



# **MARKSCHEME**

**May 2014**

**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 (d)	Q3 (d)	Q4 (d)	Q5 (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 (e)</b>	<b>Q4 (e)</b>	<b>Q5 (e)</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) **Define the term *market share*.** **[2 marks]**

Market share refers to the percentage or proportion of a particular market represented by an individual company’s sales (measured either in value [\$ or € for example] or number of units). In the case of *LE*, the company’s sales revenue has grown faster than the market for commercial lighting and faster than the market for energy efficient commercial lighting. As a result, its market share in both markets has increased.

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) **Describe *one* diseconomy of scale for *LE*.** **[2 marks]**

Diseconomies of scale refer to increases in per unit cost because of increased complexity that can occur with growth. One example from the stimulus of a diseconomy of scale is the ever more costly administration of manufacturing in 12 small factories in Algiers. If *LE* operated out of one large factory, managing deliveries to the factory, organizing the work schedules, and managing shipments of finished product would presumably be more streamlined than managing these processes through 12 different sites. Other diseconomies of scale relevant to *LE* include:

- financial/transactional diseconomies of scale (related to the having use of 12 small factories versus one large factory)
- technical diseconomies of scale (engineers may have to move from one factory to the next in resolving technical issues, driving up costs)
- inventory management.

*Accept any other diseconomy of scale appropriately described.*

Award **[1 mark]** for a basic description or an identification of a diseconomy of scale that conveys partial knowledge and understanding of the concept of diseconomy of scale.

Award **[2 marks]** for a full, clear description based on *LE* that conveys knowledge and understanding similar to the answer above. Though the candidate does not have to say “increases in per unit cost”, to receive **[2 marks]** a candidate must convey that idea in the description.

**(c) Calculate for LE:**

For parts (i) to (v) accept properly rounded numbers to 1 place right of decimal point and any answer specified as acceptable in the markscheme.

If 1 place to the right of the decimal is zero and the candidate correctly rounds to an integer, the response is correct.

Do **not** penalize candidates if they omit the € sign, days, percentage sign, or other appropriate symbol, nor if they use the incorrect symbol.

**(i) the gross profit for 2009 (figure Y). [1 mark]**

€28m

<11.5m>

€16.5. Gross profit for 2009: €16.5m

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

**(ii) the gross profit margin for 2013. [1 mark]**

$$\frac{€8\text{m}}{€3\text{m}} = 0.6237. \text{ Gross profit margin for 2013: } 62.37\%$$

Accept 62.37 %, 62.36 % or 62.4 %.

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

**(iii) the stock turnover for 2009 and 2013. [2 marks]**

$$\frac{€0.94\text{m}}{€1.5\text{m}} \times 365 = 29.83 \text{ days (2009)}$$

$$\frac{€4.32\text{m}}{€5\text{m}} \times 365 = 45.05 \text{ days (2013)}$$

Or may be calculated as follows:

$$\frac{€1.5\text{m}}{€0.94\text{m}} = 12.23 \text{ times in a year (2009)}$$

$$\frac{€5\text{m}}{€4.32\text{m}} = 8.10 \text{ times in a year (2013)}$$

If the candidate calculates in terms of days, they may round to 30 and 45 and receive full marks.

Award [1 mark] for the correct answer for 2009 and [1 mark] for the correct answer for 2013. Award a maximum of [2 marks].

(iv) **the current ratio for 2009 and 2013.**

*[2 marks]*

$$\frac{€5.74\text{m}}{€1.94\text{m}} = 2.96. \text{ Current ratio for 2009: } 2.96$$

$$\frac{€5.52\text{m}}{€1.0\text{m}} = 1.41. \text{ Current ratio for 2013: } 1.41$$

Award *[1 mark]* for the correct answer for 2009 and *[1 mark]* for the correct answer for 2013. Award a maximum of *[2 marks]*.

