

# Markscheme

May 2016

Business management

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

### 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) Define the term *outsourcing*. [2]

Outsourcing refers to the practice of having an external organization perform some aspect of a business's operations (production, HRM, distribution, marketing, etc).

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

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

**N.B.** *outsourcing and offshoring, which is asked in question 4, are not equivalent. A company may outsource within its own country, just as a company may offshore a process without outsourcing it (some argue that offshoring never involves outsourcing).*

**N.B.** *a candidate must convey the idea that outsourcing involves having an external organization perform some aspect of a business's operations. If a candidate conveys that idea but otherwise treats outsourcing and offshoring as equivalent, award a maximum of [1].*

*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.*

- (b) (i) Calculate the gross profit **X** for *RM* (no working required). [1]

$$R\$5256 - R\$3074 = R\$2182 = \text{Gross profit}$$

**N.B.** *do not penalize candidates for the absence of an R before the \$ symbol, or the absence of \$, or the absence of R\$.*

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

- (ii) Calculate **Y** and hence, calculate the net profit margin for *RM* (*no working required*).

**[2]**

To calculate the net profit margin, candidates must first calculate net profit before interest and tax and divide it by sales revenue.

Net profit before interest and tax can be calculated by taking the gross profit (calculated in part [i]) and subtracting expenses:

$$R\$2182 - R\$1390 = R\$792 = \text{Net profit before interest and tax}$$

$$\frac{792}{5256} \times 100 = 15.1\%$$

Accept 15.07 %, 15.10 %, or 15 %. Candidates must have a percentage sign or have the exact mathematical equivalent (for example, accept 15.07 % or .1507. However, 15.07, without a percentage sign, would be incorrect).

**N.B.** allow candidate own figure rule (OFR).

**N.B.** do not penalize candidates for the absence of an *R* before the \$ symbol, or the absence of \$, or the absence of *R*\$.

Award **[1]** for each correct calculation/answer (*working not required*), up to a maximum of **[2]**. If a candidate has no workings at all but does have a correct answer for NPM, award **[2]**.

- (iii) Using relevant information from the table, construct a fully labelled balance sheet for *RM*.

[5]

*RM*

Balance sheet as of 31 December 2015 (all figures in millions of Brazilian reals)

Net fixed assets	3110
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**Current assets**

Cash	486
Debtors	958
Stock	<u>1562</u>
Total current assets	3006

**Current liabilities**

Overdraft	52
Creditors	498
Short-term loans	<u>650</u>
Total current liabilities	1200

Net current assets (working capital)	1806
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Total assets less current liabilities	4916
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<b>Long-term liabilities (debt)</b>	0
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Net assets	4916
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Financed by:

Share capital	800
Accumulated retained profit	4116

<b>Equity</b>	4916
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*N.B.* if the candidate does not follow the IB prescribed format award a maximum of [3].

*N.B.* candidates should not be penalized for: omitting the row “Long-term liabilities (debt)”, or for writing “retained profit” omitting the word “accumulated”.

Award [1] if the candidate conveys some idea of what a balance sheet is.

Award [2] if the candidate constructs a largely recognizable balance sheet, but it does not balance, or it has two major problems of classification.

Award [3] for a largely accurate balance sheet that balances. (There could be one misclassification.)

Award [4] if the candidate constructs an accurate balance sheet (that balances) according to the IB prescribed format.

Award [5] if the candidate constructs an accurate balance sheet (that balances) according to the IB prescribed format and the balance sheet is dated.



2. (a) Define the term *variable costs*. [2]

These are costs that vary/change directly/proportionally with the level of output/production.

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 which will include a reference to output, or to the amount/quantity made/produced.

