

Markscheme

May 2016

Business management

Higher level

Paper 2

27 pages

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The markbands and assessment criteria on pages 3–5 should be used where indicated in the markscheme.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"> • Little understanding of the demands of the question. • Few business management tools (where applicable), techniques and theories are explained or applied, and business management terminology is lacking. • Little reference to the stimulus material.
3–4	<ul style="list-style-type: none"> • Some understanding of the demands of the question. • Some relevant business management tools (where applicable), techniques and theories are explained or applied, and some appropriate terminology is used. • Some reference to the stimulus material but often not going beyond the name of a person(s) and/or the name of the organization.
5–6	<ul style="list-style-type: none"> • Understanding of most of the demands of the question. • Relevant business management tools (where applicable), techniques and theories are explained and applied, and appropriate terminology is used most of the time. • Some reference to the stimulus material that goes beyond the name of a person(s) and/or the name of the organization. • Some evidence of a balanced response. • Some judgments are relevant but not substantiated.
7–8	<ul style="list-style-type: none"> • Good understanding of the demands of the question. • Relevant business management tools (where applicable), techniques and theories are explained and applied well, and appropriate terminology is used. • Good reference to the stimulus material. • Good evidence of a balanced response. • The judgments are relevant but not always well substantiated.
9–10	<ul style="list-style-type: none"> • Good understanding of the demands of the question, including implications, where relevant. • Relevant business management tools (where applicable), techniques and theories are explained clearly and applied purposefully, and appropriate terminology is used throughout the response. • Effective use of the stimulus material in a way that significantly strengthens the response. • Evidence of balance is consistent throughout the response. • The judgments are relevant and well substantiated.

Assessment criteria for Section C

Criterion A: Knowledge and conceptual understanding

This criterion addresses the extent to which the candidate demonstrates knowledge and understanding of the given concepts and relevant business management content (theories, techniques or tools, depending on the requirements of the question).

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Superficial knowledge of the given concepts is demonstrated. Business management content is not selected or the content selected is irrelevant.
2	Satisfactory understanding of one or both of the given concepts is demonstrated. Some business management content selected is relevant. The relevant content is satisfactorily explained.
3	Good understanding of one or both of the given concepts is demonstrated. The business management content selected is relevant, though it may not be sufficient. The relevant content is generally well explained, though the explanation may lack some depth or breadth.
4	Good understanding of both of the given concepts is demonstrated. The business management content selected is relevant, sufficient and well explained.

Criterion B: Application

This criterion addresses the extent to which the candidate is able to apply the given concepts and the relevant business management content (theories, techniques or tools, depending on the requirements of the question) to his or her chosen real-world organization(s). **The real-world organization(s) must not be the organization featured in the prescribed case study for paper 1.**

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	The given concepts and/or any relevant business management content are connected to the real-world organization(s), but this connection is inappropriate or superficial.
2	The given concepts and/or relevant business management content are connected appropriately to the real-world organization(s), but this connection is not developed.
3	The given concepts and relevant business management content are generally well applied to explain the situation and issues of the real-world organization(s), though the explanation may lack some depth or breadth. Examples are provided.
4	The given concepts and relevant business management content are well applied to explain the situation and issues of the real-world organization(s). Examples are appropriate and illustrative.

Criterion C: Reasoned arguments

This criterion assesses the extent to which the candidate makes reasoned arguments. This includes making relevant and balanced arguments by, for example, exploring different practices, weighing up their strengths and weaknesses, comparing and contrasting them or considering their implications, depending on the requirements of the question. It also includes justifying the arguments by presenting reasonable evidence or other support for the claims made.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Statements are made but these are superficial.
2	Relevant arguments are made but these are mostly unjustified.
3	Relevant arguments are made and these are mostly justified.
4	Relevant, balanced arguments are made and these are well justified.

Criterion D: Structure

This criterion assesses the extent to which the candidate organizes his or her ideas with clarity, and presents a structured piece of writing comprised of:

- an introduction
- a body
- a conclusion
- fit-for-purpose paragraphs.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Two or fewer of the structural elements are present, and few ideas are clearly organized.
2	Three of the structural elements are present, or most ideas are clearly organized.
3	Three or four of the structural elements are present, and most ideas are clearly organized.
4	All of the structural elements are present, and ideas are clearly organized.

Criterion E: Individuals and societies

This criterion assesses the extent to which the candidate is able to give balanced consideration to the perspectives of a range of relevant stakeholders, including individuals and groups internal and external to the organization.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	One individual or group perspective is considered superficially or inappropriately.
2	One relevant individual or group perspective is considered appropriately, or two relevant individual or group perspectives are considered superficially or inappropriately.
3	At least two relevant individual or group perspectives are considered appropriately.
4	Balanced consideration is given to relevant individual and group perspectives.

