

Markscheme

May 2015

Business and management

Standard level

Paper 1

16 pages

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

Section A			Level descriptors
Q1 (c)	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 (c)	
Marks 0–8	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study.
3–4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the case study, not just to the name of the organization. • The response is mainly theoretical.
5–6	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the case study are made at places in the response.
7–8	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the case study are made throughout the response.

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

Section A

1. (a) (i) Define the term *mission statement* (line 11). [2]

A mission statement is a statement of a business’s core value/aim and it is phrased in a way that will motivate the employees and attract the interest of external stakeholders.

N.B. disregard reference to “short term” / “long term” and allow descriptions which are more appropriate to vision statement.

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

Award [1] for a basic definition that conveys partial knowledge and understanding. Such as mission statement is a statement of a business’s core value/aim.

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

- (ii) Identify **two** fringe payments, **other than** health insurance, which Mrs Carroccio may have received from the school. [2]

Fringe payments which Mrs Carroccio may have received include: meal packages / lunch vouchers / coupons, free meal or discounted meal (which is very likely, as she works in the cafeteria); free uniform; free transportation / use of school bus / discounted bus pass (and similar wording); childcare; free English classes; further/higher education classes for herself in a local college; maternity leave; school fees for young Alejandra etc.

It is not possible to write an exhaustive list of acceptable answers – examiners will have to use their professional judgment.

However, do **not** accept:

- Dental insurance / dental plan (too similar to “health insurance”).
- Unrealistic examples (“company car”, “free accommodation”, “laptop”, “mobile phone” as Mrs Carroccio has a low-paid job in the cafeteria, it is unlikely that she is offered free accommodation on the school grounds, unlike the school director: the example has to be plausible in the context of the case study).
- Vague answers (“discounts for family members” which is too vague and should be further contextualized; “access to school facilities” which is also too vague – however accept “free membership of school gym” or “free access to the school swimming pool”); paid vacation (does this mean a paid vacation package?).
- Cash benefits: overtime, bonuses, share-ownership scheme.
- Training: (which is in the case study: “she received training and some fringe payments...” line 13; the question is designed to assess candidates’ knowledge and understanding of what fringe payments may be).

- Repetitive answers: for “free food for herself and for family members” award **[1]**, not **[2]**.

It is not possible to write an exhaustive list of non-acceptable answers – examiners will have to use their professional judgment.

In some ambiguous cases, examiners may want to give “BOD” (or “NBOD”).

*Award **[1]** for each relevant and correct fringe payment (non-cash benefit) identified for Mrs Carroccio, award up to a maximum of **[2]**.*

- (b) **Other than** financial security, explain **one** advantage and **one** disadvantage of Mr Carroccio operating as a sole trader (line 5). **[4]**

Advantages for Mr Carroccio of operating as a sole trader could include:

- Total ownership and control of his business, where he is his own boss, not requiring to consult with others before making decisions or share the profits.
- Simplest form of organization with fewer legal restrictions for setting up the business.
- Freedom to choose his own holidays, hours of work, prices to be charged, who to employ *etc.*
- *Accept any other relevant advantage applied to / in context of Mr Carroccio.*

Disadvantages for Mr Carroccio of operating as a sole trader could include:

- Unlimited liability, a sole trader’s business is not considered as a separate legal unit and therefore his personal possessions are at stake if the business cannot pay its debts.
- Limited capital/resources for set up, internal growth and for spending in general. Must largely rely on his own savings and resources, banks are often reluctant to loan to these businesses (Mr Carroccio being turned down several times for bank loans, see line 8)
- Limited pool of ideas and limited experience.
- Must bear the financial risks of the business and all losses on his own. “Sole” refers to the fact that the entrepreneur is the only owner without business partners, though they may employ other people.
- There is no continuity of the business after the death of the owner.
- *Accept any other relevant disadvantage applied to / in context of Mr Carroccio.*

N.B. *context of Mr Carroccio is likely to come from limited finance, being new to the country, bank loan refused, and desire to work independently. If the disadvantage is unlimited liability, award **[2]** when there is a good explanation.*

