

# Markscheme

November 2021

Business management

Higher level

Paper 2

20 pages

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The markbands and assessment criteria on page 3 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>

### Section A

1. (a) Describe **one** disadvantage of using the reducing/declining balance method of depreciation. [2]

The main disadvantage of the reducing balance method is the choice of an accurate/realistic percentage with which to depreciate the assets.

Secondly, the value of the asset with reducing balance is never fully written off by the business.

*Award [1] for stating an appropriate disadvantage and [1] for an appropriate description (application **not** required), up to a maximum of [2].*

- (b) (i) Using the reducing/declining balance method of depreciation, calculate *PB Ltd's* annual depreciation of fixed assets for 2019 and 2020. Use 5 % as the depreciation rate (*show all your working*). [3]

**Depreciation allowance in \$**

	Depreciation allowance per year	Book value/ net fixed assets
<b>0</b>		20 000
<b>2019</b>	$\frac{20000 \times 5}{100} = 1000$	19 000
<b>2020</b>	$\frac{19000 \times 5}{100} = 950$	18 050

*[3] Marks for correct figures of the depreciation allowance/yearly depreciation for each year– max 2marks. Working is shown or clear. It is not necessary to show net fixed assets.*

*Subtract [1] for any omission or for a mistake in the method or the actual calculation or if the working (for one or both years) is not presented.*

- (ii) Using the selected financial information in **Table 1** and your answer from (b)(i), prepare a balance sheet for *PB Ltd* for 31 December 2020.

[5]

B/S for *PB Ltd* for the end of 2020. (All figures are in \$)

Fixed assets	20 000	
Accumulated Depreciation	1950 (for \$1000 for 2019 + \$950 for 2020)	
<b>Net fixed assets</b>		<b>18 050</b>
<b>Current assets:</b>		
Stock and debtors:	2000	
Cash	1500	
<b>Total CA:</b>		<b>3500</b>
<b>Current liabilities:</b>		
Short term loans	650	
<b>Total current liabilities</b>		<b>650</b>
<b>Net current assets/ Working capital:</b>		<b>2850</b>
<b>Total assets less current liabilities</b>		<b>20 900</b>
<b>Long term liabilities:</b>		
Long term loans		<b>2000</b>
<b>Total Long term liabilities</b>		<b>2000</b>
<b>Net assets:</b>		<b>18 900</b>
<b>Financed by:</b>		
Share capital	6000	
Accumulated retained profit	12 900	
<b>Equity:</b>		<b>18 900</b>

*Accurate presentation refers to the correct heading, sub-heading and to the inclusion of all and only the relevant figures.*

**Allow OFR.**

*The presentation of the B/S can be done in one column.*

*Award [0] if the B/S does not reach a standard described below.*

*Award [1] if the B/S is not accurately constructed, and/or the calculations within and between the various components are not presented or largely incorrect. However, there is **limited evidence** of a general understanding of the format. More than four mistakes/ omissions are evident.*

**Deduct 1 mark for each irrelevant addition of figures/irrelevant heading/ omission which can includes the overall heading.**

*Award [5] if the B/S is accurately constructed in the expected IBO format. All the relevant headings of each component/ parts are used and correctly classified.*

*Do not penalise for internal order of classification. All and only the relevant figures are presented. No extra irrelevant figures that belong to the P/L are included. The calculations under each part/ component of the B/S are correct and well presented.*

*To get full marks the candidate has to present the format in full as presented in the IB programme. For example, the presentation, calculation of working capital, the subtraction of LTL to arrive at Net Assets.*

*For full marks candidates must use the depreciation to arrive at net fixed asset. Ignoring the net fixed assets/depreciation should be rated as 1 mistake as the account will not balance for another deduction.*

*N.B. If the candidate does not follow the IBO format award up to [2] marks.*

**Deduct 1 mark for each irrelevant addition of figures/irrelevant heading/ omission.**

*N.B The values in table 1 assume that Phoebe has included the depreciation in the P/L which leads to the calculation of given retained profit. If a student does not make this assumption but tries to recalculate retained profit do NOT penalize but apply OFR to the extent possible. The BS will not balance (minus 1 mark) Mark all other calculations and headings as normal.*

*If candidates start the B/S with Fixed assets of 19000 (because they have already deducted the depreciation for 2019) and then proceed to deduct just 2020 depreciation then allow this.*

*Accept Capital Employed as an alternative definition of Total Assets minus Current Liabilities heading.*

2. (a) State **two** methods of primary market research. [2]

Methods of primary market research include:

- Focus groups
- Observations
- Interviews
- Surveys/questionnaires

*Accept any other correct form of market research. Award [1] for each method identified up to a maximum of [2].*

- (b) Using the selected financial data in **Table 2**, calculate for *SP* for 2020:

- (i) the break-even level of output (*show all your working*); [2]

\$9.00 minus \$4.00 = \$5.00 = contribution

$$\frac{\$60\,000 \text{ [fixed costs]}}{\$5.00} = 12\,000 \text{ units}$$

12 000 units is the break-even level of output. Do NOT penalize if missing word, units.

