



MARKSCHEME

May 2010

BUSINESS AND MANAGEMENT

Standard Level

Paper 2

23 pages

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

Section A part (d) questions
and
Section B part (c) questions

Marks	Level descriptors
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 stimulus material. The response is mainly theoretical.
3–4	<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 stimulus material, not just to the name of the organization.
5	<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 stimulus material.

Section B part (d) questions

Marks	Level descriptors
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 stimulus material.
3–4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of issues and concepts. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the stimulus material, 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 stimulus material are made at places in the response.
7	<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 stimulus material are made throughout the response.

SECTION A

1. (a) **Outline the purpose of the mission statement of *Natura Cosméticos*.** [4 marks]

Mission statements are brief statements of the purpose of a company or organization. They are intended to guide the actions of the organization. Mission statements spell out an organization's overall goals and provide a sense of direction and a guide to decision making for all levels of management.

For *Natura Cosméticos*, its mission statement provides the same kind of guidance that mission statements are intended to. Whenever managers or even ordinary employees face a decision, whether strategic, tactical, or even operational, *Natura Cosméticos*' mission statement can serve as a practical frame of reference for the decision. As is often the case, and especially so in the case of *Natura Cosméticos*, the organization's brand in the marketplace is firmly connected to the ideas embedded in the mission statement. Were the organization to make decisions not in the spirit of its mission statement, over time its brand would probably suffer.

Accept any other relevant answer.

[1 mark]

The candidate provides a general statement of what a mission statement is.

[2 to 3 marks]

The candidate details several aspects of a mission statement. If the candidate makes no reference to *Natura Cosméticos*, award no more than [2 marks].

[4 marks]

The candidate provides a detailed outline of the purpose of the mission statement of *Natura Cosméticos*.

- (b) **From the profit and loss accounts provided:**

- (i) **calculate the missing values X for 2006 and 2007.** [2 marks]

Cost of goods sold: 992
Gross profit: 1909
Expenses: 1265
Net profit before interest and tax: 678

Apply Own Figure Rule (OFR).

Award [1 mark] for up to two errors.

Award [2 marks] for all calculations correct.

- (ii) calculate the gross profit margin *and* the net profit margin for 2006 and 2007. *[4 marks]*

	2006	2007
Gross profit margin	68.2 %	68.2 %
Net profit margin	23 %	21.7 %

Award *[1 mark]* for each correct calculation.

- (iii) comment on the change in interest between 2006 and 2007. *[2 marks]*

Interest rose 164.7% in 2007, from 34 to 90. This increase in interest is almost certainly connected to the increase in long-term debt to finance the new manufacturing plant.

If the candidate only lists absolute figures (interest increases from 34 to 90) award *[0 marks]*.

If the candidate only states percentage increase (164.7%) award *[1 mark]*.

For *[2 marks]* there must be commentary in addition to some statement regarding the change in interest.

Award *[1 mark]* if the candidate comments that interest rose significantly.

Award *[2 marks]* if the candidate comments on the fact that interest rose significantly and makes the connection between the increase in long-term debt to finance the new manufacturing plant and the response correctly states the percentage increase in interest.

- (c) **Distinguish between the purpose of accounts for *one* internal stakeholder group of *Natura Cosméticos* and the purpose of accounts for *one* external stakeholder group.** **[3 marks]**

The purpose of accounts for internal stakeholders is to manage the business, that is to have quantitative data to support decision making. For example, an increase in accounts receivable turnover, which is calculated based upon accounts, could lead management to change its credit policy or change its collection procedures. For external stakeholders, the purpose of accounts is to make evaluative judgments that would inform the external stakeholders relationship to the business. For example, an increase in the accounts payable turnover at the business might lead some suppliers to reduce their credit exposure to the firm.

A shareholder can be considered as an internal or external stakeholder.

Accept any other relevant answer.

Award **[1 mark]** for an explanation of how a stakeholder may make use of accounts. The candidate may have made no reference to the stimulus material, or the explanation may not be fully clear.

