

MARKSCHEME

November 2001

BUSINESS AND ORGANISATION

Standard Level

Paper 2

1. (a) **Explain, with an example, each stage of the product life cycle shown in Figure 1.** **[6 marks]**

[4 to 6 marks]

Each stage is explained with appropriate examples.

[1 to 3 marks]

Each stage is explained.

- (b) **Explain four strategies that ‘Cigalot’ might adopt to extend the life of Cyggies.** **[4 marks]**

[1 mark] for each strategy. Strategies include new consumers/product development/new promotion/new distribution/new packaging.

- (c) **Assess the ethical issues of the Financial Director’s proposal.** **[5 marks]**

Ethical issues include : promoting a product with alleged health risks in countries with few resources, poor education. The opportunity costs of this expenditure are greater than in rich countries (e.g. extra burden on the health service) and consumers are not as informed as in rich countries.

[4 to 5 marks]

Ethical issues are assessed.

[1 to 3 marks]

Ethical issues are only described.

- (d) **Discuss the potential problems associated with diversification.** **[5 marks]**

Candidates might refer to:

- financial costs;
- lack of focus;
- lack of expertise;
- problems of spreading too thin.

Candidates that use the General Electric screen or similar techniques will achieve marks in the top markband.

[4 to 5 marks]

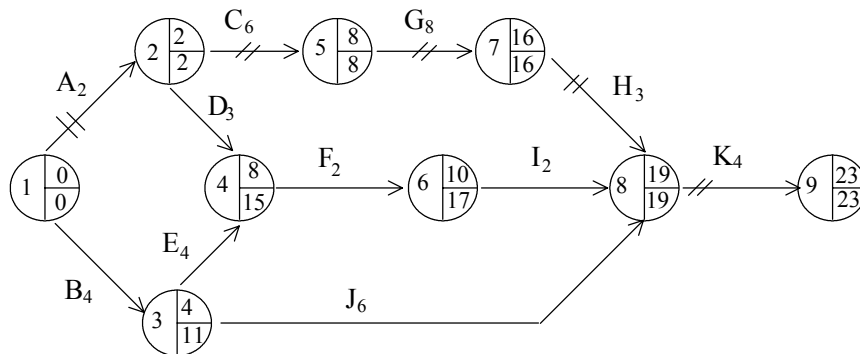
Analyses risks of diversification.

[1 to 3 marks]

Describes risks of diversification.

2. (a) (i) Copy Figure 1 into your answer book and complete the network. Include the earliest start times, and latest finishing times.

[6 marks]



[4 to 6 marks]

Few errors/good presentation.

[1 to 3 marks]

Errors or omissions in calculation, poor presentation.

- (ii) Identify the critical path.

[2 marks]

A, C, G, H, K [2 marks]

[1 mark] if the critical path is correct on an incorrect diagram.

- (iii) Use an example from the diagram to explain the term 'float'.

[2 marks]

The maximum increase in the time taken for an activity without increasing the overall time needed.

[1 mark] for definition plus [1 mark] for correct reference to diagram.

- (b) Explain *three* ways the diagram in Figure 1 might help Jennie Smart with the Seventh Salon Project.

[6 marks]

Benefits include:

- identifying critical activities;
- identifying float;
- identifying opportunities to release resources from parallel activities;
- assessing the impact of any delay.

[2 marks] per explanation related to the case.

- (c) (i) If activity F is not completed until day 18 what impact will this have on the completion of the project?

[2 marks]

The project will now be completed in 24 days.

- (ii) How might this problem be overcome?

