



# **MARKSCHEME**

**November 2012**

**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<br>(d)  | Q2<br>(c) | Q3<br>(d) | Q4<br>(d) | Q5<br>(d) |   |
| Marks 0–5  |           |           |           |           |   |
| <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 reference is made to the information in the stimulus material. The response is mainly theoretical.</li> </ul>  |
| <b>3–4</b> |           |           |           |           | <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>                  |
| <b>5</b>   |           |           |           |           | <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>Q3</b><br>(e) | <b>Q4</b><br>(e) | <b>Q5</b><br>(e) |   |
| <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 *one* advantage and *one* disadvantage of internal recruitment. [2 marks]**

Advantages of internal recruitment include:

- it is generally cheaper and faster than external recruitment
- it strengthens employees' loyalty to the company (as they know that they have opportunities for career development within the company)
- existing employees are already familiar with the practices and culture of the company (no need for long induction processes)
- other employees and managers know the promoted person better than a newcomer recruited from the outside.

Disadvantages of internal recruitment include:

- the number of applicants will be limited
- external candidates may be better qualified
- it might create tension amongst workers (as their new manager might be a previous colleague who is now above them in the chain of command)
- hiring someone internally will create a vacancy (the position that the recruited person vacates) so further recruitment will be needed.

*Accept any other relevant advantage or disadvantage.*

Award [1 mark] for a correct and relevant advantage identified and [1 mark] for a correct and relevant disadvantage identified, up to a maximum of [2 marks].

**(ii) Describe *one* method of external recruitment. [2 marks]**

Methods of external recruitment include:

- employment agencies
- government-run employment agencies/job centres
- placement companies ("headhunters")
- recruitment from/coordination with local schools and universities
- advertisements in newspapers, trade magazines, and other media outlets.

*Accept any other relevant method of external recruitment and description.*

Award [1 mark] for a correct and relevant external method of recruitment identified and [1 mark] for a description of the method of recruitment, up to a maximum of [2 marks].

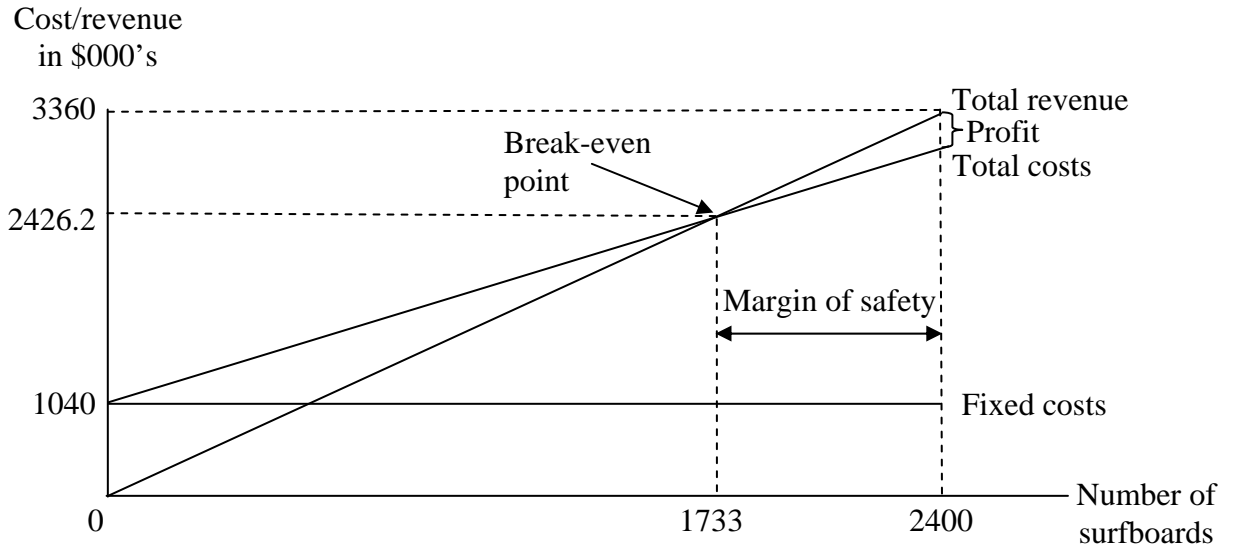
(b) Prepare a fully labelled break-even chart for WS at its current actual sales of 2400 units in the *current* building.