Award **[2 marks]** for a vague distinction between the purpose of accounts for **one** internal and **one** external stakeholder. The candidate may not have selected stakeholders relevant to *Natura Cosméticos*, or may not have made reference to *Natura Cosméticos*, or the differences may not be fully clear.

Award **[3 marks]** for a clear distinction (the differences) between the purpose of accounts for **one** internal and **one** external stakeholder. The candidate has selected stakeholders relevant to *Natura Cosméticos* and made references to the stimulus material.

- (d) **Examine *two* reasons why organizations such as *Natura Cosméticos* set ethical objectives.** **[5 marks]**

Organizations such as *Natura Cosméticos* often establish ethical objectives because of certain benefits such as:

- consumers often view ethical organizations favourably
- organizations find it easier to recruit and retain employees
- employees are often more motivated
- it reduces negative publicity from pressure groups
- it reduces the risk government will increase regulation and oversight
- it can help develop a brand image distinguishing it from its competitors.

If the response is a one-sided relevant approach with no examination, award a maximum of **[3 marks]**. If only one reason is examined award a maximum of **[3 marks]**.

To achieve the top markband the candidate must provide a thorough examination of **two** reasons why organizations such as *Natura Cosméticos* consider setting ethical objectives. This could be an expansion of the bullet points above. The response reflects detailed knowledge and understanding of ethical objectives in business.

Accept any other relevant examination.

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

2. (a) Define the following terms:

- (i) *non-profit organization.* [2 marks]

A non-profit organization is an organization that does not distribute its surplus funds to owners or shareholders, but instead uses them to pursue its goals. Many non-profit organizations are charities; others include trade unions and public arts organizations. Although many government agencies meet this definition, in most instances they are **not** considered non-profits.

Candidates are **not** expected to word their definition **exactly** as above.

Award [1 mark] for a basic definition that conveys partial knowledge and understanding.

Award [2 marks] for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant: example **or** application to the stimulus award [1 mark].

- (ii) *overheads* [2 marks]

Overheads are indirect expenses that are not chargeable to a particular part of work or production. Typically overheads are items such as accounting fees, advertising, depreciation, insurance, interest, legal fees, rent, repairs, supplies, taxes, telephone bills, travel and utilities costs.

Candidates are **not** expected to word their definition **exactly** as above.

Award [1 mark] for a basic definition that conveys partial knowledge and understanding.

Award [2 marks] for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant: example **or** application to the stimulus award [1 mark].

(b) Calculate for fee-paying patients in 2007 at Aravind Eye Care (Show all your working):

- (i) **the contribution to fixed costs of each fee-paying patient** [2 marks]

Contribution = selling price – variable cost

Contribution = US\$60 – US\$20

Contribution = US\$40

Award [1 mark] for the correct workings and [1 mark] for the correct calculation.

(ii) the break-even quantity

[2 marks]

The break-even quantity occurs when total costs equal total revenue.

Total costs = Total revenue, where
Total costs = Fixed costs + variable costs
Variable costs = quantity sold × US\$20
AND

Total revenue = price × quantity sold

$$FC + Q \times US\$20 = Q \times 60$$

$$3\,000\,000 + 20Q = 60Q$$

$$3\,000\,000 = 40Q$$

$$75\,000 = Q$$

Award **[1 mark]** for the correct workings and **[1 mark]** for the correct calculation.

(iii) the margin of safety.

