



MARKSCHEME

May 2012

BUSINESS AND MANAGEMENT

Higher Level

Paper 2

30 pages

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

Section A		Section B			Level descriptors
Q1 (d)	Q2 (e)	Q3 (c)	Q4 (c)	Q5 (c)	
Marks 0–6					
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.
5–6					<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			Level descriptors
(d) questions			
Q3 (d)	Q4 (d)	Q5 (d)	
Marks 0–9			
0			
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 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 stimulus material, not just to the name of the organization. • The response is mainly theoretical.
5–7			<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.
8–9			<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) Describe *two* features of a partnership.

[4 marks]

Features could include the following:

- up to 20 partners depending on the country of operation
- limited or no requirement for published accounts depending on country of operation
- unlimited liability for partners
- a written agreement / deed of partnership to be drawn to decide on responsibilities / profit and loss sharing / conflict resolution
- responsibilities are shared as well as risk and profit
- *accept any other relevant feature and description.*

N.B.

- Features are attributes and are **not** advantages or disadvantages of this organizational form.
- Do **not** accept “that partners may disagree with each other”.
- Do **not** credit separately “the share of responsibility, profit and risk” (*count as one answer*).

Mark as 2+2.

Award **[1 mark]** for identifying each appropriate feature and **[1 mark]** for an appropriate description up to a maximum of **[2 marks]**.

- (b) Explain *two* benefits and *one* cost to *SP* of preparing a contingency plan of the three possible locations in Asia. *[6 marks]*

Possible benefits could include:

- A contingency plan enables *SP* to be proactive with regards to possible changes in the environment and to avoid crisis management. This planning enables Trent to cope with some negative effects in various countries and to reduce the risk of the unknown especially given the concern with regards to the earthquake / natural problem.
- It allows *SP* to reassure clients that their safety is crucial and that the company is planning ahead as far as possible to cover any possible problem.
- The contingency plan could be used in *SP*'s marketing materials to illustrate to new clients that *SP* provides the best service available to protect their USP.
- The contingency plan will allow *SP* to continue to charge high fees given the added value the contingency plan would add to the service the company offers.
- *Accept any other relevant benefit.*

Possible costs could include:

- Opportunity costs of researching and preparing the contingency plan, in addition to any other financial costs such as hiring suitable consultants to advise *SP*.
- *Accept any other relevant cost.*

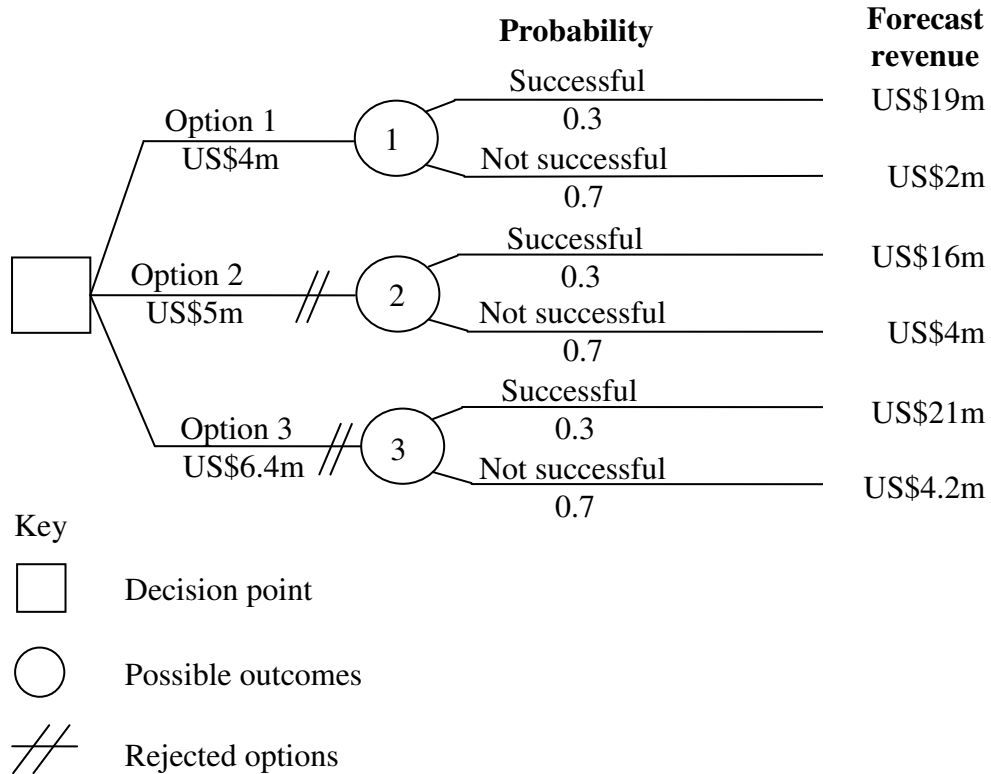
Accept any other relevant explanation.

