

Markscheme

November 2015

Business and management

Standard level

Paper 1

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The markbands on pages 3–4 should be used where indicated in the markscheme.

| Section A | | | Level descriptors |
|--------------|--------|--------|---|
| Q1 (d) | Q2 (c) | Q3 (c) | |
| 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 reference is made to the information in the case study. |
| 3–5 | | | <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 case study, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical. |
| 6–7 | | | <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 case study. |

| Section B | Level descriptors |
|----------------------|---|
| Q4 (d) | |
| Marks 0–8 | |
| 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 case study. |
| 3–4 | <ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the case study, 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 case study are made at places in the response. |
| 7–8 | <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 case study are made throughout the response. |

Note to examiners: do not penalize candidates for the use of “LadyA” or “Alejandra” interchangeably in their responses.

Section A

1. (a) Describe **one** way in which a problem with quality control (line 115) could affect *LadyA*. [2]

Quality control is intended to ensure that products are being manufactured to an acceptable standard. Poor quality / problems with quality control can lead to:

- dissatisfied customers
- loss of future sales
- poor quality perfumes, *etc* could affect *LadyA*'s reputation as well as the reputation of the perfumes
- negative impact on brand image.

Accept any other relevant problem.

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

Award [2] for a full, clear description that conveys knowledge and understanding in relation to LadyA.

- (b) With reference to *LadyA*, describe **one** reason for identifying target markets. [2]

The market segment that a particular product is aimed at is known as the target market.

LadyA's target markets were English speakers, mostly teenage girls and young women from the United States (US), many Hispanics and some Spanish-speaking Americans.

For *LadyA* it is important to know her target market:

- It provides the business a clear picture of the consumers and their profile in the target market. It could include age, gender, income levels, social class.
- Knowledge of the target market helps the business make the right marketing mix decisions to provide the right product / service meeting the taste and preference of the market it is aimed at, the right price the consumer will be willing to pay, at the right place, using the most appropriate promotion strategy and offers that are likely to attract the specific market for whom the product / service is designed.
- Knowing the target market will lead to less wastage of resources in all the marketing mix.

Accept any other relevant reason with reference to LadyA.

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

Award [2] for a full, clear description that conveys knowledge and understanding in relation to LadyA.

- (c) Explain **one** benefit to the local school **and one** benefit to Mrs Carroccio, of providing training for Mrs Carroccio (line 13). **[4]**

Aim of training is to improve the performance of employees. It can lead to the following benefits:

- Better performance by Mrs Carroccio as she is more confident from the new skills. She may also be more motivated to do her job well as the school is investing in her.
- The school could become reputed for being a good employer and hence it may become easier to attract people to apply for jobs.
- It could improve the school's performance as Mrs Carroccio is performing better.

Accept any other relevant benefit.

N.B. *Accept one benefit that is applied to both the school and Mrs Carroccio.*

N.B. *Do not accept an answer that refers to the charity where Mrs Carroccio learned English. The question refers to the local school and Mrs Carroccio.*

Mark as 2+2.

Award [1] for the identification of a relevant benefit for the school / Mrs Carroccio and [1] for an explanation of the benefit in relation to the school / Mrs Carroccio. Award a maximum of [2].

- (d) Analyse the impact of technological change on Alejandra and her business. **[7]**

Some technological changes have had a positive impact (and may be regarded as “opportunities”), others a negative impact (so they may be regarded as “threats”).

The availability of online file sharing software, followed by emergence of MP3 players, smartphones, video hosting websites became popular. Younger generation teenagers – a major target market of *LadyA* relied heavily on these new technologies to get their music and videos. Online file sharing of copyrighted material, although often illegal was widely used. This directly affected the sales of CD albums and profitability of music videos. Production of online videos now had to be done by the artist / themselves, this was expensive and did not generate any direct revenue; it denied artists and musicians their royalties.

LadyA had to find new ways to generate revenue. She had to maintain herself as a media personality. This involved strengthening her brand identity with an image that would fit the expectations of her target market. *LadyA* used technology – social media networks, which her target market used to bond and communicate with them.

