

Markscheme

November 2015

Business and management

Higher level

Paper 1

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The markbands on pages 3–6 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.

Section C	Level descriptors
Q5 (d)	
Marks 0–9	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–3	<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 and/or the extension material within Section C.
4–6	<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 and/or the extension material within Section C, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical.
7–9	<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 and/or the extension material within Section C.

Section C	Level descriptors
Q5 (e)	
Marks 0–12	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–3	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of synthesis of information from the case study, the extension material in Section C and, where applicable, from other responses within Section C. Information is merely lifted and copied into the response. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study and the extension material within Section C.
4–6	<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 synthesis of information from the case study, the extension material in Section C and, where applicable, from other responses within Section C. Information is merely lifted and copied into the response. • Evidence of judgments and/or conclusions that are no more than unsubstantiated statements. • Limited reference is made to the information in the case study and the extension material within Section C. • The response is mainly theoretical.
7–9	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology. • At places in the response information from the case study, the extension material in Section C and, where applicable, from other responses within Section C is (synthesized and) integrated to provide a basis for analysis and evaluation. • A response that includes judgments and/or conclusions that have limited support and are underpinned by a balanced analysis. • Explicit references to the information in the case study and the extension material within Section C are made at places in the response.
10–12	<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. • Information from the case study, the extension material in Section C and, where applicable, from other responses within Section C is proficiently (synthesized and) integrated to provide a basis for analysis and evaluation. • A response that includes judgments and/or conclusions that is well supported and underpinned by a thorough and balanced analysis. • Explicit references to the information in the case study and the extension material within Section C 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.

N.B. Do not accept sampling.

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) “The production of *LadyA* perfume and cosmetics was outsourced” (lines 113–114). Describe **two** advantages to *LadyA* of outsourcing. [4]

Possible advantages include:

- lower costs – wages and other costs are likely to be lower in Malaysia than the US
- can concentrate on core activities – no expertise in manufacturing
- outsourcing firm may have special skills and experience
- spreads the risk
- established producer.

Accept any other relevant advantage.

N.B. Mentioning *LadyA* / Malaysia is not sufficient application for [3–4] without development.

Award [1–2] for a basic answer that shows knowledge of the concept of outsourcing.

*Award [3–4] for an answer which clearly describes the concept of outsourcing with effective application to *LadyA*.*

No context award a maximum of [2].

- (b) Explain **two** reasons why Alejandra's objectives might have changed over time. **[4]**

It is difficult to separate the individual from *LadyA* the business and Alejandra so we must allow either, or both, as valid:

- not attending university
- building a singing career
- creating a brand image
- becoming a media personality
- launching her own product range
- her age
- fashion
- technology
- market development.

Factors that influence these changes are:

- Alejandra changed her view as she got older (most notably once she reached her late thirties) and as she became more successful. Success brought the opportunities to try new things and to develop herself and the business.
- Alejandra had to respond to the world around her. Opportunities came along which first led her to her singing career and then onto films and magazines. The fact that the music industry means older stars struggle and this forced her to rethink what she wanted.

Accept any other relevant explanation.

N.B. *Accept personal objectives since the question does not specify business objectives.*

Award [1–2] for a basic answer that shows knowledge of the concept of objectives.

Award [3–4] for an answer which clearly explains the concept of changing objectives in context. For [4] there has to be effective application to Alejandra.

No context award a maximum of [2].

- (c) Explain **two** difficulties in valuing *LadyA*'s financial assets. [4]

Assets can be tangible or intangible:

- there may be a question mark over stocks if these consist of physical CD albums and videos that can no longer be sold, but these are unlikely to be owned by *LadyA* unless she has her own recording film company.
- how do you value the brand name *LadyA*? It is an intangible asset which are always difficult to value.
- what is the worth of such things as the online videos and music that are freely available, but nonetheless generate revenue for the business through the sales of merchandise *etc*?
- what is the worth of the product endorsements which may generate further interest and revenues?

Would *LadyA* own assets such as buildings, equipment *etc*?

Accept any other relevant difficulty.

Award [1–2] for a basic answer that shows knowledge of valuing assets.

Award [3–4] for an answer which clearly explains difficulties of valuing assets in context. For [4] there has to be effective application to Alejandra/LadyA.

No context award a maximum of [2].

- (d) Evaluate **Option 1** (lines 139–146) as a strategic option for *LadyA*. [8]

Possible benefits:

- growth through a new market
- easy market to develop: ready-made Spanish-speaking fans, more used to older stars
- economies of scale – shared production, marketing costs *etc*
- type of extension strategy which would help extend life of brand increasing future cash flows
- further enhanced brand name.

Possible problems:

- risks
- no experience – experience all in US
- will US experience transfer?

Accept any other relevant response with substantiation.

N.B. Comparing **Option 1** with the other option (eg, By using Ansoff or Porter techniques) is a useful means of evaluation, but it is **not** necessary.

A general evaluation such as the use of SWOT or Ansoff or Porter etc, without context award a maximum of [3].

A one-sided evaluation (such as only benefits or problems) award a maximum of [5].

An evaluation without a balanced conclusion award a maximum of [6].

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

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

Section C

5. (a) Identify **two** features of a wholesaler. [2]

Possible features of a wholesaler include:

- they are intermediaries in the supply chain
- they buy in bulk from the producers, they break bulk, and sell to retailers
- they can improve the efficiency of the supply chain.