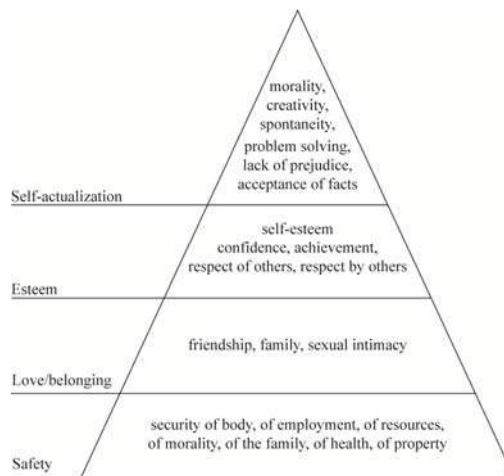
Mark as 2 + 2.

*Award **[1]** for each correct and relevant advantage / disadvantage identified and **[1]** for an appropriate explanation, showing why it is an advantage / disadvantage. Award up to a maximum of **[2]** for each advantage / disadvantage.*

(c) Analyse the relevance of Maslow’s motivation theory to Alejandra.

[7]

Maslow’s Pyramid:



[Source: Clark, P. *et al.*, 2009, *Business and Management Course Companion*, page 125, Glasgow, U.K. Oxford University Press]

As young Alejandra approached eighteen, she may have experienced higher-order needs – self-esteem needs, recognition, status. She had several sources of income from CD album sales, concerts, magazine covers and music videos – physiological and safety needs were met. Belonging needs may have been met through her popularity with fans.

One of the future strategic options suggested by *K&J* could probably allow Alejandra to meet self-actualization needs. These would also generate new streams of revenue for Alejandra.

Candidates could be rewarded for answering how Alejandra could use Maslow to motivate her employees.

Accept any other relevant application / analysis.

N.B. *Candidates are not expected to draw the model itself.*

If there is only development / analysis of one level of Maslow, award a maximum of [4].

For answers with no effective use of the case study award a maximum of [3].

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

2. (a) Define the following terms:

(i) *quality control* (line 115);

[2]

Quality control refers to systems in place at a business to check whether that level of quality has been achieved. It can involve sampling, inspection and checking of quality. It is usually carried out on the product/service rather than the process itself.

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

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

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

(ii) *workforce planning* (line 122).

[2]

Workforce planning refers to the forecast of future human resources, especially in terms of recruitment and training. It normally involves assessing the current workforce and identifying future needs for new skills, or knowledge, in order to help the organization meet its strategic objectives.

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

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

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

*Award a maximum of [1] if the answer is **only** about matching employees to jobs.*

- (b) Using information from lines 120–124, explain **two** possible relevant effects, **other than** “employees complained less”, of changing the organizational structure. **[4]**

Possible effects of changing the organizational structure:

- Better decisions for the business can be made as the Managing Director and Human Resources Manager are specialized in their roles.
- Less employees to manage allows Alejandra time to concentrate on the work that she is involved with and hence carry out her work better.
- Delegating some business functions could make employees/staff feel empowered and hence more motivated.
- Alejandra could feel less in control as she is not managing the majority of staff herself.

Mark as 2+2.

Award [1] for each appropriate effect identified and [1] for an appropriate explanation in context of the case study. Award up to [2] for each effect.

Context is likely to come from raising issues such as:

- previous poor communication
- change to limited company
- change of leadership style
- creation of new roles, such as Human Resources Manager.

- (c) Analyse **two** methods of market research that Alejandra could have used to help her establish her brand (lines 111–112). [7]

Market research is the process of systematically gathering, recording and analysing data about customers, competitors and the market. With market research Ruth Liebermann, through focus groups (a primary market research method), learnt that some English speakers in the US did not like the name “Lady Alejandra” and were unable to make an association with it; therefore Ruth suggested adopting the new name *LadyA*.

The purpose of market research was to help Ruth make better business decisions about the development and marketing of new products. Market research represents the voice of the target market. A list of questions can be answered through market research.

