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MARKSCHEME

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BUSINESS AND ORGANISATION

Higher Level

Paper 1

8 pages

1.   **Explain** *two* **reasons why Frank Smith changed his farming methods
from using pesticides, that are not environmentally friendly, to producing
organic products.**   *[4 marks]*

Public pressure;
Take advantage of increasing consumer interest in organic produce;
Charge higher prices;
Raise profile of business;
Capture new markets;
Reduce pollution;
Respond to health concerns of customers;
Perhaps gain extra grants.

[4 marks] the answer fully explains two appropriate reasons for changing the farming
methods, in detail. There is reference to the case study.

[2 to 3 marks] the answer attempts to explain two appropriate reasons for changing the
farming methods, though the answer may lack detail. There is limited reference to the case
study.

[1 mark] the answer only explains one reason in detail, or there is no reference to the case
study.

2.   **(a)**   **Suggest *two* ways in which Frank Smith could improve relations with the local residents.**   *[2 marks]*

Put advertising material on leaflets or in the paper to allay fears and explain benefit to local economy;
Provide discount to local residents;
Ensure opening hours consider views of residents;
Ensure deliveries are restricted to appropriate hours, *e.g.* not early in the morning;
Spell out reality of number of cars and minimum disruption due to traffic, noise pollution *etc.*;
Explain fully Internet usage and that this could cut traffic if exploited.

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

(b)   **Discuss *three* advantages, for Frank Smith, of drawing up a contract with the other farmers and setting up a partnership.**   *[3 marks]*

Spreads liability for debts;
Ensures farmers remain committed to the project;
Sets out clearly the commitment for all involved;
Stops farmers taking produce elsewhere.

[3 marks] the answer fully discusses three suitable advantages for Frank Smith, including liability. There is clear reference to the case study.

[2 marks] the answer discusses two advantages though they may not be entirely appropriate to the case study and may lack detail. Or the answer fully explains one advantage in detail that is appropriate to the case study.

[1 mark] the answer is limited and does not go beyond an appreciation of the advantages.

3. **Calculate the net present value of the packaging equipment using a discount rate of 10%.** *[6 marks]*

Present value of $1 receivable at an annual discount rate of 10% at the end of

Year 1	2	3	4	5
0.909	0.826	0.751	0.683	0.621

Cost of the packaging machine = $50 000
Rate of return = $15 000 per year for 5 years
Residual value = $5 000

Year	Cashflow (000)	× Discount factor	= Present Value (000)
0	-50	× 1.00	-50
1	15	× 0.909	13.635
2	15	× 0.826	12.39
3	15	× 0.751	11.265
4	15	× 0.683	10.245
5	15	× 0.621	9.315
Residual Value	5	× 0.621	3.105
		Net present value	9.955

Net present value = $9 955

[5 to 6 marks] the answer correctly calculates the net present value and the working out is shown in a way that is easy to follow.

[3 to 4 marks] the answer calculates the net present value using a correct method but the answer is incorrect or the net present value is correct but there is no working out or the working out is difficult to follow.

[1 to 2 marks] candidate attempts to calculate the net present value appropriate but the answer is incorrect.

4. **(a)** **Construct a cashflow forecast for the Year 2000.** *[8 marks]*

	January	February	March	April	May	June	July	August	September	October	November	December
Inflow												
Loan	10 0000	0	0	0	0	0	0	0	0	0	0	0
Sales												
Shop	2 000	2 000	1 800	2 500	3 000	3 000	2 800	3 500	2 400	2 800	2 600	3 500
S'market	0	0	6 000	6 000	5 400	7 500	9 000	9 000	8 400	10 500	7 200	8 400
Internet	0	3 000	3 000	2 700	3 700	4 500	4 500	4 200	5 200	3 600	4 200	3 900
Total Inflow	102 000	5 000	10 800	11 200	12 100	15 000	16 300	16 700	16 000	16 900	14 000	15 800
Outflow												
Barn Refurbishment	30 000	0	0	0	0	0	0	0	0	0	0	0
Packaging machine	50 000	0	0	0	0	0	0	0	0	0	0	0
Wages	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000
Products from farms	3300	3300	2970	4110	4950	4950	4620	5 760	3 960	4 620	4 290	5 760
Own drawings	1 100	1 100	990	1 370	1 650	1 650	1 540	1 920	1 320	1 540	1 430	1 920
Elec, gas, tel	800			800			800			800		
Website management	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000
Advertising	550	550	495	685	825	825	770	960	660	770	715	960
Transport	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000
Total outflow	89 750	8950	8455	10 965	11 425	11 425	11 730	12 640	9 940	11 730	10 435	12 640
Net cashflow	12 250	(3 950)	2 345	235	675	3 575	4 570	4 060	6 060	5 170	3 565	3 160
Opening balance	0	12 250	8 300	10 645	10 880	11 555	15 130	19 700	23 760	29 820	34 990	38 555
Closing balance	12 250	8 300	10 645	10 880	11 555	15 130	19 700	23 760	29 820	34 990	38 555	41 715