[2 marks]

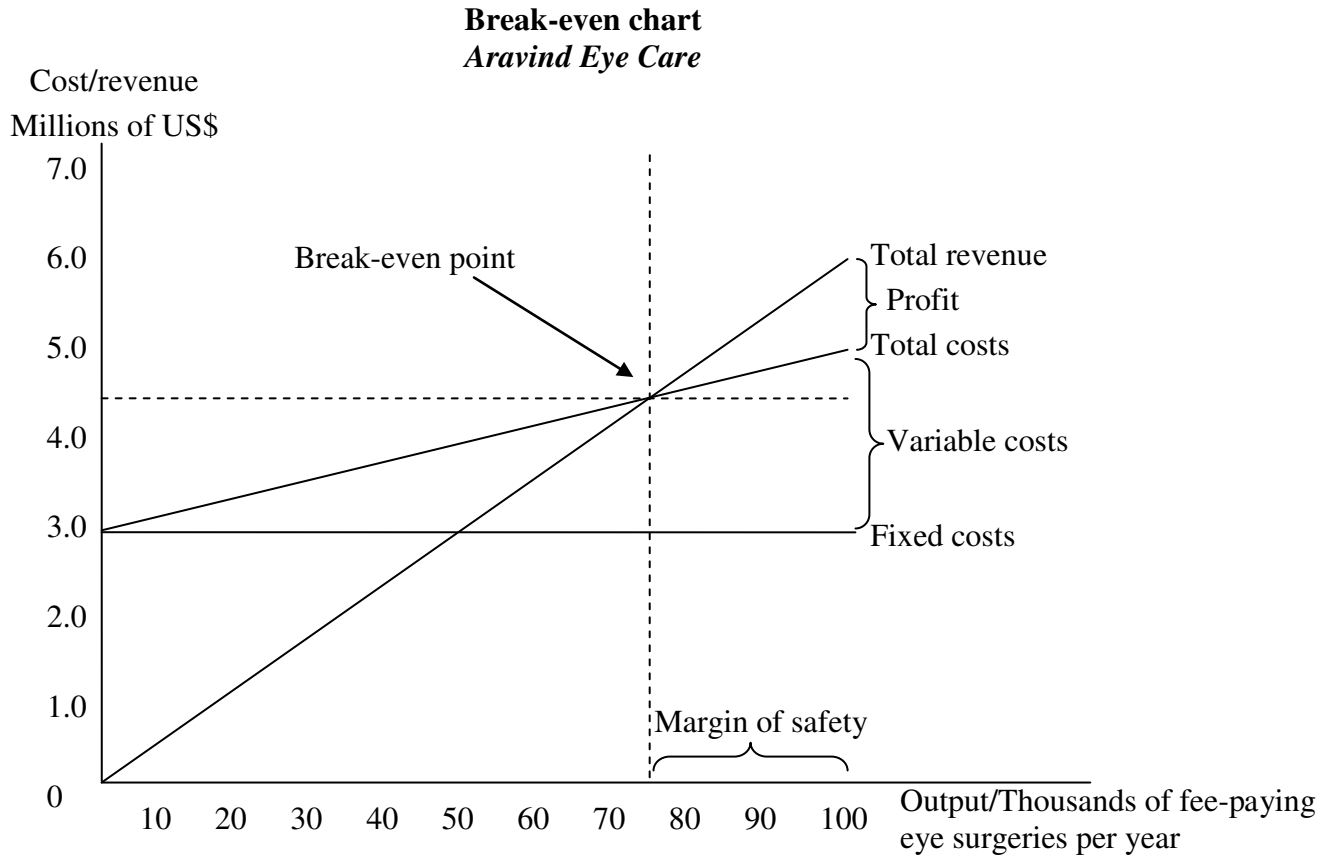
Fee-paying quantity per year – break-even quantity = margin of safety

$$100\,000 - 75\,000 = 25\,000$$

$$\text{Margin of safety} = 25\,000$$

Award **[1 mark]** for the correct workings and **[1 mark]** for the correct calculation.

(c) Prepare a fully labelled break-even chart for *Aravind Eye Care* in 2007. [5 marks]



Award marks as follows:

[1 mark] for each correctly labelled axis – maximum of [2 marks]. For the y-axis, candidates must label it “cost/revenue”, or something equivalent thereto, to receive [1 mark]. Just labelling the axis with a US\$ sign is insufficient for a mark.

[1 mark] for an accurately drawn and labelled total revenue curve.