[5 marks]

Total fixed costs:  $\$590\,000 + 450\,000 = \$1\,040\,000$

Break-even point:  $\frac{1\,040\,000}{(1400 - 800)} = 1733$  units

Margin of safety:  $2400 - 1733 = 667$



Apply Own Figure Rule (OFR).

Award marks as follows:

[1 mark] for each appropriately labelled axis (the vertical axis must include reference to both costs and revenue) – award a maximum of [2 marks].

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

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

[1 mark] for the identification of the break-even level of output.

Award [0 marks] if a candidate produces a table, and award no more than [3 marks] if the chart is not neat, not drawn with a straight-edge, or is not to scale.

Ideally, the candidate will draw an arrow pointing to the break-even point and label the arrow. However, accept as an “accurately labelled” break-even point a vertical line from the x-axis to the break-even point provided that the line is labelled “break-even point”.

- (c) (i) Calculate the contribution of *one* surfboard in the proposed *new* building. *[1 mark]*

sales price per unit – variable cost per unit = contribution

Proposed new building: \$1400 – \$750 = \$650

Award *[1 mark]* for the correct answer (working not required).

- (ii) Calculate the initial forecast profit for WS for its first year of operation in the proposed *new* building (*show all your working*). *[3 marks]*

Profit can be calculated as follows:

|   |                    |
|---|--------------------|
| Sales (no. of units × sales price per unit)               | \$4 620 000        |
| – variable costs (no. of units × variable costs per unit) | – \$2 475 000      |
| – fixed costs (from table)                                | – \$1 050 000      |
| – managers’ salaries (from table)                         | – <u>\$600 000</u> |
|   | <b>\$495 000</b>   |

**Alternative method:**

$$\frac{\text{Fixed cost}}{\text{Contribution}} = \frac{1\ 650\ 000}{650} = \text{Break-even} = 2538.4615 \text{ units}$$

$$\begin{aligned} \text{Margin of safety} &= \text{Output} - \text{Break-even} \\ &= 3300 - 2538.4615 \\ &= 761.5385 \text{ units} \end{aligned}$$

$$\begin{aligned} \text{Profit} &= \text{Margin of safety} \times \text{Contribution} \\ &= 761.5385 \times 650 \\ &= \$495\ 000.025 \end{aligned}$$

Award *[1 mark]* if the candidate clearly demonstrates an understanding of how to calculate the profit (candidate shows revenue – expenses = profit).

Award *[2 marks]* if the candidate demonstrates that the method is (no. of units × sales price per unit) – (no. of units × variable costs per unit) – (fixed costs + managers’ salaries) = profit, but with an error in the calculation.

Award *[3 marks]* if the candidate demonstrates the method (show working) and correctly calculates the answer.

If the candidate produces the correct answer but does not show workings, award *[2 marks]*.

If the candidate uses the alternative method and rounds the number of units to 762, accept the profit as \$495 300 .

- (iii) Explain why Brent’s accountant forecasted lower variable costs per unit in the proposed *new* building.

[2 marks]

Award [1 mark] if the candidate identifies economies of scale, or provides a sufficient description of the concept (even if the candidate does not explicitly state “economies of scale”). Just saying (something to the effect of) “getting bigger” would **not** be sufficient to earn a mark.

Award an additional [1 mark] for applying the concept to *WS*.

- (d) Using appropriate calculations for the actual units produced (2400) in the *current* building and initial forecasted units produced (3300) in the proposed *new* building, analyse the impact of the proposed expanded scale of operation on profits and profitability.

[5 marks]

Using the same approach as for (c)(ii), candidates may calculate the current profit for the existing building with actual production levels. The current profit is  $(\$1400 \times 2400) - (\$800 \times 2400) - \$590\,000 - \$450\,000 = \$400\,000$ . This shows that, when doing a simple comparison with the new building, profit would increase significantly (from \$400 000 to \$495 000, so + 23.75%), a calculation that the accountant probably did in order to justify the expansion.

In terms of profitability ratio, the profit margins for *WS* are:

- current building:  $\left(\frac{400\,000}{3\,360\,000}\right) \times 100 = 11.9\%$
- proposed new building:  $\left(\frac{495\,000}{4\,620\,000}\right) \times 100 = 10.7\%$

From these calculations the profitability would slightly decrease. The slight decrease is mainly due to the sharp increase in fixed costs.

