



MARKSCHEME

May 2013

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

Section B			Level descriptors
Q3 (e)	Q4 (d)	Q5 (e)	
Marks 0–7			
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the stimulus material.
3–4			<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues and concepts. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the stimulus material, not just to the name of the organization. • The response is mainly theoretical.
5–6			<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • 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			<ul style="list-style-type: none"> • A response with accurate, specific well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • 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) **Define the term *tertiary sector*.** **[2 marks]**

The tertiary sector of the economy, also known as the service industry, is related to the provision of services to customers and to other businesses. Activities in the tertiary sector include: retail and wholesale sales, transportation and distribution, entertainment, restaurants, tourism, insurance, banking and healthcare 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.

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

- (b) **Identify *two* features of a sole trader.** **[2 marks]**

A sole trader could have the following features:

- It is a business unit owned and operated by a single individual. The individual bears all the risks of loss or failure and receives all profits if the business is successful.
- It is the simplest form of organization as it involves few legal requirements to set it up.
- It has unlimited liability; the owner is personally liable for the debts of the business.
- A sole trader enjoys unlimited freedom of action and decisions.
- Legally, a sole trader and his business are considered as one. The business is not a separate entity from the owner.
- In a sole trader business, capital to run the business is provided by the owner.
- *Accept any other relevant feature.*

Award **[1 mark]** for each relevant and correct feature of a sole trader identified up to a maximum of **[2 marks]**.

- (c) (i) **Prepare a monthly cash-flow forecast for the bank contract for the first six months assuming Sayaka employs one new worker.** **[5 marks]**

All figures are in \$.

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Cash inflows						
Cash from bank loan	2500					
Contract Payment		6000		6000		6000
Inflows						
Total inflows	2500	6000	0	6000	0	6000
Cash outflows						
Employee salary	2000	2000	2000	2000	2000	2000
Payment on equipment loan	0	150	150	150	150	150
Business taxes and overheads	300	300	300	300	300	300
Cleaning products	200	200	200	200	200	200
Total outflows	2500	2650	2650	2650	2650	2650
Net cash flow	0	3350	-2650	3350	-2650	3350
Opening balance	1600	1600	4950	2300	5650	3000
Closing balance	1600	4950	2300	5650	3000	6350

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.

In addition, based upon the stimulus, a candidate may assume that Sayaka may have borrowed the \$2500 before the beginning of the six-month period. Under this assumption, the cashflow would not have the line “cash inflow from bank” as listed above but would have instead an “Opening balance” of \$4100. Candidates may present the cashflow in either way and still be fully correct.

[1 mark]

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

[2–3 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 marks]

The cash-flow forecast is drawn essentially correctly and neatly in a generally accepted format, but there is one error.

[5 marks]

The cash-flow forecast is drawn accurately and neatly in a generally accepted format, and is error free.

- (ii) Calculate the impact on the monthly closing balance of the six month cash-flow forecast if the new employee is absent from work due to illness for two days per month. Assume Sayaka still pays the ill employee a monthly salary of \$2000.**

[2 marks]

Sayaka will have an additional monthly labour cost of \$600.
The impact on OC's cash-flow forecast will be as follows:

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Closing balance	1000	3750	500	3250	0	2750

Award **[1 mark]** for each three correct calculations, up to a maximum of **[2 marks]**.

Candidates may approach the problem in a different way that shows the impact on the sixth month only, calculated as follows:

Closing balance initially: \$6350

2 days per month x 6 months = 12 days (total) of replacement labour

12 x \$300 (daily cost of replacement labour) = \$3600

\$6350 (closing balance initially) – \$3600 = \$2750

- (d) **Comment on the impact that the bank contract will have on the cash flow of OC.** *[4 marks]*

If Sayaka accepts the bank contract and employs one new worker, the forecasted cash flow will be positive for all the time period considered. This means that her personal savings, the bank loan and the two-year contract with the bank will be enough to meet all the cash requirements.

If the new employee gets ill two days a month, the cash-flow forecast will still be positive except for month 5. Such an imbalance cannot be perceived as very significant and there are chances that the new employee will not become ill. Sayaka could then take the risk to employ one new worker, accept the bank contract and expand the size of her business.

