

Markscheme

May 2017

Business management

Higher level

















Paper 2












30 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 5–7 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. Describe **one** feature of a wholesaler.

[2]

Common features of wholesalers include:

- An intermediary along a distribution channel that breaks large quantities of product into small stock quantities for retail businesses.
- generally offering stock for predominantly one industry (furniture, fruit, electronic parts, auto parts, *etc*) and building up product knowledge to help retail businesses increase the opportunities for retail success.
- allow retail businesses to purchase on credit or even allowing retail business to purchase stock on a sale or return basis.
- given the large quantities of stock purchases, being able to experience significant purchasing and marketing economies of scale.

Accept any other relevant feature.

Award [1] for a relevant feature with appropriate description up to a maximum of [2]. It is not expected that candidates explain the benefits to any stakeholder Application to the organisation is not required.

Do not credit an example of BF or any other organisation.

(b) Using information in **Table 1**, calculate for BF:

(i) stock turnover in days for 2015 (**X**) (*show all your working*);

[2]

$$\frac{\text{Stock}}{\text{COGS}} \times 365 = \text{stock turnover in days}$$

$$\frac{4000}{12166} \times 365 = 120.006 \text{ days (assuming 4000 is average stock)}$$

Accept 121 days

Accept 120 days

Do not credit for the use of a correct formula as it is given.

Award [1] for some minimal understanding like at least two figures used are correctly.

Award [1] for a final correct answer without working

Award [2] for correct use of formula with clear working with no mathematical errors and the correct answer is given in days from working shown.

For [2], "days" must be present, as this is the standard unit used.

Do not accept a response that calculates the times it takes the stock to be turned over.

(ii) current ratio for 2015 (**A**) (*show all your working*);

[2]

$$\frac{\text{Cash} + \text{Debtors} + \text{Stock}}{\text{Current liabilities}} = \text{Current ratio}$$

$$\frac{2000 + 1973 + 4000}{800 + 1000} = 4.43$$

Accept 4.4

Award [1] for some minimal understanding like all the figures/total for CA or CL are correct

Award [2] for correct use of formula with no mathematical errors/the calculations are clear and correct.

[2] cannot be awarded if the candidates expresses the figures in times/ units etc.

- (iii) debtor days for 2016 (Y) (*show all your working*). [2]

$$\frac{\text{Debtors}}{\text{Total sales revenue}} \times 365 = \text{Debtor days}$$

$$\frac{6134}{26000} \times 365 = 86.11 \text{ days}$$

If a leap year figure is used, please accept 86.34 days.

Accept 87 days.

Accept 86 days.

Do not credit for the use of a correct formula as it is given.

Award [1] for some minimal understanding like at least two figures used are correct.

Award [1] for a final correct answer without working

Award [2] for correct use of formula with no mathematical errors. Units (days) are required for full marks.

- (c) Referring to information in **Table 1** and your calculations, explain the change in BF's liquidity between 2015 and 2016. [2]

Given the changes in the current ratio from 4.4 to 5.47, one can say that BF's liquidity has **increased**. Candidates may term this increase as an improvement or deterioration as BF'S ratios are high. The important issue is the increase in liquidity.

The application should refer to the possible reasons/contributors for the changes like:

An increase in stock from \$4000 to \$6164

An increase in debtors from \$1973\$ to \$6134. Possibly due to some difficulties of shifting the stock as evident in 2016 of an increased stock turnover and the level of stock despite a fall in cash from \$2000 to \$500.

Award [1] if the candidate comments that the liquidity of the company has increased.

Award [2] for a clear explanation of one possible reason for the changes with a use of actual figures.

It is expected that the candidates refer to some actual changes like debtors/stock for full marks.

*Candidates need to explain the changes- **why/ the possible contributors** to rather than just **'what'**.*

It is expected that the candidates comment on the direction of the change not just say it has changes.

Allow for OFR.

2. (a) Describe **one** disadvantage for *GD* of leasing. [2]

One of the disadvantages for *GD* of leasing rather than buying the machinery is that the machine will not be recorded as part of its fixed assets. Hence, *GD* will show lower fixed assets on its balance sheet with some financial consequences, like fewer assets being available for collateral.