[1 mark] for an accurately drawn and labelled total costs curve.

[1 mark] for either identification of the break-even level of output or the value of the break-even level of output.

Award [0 marks] if a candidate produces a table, and award no more than [3 marks] if the chart is not neat, not drawn with a straight-edge, or is not to scale.

- (d) **With reference to appropriate content theory, examine *two* factors that could influence the motivation of doctors at *Aravind Eye Care*.** [5 marks]

Candidates should refer to and apply appropriately any of the standard content theories addressed in a standard-level course (Taylor, Maslow, McGregor and Herzberg) and might consider the factors below (and any other appropriate factors).

For example, according to Maslow’s hierarchy of needs, after social needs have been met individuals want recognition, such as the award from the *Bill & Melinda Gates Foundation*, which honoured all employees but especially the doctors at *Aravind Eye Care*. After the need for recognition, according to Maslow, people have the opportunity to self-actualize (to feel complete and valid), which for medical doctors might well be achieved by providing medical care to the poor.

Factors potentially influencing doctors’ motivation **positively** may include:

- the focus on surgery alone – specialization could enhance doctors’ skills as surgeons
- providing an important medical service to many of India’s poor
- freedom from other responsibilities, some of which may be bureaucratic or unfulfilling
- recognition (such as the award from the *Bill & Melinda Gates Foundation*)
- gaining concrete experience/immersion in a cost-effective way to provide health services to the poor – a learning opportunity.

Factors potentially influencing doctors’ motivation **negatively** may include:

- by only doing surgery, doctors’ work could become routine or they could fear lack of development of other skills
- lesser opportunity to develop relationships with patients
- lesser autonomy than doctors in traditional eye clinics
- 24 hour-a-day operations require doctors to work non-traditional hours for surgeons
- because *Aravind Eye Care* is a non-profit organization, doctors’ compensation might be lower than working in a for-profit clinic or hospital.

Accept any other relevant examination.

To achieve the top markband the candidate must provide a thorough examination of factors that might affect the motivation of doctors. The response reflects detailed knowledge and understanding of motivational theory, to which the candidate refers to explicitly, appropriately, and meaningfully.

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

SECTION B

3. (a) **Define the term *secondary sector*.** [2 marks]

Unlike the primary sector, which involves the extraction of raw materials from the earth or the growing of food or the tertiary sector, which involves the service industry, the secondary sector of the economy includes those economic activities like manufacturing and construction that create a finished, usable product. In the secondary sector, raw materials are transformed into finished goods.

Candidates are **not** expected to word their definition **exactly** as above.

Award [1 mark] for a basic definition that conveys partial knowledge and understanding.

Award [2 marks] for a full, clear definition that conveys knowledge and understanding similar to the answer above. Key concept: manufacturing.

For **only** a relevant: example **or** application to the stimulus award [1 mark].

- (b) **Prepare a PEST analysis for the textile factory in Alumbre.** [6 marks]

Factors in a PEST analysis of Alumbre's textile factory might include:

Political

- agreement of Peruvian government to help fund improvements in communication between Alumbre and the rest of Peru
- Spanish government's response to the economic crisis.

Economic

- regional economic development as a result of *Ecosoluciones*
- new jobs created as a result of *Ecosoluciones*
- economic crisis in Europe.

Social

- remote village where people are unfamiliar with modern technologies.

Technological

- development of economically viable wind generators.

Accept any other relevant answer.

If a candidate answers that PEST stands for Political, Economic, Social and Technological but otherwise does not develop their response further correctly award [1 mark].

Award [1 mark] for each appropriate and correct entry in the PEST analysis up to [6 marks]. All four categories must be addressed for top marks.

- (c) **Contrast the objectives of non-profit organizations such as *Ecosoluciones* to those of profit-based organizations.** [5 marks]

Unlike profit-based organizations, which ultimately all have the goal of making profits for owners/investors, non-profit organizations such as *Ecosoluciones* exist solely to provide programs and services that are of public benefit. For example, one objective of *Ecosoluciones* is to introduce a non-polluting source of electricity. Often such services are not otherwise provided by governments.