Moreover, these are forecasts. The actual net cash flow could be lower. What if the employee is ill one month for more than 2 days?

Apply Own Figure Rule (OFR).

[1–2 marks] The answer is basic and does not question the accuracy or reliability of cash-flow projections, or if the candidate fails to recognize that the trend of the cash-flow forecast is positive if one worker is employed.

[3–4 marks] The candidate recognizes that the cash-flow projections, and extrapolations are affected by whether one worker is employed and whether or not they are ill each month.

(e) Analyse the impact on Sayaka’s role if she expands the size of her business. [5 marks]

If Sayaka expands the size of her business she will have to employ an additional employee to cope with the increased number of clients. Her role within the business will change as she will have to devote less time to doing the cleaning herself and concentrate more on managerial functions such as the following:

- organizing worker and material resources to ensure a successful outcome for her business
- supervising, guiding, motivating and eventually training her worker to make sure that the cleaning tasks are carried out properly and customer’s requirements are met
- controlling and evaluating worker’s performance to ensure quality standards
- planning, preparing the cleaning schedules, workforce needs.

On the other hand, it seems that Sayaka is worried about the impact that *OC*’s expansion may have on her role. Sayaka has always liked the small size of her business. If *OC* grows, she will have to deal with employee absenteeism. Delegation could also bring problems to be dealt with, as it may create dissatisfaction among clients that were used to “her ways” of doing the cleaning.

It seems that Sayaka is unsure of the responsibilities that her potential new role as a manager could entail. All in all, if Sayaka finally decides to expand her business, she will have to overcome her insecurities as they may erode her managerial and leadership skills in her new role.

Accept any other relevant analysis.

If the response is a one-sided relevant approach with no analysis award a maximum of **[3 marks]**.

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

2. (a) Describe *one* appropriate source of finance *other than* a bank loan that *KDS* could use for the purchase of the cranes. [2 marks]

Ahmed could choose to use one of the following sources of finance to purchase the cranes:

- Retained profit is not an appropriate response, as *KDS* has only \$55000 in cash on the balance sheet. If a candidate writes “Retained profit”, award [1 mark].
- Hire purchase – this is a system by which he could buy the cranes over a long period of time by paying monthly installments with an interest charge and a cash deposit at the starting period. During the payment period, ownership of the cranes will not be passed to Ahmed.
- Through a leasing system he will be able to use the cranes for a specific period of time without the responsibility of owning them. He will have to make monthly leasing payments and at the end of the leasing period he could decide to purchase the cranes. An initial deposit is not required.
- If available, Ahmed could sell existing assets that are no longer required by the business so as to gain some cash availability to finance part of the new cranes.
- He could decide to reduce stocks to raise part of the finance needed to purchase the cranes.
- If available, Ahmed could use his personal savings.
- Sale of shares.
- *Accept any other relevant source of finance.*

Award [1 mark] for an appropriate source of finance other than a bank loan identified and [1 mark] for a clear description up to a maximum of [2 marks].

- (b) Define the term *retained profit*. [2 marks]

Retained profits, are the portion of a company’s profits, which after the owners have taken their dividends, remains in the business to be reinvested or kept as a reserve.

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].

- (c) (i) Using relevant information from the table, construct a balance sheet for *KDS* as at 31 May 2012 (before the purchase of the cranes) and calculate debtors (figure X). *[5 marks]*

	(\$)	(\$)
Fixed assets		
Building and equipment	350 000	
Total (net fixed assets)		350 000
Current assets		
Stock	50 000	
Debtors	55 000	
Cash	55 000	
Total assets		160 000
Current liabilities		
Creditors	45 000	
Short-term borrowing	10 000	
Total		55 000
Net assets		455 000
Share capital		200 000
Loan capital		40 000
Retained profit		215 000
Capital employed		455 000

If capital employed = net assets = 455 000

Net assets = fixed assets + (current assets – current liabilities)

Current assets = net assets – fixed assets + current liabilities

Current assets = 455 000 – 350 000 + 55 000 = 160 000

If current assets = 160 000

Debtors = 160 000 – 55 000 – 50 000 = 55 000

Award *[1 mark]* if the candidate has correctly calculated debtors.