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

- (b) Using relevant data from Item 4, calculate the acid test (quick) ratio **X**, for **2014** (no working required). [1]

$$\begin{aligned}\text{Acid test (quick) ratio (ATR)} &= \frac{\text{current assets} - \text{stocks}}{\text{current liabilities}} \\ &= \frac{(6.0 - 5)}{4.6}\end{aligned}$$

= 0.217 (allow rounding), accept 0.2 or 0.22

N.B. Do not accept: 0.21 or \$0.2 million.

Award [1] for the correct answer (no working required).

- (c) Using Item 4 **and** your answer to part (b), comment on the changes in Fabco's liquidity.

[6]

Comments could include:

- ATR fallen hugely. Major liquidity problem likely.
- Current ratio is also falling to below what is usually regarded as acceptable.
- Current liabilities rising faster than sales which is a worry. Whether it is creditors or overdraft it is a worry, particularly as overall borrowing is rising – see gearing.
- Very large increase in stocks without corresponding change in other current items.

N.B. Use candidate own figure rule (OFR) from (b) in relation to comments.

N.B. Disregard discussion of other ratios.

Award [1–2] for general comments on liquidity ratios/liquidity without reference to data.

Award [3–4] for simple comments limited to either the current ratio and/or the acid test ratio, and/or makes use of relevant data from Item 4.

Award [5–6] for comments that refer to changes in both of the liquidity ratios and their components.

Award [6] for use of both liquidity ratios and development of the idea that liquidity is getting worse.

Commentary that ignores “changes” is limited to [3].

- (d) Analyse the relationship between the product life cycle, investment and the likely profits for *LadyA*.

[9]

Product life cycle is a difficult concept to apply, however, in *LadyA*'s case:

- Her singing career went through most of the stages of the cycle reaching maturity. Her venture into the Spanish speaking market could be seen as an extension strategy. Her branding as *LadyA* was a promotional strategy in the growth stage to maintain growth. At one stage, technology, such as online video hosting websites was used as an extension strategy, presumably to extend the life, or was it to promote growth?
- Her film and personality career seemed to follow behind her singing career and then declined – possibly because of her age.
- Products were launched and grew and there are now plans to extend the range of products and markets, maintaining the products in a growth stage. Is this an extension strategy?
- The suggested complete rebranding seems like an eventual product re-launch.

Each of the above has required an investment. The singing career seemed to need little financial investment, but the emphasis was on the creation of a brand through clothes and image. Her venture into Spanish-speaking markets also involves investment in the brand name. Costs were also involved in the perfume and cosmetics ranges, but was most of the investment by the outsourced businesses? The relaunch has an "investment" in the form of an opportunity cost.

There is little reference to profits in the case study. However it is likely that without extension strategies, profits would not be as large as they have been. There is no major investment by *LadyA* relative to earnings so the investments will have limited impact on the profits.

Accept any other relevant analysis of product life cycle, investment and profits.

An answer that analyses only two of product life cycle, investment, profits award a maximum of [7].

An answer limited to one of product life cycle, investment, profits award a maximum of [4].

*An answer without reference to *LadyA* award a maximum of [3].*

For [8–9] there has to be some linkage between the three concepts of the product life cycle, investment and likely profits in context.

Marks should be allocated according to the markbands on page 5.

- (e) Using information contained in the case study **and** Items 1 to 4, recommend whether Alejandra should choose strategy A **or** strategy B in order to implement **Option 2**.

[12]

*It should be recognized that, given time constraints, answers are likely to include a **much** narrower range of issues and concepts, and it cannot be expected that all of the stimulus material is used. There is no “correct” answer.*

Strategy A

This involves an in-house marketing department.

- Gavin Pratt will head up the new marketing department but he seems to have little experience.
- He also appears not to have the confidence of other *LadyA* employees (Item 1).
- He seems the right sort of “go-getter” with something of a track record, recognized externally.
- Already effective links with the manufacturers in Malaysia and the distribution is outsourced to Minnesota.
- What experience of international markets would they have?
- The department is going to be slow implementing B2C e-commerce, but the data shows this is a huge and very rapidly growing channel of distribution (Item 2).
- Asia-Pacific shows massive growth unlike the other regions (Item 2).

Strategy A is low risk, and limited in scope and is a safe option apart from the risk that Gavin may not have the staff on his side.

Strategy B

Taking over a ready-made organization with all the global functions necessary

- *Fabco* is strong in Asia, the fastest growing market (Items 2 and 3).
- It is a business in some difficulty so it might be a good target for a takeover.
- With a small level of equity relative to debt (Item 4), the share price might be low, but taking it over *LadyA* would take on a large amount of debt.
- Allows *LadyA* rapid entry into the online markets and a large retail chain in Asia
- Unethical behaviour by *Fabco* (Item 3). How serious are the reports? Are they just accusations? These could damage *LadyA*'s image.
- The reported problems that European customers are having with online orders and accounts may be worrying, but problems may be short lived.

Strategy B is ideal apart from the ethical issues and what to do with the debt.

Candidates are expected to have a clear and supported recommendation – it could be either strategy, as long as the answer is justified.

*If the answer refers to **Options 1,2,3** rather than strategies A and B, only award comments relevant to **Option 2** (or strategies A and B) – marks limited to [2].*

If the candidate refers to only one strategy, award a maximum of [7].

An answer that refers neither to Gavin nor Item 4, award a maximum of [8].

If the candidate does not make a recommendation, but does include some judgments, award a maximum of [9].

Marks should be allocated according to the markbands on page 6.