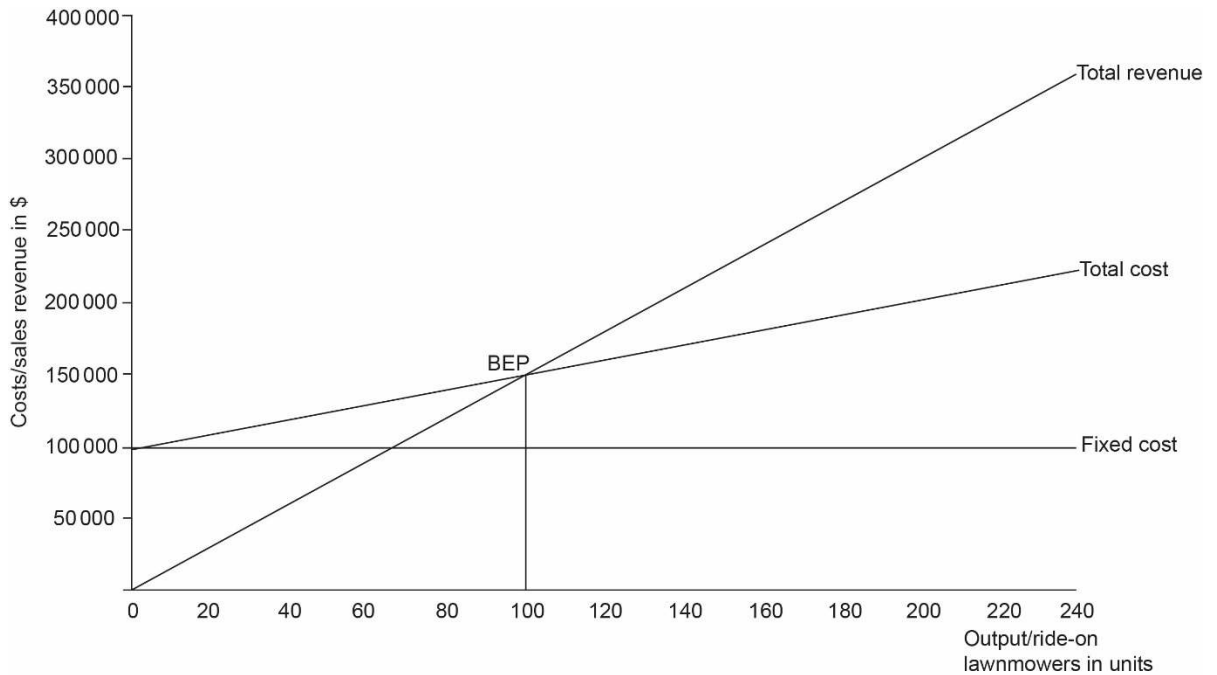
- (b) (i) Calculate for *Parder*, for 2016, the break-even level of output (*show all your working*). [2]

$$\text{Break-even level of output} = \frac{\text{Fixed costs}}{\text{Selling price} - \text{variable cost per unit}}$$

$$\begin{aligned} &= \frac{100\,000}{1500 - 500} \\ &= 100 \text{ units /ride-on lawnmowers} \end{aligned}$$

Award [1] for correct working and [1] for the correct answer. Award up to a maximum of [2]. Do not penalize candidates who omit the word *unit/ride-on lawnmowers* from their answer.

- (ii) Construct a fully labelled break-even chart, to scale, for *Parder*, for 2016. [4]



*Award marks as follows:*

**[1]** for both appropriately labelled axes – y-axis must include both costs and revenue. The x-axis can be any suggestion of quantity: units, (ride-on) lawnmowers.

**[1]** for accurately drawn and labelled total cost line.

**[1]** for accurately drawn and labelled total revenue line.

**[1]** for indication of break-even point. OFR applies from part (b)(i).

Award a maximum of **[2]** if the chart is not neat, not drawn with a straight edge, or is not to scale.

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

- (iii) Calculate the profit or loss if 700 ride-on lawnmowers are sold in 2016 (show all your working). [2]

$$\text{Total revenue} = \$1500 \times 700 = \$1\,050\,000$$

$$\text{Total costs} = \$100\,000 + (\$500 \times 700) = \$450\,000$$

$$\text{Profit} = \$1\,050\,000 - \$450\,000 = \$600\,000$$

*Award [1] for correct working and [1] for the correct answer. Award up to a maximum of [2].*

## Section B

3. (a) State **two** secondary methods (sources) of market research for GCK. [2]

Types of secondary methods of market research GCK might use include:

- information produced by government agencies
- information produced by industry or trade associations
- trade journals
- magazines
- various forms of media (newspapers, scholarly journals, other public media).