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 debtors 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 debtors).

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 debtors). 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.

If a candidate produces a balanced balance sheet (including the calculation of X) but one that does not conform to a generally accepted format, award **[4 marks]** if, with the formatting, it has one major formatting error. Award **[3 marks]** if it has two major errors. An example of a major error would be, on a horizontal balance sheet, having fixed assets before current assets or, on either a horizontal or vertical balance sheet, having long-term debt out of place (either in equity or in current liabilities). A minor formatting error not to be penalized would be, for example, if a candidate places debtors within current assets but not in the generally accepted place.

- (ii) **Using relevant information from the table, calculate the gearing ratio and the gross profit for KDS before the purchase of the cranes (show all your working).** **[4 marks]**

$$\begin{aligned} \text{Gearing ratio} &= \frac{\text{loan capital}}{\text{total capital employed}} \times 100 \\ &= \frac{40\,000}{455\,000} \times 100 \\ &= 8.79\% \text{ (to 2 d.p.)} \end{aligned}$$

$$\begin{aligned} \text{Gross profit} &= \text{sales revenue} - \text{cost of goods sold} \\ &= 5\,600\,000 - 3\,000\,000 = \$2\,600\,000 \end{aligned}$$

Mark as 2+2.

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

- (d) **Comment on the financial impact on *KDS* if Ahmed uses a bank loan to fund the purchase of the cranes.** **[2 marks]**

If Ahmed decides to fund the purchase of the cranes with a bank loan, there will be borrowing associated costs. The gearing of the company will increase. At present, the company is not highly geared with a gearing ratio of 8.79%. With the bank loan, it would increase to 36.64% $\left(\frac{240}{655} \times 100 = 36.64\% \right)$. This is a significant increase in gearing.

Using a bank loan will increase his costs as interest payments have to be made, thus reducing his net profits compared with if he financed the purchase through the use of internal sources of funds. However, it is unlikely that *KDS* could generate \$200 000 internally.

Award **[1 mark]** for each relevant point up to a maximum of **[2 marks]**.

(e) Contrast the *three* options of who will operate the cranes. [5 marks]

If Ahmed decides to train his employees to operate the cranes, he will probably generate a positive impact on his employee's motivation and productivity. His workers will gain additional job skills, job enrichment and experience. What is more, some have already shown interest in learning how to operate the new cranes. On the other hand, training is costly. Ahmed will have to hire an instructor or send his workers to a training course, and additionally pay for the additional insurance costs. Workers will be diverted from their tasks and this may disrupt the working day of the business. Training could be a risky investment if labour turnover at *KDS* is high; trained employees may end up working in rival construction companies.

If Ahmed decides to hire two new experienced employees he will not have to incur training and additional insurance costs; there will not be any disruption in the working day of his company. However, the new skilled workers may have to be paid higher salaries than the rest. Ahmed will then have a permanent increase of his labour costs. His current employees may also feel disappointed and demotivated as they will not be given the chance of training and eventually promotion. Productivity may then be hampered such as the working environment.

Finally, Ahmed could only rent the cranes to customers who themselves employ licensed crane operators. This option will not imply additional costs for Ahmed as he will operate the business with his current employees and training is not required. However, the opportunity cost of this option can be high. Ahmed may lose customers such as the many small construction companies that do not employ licensed crane operators; the potential growth of his business could be put at risk.

Accept any other relevant contrast.

If the response is a one-sided relevant approach with no contrast, award a maximum of **[3 marks]**. If only one option is examined, award a maximum of **[2 marks]**.

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

SECTION B

3. (a) Identify *two* ways in which the market for canoes may be segmented. [2 marks]

The market for canoes may be segmented in different ways, such as:

- by age (for example young people in their 20s *versus* older people in their 50s and 60s); this is the segmentation mentioned in the stimulus
- by gender (as *BC* could design different canoes for men and women)
- by residence (as occasional canoeists from urban areas may represent a different market from local people who use their canoe every day)
- activity/lifestyle (fishing as a hobby rather than exercising as a hobby)
- income/wealth (but not price).