[7 to 8 marks] the cashflow forecast produced uses a suitable layout, includes all information, including bank loan. At the lower end there may be one error that is followed through.

[5 to 6 marks] the cashflow produced follows a suitable layout, includes most of the information but may not include the bank loan. There may be some errors.

[3 to 4 marks] the cashflow produces shows evidence of an attempt to use a suitable layout, but some of the information may be omitted. There may be several errors.

[1 to 2 marks] the cashflow produced is limited in terms of layout and information given.

(b) **Analyse *three* ways in which Frank Smith could improve the cashflow situation.** *[3 marks]*

- Look for cheaper suppliers
- Reduce drawing
- Pay creditors later
- Encourage debtors to pay earlier (discounts)
- Reduce advertising
- Cheaper website management fee

[3 marks] the answer fully analyses three appropriate ways to improve cashflow. The ideas are totally appropriate to the case study.

[2 marks] the answer attempts to analyse at least two appropriate ways to improve cashflow, though the answer may not be fully related to the case study.

[1 mark] the answer is limited in its analysis and relevance to the case study.

5. **Apply the marketing mix to the Smith Farm label range and evaluate how Frank Smith could market his product range successfully**

    (i)   **locally**

    (ii)   **on the Internet.**   *[8 marks]*

Product	-	high quality/high price;
Place	-	local towns and Internet;
Promotion	-	food magazines, Internet, newspapers, locally. Radio and magazines useful. TV adverts would be too expensive;
Price	-	at top end of price range for food products.

Label tells customers about the environment and that Smith Farm cares;

Customers need to support farmers;

Frank should get local shops to buy his products directly;

Advanced technology leads to fresher products;

Strict legislation adhered to;

People are concerned about their health and will buy products provided they are not over priced;

Farm has been in family for 100 years and local people should be loyal to it;

Has changed his farming methods in line with public opinion.

[7 to 8 marks] the answer evaluates some of the issues faced by Frank Smith, they are incorporated into the marketing strategy. At least the 4Ps are successfully applied, giving relevant examples appropriate to the case study. There is evidence of a plan in the answer.

[5 to 6 marks] the answer may describe some of the issues faced by Frank Smith, and they may or may not be incorporated in the marketing strategy. The answer attempts to apply the 4Ps to the answer but one element may not be relevant.

[3 to 4 marks] the answer successfully applies at least 3Ps that are relevant to the case study. The answer lacks planning and strategy.

[1 to 2 marks] the answer applies 2Ps, or they use the 4Ps but the answer is general and not relevant to the case study.

6.   **Assess** *three* **implications for the staff of the job role change from farm assistant to shop assistant, using appropriate motivation theory to support your answer.**   *[6 marks]*

Issues:
retraining;
staff may not have people skills;
staff may not have other appropriate skills, *e.g.* numeracy;
staff may not have knowledge of products;
staff may see the work as demotivating;
staff may like to work outdoors on their own and may not enjoy shop work;
staff may not like the changes to their current work patterns;
staff may put up with the change but may not be happy and therefore will not be motivated to work hard.

[5 to 6 marks] the answer fully assesses three implications of the changes for the staff. The implications are fully appropriate. The answer uses motivation theory to support the assessment.

[3 to 4 marks] the answer attempts to assess at least two implications of the changes for the staff. The answer uses motivation theory to support the assessment, but the theory may lack detail.

[1 to 2 marks] the answer may lack detail about the implications of the changes for the staff or the implications are not fully appropriate. The answer may lack reference to motivation theory.