By leasing, *GD* will have to pay for the machines throughout the time used but will never own the machines.

Accept any other relevant description.

Application is not expected.

Do not credit examples

Award [1] for identifying an appropriate disadvantage and [1] for an appropriate description up to a maximum of [2].

(b) Calculate the value (also known as net book value) of new machinery at 31 December 2017 using the straight line depreciation method (*show all your working*). [2]

$$\frac{\text{Purchase costs} - \text{Residual value}}{\text{Life span}} = \text{Annual depreciation}$$

All figures are in \$

$$\frac{50\,000 - 8\,000}{4} = 10\,500 \text{ per year}$$

By the end of 2017, the new machinery will have a book value of
50 000 - (10 500 × 2 years) = \$29 000

Candidates do not have to present the formula in words as long as the figures are correct.

Award [1] for a correct use of the formula and clear working.

Award [1] for a correct final figure of net book value.

Award a maximum of [1] if the final figures are correct but no working shown.

- (c) Calculate the value (also known as net book value) of new machinery at 31 December 2017 using the reducing/declining balance method, applying the industry depreciation rate of 40 % per annum (*show all your working*).

[4]

Net book value using reducing balance method:

Original costs – accumulated depreciation

All figures are in \$.

Year	Depreciation allowance	Net book value
At beginning of 2016	0	50 000
At end of 2016	$(50\,000 \times 40\%) = 20\,000$	$(50\,000 - 20\,000) = 30\,000$
At end of 2017	$(30\,000 \times 40\%) = 12\,000$	$(30\,000 - 12\,000) = 18\,000$

It is expected that the candidates produce for each year a clear working of the depreciation allowance as well as the calculation of the net book. Marks to be awarded for the two stages.

For the end of 2016:

Award [1] for a correct working method and a figure of the **depreciation allowance**, and [1] for the correct working and figure of the **net book value**.

Candidates can be awarded the marks even if the terms NBV or depreciation allowance are not explicitly written as long as the calculations are clear
If only a correct figure is presented without working award a maximum of [1].

The exact year or year 1 or year 2 for which the calculations are done should be written for full marks.

For the end of 2017:

Award [1] for a correct working method and a figure of the **depreciation allowance** and [1] for the correct working and figure of the **net book value**. **Candidates can be awarded the marks even if the terms NBV or depreciation allowance are not explicitly written as long as the calculations are clear**

If only a correct figure is presented without working award a maximum of [1].

If the net book value is correct but there is no working/r evidence of the calculation of the depreciation allowance award [1]

Producing a final correct figure of net book value for 2017 using a short cut mathematical formula with a use of graphic calculator is not sufficient for full marks as it is judged as using a one stage approach.

Award [2] If mathematically the candidates arrived at the correct net book value for end of 2017 by using a mathematical formula which is stated/ presented with no interim explicit calculations/ expression of the depreciation allowance or the net book value for 2016.

Allow OFR.

(d) Explain **one** advantage for *GD* of using the straight line depreciation method. **[2]**

- The straight line method is simpler and therefore easier for *GD* to calculate and less time consuming. As *GD* is an engineering company rather than an accounting company as well as new company, perhaps the easier method will be chosen.
- It allows for a constant expense to be accounted for in the profit and loss account. *GD*'s accountant might want to show a higher profit level to attract more investors. The use of a straight line depreciation method will result in lower expenses compared with reducing balance depreciation allowance. For example, 10,500 as opposed to 20,000 using the reducing balance methods.
- The use of a straight line method will result in the same figure \$8000 as estimated as residual value hence make the process easier/ more accurate/ more straightforward for *GD*'s accountant.

Award [1] for an advantage of the straight line method.

*Award [1] for some application to *GD* that goes beyond just mentioning the name *GD*.*

Section B

3. (a) Describe **one** possible objective of a public health organization.

[2]

A possible objective of a public health organization – an organization in the public sector owned and controlled by the government – is to provide essential (medical) services to the community either free of charge or at a low or affordable price at the point of consumption.

Accept any other relevant objective.

Candidates are expected to explicitly mention the provision of health care/services, not just refer to a public organization for [2].