Accept any other relevant answer.

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

- (b) Calculate the break-even quantity for the smaller canoes (*show all your working*). [2 marks]

$$\begin{aligned} \text{Break even quantity} &= \frac{\text{Fixed costs}}{(\text{Price} - \text{variable cost per unit})} \\ &= \frac{300\,000}{(2400 - 1900)} \\ &= 600 \text{ units (canoes)} \end{aligned}$$

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

- (c) Explain how the “marketing issues and the slower payments” would create a need for additional working capital. **[4 marks]**

Working capital is the money used by the business for its operational activities – in the case of *BC*; it is the money necessary to buy the raw materials to make the canoes, but also the money used in other parts of the business, for example marketing. *BC* would need more working capital for two reasons:

- Firstly, *BC* will need to spend money in advance (before selling the smaller canoes) on promotional activities (to raise awareness, to create interest, to launch the product *etc*). Working capital is that portion of capital employed invested in current assets. Expenses are a reduction in equity, thus reducing the amount of total capital employed available for investment in working capital (and thus creating a need for *BC* to find replacement working capital). Another marketing issue is that sales revenue from the smaller canoes may take longer to materialize than *BC* anticipates, thus leading to a stock build up and lengthening of the trading cycle.
- Secondly, if customers take longer to pay (for example in installments: a partial amount every month), *BC* will have less cash available (as the debtors owe the company money), so more working capital will be necessary (to support the operations of the business: buying raw materials *etc*). As payments slow, the debtor balance on the balance sheet increases. Funds to support that growth should come from total capital employed. Thus, an increase in debtors balance requires an increase in working capital. This too represents an increase in the trading cycle.

Accept any other relevant explanation.

Mark as 2+2.

Award **[1 mark]** for each correct element of the answer with regard to how marketing issues would create a need for additional working capital, up to a maximum of **[2 marks]**.

Award **[1 mark]** for each correct element of the answer with regard to how slower payments would create a need for additional working capital, up to a maximum of **[2 marks]**.

(d) Apply the Ansoff matrix growth strategies to *BC*.

[5 marks]

The Ansoff matrix is a tool used to identify possible growth strategies, according to the product (is it existing or new?) and the market (is it existing or new?). It is represented as follows:

		Products	
		Existing	New
Markets	Existing	Market Penetration	Product Development
	New	Market Development	Diversification

Applying it to *BC* comes down to asking:

- Are the smaller canoes a new product? Shareholders view it as such, although it could be argued that it is the same product (a canoe), just the size is different (a new product for *BC* would be canoeing clothing, for example).
- Are the two target markets (people in the 20s and people in their 50s and 60s) a new market? Ashton thinks so, as presumably the current customers are people in their 30s and 40s; however, it could be argued that a new market would mean exporting canoes to another country.

The shareholders consider the suggested strategy as a form of diversification (new product, new market), however other views can be defended (for example one could say it is market development, as the product is still the same: canoes).

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

If a candidate draws an Ansoff matrix, but writes nothing, award a maximum of [1 mark].

N.B. The “balanced analysis” required to achieve [5 marks] means showing awareness that the application of the matrix to *BC* is not clear cut; put another way, in order to achieve [5 marks], a candidate must explicitly write that more than one interpretation is possible (*ie* not necessarily diversification). However, just because a candidate has written that more than one interpretation is possible does not necessarily mean that the candidate’s response deserves [5 marks]. Other elements from the [5 marks] markband on page 3 must also be present.

(e) Discuss Ashton’s proposal to start manufacturing and selling smaller canoes. [7 marks]

Ashton is keen to start producing and selling smaller canoes. His proposal has several advantages:

- Market research has identified a need (a demand) for smaller canoes: this means a business opportunity. As *BC* has both experience and resources to start manufacturing this product, it would be a pity not to seize the opportunity; if *BC* does not do it, other competitors will. *BC* could have a first mover advantage. (*Note: candidates are not expected to know this term*).
- Manufacturing seems quite easy: the stimulus states that “*BC* can easily manufacture 1000 small canoes” and this would not affect the existing production; it seems to be just an extra, like a baker offering loaves of bread of a different size.
- Break-even seems achievable, at 600 canoes (*allow candidate own figure rule (OFR)*).
- This new product could help *BC* strengthen its brand image and reputation.
- This new product could help spread risks (in case the larger canoes stop selling).

