

Markscheme

May 2017

Business management

Higher level

















Paper 1












16 pages


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The following are the annotations available to use when marking responses.

Annotation	Explanation	Associated shortcut
	AE - Attempts Evaluation	Alt+7
	BOD - Benefit of the doubt	Alt+0
	CKS - Clear Knowledge Shown	
	Cross - Incorrect point	
	DES - Descriptive	Alt+2
	EE - Effective evaluation	Alt+4
	GA - Good Analysis	
	GD - Good Definition	
	GEXA - Good Example	
	GEXP - Good Explanation	Alt+9
GP	GP - Good Point	Alt+5
	H Line - Underline tool	
	Highlight - Highlight tool	
	IR - Irrelevant	
	IU - Inappropriate Use	
	LD - Lacks Depth	
	LLS - Lacks Logical Structure	

	NAQ - Not Answered Question	Alt+6
	NBOD - No benefit of the doubt	Alt+8
	NE - Not enough	
	On Page Comment - On page comment tool	Alt+3
	P - Paragraphing	
	PE - Poorly expressed	
	QuestionMark - Unclear	
	SEEN_Small - Seen	
	Tick Colourable	Alt+1
	TV - Too vague	
	UR - Unbalanced Response	

You **must** make sure you have looked at all pages. Please put the  annotation on any blank page, to indicate that you have seen it.

The markbands and assessment criteria on pages 5–8 should be used where indicated in the markscheme.

Section A			Level descriptor
Q1 (b)	Q2 (b)	Q3 (b)	
Marks			
0			
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues and business management tools (where applicable), techniques and theories. • Little use of business management terminology. • Little reference to the stimulus material.
3–4			<ul style="list-style-type: none"> • A description or partial analysis of some relevant issues with some use of business management tools (where applicable), techniques and theories. • Some use of appropriate terminology. • Some reference to the stimulus material that goes beyond the name of a person(s) and/or the name of the organization. • At the lower end of the markband, responses are mainly theoretical.
5–6			<ul style="list-style-type: none"> • An analysis of the relevant issues with good use of business management tools (where applicable), techniques and theories. • Use of appropriate terminology throughout the response. • Effective use of the stimulus material.

Section B Q4 (d)	Level descriptor
Marks	
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 theory 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.

Section C, question 5

Criterion A: Knowledge and understanding of tools, techniques and theories

This criterion addresses the extent to which the candidate demonstrates knowledge and understanding of relevant business management tools, techniques and theories, as stated and/or implied by the question. This includes using appropriate business management terminology.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Superficial knowledge of relevant tools, techniques and theory is demonstrated.
2	Satisfactory knowledge and understanding of relevant tools, techniques and theories is demonstrated.
3	Good knowledge and understanding of relevant tools, techniques and theories is generally demonstrated, though the explanation may lack some depth or breadth.
4	Good knowledge and understanding of relevant tools, techniques and theories is demonstrated.

Criterion B: Application

This criterion addresses the extent to which the candidate is able to apply the relevant business management tools, techniques and theories to the case study organization.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	The relevant business management tools, techniques and theories are connected to the case study organization, but this connection is inappropriate or superficial.
2	The relevant business management tools, techniques and theories are appropriately connected to the case study organization, but this connection is not developed.
3	The relevant business management tools, techniques and theories are generally well applied to explain the situation and issues of the case study organization, though the explanation may lack some depth or breadth. Examples are provided.
4	The relevant business management tools, techniques and theories are well applied to explain the situation and issues of the case study organization. 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 evidence 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: Individual 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) With reference to *Utopia*, describe the importance of **two** external stakeholders (line 12). [4]

External stakeholders could be:

- Suppliers – the local business in particular and coffee suppliers. The business relies on the quality of these products
- Local craftsmen – can be considered different from suppliers
- Customers – this is in the service industry and customers are critical. Word-of-mouth is so important in this industry and these will tend to be influential people
- Banks, *etc* – unlikely to be important as the business does not use external finance
- The government – very important for regulations such as H&S. Also collects taxes so has an impact on profits.
- Local community – Utopia provides work, has focus on local suppliers
- Pressure groups/media – no obvious importance although bad publicity to be avoided
- Competitors are allowed as external stakeholders

N.b.: shareholders are **not** external. Do not reward comments about stakeholders in general – there has to be references to specific stakeholders

Mark as 2+2.

Award [1] for each correct stakeholder identified and [1] for a description of how that stakeholder relates to Utopia. Award a maximum of [2] per stakeholder.

- (b) With reference to *Utopia*, explain the role of promotion (line 6). [6]

Promotion will have to be very focused to be effective.

Two aspects of promotion:

- **Providing information:** This is an upmarket business offering quite a different kind of tourist service. Potential customers will want to know a great deal about the specialities, such as locally produced goods and services, local cuisine, local culture, luxurious facilities and services
- **Persuasion:** Probably important early in the life of the business but less so as word-of-mouth promotion will now be a critical way to get new customers (C2C). How many customers are return visitors? Advertising through public relations may well be important, as tourist destinations often appear in travel pages of newspapers.