(v) **the acid test (quick) ratio for 2009 and 2013.**

*[2 marks]*

$$\frac{(\cancel{€5.74\text{m}} - \cancel{€0.94\text{m}})}{€1.94\text{m}} = 2.47. \text{ Acid test ratio for 2009: } 2.47$$

$$\frac{(\cancel{€15.52\text{m}} - \cancel{€4.32\text{m}})}{€1.0\text{m}} = 1.02. \text{ Acid test ratio for 2013: } 1.02$$

Award *[1 mark]* for the correct answer for 2009 and *[1 mark]* for the correct answer for 2013. Award a maximum of *[2 marks]*.

**(d) Comment on the decline in liquidity at *LE*.****[3 marks]**

Between 2009 and 2013, liquidity declined at *LE*: the current ratio fell from 2.96 to 1.41 and the acid test ratio from 2.47 to 1.02. Based upon the information provided, the main cause of the decrease in liquidity was the slower turnover of stock (stock turnover in days increased from 29.83 days in 2009 to 45.05 days in 2013). The probable cause of the increase in stock turnover was certain inefficiencies that resulted from growth because the firm did not have one large manufacturing facility but rather had numerous small facilities scattered around Algiers. Whereas *LE*'s liquidity situation at present is not a crisis, the trend is worrisome and, if it continues, *LE* will have genuine liquidity problems.

Award [**1 mark**] if the candidate comments on the decline in liquidity such that their comment conveys some understanding of liquidity.

Award [**2 marks**] if the candidate (1) comments that liquidity at *LE* is worsening and (2) supports the response with some numerate details and/or addresses that the liquidity situation is adequate and not yet a genuine problem (though soon will be).

Award [**3 marks**] if, in addition to the above, the candidate specifically links the decrease in liquidity to the slower stock turnover or the diseconomies of scale that have resulted from rapid growth, or makes some other relevant important and insightful comment.

Maximum award: [**3 marks**].



(e) Analyse communication at *LE*.

[5 marks]

The positives of communication at *LE* are many:

- The company appears to have a “working language”: French.
- Whereas the workers in Algeria prefer Arabic, most have at least basic French. It is probably rare when a worker speaks to customers.
- The supervisors in Algeria are salaried and speak both French and Arabic well and thus can communicate with French speakers (customers, vendors, employees in Luxembourg, *etc*) and to workers in Arabic.
- French is one of the major European languages.

There are some negatives of communication at *LE*:

- The business operates on two continents and, in Algeria, it operates in twelve different factories. Communication between these disparate sites is complicated and dependent on ICT, which can have problems from time to time.
- The fact that there are occasional problems with the IT infrastructure in Algeria causes some inefficiencies in operation.
- There are cultural differences in non-verbal communication between Algeria and Europe. On occasions when someone from Algeria travels to Europe or a European customer wants to see production facilities in Algeria, some training of the Algerian staff may be necessary.

Candidates are **not** required to know or refer to historical or cultural geographic factors (that French, for example, is an official language in Luxembourg [though that is certainly implied] or that Algeria has had a long relationship with France and the Franco-phone world). Candidates may raise these points if they know them, but they should not be awarded marks for knowledge of these areas but rather the marks should be awarded for business knowledge.

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

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

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

A pressure group is a formal organization, an informal organization, or diverse and scattered people and organizations that (1) has common interest and (2) tries to influence governments, businesses, or public opinion in favour of or in opposition to causes, generally related to social or environmental issues or related to human and civil rights.

Candidates are **not** expected to word the 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. A candidate may deepen their response through exemplification. Exemplification alone, when expressed in a complete sentence with an action verb, could earn [1 mark]. However, “Greenpeace is a pressure group”, with nothing else, would not earn even a mark.

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

(ii) **Describe the production method known as batch production.** [2 marks]

Batch production is a manufacturing technique in which goods are produced in groups (batches) and not in a continuous stream. Batch production can be useful for small businesses who cannot afford to run continuous production lines.

*N.B.* Non-native speakers especially, may not know a synonym for batch.

Do not accept tautological answers: “Batch production is when the product is made in batches”; a response such as this, all by itself, would earn [0 marks]. However, if a candidate can describe batch production (a batch moves through stage, all products in the batch are the same, *etc*) or deepen through exemplification, do **not** penalize for overuse of the word batch.