Award [1] for identifying an appropriate objective and [1] for an appropriate description up to a maximum of [2].

Do not credit an example.

- (b) Explain **two** characteristics of an intrapreneur at HS.

[4]

Possible characteristics of an intrapreneur in *HS* may include the following:

The main characteristic of an intrapreneur at *HS* is to work **within** an established organization and to come up with new, creative and innovative ideas or concepts to reduce the costs of operation in order to adhere to budgetary constraints. The intrapreneurs should enable *HS* to create a USP and increase its customer base. *HS* is known for its creativity, hence indication of the success of the consultants as intrapreneurs for *HS*.

A consultant, intrapreneur, **does not risk his/her own capital** in case of failure **but takes** risk for the organization for which he or she works. Nor does he or she come up with a new business venture, but the characteristic is to demonstrate the same traits of an entrepreneur, like being an independent thinker, proactive, flexible, innovative, turning ideas/projects into a profitable medical service for an organization within which he or she works, in this case, *HS* while working for an existing organization.

Accept any other relevant/applicable role.

Please note: For full marks the candidates should demonstrate an intrapreneur is an employees / works in a business otherwise some of the characteristics like risk taking, could be equally applicable to an entrepreneur.

Mark as 2 + 2.

Award [1] for each relevant characteristic explained and [1] for appropriate application to HS to a maximum of [2].

*[2] cannot be awarded for each reason used if the response lacks either explanation **and** / **or** application.*

For example:

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

*For explanation of a characteristic with **no** application [1].*

*For explanation of a characteristic **and** application [2].*

(c) Explain **one** advantage **and one** disadvantage for *HS* of using formative appraisal.

[4]

Do not penalise candidates for not defining or describing **formative appraisal**. **However**, the explanation must show understanding of the nature of this type of appraisal as specified below or the difference between formative and summative.

The possible **advantages** for *HS* of using formative appraisal:

As an ongoing, **continuous** process of appraisal, the management of *HS* provides monthly feedback for consultants regarding their performance. **Constant and regular** feedback can be highly rewarding / motivating when good performance is commented on and some weaknesses can be improved with constructive feedback. As *HS* expects the consultant to be creative and ready to let them take a risk, one may argue that **constant** formative appraisal can be very effective in terms of identification of strengths and weaknesses of individual consultants and adjustment can **often/frequently be made before** major and costly problems occur. *HS* is therefore reducing the risk of failure as well as increasing motivation of its employees.

Accept any other relevant / applicable advantage.

Do not credit a statement on improving performance unless it is connected to the issue of formative/ on- going/ frequent / continuous feedback. Needs a reference to a time frame.

The possible **disadvantages** for *HS* of using formative appraisal:

Consultants may feel stressed, especially as they are likely to be highly skilled and possess the main characteristics of an intrapreneur.

Formative appraisal, especially as it is done monthly, might take unnecessary time/resources/money and interrupt the consultant as well as the management work. Inefficiency and demotivation may emerge as consultants may feel that there is some inconsistency between the expectation to be intrapreneurs and constant monitoring. Projects may take longer than one month to carry out; constant monitoring might reduce the efficiency and quality of the service and stifle the much-needed creativity.

Accept any other relevant / applicable disadvantage.

It is not expected that the response will be as detailed as above but should cover the main issues.

N.B. Candidates should refer to and show understanding of **formative appraisal**, not just appraisal.

Mark as 2 + 2.

Award [1] for each relevant advantage/disadvantage explained and [1] for appropriate application to *HS* to a maximum of [2].

[2] cannot be awarded for each reason used 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) Recommend which of **Option 1** and **Option 2** *HS* should implement.

[10]

Possible arguments for *HS* setting up a charity to create educational services to children with long-term health problems:

- Dan's suggestion fits the nature of the work that the consultancy actually does. A synergy can be created between *HS* and HSE.
- *HS* can successfully market their ethical behaviour and their CSR, especially given that their consultants will visit the sick children and get personally involved. Moreover, the creation of the HSE name can further enhance *HS*'s brand image. Despite short-term costs of setting up the charity and the injection of part of the profit into it, in the medium to long term, *HS*'s brand image may be enhanced. Public support, recognition, trust and the demand for its services may rise. Profit may be the reward and opposition to the high fees will be reduced. One may judge this argument as highly significant as currently there is a public outcry about the fees the consultants are paid by a public sector organization.
- HSE should be able to claim some tax exemption, but this argument cannot be judged as a significant one.