*Award [1] for correct method and [1] for correct answer, for a maximum award of [2].*

*If a candidate uses a correct alternate method, accept. If a candidate only lists the answer but shows no workings, award [1].*

*If candidate calculates contribution but gives wrong break-even level of output award [1].*

- (ii) the margin of safety - MoS (*show all your working – however labelling of figures is not required*); [2]

15000 [total sales in units] – 12000 [break-even level of output] = 3 000 units or pairs of socks.

3000 units or pairs of socks is the margin of safety.

*Award [1] for correct method and [1] for correct answer, for a maximum award of [2]. Apply OFR if candidate uses incorrect answer from b(i).*

*N.B. deduct one mark in b(i) and b(ii) for use of inappropriate units e.g \$*

- (iii) net profit for 2020 (*show all your working*). [2]

Actual profit (year 2020)

\$9.00 × 15 000 = \$135 000 in sales revenue

\$50 000 + \$10 000 = \$60 000 in fixed costs (FC)

\$4.00 × 15 000 = \$60 000 in variable costs (VC)

Net profit = \$135 000 – \$60 000 – \$60 000 = \$15 000

Alternative methods

Net profit = total contribution minus FC (15 000 × \$5) – \$60 000 = \$15 000.

or

Net profit = MoS X contribution per unit = (18000 - 15000) X (\$9 -\$4) =

3000 X \$5 = \$15000

*Award [1] for correct method and [1] for correct answer, for a maximum award of [2].*

***N.B.** A break-even chart is not required to be drawn and will gain no marks if presented without the above calculations.*

- (c) Explain how the impact of the increase in rent **and** the forecast increase in sales in 2021 could affect SP's profitability. **[2]**

*SP's profitability will probably increase. The increase in rent will add \$14 000 to fixed costs. However, if the forecast sales are accurate and prices and costs do not change, then Pam can expect an additional 3000 x \$5 in sales revenue (\$15 000).*

*N.B. the actual increase in profit is not required.*

*Award [1] if the candidates has shown some understanding that profitability is likely to increase Award an additional mark if in their explanation, they demonstrate some application by using figures from the case study.*

***N.B.** Award [1] if the candidate explains increasing profitability without referring to both rent and sales forecast increases.*

*N.B. If candidates interpret "profitability" to mean ratios then do not penalize. The explanation would be that profitability decreases from 11.1% to 9.88%. For full marks some reference to the figures is necessary.*



## Section B

3. (a) Define the term *public sector*. [2]

A public sector is a sector where organisations are owned and controlled by the government on behalf of its citizens to provide essential and affordable goods or services for its citizens that otherwise might not have been produced/provided. The government controls many aspects of the product or service such as the price.

*Award [1] for a basic definition that conveys partial knowledge and understanding similar to the above answer. The first mark would typically come from awareness that there is government ownership.*

*N.B. Do not accept references to run, managed, operated, controlled unless accompanied by some reference to ownership.*

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

*Do not credit an example.*

- (b) Explain **one** benefit **and one** limitation for *GP* resulting from the implementation of the shamrock organization structure for *HN*. [4]

Candidates can explain the Shamrock structure and may refer to the three types of functions within the structure.

**Benefits:**

If GP management restructure HN using the shamrock organization structure, the new structure will accommodate some of their specified plans/enable GP management to achieve its objectives increasing efficiency, flexibility and productivity.

The scientists are the core employees with full benefits, job security, training and a clear career path. The manufacturing department is to be outsourced.

Periphery employees- extra employees to be employed when needed and possibly also include support staff are the flexible internal part of the organisation.

The scientists will become the core employees within the R&D department as the core function. The management values the R&D department and regard it as core activity as they have many manufacturing facilities around the world. Keeping the scientists as core employees, providing them with appraisal and training to improve performance *etc*, will enable GP to cut costs by reducing the number of employees, improving productivity (which will also cut costs)

At the same time, GP is planning to outsource the production parts. This will clearly reduce costs significantly.