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 answer above.

(b) Calculate for *Klar's* new flavoured drinks (*show all your workings*):

(i) the break-even level of output. [2 marks]

$$\text{Break-even point} = \frac{\text{Total fixed costs}}{\text{Contribution}}$$

$$\text{BEP} = \frac{240000}{(1.6 - 0.4)} = 200000 \text{ bottles}$$

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

(ii) the margin of safety if it operates at full capacity. [2 marks]

$$\text{Margin of safety} = \text{Expected sales level} - \text{Break-even sales level} =$$

$$3000000 - 200000 = 2800000 \text{ bottles}$$

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

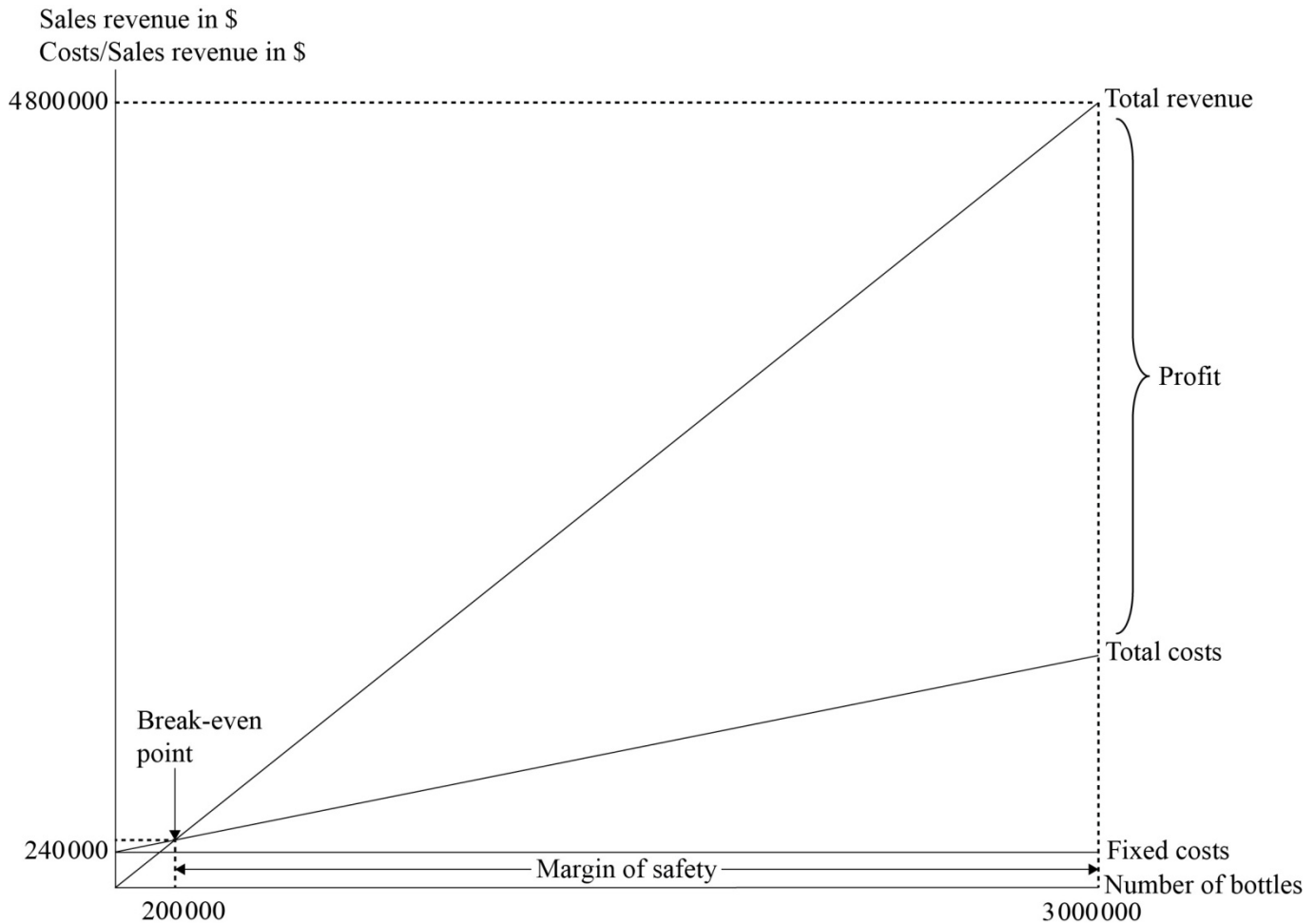
(iii) the profit or loss if it operates at full capacity. [2 marks]

