

Markscheme

November 2015

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 (c)	Q4 (d)	Q5 (c)	
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 (d)	Q4 (e)	Q5 (d)	
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) Identify **two** variable costs for CC. [2]

Possible variable costs for CC include:

- food
- utilities
- supplies
- petrol for delivery vehicle
- wages
- electricity (provided that candidates relates it to output).

Accept any other relevant variable cost.

Award [1] for each appropriate variable cost identified, up to a maximum of [2].

- (b) Define the term *contribution*. [2]

Contribution refers to the portion of unit sales revenue, after per unit variable costs have been deducted. This portion is then available to be applied to the fixed costs.

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

Award [1] for a basic definition that conveys partial knowledge and understanding or if the candidate merely writes the formula for calculating contribution.

Award [2] for a full, clear definition that conveys knowledge and understanding. For [2], the candidate must include the idea of “per unit,” or in the case of CC, per meal.

N.B. *If a candidate gives a formula, such as per unit sales price – per unit variable costs, but with no mention of fixed costs, award [1]. If the candidate gives a formula and then provides some reference or relationship of the unit contribution to fixed costs, award [2]. The candidate does not have to use the words “fixed costs” but that idea or some sense of the idea of a business’s fixed costs needs to be conveyed.*

(c) Calculate for CC:

- (i) the break-even level of output (*show all your working*);

[2]

$$\text{Break-even quantity} = \frac{\text{fixed costs}}{\text{contribution}}$$

$$\begin{aligned} \text{Contribution per meal} &= \text{selling price} - \text{variable cost} \\ &= \$17 - 17 \times 70\% \\ &= \$5.10 \end{aligned}$$

$$\begin{aligned} \text{Break-even quantity} &= \frac{42000}{5.10} \\ &\approx 8236 \end{aligned}$$

Accept 8235. Because $42\,000/5.10 = 8235.2941$, candidates may think to round down. Whereas one could argue that, technically, the business has not reached break-even at 8235, it is only short by \$1.50, which is not material for a business with forecasted sales of \$221 000.

Award [1] for working or formula and [1] for the correct answer. Award up to a maximum of [2].

- (ii) the margin of safety, if it sells 50 meals per day, 260 days per year (*show all your working*);

[2]

$$50 \times 260 = 13000$$

$$13000 - 8236 = 4764$$

Margin of safety is 4764.

N.B. Allow candidate own figure rule (OFR) from part (i) calculation.

Award [1] for working or formula and [1] for the correct answer. Award up to a maximum of [2].

- (iii) the profit **or** loss, if it sells 50 meals per day, 260 days per year (*show all your working*).

[2]

