Europe, the contribution would be significantly lower than in Europe. Under the old cost structure, the contribution in India would be US\$65 versus US\$140 in Europe (under the new cost structure). Without factoring in the costs of marketing wheelchairs in India (those figures are not available from the stimulus material), to break-even, *AM* would have to sell 16616 wheelchairs in India, whereas *AM* stands basically to break-even if it can merely achieve the same sales in units this year as last.

*Diversification:* diversification is not a realistic option for *AM*, given that they are unwilling even to make two varieties of wheelchairs.

Given the above consideration and the fact that *AM* already has a presence there, market penetration in Europe seems to be the best option. It is not without risks, however, *AM* will have to work hard to return to former levels of profits.

*Accept any other relevant analysis.*

**N.B.** It is not expected that the candidates incorporate all of the above points/issues.

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

**SECTION B**

3. (a) **Describe *one* reason why technological innovation has been important for *Bauli*.** *[2 marks]*

While *Bauli* has probably innovated in a number of areas in recent years, especially in the use of information technologies, the stimulus specifically refers to two areas where innovation has been important: (1) using improved technologies to achieve uniform quality of its product and (2) using improved technologies to increase the shelf-life of its product. Achieving uniform quality of product enhances its organization’s reputation for consistency, and consumers are not disappointed by a “bad” or “off” *panettone*. Increasing the shelf-life of the product lessens *Bauli*’s requirement to hire temporary workers, as full-time workers can produce the cakes well before the peak seasonal demand.

*Accept any other relevant description.*

**N.B.** It is not expected that the candidates incorporate all of the above.

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

Award *[2 marks]* for a full, clear description that conveys knowledge and understanding through application to the stimulus.

- (b) (i) **Explain *one* advantage and *one* disadvantage for *Bauli* of hiring temporary workers.** *[4 marks]*

Advantages and disadvantages for *Bauli* of hiring temporary workers could include:

| <b>Advantages</b>   | <b>Disadvantages</b>   |
|---|--|
| Company hires workers only when they need them, thus giving the company flexibility.  | Temporary workers typically have less loyalty to the company, which may affect their performance and productivity. |
| With temporary workers supporting operations, full-time workers do not become overworked, which can lead to loss of focus (mistakes) and burnout. | Temporary workers have to be trained, which incurs cost and takes time.  |
| Temporary workers cease working when their temporary contract expires. There are not the costs typically associated with redundancy.              |  |

**Mark as 2+2.**

Award [**1 mark**] for each appropriate advantage/disadvantage for *Bauli* of hiring temporary workers identified and [**1 mark**] for an appropriate explanation that directly refers to *Bauli* up to a maximum of [**2 marks**].

**(ii) Explain one difference between internal and external growth. [2 marks]**

Internal growth occurs when a business focuses on increasing sales, market share, or scale of operations by modifying its marketing mix in order to penetrate further the market, to develop new markets, or to diversify. Internal growth can occur with new or existing products.

External growth occurs when a business achieves growth objectives by acquisition of other business. The reasons are the same: increasing sales, market share, or scale of operations. Modifying its marketing mix, in this instance, is very similar but achieved by other means: penetrate further the market by horizontal integration, to develop new markets by acquiring businesses that operate in them, or to diversify into “new” products by acquiring businesses that already produce them.

Differences between internal and external growth include:

- external growth is generally more rapid
- external growth more often requires external financing
- external growth more often includes dilution of ownership (though if internal growth expansion is financed by a capital share issue dilution can occur)
- external growth requires merging corporations, which can sometimes be difficult
- external growth involves more financial risk.

In contrast to the above points, internal growth is generally slower, can more often be financed internally, is less likely to lead to dilution, and is organic. It involves less financial risk. However, internal growth does not preclude the competition from responding, which external growth often takes care of by eliminating (via acquisition).

*Accept any other relevant explanation.*

**N.B.** It is not expected that the candidates incorporate all of the above.

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

Award [**2 marks**] for a full, clear explanation that conveys knowledge and understanding through application to the stimulus.