Like profit-based organizations, non-profit organizations can, in some sense, earn a profit. However, unlike profit-based organizations, non-profit “profits” are really surpluses that must be retained for the future provision of programs and services.

Effective non-profit endeavors have a commitment to management. At one time, many non-profits were not seriously concerned with effective management, which was often viewed as too closely related to business and, thus, commercial interest. Today, most non-profits have learned that they need management even more than business does, precisely because they lack the discipline of the free market. The non-profits are still dedicated to “doing good,” but they also realise that good intentions are no substitute for organization and leadership, for accountability, performance, and results. Those require management and that, in turn, begins with the organization’s mission.

Accept any other relevant contrast.

To achieve [4 marks], a candidate must mention one of the two ideas below; to achieve [5 marks], a candidate must have **both** ideas below:

- A non-profit organization must pay attention to the fact that they cannot spend an infinite amount of money. It must make a “profit”, which it will retain for its organization’s purpose, or break-even.
- Non-profit organizations have a commitment to managing their organization well (for example in line with their mission statement and with “doing good”).

To achieve the top markband the candidate provides a thorough contrast of the objectives of non-profits, such as *Ecosoluciones* and profit-based organizations. The response reflects detailed knowledge and understanding of the objectives of profit-based and non-profit organizations.

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

- (d) Discuss *two* possible areas of conflict between stakeholders in the Alumbre Project. [7 marks]

The Alumbre Project has the potential to have a transformative impact on Alumbre, Peru, and the surrounding area. With change, however, some people may benefit and some people may suffer.

For example, with the introduction of electric-powered machinery in the textile factory, productivity rose dramatically, a clear benefit to the owners of the factory (one stakeholder). However, automatization may have also meant that the traditional skills of the workers (another stakeholder group) related to the hand-production of cloth were devalued (proletarianization), thereby weakening their control over the workplace or their bargaining position.

A second area of conflict could stem from issues of *Ecosoluciones*' long-term commitment to the Alumbre Project. Although initially there was alignment of interests between the owners of the textile factory (one stakeholder), the Peruvian government (another stakeholder) and *Ecosoluciones* (a third), the latter's indication that it may no longer maintain Alumbre's wind generators is a major source of potential conflict: the factory owners have invested in electric-powered machinery while their source of power is now threatened, and the Peruvian government may now need to provide the maintenance service for which it had been counting on *Ecosoluciones*. Workers (another stakeholder) may also be dissatisfied, especially the newly hired, as they modified their economic lives to work in the textile factory, which is now threatened.

Accept any other relevant discussion.

There are many other potential areas of conflict. Examiners should evaluate them based upon their relevance to and basis in the stimulus material. If the response is a one-sided relevant approach with **no discussion**, award a maximum of [4 marks]. If the candidate discusses only one possible area of conflict between the stakeholders in the Alumbre Project, award a maximum of [4 marks].

To achieve [4 marks] or more candidates must discuss two issues and clearly identify two stakeholders per issue.

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

4. (a) **Identify *two* features of a sole trader.** [2 marks]

Features of a sole trader may include:

- A type of business that legally has no separate existence from its owner
- There is unlimited liability: all debts of the business are debts of the owner. The person who sets up the business has sole responsibility for its debts.
- The business has no partners.
- A sole proprietorship essentially refers to one person (individual) doing business in his or her own name and in which there is only one owner.
- A sole proprietor may do business with a trade name other than his or her legal name.
- *Accept any other relevant feature of a sole trader.*

Award [1 mark] for each appropriate feature of a sole trader that the candidate identifies, up to a maximum of [2 marks].