*Accept any other relevant method (source).*

**N.B.** do not accept “internet”, “information from the internet, or “market analyses” as acceptable methods.

*Award [1] for each relevant method (source) stated up to a maximum of [2].*

- (b) Using a fully labelled Boston Consulting Group (BCG) matrix, explain the position of GCK’s current product (physical car keys). [4]

*Award a maximum of [4]:*

*Award [1] if the candidate has some idea of what the BCG matrix is.*

*Award [2] if the candidate:*

- correctly draws, labels and explains the BCG matrix, **or**
- largely draws correctly the BCG matrix and properly places GCK’s current product in the matrix, but with **no** explanation.

*Award [3] if the candidate conveys a fully accurate understanding of the BCG matrix and identifies GCK’s current product as “a cash cow”.*

*Award [4] if the candidate conveys a fully accurate understanding of the BCG matrix, identifies GCK’s current product as “a cash cow” and explains why.*

- (c) With reference to *GCK*, explain the relationship between investment and profit. **[4]**

The relationship between investment and profit is as follows: a business invests money into the development or marketing of a product. Typically the sales revenue of the product grows until it hits a plateau, when sales are either extended (through investment in extension strategies), or when sales revenue begins to fall as the product is near the end of its product life cycle. During periods of rapid sales growth, the business will often make a profit (but cash flow is strained due to working capital requirements of rapid sales growth). During the saturation phase, the business continues to have high profits. In the decline stage, profits fall.

*GCK* fits this model. Its product (physical car keys) are probably at the end of its product life cycle. If true, *GCK*'s current product would become a dog and the company would need to make an investment to re-make itself. However, for years, *GCK* chose not to innovate and instead paid high dividends with its profits. Now, those shareholders are shocked – shocked at learning the long-term consequences of failure to innovate. To generate profits anew, *GCK* must invest. For *GCK* to invest, it must raise sources of finance, spend on renovating the factory, and then start selling the new product(s).

Without investment, companies cannot, in the long-run, make a profit. During the investment stage, profit is often strained, as resources are going into the introduction and development of the new product(s). During the growth stage, profit grows (but rarely keeps up with the growth in working capital requirements). However, during the maturity stage (at which point the product is a “cash cow” in the terms of the BCG matrix), cash flow improves.

*Accept any other relevant explanation.*

*Award [1] if a candidate has demonstrated some idea of the relationship between investment and profit. Award [2] if the candidate demonstrates a clear understanding of the relationship between investment and profits.*

*In addition, award [1] for some application to the stimulus. Award [2] for thorough application to the stimulus.*

*Award a maximum award of [2] if there is no application to the stimulus.*

*Award a maximum of [4].*

**N.B.** *if a candidate never defines or describes investment and profit but establishes their proper relationship, award [1]. Award up to [2] if in this case that relationship is illustrated through application to the stimulus.*

- (d) Discuss **two** appropriate sources of finance for the renovation of GCK's factories. **[10]**

Appropriate sources of finance for GCK include:

- A long-term loan or mortgage, which could be from a bank, or some other type of long-term lender. In this instance, the lender would lend money to GCK and secure the loan on the plant and/or equipment. While the stimulus does not really provide much insight into an appropriate term of the loan, it would almost certainly be longer than five to seven years. Arguments for: the building can be used as collateral, also they currently have little debt so banks may be more willing to lend the required money. On the other hand, loans have to be paid back and interest rates can fluctuate. In addition, GCK is going into largely new lines of business largely because management failed to plan for the future. GCK's track record may not impress the bank lender.
- Share capital through the issuance of new shares to family and friends. The advantage of shares is that GCK would not have debt service. However, the question remains whether they could attract the investors through family (who are already shocked). GCK must then, over the long run, generate sufficient profit to satisfy the investors' return requirements. If the sales of shares is to friends, the Schmidt family will no longer own 100% of the business. There will be a loss of some privacy and the Schmidt family will have to consult with others.
- Become a publically traded company, which would be very expensive. In this instance, GCK would have to write a prospectus explaining to potential investors why it needs the funds from the sale of shares, how GCK is going to renovate, and what new market it is going into. If persuasive, the prospectus would attract investors. Lots of funds can be generated to invest into product development and into the renovations. However, going public fundamentally changes the relationship of the Schmidt family to the business which they may not like.
- Sale of assets. In light of GCK's failure to anticipate changes in its industry, either from a product standpoint or from a financial standpoint, traditional industrial leaders might be wary of lending the business large sums of money for an untested product. GCK may have to demonstrate a greater willingness to make fundamental change and greater willingness to rely on its own sources of funds. Two advantages to this approach are that (1) it forces the management to think deeply about its future direction and needs and (2) GCK may have less debt. However, selling older industrial equipment and property may not yield as much cash as GCK needs. The plant, in particular, may have considerable value as part of a going concern (GCK) but less value on the open market. And, if GCK sells its current plant, it has to acquire a new facility, probably through leasing, which may be more expensive in the long run.
- Accept debentures. Though it is probably unlikely that a company such as GCK, as described in the stimulus, could issue debentures (especially at this time in its history), candidates may well not know that. Other than additional debt (rather generic) there are relatively few downsides to debentures, so candidates opportunities for "balance" on this one type of finance is relatively limited.
- Leasing is acceptable only if the candidate provides a thorough explanation. At face value, leasing (unlike a bank loan) is not fully appropriate. With appropriate explanation, it can be.