$$13000 \times 17 = \text{total revenue} = 221\,000$$

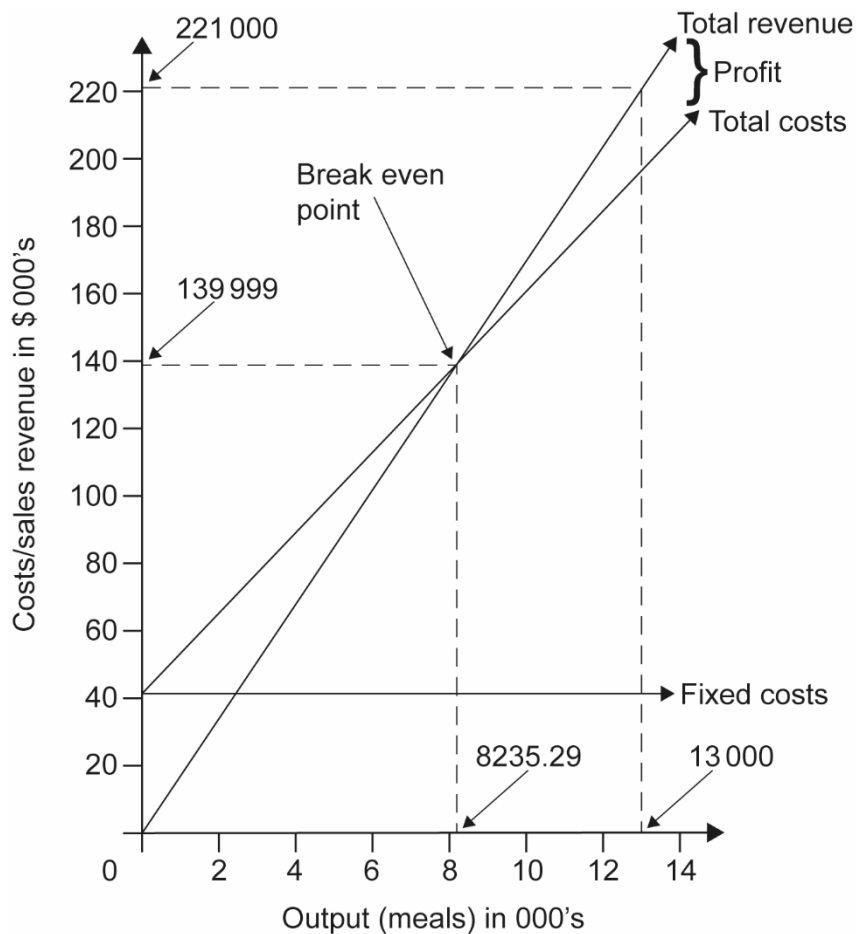
$$\begin{aligned} 221000 - \text{variable cost} - \text{fixed cost} &= \text{profit} \\ 221000 - (0.70 \times 221\,000) - 42000 &= \text{profit} \\ 221000 - 154\,700 - 42\,000 &= 24\,300 \end{aligned}$$

Profit is \$24 300.

Award [1] for working or formula and [1] for the correct answer. Award up to a maximum of [2].

(d) Construct a fully labelled break-even chart, to scale, for CC.

[5]



Award marks as follows:

[1] for each appropriately labelled axis – maximum of [2].

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

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

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

If axes are not completely and properly scaled, award a maximum of [3] (assuming the candidate has earned at least [3] from above). In its label, the y-axis must have both costs and revenue. The x-axis can be output, sales, quantity, number of meals, or any other term that gets at this concept.

Award [0] if a candidate produces a table, and award no more than [3] 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 “appropriately 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”.

- (e) Analyse the appropriateness of a cost-based pricing strategy for CC.

[5]

All businesses are influenced by their costs when determining prices. Cost-based pricing as a strategy refers to setting price with costs acting as its “bottom line”. Such businesses may have more influence of cost on their prices. For example, the use of exotic vegetable, unseasonal food items, special preparations, customized meals.

Cost-based pricing involves the addition of a profit element to the costs of production. This form of pricing guarantees a profit since the fixed and the variable costs are all covered, and the price is always set above the costs to allow for a net profit margin.

Evana, through secondary market research has data, that while established businesses of the same size, in the same industry earned an average of 35% markup, Evana was expecting a 15% markup on her costs. With the pricing that Evana plans to sell meals at \$17, she is likely to have a markup of 11% and therefore may wish to review her prices to obtain the desired 15% markup.

This pricing strategy **may be appropriate** as the cost of meals will vary depending on the use and the cost of ingredients. For example – meals using seasonal vegetables which are abundant in supply and therefore reasonably priced may have matching “low” prices, similarly non-vegetarian meals may be priced differently, while Italian, Mexican dishes may be priced accordingly. Such a pricing strategy is also appropriate where businesses are not willing to sacrifice some of their profits for lower prices.

However, a cost-based strategy **may not be appropriate** as it ignores the impact of competition on consumers. If competitors are selling at lower prices (the market becomes competitive) then the business might see its sales decreasing rapidly. This is only likely if the market is not particularly competitive and this approach is adopted as an industry norm. Alternatively, it may apply if the firm has a particular USP; in such a case, pricing may have a low impact on the business.

The adoption of any pricing strategy, including a cost-based one, should be backed by adequate market research to fully understand the nature, income and psychographic characteristics of CC’s target market.

Accept other relevant analysis and application of a cost-based pricing strategy to CC.

To achieve the highest markband the answer must demonstrate analysis of the suitability of cost-based pricing strategy to CC – not just general benefits and drawbacks of the strategy.