Section A

1. (a) State **two** elements of the **extended** marketing mix (seven Ps) for *FC*. [2]

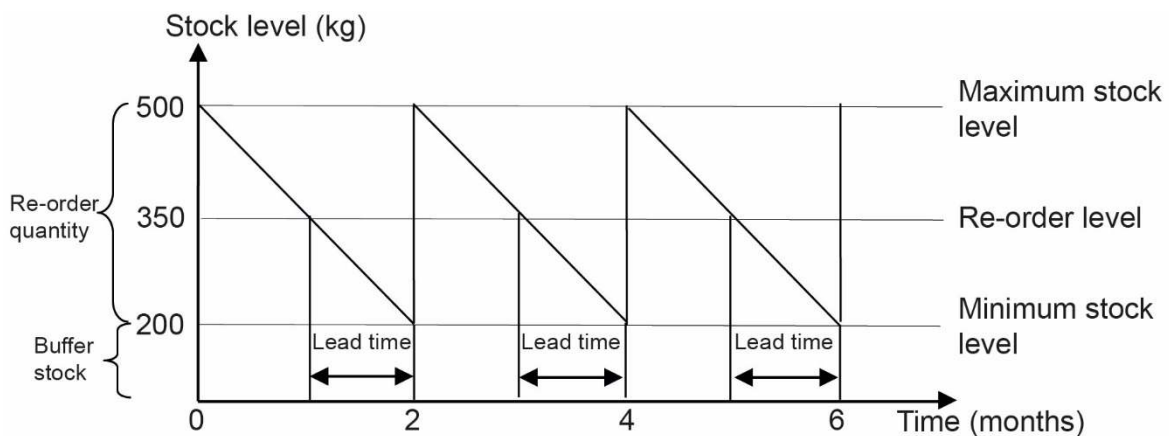
The three possible elements (the **three extra Ps**) that are relevant to a service like *FC* are:

- people-employees (customer’s relationship/interaction/ skills/attitude/motivation/appearance)
- process (the way in which the service is paid for by the consumer)
- physical evidence (the tangible aspects of the business). Accept physical environment.

N.B. no description is required. Do not accept any other element of the marketing mix.

Award **[1]** for each relevant element of the **extended** marketing mix. Award a maximum of **[2]**.

- (b) Using the information in the table, construct a fully labelled stock control chart for *FC*, for the first six months of operation. [4]



Award **[1–2]** for some understanding of a stock control chart. The stock control chart is drawn, but two or more lines or headings are omitted or incorrect.

Award **[3]** for a largely correct and labelled stock control chart. Up to one element is missing which does not include labelling buffer stock or re-order quantity.

Award **[4]** for a fully completed stock control chart that is correctly drawn. All the relevant headings, as appeared in the question, are correctly used and labelled. Candidates may be awarded full marks if the term **buffer stock** is not used and **re-order quantity** is not indicated or labelled.

If a candidate produces a table rather than a chart, award **[0]**.

(c) A delivery of coffee beans was 1 month late, arriving on the last day of the seventh month rather than the last day of the sixth month. Using figures from the chart you constructed in part (b), explain the effects of:

(i) the late delivery on *FC*'s stock level **and**; [2]

A late delivery of one month will force *FC* to use its buffer stock [1] therefore, *FC* will be left with 50 kg only at the end of the month when the new stock arrives [1].

For [2], figures must be included in the explanation.

Do not penalize candidates that use the correct figures without explicit use of the chart.

N.B. award a maximum of [1] if the answer is added to the chart drawn in part (b) and there is no explanation.

Award a maximum of [1] if there is no figure to support the explanation.

(ii) the late arrival delivering **only** 75 kg of coffee. [2]

- The late arrival of **only** 75 kg, a lower quantity than normally ordered, on the last day of the seventh month will mean that David's stock of beans will be **50+75=125 kg**, still below the 200 kg of the desired buffer/minimum stock level [1].
- Assuming the same level of consumption, *FC* will run out of stock and will not be able to supply all of its customers next month (the exact day is not required) [1].

Do not penalize candidates that use the correct figures without explicit use of the chart.

N.B. award a maximum of [1] if the answer is added to the chart drawn in part (b) and there is no explanation.

Award a maximum of [1] if there is no figure to support the explanation.

Award a maximum of [1] if the answer does not address the late arrival issue.

2. (a) Describe **one** method (source) of secondary market research that AC could have used.

[2]

Possible methods (sources) of secondary market research include:

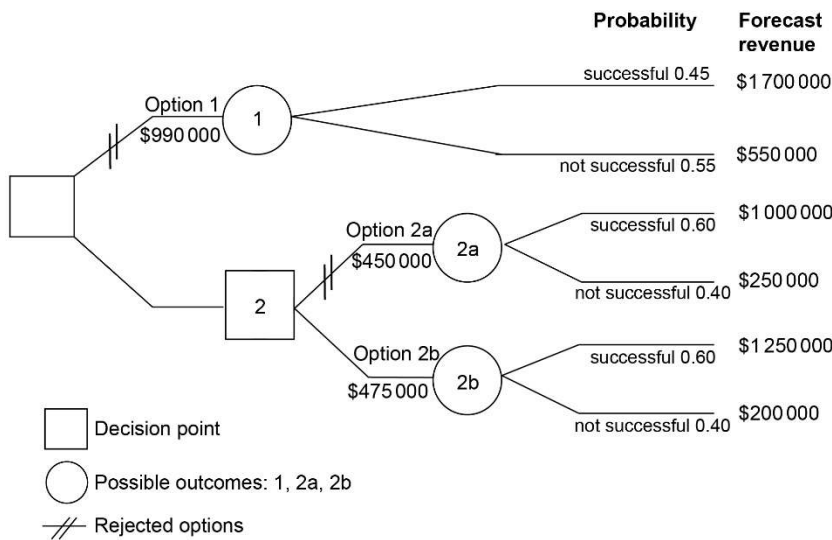
- fashion/health magazines for women
- cosmetics industry reports
- annual reports of competing cosmetics companies
- consumer / social media comments on products (soaps, gels)
- internet to search for companies' information, market trends, government publications on the cosmetic industry and so on.
- *accept any other relevant method.*