However, there are some disadvantages too:

- As noted by the marketing director, there will be some marketing costs, higher than expected, to communicate about the new canoes (and money is needed in advance for that).
- In terms of product life cycle, it will take time for the new smaller canoes to become an established product; the launch and growth phase might be long, especially in a period of recession, when buying a canoe will not be a priority for many people, especially the young people that Ashton wants to target (they may find a cheaper way to exercise in an environmentally friendly way, rather than buying a \$2400 canoe).
- Shareholders are not convinced; Ashton may not want to antagonize them, as ultimately they are members of his family.

As in all strategic decisions, there is no correct answer, but Ashton will need to balance the arguments between various stakeholders. It would be advisable to seek additional market research to provide more support for the new development, or to provide counter arguments. Other means could be found to proceed, such as the use of strategic alliances, and/or joint ventures.

“Balance” for this response means including both advantages and disadvantages to Ashton’s proposal to start manufacturing and selling smaller canoes. “Balance” also refers to the range of issues examined. If a candidate produces a response that includes advantages and disadvantages, supported judgements/conclusions, and references to the stimulus but otherwise focuses solely on (for example) financial considerations, award a maximum of **[4 marks]**.

Accept any other relevant discussion.

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

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

Branding is an essential part of marketing. A brand is an identifying symbol, words, or mark that distinguishes a product or company from its competitors. The brand will have its own related customer perception as customers associate the brand with certain qualities. Usually brands are registered (trademarked) with a regulatory authority and so cannot be used freely by other parties.

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

(b) Explain the importance of the information in *Kabaret's* business plan for *one* internal stakeholder and for *one* external stakeholder. [6 marks]

Valid internal stakeholders include Matt and Shailah, as well the actors employed by *Kabaret*. For Matt and Shailah, the information in the business plan is important as it gives a roadmap for the operational and strategic development of *Kabaret* as a new business; it also covers a range of aspects they need to bear in mind, for example about how to market and promote their theatre company.

Valid external stakeholders include *Kabaret's* competitors as well as funding agencies such as a bank or an arts council. In order to set up *Kabaret*, Matt and Shailah may need to borrow money from a bank: for the bank, the information from the business plan is important as it shows the total start-up costs as well as the business' chances to be successful and eventually repay the loan.

N.B. Mr Lloyd could be described as an internal stakeholder (as he may be paid a fee by Matt and Shailah) or he could be described as an external stakeholder (as he may work on behalf of the local government to support new local entrepreneurs). Both approaches are acceptable.

Accept any other relevant explanation.

Mark as 3+3.

For each stakeholder (one internal and one external):

Award **[1 mark]** for the correct identification of the (internal/external) stakeholder.

Award **[2 mark]** for the correct identification of the (internal/external) stakeholder and a basic explanation that conveys partial knowledge and understanding. Here, the response may be more descriptive than explanatory or may lack detail.

Award **[3marks]** for the correct identification of the (internal/external) stakeholder and a full, clear explanation that conveys knowledge and understanding of the importance of the information in the business plan for the named stakeholder.

N.B. If a candidate has used two internal **or** two external stakeholders, the maximum they may achieve is **[3 marks]**. If a candidate has not correctly identified a stakeholder as internal/external, award a maximum of **[2 marks]** for that stakeholder. If a candidate has not identified a specific internal or a specific external stakeholder, award **[1 mark]** if the candidate demonstrates an understanding of what a business plan is and an additional **[1 mark]** if a general explanation of how stakeholders use it. Award a maximum of **[2 marks]**.