One assumes that some peripheral workers will still be employed to support the scientists. Those employees, possibly including highly qualified scientists might come to support the core workers when needed. Costs can be reduced due to the temporary nature of the contract and payments will be made when needed.

*Accept any other relevant benefit explained.*

**Limitations:**

The impact on the core employees/ scientists may be negative. Getting support staff on a short- term basis and when needed can put extra pressure on the core employees especially if they are expected to innovate and the core employees are subject to appraisal for rewards.

Peripheral/non-core employees, some of whom may be highly qualified could suffer from a lack of job security. The impact on their motivation/ the quality of support to the scientists in the R&D department could be negatively affected.

Possible cultural clashes between HN employees and employees from the outsourced manufacturer. There could be miscommunication issues, quality issues affecting the production of medicines resulting in a negative impact on HN and GP's image too.

*N.B. do not credit answers which merely describe "Shamrock" without mention of benefits and limitations.*

*Accept any other relevant limitation explained.*

*Accept any other relevant benefit / limitation.*

*Award [1] for each benefit / limitation identified and an additional [1] for development with application to GM. Award a maximum of [2] per benefit / limitation.*

*[2] cannot be awarded per role if the response lacks either explanation **and** / or application.*

*For example:*

*For an identification or an explanation of and benefit / limitation **with or without** application [1].*

*For explanation of relevant benefit / limitation with **no** application [1].*

*For explanation of a relevant benefit / limitation **and** application [2].*

- (c) Explain **one** advantage **and one** disadvantage for GP resulting from the introduction of cognitive training for HN's scientists. **[4]**

Cognitive training for the scientists will enable the development of mental skills/to develop, enhance the brain ability to learn and think for the scientists to improve on their current performance. Senior management made all of the decisions and set targets, scientists never developed decision-making skills, which slowed down the development of new medicines. GP management clearly want to enable the scientists in the R&D department to improve on current deficiencies and become more competitive by speeding up the development of new medicine and feel confident to make their own decisions.

However, developing cognitive skills can be very expensive when undertaken by an external provider. GP wants to cut costs. The cognitive training will take time to deliver the benefits and cost savings which GP is hoping to experience.

*Accept any other relevant advantage / disadvantage.*

*Award [1] for each advantage / disadvantage identified and an additional [1] for development with application to GP. Award a maximum of [2] per advantage/disadvantage. [2] cannot 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 relevant advantage/ disadvantage with **no** application [1].*

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

- (d) Discuss **two** human resource strategies that GP could use to reduce the scientists' resistance to the changes.

[10]

In terms of application and evaluation, while the reasons for fear and resistance to change are clear given the stimuli, it is expected that candidates show awareness/ understanding that the current employees of HN especially the scientists have been unproductive. They were protected by the government for a while and were largely inefficient. Now a profit maximising organisation is in control and there will be inevitable changes and tension. So while the resistance can somewhat be understood, evaluation should be centered around the points above- power and necessity of change. The fact that a government owned organisation is to be sold to a profit maximising organisation is the key issue for candidates to incorporate in their evaluation.

The question refers to the scientists. Hence a full discussion of the management of the employees in the manufacturing department is not relevant.

Candidates should show awareness that GP wants to keep the scientists and has got no interest in making the scientists redundant. They are to become core employees. Hence GP's bargaining power is strong but not without limit so some discussion and compromise might have to be reached.

**Possible HR strategies:**

- Education and communication
- Participation and involvement
- Facilitation and support
- Negotiation and agreement
- Manipulation and co-option
- Explicit and implicit coercion
- Application of motivation techniques
- Change of organization structure and leadership styles

The candidates do not have to use the exact terminology above and can evaluate any general HR strategies.

One may argue that GP's management can implement the proposed changes radically and quickly given their profit maximising objective and the losses/long term contract etc. The scientists and the remaining employees will have to accept the changes but can still express fear. GP has the bargaining power to use more extreme methods such as threats to facilitate its changes.

Negotiation and agreement - GP's management is to discuss the proposed change- communicate clearly, explain the reason, invite discussion and possibly

some negotiation, ask for feedback, emphasize the positive outcome in the longer term but not hide the negative immediate outcome of massive redundancies. To reduce fear and resistance, the scientists should be made aware that they are unlikely to lose their jobs. Perhaps GP should be willing to amend some of the changes but again, GP has the bargaining power. Training is already offered for the core employees to enhance performance and to reduce fear of the unknown and any lack of competencies.