$$\text{Profit} = \text{SR} - \text{TC} = (1.6 \times 3000000) - (240000 + (0.4 \times 3000000)) = 4800000 - 1440000$$

$$\text{Profit} = \$3360000$$

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

(c) Construct a fully labelled break-even chart for *Klar's* new flavoured drinks. [5 marks]



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 costs curve.

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

**N.B.** If candidates use the word “sales” instead of “revenue” accept. In many places in the world, sales and revenue are virtually synonyms, a least in everyday use.

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. If a candidate produces a chart with no figures (which prevents determination if it is to scale) but in other respects it is fully accurate, award a maximum of [3 marks].

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”.

- (d) Analyse *one* advantage and *one* disadvantage for *Klar* of having ethical objectives. [5 marks]

To support its ethical objectives of being environmentally friendly, *Klar* has decided to use reusable glass bottles instead of plastic containers. With such a decision, *Klar* can gain on brand image and reputation, which might lead to an increased customer base and support from government and environmental groups. A growing trend among consumers is consume products that will not damage the environment. However, products that do not damage the environment usually cost more.

If *Klar* wants to support the environment by using glass bottles, they must do one of two things:

- Pass the higher cost on to consumers. However, with price still a determinant component in choice for most of the customers, under this option *Klar* must persuade price-conscious consumers that the more expensive *Klar* products are worth it because it helps protect the environment or *Klar* runs the risk of losing market share, lowering profits, and weakening returns.
- Absorb the higher cost of the containers themselves, lowering margins and lowering return on investment (ROI). However, shareholders of *Klar* may object to this approach, regardless of how much good this approach does for the environment.

The issue for *Klar* is one of time horizon. Though some consumers are getting more conscientious about pollution issues and are probably more open to adopt responsible consumption habits, for the majority of consumers, price is still what matters. In the long run, however, if consumer trends continue, most consumers will probably become conscientious about environmentally friendly products.

Balance, on this question, is more than analysing the binarity of good reputation/image versus higher cost. Balance comes from deepening their response by extending their reasoning. For example,

- bringing into account the fact that for most consumers, price is the determining factor
- giving consideration to the time element (short-term versus long-term)
- extending the higher cost implications out to different stakeholders groups, such as shareholders
- *accept any other relevant extension.*

*Accept any other relevant analysis.*

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

**SECTION B**

3. (a) **Identify *one* advantage *and* *one* disadvantage of mass production for the American company.** [2 marks]

Advantages of mass production include:

- per unit cost of production is low (by comparison to other forms of production)
- the rate of production tends to be high
- products are uniform and often of very high quality
- most workers do not require a high skill level – easy to find workers
- machines tend to make fewer errors than humans.

Disadvantages of mass production include:

- production runs typically must be of great volume to reach break-even
- mass production lacks the flexibility of other forms of production
- mass produced items do not have anything unique about them
- workers may take less pride in work and overall pride in the business
- mass production is capital intensive
- production in large quantities can be financially risky if the product fails to sell.

*Accept any other relevant advantage or disadvantage. If a candidate offers as a disadvantage something to the effect of “quality is likely to be lower,” do not award a mark. All by itself, that assertion is inaccurate.*

**Mark as 1 + 1.**

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

- (b) **Explain *one* difficulty that the American company may face when entering the South African market.** [2 marks]

When entering the South African market, the American company could face a number of difficulties based upon differences in:

- business cultures and practices
- economies and social practices
- exchange rate/trade barriers
- political culture and laws
- the cultures of South Africa and the United States.