(c) **Analyse the benefits for *Bauli* of developing a broader product mix.** [5 marks]

The benefits to *Bauli* of the development of a broader product mix include:

- developing a group of products (*e.g.* including the Colombo cake) will increase brand awareness of *Bauli*
- reducing the danger of relying on one single product: diversification of revenue streams (especially for seasonal goods such as the Christmas *panettone*)
- having products at different stages of the product life cycle (as one product gets to the end of its product life cycle, other products should be reaching maturity and generating profits for reinvestment and for shareholders)
- having a broad range of products with seasonal peaks at different times of year reduces the requirement for temporary workers.

However, managing the product mix for a company is very demanding and requires constant attention. Michele Bauli must provide accurate and timely analysis of his company's product mix so the appropriate adjustments can be made to the product line and individual products. In addition, in terms of operations, marketing, and possibly distribution, managing multiple products increases complexity and costs.

*Accept any other relevant analysis.*

**N.B.** It is not expected that the candidates incorporate all of the above.

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

(d) **With reference to *Bauli*, evaluate the benefits of small versus large organizations.** [7 marks]

Generally speaking, the advantages and disadvantages (strengths and limitations) of small and large organizations include:

Possible disadvantages of a small organization include:

- competition by bigger organizations
- not enough financial resources
- changing demographics particular to location
- lack of expertise of specialists
- difficulty in gaining a significant market share
- fluctuation in the economy
- liability issues.



Possible advantages of a small organization include:

- it can be started at a very low cost
- it can easily serve specialized niches
- it is typically easier to respond to the marketplace quickly
- small business proprietors tend to be intimate with their customers and clients, which results in greater accountability and maturity
- independence is another advantage of owning a small organization
- freedom to operate independently is a reward for small organization owners
- small business owners have the satisfaction of making their own decisions within the constraints imposed by economic and other environmental factors.

*Accept any other relevant point.*

**N.B.** It is not expected that the candidates incorporate all of the above.

Possible disadvantages of a large organization include:

- it requires large amounts of capital
- it has difficulty in serving specialized niches, which are often profitable
- it is often difficult or unwieldy to respond to the marketplace quickly
- large businesses often do not have a “human face” to customers
- large businesses, even when independent, affect more stakeholders, which functions as a constraint
- they are often bureaucratic in character.

Possible advantages of a large organization:

- they often have more capital than their rivals
- they have easier access to finance
- they have continuity apart from the principals
- they enjoy the expertise of specialists
- they often have significant market share
- they typically can better withstand fluctuations in the economy
- they have greater resources to do market research and to innovate.

By themselves, bulleted points of advantages and disadvantages do not constitute an evaluation. Candidates must mention some advantages and disadvantages of small and large organizations and synthesize these ideas to produce an evaluative response.

With respect to the stimulus, *Bauli* specifically has the advantage of resources to innovate, to purchase rivals to gain market share, and to develop a broad product line. Small organizations can fill niche markets and, in the case of *panettone*, charge a premium price. Workforce and industrial planning is also significantly easier for small organizations.

Candidates must come to a judgment/conclusion.

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

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

A partnership is a type of organization made up of no more than 20 owners (depending on the country of origin). A partnership will normally have unlimited liability for its owners and key functions will be shared out according to the partnership agreement.

Candidates are **not** expected to word their definition **exactly** as above.

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

Award [2 marks] for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant: example **or** application to the stimulus award [1 mark].

(b) (i) **Explain why quality control may become more important for *Liturgi*.** [4 marks]

Quality control is a system for ensuring the maintenance of proper standards in a product, for example through inspections. Quality control may become more important for *Liturgi* because, by going into the market for high-quality, organic olive oil, they will be reaching out to consumers who want a higher quality product and are willing to pay a premium price. However, if *Liturgi* does not meet these high consumer expectations, the product will not sell and the *Liturgi* brand could suffer. In light of the fact that the olive farmers themselves, who know the raw materials that go into the product better than anyone, are worried that their olive trees do not yield sufficiently high-quality olives, *Liturgi* needs to be especially careful. *Liturgi* will need to have inspectors randomly check the product at production facilities.

*Accept any other relevant explanation.*

Award [1 to 2 marks] for a basic explanation of quality control that conveys partial knowledge and understanding. If there is no application to the stimulus, award no more than [2 marks].

Award [3 to 4 marks] for a full, clear explanation that conveys knowledge and understanding of quality control and has explicit application to the stimulus.

