

2003 Business Management

Higher

Finalised Marking Instructions

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Guidance to Markers

1 Marking Scripts

As a general rule, a candidate will be awarded **one mark** for each appropriate and relevant point made in answer to the question. No half marks will be awarded.

Markers are requested to **underline** the appropriate part of a candidate's answer, and to record the mark in the right hand margin. For example,

Strong competition is a problem for management | 1 | |

It is sometimes the case that a candidate will be awarded a mark for a whole sentence (or even a paragraph) rather than a single point. Since this makes underlining time-consuming, a marker may simply show the start of the appropriate section of the candidate's answer with brackets. For example:

(One advantage of the proposed location is that the club will move to a newer, | 1 | |
purpose built building which will be much more attractive to customers.)

[One problem is that there is no charge made to enter the Visitors Centre. This could be a means of obtaining revenue.]

2 Repetition

Where the candidate **repeats** points he or she has already made in response to a particular question within the same section of the essay, no marks should be awarded. It is frequently the case that a candidate *rephrases* a point made earlier in an answer and here the marker must decide whether any development has taken place. If no value has been added to the original point, the marker must make it clear that repetition has occurred.

Repetition should be marked clearly with an **R**.

3 Irrelevant

If large sections fail to get a mark because they are not relevant to the question a squiggly line in the left hand margin shows that you have read it.

4 Total Mark for Each Answer

The total number of marks for each part of a question should be entered into the right hand margin (inner column) and circled as shown below. A zero award should also be indicated.

	1	
	1	
The total mark for the whole question should be entered into the right hand margin (in the outside column) and “squared” as shown	1	
	1	
	④	
		16

5 Bullet Points

It is permissible for candidates to structure their answers around bullet points. For example:

The concerns of management concerning Human Resources are:		
• the need to make staff redundant	1	
• the need for less skilled workers	1	
• industrial relations problems	1	

It is very important that candidates, in opting to use bullet point presentation for reasons of brevity, do not sacrifice clarity in their answers. Points made in bullet format have to be clearly expressed and cogent. Where bullet points fail to achieve a satisfactory level of clarity, marks will not be awarded.

6 Alternative Responses

The solutions contained within the following pages are not exhaustive.

Where a candidate has made a response which is not contained within the suggested solutions, but which the marker believes to be valid, marks should be awarded accordingly. It would be helpful if markers could make a note of such responses and pass them to the Principal Assessor in order that a comprehensive set of solutions may be prepared in due course.

SECTION ONE

- 1 Identify the problems which A&R has faced since 1990. Use the following headings to construct your answer. **(10 marks)**

- *Marketing*
- *Human Resources*
- *Finance*
- *Other*

*** Maximum 3 marks per heading**

Marketing

Pressure from customers to drive down costs (price) – could be under finance.
Rise in cost of raw materials (price) – could be under finance.
Necessity to maintain image of a quality product.
Dependent on the success of the customers.

Human Resources

An ageing workforce - a shortage of skilled labour.
Owners have no evidence of business training - unable to cope when the company grew.
Change in organisation structure – more formal (Project Management).

Finance

Initially the start up capital was very small (£60 each).
Investment of £500,000 may mean interest having to be repaid.
Net margin of 7%-8% - is this high enough to survive in the long term?
Net margin is largely a result of the luxury end of their market.

Other

The original studio was very cramped.
They have had to turn work away eg from BMW/diversification – must be developed (could be under HR if developed appropriately).
Economic turndown.
Competitors exist.
Customers may choose not to outsource and make the product themselves.

* If no headings (or not separated into paragraphs) max 3

Identification of problems – NOT solutions

2 *Money was invested in the company to improve the production facilities.*

(a) *Identify 2 different sources of long term finance which are available to an organisation. Give an advantage for each source identified.* **(4 Marks)**

Share issue

Large amounts of capital can be raised, without incurring interest charges.
Money does not have to be repaid.

Debentures

Large amounts of capital can be raised, without losing control of the company.
Money can be borrowed for a long period of time.
Fixed rate of return so organisation knows how much annual interest they face.

Mortgage/Loan (reasons must be different if both given)

Large amount can be obtained relatively easy, without losing control of the company. Can be paid back over a long period of time.

Venture Capitalists

Willing to accept more risky loans.

- LEC – must be clearly described – designed to help small businesses – a GRANT may be available
- Reinvesting profits – explained
- Take on a partner – additional finance, expertise, ideas
- Sale of assets.

(b) *How might borrowing in the long term affect a company's cash flow position*

(i) *in the short term and*

(ii) *in the long term?*

(2 Marks)

Solves the problem of cash shortage, enabling debts to be paid.

Interest charges are an additional (monthly) expense.

Company may aim to pay back the loan in the long term.

The loan has to be repaid eventually.

(c) *A&R's net profit margin fluctuates between 7% and 8%.*

Describe 2 ratios which are used to measure profitability.