GP's management may appoint a change champion among the scientists. This strategy could possibly be seen as manipulation.

*N.B. do not reward generic suggestions (max 3 marks) that do not link to the stimulus material.*

*Marks to be awarded by use of the generic mark bands and the following is to be noted.*

*Candidates are expected to provide a conclusion with a substantiated judgment.*

*Grade according to the markbands found on page 3.*

*For one relevant modification to the human resource strategy that is one-sided, award a maximum of [3].*

*For two relevant modifications, but the discussion of both is one-sided, award a maximum of [4].*

*For two relevant modifications, one treated in a balanced way and another in an unbalanced way, award a maximum of [5].*

*For two relevant modifications, both treated in balanced ways, but no real conclusion, award a maximum of [6]. Conclusions must be more than nominal (for example, when a candidate opens a final paragraph with "In conclusion . . ." but then has no real conclusion, award a maximum of [6].*

<b>Maximum mark award</b>	<b>Option 1</b>	<b>Option 2</b>	<b>Judgement/Conclusion</b>
3	One option unbalanced		N/A
4	One option balanced (one argument for and one argument against) or both options in an unbalanced fashion		N/A
5	One balanced and one unbalanced		N/A
6	Both balanced		No judgments/conclusions
7–8	Balanced Largely effective use of business language and the stimulus		Judgments/conclusions based upon analysis and explanation in the body
9–10	Balanced Rich use of business language, business theory, and the stimulus		Judgments/conclusions based upon analysis and explanation in the body

4. (a) Define the term cost-plus (mark-up) pricing strategy. [2]

Cost plus pricing is a pricing method where the total cost of producing is calculated which includes variable costs (direct costs) and a fixed cost component (or part of the overhead). Then a profit margin per unit is added to obtain the selling price.

*Award 1 mark for a partial definition where the candidate has mentioned costs and a small profit margin being added to achieve the selling price*

*Award 2 marks for a full clearer definition which includes reference to both variable and fixed costs being calculated with a profit margin being added to achieve the selling price.*

- (b) Explain **two** benefits for *SF* of using social media marketing. [4]

Social media marketing allows accurate targeting through social media. Below the line could allow targeting to families who have a strong interest in purchasing Diabetic meals through Facebook or Reddit groups

Cheap and quick to set up and very wide reach. Evidence that *SF* has grown fast indicating that below the line promotion has exceeded expectations

The speed of response of social media may be instant. Charles' quick response on social media managed to reduce the impact of the negative publicity after the quality issue.

Below the line promotion allows *SF* to create customer loyalty programmes which can be managed online and have continued direct links to current and potential customers looking for diabetic meals.

*Award [1] for a benefit of social media marketing with an additional [1] for application to SF.*

**Mark as [2+2]**

- (c) Explain **one** benefit **and one** cost to *SF* of using a flow production method. [4]

The benefits of a flow production method to *SF* could include:

- It is likely to lead to *SF* meeting the growing demand for its meals quickly and in the process reducing the unit costs of production.
- This may allow *SF* to reduce the price of its meals as they use cost plus pricing.
- The benefits of flow production imply that *SF* will be true to its mission statement.
- Enables *SF* to control quality more effectively and avoid the mis-labelling issues.

The costs allude to an increase in complexity of the business and the stimulus indicates that some problems are emerging. Hence some costs could include:

- Charles' management style will also come under increased pressure as he does not have experience of transitioning to and using this new technology.
- Communication and coordination issues may arise leading to higher unit costs effectively a diseconomy of scale.

- Investment in flow production involves high capital costs resulting in possible borrowing and higher gearing.
- Pausing production e.g. for changing recipes, can be expensive.
- If flow production creates too many additional meals even with growing demand, *SF* could be left with meals it cannot sell.

**Award [1] for a benefit of flow production with an additional [1] for application to *SF*.**

**Mark as [2+2]**

- (d) Discuss whether Charles should accept *GF*'s offer of a takeover.

**[10]**

*SF* is clearly a successful business although struggling to maintain control. The offer of a takeover comes at a critical time.

