

# **MARKSCHEME**

**November 2001**

**BUSINESS AND ORGANISATION**

**Standard Level**

**Paper 1**

1. **Why might Grandeco have decided to expand through acquisitions (purchases) of other companies, Table 4, rather than by setting up their own Grandeco gas (petrol) stations in other countries?**

*[6 marks]*

*[5 to 6 marks]*

Candidates that discuss the following with reference to the case study will achieve this markband.

- Resistance to unknown trends in new markets;
- costs of setting up in new markets such as recruitment, training, distribution;
- it may be cheaper and faster to buy into a market using a company's name and infrastructure (distribution).

*[3 to 4 marks]*

Explains in detail the benefits of acquisitions rather than own brand growth, with reference to the case study.

*[1 to 2 marks]*

Describes the benefits of acquisitions rather than own brand growth.

2. The Marketing Director is considering *two* options:

(i) keep the existing brand in each country

*or*

(ii) replace each brand with the Grandeco brand.

Evaluate the marketing advantages and disadvantages of each strategy.

**[7 marks]**

**[6 to 7 marks]**

Marketing issues of each strategy are evaluated with reference to the case study. Candidates that consider a multi domestic versus global strategy will achieve this markband. Launching the Grandeco brand in the United States is likely to be very difficult with only a 2% market share.

**[3 to 5 marks]**

The answer attempts to evaluate the marketing issues of each strategy using the marketing mix and/or concepts such as product positioning/global strategy/regional strategy/General Electric Screen.

**[1 to 2 marks]**

Marketing advantages and disadvantages of each strategy are described.

Keep Existing Brands

**Advantages**

- known brands
- conversion to Grandeco may confuse customers
- conversion is costly

**Disadvantages**

- managing several brands is costly
- Usoil and Brazoil have low market share
- opportunities for Economies of scale are missed

Replace Each Brand

**Advantages**

- can become regional brand
- saves duplication (*e.g.* of marketing effort)
- standardisation of image
- may benefit from Economies of Scale – *e.g.* bulk buying

**Disadvantages**

- Grandeco has a small share in United States. So, establishing a brand name will be expensive
- may confuse customers especially if the Grandeco brand is different to the local brand

3. Refer to Table 1 and Table 2, Selected Financial Data.

Calculate the following between 1990 and 1995, and comment on changes between them:

(a) the current ratio [3 marks]

(b) net profit margin [3 marks]

(c) return on net assets. [3 marks]

[1 mark] for each correctly calculated ratio (1990, 1995) plus [1 mark] for comment.

	1990	1995	Comment
Current ratio	$\frac{170}{80} = 2.125$	$\frac{160}{130} = 1.23$	Liquidity is becoming a cause for concern.
Net profit margin	$\frac{200}{1000} = 20\%$	$\frac{160}{1400} = 11.4\%$	Profitability has fallen considerably as a result of rising costs relative to revenue.
Return on net assets.	$\frac{200}{690} = 29\%$	$\frac{160}{850} = 18\%$	Significant fall.

(Note that if a candidate makes correct comment from 'wrong' figures credit should still be given. In other words candidates should not be penalised twice for an error.)

4. Assess the consequences of raising funds through a significant increase in borrowing. [6 marks]

[4 to 6 marks]

Consequences assessed with reference to gearing.

A candidate who argues that increased gearing exposes a company to greater risk if either interest rates rise or sales fall and raises potential exchange rate concerns will achieve this markband.

Other consequences may include impact on liquidity or loss of family control.

[1 to 3 marks]

Consequences described in general terms.

5. Assume you are the Personnel Director, write a report to the Operations Director, explaining how communication, language and cultural problems might be addressed. (Line 37)

[10 marks]

Problems	Possible solutions
Language	Set English as the company language. Many Multinationals require this. Multiple language documents / interpreters / training.
Cultural	Each organisations is likely to have its own culture. Imposing a dominant culture is likely to result in a culture clash. Management has to decide if it will allow each organisation in effect to run independently (perhaps a more Federal structure) or impose its culture on the outlying parts of the organisation.
Communication	Meetings / Technology / Training / Organisation Structure.

Award [1 mark] for report format.

**[7 to 9 marks]**

Problems are explained, with solutions proposed. Direct and appropriate reference to the case study is made. If a candidate suggests that the cultural problems may be the most difficult to address because the management styles seem to differ considerably (lines 35-37) this markband has been reached.

**[4 to 6 marks]**

Problems are explained with appropriate solutions. Little reference is made to the case. A candidate that identifies problems, suggests some appropriate solutions.

**[1 to 3 marks]**

Problems are described with little reference to case.

6. Use the organisation chart in Table 3 to explain the following terms: [8 marks]

(a) **authority**

The right to carry out a given task.

(b) **delegation**

Passing authority to a subordinate.

(c) **span of control**

The subordinates directly responsible to an individual.

(d) **horizontal communication.**

Communication between departments or employees of equal (or similar) status.

[1 mark] for each correct definition plus [1 mark] for each correct reference to Table 3.

7. Explain how a decentralised organisational structure might help to overcome the problems of slow decision-making and low morale identified by the Personnel Director. (Lines 40-41) [4 marks]

[3 to 4 marks]

Explains how decentralisation speeds up decision-making and can help to improve morale at Grandeco.

A candidate who recognises that a decentralised decision-making structure empowers the regional offices to make decisions appropriate for their local markets. This can help to speed up the decision-making process (because fewer people are involved) and improves morale (because of less supervision, sense of achievement *etc.*) will achieve marks in the top markband.

[1 to 2 marks]

Defines a decentralised organisational structure and gives an example.

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