N.B. *do not accept searching online, or internet use without being specific.*

Award [1] for each method (source) of secondary market research stated and award an additional [1] for a description up to a maximum of [2].

(b) Construct a fully labelled decision tree, calculate the predicted outcome for each option and identify the best option for AC (show all your working).

[6]



$$EMV 1 = (1700000 \times 0.45 + 550000 \times 0.55) - 990000 = \$77500$$

$$EMV2a = (1000000 \times 0.60 + 250000 \times 0.40) - 450000 = \$250000$$

$$EMV2b = (1250000 \times 0.60 + 200000 \times 0.40) - 475000 = \$355000$$

Best option: 2b buy new machinery with training to produce more of the current products.

[0]

The decision tree does not reach a standard described below.

[1–2]

The decision tree is not accurately constructed, and / or the calculations of each option are not presented or accurate. However, there is some evidence of a general understanding of the model.

[3–4]

The principal elements of the decision tree are constructed, but may not be entirely accurate. The calculations of each option are largely correct.

Allow up to two mistakes in calculations **and / or** presentation for [3].

Allow for **either** one error in calculation **or** one error in presentation [4].

For an accurately constructed decision tree with incorrect calculations, award up to a maximum of [3].

For an accurately constructed decision tree with EMV calculations, but no working [4].

[5–6]

The decision tree is accurately constructed. The calculations of each option are correct and well presented. A key is provided. Workings are shown. As well as the rejected options [6]. Full marks can be awarded even if the headings of expected return/forecast revenue and probabilities are not explicitly written.

N.B. for only correct calculations of all options without a decision tree award a maximum of [2].

Apply candidate own figure rule (OFR) throughout this response.

- (c) Explain **one** limitation of using a decision tree as a planning tool for AC. **[2]**

Despite the fact that AC actually conducted new market research, the figures of revenue and the probabilities of success and failure in a cosmetics market are still estimated. Different figures might have resulted in a different final decision. This quantitative model does not take qualitative issues into consideration like the impact on employees' morale / motivation if the new machinery results in redundancies.

The model does not take into consideration the importance for AC of being an environmentally friendly organization by developing the new soaps.

Accept any other relevant limitation.

*Award **[1]** for a relevant generic limitation identified or described and **[1]** for any additional explanation in context.*

***[2]** can not be awarded for the limitation if the response lacks either explanation **and** / **or** application.*

For example:

*For an identification or a description of the limitation **with or without** application **[1]**.*

*For explanation of the limitation with **no** application **[1]**.*

*For explanation of the limitation **and** application **[2]**.*

Section B

3. (a) Describe **one** feature of intrapreneurship. [2]

One feature of intrapreneurship is that employees and managers rather than an external party improve productivity and efficiency, through risk-taking and innovation within an organization.

***N.B.** for [2] candidates need to show understanding that all is done within the company.*

Award [1] for a relevant and correct feature of intrapreneurship stated and an additional [1] for an appropriate description up to a maximum of [2].

- (b) Explain why the marketing manager considered Beta Lite to be adaptively creative rather than innovatively creative. [4]

Adaptively creative products demonstrate an incremental, non-radical type of innovation that adjusts / adapt something that is already existing within the existing paradigm. Beta Lite is a modified version of Beta+.

Innovatively creative products demonstrate a concept that creates something new and radical that challenge the current way of thinking/the paradigm and changes consumers' behaviours significantly/completely. The new concept of energy drinks such as Beta+ were seen as innovatively creative (*Red Bull* for example), it has created a new market in soft / health drinks intended for athletes. Beta+ is now being consumed by a much bigger (although illegal) market.

There is evidence from the stimulus that Beta Lite is a modification of Beta+ with a lower caffeine and sugar content. It is not a new innovation. Similarities in the packaging also confirm that Beta Lite is adaptively creative.

Accept any other relevant explanation.

Award [1] for only a partial/unclear distinction between adaptively and innovatively creative.

Award [2] for a clear explanation of the difference between adaptively and innovatively creative.

*Award an **additional [2]** for sound and thorough application to BVC illustrating how Beta+ and Beta Lite could be regarded as innovatively and adaptively creative.*

***N.B.** award a maximum of [2] if there is no distinction with / actual coverage of innovatively creative.*

Award a maximum of [4] in total.

- (c) Explain **one** advantage and **one** disadvantage for *BVC* of using long distribution channels for Beta Lite.