- (ii) Calculate the gross profit per litre for the two types of olive oil. [2 marks]

For the organic olive oil:  $\text{€}5 \times 0.6 = \text{€}3$ .

For the regular olive oil:  $\text{€}3 \times 0.4 = \text{€}1.2$ .

Award [1 mark] for each correct calculation. Working not required.

- (c) Using two elements of the marketing mix other than place, analyse *Liturgi's* challenge to produce the new organic olive oil. [5 marks]

Producing the new organic olive oil is a marketing challenge for *Liturgi*, as shown by the 4Ps of the marketing mix (apart from place):

In terms of **promotion**, it means that *Liturgi* must establish its brand and reputation in a new market where it is not competing yet. Advertising campaigns may be expensive, even if they only target specific customers (*e.g.* expensive restaurants in Europe). On the other hand, in the long term this investment in promotion may prove beneficial, once *Liturgi* has established itself, as that market seems particularly lucrative.

In terms of **pricing**, the partners have already calculated a retail price of  $\text{€}15$  per litre, however they may need to later review this in the light of both internal and external factors (internal factors such as the quality of the organic olive oil itself, external factors such as the responses of competitors in the market they want to penetrate).

In terms of **product**, the marketing challenge is about the fact that *Liturgi* will have two products: the traditional, good-quality olive oil, as well as the new, organic olive oil. This form of product diversification has advantages (*e.g.* as they are less dependent on one single product for their revenue), but also disadvantages (*e.g.* as two farmers already think that they will not be able to take part because of the quality of their olive trees, which may affect the whole partnership itself).

*Accept any other relevant analysis.*

Candidates may also write about People, Process, Packaging and Physical evidence – this is acceptable and they should be rewarded accordingly.

**N.B.** Candidates are only asked to use and apply **two** elements of the marketing mix. If a candidate uses only one P, award a maximum of [3 marks].

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

**(d) Discuss the effectiveness of the two types of distribution channels for *Liturgi*. [7 marks]**

*Liturgi's* current distribution (the farm shop plus sales via telephone and internet orders) is effective in that, with limited overhead costs directly attributable to distribution, it is relatively inexpensive to operate; it is also simple. However, the method of distribution does not aggressively reach out to consumers, who must drive to the farm shop or contact *Liturgi* via internet or telephone, and largely limits the geographic range of sales to customers within driving distance to the farm shop (to be sure, telephone and internet sales reach out across Spain, but most sales are at the farm shop).

The new method of distribution (to the restaurants across Europe) will reach a much broader geographic area and will be more “customer-friendly”, as the sales person will contact business and arrange for shipment of the product to them. However, the costs of distribution will increase, as will its complexity, because of issues such as transport, logistics and storage. This may prove more expensive than the partners initially thought, though initial investments may prove beneficial in the long term.

*Accept any other relevant discussion.*

***N.B.*** Candidates are asked to discuss both distribution channels. If a candidate discusses only one, award a maximum of **[4 marks]**

To access top marks, the discussion must end with a conclusion which could be, for example, about the fact that the new distribution channel requires substantial investment.

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

5. (a) **Identify *two* examples of contemporary changes in work patterns and practices *other than* the adoption of the four-day working week.** [2 marks]

Examples of contemporary changes in work patterns and practices include:

- working from home
- teleworking
- flexitime.

Award [1 mark] for each work pattern or practice identified up to a maximum of [2 marks].

- (b) (i) **Explain *one* impact that the four-day working week in the public sector may have on the private sector in Utah.** [2 marks]

The impact of the four-day working week in the public sector could impact the private sector in a number of ways, including a reduction in demand/business volume on Fridays for a variety of businesses that provide support services for government personnel, including: parking garages, petrol stations, commercial carpool services, and restaurants.

On the other hand, because most employees of the state government now have three-day weekends and have lower expenditure in the areas just noted, state employees could increase their discretionary spending in areas such as recreation, entertainment, and home improvement.

Another area of the private sector that will be affected is day care (child care). Presumably, some private sector day care centres will shift to a schedule that matches the government schedule, resolving the problem that some state employees are currently experiencing and allow the operators of those day care centres to enjoy the benefits of a four-day working week.

*Accept any other relevant explanation.*

**N.B.** It is not expected that the candidates incorporate all of the above.

Award [1 mark] for identifying one relevant and correct impact, such as those listed above or some other appropriate response and award [1 mark] for an appropriate explanation thereof.