Possible arguments against *HS* setting up a charity to create educational services to children with long-term health problems:

- Some hospital managers/potential clients may look at the suggestion as a cynical attempt to raise publicity and increase profit. Setting up a charity might not outweigh the negative perception of *HS* due to the high price it charges public hospitals and the drain on the hospitals' budget that could have been spent on sick patients.
- Internal conflict may arise within *HS*. The employees might feel obliged and perhaps overworked. Their much-needed creativity/intrapreneurial spirit may be damaged as demotivation sets in.
- Some of the shareholders with the short-term view of receiving dividends may object to the use of part of *HS*'s retained profit as funds for the charity.
- Candidates might use other textbook disadvantages like inefficiencies, fraud and disincentive effects due to a lack of profit.

Accept any other relevant argument for or against.

Given the above, perhaps Lauren's suggestion **that reducing the high fees** should be the priority.

HS will still use the talent/skills of its employees/project teams to develop new untested software to significantly reduce the costs of operation; in turn *HS* could charge public sector hospitals a lower fee. Still, the lower fees might still be perceived as high or unjustified by the pressure groups protesting against the high fees charged by *HS*.

However, this solution may be judged as a sustainable one as the use of public money on software to improve the hospital efficiency and keeping the hospital budget on target might be judged as a worthwhile expenditure.

Although the development of the software is likely to incur time and costs for *HS* in the short run, the challenge might further motivate the consultants and complement or even enhance the intrapreneurial spirit that already exists.

Being able to charge the hospital lower fees can be seen as a long-term competitive advantage and will be more likely to pacify the pressure group as it directly addresses the issue the pressure groups complained about. Creating a charity,

while likely to be generally welcome, might not reduce the pressure from the pressure group if fees remain high.

However, the process might be long and very expensive and the software is untested. Is there a contingency plan if the tests do not lead to the benefits claimed?

Accept any other relevant argument for or against.

Conclusions/judgment:

It appears that venturing into the creation of a charity may take *HS* away from its core competency and there are more significant arguments against. Using its core competency and the talent of the consultants to create software will enhance creativity and motivation as well as directly address the concern of the pressure group and hospital manager and it will benefit more stakeholders.

It is expected that candidates provide a conclusion with a substantiated judgment.

Candidates can provide any conclusion and judgment as long as it is substantiated.

Accept any other substantiated judgment.

Examiners' judgment should be based not just on the number of the arguments in terms of balance but on the quality/ clarity /relevance of the argument.

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

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].

If a candidate evaluates / addresses only one option in a balanced manner award a maximum of [5].

*A balanced response is one that provides at least one argument for and one argument against **each option**.*

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) Describe **one** characteristic of a niche market.

[2]

Characteristics of a niche - a segment within a segment - market include:

- Highly differentiated well defined, **small/narrow** market with specific identifiable common needs and characteristics.
- High end, highly differentiated products/ services being sold at a high price for a small/narrow group of consumers.

Candidates must refer to the small size of the niche/ segment otherwise the answer can fit the characteristics of a segment.

Accept other relevant characteristics of a niche market. Candidates are not expected to word their responses exactly as above.

Award [1] for identification of a characteristic of a niche market.

Award [2] for a full, clear description of the characteristic.

Do not credit an example.

- (b) With reference to SV, explain **one** advantage **and one** disadvantage of using secondary market research.

[4]

Advantages of using secondary market research include:

- Efficient in terms of time – the data on wine consumption patterns, for example, has already been collected by someone else and is available. SV needs to react quickly to the increased competition and therefore it is vital that the relevant information is collected quickly.
- Effective in terms of cost – often secondary research is free and, when it is not, is typically less expensive than the process of gathering primary research. As SV is looking for other possible markets, it would be very time consuming and expensive to sample many regions. Often, sample secondary research already exists. It has allowed SV to consider new geographical markets /new segments which it may not have considered before.
- SV researchers can conduct a STEELPE analysis on different regions to evaluate social, economic and legal factors before a decision is made.
- Low cost to gather conflicting information/ opinions.
- Given the question that should be answered- the decision about suitable regions, the scope for primary research is very limited.