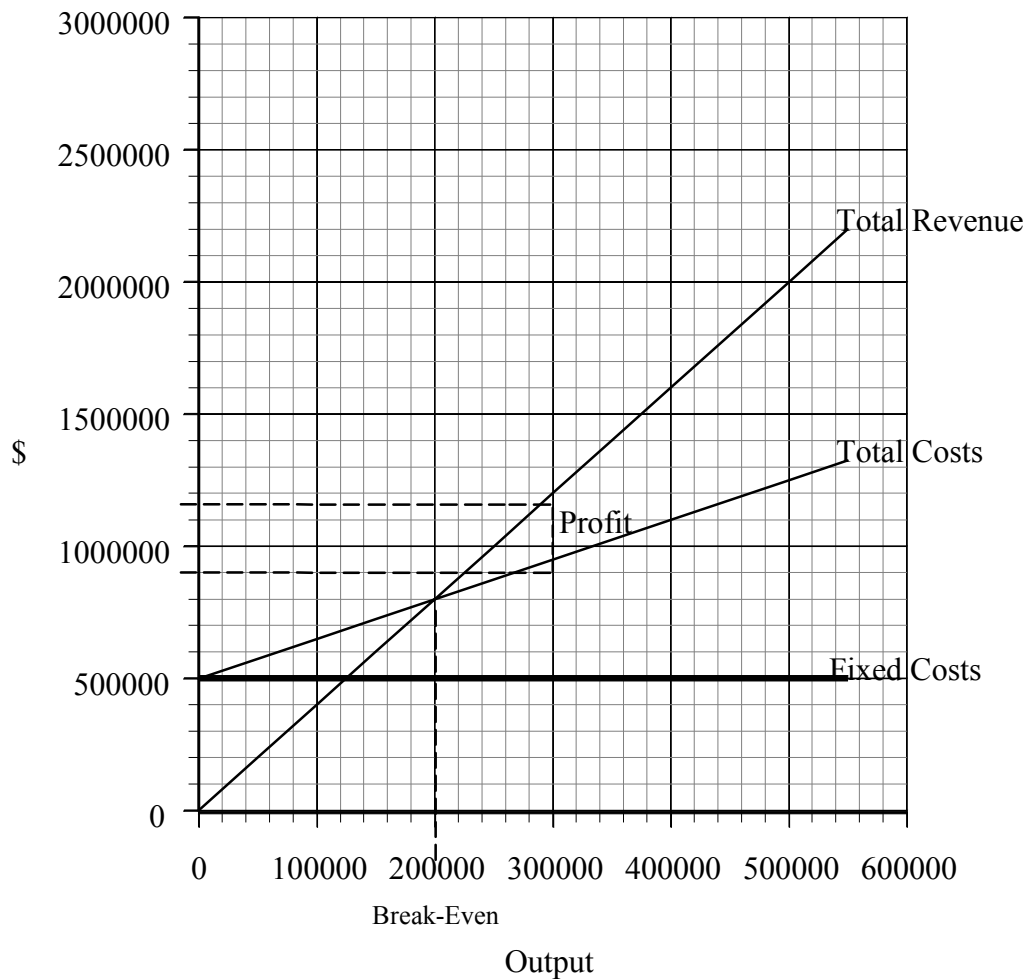
[2 marks]

Resources might be transferred from other activities (to speed up I or K) or I and K can be completed faster in some other way.

Award up to [2 marks] for a suitable answer.

3. (a) On graph paper use the information above to construct a break-even chart.

[6 marks]



BEP = 200 000 units
 Profit = \$250 000
 Margin of Safety = 100 000 units

Output 000	Revenue \$000	Variable Costs \$000s	Total Costs \$000s
0	0	0	500
100	400	150	650
200	800	300	800
300	1 200	450	950
400	1 600	600	1 100
500	2 000	750	1 250
600	2 400	900	1 400

[4 to 6 marks]

Graph is correctly labelled and completed. Only minor errors.

[1 to 3 marks]

Graph has several errors, including axes, labelling and presentation.

(b) Assume 300,000 units are sold. Calculate and identify on your graph the:

(i) profit [2 marks]

is \$250,000

calculation of profit only award [1 mark]. Correctly identifying the profit on the graph award [2 marks].

(ii) margin of safety. [2 marks]

100,000 units

Calculation of margin of safety only award [1 mark]. Correctly identifying the Margin of Safety on the graph award [2 marks].

(c) How many units would Potschke ice cream need to sell if they wanted to make \$300 000 profit? [2 marks]

200,000 units = Break-Even Quantity

$$\frac{300\,000}{2.5} = 120,000 + \text{BEQ} = 320,000 \text{ units}$$

Award [1 mark] for a correct answer and [1 mark] for correct calculation or reading from the graph.

(d) Assess the advantages and disadvantages of employing other companies to do the production, packaging and distribution. [8 marks]

Advantages

- cuts fixed costs (especially production)
- can focus on retailing
- cuts distribution costs
- Focus on 'core' activities

Disadvantages

- no direct control over quality/distribution
- lose opportunities that might arise in production/distribution

Overall the benefits of cutting Potschke's substantial fixed costs in production and distribution could be enormous if a reliable producer/distributor can be found.