Accept any other relevant analysis.

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

2. (a) Identify **two** possible sources of finance, **other than** leasing, that *BB* might use to obtain the vehicles. [2]

Possible sources of finance include:

- bank loan
- loan from family or friends
- capital provided by another partner, or partners
- personal savings
- hire purchase
- government small-business grant (accept grant from government or government grant)
- business angel (do not accept venture capitalist, which is not appropriate).

Accept any other relevant source of finance.

N.B. *Short-term borrowings or overdraft is not an appropriate source of finance in this situation and should not receive a mark.*

Award [1] for each appropriate source of finance identified up to a maximum of [2].

- (b) Identify **two** features of a partnership. [2]

Possible features include:

- it's an association between 2 to 20 partners
- partners do not have limited liability
- it's an unincorporated business.

Accept any other relevant feature.

Award [1] for each appropriate feature identified up to a maximum of [2].

- (c) (i) Prepare a monthly cash-flow forecast, for *BB*, for the first six months of operation.

[6]

All figures in \$

	December	January	February	March	April	May
Sales revenue	11 000	11 000	11 000	1000	1000	1000
Total receipts	11 000	11 000	11 000	1000	1000	1000
Overheads	2000	2000	2000	2000	2000	2000
Leasing fee	5000		5000		5000	
Variable costs	1500	1500	1500	300	300	300
Total payments	8500	3500	8500	2300	7300	2300
Net cash flow	2500	7500	2500	–1300	–6300	–1300
Opening balance	1000	3500	11 000	13 500	12 200	5900
Closing balance	3500	11 000	13 500	12 200	5900	4600

N.B. Allow candidate 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. This provision includes both mathematical errors and conceptual errors (for example, if a candidate has the leasing fee monthly rather than every other month, it is one error) and candidates should only lose [1] for that error.

Award [1] if the candidate conveys some understanding of what a cash-flow forecast is, but otherwise the forecast is largely inaccurate, incomplete, or illegible.

Award [2–3] if 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, which could include, in addition to number placement problems and mathematical errors, conceptual errors (using the word “profit” rather than “net cash flow”) or omissions, such as not having a line like “closing balance”.

Award [4–5] if the cash-flow forecast is drawn essentially correctly and neatly in a generally accepted format, but there is one error for [5] or two errors for [4].

Award [6] if the cash-flow forecast is drawn accurately and neatly in a generally accepted format, and is error free. Substituting the term “net profit” in the cash-flow forecast for “net cash flow” is inaccurate.

If the candidate has only one row for all cash outflows, subtract [1] from the total mark awarded.

- (ii) Comment on *BB*'s forecasted cash-flow position.

[3]

Although the cash balance is positive at the end of six months, the monthly net cash flows are only positive in the first 3 months. If the figures for remaining low-season months (June through November) continue, *BB*'s cash balance would be negative by the end of month 7 (June) and, by the opening of high season next summer, the cash balance would be –\$18 200, far greater than the cumulative positive balances for the 3 peak months. The cash-flow forecast shows that the current business model is not sustainable.

Allow candidate own figure rule (OFR).

Award [1] for an accurate basic comment.

Award an additional [1] for reference to specific figures, which could be actual numbers or references to a specific row in specific time periods (“net cash flows in December, January, and February”) is a specific reference to actual numbers, even if numbers are not present in the text, whereas “In the seasons that they do not rent as much, the cash inflows do not sustain their cash outflows” is not a specific reference to specific numbers).

Award [1] if the candidate recognizes that the business will have a deficit or cash-flow problems in the months to come.

N.B. *A candidate could produce a response that earns [1] for making a basic comment and [1] for recognizing a deficit in months to come for a total of [2], even though the candidate did not have specific reference to numbers.*

- (iii) Calculate *BB*'s forecasted net profit for the first six months of operation (show all your working).