(b) **Comment on *two* appropriate sources of finance which Elena Rudaki might have used to set up her distribution centre.** [6 marks]

For someone such as Elena Rudaki, the question of finance is challenging. Because the organization is a start-up, she has no internal source of funds. Thus, she must rely on external sources of funds, either debt or equity. In terms of equity, she could use personal savings or take on a partner, someone who has the resources to fund or share the cost of starting up the business. Borrowing money is another option: she could borrow funds from a bank or another institution that has an interest in seeing small organizations get started and succeed, such as *Coca-Cola* itself or the government. She could also try to get a grant from the regional government.

Even though specific sources of finance are not mentioned in the stimulus, candidates are still capable of answers that represent application to the stimulus. Internal sources are NOT appropriate, and many external sources would not fit the circumstances. A bank term loan would NOT be appropriate, as she has no collateral. Nor, given the scale of the business, would be conversion to a private limited company and selling shares.

Thorough appropriate comments might include the availability of the type of source of finance and/or its limitation (taking on a partner might mean losing some control over the business).

Accept any other relevant answer.

Award [0 marks] if candidate only mentions a bank loan. However, if the candidate identifies a bank loan as a source of finance and “clearly explains” why it is **not** an appropriate source, award [1 mark]. Candidates may suggest borrowing from family and friends as a source of finance; for further marks they must provide an appropriate commentary why it is appropriate.

Mark as 3+3.

For each appropriate source of finance, award **[1 mark]** for its identification, **[2 marks]** for partial, appropriate comments, and **[3 marks]** for thorough, appropriate comments. Maximum award **[6 marks]**.

- (c) **Examine *two* problems that other entrepreneurs in Elena Rudaki’s town may face if they start up a new business.** **[5 marks]**

Generally, a business may face a number of issues when starting up. A partial list of potential issues may include determination of:

- the basic business idea (the product or service)
- the market and its features
- the human resources the organization will need
- the target market of the product or service
- the suppliers
- the business location
- how to raise the initial funds to open the business
- the most cost effective means to produce the product or service
- the main risks involved in the business
- the record keeping procedures for the business.

Many of these issues would be more complicated in Tajikistan, which is among the poorest countries in this region of Asia and is still suffering from the effects of a civil war from 1992 to 1997 following the dissolution of the Soviet Union. For example, these entrepreneurs would have difficulty with obtaining supplies and delivering products because of the lack of quality infrastructure. If horse-drawn carts are a relevant form of transportation, it suggests that the economy is not particularly modern and there may be other business issues complicated by lack of modern technologies.

Accept any other relevant examination.

If the response is a one-sided relevant approach with no examination, award a maximum of **[3 marks]**.

If the candidate assumes that the other entrepreneur/s is opening a *Coca-Cola* distributorship in Elena’s town award a maximum **[3 marks]** for a high quality answer. Marks **[1–3]** should be awarded according to the quality of the answer.

To achieve the top markband the candidate must provide a thorough examination of **two** problems that other entrepreneurs in Elena’s town may face when setting up a new business. The response reflects detailed knowledge and understanding of starting up a business.

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

(d) Discuss the effectiveness of the different types of distribution channels for *Coca-Cola* in Tajikistan.

[7 marks]

There are two types of distribution channels available to *Coca-Cola* in Tajikistan:

- a short channel of delivering small orders directly to retail outlets
- a long channel through intermediaries such as distribution centres.

Short channel distribution centres means that *Coca-Cola* either directly controls its distribution channels or is working with large-scale distributors or even independent *Coca-Cola* bottlers, part of whose agreement with *Coca-Cola* is distribution. This type of distribution generally means a large business with competent management, access to needed finance and sophisticated delivery equipment (lorries). However, firms this large may have neither the local knowledge to penetrate the remote markets as in Elena Rudaki's small town, just as large short channel distributors may not have the interest, either, in penetrating these markets, which are relatively small.

Long channel distribution such as reliance on people like Elena solves several of these problems. For Elena, the small markets in her region of Tajikistan represents a real business opportunity. She knows the market and probably has limited options for owning her own business. She doesn't, however, have many resources or, probably, formal business skills. To reach these markets, *Coca-Cola* must provide her with considerable support.