The proposed expanded scale of operation has clear impacts on both profit and profitability, though Brent Bass would also need to take other factors into account before deciding on the expansion, especially as financial gain (measured through profit and profitability) does not seem to be his main motivation.

*Accept any other relevant analysis.*

If the response does not include quantitative data, award a maximum of [3 marks].

If only profit **or** profitability are considered, award a maximum of [4 marks]: to achieve the top markband candidates need to refer to both.

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



2. (a) Define the following terms:

(i) *share capital*

[2 marks]

Share capital is a long-term, external source of finance for a company. It is a portion of a company's equity obtained by selling shares of stock to individual investors.

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) *batch production.*

[2 marks]

In batch production, items are produced in consignments and undergo a stage of the production process together. The whole consignment is then moved on to the next stage of production and another task is performed.

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) Using the information in *Table 1*, construct a balance sheet for *WW* as at 31 May 2009 and calculate the loan capital (figure X).

[5 marks]

|                            |     |             |
|----------------------------|-----|-------------|
| <b>Fixed assets</b>        |     |             |
| Total (net fixed assets)   |     | 1800        |
| <b>Current assets</b>      |     |             |
| Stock                      | 400 |             |
| Debtors                    | 850 |             |
| Cash                       | 150 |             |
| <b>Total assets</b>        |     | <b>3200</b> |
|                            |     |             |
| <b>Current liabilities</b> |     |             |
| Creditors                  | 515 |             |
| Short-term borrowing       | 285 |             |
| <b>Total</b>               |     | <b>800</b>  |
| Share capital              |     | 300         |
| Loan capital               |     | 800         |
| Retained profit            |     | 1300        |
| <b>Capital employed</b>    |     | <b>2400</b> |

Loan capital:  $3200 = 2400 + X$   
 $X = 800$

Award [1 mark] if the candidate has correctly calculated loan capital.

If the balance sheet is constructed following a generally accepted format and is correct in all respects, award [4 marks]. Apply own figure rule (OFR): if the candidate incorrectly calculated loan capital but otherwise the balance sheet is constructed following a generally accepted format and is correct in all other respects, award [4 marks] (the “penalty” will be that the candidate does not receive the mark for correctly calculating loan capital).

Award [3 marks] if the candidate produces a balance sheet that follows a generally accepted format but has one error, or award [2 marks] if there are two errors (OFR regarding loan capital). Award [1 mark] if the candidate shows some understanding of what a balance sheet is, but the actual balance sheet constructed is not in a generally accepted format and/or has more than two errors.

- (ii) Using relevant information from *Table 1*, calculate the acid test (quick) ratio (*show all your working*). [2 marks]

Allow candidate own figure rule (OFR) from calculations made in part (i).

$$\text{Acid test ratio} = \frac{\text{current assets} - \text{stock}}{\text{current liabilities}}$$

$$\frac{\$1400 - \$400}{\$800} = 1.25$$

Award [1 mark] for working (do not credit the formulae, which is already given) and [1 mark] for the correct answer, up to a maximum of [2 marks].

- (iii) Using relevant information from *Table 1*, calculate the gearing ratio. [1 mark]

Allow candidate own figure rule (OFR) from calculations made in part (i).

$$\text{Gearing ratio} = \frac{\text{loan capital}}{\text{total capital employed}} \times 100$$

$$\frac{800}{2400} \times 100 = 33.33\% \text{ (to 2 d.p.)}$$

Award [1 mark] for the correct answer (working not required).

- (iv) Using the information in *Table 2*, calculate the net profit before interest and tax (*show all your working*). [2 marks]

|                                    |                |
|------------------------------------|----------------|
| Sales revenue                      | \$6895         |
| Cost of goods sold                 | <u>-\$4700</u> |
| Gross profit                       | \$2195         |
| Expenses                           | <u>-\$2150</u> |
| Net profit before interest and tax | \$45           |

Award [1 mark] for working and [1 mark] for the correct answer, up to a maximum of [2 marks].

- (v) Using relevant information from *Table 2*, calculate the gross profit margin.