*Accept any other relevant difficulty that the American company may face.*

Award [1 mark] for identification of a difficulty that the American company could face. Award [2 marks] for a full, clear explanation of how it will be a difficulty.

(c) **Explain *two* possible purposes of penetration pricing.** **[4 marks]**

Penetration pricing has many purposes. It can:

- allow a business to acquire rapidly market share
- catch existing businesses in the market by surprise and not allow them time to react
- create satisfied early adopter customers who know that they are getting a favourable price now and that prices will eventually rise as more people want the product
- discourage any potential new competitor.

In many cases, candidates are going to say something to the effect “gaining customers” or “increasing market share”. Be cautious so that marks are **not** awarded for what is basically a repetition. The second idea must be distinct. However, the candidate may break penetration pricing into two time segments; the first being to get customers/gain market share and the second being (a) building brand loyalty, for example, or (b) increasing profitability by raising prices because there is now a loyal customer base.

*Accept any other relevant purpose of penetration pricing with an explanation.*

**Mark as 2+2.**

Award **[1 mark]** for identification of a relevant and correct type of purpose of penetration pricing and **[1 mark]** for its explanation. Award a maximum of **[2 marks]** for each purpose.

[Source: <http://www.inc.com/encyclopedia/penetration-pricing.html>, accessed 2014]

- (d) **Examine the roles of intrinsic motivation and extrinsic motivation of the workers at *KP* and at the factory opened by the American company.** [5 marks]

Intrinsic motivation refers to a motivational basis that is within an individual and corresponds to tasks that are inherently rewarding. In situations where intrinsic motivation is at work, external incentives are not required to get the employee to perform the tasks or do the work. Extrinsic motivation refers to situations where the tasks that must be performed are not inherently motivating and workers have no internal desire to complete them. However, for rewards, typically pay and fringe benefits, workers can be extrinsically motivated to perform certain tasks. *KP* has traditionally operated by reliance on intrinsic motivation: workers were not paid very much, but had job security and were encouraged to take their time to make the most beautiful pottery that they could. The American company, on the other hand, mass produces large quantities of pottery and only a small number of employees are involved in the design. Most employees will work in automated manufacturing and warehouse processing that will require little creativity. Because the work will not be intrinsically motivating, the American company will rely on external rewards: good wages with fringe benefits.

Balance, in this context, means addressing both types of motivation and conveying some sense of the strengths and weaknesses of motivating workers intrinsically or extrinsically. To receive [5 marks] a candidates' answer must have significant detailed reference to the stimulus or some detailed reference plus explicit use of a motivational theory.

If a candidate clearly knows the meaning of both intrinsic and extrinsic motivation and correctly applies to the stimulus with some detail, award a maximum of [4 marks].

If a candidate accurately describes intrinsic motivational approaches at *KP* and accurately describes extrinsic motivational strategies at the American company but does not label/call them intrinsic and extrinsic, award [2 marks].

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



- (e) **Evaluate the impact on South Africa of the American company opening a factory in Johannesburg.** [7 marks]

The arrival of the American pottery company in South Africa could have a significant impact on the host country. Some implications of the arrival will not be welcomed:

- small companies, like *KP*, will face new competitive pressures and could possibly be put out of business
- the hand-made craft tradition in pottery could die (at least be weakened) and be lost and replaced with mass production
- profits will be directed out of the country
- small, African owned businesses such as *KP* could be weakened or altogether cease to exist
- assuming the success of the American company, there will be “an Americanization” of South African culture, at least in the area of pottery.

On the other hand, the presence of the American company will also have some positive implications:

- the presence of the new and modern American facility will put pressure on South African pottery businesses to modernize, which in the long run could make them more competitive and, thus, viable for a longer period of time
- the greater uniformity of the product (via mass production) and the reduction in per unit cost may appeal to many South African consumers – they could feel positive out of purchasing these types of goods
- the decision by the American business to locate in South Africa, rather than in some other country in southern Africa, means that South Africa will get the benefit of 150 new, well-paying positions
- the construction of the new manufacturing facility in South Africa represents a major capital investment in the country.