(4 Marks)

Gross Profit Ratio

Gross Profit/Sales x 100%.

Shows the amount of profit being made from sales before expenses are deducted.

Net Profit Ratio

Net Profit/Sales x 100%.

Shows the amount of profit being made from sales after the deduction of expenses.
Shows if expenses are controlled effectively.

Mark-Up Ratio

Gross Profit/Cost of Goods Sold x 100%.

Measures how much has been added to cost as profit.

Return on Capital Employed

Net Profit/Opening Capital x 100%.

Measures the return on capital invested in the business.

ONE mark available for accurate formula

3 *The organisation has set up its own training programme to overcome a skills shortage.*

(a) *How might an organisation assess the effectiveness of any training programme?* **(4 Marks)**

Evaluate the training - issue questionnaires/interview participants.

Monitor work - has output improved?
has quality of work improved?

Has morale of workforce improved?

Did the employee gain the qualification?

Has the employee been promoted/gained a job elsewhere?

Testing employees

Reduction in accidents

Reduction in complaints/returns

(b) *Why should training be a continuous process for any organisation?* **(4 Marks)**

Changes in work practices/technology require skills to be updated.

Reinforcement of existing skills.

Change may be necessary to keep up with competitors.

Workers need development in order to make progress within the organisation.

Shows workforce that they are valued - a motivating factor.

Shows that the organisation is good to work for.

Builds up good reputation

Encourages cultural change

Can reduce accidents

- (c) *Appraisal is the name given to a meeting held between employee and employer to review performance and discuss progress.*

How could a Human Resources department ensure their appraisal process is seen as a positive measure? **(4 Marks)**

Ensure the appraisal interview is seen as important by both sides/taken seriously - agree date, issue forms, agenda well in advance.

Encourage input from employee - allow them to have their say.

Ensure the interview is not too threatening.

Give positive feedback when justified/criticise constructively.

Make the outcomes of the appraisal clear - identify steps to be taken for development of the individual.

Reward - financially/promotion.

Review the targets agreed.

Separate pay from appraisal.

Appraisal is a process – continuous cycle – not just a one-off meeting

Seen to be fair – everyone treated the same

4 *High quality of the product is one factor which allows a firm to set its price higher than that of other firms.*

(a) *Using examples, where appropriate, describe 3 other factors which would allow a firm to set premium prices.* **(6 Marks)**

Holding a brand name - people may be prepared to pay for the image that they associate with a brand name.

Strong advertising/promotions - people are convinced that the product is worth the extra money.

USP - the product may have a unique feature eg the Dyson bagless vacuum cleaner.

Market product towards the higher income brackets - snob value.

Paying for convenience/local premium (monopoly)

Excessive demand eg childrens' toys at Christmas

DESCRIPTION OF FACTOR (+ SUITABLE EXAMPLE IN CONTEXT)

(b) *What might force a firm like A&R to abandon their high price policy?* **(4 Marks)**

Government pressure (eg car manufacturers).

Fall in demand –

due to eg a change in fashion or economic downturn.

Competitors producing superior/cheaper product.

Change in the market segment at which the product is aimed.

Change in where the product is sold (channel of distribution).

Customer pressure for lower prices.

5 The appointment of Peter Edwards as Operations Manager suggests that A&R group activities by function.

(a) Describe the benefits to an organisation of grouping activities by: **(4 Marks)**

- Function
- Product/Service

Function

Specialist for each function can be employed

All functions are given the same attention

Product/Service

If an organisation has different products, then each may require specialist expertise.

Functions within Product/Service are smaller in size and therefore easier for control/communication purposes.

Each division more responsive to change

(b) A&R also decided to appoint Project Managers. **(4 marks)**

How might working in project teams (perhaps using a matrix structure) benefit:

- an organisation
- an employee?

an organisation

strengths/expertise of individuals maximised

project will be planned to be completed by a certain date and

within a specified budget

employee

develop skill of individuals

no hierarchy – individuals are given responsibility

increases job satisfaction and motivation

can take advice from others – a team approach

(watch for repetition)

Together	
Everyone	
Achieves	
More	

SECTION TWO

- 1 (a) *Describe how a Local Council may be influenced by its different stakeholders.* (8 Marks)

Taxpayers/Customers/Local Community

Vote for local Council.
Pay taxes/entrance fees.
Persuasion through protest meetings, letters to Press, etc.

Management

Make decisions as to how to carry out policies (may be set by Central Government).
Responsible for employing staff.

Employees

Through Trade Unions - negotiation, strike, work to rule, etc.
Involvement in committees and working parties.
Wage demands may influence Council spending or level of taxation.
Council's effectiveness is affected by the standard of employee's work.
*

Government

Sets overall objectives.
Provides some funding.
Controls spending.
Sets legislation.

Lenders

Are they willing to lend.
The rate of interest charged may be an additional cost on a budget.