[1 mark]

$$\text{Gross profit margin} = \frac{\text{gross profit}}{\text{sales revenue}} \times 100$$

$$\frac{\$2195}{\$6895} \times 100 = 31.8\%$$

*N.B.* If a candidate rounds to 32%, accept for [1 mark]. If a candidate rounds to 31%, award [0 marks].

Award [1 mark] for the correct answer (working not required).

- (c) Using financial and non-financial information, examine WW's decision to start producing special-order windows.

[5 marks]

Producing the “special order” windows would have both advantages and disadvantages for the company.

The financial position of the business is precarious. Although, the gross profit margin is 31.83%, its net profit margin is extremely slim at 0.652%, so that any further deterioration in the company's position may place it in a loss making position.

$$\text{Net profit margin} = \frac{\text{Net profit before interest and tax}}{\text{Sales revenue}} \times 100$$

$$= \frac{45}{6895} \times 100 = 0.652\%$$

The cash-flow position of the business is adequate at the moment. Its acid test ratio of 1.25 means that the business has \$1.25 of liquid funds for every \$1 of current liabilities, which is acceptable given a rule of thumb of 1:1 for this ratio. Its stock levels are also acceptable and its gearing ratio of only 33.33% means that it is in a position to borrow money to fund any additional finance associated with the new special orders.

As the break even for each order is only 100 units, this suggests that the company will not be risking too much financially to take this option if this order level is achievable. It will be up to the marketing department to make this judgment. The 50% deposit at the order stage should also ensure that the company's cash flow is adequate during the production process and before the units are delivered.

There would be additional costs associated with recruiting an additional member of staff and this would need to be factored into the issue, but the business should be able to fund this. Given that the present net profit margin is so low, producing special orders could be a good idea if these generate a higher net profit margin for the business. Given that *WW* is considering making special order windows because it has underutilized capacity, the business will not have to borrow additional money to purchase new equipment.

*Accept any other relevant examination.*

If the response is one-sided and includes only financial **or** only non-financial data, award a maximum of **[3–4 marks]**: to achieve the top markband candidates need to refer to both.

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

**SECTION B**

3. (a) **Define the term *redundancy (lay-off)*.** **[2 marks]**

Redundancy (lay-off) is “the termination of employment where an employee is asked to leave through no fault of his or her own” (Paul Clark *et al.*, IB Business and Management Course Companion, Oxford University Press, 2009, page 391). A payment may be made to staff that are made redundant.

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) **Calculate *Sokol’s* market share for the last year.** **[1 mark]**

20%

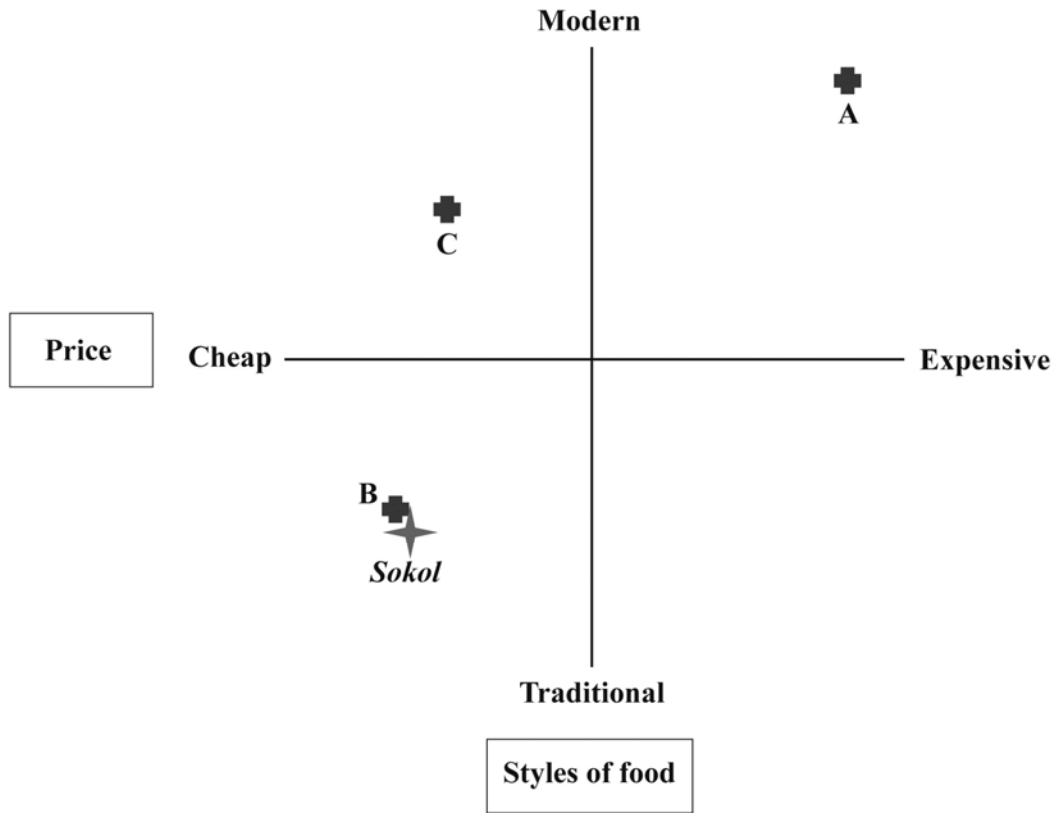
Candidates are **not** asked to show their working  $\left( \frac{12\ 000}{60\ 000} \times 100 \right)$ .