Mark as 4 + 2.

Award *[1 mark]* for identifying **each** appropriate benefit to *SP* of preparing a contingency plan up to a maximum of *[2 marks]* and *[1 mark]* for an appropriate explanation of **each** benefit that directly refers to *SP* up to a maximum of *[2 marks]*. *[4 marks]* in total for two benefits.

Award *[1 mark]* for identifying **one** appropriate cost to *SP* of preparing a contingency plan and *[1 mark]* for an appropriate explanation that directly refers to *SP* up to a maximum of *[2 marks]*.

(c) (i) Construct a fully labelled decision tree and calculate the predicted outcome of each offshoring option (*show all your working*). [6 marks]



EMV of Option 1 = $(19 \times 0.3) + (2 \times 0.7) = 5.7 + 1.4 = 7.1\text{m} - 4\text{m} = \text{US}\3.1m
 EMV of Option 2 = $(16 \times 0.3) + (4 \times 0.7) = 4.8 + 2.8 = 7.6\text{m} - 5\text{m} = \text{US}\2.6m
 EMV of Option 3 = $(21 \times 0.3) + (4.2 \times 0.7) = 6.3 + 2.94 = 9.24\text{m} - 6.4\text{m} = \text{US}\2.84m

[1 to 2 marks]

The decision tree is not accurately constructed, the calculations of each option are not all presented or accurate, but there is some evidence of a general knowledge of the model.

[3 to 4 marks]

The principal elements of the decision tree are constructed, but may not be entirely accurate. The calculations of each option are largely correct and clearly presented at the top end of the markband. Working may not be shown.

[5 to 6 marks]

The decision tree is accurately constructed. The calculations of each option are correct and well presented. For [6 marks] a key is provided. Workings are shown.

N.B. For an accurately constructed decision tree with incorrect calculations, award up to a maximum of [5 marks].

- (ii) **Comment on the value for *SP* of using a decision tree as a decision-making tool.** *[3 marks]*

The decision tree will allow *SP* to:

- visually represent all possible offshoring options
- quantify the outcomes of each option in terms of expected values compared to cost
- incorporate the probabilities of the outcomes
- decide on an appropriate course of action based on quantitative factors only.

Given the substantial non-financial factors in the stimulus (such as the level of earthquake risk) surrounding the contingency plan, the lack of non-financial considerations of the decision tree calculations reduces the value of the decision tree to *SP* as a decision-making tool.

Accept any other relevant comment.

N.B. It is **not** expected that the candidate produce a balanced response.

Apply candidate Own Figure Rule (OFR).

Award up to a maximum of *[3 marks]* for at least **two** relevant comments.

Award up to a maximum of *[2 marks]* if there is no relevant application to *SP*.

- (d) **Examine *two* disadvantages for *SP* of subcontracting its recruitment and training of bodyguards.** [6 marks]

The subcontracting of the recruitment and training to an external agency will create disadvantages for *SP*.

Possible disadvantages could include:

- Direct financial costs like setting up the contract/relationship.
- There might be issues of quality and hence the delivery of the service. *SP*'s USP may be seriously eroded. *SP* may lose control of the whole quality of the bodyguard and the delivery of the service. It is mentioned in the stimulus material that quality of the service is vital to *SP*. One may say that *SP* outsources its core activity.
- Uncertainty about how the new external agency could impact on *SP*'s perception in the eyes of their customers. This is important given the importance of word-of-mouth promotion and the need to maintain the quality of customer service. One customer has already threatened not to use the service of *SP*.
- Costs of monitoring and maintaining the new subcontracting relationship.
- There could be considerable cultural issues to take into account when trusting and transferring these key functions to an external agency as it would appear that *SP* have limited experience of working within Asia.
- There will be time delays in establishing a new working relationship.
- *Accept any other relevant disadvantage.*

However / possible balance:

- *SP* need to move quickly as the business is missing out on potential profits. Subcontracting to a specialist might enable *SP* to respond more quickly.
- It is stated that this option is cheaper (set-up cost) than offshoring.
- Perceived as “less risky” compared to offshoring as the decision can be more easily reversed in case the expected new level of demand in Asia is not sustained and thus is a much cheaper option than setting up an overseas branch.

Accept any other relevant examination.

N.B. It is **not** expected that the candidates incorporate all of the above points/issues.

For one relevant disadvantage that is one-sided, with no examination award **up to** a maximum of [3 marks]. For two relevant disadvantages that are one-sided, with no examination award **up to** a maximum of [4 marks].