Accept any other relevant application / analysis.

If the answer is not applied to LadyA award a maximum of [3].

If the answer is limited to knowledge and understanding of case study material award a maximum of [4].

If the answer lacks depth of analysis / balance, award a maximum of [5].

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

2. (a) Describe **one** method of primary market research **and one** method of secondary market research that could be useful to *LadyA*. [4]

Methods of primary market research could include:

- surveys and questionnaires
- observation
- focus groups.

Methods of secondary market research could include:

- media reviews, market intelligence reports
- government publications on demographics and population census, income levels
- business websites (do not accept just “internet” or “websites”)
- data about competitors.

Accept any other relevant method of primary / secondary market research.

Mark as 2+2.

N.B. Award a maximum of [3] overall if the answer is not applied to *LadyA*.

Award [1] for each correct and relevant primary / secondary method of market research identified and [1] for an appropriate description of each of these. Award up to a maximum of [2].

- (b) With reference to Mr Carroccio, explain **two** reasons for setting up a business. [4]

Reasons for Mr Carroccio setting up a business include:

- economic insecurity encourages in people the need to be self-reliant: financial motivation / security (earning money)
- desire for independence (“be his own boss”)
- possibilities of higher income in the long term (as opposed to being employed)
- make use of personal interests and skills
- put creative ideas into practice.

Accept any other relevant reason.

Mark as 2+2.

N.B. Award a maximum of [3] overall if the answer is not applied to *LadyA*.

Award [1] for each relevant reason identified and [1] for its development. Award up to a maximum of [2] per reason.

- (c) Analyse the importance of branding for Alejandra.

[7]

Branding is an essential part of marketing. In this case, the brand is *LadyA*.

First of all, an appropriate brand name is important to match the expectations of the target market. The brand will have its own related customer perception as customers associate the brand with certain qualities / perception. This was the reason, Alejandra was very careful about what products she endorsed (line 107) as she expected each of these to strengthen her brand identity as a beautiful, mainstream American with Hispanic passion and intensity. Branding is crucially important to Alejandra as it seeks to provide differentiation as well as a unique identity among other female music artists and film stars.

Under the *LadyA* brand, Alejandra offered her own product line of perfumes and cosmetics targeted at teenage girls and young women, sold in department stores in the US. Given that Alejandra is successful in establishing the *LadyA* brand – to the point that large numbers of consumers know the name and logo – the company will have a much easier time when introducing new products. Brands when effectively managed can have a longer product life cycle.

As long as value is associated with a brand, Alejandra can add other products and lines, such as *LadyA* handbags, *LadyA* lingerie, *LadyA* shoes, **Option 2**. *LAM* will also enjoy the “free advertising” that comes with consumers using *LadyA* handbags or wearing shoes with its easily identifiable logo / symbols. Branding also enables loyalty which is important as most people tend to keep buying the same products, once they identify with them.

Using her first brand name Lady Alejandra – Alejandra hopes to attract patronage in the South American markets **Option 1** which generally accept older female musicians and media stars. The Spanish-speaking markets will be addressed through methods such as a concert tour as well as through music downloads, films, product endorsements, magazine covers *etc.*

There is also the option of Alejandra re-branding herself, to reposition her image associating herself with noble causes such as malnutrition, homelessness, human trafficking, **Option 3**.

There is a negative side to a strong brand identity. If one of its products has problems, the problem product can affect the entire brand. It can be expensive to establish and maintain a brand. Brands can “go out of date”. This brand name needs to be consistent with the rest of the marketing mix for Alejandra and her products. It may prevent development of individual product characteristics, for example, perfume versus handbags.

Accept any other relevant analysis.

N.B. Allow candidates to use the name Alejandra and LadyA interchangeably as long as they recognize that LadyA is the brand.

If the answer does not relate to LadyA/Alejandra award a maximum of [3].

If the answer is limited to only one aspect award a maximum of [4].