[2]

Method 1

Profit = sales revenue – total costs

Sales revenue = $11\,000 \times 3 + 1\,000 \times 3 = \$36\,000$

Total costs = $2\,000 \times 6 + 1\,500 \times 3 + 300 \times 3 + 5\,000 \times 3$
 $= 12\,000 + 4\,500 + 900 + 15\,000 = \$32\,400$

Forecasted net profit = $36\,000 - 32\,400 = \$3\,600$

Method 2 (allow OFR)

Closing balance in May – opening balance in December =
 $4\,600 - 1\,000 = \$3\,600$

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

A candidate may calculate monthly profit for all six months such as:

All figures in \$

	December	January	February	March	April	May
Revenue	11 000	11 000	11 000	1 000	1 000	1 000
Expenses	8 500	3 500	8 500	2 300	7 300	2 300
Net profit	2 500	7 500	2 500	–1 300	–6 300	–1 300

This approach is acceptable, even if a total for all six months is not produced. Award [1] for working and [1] for the correct answer (all six months correct, though OFR does apply). Award up to a maximum of [2].

- (d) Analyse the advantages **and** disadvantages, for *BB*, of using an online booking service.

[5]

If *BB* introduces an online booking service, they will probably gain on customer base as they will be able to reach regional and international potential customers with a minimum of expense. Accessibility to the service will be improved and customers will be able to book the vehicles before arriving to Punta del Este.

Administrative and paper work could be reduced as transactions will be done online. In addition, through the website, *BB* will give information about the company and advertise their services and renting conditions which will be visualized by potential customers. Marketing costs will possibly fall.

Online booking can be done any time and would not be restricted to *BB*'s opening hours. Websites typically ask for customer feedback; if this is the case, *BB* can have access to relevant information to understand, anticipate and meet changing customer preferences.

However, many customers still refuse to do commercial transactions online due to privacy or security reasons, such as the fear of online credit card fraud.

In addition, some believe that the Internet is very impersonal and would prefer a personal service for their transactions.

If *BB*'s website and the online booking system is not user friendly, potential clients may be discouraged to hire vehicles using the service.

Accept any other relevant analysis.

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

Section B

3. (a) Identify **two** ways non-profit organizations differ from profit-based organizations. **[2]**

- profit versus non-profit
- business objective (growth, profit, market share, *etc*) versus some service for the common good
- revenue and expenses versus more flexible approaches (contributions, volunteers, *etc*).

Accept any other relevant answer.

Award [1] for each difference identified up to a maximum of [2].

- (b) Explain **two** elements of MS's marketing mix **other than** product, price, place and promotion.

[6]

Other elements of the marketing mix might include: packaging, people, process, and physical evidence. Of these, the stimulus provides some evidence on:

People: MS relies on people who are passionate about helping others – they must be, as they actually pay to be part of the MS organization and forgo the comforts of home to live on a ship, where quarters are likely to be cramped and the rules are precise. Further, the volunteers are not making money, as they would likely be if they were still home. The passion of its volunteers would help them work in these difficult conditions, though the rewards of helping those in need are probably great.

Process: MS' process is very straight-forward. MS goes to its patients. The ship goes to ports where their services are needed. Before a ship arrives in port, brochures are delivered so that potential patients are alerted. If patients are unable get to the ship or other locations, MS' staff go to the patients in mobile medical and dental clinics. The other key element of the process is the delivery of modern medical services as well as can be provided in generally underfunded and ad hoc circumstances.

Packaging and physical evidence: Limited evidence is provided for packaging and/or physical evidence. As for physical evidence, apart from the ship itself, MS probably has its logo on the medical clothing worn by the staff and on the vehicles it uses for its mobile clinics. Brochures are distributed: brochures are both a form of promotion and a piece of evidence. Possibly, (though possibly not due to the cost), medical supplies come in packages with the MS logo.

N.B. If a candidate says packaging and physical evidence, award [1] overall. If a candidate says packaging and physical evidence, and then mentions only the ship, award [1] overall.

Mark as 3+3.

Award [1] for identification of an element of the marketing mix other than product, price, place, and promotion. Thereafter, award [1 to 2] for each explanation of the element identified, depending upon the depth.

If candidates treat physical evidence and packaging as separate Ps, award a maximum of [4].

- (c) Apply **one** theory of motivation to *MS*'s volunteers.