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

2. (a) Identify *two* features of an own label brand. [2 marks]

Features could include:

- A product created for a retailer by a supplier/manufacturer to be sold under the retailers own name or label.
- The own label branded product is commonly sold at a price by the retailer which is below the suppliers/manufacturers own branded price. For example, the supermarkets own brand of gluten-free bread may be cheaper than that of the suppliers' brand.
- *Accept any other relevant feature.*

Award [1 mark] for each correct and relevant feature identified up to a maximum of [2 marks].

(b) Define the term *economies of scale*. [2 marks]

Economies of scale are defined as a cost saving which a business experiences when the long run unit costs or production costs fall as a business engages in larger-scale production. They can include managerial, financial and marketing.

N.B. Examples are **not** required for full marks provided the definition is accurate.

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].

- (c) Explain *two* benefits and *one* cost to *GF* of meeting national quality standards for its bread. [6 marks]

Possible benefits could include:

- Marketing / USP especially.
- A point of difference from a major competitor like local supermarkets that do not meet the national quality standards, with an opportunity to build substantial brand loyalty and to charge higher price (by 20 %).
- Motivation for existing workers as they are working for a business recognized for its quality. Motivated employees may further increase efficiency and quality of the products.
- Recruitment of future workers may be quicker and hence cheaper especially if *GF* wishes to expand. Similarly, staff turnover may be low.
- *Accept any other relevant benefit.*

Possible costs could include:

- Costs will revolve around complying with the requirements of the national quality standards such as buying technology, training, maintaining quality of ingredients *etc.*
- Costs of certification or obtaining a license or certificate.
- Inspection costs by outside agencies.
- *Accept any other relevant cost.*

Accept any other relevant explanation.

Mark as 4 + 2.

Award [1 mark] for identifying **each** appropriate benefit to *GF* of meeting national quality standards up to a maximum of [2 marks] and [1 mark] for an appropriate explanation of **each** benefit that directly refers to *GF* up to a maximum of [2 marks]. [4 marks] in total for two benefits.

Award [1 mark] for identifying one appropriate cost to *GF* of meeting national quality standards and [1 mark] for an appropriate explanation that directly refers to *GF*.

- (d) (i) **Calculate the variable cost per loaf to GF if they buy-in the additional 1200 loaves from the local supermarkets' supplier.** *[1 mark]*

Variable cost to GF per loaf from buying-in the additional 1200 loaves

$$= \frac{7200}{1200} = \$6$$

Award *[1 mark]* for the correct answer.

- (ii) **Using relevant information given, calculate whether GF should either buy-in the additional 1200 loaves from the local supermarkets' supplier, or make the loaves themselves (show all your working and state any assumptions you make).** *[5 marks]*

Any relevant methods used by the candidate should be rewarded provided the method used is accurate and full workings and any assumptions (if any) are shown. Candidates may calculate the contribution from each option or compare total costs in order to reach the answer. **However**, allow for any other relevant method of calculation provided workings are shown and stages are explained.

Candidates are also expected to clearly present their calculations / findings. Some examples of calculations that could be included are shown below (all figures are in \$):

Method 1 (contribution costing):

To buy-in 1200 loaves

Contribution from buying-in is $6.8 - 6 = 0.8$ per loaf.
 Additional contribution from buying in is $0.8 \times 1200 = \$960$.

Apply candidate Own Figure Rule (OFR).

To make 1200 loaves

If candidates assume that the semi-variable component is added at the contribution stage:

Contribution from making = $6.8 - 1.2 - 0.2 = 5.4$.
 Total contribution increase = $5.4 \times 1200 = 6480$.
 But increase in fixed cost 4000 (one-off cost) + 2000 (semi-variable component) = 6000.

Hence net contribution increase is \$480 ($6480 - 6000$).

If candidate assumes that the semi-variable 0.2 per loaf is absorbed into the fixed costs:

Contribution from making = $6.8 - 1.2 = 5.6$.
 Total contribution increase = $5.6 \times 1200 = 6720$.
 But increase in fixed costs $4000 + 2000 + (1200 \times 0.2) = 6240$.

Increase in contribution from making themselves is still \$480 (6720–6240).

GF should buy-in the 1200 loaves as the contribution is higher at \$480 (960–480).

However the 4000 fixed cost is a one-off payment and subsequent additional loaves for the hospitals will not have to incur this cost and contribution from making will be higher than buying-in:

For the following year:

Contribution from making = $6.8 - 1.2 - 0.2 = 5.4$

Total contribution increase = $5.4 \times 1200 = 6480$

Fixed cost = 2000 (semi-variable component)

Hence contribution increase is \$4480 (6480–2000) compared to \$960 from buying-in the 1200 loaves.