[4]

Beta Lite is to be targeted at teenagers aged 17 and below who will be able to legally purchase this energy drink for the first time. Currently, the sale of Beta+ is restricted, therefore *BVC* needs to find more intermediaries to reach the new market segment.

Long distribution channels could be advantageous for Beta Lite given that for the new market, control of sales of its products will not be needed. With a use of wholesalers that buy in bulk rather than just distribute through its current retailers, *BVC* can benefit from being able to satisfy its target segment of teenagers, who are located everywhere.

Essentially, the advantages to Beta Lite and *BVC* are linked to its ability to shift a large quantity of the drinks and allows the wholesalers, physical distributors / agents break the bulk. *BVC* should also benefit from Beta+ being the market leader, which will mean that brand awareness is already there for Beta Lite to take advantage of. Consequently, finding new agents/intermediaries as part of its new distribution channel should not be too difficult a task given the previous success of Beta+.

However, long distribution channels are potentially risky for a new product. Given that the packaging of Beta Lite is similar to Beta+, the more diverse and geographically remote the distribution outlets, the more likely that *BVC* will not be able to control marketing messages such as point of sale material and as the stimulus indicates consumer confusion is evident. The brand loyalty and market leadership status of Beta+ could be put in jeopardy. The lower level of control could affect *BVC*'s brand image. *BVC* will need to spend time and resources finding local agents/intermediaries who will be willing to sell this new product even though Beta+ is the market leader.

Longer distribution channels can increase the price of the product to the targeted teenager. Higher prices may impact on the success of the new drink especially as it targets teenagers who might be price sensitive. As a semi perishable good, there may be quality issues in extending the length of distribution.

Accept any other relevant advantage / disadvantage.

Mark as 2 + 2.

Award [1] for identifying or describing the advantage / disadvantage for using long distribution channels and a further [1] for a development with respect to Beta Lite/BVC. Award a maximum of [2].

*[2] can not be awarded per advantage / disadvantage if the response lacks either explanation **and** / **or** application.*

For example:

*For an identification or a description of an advantage / disadvantage **with or without** application [1].*

*For explanation of an advantage / disadvantage with **no** application [1].*

*For explanation of an advantage / disadvantage **and** application [2].*

- (d) Discuss the two proposals to overcome the criticism of Beta Lite and to boost its sales.

[10]

Clearly, the decision to launch Beta Lite with packaging similar to Beta+ has created some consumer confusion and was the cause for frustration and complaints. Some younger consumers have been "mised" thinking that they have purchased Beta+. This group has predictably taken to social media to vent their frustration. It is of high importance for *BVC* to address this issue of misleading packaging and perhaps look at other elements of the marketing mix. Part of the benefits of similar packaging is to do with family branding / brand recognition / brand awareness and hopefully brand loyalty. Therefore *BVC* would not want to completely abandon the package appearance. The question is can it change the packaging so that it still retains features of the Beta brand without the confusion mentioned. Changing packaging could be costly and could, if very different, involve a wholly different promotional approach.

However, changing the packaging of Beta Lite to remove the similarities with Beta+ will involve additional costs for *BVC*. Still given the commercial success of Beta+, it is unlikely that *BVC* will not have the financial resources. These costs are only short-term costs with potentially many legal and commercial benefits. Such strategy will directly address discontent.

Still, presumably *BVC* are hoping that Beta Lite drinkers will become Beta+ drinkers, but this would mean that Beta+ would also need to be mass marketed with obvious legal implications. Nevertheless completely new packaging could distance *BVC* from the accusation that it was trying to trick consumers. Those that were fooled were presumably only interested in buying Beta+, so perhaps *BVC* has not created sufficient awareness amongst its genuine target market.

If we assume that a social media response by *BVC* via a guerrilla marketing promotional campaign is warranted (given that the younger target market is likely to respond positively to this rather than serious athletes who consume Beta+ and are therefore not affected by the campaign) then it is likely to be effective.

The guerrilla marketing campaign could successfully position Beta Lite away from Beta+ and reach under 18s who might be excited by this method. It is also likely to be cheaper to organize and implement. If *BVC* admits that there was a mistake in similar packaging and acknowledges this to its target market then the damage from the consumer backlash would be short-lived and the guerrilla campaign would be looked at favourably.

However, admitting a mistake is not correcting a mistake. The guerrilla campaign might be effective in the short run only. Frustration and confusion will rise again if nothing is being done to the actual packaging. It might be unwise for *BVC* to use a short term gimmick rather than solve the problem, especially when there are legal consequences to the retailers and possibly the drinker as well as *BVC*.

Guerrilla marketing by its nature is provocative or ill-conceived and will need to be handled carefully and time to rectify this is limited. Provocative promotion through a guerrilla campaign or attempts by *BVC* to look "cool" may backfire if the target market chooses to ignore, or is offended by the content of the promotional message. The social media backlash may intensify more than *BVC* would like.