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

4. (a) **Identify *two* variable costs for Magda’s flower business.** [2 marks]

Relevant variable costs for Magda’s flower business include:

- the flowers she buys before reselling them
- the energy bills, for example, electricity bill for heating the shop will be higher in winter
- the fuel for the vehicle of the assistant who delivers flowers in the morning
- supplies (decorative tissue paper, ribbons, boxes, vases, *etc*)
- accept transporting but **not** cost of vehicle.

*Accept any other relevant variable cost.*

**N.B.** Do not accept wages (of part-time employees).

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

(b) **Explain the meaning of the sentence: “Magda’s small business has only one source of revenue”.** [2 marks]

Magda’s flower business follows a simple business model: she resells flowers; this is, however, the only strand of revenue for her business: if one day she has no customer who wants to buy flowers, the business will not earn any money that day. She could have other sources of revenue, for example, selling other goods (*eg* greetings cards, gifts, accessories) or services (*eg* teaching flower arrangements at a local adult college), that way she would be less dependent on just selling flowers.

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

Award [1 mark] for a basic answer that shows partial knowledge and understanding of the topic of sources of revenue.

Award [2 marks] for a full, clear explanation of the sentence.

- (c) Using Magda’s flower business, distinguish between “just-in-case” and “just-in-time” methods of stock control. *[4 marks]*

A “just-in-case” method of stock control means that a business needs to have a certain amount of stock to be able to supply any product to a possible customer. If Magda joins *Interflora*, she will need to have a high number of flowers in stock, which is likely to be expensive, especially as flowers cannot be stored for long periods: they wither and decay. This is easier in some industries, keeping large amounts of stock, just in case (literally) someone asked.

A “just-in-time” method of stock control is different. It means that a business is able to get hold of some products if the need arises. For example, Magda could have a supplier of all types of flowers in the nearby town. If someone orders her red roses in the morning, she can arrange this for the same day in the afternoon, as one of the part-time assistants could drive there and get the flowers.

*Accept any other relevant answer.*

*[1 to 2 marks]*

Award *[1 mark]* for an answer that shows some knowledge of stock control methods. Award *[2 marks]* for an answer that refers to the difference between just-in-case and just-in-time stock control at a generic, theoretical level.

It is possible to get one method of stock control correct, with application to the stimulus, but **not** get the other stock control method correct and earn *[2 marks]*. *[1 mark]* for the correct method and *[1 mark]* for correct application.

*[3 to 4 marks]*

Award *[3 marks]* for an answer that combines “theory” (*ie* definitions) and “practice” (*ie* reference to Magda’s flower business). Award *[4 marks]* for an answer that clearly distinguishes between just-in-case and just-in-time stock control with reference to both Magda’s flower business, and offers some other element to the response that deepens it such as:

- relevant reference to another business.
- Some elaboration on implications (for example, just-in-case increases working capital requirements)
- A brief explanation of which method is more appropriate for Magda’s business.

- (d) Analyse the advantages *and* disadvantages for Magda of joining an international franchise such as *Interflora*. [5 marks]**

Joining an international franchise such as *Interflora* has several advantages for Magda. She would benefit from a wide existing network of customers and suppliers. She would benefit from the brand name and well-established marketing methods. She could also receive some training from the franchisor, which could help her improve professionally (this may be important as she left school at 18, when she was young).

However, there are some disadvantages too. Joining the franchise would cost her money, probably high initial joining fees plus a percentage of the sales revenue of the flower business. She might also be tied up by specific constraints (for example, about what she is allowed to sell, flowers or other products); she could lose some of her freedom (customers like the fact that she is creative, but she might not be able to be as creative in the future).

The balance required for higher marks refers to the need to analyse both advantages and disadvantages.