If the answer lacks depth of analysis / balance, award a maximum of [5].

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

3. (a) Describe **two** benefits, to Mr Carroccio, of owning his shoe repair business as a sole trader.

[4]

Benefits to Mr Carroccio include:

- single ownership and control of the business, not answerable to anyone
- all profits and losses belong to the single owner alone
- all decision-making powers of the business technically vested with the single owner.

Accept any other relevant benefit.

Mark as 2+2.

N.B. Award a maximum of [3] overall if the answer is not applied to Mr Carroccio or a shoe repair business.

Award [1] for each relevant benefit identified and [1] for its development. Application could refer to Mr Carroccio's personal circumstances or that a sole trader is a typical set up of a shoe repair business. Award up to a maximum of [2] per benefit.

- (b) Using the **additional information below**, calculate:

- (i) the average rate of return (ARR), for setting up Mr Carroccio's shoe repair business (*show all your working*);

[2]

$$\text{ARR} = \frac{\text{net return (profit) per annum}}{\text{capital outlay (cost)}} \times 100 = \frac{((3000 \times 5) - 9000) / 5}{9000} \times 100 = 13.3\%$$

Award [1] for working and [1] for the correct answer.

- (ii) the payback period, for setting up Mr Carroccio's shoe repair business (*show all your working*).

[2]

Payback: It takes 3 years (36 months) to earn \$9000 at \$3000 per year.

Award [1] for working and [1] for the correct answer.

- (c) Using your answers to part (b) and information contained in the case study, analyse the issues that Mr Carroccio faced when he set up his shoe repair business. [7]

ARR:

- 13.3% (allow OFR on this figure) could be much better than any interest he could get on his savings.
- Could it be even better if you extend the appraisal beyond 5 years?
- What if the business was slow to start?

Payback:

- He has not borrowed so is the payback important?
- 3 years (allow OFR on this figure) seems a fairly long time.

Both measures present a favourable picture but how realistic is the data? What other factors need to be considered? It may have been his only opportunity to use his limited savings to make a secure life in the US.

How would he establish a market? He is new to the US. Other marketing issues – what price, what marketing can he do – presumably limited? What competition was there – presumably established businesses.

New businesses find it difficult to get loans – indeed he was turned down. Difficult to start with limited finance.

Accept any other relevant analysis.

N.B. Allow candidate own figure rule (OFR) from their calculations to part (b).

*If the answer **only** uses case study material or **only** uses answers to part (b) / ratios award a maximum of [3].*

If limited use of case study / ratios, award a maximum of [4].

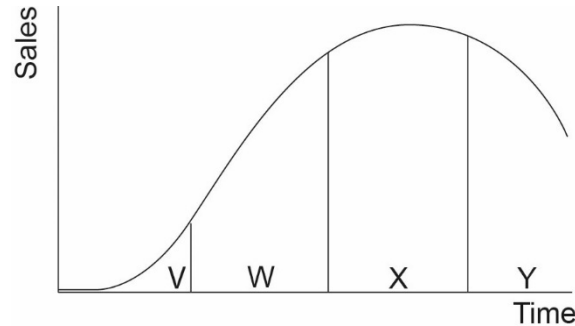
If the answer lacks depth of analysis / balance, award a maximum of [5].

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

Note to examiners: do not penalize candidates for the use of “LadyA” or “Alejandra” interchangeably in their responses.

Section B

4. (a) Identify the **four** stages V, W, X and Y labelled on the product life cycle model below. [4]



V: Introduction/introducing / launch
 W: Growth
 X: Maturity/maturation (not “saturation”)
 Y: Decline

Award [1] for the correct identification of each stage, up to a maximum of [4].

- (b) Explain why K&J’s **Option 3** is a form of corporate social responsibility for LadyA. [4]

K&J’s **Option 3** proposes that LadyA use a part of her wealth to set up charitable non-profit organizations for social causes – the service of humanity – such as malnutrition in developing countries, or homelessness in big cities, or international trafficking of children.