It would be tempting for *BVC* to launch a competing viral or guerrilla promotional campaign quickly to counter the social media criticism. However, a note of caution must be taken. It is likely that the target market may forgive a company once for misleading packaging and by definition marketing, but twice would be very damaging. *BVC* may be forced to scrap Beta Lite if the guerrilla campaign becomes ineffective and irritating to existing Beta+ consumers. This would be a costly exercise for *BVC* given the inevitable need for market research and product research and development involved in creating Beta Lite.

Guerrilla marketing has only a short term impact which might not solve the real problem. Changing the packaging might.

It is not expected that the candidate incorporates all of the above arguments.

Accept any other relevant issue.

Accept any other relevant discussion.

A conclusion with judgment is expected.

A balanced response is one that covers at least one issue for and at least one argument against each option.

Marks should be allocated according to the markbands on page 3 with further guidance below.

For one relevant issue that is one-sided, award up to [3]. For more than one relevant issue that is one-sided, award up to a maximum of [4].

Award a maximum of [6] 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 [7–8] markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

4. (a) Define the term *offshoring*. [2]

Offshoring occurs when a company moves a business process (manufacturing, for example) from one country to another country (thus, “offshore”).

Disagreement exists over the relationship between offshoring and outsourcing. Two possible relationships are:

- offshoring occurs only by foreign direct investment (a company building or purchasing manufacturing facilities offshore and then operating them itself);
- offshoring can be achieved by outsourcing (having an external organization perform some aspect of a business’s operations provided that the external organization is “offshore”).

N.B. accept either. However, award a maximum of [1] when a candidate defines offshoring as outsourcing or considers outsourcing as a necessary condition of offshoring.

Accept any other relevant definition.

N.B. no application required. Do not credit examples.

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

Award [2] for a full definition that conveys knowledge and understanding similar to the answer above. It is expected that candidates demonstrate understanding of a move / relocation anything to do with an action.

- (b) Explain **one** advantage and **one** disadvantage for *Vinn* of using an identical marketing mix globally.

[4]

Possible advantages include:

- *Vinn* could develop a global brand identity which in turn could improve *Vinn*'s customer, brand recognition and loyalty. Given also the identical market positioning around the world. Customers' decision making in favour of *Vinn* could be enhanced.
- *Vinn* is likely to experience a promotion / advertising economies of scale. In a world of increasing international travel by consumers and the widespread use of satellite television channels, the advantages of international advertising could be substantial.
- Without a need for product adaptation, *Vinn* can cut costs of production of its jeans substantially. Product and promotional adaptation (or any adaptation) can create a material extra cost.
- *Accept any other relevant benefit for Vinn due to any use of identical marketing mix like price / distribution and so on.*

Possible disadvantages include:

- An identical marketing mix globally may not recognize cultural and language differences. For instance, *Vinn*'s advertisements could use male and female models, colours and language that may not be acceptable in some places with strong religious traditions. *Vinn* may not be able to reach local markets as it fails to capture local audiences.
- Brand image: anti-globalization pressure groups such as "B-Local" may argue that *Vinn* is imposing a uniform culture on different regions by the power of advertising. *Vinn*'s brand image and consumer perception may be negatively affected.
- Differences in the legal environment may prevent *Vinn* from actually applying the same marketing strategy in all countries. *Vinn* may find some legal restrictions to advertise its jeans in some countries.
- An identical marketing mix would include the same price, and the same price may preclude sales in some markets.

Accept any other relevant advantage / disadvantage.

Accept any other relevant explanation.

N.B. *just using the name Vinn does not constitute application to the stimulus.*

Mark as 2+2.

Award [1] for each correct advantage / disadvantage identified or described and [1] for a relevant explanation with application to Vinn. Award up to a maximum of [2].

*[2] can not be awarded per advantage / disadvantage if the response lacks either explanation **and** / **or** application.*

For example:

*For an identification or a description of an advantage / disadvantage **with or without** application [1].*

*For explanation of an advantage / disadvantage with **no** application [1].*

*For explanation of an advantage / disadvantage **and** application [2].*

- (c) Explain **one** advantage and **one** disadvantage for *Vinn* of operating as a public limited company.

[4]

Advantages of operating as a public limited company (plc) could include:

- Easier, and typically cheaper, access to additional capital. *Vinn* may need additional capital to implement its repositioning strategy that is likely to be expensive as new technology is needed.
- Enhanced media coverage, especially beneficial when the news is positive. Being an American plc, *Vinn* can use the media to reposition itself and create awareness in the American market.
- Greater prestige and, thus, typically greater opportunities to recruit first-rate employees and executives. *Vinn* may need to recruit better designers or employees who can work with the new technology.

Disadvantages of operating as a public limited company (plc) could include:

- Attracts greater media coverage, which can be negative when used by anti-globalization pressure groups / *Vinn*'s brand image could be tarnished globally.
- Decision making tends to be more cumbersome, as greater efforts have to be made to communicate with and even coordinate with stakeholders. *Vinn* has to communicate their decision to offshore back to the US. Some shareholders may disagree with a complete change of strategic focus.
- Lack of privacy or the required transparency. The re-shoring and re-direction of focus could lead to a reduction in short-term profits for *Vinn*, which could damage its reputation in the market place.