(c) Analyse the main problems that *Kabaret*, as a business start-up, may face. [5 marks]

As a business start-up, *Kabaret* may face several problems:

- Problems in terms of marketing: the stimulus refers to “developing a customer base and branding”; *Kabaret* has to make a name for itself and to create a competitive advantage; this is always time-consuming and difficult for new entrants in a market (here: the local theatre scene).
- Problems with finance: Matt and Shailah will probably need to borrow money; it is difficult for new businesses (especially in periods of economic recessions), as banks may hesitate to fund them. The fact that Matt and Shailah are young (having just finished university) and quite inexperienced is a disadvantage for them, as it can make it even harder to obtain funding, although some agencies specialises in helping younger people set up new businesses.
- Problems with cash flow: the stimulus refers to the fact that they do not know how much they should charge; pricing is one of the financial decisions they will have to make, but they will also need to learn how to manage their cash flow; according to page 11 in Paul Clark *et al's Business and Management Course Companion (2009)* “many new start-ups fail, not because their product is poor or that they can't make a profit, but because they don't manage their cash flow in the early years”.
- *Accept any other relevant analysis.*

N.B. The “balanced analysis” required to achieve **[5 marks]** is not about a balance of difficulty and ease, but about a balance of problems covering several areas such as finance and marketing. In order to achieve **[5 marks]**, a candidate must cover more than one problem.

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

- (d) **Analyse the appropriateness of the two pricing strategies Mr Lloyd suggests and recommend to Matt and Shailah which one to use for the tickets to *Kabaret's* shows.** **[7 marks]**

Two pricing strategies are mentioned in the stimulus: cost-based pricing and competition-based pricing.

Cost-based pricing means that Matt and Shailah would calculate how much it costs to stage a play (taking into account all factors such as paying the actors, buying the costumes and props, advertising the play *etc*) and would add a mark-up for their profit margin. This may be easy to calculate, however it assumes that they would sell all the theatre tickets (*ie* that the theatre would be full) which cannot be certain, especially as they are not known yet.

Competition-based pricing means that they will research and find out how much their competitors charge and decide accordingly. They may decide to charge less than other theatre companies, in order to attract theatre-goers and to build a reputation. This however assumes that their customers are price-sensitive and that *Kabaret* does not have higher costs than its competitors.

Each pricing strategy has advantages and disadvantages. There is no right or wrong answer: Matt and Shailah could equally be advised to opt for cost-based pricing or competition-based pricing.

Candidates need to include a recommendation with supported relevant reasons to achieve more than **[5 marks]**.

Accept any other relevant analysis with a recommendation.

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

5. (a) **Define the term *pressure group*.** [2 marks]

A pressure group can be defined as an organized group of people who believe in the same cause and decide to join forces to act together, for example *Greenpeace* campaigns to protect the environment. This pressure group can put pressure on businesses and business developers (for example about pollution, or about the ecological impacts of airport expansions).

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 definition above.

(b) **Explain the meaning of Sylvia’s statement that “for organizations, training volunteers is a form of investment”.** [2 marks]

Investment usually refers to purchasing new machines, or financing new ventures in the hope that they will later result in financial gains; here, Sylvia applies this concept to organizations that employ volunteers in terms of human resources management: training volunteers takes time (and money), but organizations know that, through this workforce, they will reap the benefits in the long term.

Accept any other relevant explanation.

Award [1 mark] for a basic explanation that conveys partial knowledge and understanding of Sylvia’s statement.

Award [2 marks] for a full, clear explanation that conveys knowledge and understanding of the importance of Sylvia’s statement.

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

- (c) **Distinguish between *two* forms of non-financial rewards that may be used by organizations to motivate volunteers.** [4 marks]

Non-financial rewards that may be used to motivate volunteers include job enrichment, job enlargement, empowerment and teamwork. These methods of motivation are linked yet different, for example “job enrichment entails giving employees opportunities to make use of the different skills they have, while job enlargement involves simply increasing the range of tasks a worker has to do” (pages 127–128 in Paul Clark *et al’s Business and Management Course Companion (2009)*).

If a candidate refers to something to the effect of “good feeling” as a reward, they need to clarify how an organization can offer the reward of “good feeling” rather than merely state “good feeling,” which could be viewed as a feature of volunteering rather than as a reward.