[5]

Candidates may apply any of the motivation theories in the guide or any other well-known relevant theory of motivation. "Balance" in this case would refer to addressing the limits of the theory of motivation they select in the context of *MS*. For example, in certain respects, to volunteer for *MS* is indication of "self-actualization" (Maslow), yet it is unlikely that most of the volunteers had achieved all of the other levels (for example, young volunteers probably have not achieved full esteem, self-esteem, confidence, or achievement which, collectively, make up the stage before self-actualization).

N.B. To achieve more than **[3]**, a balanced answer must refer to both positive and negative aspects of the motivation theory chosen.

Accept any other relevant application.

N.B. Taylor would not be a relevant theory. If a candidate chose Taylor and explains that *Mercy Ship* contradicts Taylor's theory, award **[1]**.

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

(d) To what extent does *MS* face challenges in its workforce planning?

[7]

MS faces a number of challenges in workforce planning:

- *MS* relies on volunteers. What happens when no one with requisite skills (hair stylists or engineers, for example) applies?
- *MS* does not know all of the medical situations it will face. What if a certain type of specialist medical doctor is needed and yet *MS* does not have one on that voyage?
- *MS* relies on volunteers with diverse and different skill sets. Hair stylists cannot step in and do the work of a nurse; a medical doctor cannot do the work of a ship engineer. In terms of both recruitment and operations, this diversity of skills is a challenge.
- The amount of money and time that people commit could vary.
- The strict code of conduct may cause some people not to volunteer, or to back out of their commitment before or after the cruise starts.
- *MS* goes to locations very far from where, presumably, it draws its volunteers, emergency situations requiring a volunteer to go home (the sickness of a parent) may mean a premature termination of their volunteer period. If the volunteer were living back in their home country, certain kinds of emergencies, like the sickness of a parent, might not require them to quit their job.

MS also has certain advantages which would help it in terms of workforce planning:

- Volunteers appear to find the experience rewarding and probably tell friends at home about it and encourage them to do it. This could be through professional networks (one cardiologist tells, after his volunteer period is over, other cardiologists with whom he interacts professionally about *MS*) or through other networks (a medical doctor, once her volunteer period is over, tells her hair stylist at home about it).
- People who volunteer are aware that they have to pay and will not be paid. Therefore, labour rates/pay scales are not a problem.
- Service, in the form of a gap service year, ongoing volunteerism, and retirement volunteering, is a growing phenomenon in modern countries.

Accept any other relevant challenge.

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

4. (a) Define the term *promotional mix*. [2]

Promotional mix is the combination and use of different promotional methods by a business, such as advertising, direct marketing, personal selling, public relations, and sales promotion. Businesses preparing a promotional mix determine promotional needs of the business, the different types of promotion to be used, and the budget for each type and for the mix as a whole. Promotional mix differs from the marketing mix in that it refers to just promotional techniques, not other aspects of the marketing mix (people, place, and price) plus other Ps, except promotion.

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

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

*Award [2] for a full, clear definition that conveys knowledge and understanding, which would typically occur by listing the different types of promotion within the promotional mix and saying more than above the line and below the line promotion, **or** to drawing a distinction between the promotional mix and the marketing mix.*

Providing examples is not absolutely required for [2], though for most candidates exemplification would be the easiest way to demonstrate clear understanding. In the absence of clear examples, a candidate's definition must be very strong or gets at promotional mix by other means, such as different promotional methods for different target markets, or different methods for different products, etc.

- (b) Explain **two** types of below the line promotion that Rajesh could use for *OneWorld*. **[4]**

Types of below the line promotion include:

- direct marketing (such as catalogues, email, flyers, mail, online display ads and pop-ups, promotional letters, text messages)
- personal selling (of which there are many varieties)
- public relations (buy one get one free; competitions for prizes; giveaways; price discounts)
- sponsorship (such as charities, sports events).

Accept any other relevant answer.

Some form of publicity identified (for example the press attending a *OneWorld* exhibition) for **[1]**. For **[2]**, a candidate must explain *OneWorld's* role or agency in the process (“*OneWorld* could invite local journalists to receptions on the night of the opening of a new exhibit. The journalists would then be more inclined to write stories for the local press.”).