*Accept any other relevant substantiated discussion.*

**N.B.** do not accept any form of short-term loan, or a venture capitalist, nor accept joint venture or merger. Personal savings is **not** an acceptable answer.

*In general, retained earnings or retained profits is not an appropriate source of finance, as GCK is facing a pressing situation now. With a history of high dividend payments, GCK is unlikely to have a large cash balance. Were GCK to suspend dividend payments immediately, some profits would be available for renovation, but those profits would probably be insufficient for the entire retooling of an old factory. Thus, in general, retained profit is not an appropriate source. If, however, candidates name retained profit **and** have some intelligent discussion thereof, some minor credit for that portion of the response may be awarded.*

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

A balanced response that covers at least one argument for and one argument against each source of finance.

Maximum mark award	One source of finance	Two sources of finance	Judgments/conclusions
3	Unbalanced	N/A	N/A
4	N/A	unbalanced	N/A
5	One balanced and one unbalanced		N/A
5	Balanced	N/A	Judgments/conclusions
6	N/A	Balanced	No judgments/conclusions  A nominal conclusion (conclusion paragraph) does not necessarily mean judgments/conclusions.
7-8		Balanced	Judgments/conclusions based upon analysis and explanation in the body of the response
9-10		Balanced	Judgments/conclusions based upon analysis and explanation in the body of the response

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 that offshoring occurs when a company moves a business process to another country.

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

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

[4]

Possible advantages include:

- *Vinn* could develop a brand identity which in turn could improve *Vinn*'s customer and brand recognition and loyalty everywhere they sell. Customers' decision making in favour of *Vinn* could be enhanced.
- *Vinn* is likely to experience a promotion / advertising economies of scale. With increased movement by consumers and the widespread use of media, uniformity in promotion could be less expensive regionalized marketing, allowing *Vinn* to use resources for other purposes.
- 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 everywhere it sells may not recognize cultural and language differences. For instance, *Vinn* 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 everywhere it sells. *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 everywhere it sells.
- 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 reshore 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” means that the response covers at least one argument for and one argument against each decision (re-shoring and producing individually designed jeans).

<b>Maximum mark award</b>	<b>One decision</b>	<b>Two decisions</b>	<b>Judgments/conclusions</b>
<b>3</b>	Unbalanced	N/A	N/A
<b>4</b>	N/A	unbalanced	N/A
<b>5</b>	One balanced and one unbalanced		N/A
<b>5</b>	Balanced	N/A	Judgments/conclusions
<b>6</b>	N/A	Balanced	No judgments/conclusions  A nominal conclusion (conclusion paragraph) does not necessarily mean judgments/conclusions.
<b>7-8</b>		Balanced	Judgments/conclusions based upon analysis and explanation in the body of the response.
<b>9-10</b>		Balanced	Judgments/conclusions based upon analysis and explanation in the body of the response.

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 issue if the response lacks either explanation **and** / or application.*

*For example:*

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

*For explanation of an issue with **no** application [1].*

*For explanation of an issue **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”.
-