Candidates may focus on the benefits of training and CV (resumé) building. Doing so is acceptable; however, whether training and CV-building is two rewards or one depends upon the candidate’s answer. For example, if the candidate writes “training, which makes the volunteer more employable” and “something to put on their CV”, the candidate has really written about two aspects of one reward: how to make oneself more employable.

If the candidate writes “training, which makes the volunteer feel more valued” and “something to put on their CV”, the candidate has really written about two distinct rewards.

If a volunteer is given benefits that have monetary value it must be considered a form of monetary reward. If the reward has monetary value and receipt of it is necessary for the performance of the volunteering (for example, travel to a location, paid for by the organization, to do the tasks of the volunteer), the reward is non-financial.

Accept any other relevant point.

Award [1 mark] for a basic answer showing some limited knowledge of non-financial rewards (for example naming methods such as empowerment and teamwork).

Award [2 marks] for an answer which shows some knowledge and understanding of two forms of non-financial rewards (for example by defining the two methods, though not very clearly).

Award [3 marks] for an answer which distinguishes between the two forms (showing the difference) yet remaining at a theoretical level (*ie* without reference to motivating volunteers).

Award [4 marks] for an answer which distinguishes between the two forms (showing the difference) with explicit reference to motivating volunteers.

- (d) **Apply Maslow’s hierarchy of needs to the situation of an unemployed person who volunteers at a local non-profit organization.** **[5 marks]**

The lower levels of Maslow’s hierarchy of needs are about safety and security, as well as a sense of love and belonging. Depending upon their circumstances, an unemployed person may already fulfil them (for example their family may provide them with shelter and food); in some countries, the welfare state also helps unemployed people, through systems of benefits. More crucially, volunteering will help people fulfil higher levels of Maslow’s hierarchy of needs, about esteem and self-actualization: being surrounded by colleagues and feeling useful will create a sense of self-respect; this may be particularly important for an unemployed person who could otherwise stay at home and have the impression that they do not contribute to society. By volunteering in a local non-profit organization, an unemployed person may meet other people, make new friends and maybe even get a new job through networking contacts.

N.B. Theoretical knowledge of Maslow’s model should be credited: award up to **[2 marks]** if a candidate correctly draws the model using the right terminology.

N.B. The balanced application (examination) required to achieve **[5 marks]** is about a balance between the lower and higher levels of Maslow’s model: in order to achieve **[5 marks]** candidates must cover both.

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

- (e) **Discuss the advantages and disadvantages of employing volunteers in profit-based organizations.** [7 marks]

The advantages of employing volunteers in profit-based organizations could include the following:

- They provide free labour (even though training them may require some investment, as suggested by Sylvia Warnecke); for a profit-based organization, this means less spending on human resources (so some savings – or at least the possibility to invest in other areas of the business, for example marketing and promotion).
- They may provide a flexible workforce (as they may be employed at different times of the year, when the organization is busier); this may be important in terms of workforce planning (especially in sectors where seasonality is an issue).
- They may provide much needed expertise (as the stimulus mentions that some volunteers are retired people, so not just inexperienced students); for example a new organization may particularly welcome the expertise of a retired businessman who could act as a mentor.

The disadvantages of employing volunteers in profit-based organizations could include the following:

- Possible tensions or resentment between paid workers and unpaid (volunteer) workers, especially if the latter have the impression that they work as hard and fully contribute to the company's operations (and ultimately to its commercial success). This could create a negative atmosphere at the workplace.
- Some volunteers may not always be reliable or may not be fully committed; this can be difficult in terms of human resources management, if some volunteers do not turn up or are late, they cannot be disciplined like other staff.
- The legislation to employ volunteers is different from the employment law that the business managers may be familiar with; this may require preparing new policies or new types of contract, which could be time-consuming for a profit-based organization whose priority remains profit maximization.

Accept any other advantage/disadvantage and discussion.

N.B. The question is about “profit-based” organizations. In order to achieve [5 marks] and above, candidates must explicitly address that aspect.

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