Method 2 (total cost approach):

Cost to buy = 7200 (from stimulus)

Cost to make = $FC + (VC \times Q)$

$$= (4000 + 2000) + ((0.2 + 1.2) \times 1200)$$

$$= 6000 + 1680$$

$$= 7680$$

GF should buy-in to make a cost saving of: $7680 - 7200 = \$480$.

Accept any relevant method used.

Apply Own Figure Rule (OFR) if the original calculations are not accurate. Do not double penalize.

[1 to 2 marks]

The calculations for making the 1200 loaves and buying-in the 1200 loaves are inaccurate and/or not well presented. If the final figures are presented without any working, award a maximum of **[2 marks]**.

[3 to 4 marks]

The calculations for making the 1200 loaves and buying-in the 1200 loaves are largely accurate, but may be incomplete and/or not well presented. Workings are not clearly shown.

[5 marks]

The calculations for making the 1200 loaves and buying-in the 1200 loaves are accurate and well presented. Workings are clearly shown.

(iii) Comment on whether *GF* should make or buy-in the additional 1200 loaves. *[3 marks]*

- The 1200 loaves from the local supermarket supplier is cheaper than *GF*. For Barbara to fulfil the order she should buy-in.
- A major non-financial concern however, is that the local supermarkets' supplier does not meet national quality standards and Barbara will be forced to check this bread carefully. This “checking cost” may also lead to an increase in *GF*'s costs.
- Producing the loaves themselves incurs a one-off cost of \$4000. If *GF* produces more loaves in the future, Barbara will not incur additional future costs making the unit cost of making more loaves lower.

Accept any other relevant answer.

Apply candidate Own Figure Rule (OFR).

Award up to a maximum of *[3 marks]* for at least **two** relevant comments.

Award up to a maximum of *[2 marks]* if there is no relevant application to *GF*.

- (e) Analyse *two* reasons why *GF* should move from traditional quality control methods to a TQM approach. [6 marks]

Possible reasons could include:

- It may lead to productivity improvements as it is suggested that the current traditional quality control methods are time consuming. *GF* may be able to reduce future prices despite the current increase in cost of gluten-free flour making *GF* bread even more affordable.
- Long-run benefits once the new TQM system becomes established and workers are familiar with the new system and culture.
- The move to TQM may generate further orders if feedback from the hospitals is positive, allowing perhaps for flow production in the future. This could potentially reduce costs even further for *GF*.
- The practices of TQM like zero defects, quality chains, quality circles and so on will improve motivation given the empowerment, efficiency and productivity of *GF* employees. The benefits in terms of total revenue, costs and profit are obvious.

However / possible balance:

- TQM will require a change of culture within *GF*. Changing spans of control and job descriptions via job enlargement. Some employees may resist the extra responsibilities and the changes.
- There will be short-run transitional issues. Costs such as training will increase. There may need to be changes in appraisal and rewards packages.
- Short-run disruption to production at a critical time when a large order is anticipated.
- Some resistance to change may be evident with the redeployment of the existing four quality control employees. Quality will be now every employee's responsibility.

Accept any other relevant analysis.

N.B. It is **not** expected that the candidates incorporate all of the above points/issues.

For one relevant reason that is one-sided, with no analysis award **up to** a maximum of [3 marks]. For two relevant reasons that are one-sided, with no analysis award **up to** a maximum of [4 marks].

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

SECTION B

3. (a) Define the following terms:

(i) *target market*

[2 marks]

A target market is a chosen market by a business after carrying out market research to identify a particular segment of a total population (classified by age, gender, income level, lifestyle) and focus its marketing effort on that segment. In the stimulus the \$1.99 toy shop is aiming its products at the lower income segment.

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

Award **[0 marks]** if the candidate writes “a target market is when a business targets its products at a particular market”.

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) *stock turnover.*

[2 marks]

Stock turnover is the measurement of the speed with which a business sells out its stock. A ratio can be used to measure the above. Stock turnover is an efficiency ratio which measures how many times the current level of stock in a store is “sold” or turned over. It is usually measured in the number of trading days it takes to sell stock.

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

N.B. Do **not** credit the candidate who repeats the formula from the formulae sheet.

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) Explain *two* disadvantages of James using psychological pricing. [6 marks]

Disadvantages could include the following:

- Quality concerns of the low priced toys by customers. James may lose some quality conscientious parent customers.
- It will be difficult for James to be flexible around future pricing if the psychological price remains fixed at such low price in the minds of the customers. James' flexibility in terms of pricing decisions may be reduced.
- Some customers may perceive this pricing strategy as unethical especially when children are targeted with the toys. Consumer groups might spread bad publicity about James. James might lose customers, sales and hence profit.