N.B. Do not accept word-of-mouth as a type of below the line promotion.

With no further explanation, “viral marketing” or “going viral” should receive **[0]** as viral marketing, without further explanation, is merely electronic word of mouth, and candidates do not receive credit for word of mouth. If a candidate explains that a business “seeds” social media in the hopes that it goes viral, that would be acceptable for **[2]**.

If a candidate states “social media” with no explanation, award **[1]**. If a candidate explains how a business actually uses social media (or terms that are virtual equivalents) as a form of below the line promotion, award **[2]**.

Mark as 2+2.

Candidates must choose two types of below the line promotion, and they may choose either a category (direct marketing, for example), or a subset thereof (text messages, for example). For each of the two types, award [1] for identification of a type of below the line promotion and award an additional [1] for explaining why that particular type of below the line promotion would make sense for Rajesh and OneWorld.

(c) Formulate a mission statement for *OneWorld*.

[2]

Although different business writers stress different characteristics of a good mission statement, all agree that mission statements must be statements, meaning a sentence or sentences – no fragments – and the verbs should be action verbs rather than verbs that convey a state of being (to be, to exist, to become, etc).

In general, mission statements should be:

- clear
- current
- feasible
- motivating
- precise
- short
- strategic
- unique

and:

- be primarily relevant to (1) employees and (2) customers
- have a shorter timeframe (5 ± years, though they may be renewed if still appropriate)
- have meaningful and measurable criteria for corporate social responsibility, indications of target market (including the geographic region), products or services, and aspirations for growth.

Award [1] to candidates who produce a mission statement that (1) is a sentence or sentences (with subjects and verbs) and (2) is at least minimally relevant and appropriate to OneWorld.

Accept the following: if a candidate opens with an infinitive or gerund followed by a dependent clause with a verb. For example, if a candidate writes “To ensure that every British citizen has been made aware of at least one OneWorld event every year”. Though technically not a complete sentence, the mission statement above basically says “Our mission is ‘to ensure that every British citizen has been made aware of at least one OneWorld event every year’”.

Award [2] to candidates who produce a mission statement that (1) is a sentence or sentences (with subjects and verbs) and (2) is somewhat relevant and appropriate to OneWorld and contains at least several of the characteristics listed above other than “short” and “unique”, which candidates’ responses will very likely be. If a candidate writes an appropriate mission statement that exceeds 250 words, award a maximum of [1].

N.B. *Examiners should bear in mind that the question is only worth [2] and that candidates will and should allocate only a brief amount of time to formulating their response. Do not award [2] only to “perfect” mission statements, or those written to a professional standard (the type that students and teachers typically read). Rather, the aim for examiners should be to measure whether candidates know what a mission statement is, what its principal characteristics should be, and whether candidates can apply that knowledge to OneWorld.*

- (d) Analyse the role of mission statements **and** vision statements for an organization such as *OneWorld*.

[5]

For any organization, a vision statement announces the business's highest and long-term aspirations. Its intended audience is all stakeholders in the business. Vision statements are typically lofty, aspirational, motivational and distant. Mission statements operationalize the vision in a shorter-term, 5 years or so typically. The intended audience for mission statements are employees and customers. As noted in the markscheme to part (c) on the previous page, mission statements typically have concrete characteristics. While central to a business's strategy, mission statements also guide employees tactically and operationally, by giving them a guiding statement to refer to when making decisions. For customers, the mission statement makes clear how this business relates to them.

For *OneWorld*, its vision statement – “In our multicultural society today, all religious and ethnic communities will know and respect one another” – lets all stakeholders know the highest aspiration of the organization. The mission statement, which the candidates will have written, speaks to how the intangible aspiration will be achieved.

N.B. Refer also to the markscheme for part (c) on the previous page. Also, in the context of this question, balance means (1) that candidates address both the vision statement and the mission statement and (2) speak to some degree to the limits of vision and mission statements to guide a business over the long-run.

Accept any relevant analysis.