**N.B.** The answer must include the symbol % or the words “per cent” or “percentage”: writing “20” (twenty) alone is **not** enough to earn **[1 mark]**.

Award **[1 mark]** for the correct answer.

(c) Construct the position map of *Sokol* before Andrej made any changes to his restaurant.

[5 marks]



Award [1 mark] for the overall layout of the map with **both** axes correctly labelled (price: cheap or expensive; styles of food: traditional or modern). **N.B.** It does not matter which one is horizontal / vertical.

Award [1 mark] for correct positioning of *Sokol* in the quadrant “cheap and traditional”, provided that the placement does not imply **very** cheap or **very** traditional.

Award [1 mark] for correct positioning of Restaurant A in the quadrant “modern and expensive”. **N.B.** the restaurant is described as “very modern” and “very expensive” and this needs to be graphically or textually indicated, award [0 marks] if this aspect is not clear.

Award [1 mark] for correct positioning of Restaurant B in the same quadrant as *Sokol* (“cheap and traditional”), the placement should be near each other, or in the same place and should not imply **very** cheap or **very** traditional.

Award [1 mark] for correct positioning of Restaurant C in the quadrant “cheap and modern”, provided that the placement does not imply **very** cheap or **very** modern.

- (d) **Analyse the usefulness of market segmentation and targeting specific markets for *Sokol*.**

**[5 marks]**

Market segmentation is useful for *Sokol* because it helped Andrej see a niche in a market and identify a new business opportunity. If he decides to target “tourists who are ready to pay higher-than-average prices”, he will have to promote his restaurant in publications they may read.

Targeting a specific market is useful for *Sokol* because, as part of the process, Andrej must understand better who his customers are (“young locals who want to eat out with friends”) and will give him insight into their expectations about their experiences (for example about atmosphere and product range *i.e.* type of food served in the restaurant) and also how much they may be willing to pay.

Market segmentation and targeting specific markets however have limitations as they only create a limited number of categories (with some stereotypical customers); some current or potential customers may not fit these categories. The marketing success of segmentation and targeting are highly dependent on the quality and effectiveness of the market research conducted. As a small business this may not be the outcome

*Accept any other relevant analysis.*

It is not expected that the candidates incorporate all of the above arguments.

If the response is a one-sided relevant approach with no analysis, award a maximum of **[3 marks]**. If only the usefulness is analysed (without reference to limitations) award a maximum of **[3 marks]**.

To achieve the top markband candidates need to refer to both the usefulness of market segmentation and targeting specific markets for *Sokol*.

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



(e) **Advise Andrej about the most suitable option for *Sokol*.**

**[7 marks]**

Option 1 is a joint venture: this means that *Sokol* and the new hotel would join forces and join resources – for example *Sokol* could manage the restaurant operating in the hotel. The main advantage is that they could help each other grow faster, however it would involve creating a new business entity (the joint venture) which can be a complex project (to define the exact agreements and the terms, for example about revenue sharing). Joint ventures are usually created for finite periods of time, which may not be appropriate here.