N.B. advantages and disadvantages do **not** have to be unique to a public limited company. For example, a candidate could have as an advantage "limited liability", which is also an advantage for private limited companies.

Accept any other relevant advantage / disadvantage.

Accept any other relevant explanation.

Mark as 2+2.

Award [1] for each correct advantage / disadvantage identified or described and [1] for a relevant explanation with application to *Vinn*. Award up to a maximum of [2].

[2] can not be awarded per advantage / disadvantage if the response lacks either explanation **and** / **or** application.

For example:

For an identification or description of an advantage / disadvantage **with or without** application [1].

For explanation of an advantage / disadvantage with **no** application [1].

For explanation of an advantage / disadvantage **and** application [2].

- (d) Discuss *Vinn's* decision to re-shore back to the US **and** to produce only individually designed jeans.

[10]

Re-shoring:

In the near future *Vinn* may not be able to benefit from lower manufacturing costs as labour costs in China are rising faster than in the US. Producing jeans in China and Turkey will be less attractive and cost effective for *Vinn* and generally for multinational companies.

Offshoring resulted in some quality issues that negatively affected *Vinn's* brand image given customers' complaints. Given the increase in global competition, communication issues and the erosion of costs advantage, perhaps the decision to re-shore is appropriate, especially if coupled by the repositioning strategy. With a change / re-shoring, brand reputation may be gained and communication problems with offshored employees will be eliminated as manufacturing will now take place in the US. Moreover, re-shoring the production process could improve quality control processes and improve *Vinn's* quality standards.

However, re-shoring manufacturing to the US may not be that straight forward, *Vinn* will have to invest in the building of new factories, and the necessary finance may not be that easy to raise in a context of global economic recession. Nevertheless, one may judge these issues as less significant due to their short-term nature.

Change of strategic focus to produce individually designed jeans:

Vinn is planning to change its strategic focus from standardized jeans to individually designed jeans to create a new competitive position. Although, management made the decision, does this have shareholder agreement? The production of individually designed jeans requires specialized technology which is currently available in the US only. In addition, highly skilled creative labour such as designers are currently located in major American cities. Re-shoring production to the US will enable both market proximity and labour proximity to produce jeans for a niche market ready to pay high prices at lower costs. Transport cost will also be reduced. The strategic refocus may be judged as an appropriate one given the intense competition in the mass market and the discovery of an untapped and potentially profitable niche market in the US. To gain a first-mover advantage, *Vinn* must re-shore and change its strategic focus. These two strategies appear complementary.

However, *Vinn* is moving into a new market, one it is unfamiliar with. There are risks associated with possible misjudgments about the size and nature of the target market - how good is its market research? Designer branded jeans are not exactly new. Could there be competitive issues, either known or unknown?

Although the potential profits per unit in niche markets are usually high, by their nature, niche markets are small and success may attract other manufacturers that are possibly smaller and more flexible. Still, further niche markets usually emerge as part of trends, and this is especially so in fashion.

N.B. candidates do **not** have to favour both decisions to (1) re-shore and (2) to switch strategic direction. However, they are expected to evaluate both and make a judgment about both. For example, a candidate could conclude that *Vinn* **should** re-shore but **not** switch strategic direction.

Candidates are expected to provide a conclusion and a judgment.
Accept any other relevant discussion.

Candidates are not expected to use the term “a change in strategic focus”.

Marks should be allocated according to the markbands on page 3 with further guidance below.

A balanced response is one that covers at least one argument for and one against each decision (re-shoring and producing individually designed jeans).

*For one relevant argument that is one-sided, award up to **[3]**. For more than one relevant argument that is one-sided, award up to a maximum of **[4]**.*

*If a candidate evaluates / addresses only one decision, award a maximum of **[5]**.*

*Award a maximum of **[6]** 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 **[7–8]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.*

5. (a) Define the term *market segment*. [2]

A market segment is a group of people who share one or more identifiable characteristics or needs.

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

N.B. no application required. Do not credit examples.

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. For [2] candidates will need to refer to “groups” of people that “share” similar traits or characteristics.

- (b) Explain **one** advantage and **one** disadvantage for *JJ* of using focus groups as a method of market research. [4]

Focus groups usually refer to a group of ten or fewer individuals. The group usually consists of volunteers gathered to discuss a particular product or idea. They are asked a series of questions or are given statements to which they freely share their opinions, ideas and reactions. They may also be asked to try out the new *JJ*plus layout in the airplane cabins – they are unlikely to be offered flights. All their responses are viewed and studied to measure the reaction of the larger market population.

Advantages could include:

- Focus groups usually provide immediate ideas for the improvement of particular products or concepts. Feedback is quick. In this case they will be able to give their views on the facilities provided in the first-class cabins of the aircraft. They may also help identify needs not addressed by *JJ*.
- Focus groups allow for in-depth questions to be asked, replies considered. The researcher/moderator can then pose follow-up questions or ask questions that probe more deeply. The interaction with potential customers may be important for an airline that clearly operates in the service sector and provides an intangible service.
- The researcher can get information from non-verbal responses, such as facial expressions or body language.
- Information is provided more quickly than if people were interviewed separately. *JJ* might want to collect information ASAP for such an important strategic decision to be made.
- *Accept any other relevant advantage.*

All of the above are particularly relevant / applicable to *JJ* as the organization provides an intangible new service.