Disadvantages of using secondary market research include:

- Lack of precise focus on the issue or problem concerning the business. The stimulus refers to potential markets. SV may have to consider carrying out primary market research in these “potential markets” to get specific responses to specific issues like the perceptions of its premium wines.
- Lack of most up to date information– often secondary research is outdated. If SV is going to target different markets they need to be confident that this secondary research is relevant and up-to-date. What if external factors have changed since the data was collected?

- Uncertainty about the quality of the data collection/research. Some information, perhaps put by the government on the health of the population/ the prosperity of some segment etc may be inaccurate and biased.

Accept any other relevant/ applicable advantage/ disadvantage.

Mark as 2 + 2.

Award [1] for each relevant advantage/disadvantage explained and [1] for appropriate application to SV to a maximum of [2].

*[2] can- not be awarded for each reason used 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) Given the intense competition, explain **two** pricing strategies SV might consider.

[4]

SV is currently charging a relatively high/ premium price and the competition is increasing.

Pricing strategies that SV might consider include:

- **Cost-plus (mark-up)** – SV may want to return to this pricing strategy, with a lower mark up to remain competitive. This pricing strategy will guarantee that for each bottle of wine it sells the business is covering its per unit costs and making some profit.
- **Promotional** prices
- **Loss leader** – SV could try a loss-leader strategy as a short-term strategy, whereby it sells one of its wines at very low prices in an attempt to get consumers to buy SV wines. Other varieties of SV wines, however, would be priced in a fashion to compensate for the losses on the one type. This strategy, and other such as attracting customers through low prices, could weaken SV's brand identity.
- **Price discrimination** – SV might consider price discrimination. SV sets the prices based upon the market that it is entering. For example, SV might charge more for wines in New York City than in Charlotte, NC. Both cities (major banking centres in the United States) have affluent buyers. Nevertheless, prices of virtually all types of goods and services cost less in Charlotte than in New York. But rely on 'separable' markets. Third parties could buy the wine in Charlotte and sell in NY for a profit or for less than SV are selling it.
- **Penetration** – SV could use this pricing strategy only if or when it enters a new market or introduce new types of wines. It is important that the candidates demonstrate understanding of the suitability of this strategy **for new markets or different products** only. Penetration pricing would allow SV to attract first-time customers in new suggested markets with lower than the average market pricing. It is not an innovative product so perhaps this is a suitable strategy. Also, there might be a possibility that once some brand loyalty develops, SV could then raise prices.

Please note: Do not fully credit penetration strategy if the reference to new product/ or entering new markets is not made.

If predatory pricing is used award full marks only if the candidate makes the assumption of a market leadership position and financial strengths of SV 's ability to use this strategy as it is a family business after all.

Premium price/ price skimming are not relevant strategies given the competition and the fact that the wine is not an innovative product.

Accept other relevant pricing strategies if there is a clear indication of why this may be acceptable to SV, given the increased competition and the nature of the premium market.

For full marks If **psychological** pricing is used, the candidates should apply by explaining how the pricing strategy is relevant in relation to the competitors.

Psychological pricing cannot be used as a source of competitive advantage as the competitors are likely to do the same.

Candidates are not expected to provide counter arguments to their chosen pricing strategy as the command word is 'explain'.

Mark as 2 + 2.

*Award [1] for each relevant /**appropriate** pricing strategy explained and [1] for appropriate application to SV to a maximum of [2].*

*[2] cannot be awarded for each pricing strategy used if the response lacks either explanation **and** / **or** application.*

For example:

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

*For explanation of a relevant pricing strategy with **no** application [1].*

*For explanation of a relevant pricing strategy **and** application [2].*

- (d) Recommend which of **Option 1** and **Option 2** SV should consider in order to increase sales.

[10]

SV is considering two options:

Option 1: open a business-to-consumer (B2C) e-commerce “store”.