Creating, maintaining, reinforcing the ‘upmarket’ brand and image is important. Promotion may not be quite as important as for other tourist destinations because its focus is going to be on a niche market.

Accept any other relevant application.

Marks should be allocated according to the markbands on page 5.

Award a maximum of [3] for a theoretical answer.

Award a maximum of [5] if the explanation of promotion is mainly descriptive but in context.

For full marks the explanation needs to be developed and in context.

2. (a) With reference to *JAC*, describe **two** advantages of internal growth (line 52). [4]

Internal growth: selling more; widening product range; expanding facilities

- *JAC* is a relatively small enterprise relative to *Utopia* so it would not be too difficult to raise the resources to grow *JAC* internally.
- John Ariki's philosophy is for internal growth.
- Because of the emphasis on local culture, specialised coffee, etc, it is important for *JAC* to retain control – control might be diluted with external growth.
- With outside influences the vision for *JAC* might be diluted.
- *JAC* is part of *Utopia* so the vision for *Utopia* is relevant.
- *Gaining economies of scale e.g. bulkbuying coffee for the whole business*
Remember: JAC is owned as a sole trader

Mark as 2+2.

Award [1] for each advantage identified, and [1] for the development of each of these key aspects in the context of JAC/Utopia/John, up to a maximum of [2].

- (b) With reference to John, explain the key functions of management. [6]

Key functions of management are:

- setting objectives and planning
- organising resources to meet objectives, including staff recruitment
- directing and motivating staff
- coordinating activities
- controlling and measuring performance.

With reference to John:

- He created the original business plan.
- He made decisions about reflecting local culture and resisting external stakeholders.
- He organises local suppliers.
- It was his decision to open café.
- He creates crisis management and contingency plans.
- He decides on options.
- He delegates to his children but keeps the reins.
- He organised and managed a meeting between himself, Liza and Paul.
- He monitors performance.
- He sets organisational structure and manages changes.
- He makes the final decision.

Accept any other relevant analysis.

Marks should be allocated according to the markbands on page 5.

Award a maximum of [3] for a theoretical answer.

Award a maximum of [5] if the explanation of functions is mainly descriptive but in context.

For full marks the explanation needs to be developed and in context.

3. (a) With reference to *Utopia*, describe **two** suitable sources of finance for the 3D printers (line 60). [4]

Relative to the size of *Utopia*, the cost of the printers is not large.

Sources could include:

- retained profits – but are these sufficient after the problems of 2016?
- sale of assets – but are there any? The villas are only just being rebuilt and the café is growing
- reductions in working capital – impossible to say but it does seem an efficient organization
- loans – although John does not want external influences, he is thinking that he will have to look outside. Loans would dilute his control the least. Debentures are unrealistic. Debt factoring
- joint ventures, strategic alliances, franchising would seem rather unsuitable for the 3D printing as it is a small project. Would anyone be interested?
- Shares: Unlikely to be suitable as John owns 100% of shares and does not want external influences
- Hire purchase/leasing – would this be available from 3D printer manufacturers?
- Can also consider grants

Shares not acceptable as John owns 100% of shares. Remember, *Utopia* is a private limited company

Accept any other relevant point.

Mark as 2+2.

Award [1] for each source identified, and [1] for the development of each of these sources in the context of the project, up to a maximum of [2].

- (b) Explain the role of ethics in John's businesses. [6]

Ethical objectives are difficult to define and vary from culture to culture; however, the following might be regarded as ethical/socially responsible:

- using local craftsmen
- focussing on local culture
- using local ingredients
- using ethically produced fair trade coffee and paying above market prices.

Importance relates to:

- maintaining the goodwill of the community
- maintaining the goodwill of suppliers, employees
- maintaining the brand image (perhaps the most important).
- Aiming to improve long term success and profitability of the business

Accept any other relevant analysis.

Marks should be allocated according to the markbands on page 5.

Award a maximum of [3] for a theoretical answer.

Award a maximum of [5] if the analysis is mainly descriptive but in context.

For full marks the explanation needs to be developed and in context.

Section B

4. (a) Describe **one** method of lean production **other than** recycling. [2]

Lean production can include JIT inventory control, JIT production, capacity management, TQM, improved efficiency to improve capacity utilization, involving workers in internal markets, supply chains, flexible systems. Kanban, Kaizen, Andon. Allow quality assurance., Cradle to Cradle, 'right first time'

'Decreasing waste' can only reach one mark since it is a definition of lean production rather than a method.

Award [1] for a description that shows partial understanding. Award [2] for a description that shows full understanding.

- (b) With reference to *Utopia*, explain **two** benefits of having a strong brand. [4]

Brand: an identifying name, symbol, image or trademark that distinguishes a product/service from its competitors.