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

- (e) **Recommend to Magda *one* of the three methods of external growth that she has considered.** [7 marks]

Three methods of external growth are mentioned in the stimulus: a joint venture with a local wedding organizer, a strategic alliance with a garden centre, a merger with another florist. Candidates may compare and contrast their relative advantages and disadvantages, for example, a merger with another florist means that Magda would lose her independence yet stay in the sector that she knows and loves, whereas the joint venture with the local wedding organizer is a form of product development (to use Ansoff matrix) in a sector that Magda does not know at all, though it could be financially very good in the long term, through new business opportunities for Magda (flower arrangements for weddings and, later, other occasions too).

An important aspect of the question is about Magda’s legal status: Magda could still remain a sole trader (for example, a strategic alliance would not affect this) but some other arrangements might be necessary (for example, a status of partnership of the two florists might be best in the case of a merger). Ultimately, all three options could be recommended (*ie* there is no right/wrong answer).

If no meaningful reference/attention is given to the business structure (details of a joint venture, strategic alliance, or a merger), award a maximum of [2 marks].

If there is reference/attention to the business structure (details of a joint venture, strategic alliance, or a merger) is present but limited, award a maximum of [3 marks] if the discussion of the business venture (with wedding planner, garden centre, or another florist) is basic. Award a maximum of [4 marks] if the present-but-limited reference/attention to the business structure is complemented with a more detailed consideration of the business venture.

For [5 marks] or more, the candidate must discuss in some detail the business structure.

Candidates do **not** have to address all three options. They may, or they may address only one or two options. Evidence of evaluation can occur with a detailed consideration of one option **or** a less detailed but comparative consideration of all three options.

*Accept any relevant substantiated recommendation.*

If a candidate does not refer to the implications for the legal status, the maximum they can achieve is [4 marks].

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

5. ***N.B.*** Throughout the questions under “Setting up a new business in Albania”, if a candidate inadvertently reverses the names of the two characters, Gent and Agon, do not penalize candidates.

(a) Describe *one* form of non-financial reward that Gent could use to motivate the teachers in the evening school.

[2 marks]

Gent could use the following forms of non-financial reward:

- Job enrichment – giving employees a “richer” job experience through more variety of tasks and some tasks of greater responsibility and/or complexity.
- Job enlargement – giving employees a “larger” job experience through more tasks, usually of the same level of complexity and responsibility.
- Empowerment – giving employees more information related to, responsibility for, and autonomy over their jobs.
- Team work – having work performed in teams or groups with the expectation that the group performance is more important than individual accomplishment. Many workers and in many cultures, the experience of teamwork is deeply rewarding and motivating.
- Praise and recognition – praising employees and giving them recognition, such as mentioning their good work at a faculty meeting or naming them “teacher of the month” can boost employees self-esteem and give them something to work for.
- Purpose – working for a good cause, such as Gent’s school, can be motivating. Employers can build on this by reminding employees of the good service that they are providing, the social good that is coming out of their efforts. Reminding people of the higher purpose can be very motivating.
- Training – providing training often motivates employees, even if the training has no immediate economic or cash value. Many people like to learn, feel that training, in the long-run, keeps them viable in the workforce, and provides a break from routine.

An example of a description, using job enrichment, would be something like: A work colleague could have his job enriched if Gent asked him, in addition to teaching his subject (for example, business), to oversee some other aspects of the evening school, for example, marketing (advertising the school), recruitment (choosing the students) or liaising with the bank or the local authorities (for fundraising).

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

***N.B.*** Do not accept any reward that has short-term or concrete financial value, such as subsidized canteen, holidays, health benefits, car, *etc.*

Award [1 mark] for a basic answer that conveys partial knowledge and understanding (this could be a theoretical definition of the chosen form of non-financial reward).

Award [2 marks] for a full, clear description that conveys knowledge and understanding (explicitly mentioning what the chosen form of non-financial reward means in the context of Gent’s evening school).

- (b) Explain *one* benefit for Agon’s business if Albania joins a regional trading bloc such as the European Union (EU). *[2 marks]*

Joining a regional trading bloc such as the European Union (EU) means that commerce would be easier. This would particularly benefit Albanian businesses involved in exports (towards other EU countries such as Italy) and imports (from other EU countries such as Germany); Agon’s business (importing electrical appliances from Germany) is in that latter category: if Albania joins the EU, his business may be able to operate faster, with less paperwork and less border control, and cheaper, with fewer import taxes.