Accept any other relevant explanation.

N.B. Award candidates that refer explicitly and/or implicitly to predatory / discount / competitive pricing and produce some relevant points with regards to these pricing strategies.

Mark as 3 + 3.

Award [**1 mark**] for identifying each appropriate disadvantage, [**1 mark**] for an appropriate explanation and [**1 mark**] for a further development of this explanation with reference to James or the \$1.99 toy shop up to a maximum of [**3 marks**].

Award up to a maximum of [**2 marks**] for each disadvantage if no relevant reference is made to the stimulus material.

(c) Analyse *two* possible conflicts between stakeholders of the \$1.99 toy shop. [6 marks]

A correct answer should analyse two conflicts to highlight both stakeholder positions. The potential conflicts from the stimulus are:

Conflict between the \$1.99 toy shop and	Nature of conflict
Local toy manufacturers	Use of Chinese suppliers
Parents	Quality concerns and safety of toys
Employee representative (union official)	Employing teenagers on very low wages
Competitors	Psychological pricing of the \$1.99 toy shop seen as unethical
Older customers	Queuing and customer service

Possible conflicts which could be applied:

- James is trying to provide employment opportunities for teenagers and toys for low-income families. James could argue that this is “ethical”. This stance may conflict with the demand of the employees’ representative who wants more money. A possible increase in wages may result in higher prices which can upset the loyal customers. They may feel that their interest is negatively affected. The \$1.99 toy shop may lose its customers and its competitive advantage. However, fewer customers may serve the interest of the older customers who are currently complaining about long queues and poor service. The service is likely to improve so a demand might increase on the older customers’ behalf. However, a possible higher price due to higher wages will serve the interest of the competitors but not the customers.
- Regarding the possible conflict between the competitors and James, there is no information in the stimulus material that the local authorities regard the toy’s pricing strategy as unethical, or an example of predatory pricing which is illegal in some countries. Perhaps the competitor prices are too high? James is not to blame for the \$1.99 toy shop being too popular.
- An interesting conflict is between the interests of the parents. On the one hand they would like cheap and affordable toys. On the other hand they are concerned about the quality of the imported toys from China.
- The creation of the social networking web site is a move by James to try and reduce the conflict by offering customers a chance to put forward their views, although this may not satisfy the older customers who may not feel comfortable in using social networking web sites.

Accept any other relevant analysis.

N.B. It is **not** expected that the candidates incorporate all of the above points/issues.

For one relevant conflict that is one-sided, with no analysis award **up to** a maximum of [3 marks]. For two relevant conflicts that are one-sided, with no analysis award **up to** a maximum of [4 marks].

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

- (d) **Discuss whether the introduction of the \$4.99 toy shop as a new strategy will change customer perceptions of James' two shops.**

[9 marks]

There is considerable evidence from the stimulus that the new shop will address some of the current concerns which James faces. James has clearly taken on board many of the comments from the stakeholders. The major issue is whether customer perceptions will change accordingly to allow the \$4.99 shop to be viewed as a separate shop rather than the same shop as the \$1.99 toy shop selling the same products for \$3 more.

Possible analysis could include the following:

- It would appear that the \$1.99 toy shop has reached saturation and has become overcrowded. The new \$4.99 shop might allow James to increase stock turnover and provide better customer service. It is hoped that the new shop will change customer perceptions to be more favourable. However, James will have to promote the shop differently and explain the reasons for the increase in price.
- If some customers are willing to pay higher price for a less crowded shop and better service, the new shop will boost turnover and increase profitability assuming that direct costs remain the same. The new shop should also ease crowding in the \$1.99 toy shop. Hence, some customers might not see the point of opening a more expensive shop.
- The new \$4.99 shop may create confusion and hence will not change consumer perceptions. Although the price is twice as expensive it is still relatively cheap. The positioning of the new toys might not have changed considerably, or not at all. Customers may refuse to pay the extra price especially if imported from the same suppliers in China. James may lose his competitive advantage.
- If James is to move out of a poor area, will the new price, which is still rather low, be sustainable?
- James may have to spend a considerable amount of money on marketing in order to reposition his toys. This is quite unlikely to be successful given the fact that there is limited information in the stimulus material that the quality has increased and that James has found a different supplier. Many people might want evidence rather than an announcement on the social networking web site that the quality has improved. The current targeted market might not buy into the announced change.
- Or will the \$4.99 shop cannibalize the \$1.99 toy shop's market? Or will the \$1.99 toy shop become even more overcrowded as consumers ignore the new shop?
- There is no evidence in the stimulus material that James has carried out research into the market for its new targeting strategy.