[5 to 8 marks]

Candidates assesses advantages/disadvantages with reference to the case.

[1 to 4 marks]

Advantages/disadvantages of sub-contracting are only described.

4. (a) Prepare a cashflow forecast from June to November. [8 marks]

Please note candidates should not be penalised for errors that carry forward.

Cash Flow Forecast for Lisette Jones, prepared 15th June.

All figures in US\$

	<i>June</i>	<i>July</i>	<i>August</i>	<i>September</i>	<i>October</i>	<i>November</i>
<i>Sale of Beef</i>						
Total cash in				10000	8000	6000
Payments						
<i>Rent</i>	–	4000	–	–	5000	–
<i>Supplies</i>	1500	1500	1500	1500	1500	1500
<i>Electricity</i>	500	–	–	500	–	–
<i>Others</i>	1000	1000	1000	1000	1000	1000
Total cash out	3000	6500	2500	3000	7500	2500
Net cash flow	-3000	-6500	-2500	7000	500	3500
<i>Opening bank balance</i>	8000	5000	-1500	-4000	3000	3500
<i>Closing bank balance</i>	5000	-1500	-4000	3000	3500	7000

[5 to 8 marks]

Few errors/good presentation.

[1 to 4 marks]

Several errors - either of calculation or omissions.

- (b) Explain *four* reasons why small businesses often experience cashflow problems, especially in their first year of business. [4 marks]

Reasons include:

- under estimating costs;
- over estimating costs;
- poor debt management;
- giving generous credit terms;
- buying too much stocks (to get good discounts);
- inexperience;
- under capitalisation.

[1 mark] for each reason explained which refers to the first year of business. Award a maximum of **[2 marks]** for a list without explanation.

- (c) **Assess the viability of Dean’s proposal to diversify: *grow tulips*.** **[8 marks]**

A candidate who argues that since the business has virtually no assets and no evidence of experience of tulip growing then the move seems extremely risky. In addition, the business has no ‘product position’ in tulips. Loan capital is likely to be expensive for such a risky venture. The potential benefits are that risks would be spread.

[5 to 8 marks]

Assesses the benefits and risks of diversification with reference to Lisette Jones.

[1 to 4 marks]

Describes benefits and risks of diversification.

5. (a) **Using appropriate motivation theory, account for the apparent differences in morale at BBB Inc and GLT Inc.** [8 marks]

A good answer might recognise that BBB Inc is more likely to satisfy love and belonging, esteem and self actualisation needs. GLT Inc employees are only likely to have lower level needs satisfied.

[5 to 8 marks]

Motivation theory applied directly to the case study. Candidate shows a detailed understanding of motivation theory and can apply it to the case study.

[1 to 4 marks]

Motivation theory described with some reference to the case. At the lower end of the band the candidate may not use theory.

- (b) **Explain *three* reasons why managers at GLT Inc have resisted the takeover.** [6 marks]

[2 marks] for each reason explained.

Reasons include:

- conservatism;
- insecurity (job loss);
- impact on teams;
- loss of status;
- deskilling.

- (c) **To what extent can the style of leadership adopted by a manager affect the level of morale?** [6 marks]

[4 to 6 marks]

Candidate uses leadership styles and explains how they can affect morale. Candidates who recognise that the situation – *e.g.* importance of decisions/skills of subordinates/cultural factors, will achieve the top marks in this markband.

[1 to 3 marks]

Candidate may attempt to use leadership styles and how they might affect morale.

6. (a) Explain the following terms:**(i) market niche****[2 marks]**

Targeting a product at a particular market segment *e.g.* McDonalds – burgers for children.

(ii) primary research**[2 marks]**

Collecting new data *i.e.* it has to be collected by the researcher.

(iii) secondary research**[2 marks]**

Collecting information that already exists in some form *e.g.* population statistics.

(iv) profit margin.**[2 marks]**

Shows the profit made on sales *e.g.* if gross profit = \$10 and sales revenue is \$50. Gross profit margin is $10/50 = 20\%$.

(b) Analyse *three* reasons for setting up a new brand name for the new product range.**[6 marks]**

Reasons:

- (i) Crikey brand caters to a specific market and that launching a new brand would avoid confusing the consumer or diluting the brand.
- (ii) Crikey would establish a new product position by launching a new brand.
- (iii) Market research supports the proposal and the business has strengths in the garment industry.