This option would involve selling wines online to consumers. They currently sell directly to customers at the vineyard.

Benefits of this approach include:

- SV can reach a wide market to guarantee more revenue and reduce the risk on relying on its current local market at a relatively short time and minimal investment.
The set-up is relatively quick and the investment in an e-commerce store is relatively inexpensive. It is important for a company like SV trying to enter new markets to keep costs of entry low so it can compete on price, given the current competition.
- Using e-commerce will enable SV to constantly adjust some of its marketing mix like pricing and promotion in line with the competitors or in more creative ways. Promotion and advertising can easily be extended via social network sites.
- From a consumer perspective, B2C e-commerce also has benefits, especially the convenience and ability to compare prices and explain the differences between wines sold to make an informed decision which is important in a premium market.
- Customers find the use of e-commerce easy and convenient. If SV ensures cheap/ free and efficient delivery, SV has a good chance of increasing its geographical or otherwise customer base. It is also utilising more of the ‘process’ aspect of the extended marketing mix.
- It will be easier for SV to withdraw this option compared with signing contracts with different wholesalers.

B2C e-commerce also has **disadvantages**, which include:

- Initially, customers who would have bought directly from the vineyard could go online instead. Overall sales may increase marginally.
- SV would have to address consumer concerns that its site is secure
- SV would have to incur costs making sure that the site is secure.
- Competitors can easily track what SV is doing to promote and sell its products.
- Selling small orders to individual throughout the US could increase the administration costs.
- SV has to come up with a suitable and efficient physical distribution strategy How will the wine reach potential customers from all over the world or even just the US?
- New supply chains to reach new customers may have to be created adding to short-term costs. Wholesalers will have to be used to deliver the wine.
- Alcohol is a heavily regulated product, especially in the United States, and it could be complicated and cumbersome for SV making sure that it complies with federal and state laws (laws regarding alcohol vary from state to state) and it might be even more legally complicated if selling abroad.
- By selling online SV will lose its process and physical evidence of the marketing mix created by the interaction between the buyers and SV. A mix that was possibly one of its USPs given the information in the stimulus re: events, luxurious experience and so on.
- SV would also have to make sure that selling wines online did not conflict with the premium brand identity that SV otherwise tries to maintain.

Option 2: sell *SV* wines to wholesalers serving the whole of the US market for premium wines.

Advantages of this approach include:

- The wholesaler is likely to have a well-established network of other intermediaries and retail outlets. *SV* is likely to be able to penetrate many markets compared to the unknown chance of success using e-commerce.
- The wholesaler stores the product, thereby reducing storage costs of wine for *SV*.
- The wholesaler purchases in bulk and then breaks the bulk purchases into smaller batches for the retailers. This process means that *SV* does not have to concern itself with small orders from individuals or retailers as is likely to be the case when selling online. This may be important in a premium market.
- *SV* wants to sell to long distance markets – the entire United States – this approach pushes much of the complicated processes of distribution onto wholesalers.

However, working with wholesalers has disadvantages:

- Wholesalers sell the products of many companies, and their loyalties and highest priorities may be with other established brands.
- Working with wholesalers adds another intermediary and mark-up, which can lead to higher prices to consumers (who may respond by purchasing other products) or to thinner margins for *SV*. However, research revealed that there are other markets for high quality wine.
- Working through wholesalers and distributing across the United States, *SV* may not be able to afford national promotion. If it cannot, it will have to rely on the wholesalers and retailers for much of its promotion. *SV* cannot be confident that the wholesales will position *SV*'s new wines positively. Delays can seriously affect the quality and hence the reputation of *SV* which can undermine its current positioning/ brand image. Perhaps not a risk worth taking. Withdrawing some contracts can incur heavy legal costs to *SV*. Costs that are possibly unaffordable in a very competitive environment.
- Lacks important customer feedback that existing distribution allows.

Accept any other relevant argument for and against each option.

Overall, option 2 is possibly the longer- term option, which involves considerable costs, it is potentially the greater risk, but the profits could be considerable compared to option 1. Perhaps *SV* should start with the option of e-commerce and if successful use wholesalers to distribute the wine.