There are a number of arguments against the takeover:

- The move to flow production has reduced costs and prices and this factor may lead to even higher sales and by assumption profits.
- Although Charles has limited experience of using flow production the future growth of *SF* could be considerable.
- The company will thrive, and they possibly do not wish to accept the offer. By not accepting the offer Charles will eliminate the possibility of a rival company as the remaining shareholders will not create one.
- This will cause great resentment among the shareholders and given that *SF* has already survived one episode of poor publicity through the quality control issue, Charles can ill afford any more. There is evidence from the stimulus that this negative publicity could grow considerably.
- The creation of a direct competitor run by the remaining shareholders under albeit a new brand could confuse their loyal customers.

However, there are a number of arguments for takeover:

- The distribution channels offered by the supermarket will boost *SF*'s profile further and allow them to work with a business with greater levels of experience in the same area.
- The takeover will also allow *SF* to develop its mission and expand the range of meals offered given that there is finance for research and development into new nutritional meals.
- Finally, after the success of diabetic meals how long will it be before other large supermarket chains come up with their own branded diabetic meals. *SF* could be outmaneuvered and undercut by future competition. *SF*'s market value would appear to be high but will this be the case in 2–3 years?

The decision is difficult. The other shareholders do not want this move and can ill afford the additional negative publicity. A conflict carried out on social media could become damaging to the brand which relies on positive social media word of mouth. The offer is tempting but *SF* is in fair financial shape despite the higher gearing ratio. Charles has limited experience and perhaps needs more time. It might be sensible for Charles to wait and discuss further with the other shareholders since a majority agreement is required to sell.

**Marks to be awarded using the generic mark bands and the following is to be noted**

*Candidates are expected to provide a conclusion with a substantiated judgment.*

*For one relevant argument for acceptance of the takeover that is one-sided, award a maximum of [3].*

*For two relevant arguments, but the discussion of both is one-sided, award a maximum of [4].*

*For two relevant arguments, one treated in a balanced way and another in an unbalanced way, award a maximum of [5].*

*For two relevant arguments, both treated in balanced ways, but no real conclusion, award a maximum of [6]. Conclusions must be more than nominal (for example, when a candidate opens a final paragraph with "In conclusion . . ." but then has no real conclusion, award a maximum of [6].*

<b>Maximum mark award</b>	<b>Option 1 Accept GF Offer</b>	<b>Option 2 Decline GF Offer</b>	<b>Judgement/Conclusion</b>
3	One option one argument		N/A
4	Two arguments for Option 1 none for Option 2 Two arguments for Option 2 none for Option 1 One Argument for each of Options 1 and 2		N/A
5	Two Arguments for either Option 1 or 2 and one argument for either 2 or 1		N/A
6	Two arguments for both options		No judgments/conclusions
7-8	Balanced Largely effective use of business language and the stimulus		Judgments/conclusions based upon analysis and explanation in the body
9-10	Balanced Rich use of business language, business theory, and the stimulus		Judgments/conclusions based upon analysis and explanation in the body



5. (a) State **two** marketing objectives that a company might have. [2]

Marketing objectives include:

- attract new customers
- enter new market
- improve brand loyalty
- increase awareness
- increase market share
- increase profit
- increase revenue
- increase sales
- retain existing customers
- survival

*Accept any other valid marketing objective.*

*Award [1] for each objective identified up to a maximum award of [2].*

- (b) With reference to OS, explain **one** advantage **and** **one** disadvantage of operating as a private limited company. [4]

Advantages of operating as a private limited company include:

- Compared to sole traders and partnerships, private limited companies typically can raise more capital.
- Control of the company cannot be lost to outsiders.
- Members of the board of directors, many/most of whom are major shareholders in the company, can make decisions with fewer concerns about shareholder and/or market reaction.
- Owners have limited liability.
- Private limited companies do not have to disclose fully their financial information.
- The business continues if one of the owners dies.

For OS, one advantage to operating as a private limited company is that OS could make changes in dividend policy without affecting perceptions of the company in the marketplace. When OS realized that it needed to preserve cash, it suspended dividend payments for one year and said it possibly would for a second year. When a publicly traded company lowers or eliminates dividend payments to preserve cash, the share price typically falls, sometimes significantly, which can make capital sufficiency issues even worse.

Disadvantages of operating as a privately limited company include:

- If a shareholder wants to sell their shares, finding a suitable buyer may take time. Also, other shareholders must agree to the sale and some are opposed.
- Private limited companies cannot sell shares to the public, thus limiting the amount of capital than be raised. OS may need to raise capital to invest in new marketing strategies.
- Often (though not always) private limited companies are relatively small organizations which possesses lesser expertise than large, publicly traded companies Nevertheless OS is currently facing a difficult moment, as its industry is changing, a situation that has led to a decline in sales and a contraction of margins. As a private limited

company, OS may not have the expertise to face this situation even though OS has been operating for 40 years so presumably has a lot of experience of the industry. Currently, the company has no real marketing strategy and may not have the marketing expertise to make appropriate adjustments most specifically in areas like e-commerce or possible diversification.