Primary market research methods (first hand and gathered for a specific purpose) could include:

- Questionnaires / surveys: these may include closed or open-ended questions. For example, “do you subscribe to magazines, which ones?” “What type of music do you like?” Questions may be both qualitative as well as quantitative. Gathering opinion in order to design and modify products, *LadyA* and the merchandise to meet preferences.
- Observation: observers “watch” consumers in stores – how readily they notice the CD albums displayed, which magazines they buy; how much time they take in making spending decisions.
- Focus groups: a group of customers brought together to form a panel, to discuss and answer questions prepared by market researchers (example above).

Secondary market research methods (desk research / secondhand data gathered for a different purpose) could include:

- Government data eg census: US demographics and the shift – expanding Spanish-speaking American market, English speakers, Hispanics, number of teenage girls and women in the population. Growth rates, income trends
- Company data, past records, eg accounts, sales data
- The media
- Internet
- Trade organizations
- Competitor data / records, eg sales data.

N.B. allow “methods” to be interpreted as questionnaires, focus groups and so on. The two do not have to be related to primary / secondary. The relationship to “brand” could come from exploring customers and their perceptions.

Accept any relevant analysis.

N.B. do not credit sampling, or sampling methods.

If the answer does not refer to the case study award a maximum of [3].

If there is no reference to “brands” award a maximum of [5].

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

3. (a) Describe the relationship between “opening balance” and “closing balance” in a cash-flow forecast (line 7). [4]

The opening balance is the cash in a business at the beginning of a time period.

The closing balance is the cash in a business at the end of a time period.

Closing balance = opening balance + forecast cash in – forecast cash out.

The closing balance for one time period is the opening balance for the next time period.

N.B. no need to refer to the formula to show full understanding.

Award [1] for each valid element of the answer, up to a maximum of [4].

- (b) “Alejandra needed an accountant to help her prepare her final accounts” (lines 35–36). Explain the importance of final accounts to **two** different *LadyA* stakeholders. [4]

- For owner *LadyA*: to determine the level of profit made from various streams /sources, to determine the most profitable sources and the weaker ones. To determine her total net worth / net assets.
- Government: for taxation purposes (net profit before interest and tax).
- Malaysian manufacturer (perfumes and cosmetics) would be interested in the liquidity ratios: *LadyA*'s ability to pay the 40% balance.
- Employees: *LadyA*'s ability to pay the wages, working conditions, fringe benefits.
- Managers: to maintain and control costs within budgets.
- Fans / customers: little or no usefulness.

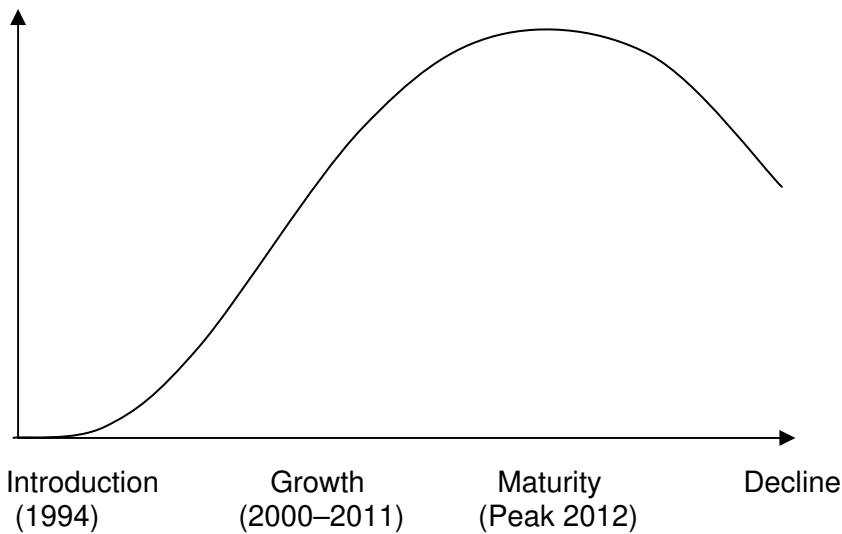
Accept any other relevant stakeholder and explanation.

Mark as 2+2.

Award [2] for theory of what are final accounts / stakeholders and [2] for application of final accounts to two different but relevant stakeholders. Award a maximum of [4].

(c) Analyse the usefulness to *LadyA* of the product life cycle model since 1994.