If a candidate provides a basic but correct explanation of the difference between a vision statement and a mission statement with minimal or no application (a long quotation from the stimulus of *OneWorld*'s vision statement is not necessarily meaningful application), award a maximum of [2].

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

(e) Evaluate the impact of changes in external factors on *OneWorld*.

[7]

The stimulus provides information on four external factors:

- a shift in political priorities of one party, which may lead to public sector funding cuts because of a change in government priorities
- an economic downturn has led to fewer contributions to *OneWorld*'s income
- the world is becoming more diverse because of changes in legal restrictions on labour mobility, or the expansion of regional trading blocs (such as the EU), which has led to the emergence of diverse communities and created the need for organizations with the vision of *OneWorld*
- technological changes, such as the emergence of new social media is creating new opportunities.

If the response is a one-sided relevant approach with no evaluation, award a maximum of [4]. One-sided means that candidates do not address the fact that, despite, changes in the external environment, OneWorld remains viable by changing strategies. The organization is not brand new. It opened in 1979, and presumably many changes in the external environment have occurred and will continue to occur. As long as OneWorld remains flexible and sensitive to these changes, it has a chance to survive.

Accept any other relevant evaluation.

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

5. (a) Identify **two** features of a private limited company.

[2]

Features of a private limited company include:

- limited liability for investors (that is, owners of shares are not liable for the debts of the company)
- continuity of existence in the event of the death of a shareholder, even a controlling shareholder
- the number of shareholders is limited in number, which varies from country to country
- typically, some restrictions exist as to who can own shares, thus usually limited to family and friends
- it has fewer disclosure requirements than public limited companies
- it is subject to fewer statutory requirements and restrictions than public limited companies regarding the role and compensation of directors.

Accept any other relevant feature.

N.B. Do not accept “it is an incorporated company” or “it is owned by shareholders”.

Award [1] for each correct and relevant feature of a private limited company identified up to a maximum of [2].

- (b) With reference to *LBC* and to other examples of your choice, compare flow production **and** batch production.

[6]

Flow production is a continuous process of production where each individual item produced goes through one stage of production before it moves onto (flows) to the next stage of production. Flow production is continuous. Each station in the flow process repetitively performs the same operation on individual items as they pass along the usually-automated production line. For example, to make an elegant marzipan chocolate, *LBC* would establish a production line with different stages: one would be molding of the marzipan, the next stage would be dipping it in chocolate, the next stage would be decorating the marzipan chocolate (with different coloured chocolate stripes, for example, or some other decorative imprint), and then wrapping the item in paper or foil. Flow production is typically used with a business' standard products, demand for which the business can count on continuously and regularly.

Batch production, by contrast, occurs when a business makes a group of identical items together, and each stage of operation is performed on the whole group before it moves on to the next stage. For example, a baker might produce a group of identical biscuits by mixing the dough for the whole group of biscuits, then cutting all the dough at one stage, baking the dough at the next, and, finally decorating the biscuits as a final stage. A whole group, or "batch," of biscuits would move through the process together. Batch production typically occurs for specialty items, such as a special "batch" of chocolates for a special occasion (like a wedding) or when the demand for the product is not continuous. A baker, for example, might bake croissants and brioche in the early morning, baguettes (eaten at lunch) at mid-morning, and cakes (consumed with tea or coffee in the late afternoon or evening) in the middle of the afternoon. While the demand for the baker's goods may be regular (every morning, cafés buy the baker's croissants), it is not continuous.

Mark as 3+3.

Award [1] for some understanding of flow/batch production, [2] for clear understanding, and [3] for clear understanding applied to an example.

*If a candidate does not make any reference to *LBC*, award a maximum of [4].*

Examiners should bear in mind that each "half" of the response to part (b) is worth only [3] and, therefore, it is not reasonable to assume that candidates will write excessively long and detailed answers. A [2] mark definition, for example, is typically between 30 and 60 words (average of 45). If we extrapolate from this length, a candidate should be able to treat fully both halves of part (b) with approximately 90 to 180 words (average of 135).

- (c) Interpret the financial calculations provided by *LBC*'s accountant in the table above.