Option 2 is a strategic alliance: this means that the two restaurants would sometimes work together (for example on specific projects such as the village festival), however at other times they would remain competitors. This option has the advantage that it will allow *Sokol* to target a new group of customers – those who are prepared to pay higher prices for modern style foods. This is an example of diversification. However it may cause some confusion for its traditional customers who choose it because it offers cheap and traditional meals. This could also make the relationship sometimes difficult between Andrej and the manager of Restaurant A.

Option 3 is a merger: this means that *Sokol* and Restaurant B would become just one entity, even if they still operate under two different names. They could have economies of scale (for example when ordering traditional Slovenian ingredients from their suppliers), however their local image may suffer because of the redundancies. Their market share could consequently go down. Further, the market position of the two businesses that may merge is cheap and traditional food — this does not fit with Andrej’s future aspirations.

*Accept any other relevant advice.*

It is not expected that the candidates incorporate all of the above arguments.

**N.B.** All 3 options have advantages and disadvantages. Candidates are expected to have a clear conclusion (and advise Andrej on one course of action) – it could be any of the three, as long as the answer is justified.

If the candidate refers to only one option, award a maximum of **[4 marks]**.

To achieve the top markband, candidates must formulate a final advice (recommendation).

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

4. (a) Define the term *below the line promotion*. [2 marks]

Below the line promotion refers to techniques that do not use the main media such as newspapers, radio, television and the Internet. Below the line promotion is generally (though not exclusively) targeted at consumers who already have some interest in the product, and, therefore, occur in that context: point-of-sale promotions; direct mailings; exhibits in a shopping centre; or coupons, refunds, or loyalty cards, among others.

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.

If the **only** basis for awarding a mark were exemplification and the example is word of mouth, award [0 marks].

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

(b) Explain *one possible type of diseconomy of scale that P&G may experience in the dry cleaning industry*. [2 marks]

Possible diseconomies of scale include:

- communication costs
- government regulations (which often apply to large/larger companies)
- office politics
- more resources devoted to management
- supplier restrictions (main office may insist on sourcing from particular suppliers)
- more difficult to coordinate the business
- productive inefficiency of being too large.

Accept any other relevant diseconomy of scale and explanation.

Award [1 mark] for identification of a relevant and correct diseconomy of scale and [1 mark] for its explanation and its application to the dry cleaning industry. Award a maximum of [2 marks].

(c) Explain *two* types of primary research that the market analysts may have used. [4 marks]

Possible types of primary research include:

- surveys / questionnaires
- interviews (structured, semi-structured or unstructured)
- consumer panels / focus groups
- observation.

*N.B.* If a candidate identifies surveys and questionnaires, this situation will virtually always be just one type of primary research. The burden of proof that surveys and questionnaires are different is on the candidate, and they must have clear and valid reasons why they are different.

Accept any other relevant type of primary research and explanation.

Mark as 2+2.

Award [1 mark] for identification of a relevant and correct type of primary research and [1 mark] for its explanation and its application to the context of research on the dry cleaning industry. Award a maximum of [2 marks].

(d) Using the Ansoff matrix, analyse P&G's entry into the dry cleaning industry. [5 marks]

|               |          |                    |                     |
|---------------|----------|--------------------|---------------------|
|               |          | <b>Product</b>     |                     |
|               |          | Existing           | New                 |
| <b>Market</b> | Existing | Market Penetration | Product Development |
|               | New      | Market Development | Diversification     |

*N.B.* P&G, relying on the power of its brand, it could arguably be placed in any of the four quadrants of the Ansoff matrix. There is no right or wrong answer here: any answer may be argued and defended (put another way, how one views P&G's entry into the dry cleaning industry is a matter of perspective).

At one level, what *P&G* is doing is extending the product life cycle of its cleaning products by:

- penetrating an existing market (existing product: Tide soap; existing market: a market where Tide has brand awareness)

Or

- taking its existing product (Tide soap) to a new market (the dry cleaning industry).

From another perspective, *P&G* is doing something quite new:

- entering an existing market (that is, where there is Tide brand awareness) with a wholly new product (clean, cool, fresh-smelling branded dry cleaning stores)

Or

- diversifying by going into a new market (heretofore Tide has not been in the dry cleaning business) with a wholly new product (clean, cool, fresh-smelling branded dry cleaners).