[7]



1994 – Introduction of *Lady Alejandra* in the film *La Bella Rosa* (**introduction phase**).

2000 – one of the most successful musicians in the US.

2001 – millions of dollars earned through CD album sales, concerts, magazine covers and music videos

2009 – engaged in promotion / endorsements

2010 – her own product line of perfumes and cosmetics

Approximately, the years from 2000 can be shown as **growth phase**.

2012 – was the **peak (maturity phase)** of her media power, wealth and fame (began planning for extension strategies through *K&J*, in order to prevent the **decline phase**).

Knowing the stages of the product life cycle can help a business plan the appropriate marketing mix and the right marketing strategies. It helps identify how cash flow may depend on the product life cycle, which will be at its highest peak in 2012; *LadyA*'s business may also experience economies of scale.

It can identify the need for extension strategies adopted by a business to prevent sales from falling, in order to push sales further; it intends to prolong the maturity phase of the product life cycle. For example, *K&J* were hired to identify extension strategies.

Disadvantages include:

- not always reliable
- do not know where you are
- good concept, but poor in practice.

Accept any other relevant application.

N.B. candidates are not expected to draw the diagram nor write about the events chronologically as above.

For answers without effective use of the case study award a maximum of [3].

If the answer lacks balance award a maximum of [5].

*If the response only develops LadyA's product life cycle award a maximum of [4].
The question is about the "usefulness".*

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) Describe **one** strength and **one** weakness of *K&J*'s **Option 3** (lines 153–161). **[4]**

Possible strengths could include:

- *LadyA* associating herself with a “charitable cause, to tackle issues such as malnutrition in developing countries, homelessness in big cities, or international trafficking of children”, demonstrating social responsibility to society.
- Using her personal wealth to set up non-profit organizations to support the above causes – demonstrating responsibility to society, by paying back to them for specific causes to humanity.
- Build new brand identity by appearing on American television talk shows and magazine interviews – an image of a “strong, mature, determined and compassionate woman”, building a new image, a new product life cycle, or extension.

Possible weaknesses could include:

- Lowering media profile for three years – may prove difficult in the media world “out of sight, out of mind” of the target market, new competitors may develop.
- Seeking new revenue streams based on the new brand identity, the outcomes of which are unknown.

N.B. some candidates may identify the use of personal wealth to set up non-profit organizations as a weakness of this option and thus this can be credited.

Do **not** credit external factors such as the opportunity, or the threat, coming from the external environment; the strengths and weaknesses must be **internal** and must refer to *K&J*'s **Option 3**.

Mark as 2+2.

Award **[1]** for a correct strength / weakness identified and **[1]** for a relevant description in context. Award up to a maximum of **[2]**.

- (b) Using **the additional information below**, for a *LadyA* concert:

- (i) calculate the break-even quantity in units (*show all your working*); **[2]**

$$\frac{\text{Fixed costs}}{\text{Contribution}} = \frac{2750000}{(300 - 50)} = \frac{2750000}{250} = 11000 \text{ units (Accept 11 000)}$$

Award **[1]** if the candidate **has shown working** provides a correct procedure (thus, demonstrates an understanding of the underlying concepts) but has made an error in calculation.