Judgment:

It appears that the new strategy is unlikely to be successful as the arguments against seem to be more significant especially in the short run. Moreover, the interest of some customers may still not be fulfilled. Will James be able to offer higher wages?

Some customers are already sceptical and cannot see justification for a \$3 increase in price possibly just for a better service.

Perhaps James should carry out further market research about the option.

Accept any other relevant discussion.

N.B. It is **not** expected that the candidates incorporate all of the above points/issues.

A balanced response is one that covers at least **two** issues for and at least **two** issues against.

For one relevant issue that is one-sided, award **up to [3 marks]**. If the response is a one-sided relevant approach with no discussion award a maximum of **[4 marks]**.

Award a maximum of **[5 marks]** if the answer is of a standard that shows balanced analysis and understanding throughout the response with reference to the stimulus material **but** there is no judgment/conclusion.

Candidates cannot reach the **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

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

4. (a) Define the following terms:

(i) *appraisal*

[2 marks]

Is the process of evaluating the effectiveness / performance of a process or as in this case, the employees. In the process the goals and outcome are compared.

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) *strike action.*

[2 marks]

Strike action is considered to be a “weapon of last resort” when negotiations between employee representatives and employers fail to come up with a solution to conflict resolution. It involves employees collectively walking out of the job and refusing to continue working until a new offer in the negotiation process has been made. In many countries, employees have to vote for strike action.

Candidates are **not** expected to word their definition **exactly** as above. A shorter definition is acceptable.

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) Explain *one* advantage and *one* disadvantage to the two managers of *MHS* being a public-private partnership. [6 marks]

Possible advantages could include:

- Clearly as a new innovative school with a flexible approach to teaching/learning the public-private partnership will ensure that sufficient finance will be available to get the school up and running. The private sector investors can supplement the state funding to ensure that up-to-date technology is purchased. This will enable Julian to implement the innovative teaching method.
- The private sector alone may be unwilling to fully fund the development of the school given the degree of risk involved with this project.
- A synergy can be created between the business knowledge of the managers and the government educational aims. A highly innovative school can be led by Julian with educational objectives set by the government.
- *Accept any other relevant advantage.*

Possible disadvantages could include:

- There might be some conflict of interest between the managers who might see themselves as representing the interest of the private sector and the government.
- Although an agreement has been made and there are two appointed managers, it might be difficult for some stakeholders to know exactly who is in charge and whose objectives should be pursued, the public or the private sectors. Should *MHS* be a non-profit organization, or should profit be the main objective?
- Who is responsible if the school begins to fail?
- Given cuts in public spending, Charles, the finance director may have to seek new sources of finance to maintain the partnership given that 60% of the funding for *MHS* comes from the public sector. The uncertainty of the flow of future finance might somewhat reduce the effectiveness of both managers in terms of future planning.
- *Accept any other relevant disadvantage.*

Accept any other relevant explanation.

Mark as 3 + 3.

Award [1 mark] for identifying **one** appropriate advantage/disadvantage, [1 mark] for an appropriate explanation that directly refers to *MHS* and [1 mark] for a further development of this explanation up to a maximum of [3 marks].

(c) **Analyse the importance of the informal organization to MHS.** [6 marks]

The informal organization could refer to a number of different aspects highlighted in the stimulus:

- communication
- decision-making
- leadership and management.

The importance of the informal organization:

- It allows Julian to be flexible and work closely with the students who have been specifically chosen to make this school innovative and flexible. The informal organization may speed up the process of change or the decision itself in a new school environment. A flexible and innovative decision-making environment would require a culture to match which would probably be informal.
- Some students may feel empowered by this informal communication and by being part of the decision-making system and this may lead to increased motivation. However, the stimulus material gives indication that this was not the case given the falling number of applicants.
- The informal meeting with the student may enable Julian to tap on the creativity and the enthusiasm of some students. The decision-making process is likely to improve and be in line with the essence of the schools' flexibility and innovation.

However / possible balance:

- The staff are clearly excluded from the informal communication process and ironically has to resort to speaking to Charles informally without Julian knowing. The informal organization lies at the heart of the conflict.
- Evidence that the informal system is undermining teaching staff confidence especially with respect to appraisal and the lack of contracts even though rewards packages are generous.
- There is evidence that some students may not be turning up for class or handing in work hence the organization may be seen as possibly too informal.

Accept any other relevant analysis.

It is **not** expected that candidates will include all of the above points in their answer.

A balanced response is one that covers at least **two** issues for and at least **two** issues against.

For one relevant issue that is one-sided, with no analysis award **up to** a maximum of [3 marks]. For more than one relevant issue that is one-sided, with no analysis award **up to** a maximum of [4 marks].