It is expected that candidates provide a conclusion with a substantiated judgment regarding the best option.

Candidates can provide any conclusion and judgment if it is substantiated.

Accept any other substantiated judgment.

Examiners' judgment should be based not just on the number of the arguments in terms of balance but on the quality/ clarity /relevance of the argument.

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

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].

*If a candidate evaluates / addresses only one option in a balanced manner award a maximum of **[5]**.*

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

*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) Outline **two** features of an autocratic leadership style. [2]

- Decision making in an organization is restricted to a very small group of select individuals.
- No consultation and discussion between management and employees. Employees are told about the decisions which are taken by an autocratic leadership.
- Communication tends to be downward and one-way only.

Award [1] for each correct feature identified.

(b) Apply Daniel Pink's motivation theory to the programmers at *Gen Y*. [6]

Daniel Pink's motivation theory identifies that there are three key drivers, or factors, that influence motivation for cognitive or thinking tasks leading to improved performance for a business. The three key drivers are:

- mastery
- autonomy
- purpose.

From the stimulus we can argue that, before Petra's potential involvement, *Gen Y* allows for:

- **Autonomy** – *Gen Y* allows for employees to work on individual dream projects. They are also empowered to make their own decisions. The autonomy is evident in terms of time especially extra time given to work on dream projects, tasks, techniques to be used as well as trust, empowerment and delegation by the management.
- **Mastery** – there is evidence from the stimulus that *Gen Y* has used cognitive training. This would presumably build or enhance capacity to develop and refine the programmers' skills. The programmers and the coders are encouraged to be intrapreneurs and to take risks. as stated above, *GenY* supports employees to eliminate fear and anxiety about failure and boosting motivation according to Pink and allowing them to be more creative. The 'dream' project time also adds to this.
- **Purpose** –the meaning of purpose in the stimulus is connecting to something larger than oneself that drives the highest motivation. The programmers and the coders develop the required sense of purpose that enhances motivation. Their ability to create high-quality reports providing innovative market research for other people. Work for its clients possibly creates purpose maximisation rather than just profit maximization. The employees can clearly see their contribution to the **wider community**, more than just themselves. This would act as a motivator for *Gen Y* programmers as they are carrying out ground-breaking work.

Mark as 2 + 2 + 2.

Award [1] for each relevant factor/driver explained and [1] for appropriate application to the organization to a maximum of [2].

*[2] cannot be awarded for each factor/driver used if the response lacks either explanation **and** / **or** application.*

For example:

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

*For explanation of a factor/driver with **no** application [1].*

*For explanation of a factor/ drive **and** application [2].*

Just mentioning the name of the business does not constitute application.

- (c) Explain **one** reason, **other than** increased sales revenue, why it is important that Gen Y generates new revenue streams. [2]

The question is about new revenue stream. Gen Y's core business is the creation of innovative market research data reports. The business also allows employees to work on “dream projects” during the working week and provides cognitive training, which are all very expensive

To remain innovative and sustainable Gen Y will need to secure new finance through new revenue streams as the current single revenue stream is **not profitable**. GenY should also find other sources of revenue generators, **diversify** into other markets or products to reduce the **risk** of relying on just one service/ product.

Accept any of the above as one valid reason.

Mark as 2

Award [1] for each relevant reason explained and [1] for appropriate application to Gen Y to a maximum of [2].

*[2] cannot be awarded for each reason used if the response lacks either explanation **and** / **or** application.*

*For example: For an identification or a description of a reason **with or without** application [1].*

*For explanation of a reason with **no** application [1].*

*For explanation of a reason **and** application [2].*

- (d) Discuss whether Zack should sell Petra half of his shares with her conditions. [10]

By selling his shares to Petra, Zack faces concerns not only of ownership but also that the culture of *Gen Y* – which by assumption has led to the success and motivation of employees – will have to be systematically changed. It is uncertain at this stage whether this change in culture will bring forward any improvements.