*Accept any other relevant analysis.*

If the candidate draws the Ansoff Matrix fully and accurately, but writes nothing else, award [**1 mark**]. On the other hand, the candidate does **not** have to draw the matrix (though most will) as long as they demonstrate knowledge of it and use it in their analysis.

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

For [**5 marks**], candidates must demonstrate an understanding that how one places *Tide Dry Cleaners*<sup>®</sup> on the Ansoff matrix is somewhat a matter of perspective. Candidates must show their understanding that the Ansoff matrix is a theoretical tool and that real business situations are not as clear cut, or show an understanding that *P&G's* dry cleaning franchise could arguably be placed in any of the four quadrants of the Ansoff matrix.

- (e) **Discuss franchising as a way for P&G to enter the dry cleaning industry.** [7 marks]

Franchising has both advantages and disadvantages for P&G.

The advantages include the following:

- as the franchisees themselves provide most of the finance, this is a relatively inexpensive method of expansion for P&G (unlike the acquisition of dry cleaning companies)
- if the franchise model works well, there are large profits to be made (not only from selling the franchises as well as the royalty payments, but also from further strengthening the Tide brand name)
- some of the existing independent dry cleaners may decide to become franchisees in order to benefit from the brand (rather than struggling as competitors).

The disadvantages include the following:

- some customers may decide to avoid the Tide franchises for ideological reasons, preferring to patronize independent businesses (this is linked to an increase of small-scale, anti-globalization actions)
- it seems that P&G does not have any experience in franchises and in the dry cleaning industry itself (as the company is rather a manufacturer of consumer goods); unlike other businesses (such as *McDonald's*<sup>®</sup>) they may not have the expertise to properly manage a franchise (in terms of quality control and marketing) though as they are so big (global sales of US\$80 billion) they could recruit managers who are franchising specialists
- diseconomies of scale are a risk, even with franchises, especially if the brand name "Tide" is suddenly affected by a negative image *e.g.* an accident in one of the franchises, then all the franchises could be negatively affected.

*Accept any other valid discussion.*

It is not expected that the candidates incorporate all of the above arguments.

If the candidate refers to only advantages **or** disadvantages, award a maximum of [4 marks].

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

5. (a) Define the term *multinational company*. [2 marks]

A multinational company is one that operates in two or more countries. Generally, this refers to a large-scale global operation that enjoys economies of scale and has a powerful brand (*McDonald's*<sup>®</sup>, *BMW*, *Sony*<sup>®</sup>, etc.). However, a multinational company can be a much smaller organization that operates in at least two countries (in Norway and Sweden, or Belgium and Luxembourg, for example).

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

Award [1 mark] for a basic definition that conveys partial knowledge and understanding (for example with a reference to several countries of operation).

Award [2 marks] for a full, clear definition that conveys knowledge and understanding.

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

(b) Explain the importance of branding for the decision of *Starbucks*<sup>®</sup> to enter the Indian market. [4 marks]

The *Starbucks*<sup>®</sup> brand is already well known in many parts of the world, even in India. The market research shows many Indians, as potential customers, have already encountered the name “*Starbucks*<sup>®</sup>” (for example in the media, on the Internet) so they are familiar with it and will be keen to purchase *Starbucks*<sup>®</sup> coffee and to patronize *Starbucks*<sup>®</sup> coffee shops (including in *Tata Group*'s nationwide hotel chain).

A key aspect is the fact that *Starbucks*<sup>®</sup> is not just about coffee (the drink and its taste) nor the coffee shops (the venues and their atmosphere): *Starbucks*<sup>®</sup> is relying on its world-famous name (hence the idea of “a global brand”) for its marketing strategy and to appeal to new customers in a new market.

Accept any other relevant explanation.

Award [1 mark] for every valid point (or development of a valid point) up to a maximum of [4 marks].

Accept four separate points, award [1 mark] each, or two separate points which are developed for 2+2 marks.

- (c) Explain *one* PEST factor that may influence the decision of Starbucks® to enter the Indian market.

[2 marks]

Economic factor / sociological factor: the country of India (with its population of over 1 billion) is still poor overall, but it is developing fast (with a growth rate of 8% of its GDP this year); this economic development means that there is an increasing market of young people with disposable income as potential Starbucks® customers (*i.e.* this is a business opportunity for Starbucks®).