Associating herself with corporate social responsibility, LadyA would rebrand herself, from a young singer, to taking an image of a strong, mature, determined, compassionate woman appearing on television talk shows and magazine interviews promoting the cause of her non-profit organizations. A percentage from her shows and income sources could form a source of revenue for the non-profit organizations.

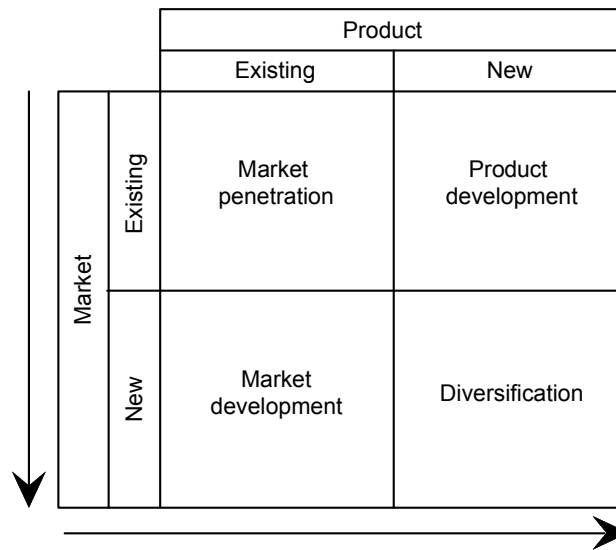
Often businesses engage in corporate social responsibility with a strategic or an altruistic objective.

Award [1–2] for a basic answer showing knowledge of “corporate social responsibility” in general terms.

Award [3–4] for an answer which shows understanding of corporate social responsibility in the context of LadyA.

(c) Apply the Ansoff matrix growth strategies to **Options 1 and 2**.

[4]



Option 1

Market development (new South American markets for existing products).

Option 2

Option 2 could be described as:

Diversification – new products, new markets (*ie* global market).

or

Product development (see reference to US market, line 150).

N.B. Candidates are not expected to mention both.

N.B. The terminology has to be exact for maximum marks (*ie* do not credit terms such as “market orientation” or “differentiation”).

N.B. The diagram is not needed.

Award **[1]** for each option correctly associated with an element of the Ansoff matrix model, up to a maximum of **[2]**. Award an additional **[1]** for each relevant explanation (*in context*) up to maximum **[2]**. Award up to a maximum of **[4]** in total.

- (d) Evaluate the effectiveness of Alejandra’s different leadership styles. [8]

Alejandra had very different leadership styles in her twenties to that in her thirties. When Alejandra was in her twenties, her leadership style was often inconsistent. At times direct, giving detailed instructions, getting angry when they were not followed and at other times more laissez faire. As she matured at the peak of her career, her leadership style became more paternalistic.

Both are partly effective and partly ineffective.

Inferences must be drawn, with support from the case study:

A laissez faire leader (line 86) allows employees to carry out activities freely within broad limits. It may result in a more relaxed atmosphere where there are few guidelines and directions. It is characterized by poor communication, it can often result in poor productivity / mistakes. For example, Alejandra’s laissez-faire leadership style when she was in her twenties: employees never knew what to expect, communication was poor, employees frequently complained behind her back mockingly called her “*la princesa*”.

Paternalistic style: Alejandra developed this leadership style as she matured and was at the peak of her career. She must have felt more responsible for the staff – probably some / many of them were employed with her for many years, since the start of her career. Alejandra would make all decisions; however as a paternalistic leader it places a great deal of importance on the welfare of her staff.

Accept any other relevant evaluation / point.

For full marks, candidates must evaluate the effectiveness of both leadership styles, in context, with reference to the possible implications for Alejandra. Where only one leadership style is evaluated the maximum mark that can be awarded is [4].

Award a maximum of [3] for a general discussion of leadership.

Award a maximum of [4] for limited discussion in context.

Award a maximum of [5] for a discussion without evaluation / judgment.

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