Disadvantages could include:

- As only a small number of consumers are involved, they may not be fully representative of the target market and therefore the results may be unreliable. More specifically, the selection of the participant is very important as they should be the target market. Participants should be potential or actual first class flyers. Hence they have probably never flown JustJet. As such they are not aware of the brand name, something the *JJ* directors identified as a success factor.
- There is the possibility that the members may not express their honest and personal opinions about the topic at hand. They may be hesitant to express their thoughts, especially when their thoughts oppose the views of another participant.
- Compared with surveys and questionnaires, focus groups are much more expensive to execute. Usually, each participant will have to be compensated in cash or in kind. There is very little in kind that *JJ* can offer.
- Moderators can greatly impact the outcome of a focus group discussion. They may, intentionally or inadvertently, inject their personal biases into the participants' exchange of ideas. This can result in inaccurate results. Moderators can also lead focus group participants into reaching certain assumptions or conclusions about an idea or product.
- *Accept any other relevant disadvantage.*

Mark as 2+2.

Award [1] for each correct advantage / disadvantage identified or described and [1] for a relevant explanation with application to JJ. Award up to a maximum of [2].

Application can be regarded as any reference to the company, the service / product or the industry.

*[2] can not be awarded per advantage / disadvantage if the response lacks either explanation **and** / **or** application.*

For example:

*For an identification or a description of an advantage / disadvantage **with or without** application [1].*

*For explanation of an advantage / disadvantage with **no** application [1].*

*For explanation of an advantage / disadvantage **and** application [2].*

N.B. *whether focus groups are “easier” or quicker than other types of primary market research requires some explanation. In general, if the candidate is conveying the idea that feedback from focus groups is immediate, that is an advantage. Compared to surveys, often focus groups are quicker, especially if the survey is long, detailed and “scientifically” constructed. On the other hand, companies can, and do, put together quick online surveys that probably take less time than focus groups. Examiners should be aware that a candidate may be correct in saying that they are “quick” or be misleading, depending on the response. Be inclined to give benefit of doubt (BOD).*

- (c) Using the Ansoff matrix, explain JJ's strategy of offering the first-class-only service, JJplus.

[4]

The Ansoff matrix is an analytical model assists organizations to map strategic product market growth.

The launch of the new airline could be viewed in two different ways:

- Product development: this is where a business aims to introduce new products into an existing market. The first-class-only flights are certainly a new product and they are hoping to sell it to its existing market – European customers, more specifically vacationers seeking luxury travel.
- Diversification: the first-class-only flights could be regarded as (related) diversification as this is a new product / service targeted at new geographical markets (New York and the BRIC countries) as well as new untapped segments of vacationers seeking luxury travel at lower cost than first class services offered by other airlines in the European, New York and the BRIC markets / countries.

N.B. the Ansoff matrix does not need to be drawn for full marks, but reference has to be made to the type of product and market.

Award [1] some minimal understanding idea of what an Ansoff matrix is or for just drawing the matrix or inappropriate application.

Award [2] for some limited theoretical understanding of an Ansoff matrix (it could be drawn) and limited application.

Award [3] for some description and some application/categorization of the strategy according to the Ansoff matrix, but both lacks some depth / detail.

Award [4] for a clear and relevant explanation and application/categorization of the strategy according to the Ansoff matrix.

(d) Evaluate *JJ*'s proposal to launch the JJplus service.

[10]

The new target market consists of two market segments:

- vacationers seeking luxury travel at a price lower than other airlines,
- business flyers, such as entrepreneurs from BRIC countries.

JJ already has a well-known brand name within Europe and is a market leader in the budget flights market. This can be both an advantage and a disadvantage. Existing, satisfied customers may decide to upscale and purchase first-class-only flights based on their previous experience with the airline. However it has a “no frills” image which could count against it in this new market where the quality of the product will be a key factor in selling tickets. Also *JJ* is only well-known within Europe. Its aim is to break into the American and BRIC markets – here it will have very little brand recognition, which will count against it.

Will the *JJ* brand image affect the image it is trying to create for JJplus or the other way around? This may be the greatest challenge the business faces. Pricing and branding also intertwine – setting the price too low might create the wrong brand image, an image that is already a possible issue as it has built its reputation as a business that offers only economy seating and charges for all extra services on board. It is also an unknown brand in the American and BRIC markets and it will take time and funding before it can establish a suitable brand image. Still, *JJ* is profitable so the cost argument might not be of significant importance.

JJ has decided to set its prices below those of rival, established airlines offering flights with first-class seats to persuade their customers to switch allegiance. These airlines are likely to already have brand loyal customers. Lower fares than the main competitors might confuse the luxury seeking business flyers from the BRIC countries, assuming the quality is not as high. However, it may be more successful in attracting business flyers from smaller companies where travel costs may be considered to be more important.

To break even, each flight has to sell at least 90% of the seats. This is potentially a small margin of safety as there might be little, or no opportunity to cut cost for such a service.