Accept any other relevant discussion.

To achieve the top markband the candidate's response demonstrates a detailed knowledge and understanding of the effectiveness of the two types of distribution channels available to *Coca-Cola* in Tajikistan. The candidate effectively uses business and management terminology throughout. The response includes judgments and/or conclusions that are well supported and underpinned by a balanced analysis.

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

5. (a) **Outline briefly the difference between market orientation and product orientation.** [2 marks]

Market orientation is one that allows the wants and needs of customers and potential customers to drive all the organization's strategic decisions. The organization's corporate culture is systematically committed to creating customer value. The rationale is that the more a company understands and meets the real needs of its consumers, the more likely it is to have happy customers who come back for more, and tell their friends. Product orientation is an approach to business that places the main focus of attention upon the production process and the product itself. The rationale is that the unique selling proposition of the organization is centred on the special features of the product.

Accept any other relevant answer.

Award [1 mark] for a basic response that indicates some understanding of the difference. Award [2 marks] for a full clear brief outline of the primary difference between market orientation and product orientation.

- (b) **Comment on the appropriateness of “surveys, focus groups and interviews” as methods of primary market research for *Bajaj*.** [6 marks]

Surveys involve questionnaires, which typically have open and closed questions. Questionnaires are often mailed to customers (postal survey) or the consumer fills it out at the business location. Focus groups involve groups of customers being brought together on one or a number of occasions, where customers and consumers are asked to answer and discuss questions related to the product or service. Interviews involve obtaining information from one person face-to-face. The interviewer rather than the person being interviewed records responses to questions, which often contain more open than closed questions.

Surveys are relatively inexpensive, have no interviewer bias, and can yield information on many people covering a wide geographic area. Consumers, however, often will not fill out questionnaires, or they fill them out in haste, not considering carefully their responses. If the questions are poorly worded, the questionnaire may be misleading or produce inaccurate results. Focus groups, while relatively inexpensive, often involve only a small number of customers who may not reflect the views of the market or market segment in which the business is interested. Interviews allow for detailed knowledge. Long or difficult questions can be explained, and many of the interviewee’s responses can be used. Follow up or tag questions can be asked. However, interviews are time consuming and can be expensive. Moreover, the interviewer may have a bias that influences the responses of the interviewee.

For *Bajaj*, these types of market research techniques are appropriate. *Bajaj* considers itself a market-oriented company, so it needs to understand the wants and needs of its customers, who vary. The surveys allow *Bajaj* to get input from a large number of customers at a relatively low cost. Once preliminary ideas are developed from this information, *Bajaj* can get more in-depth information from focus groups. Focus groups also have the advantage that participants can learn from other participants, which can influence subsequent input. Finally, a select number of interviews can be done to obtain detail knowledge. These details can either be “positive”, in the sense that *Bajaj* can hear interviewees discuss what they want, or “negative”, in the sense that *Bajaj* can learn in detail interviewees’ concerns.

Market research is especially important because many of *Bajaj*’s products are sold in remote areas where service is difficult. Getting customer input about quality, reliability, and safety get help *Bajaj* shape its product to meet these priorities. Also, because *Bajaj* serves many markets outside of India, they need to have a keen understanding of local circumstances in each market. Consumers’ needs, wants, and priorities in India may be quite different from consumers’ needs, wants, and priorities in other markets and countries.

As increasing numbers of consumers around the world possess portable telephones, *Bajaj* may want to consider alternate types of market research techniques, such as computer-aided telephone interviews, which can be highly cost effective and reach a large number of customers.

Accept any other relevant answer.

[1 to 2 marks]

The candidate provides a limited commentary of surveys, focus groups, and interviews. The response suggests minimal knowledge and understanding of the three types of primary market research. The candidate does not use business and management terminology, and no reference to *Bajaj* is made.