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

(d) Discuss *two* approaches to conflict resolution at *MHS*.**[9 marks]**

- One resolution could be a discussion and negotiation / consultation within *MHS*. Some employees' representatives may attempt to negotiate contracts based on job analysis, job description, personal specification as well as possibly 360 degree appraisal system. The process may take time and some payments will have to be made to some expert in the short run, however, in the long run the boundaries will be set and human resource management (HRM) will be transparent.
- Another resolution could include going to arbitration and conciliation as there does seem to be a significant disagreement between the staff and Julian. This will take time and resources. How much negotiation will be possible given Julian's current strong position? Given the facts that there are no official contracts and no official appraisal system, it might be difficult for the teachers and their representatives to argue of injustice. The lack of transparency may prove the management of *MHS* to be strong. However, it might be in the interest of the management to solve the conflict especially given the fall in applications and to act upon the advice given.
- The no-strike agreement may be popular with Julian, but how will this be enforced if there are no legal employment contracts? The teachers are likely to reject this option. Julian may be forced to draw up contracts for the teaching staff taking additional time and resources as well as further negotiation.
- Another solution is to restructure the organization, changing the hierarchy of the school to include some members of the teaching staff in the future decision-making and direction of the school. The school will also have to review its current systems around recruitment and appraisal to bring about a resolution but this may cede control away from Julian who may not be pleased. Communication networks can be formalized within *MHS* with less reliance on the informal network which seems to be a key driver in the schools development. This will of course impact on Julian's ability to be flexible and innovative.
- Perhaps the current culture is unsustainable? The public-private partnership may need to be reviewed with all stakeholders present. However, this will take additional time.

Given the nature of the problem, it appears that negotiation / consultation with the employees is the best method especially in the long run. Transparent HRM practices will reduce current and future disputes. Given the interest of the two opposing groups to solve the current problems, it is likely to be successful. Having established the foundation for HRM, perhaps other methods can be used. Moreover, a willingness of the management to involve the teachers and to establish a transparent system might increase motivation, consequently, student satisfaction rate may increase and more students may be willing to apply.

Accept any other substantiated judgment.

N.B. It is **not** expected that the candidates incorporate all of the above points/issues.

If the conflict refers to the students rather than the teachers/employees award a maximum of *[3–4 marks]*.

For one approach to conflict resolution with discussion, award a maximum of *[5 marks]*.

Award a maximum of *[5 marks]* if the answer is of a standard that shows balanced analysis and understanding throughout the response with reference to the stimulus material **but** there is no judgment/conclusion.

Candidates cannot reach the *[5–7]* markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

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

5. (a) Define the following terms:

(i) *market share* [2 marks]

Market share is defined as the sales of an individual business expressed as a percentage of total industry sales.

$$\text{Market share} = \frac{\text{total revenue the business generates}}{\text{total revenue the whole industry generates}} \times 100$$

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

Award [0 marks] if the response by the candidate is that market share is defined as a company's share of the market.

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) *extension strategy.* [2 marks]

An extension strategy is used by businesses to try and inject new life (in terms of increased sales revenue thereby prolonging the product life cycle) into products when they have reached the saturation point. Extension strategies may include product enhancements or upgrades, new pricing methods or new short-term promotions.

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

Award [1 mark] for a basic definition that conveys partial knowledge and understanding. Or if the candidate assumes that extension strategies can be applied at any stage of the product life cycle.

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) Explain *two* values of a marketing audit as a business tool for *CC*. *[6 marks]*

Values of a marketing audit for *CC* could include:

- Given that *CC* is currently unprofitable, it would seem appropriate to conduct a marketing audit to assess where the organization is. A marketing audit enables *CC* to identify its strengths and weaknesses in terms of the 7Ps. It looks like *CC* was able to identify customers' perceptions with regard to their 4 products.
- Moreover, with the information found as well as information about market growth and existing market share, *CC* management can have a thorough product portfolio analysis (BCG matrix). The answer to the first question, can give *CC* a sound bases for objectives and strategies.
- It will determine whether the current promotional mix is appropriate (see below) and allow *CC* to adapt any of their marketing mix accordingly in light of their limited marketing budget.
- It may give more insight into customers' opinion and perceptions about whether to continue production of The Ventura.

Accept any other relevant value and explanation.

N.B. Do **not** credit twice for an explanation that refers to any of the 7Ps, such as the value regarding the price and promotion and so on.

Mark as 3 + 3.

Award *[1 mark]* for identifying each appropriate value, *[1 mark]* for an appropriate explanation that directly refers to *CC* and *[1 mark]* for a further development of this explanation up to a maximum of *[3 marks]*.