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

*N.B.* If a candidate writes about Gent’s business instead of Agon’s business (regardless of the name that they use), award *[1 mark]* if the candidate demonstrates some understanding of how joining a regional trading bloc can help a country’s businesses. No mark would be awarded for the application, as the candidate is talking about the wrong business.

Award *[1 mark]* for a basic answer that conveys partial knowledge and understanding of the topic of regional trading blocs in general.

Award *[2 marks]* for a full, clear explanation that conveys knowledge and understanding of a benefit for a business importing goods applied to Agon’s business.

- (c) **With reference to Gent’s evening school, contrast *two* reasons for setting up a business.** **[4 marks]**

Reasons for setting up a business include:

- passion about an idea, an area of interest or a cause; the aim is not primarily to make a profit; this is the case of Gent and his evening school, or of social enterprises such as *The Big Issue* in England (social enterprises)
- having identified a business opportunity or a gap in the market; this seems to be the case of Agon; this is the case of most commercial ventures (for example, Stelios Haji-Ioannou when he created *Easyjet*)
- family tradition: being entrepreneurial is sometimes seen as a family trait; many entrepreneurs have had parents and even grandparents who too ran their own business
- redundancy: someone lost their job and, rather than struggling to find another employer, they decided to be self-employed.

**N.B.** If a candidate talks about Agon’s business but not Gent’s, follow the markscheme, which indicates that one of the reasons **must** talk about Gent’s school.

**Mark as 2 + 2.**

The two reasons need to be different (see command term “contrast”); if the reasons are similar, the maximum a candidate may achieve here is **[2 marks]**. One reason **must** include a reference to Gent’s evening school. If neither reason mentions Gent’s school, award a maximum of **[2 marks]**.

Award **[1 mark]** for each relevant and correct reason for setting up a business identified and **[1 mark]** for an appropriate explanation in context up to a maximum of **[2 marks]**.



- (d) **Analyse the main problems that a business start-up may face in a less economically developed country such as Albania.** [5 marks]

A business start-up in a less economically developed country such as Albania may face several problems, such as:

- poor infrastructure might create challenges, for example, the stimulus mentions that access to electricity can be sometimes unreliable in the countryside; likewise, transport and logistics can sometimes be difficult; on the other hand, workforce is sometimes cheaper and more flexible than in developed countries, so it might be easier for new businesses in some areas
- there might be domestic problems with security, safety, stability; on the other hand, the government may be keen to change that negative image and may be implementing policies to support economic development through new businesses
- access to initial funding may be more difficult than in developed countries, where banks abound; interest rates might also be quite high (though on the other hand, some organizations such as *Kiva* have micro-credit lending schemes for a business start-up specifically located in less economically developed countries).

*Accept any other relevant analysis.*

The balance required for higher marks means that the answer must include counter arguments to relativize the problems.

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

**(e) Discuss Gent’s proposed sources of finance for the evening school. [7 marks]**

Gent’s proposed sources of finance are indicated in the table: they rely heavily on external funding from international NGOs (40%) and from local authorities (40%) – and to a much lesser extent on fees paid by students themselves (10%) and a bank loan (10%). Gent is aware that a bank is unlikely to loan much money to a business which is not a commercial venture aimed at making profit (*ie* a “social enterprise”), and that the students themselves are unlikely to be able to pay much more for the classes (“one of Europe’s poorest countries” according to the stimulus).

This has advantages and disadvantages, for example it is beneficial to have several sources of funding (for instance for match-funding purposes or to avoid depending upon one sole funder), but it also means that Gent’s school depends largely upon international agencies (the NGOs) whose priorities might change in the future. These sources of finance are appropriate to a certain extent, though other sources could be considered as well, for example, a rich donor or philanthropist, or sponsorship.

*Accept any other relevant substantiated discussion.*

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

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