Political factor: although the Indian government limits the entry of foreign-owned retail chains into India, it is possible for foreign companies (such as Starbucks®) to form alliances or joint ventures (this is actually a legal factor that would appear under L in a more developed STEEPLE analysis).

**N.B.** Candidates may refer to their own knowledge of India, especially for economic factors; this is not an expectation, however this is acceptable.

A candidate does not have to say which type of factor (political, economic, *etc.*). A response may open, for example, “A PEST factor that...”.

*Accept any other relevant PEST factor and explanation.*

Award [1 mark] for a basic outline of a relevant and correct factor (which could be a repeat or mere rephrasing from the stimulus). Award an additional [1 mark] for a development of that idea, *i.e.* an explanation linking it to the decision of Starbucks® to enter the Indian market. Award a maximum of [2 marks].

- (d) Analyse *one* advantage and *one* disadvantage for Tata Group of forming a strategic alliance with Starbucks®.

[5 marks]

**N.B.** The question is about the advantages and disadvantages for *Tata Group*, not for Starbucks®. Answers that fail to take *Tata Group's* perspective (and focus instead on Starbucks® only) should not be awarded.

Advantages for *Tata Group* of forming a strategic alliance with Starbucks® could include:

- some customers may decide to go to *Tata Group* retail chains precisely because there is a Starbucks® cafe there (especially at the beginning, when there is a novelty aspect)
- *Tata Group* would benefit from the positive image of having facilitated the arrival of Starbucks® in India; it can help “westernize” the image of *Tata Group*, both domestically and internationally
- the alliance could also strengthen their other business arrangements (as Starbucks® had previously bought coffee from *Tata Group*) so *Tata Group* might be in a better position to negotiate or renegotiate some contracts (for example for the coffee supplied to Starbucks®).

Disadvantages for *Tata Group* of forming a strategic alliance with *Starbucks*<sup>®</sup> could include:

- *Starbucks*<sup>®</sup> is often presented or perceived as an emblem of globalization, especially Americanization: there is a risk that some stakeholders might disapprove of *Tata Group* as a consequence
- unlike *Café Coffee Day*<sup>®</sup>, *Starbucks*<sup>®</sup> is not Indian, so the profits will be sent back to the American headquarters; *Tata Group* could suffer from a negative image, as it supports foreign businesses rather than Indian ones.

*Accept any other relevant analysis.*

Candidates are only expected to address one advantage and one disadvantage.

If the response is one-sided (only one advantage **or** one disadvantage), award a maximum of **[3 marks]**.

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

**(e) Discuss the decision of *Starbucks*<sup>®</sup> to enter the Indian market.**

**[7 marks]**

For *Starbucks*<sup>®</sup>, the business case to enter the Indian market is clear-cut: research and other external factors show that there is a potential demand (“young Indians with disposable income”) throughout the country (both in the south and in the north). To circumvent the legal impossibility for a foreign chain to operate in the Indian market, *Starbucks*<sup>®</sup> has found a good method: forming a strategic alliance or joint venture with a company (called *Tata Group*) with which they have already done business (purchasing coffee from them). Moreover, that group is well established in India and would directly give *Starbucks*<sup>®</sup> access to a range of venues suitable for its coffee shops, such as hotels and retail chains. This all looks very good and promising for *Starbucks*<sup>®</sup>, however they will need to take some other factors into consideration.

Market penetration (to refer to the Ansoff matrix) always represents an element of risk; *Starbucks*<sup>®</sup> has been successful in many countries (*e.g.* in Europe and its native US) though usually in developed countries; India is a different market, both economically and sociologically. Will its standardized products appeal to Indian customers (*e.g.* in terms of coffee drinks)? Global brands take time to adapt to national cultures (for example *McDonald’s*<sup>®</sup> struggled for a long time in India until it recently started to offer its first “aloo tikki burger”, which is a patty of potatoes and peas flavoured with Indian spices): *Starbucks*<sup>®</sup> will need to take national/local aspects into account, otherwise it might struggle, after an initial enthusiasm due to the arrival of the brand itself.

If one-sided, award a maximum of **[4 marks]**.

*Accept any other relevant discussion.*

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

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