[2 marks] for each reason analysed.

- (c) **Suggest and evaluate a marketing strategy for the new product range ‘Aknow’.**

[6 marks]

A candidate that emphasises the need to ‘position’ the brand will achieve the marks in the **[4 to 6 markband]** – e.g. Price – High, Product – Quality Garments, Promotion – trade magazines for ‘quality’ hotels, airlines, restaurants. Place – trade fairs for leading businesses in each industry. The mix must be coherent and consistent.

[4 to 6 marks]

Candidates suggest a strategy using the marketing mix and additional marketing concepts such as GE Screen, Ansoff Matrix, Boston Matrix *etc.*

[1 to 3 marks]

Candidate suggests a strategy using the marketing mix.

7. (a) Explain the following terms:

(i) globalisation

[2 marks]

The move towards global markets and products rather than domestic or regional products.

Award up to *[2 marks]* for a suitable explanation.

(ii) tariffs.

[2 marks]

A tax on imported goods.

Award up to *[2 marks]* for a suitable explanation.

(b) Explain how a strong domestic currency and globalisation might affect 'Fish and Chip' shops?

[6 marks]

A strong domestic currency will make imports relatively more attractive in terms of price. Globalisation results in organisations attempting to sell their products worldwide. This can bring huge benefits through economies of scale. Small businesses may find it difficult to compete with these larger organisations.

[4 to 6 marks]

Explains the impact of globalisation.

[1 to 3 marks]

Describes the impact of globalisation.

(c) Identify *three* groups (stakeholders) that would have an interest in Morgan Lyles' proposal to introduce tariffs on imported fast foods. Analyse the impact of the proposal on each group you have identified.*[6 marks]*

Group	Interest
Fish and Chip shops	Protects their domestic market
Employees	Protects jobs in Fish and Chips, but fewer jobs created by foreign investment.
Other food outlets	Dearer food outlets may encourage less dining out.
Consumers	Higher prices / less choice.

[4 to 6 marks]

Analyses impact on three groups with appropriate examples.

A candidate who explains how each group will be affected and why will achieve marks in the top markband.

[1 to 3 marks]

Describes up to three groups and describes impact.

- (d) Explain *two* methods the ‘Fish and Chips’ Association could use to improve consumer perceptions of their product. *[4 marks]*

Methods might include:

a need to position ‘Fish and Chips’ relative to their competitors. The association should focus on the ‘tradition’ or ‘heritage’ aspect of the product.

Award up to *[2 marks]* for each method explained.

8. (a) Explain *three* advantages and *three* disadvantages that sole traders may experience. **[6 marks]**

Award up to **[2 marks]** for each explained advantage and disadvantage up to a maximum of **[6 marks]**.

Examples include:

Advantages

Incentive to work;
flexible;
easy to set up;

Disadvantages

unlimited liability;
dependent on one person;
few sources of funds.

- (b) Explain *three* advantages Serena may have experienced by taking on three partners. **[3 marks]**

[1 mark] for each explained advantage.

Advantages include:

- more ideas;
- more finance;
- new skills.

- (c) Several public limited companies (listed on the stock market) have reverted to private limited status in recent years. Explain *three* reasons why they might have done this. **[6 marks]**

Explains three reasons. **[2 marks]** for each reason explained.

Reasons include:

- more control;
- less exposure to fluctuating share price;
- more privacy;
- Directors preference;
- less risk of takeover;

A candidate who explains, for example, that a private limited company can control the sale of shares (whereas a plc cannot) has explained ‘less risk of takeover’.

States up to three reasons. **[1 mark]** for each reason stated (*i.e.* the candidate has not clarified the reason to prove that they understand the reasoning).

- (d) Explain *three* factors that might influence the level of gearing a business chooses.

[5 marks]

[3 to 5 marks]

Defines gearing, explains three influences.

Gearing = Debt / Equity [2 marks]

Influencing factors ([1 mark] for each explained factor)

- interest rates;
- attitude to risk;
- state of the economy;
- attitudes to growth.

For example, if a candidate explains that a highly geared business will have to pay back more interest compared to a low geared business and that high interest rates will therefore tend to result in less borrowing (and lower gearing) then they will have analysed interest rates.

[1 to 2 marks]

Attempts to define gearing, attempts to explain the factors influencing gearing.