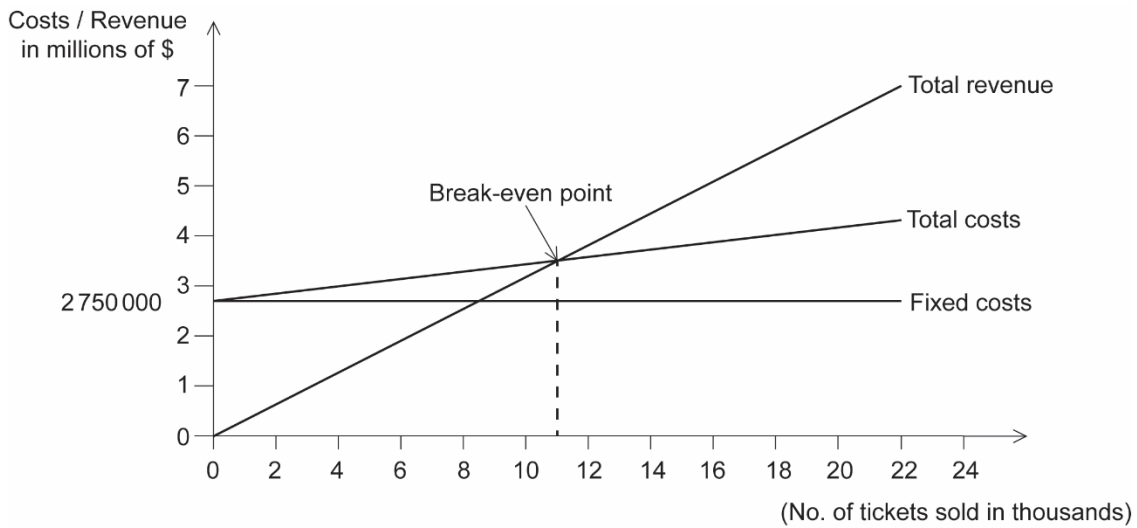
Award **[2]** if the candidate provides the correct answer with working.

- (ii) calculate the profit if 15 000 tickets are sold; [1]

$$\begin{aligned}
 &\text{Total revenue} - \text{Total costs} \\
 &= (15\,000 \times \$300) - (\$2\,750\,000 + 15\,000 \times \$50) \\
 &= \$4\,500\,000 - (\$2\,750\,000 + \$750\,000) \\
 &= \$4\,500\,000 - \$3\,500\,000 \\
 &= \$1\,000\,000
 \end{aligned}$$

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

- (iii) construct to scale a fully labelled break-even chart. [5]



N.B. allow candidate own figure rule (OFR) from calculations made in previous question parts.

Award marks as follows:

- [1] for each appropriately labelled axis, up to a maximum of [2].
- [1] for an appropriately drawn and labelled total revenue curve.
- [1] for an appropriately drawn and labelled total costs curve.
- [1] for the identification of the break-even level of output.

Award [0] if a candidate produces a table, and award no more than [3] if the chart is not neat, not drawn with a straight-edge, or is not to scale. Ideally, the candidate will draw an arrow pointing to the break-even point and label the arrow. However, accept as an “appropriately labelled” break-even point a vertical line from the x-axis to the break-even point provided that the line is labelled “break-even point”.

- (c) *LadyA* has rejected **Option 3** (lines 153–161). Recommend whether *LadyA* should choose **Option 1** (lines 139–146) or **Option 2** (lines 147–152). [8]

Option 1: Move into South American markets

Possible advantages include:

- Some fans in Spanish-speaking markets.
- South American markets generally accept older female musicians and film stars, also *Lady Alejandra* has an Hispanic background which could help her fit well with the target market as from “their own”.

Possible disadvantages include:

- Fans in English-speaking target market may be lost, this will also affect product sales, the perfumes and cosmetics – they may also see a decline with the English-speaking target markets.
- Any future re-entry into the English-speaking target market may be difficult.
- Huge costs (not known) to be incurred in re-establishing a new brand altogether, entering an untested market with a major concert tour and rebuilding the brand name *Lady Alejandra*, through sale of music, films, product endorsements, magazine covers, perfume and cosmetics *etc.*

Option 2: Develop more products

Possible advantages include:

- Further exploitation of the already established brand name to develop more products – *LadyA* shoes, *LadyA* handbags and *LadyA* lingerie.
- Uses the already established distribution network in the US (for perfumes and cosmetics) for the new products. Economies of scale may be experienced.
- Develops a global market – while some products work well in some markets others will work in other markets.
- Opportunities for e-commerce within US and worldwide.

Possible disadvantages include:

- New producers will have to be sought, design, product quality details and other arrangements – worked out – more management, logistics *etc.*

Candidates may even mention high risk / medium risk. The stimulus material has not articulated costs / profits. We may need further information.

Accept any relevant substantiated recommendation.

If the response is a one-sided relevant approach with no discussion, award a maximum of [4]. If only one strategic option is discussed, award a maximum of [5].

*Award a maximum of [5] if the answer has no **substantiated** judgment/conclusion.*

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