In common with many other start-ups, profit for *Gen Y* remains elusive despite the considerable sums invested. Zack has tried to finance dream projects to turn inventions into innovation but without success. The harsh reality is that without funding coming into the business, the long-term sustainability of *Gen Y* is in doubt. If he does not take some action now and invite Petra into the business, then all jobs and intellectual property at *Gen Y* are under threat. Some programmers may leave the company if they sense that for some reason the opportunity to work on dream projects is cut back. Taking on Petra as a partner will weaken Zack's control. Both will have equal power in decision making. However, it will ensure in the short term that *Gen Y* remains viable. *Gen Y* is in urgent need of finance so perhaps Zack does not have much of a choice.

The importance of the venture capitalists' view is also valid as with the sale they would now have the swing votes on important decisions. Does their exit strategy look better with Petra or Zack?

However, to receive this funding, Petra has added conditions that Zack must accept. These conditions will not be popular in an organization that has strong links to Daniel Pink's motivational theory. A leadership style change to autocratic will impact on the autonomy currently enjoyed by the employees. The purpose may also be affected, as Petra will wish to have a strong influence in the type of vision or direction she wishes to see *Gen Y* move to. The ending of innovative and revolutionary dream projects may be the first casualty. Motivation could be destroyed. Given the culture and the level of motivation one may judge this issue as extremely significant. The stimulus states 'To retain the best programmers.....'. Those departing may turn into competitors.

Further, the insistence on specific targets for programmers may impose deadlines/restrictions, which may be too much for the employees to take as they have been empowered to make their own decisions. A change of culture which will impact on creativity, innovation and motivation may have dire consequences in the medium to long term. Autocratic leadership styles and setting targets are opposing factors according to Pink compared to being motivated. *Gen Y* relies on its employees' creativity, innovation and motivation for success.

Accept any other argument for and against.

Overall, the short-term situation is difficult for Zack. He has to balance the financial issues present in the case study with the idealism and motivation of his workforce. Petra's conditions, whilst restrictive, may save *Gen Y*. Zack may be forced to sell this idea of Petra receiving half his shares to employees. Some employees may quit and be hired by competitors but perhaps they may not have been committed to *Gen Y* and Zack's purpose. Either way, Zack will find it difficult to turn down Petra's offer.

Candidates might offer different solutions like not accepting Petra's offer and look for venture capitalists with different views on what motivates employees. Or simply ask

the existing VC's to increase their stake in return for a more gradual focus on strategies emphasising the bottom-line

It is expected that candidates provide a conclusion with a substantiated judgment.

Candidates can provide any conclusion and judgment as long as it is substantiated.

Accept any substantiated judgment.

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

Examiners' judgment should be based not just on the number of the arguments in terms of balance but on the quality/ clarity /relevance of the argument.

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].

A balanced response is one that provides at least one argument for and one argument against ~~each~~ the option.

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

Please mark the candidate response using the assessment criteria on pages 4 to 5.

Additional examiner guidance may be added during standardization.

6. With reference to an organization of your choice, examine the impact of **globalization** on **innovation**.
7. With reference to an organization of your choice, examine the impact of **ethics** on organizational **strategy**.
8. With reference to an organization of your choice, discuss the ways in which **culture** can promote or inhibit **change**.

Candidates can use any change in the organization provided the nature of the change is well explained and applied.

It is important that the candidate explain what existed before the change rather than just assert that change has occurred.

In Q7 and Q8, the exact content is not specified. It is expected that the candidates select their content like their chosen strategy or the exact change and fully and clearly explain and apply the relevant theoretical terms/ content throughout.

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 asks for the impact 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.

It is expected that under the **introduction**, the candidates introduce the chosen organisation, explain nature of the relevant concepts to be use when discussing the impact.

Criterion A

It is expected that the candidate use the relevant concepts throughout the response to demonstrate the understanding of the concept. It is not sufficient just to define/ describe the concept in the introduction.

Criterion B

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

Criterion C

1+1 arguments are expected per concepts.

- 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.

The arguments and the counter arguments **must be relevant/ appropriate for the question.** Do not accept any counter argument which does not address the question.

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".
 - Candidates should support their assertions on the impact **on** or the impact **of** their chosen stakeholders. The support does not have to come in real figures but with some evidence of impact for example, 'the market share increased' 'staff turnover decreased', 'fewer defects were evident'.
-