The nature of *Utopia* is an upmarket expensive tourist destination. There are lots of alternatives, so *Utopia* has to market its uniqueness. *Utopia's* marketing relies on word of mouth and social media. In order for these to be successful, the name (which is the brand) has to have an impact on potential customers. John believes that the beautiful location, the local craftsmen and materials, and the local food and coffee, together form the basis for the *Utopia* brand. So these each need to be strong for the brand to work.

Benefits could include: emphasizing the uniqueness of service; reinforcing word of mouth; strengthening name; creating and maintain a strong image; easier to introduce new products through family branding; competitive edge.

Accept any other relevant benefits

Award [1] for each reason identified, and [1] for the development of each of these reasons in the context of Utopia.

- (c) Using information from **Table 1** and **Table 2**, calculate the net present value (NPV) for the 3D printing project. [4]

Year	Net Cash Flow \$000	DCF	Present value
0	-10	1.00	-10.00
1	2	0.91	1.82
2	3	0.83	2.49
3	4	0.75	3.00
4	4	0.68	2.72
5	4	0.62	2.48
Total NPV			2.51

Total NPV = \$2510 (12,510 – 10,000)

Lots of possibilities of rounding differences – allow especially if DCFs calculated with calculator rather than using given ones.

Award [4] for correct answer, correct units or no units (e.g. just 2510) (including different answers due to rounding).

Award [3] for correct answer, but wrong units or for simple arithmetic error.

Award [2] for right approach but significant errors e.g. omitting capital cost or not totalling the NPVs.

Award [1] for attempt that shows limited understanding.

- (d) Using information from the case study, additional information above **and** your results from part (c), discuss whether *Utopia* should proceed with the 3D printing project. **[10]**

In favour:

- Positive NPV (but allow OFR)
- Paul likes the idea
- Unique souvenirs
- Cost reductions
- \$10k is not large in the scale of the operation
- Use of recycled materials fits in with *Utopia*'s ethos and image

Against:

- Does this market really do souvenirs?
- Liza does not like
- Recruitment difficulties
- Impact on local people – may damage part of the ethos
- Costs of recycling unclear
- Not suited to niche market?

According to Ansoff this might be diversification or new product depending on your point of view, but it does carry risks whichever.

Decision depends on John and whether other option(s) are better. John believes the technology will bring other benefits, which may swing him that way, however the impact on local craftsman would weigh heavily.

Accept any other relevant discussion of the issues

Marks should be allocated according to the markbands on page 6 .

Award a maximum of [4] for a purely theoretical answer or with no effective use of case material.

Award a maximum of [5] if only one side of argument is considered in context.

Award a maximum of [6] if both sides are considered but there is limited use of data (e.g. no use of NPV). However, if limited statement(s) are made about NPV/Cash Flow could achieve [7]

Award a maximum of [8] if both sides considered, there is good use of data, but an unsupported recommendation.

For full marks two sides of the argument should be considered, data used effectively, and the recommendation supported.

Note – a recommendation that a decision cannot be made due to lack of information (eg market research) can be regarded as a decision provided the arguments are supported.

Section C

5. Using the case study **and** the additional information on pages 4 and 5, recommend which of the Pacific Island markets *JAC* should enter. Completing the decision tree and using the results could help you in your answer.

[20]

X=\$1.7 million, Y= \$3.2 million

Fiji

Positives:

- Larger population so theoretically larger market
- Many more tourists who are likely to use the coffee shops
- Better predicted value than Samoa (\$2.9m compared with \$1.7m)
- Stronger growth
- Higher chance of success, lower chance of failure

Negatives:

- Locals are tea drinkers
- Failure leads to a loss
- Lower GDP
- Spread out – 330 islands

Samoa

Positives:

- Only two islands
- High proportion of tourists
- Coffee drinkers
- Politically stable
- Ideal workforce
- Good for overseas investment
- No loss if it fails
- Higher GDP

Negatives:

- Higher chance of failure
- Lower growth

Marks should be allocated according to the assessment criteria on pages 7–8.

Criterion A: Knowledge areas include: risk, decision trees and predicted outcomes, location decisions, use of data, strategic decision making. PEST (not necessarily formally), Ansoff and other appropriate ideas.. No understanding of decision trees/predicted outcomes, marks limited to [3]. Not all knowledge areas required, we are looking for tools that can be expected to help make a recommendation.

Criterion B: Application will be judged by the use of the stimulus material, in particular the extra material. If only one option considered, award a maximum of [2]. If both options considered but no use of additional material, award a maximum of [3].

Criterion C: Reasoned argument. For full marks there needs to be a comparison between the two options and a supported recommendation. If analysis of only one, award a maximum of [3]. If no comparison but analysis of both options awards a maximum of [2].

Criterion D: Structure – see criterion.

Criterion E: Likely issues include: impact on communities, workers, cultural differences, views of the shareholders/management, other stakeholders.

Note – a recommendation that a decision cannot be made due to lack of information (eg market research) can be regarded as a decision provided the arguments are supported.