[5]

The financial calculations indicate that:

Net profit margin (%): *LBC* is more profitable than other chocolate manufacturers (as *LBC* has a net profit margin of 16 % compared to the industry average of 14 %). In other words, for every one Euro in sales, *LBC* makes 2 centimes high profits than the average of other companies in its industry.

Current ratio: Even though *LBC* has greater profitability, its current ratio of 1.8 is the same as the industry average.

Acid test (quick) ratio: *LBC* has a slightly weaker liquidity position than the industry average. Whereas its current ratios of 1.8:1 is the same as the industry average, its acid test (quick) ratio of 0.8:1 is weaker than the industry average of 1:1.

Stock turnover (in days): The reason for the weaker acid test (quick) ratio is that its stock turnover in days is six days longer than the industry average, which means that *LBC* has more of its current assets tied up in stock than the average of other businesses in the industry.

The table in the stimulus includes four sets of data. Award marks as follows if a candidate correctly interprets:

- one set of data, award [1]
- two or three sets of data, award [2]
- four sets of data [3] and explicitly link the lower-than-average acid test (quick) ratio to the longer-than-average stock turnover.

In the context of this question, balance, which would allow a candidate to achieve a fourth or fifth mark, is that the candidate balances the interpretation of the numerical data with non-numerical data from the stimulus. Areas where candidates might apply to the non-numerical data include:

- Higher-than-average net profit margin: industry averages are often by sector, and *LBC* works in two sectors, secondary and tertiary. According to the stimulus, *LBC* manufactures chocolates and runs a chocolate shop, which is in the city centre. Thus, when selling retail, *LBC* probably earns more than chocolate makers selling only to wholesalers.
- Longer-than-average stock turnover: operating in both the secondary sector (manufacturing) and the tertiary sector (retailing), *LBC* must carry the stock through two stages of production to the consumer purchase chain. If industry averages are largely shaped by manufacturers who sell product directly to wholesalers or retailers, *LBC*, which carries through the retail phase, would have longer turnover.
- The longer-than-average is why the accountant is recommending a new distribution channel.

Accept any other relevant interpretations.

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

- (d) Recommend to the Lalanne family whether they should choose **Option A** or **Option B**.

[7]

LBC is considering two different options for an additional distribution channel: selling *LBC* chocolates in small independent shops in the region, through wholesalers and selling *LBC* chocolates online (e-commerce). Both options have advantages and disadvantages.

The advantage of selling chocolates in small independent shops in the region through wholesalers is that *LBC* would be able to sell chocolates immediately at the end of the production cycle and not have to carry that stock through the retail phase. Furthermore, the term region implies that the reach of *LBC*'s chocolate would be geographically greater than it currently is, and product placement in shops could increase product awareness. However, selling chocolates through wholesalers would mean selling at lower prices (prices to wholesalers would be far lower than the retail price *LBC* fetches in its store). Furthermore, the mass distribution in shops could have a negative psychological impact on current consumers (*LBC* chocolates may lose caché), who know the product in part because of the well-known shop in the centre of town. Finally, sales to the shops could cannibalize sales of *LBC*'s own shop.

The advantage of selling *LBC* chocolates online is that *LBC* could still sell chocolates at retail, or close to retail prices if the sales are B2C. The degree to which this distribution channel would shorten inventory turnover is not clear. An online business can sell anywhere people have the Internet, and increases in sales through this channel would be less expensive than some other options (other shops). However, to take advantage of the worldwide reach of the Internet, *LBC* would have to advertise its products. Finally, though probably less expensive than opening additional retail space, *LBC* would have to develop all the processes for taking orders, packaging, and shipping the chocolates, which could be complex and expensive.

Accept any other relevant assertions that the candidate makes in their evaluation and recommendation.

N.B. *It is not expected that the candidate incorporates all of the ideas above. However, if the response is a one-sided relevant approach with no evaluation, award a maximum of [4]. One-sided means that the candidate (1) address only one of the options, or (2) address only the positive considerations of each option but not the negatives. To earn a mark in the top markbands [5, 6, or 7], a candidate must have a balanced response with a supported conclusion.*

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