[3 to 4 marks]

The candidate comments on surveys, focus groups, and interviews. The response suggests some knowledge and understanding of the three types of primary market research. The candidate's use of appropriate business and management terminology is limited or the references to *Bajaj* are minimal or superficial.

[5 to 6 marks]

The candidate comments on surveys, focus groups, and interviews in detail. The response reflects detailed knowledge and understanding of the three types of primary market research. The candidate uses appropriate business and management terminology and explicitly refers to *Bajaj*.

- (c) **Analyse the usefulness of market segmentation and consumer profiles for *Bajaj*.** [5 marks]

Market segmentation involves determination of a segment of the market sharing one or more characteristics that cause them to have similar product and/or service needs. A market segment is distinct from other segments, is largely homogeneous within the segment, responds similarly to a market stimulus, and can be reached by a market intervention. The term is also used when consumers with identical product and/or service needs are divided up into groups so they can be charged different amounts.

A consumer profile is an outline of significant demographic and psychographic details about the user of a particular product. Consumer profiles typically include the user's age, marital status, income, education, occupation, sex, area of residence, and purchase behaviour patterns. Knowledge of the consumer profile is very important in the determination of the marketing mix.

For *Bajaj*, market segmentation and consumer profiles play an especially important role and are largely the key to *Bajaj's* success. By managing its marketing mix to specific market segments determined by extensive consumer profiles, *Bajaj* is able to meet the needs of large numbers of consumers in diverse markets.

Accept any other relevant analysis.

If the response is a one-sided relevant approach with **no analysis**, award a maximum of [3 marks]. If the candidate analyses only market segmentation or only consumer profiles, award a maximum of [3 marks].

To achieve the top markband the candidate provides a thorough analysis of both market segmentation and consumer profiles. The response reflects detailed knowledge and understanding of these marketing concepts.

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

(d) Evaluate the use of franchising as a growth strategy for *Bajaj*.**[7 marks]**

Franchising refers to the method of practicing and using another person's business philosophy. The *franchisor* grants the independent operator the right to distribute its products, techniques, and trademarks for a percentage of gross monthly sales and a royalty fee. Various tangibles and intangibles such as national or international advertising, training, and other support services are commonly made available by the franchisor.

For *Bajaj*, there are numerous advantages to franchising:

- franchising would allow access to investment capital without the need to give up control in the process
- franchising would allow rapid expansion across countries and continents using the capital and resources of their franchisees, and *Bajaj* can earn profits commensurate with its contribution to these new markets
- franchising would provide *Bajaj* with a distribution network
- *Bajaj* would be relieved of many of the mundane duties necessary to start a new outlet, such as obtaining the necessary licenses and permits, which, in some jurisdictions, are more easily obtained by locally based, owner-operator type applicants
- *Bajaj* franchisees would have considerable incentive to operate their businesses successfully because they have a direct stake in the operation
- *Bajaj* would not need to closely scrutinize the day-to-day operations of franchisees (compared to directly-owned outlets).

Disadvantages for *Bajaj* would include:

- in any particular area there will be only a small number of people who have both the resources and the desire to set up a *Bajaj* franchise compared to the pool of individuals who would be able to competently manage a directly-owned business
- successful franchising would require a thorough vetting process to evaluate the limited number of potential franchisees than would be required to hire a direct employee. An incompetent manager of a directly-owned outlet can easily be replaced, while regardless of the local laws and agreements in place removing an incompetent franchisee is much more difficult
- incompetent franchisees could easily damage the public's goodwill towards the franchisor's brand by providing inferior goods and services. If a franchisee is cited for legal violations, (s)he will probably face the legal consequences alone but *Bajaj's* reputation could still be damaged.

Accept any other relevant evaluation.

To achieve the top markband the candidate's response demonstrates a detailed knowledge and understanding of the potential strengths **and** limitations for *Bajaj* of expanding through franchising. The candidate effectively uses business and management terminology throughout. The response includes judgments and/or conclusions that are well supported and underpinned by a balanced evaluation.

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