**(ii) Distinguish between the public sector and the private sector. [4 marks]**

The public sector, sometimes referred to as the state sector, is a part of the state that deals with either the production, delivery and allocation of goods and services by and for the government or its citizens, whether national, regional or local/municipal.

The private sector (also called commercial sector) is that part of the economy that is both run for private profit and is not controlled by the state.

*Accept any other relevant distinction.*

Award **[1 mark]** if the candidate correctly indicates that public sector refers to state or government.

Award an additional **[1 mark]** if the candidate indicates that the private sector refers to non-governmental enterprises.

Award an additional **[1 mark]** mark per term (public sector and private sector) for a full, clear response that conveys knowledge and understanding through development **or** exemplification **or** application to the stimulus, up to a maximum of **[2 marks]**.

- (c) **Analyse the value of the social and environmental audit to *two* different stakeholders of the government of the state of Utah.** [5 marks]

A social and environmental audit evaluates the social and environmental effects of an organization's economic actions and communicates these effects to stakeholders and to society at large. These types of audits are commonly used in the context of business, or corporate social responsibility, although any organization, including NGOs, charities, and government agencies may engage in social accounting. Social and environmental audits emphasize the notion of corporate accountability and are intended to quantify social and environmental performance and environmental position. In this way they perform an analogous function to financial audits. A social and environmental audit report ideally contains a statement of social and environmental performance and a social and environmental position, and may also aim to define what needs to be done to sustain or improve on indicators of such performance and position.

A social and environmental audit provides considerable value to all of the stakeholders of the government of the state of Utah, that is, to all groups involved with the state's activities. It provides useful information to the governor and legislators to make decisions regarding the social programs the state sponsors. Preparing the social and environmental audit stimulates the state employees by making them aware of the government's efforts at social and environmental responsibility. The private sector learns how the government faces its responsibilities with regard to human resources and the environment, which is a good indicator of how the state government is run. The social and environmental audit shows the citizens of Utah the government's philosophy and the impact on society and the environment of how the state operates its affairs. If the audit reveals an unsatisfactory level of social or environmental responsibility, citizens can take action to influence politicians to make changes in the state's approach to these matters.

Although most argue that a social and environmental audit benefits everyone, because it communicates to all stakeholders the social and environmental performance and position of an organization, some stakeholders may resent the findings of an audit. For example, while the four-day working week was largely affirmed by the audit, those businesses negatively affected by its implementation, such as those that provide support services for government personnel (parking garages, petrol stations, commercial carpool services, and restaurants), may believe that the audit has no value or negative value. In addition, different stakeholders can have a different view of social and environmental responsibility. Those with lesser concern for social and environmental responsibility may not like the cost of the performance of the audit.

*Accept any other relevant analysis.*

**N.B.** It is not expected that the candidates incorporate all of the above.

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

- (d) Discuss *two* possible areas of conflict between *two* stakeholders when the government of the state of Utah imposed a four-day working week for most state employees.

[7 marks]

When answering this question, candidates should provide two areas of conflict, identify (for each conflict) the two stakeholders affected, and discuss the nature of the conflicts. Examples of conflicts between stakeholders might include

| Stakeholder #1   | Conflict   | Stakeholder #2  |
|--|--|---|
| Businesses affected positively by the four-day working week.         | Government's decision to have the four-day working week.   | Businesses affected negatively by the four-day working week.                                      |
| Citizens who visited government offices on a Friday.                 | Friday closure of government offices.  | The government, which made the decision to close government offices.                              |
| State employees who must still work five days a week.                | Determination of which state agencies would operate on a four-day schedule and which on a five-day schedule. | Senior government officials who decided that those employees would remain on a five-day schedule. |
| Pressure groups for greater social and environmental responsibility. | Decision to perform a social and environmental audit.  | Pressure groups for lesser role of government in public life.                                     |
| State employees with young children.                                 | Problem of procuring extended day care.  | The government, which made the decision to close government offices.                              |

*Accept any other relevant discussion.*

If a candidate discusses only one area of conflict, award a maximum of [4 marks] (and, if only one area of conflict is identified, the response would otherwise have to be excellent, including the explicit identification of the stakeholders, to receive [4 marks]).

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

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