JJ has only used focus groups so the market research is limited.

It will need to offer a sufficient discount compared to the prices charged by established carriers if it to be a success. If it is successful initially it might invite retaliation from existing airlines – a price war might develop and this may force the business to cut its prices below costs and operate at a loss. The business can finance this, at least in the short-term, from the profits being made by its existing and original business, which is very profitable, but does it really have the financial fortitude especially if competitors retaliate?

Other airlines offering a first-class service failed, so perhaps one might argue that *JJ* should be cautious. However, this was a while ago so perhaps the new external environment is more favourable, allowing the business to grow the market. Some favourable PEST factors in the BRIC countries, such as increases in income, changes in taste / preference, to name just a few, might create opportunities for the JJplus service.

Candidates are expected to provide conclusions and judgment.

Accept any other relevant answer.

Marks should be allocated according to the markbands on page 3 with further guidance below.

A balanced response is one that provides at least two arguments for and two arguments against the option.

For one relevant issue that is one-sided, award up to [3]. For more than one relevant issue that is one-sided, award up to a maximum of [4].

Award a maximum of [6] 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 [7–8] markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

Section C

Marks should be allocated using the assessment criteria on pages 4 to 5 with further guidance below.

N.B. examiners should include a breakdown of each mark awarded per criterion and a brief note explaining the mark awarded at the end of each candidate's response.

The main aim of paper 2 (SL or HL) section C is to assess candidates' understanding of the six major concepts (change, culture, ethics, globalization, innovation, strategy) within a business context. Candidates are to demonstrate their understanding through an organization of their choice. The expectation of the use of an organization is to allow assessment of the depth of candidates' understanding through their ability to apply the concepts and their knowledge.

Assessment of candidates' knowledge of the organization itself is not an aim of the assessment. If a candidate makes minor factual errors and these minor errors have no genuine bearing on whether the candidate understands the concepts, examiners should not penalize. For example, a minor error of historical fact (the year when a company was founded, for example, or the year in which a change was implemented) which has no genuine bearing on candidates' understanding of the concepts does not warrant penalty.

Individual question marking notes

6. With reference to an organization of your choice, discuss the impact of **innovation** on operations management **strategy**. [20]
- Accept any content from operations management linked to strategy.*
7. With reference to an organization of your choice, examine the impact of **culture** on organizational **ethics**. [20]
- Accept any discussion that is focused on internal or external culture.*
8. With reference to an organization of your choice, examine the impact of **globalization** on organizational **change**. [20]
- Accept any type of change to any part of an organization.*

It is expected that the candidate explains the chosen theoretical direction / content of their response.

Additional guidance in relation to the assessment criteria

For each criterion, the aim is to find the descriptor that conveys most accurately the level attained by the candidate, using the best-fit model. It is not necessary for every single aspect of a level descriptor to be met for that mark to be awarded.

- The highest level descriptors do not imply faultless performance and should be achievable by a candidate.
- A candidate who attains a high level of achievement for one criterion will not necessarily reach high levels of achievement for the other criteria and vice versa.

If only **one** concept is addressed:

Criteria A, B, C and E: award up to a maximum **[3]**.

Criterion D: full marks can be awarded.

Where the question ask for impacts of two concepts on content, examiners must allow for unbalanced treatment of the two concepts throughout a candidate's response. One concept may be more significant than the other.

In section C, the question rubric explicitly states that “organizations featured in sections A and B and in the paper 1 case study may not be used as a basis” to candidate's answers to questions 6, 7 and 8. When this happens please award marks as follows:

Criterion A: award a maximum of **[1]**. The business management content cannot be relevant if the organization is fictitious.

Criterion B: 0 marks – there is no connection to a “real-world organization”

Criterion C: award a maximum of **[1]**. The arguments cannot be relevant if the organization is fictitious.

Criterion D: mark as normal.

Criterion E: award up to a maximum of **[1]**. The individual and/or group perspective(s) cannot be relevant if the organization is fictitious.

Criterion B

For **[2]**: “...connection is not developed” should be treated the same as superficial.

Criterion C

- Questions 6 to 8 require consideration of the impact of one concept **on** a second concept – therefore accept 2+2 arguments for a balanced response.
- Justification is through logic or data.
- For **[2]** there is no balance as there are no counter arguments at all, or the arguments are all one-sided then this would be unjustified.
- For **[3]** there is some balanced arguments – some of which are justified.

Criterion D

- Introductions need to be concise and related to the question.
- The candidate's response does not to have explicit headings for each structural element.
- A body is the area in which the substance of arguments occur. It is usually located between the introduction and the conclusion.
- Fit-for-purpose paragraph means that ideas are presented in a clear academic way. For example, one idea per paragraph.

Criterion E

- One example of an “individual” could be an individual consumer or an individual manager. However this could not be considered with a “group” of consumers or a management team.
 - For **[4]**, a balanced response: need to look at the perspectives of **both** individual **and** group(s). The chosen individual, group needs to be applicable and relevant to the question with specific explanation.
 - Candidates need to go beyond stating the stakeholder.
 - Candidates need not explicitly say “stakeholder”.
-