(c) **Analyse the implications for the CEO of converting CC into four cost centres. [6 marks]**

The possible arguments for converting CC into four cost centres could include:

- In an unprofitable business the idea of turning each espresso coffee machine into a cost centre is sensible. In an attempt to reduce costs CC will find it easier to identify the product(s) that incurred most of the costs and the reasons why.
- Action can be taken where the problem / inefficiency is created. It would appear that this is the area which is needed most for The Ventura and The Fortuna espresso machines.
- The setting up of cost centres and the market audit could then determine which espresso coffee machine needs the greater share of the limited marketing budget possibly in terms of training, capital investment *etc.*
- More direct accountability decision making / empowerment and control for managers in these centres with accompanying motivational benefits.
- Constructive competition between the various cost centres can further improve efficiency.
- It allows the implementation of cell production so as to improve efficiency and motivation.

However:

- This new change to cost centres will require a new culture and organizational structure at CC which will take time and resources to embed and prepare.
- Destructive and unnecessary competition may be created. Employees might lose sight of the interest of the whole organization and concentrate only on their product. The CEO will have to ensure that individual cost centres do not set individual objectives which may contradict with the overall CC objective.
- Cost centres may encourage short-term outlook. For example, The Crema which is the most expensive machine to produce but is showing the highest potential for growth may be currently unfairly judged. Would profit centres be a more equitable approach?
- Coordination and communication of activities will need to be reviewed as the four brands will now be effectively stand alone businesses.
- A “fair” allocation of the indirect costs of CC will need to be considered if the cost centre idea is to have value. How will this be decided?

Accept any other relevant analysis.

N.B. It is **not** expected that the candidates incorporate all of the above points/issues.

A balanced response is one that covers at least **two** issues for and at least **two** issues against.

For one relevant issue that is one-sided, with no analysis award **up to** a maximum of **[3 marks]**. For more than one relevant issue that is one-sided, with no analysis award **up to** a maximum of **[4 marks]**.

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

(d) **Discuss whether the family should accept the offer of a strategic alliance with its competitor.**

[9 marks]

- The offer will allow *CC* to continue trading as it would appear that three of the four espresso coffee machines are struggling and the company is currently unprofitable.
- Vital funds will be available to support The Rocket and The Fortuna which it is argued from the stimulus requires the greatest marketing support.
- The strategic alliance could also support The Crema which looks like the product with the greatest market growth potential.
- The strategic alliance will fund the possibility of *CC* moving into international markets which will allow for greater growth of market share especially of The Rocket which is currently a cash cow.
- Forming a strategic alliance with its main competitor can be seen as a significant argument as *CC* can easily eliminate competition and together have more power in the market.
- A strategic alliance is a very loose form of cooperation. It is cheap and can easily be reversed.

However:

- Family member concern around the loss of The Ventura is considerable and a significant argument. If the Ventura is discontinued, there may be other some brand erosion implications, unless the customers are aware of the *CC* overall name and espresso coffee machines names. There may be consumer backlash against *CC*. It is after all the most recognizable brand name. The Ventura has considerable brand loyalty compared to The Fortuna and The Rocket.
- Will any proposed brand awareness and extension strategies for these two machines be funded by the alliance be cost effective?
- It will be hard to measure exactly how much *CC* will need to spend in order to generate brand loyalty to The Fortuna and The Rocket. The Rocket's issues are also quality control driven and not just marketing.
- If the financial position does not improve, *CC* could be subject to a takeover and lose all of its espresso coffee machines.

Judgment:

Ultimately, the decision rests with the family. Survive and possibly expand into new international markets, but drop their most recognizable machine from their portfolio. There could be considerable consumer resistance but with the marketing support especially promotion, *CC* can explain the commercial reasons for such action and assure the customers.

However, by refusing the offer *CC* may be jeopardizing the other three of its machines from fulfilling their market potential through a lack of finance. The company is currently unprofitable. It could become the target of a takeover if the financial situation deteriorates.

Accept any other relevant discussion.

N.B. This question is about strategic alliance. Do **not** credit candidates that present the benefits or otherwise of a takeover and/or merger.

N.B. It is **not** expected that the candidates incorporate all of the above points/issues.

A balanced response is one that covers at least **two** issues for and at least **two** issues against.

For one relevant issue that is one-sided, award **up to [3 marks]**. If the response is a one-sided relevant approach with no discussion award a maximum of **[4 marks]**.

Award a maximum of **[5 marks]** if the answer is of a standard that shows balanced analysis and understanding throughout the response with reference to the stimulus material **but** there is no judgment/conclusion.

Candidates cannot reach the **[5–7]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

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