Additionally, many potential adjustments OS may make will require capital, which, as a private limited company, OS has less access to than if it were public.

**Mark as [2 + 2].**

*Award [1] for identification of an advantage and an additional [1] for an explanation thereof with application to the stimulus.*

*Award [1] for identification of a disadvantage and an additional [1] for an explanation thereof with application to the stimulus.*

**Maximum award: [4].**

- (c) With reference to OS, explain the difference between capital expenditure and revenue expenditure. **[4]**

Capital expenditure refers to any expenditure for assets with a life of more than one year. The stimulus refers to three instances of capital expenditure in the company's history: each time OS purchased a building location.

Revenue expenditure refers to those expenses that will be accounted for fully in the year in which the expense occurs. In the case of OS, revenue expenditures mentioned in the case are expenditures for inventory.

**Mark as [2 + 2].**

*Award [1] for an explanation of capital expenditure and an additional [1] for an explanation with application to the stimulus.*

*Award [1] for an explanation of revenue expenditure and an additional [1] for an explanation with application to the stimulus.*

- (d) Discuss possible changes to any **two** elements of OS's marketing mix. **[10]**

Ways that OS could modify its marketing mix to match and compete with the new competitors.

- Product: Changing its product range (either contracting or expanding its product range).
- Price: Adopting a different pricing strategy.
- Place: Modifying its distribution strategy to include e-commerce.
- Promotion: Initiate a more aggressive promotion strategy.

For each of the four Ps, OS could make modifications. Modifying each has advantages and disadvantages. For example, contracting its product range could give the organization more focus and require lesser investment in stock. On the other hand, assuming that OS processes its products properly, each inventory item makes some contribution to fixed costs. Further, any termination of a product line means that customers for that product, however few, will have to go to a competitor for that product.

OS could modify its prices, particularly try being more aggressive with its pricing. Whereas that may attract more customers (advantage), margins will be thinner.

An ecommerce shift with a door-to-door aspect will change OS' supply chain considerably. Time and resources will need to be devoted to this task

There is a sense that OS is a traditional business and new aggressive forms of pricing and promotion will be required. Will they know how to do the latter? Do they need to introduce a social media campaign backed up with a membership or loyalty programme?

Given that OS is a retailer, candidates may choose to use the extended marketing mix:

**People** -whilst little is known of the employees many of the owners are likely to be of the older generation. Having retail staff conversant with trends in the market such as social media and new workplace technology such as automated stock control systems would be an important aspect of a new marketing strategy.

**Process** – it is known that new competitors are already using e-commerce techniques, potentially giving them a cost and hence competitive advantage. However, investment in such platforms and training staff accordingly may be expensive in the short term.

### **Physical Evidence**

Some stores are potentially 40 years old and hence may be showing their age. Investing in upgrading stores in the way they look and feel to customers could pay dividends e.g. IKEA. However, this could also be expensive and may not be wise if it is perceived that the market is moving away from the physical store concept.

Candidates are expected to provide a conclusion with a substantiated judgment.

*Grade according to the mark bands found on page 3.*

*For one relevant modification to the marketing mix that is one-sided, award a maximum of [3].*

*For two relevant modifications, but the discussion of both is one-sided, award a maximum of [4].*

*For two relevant modifications, one treated in a balanced way and another in an unbalanced way, award a maximum of [5].*

*For two relevant modifications, both treated in balanced ways, but no real conclusion, award a maximum of [6]. Conclusions must be more than nominal (for example, when a candidate opens a final paragraph with “In conclusion . . . “ but then has no real conclusion), award a maximum of [6].*

<b>Maximum mark award</b>	<b>Option 1</b>	<b>Option 2</b>	<b>Judgement/Conclusion</b>
3	One option unbalanced		N/A
4	One option balanced (one argument for and one argument against) or both options in an unbalanced fashion		N/A
5	One balanced and one unbalanced		N/A
6	Both balanced		No judgments/conclusions
7–8	Balanced Largely effective use of business language and the stimulus		Judgments/conclusions based upon analysis and explanation in the body
9–10	Balanced Rich use of business language, business theory, and the stimulus		Judgments/conclusions based upon analysis and explanation in the body