Suppliers

Changing prices of supplies.
Credit terms/discounts available.

* May be expressed through an example

MINIMUM 2 STAKEHOLDERS – max 7 if only 1

- (b) *Oil companies such as BP and Shell see creating a good reputation as an important objective.*

Describe the role of the Public Relations Officer in achieving such an objective.

(5 marks)

Organises PR activities.
Prepares Press Releases.
Organises Press Conferences - provision of free products to those attending.
Responds favourably to criticism.
Organises donations to charities.
Sponsorship.
Organises Office/Platform/works tours.

- (c) *Pressure from Greenpeace contributed to Shell's decision not to sink an oil platform in the North Sea.*

Discuss what makes some pressure groups more effective than others.

(4 marks)

The amount of public sympathy they receive.
The amount of press coverage received.
Finance - large campaigns require a lot of finance.
Strength of individual campaigners.
How well organised the campaign is.
Ability to lobby politicians successfully.
Persistence to argue case
“politically correct” if explained

(d) *Describe the role of managers in achieving the objectives of an organisation.*

(8 marks)

Plans/sets objectives and the way they are to be achieved - gives instruction to others to carry out the tasks.

Takes responsibility for performance of organisation.

Delegates authority to achieve objective/informs others of targets.

Organises jobs within departments/brings together activities within the organisation/liase with other department heads.

Controls/corrects activities of the organisation.

Motivates staff.

Monitor/Analyse/Evaluate performance.

Acts as an information channel.

Decision making model acceptable if manager's "role" described

MAX ONE EXAMPLE per aspect of manager's role

2 *MP3 is a technical format which allows music to be downloaded from the internet. This means users can obtain music without visiting High Street stores. In addition to this, many consumers are now choosing to purchase CDs on the internet.*

(a) *Discuss the benefits of **selling** CDs, DVDs, videos and books on the internet for:*

- *The supplier*
- *The consumer*

(6 marks)

Supplier

Can reach a much wider market.

No need to have a shop (cheaper).

Can provide a lot of related information (eg forthcoming concerts) to those who are interested by e-mail.

Easy to keep in touch with consumer.

A growing market.

Consumer

Possibly cheaper product.

No need to leave home - quicker, no parking charges.

Deliveries made directly to your home.

Able to listen to sound clips before making purchase.

Titles available which may not be in stock in the shops.

MAX 4 either section

- (b) *Changes in technology mean that new products are frequently launched on the market. Describe the types of strategies an organisation might use when **pricing** a new product.*
(10 marks)

High Price

Enables firms to sell a high quality product to a select market.

Exclusive image.

May be used in the short term when firm has a temporary advantage eg no competitors or a patent.

Market price

Used when the competitor's product is similar.

Used when a few large companies dominate the market.

Low price

Price set lower than that of the competitor.

Penetration/promotional

Low price set to attract customer to product.

Useful in a highly competitive market.

Effective when demand is affected by price.

Skimming

High price set.

Once the first segment of consumers is saturated, the price is lowered.

Attracts customer who likes something new.

Attracts customer who likes having the image of being first to own a new product.

Discriminatory

Price charged varies within the market according to segment, time, etc.

Destroyer

Price reduced to an artificially low level.

May result in short term losses.

Undercuts rivals and may force them out of the market.

Prevents new companies from gaining success in the market.

When competition is eroded, price is raised.

Cost plus ...

Psychological...

NO IDENTIFICATION MARK

- (c) *What non-pricing measures could suppliers take to encourage customers to use the internet as a means to purchase products.* **(4 marks)**

Convince customers that their site is a secure one.

Encrypt credit card details.

Allow customers to pay by cheque or over telephone.

Regularly e-mail customers.

Promotions (buy one, get one free).

Speedy delivery.

Links from other websites.

Wider range of products available.

- (d) *Customers using the internet provide organisations with personal information (such as Date of Birth and Address). Describe how an organisation could use this information to their advantage.* **(5 marks)**

To establish which market segment they are reaching.

To tailor products appropriately towards the particular market segment – only one aspect of 4Ps.

Market goods appropriately and cost effectively.

Offer other goods in which they think the market segment may be interested.

Sell information to other companies.

Trends – identification of changes.

For surveys/questionnaires – market research.

Personalised service.

Direct mail can be used.

- 3 (a) *Cadbury Schweppes made a decision to move into the Eastern European market and set up a factory in Poland.*

Discuss how the following factors might affect an organisation's decision to locate abroad.

Political }
Economic } MUST BE ONE UNDER EACH
Social } HEADING FOR FULL MARKS
Technical. }

(8 marks)

Govt/EU legislation may have restricted location – in the part removal of Socialist restrictions.

Govt may fund location.

Legislation of country may affect operations (eg weight restrictions of lorries).

Strength of currency.

Socio-cultural differences may affect demand for products/working methods.

Allowing young people to work for cheaper wages.

Acceptance of low wage rates.

Acceptance of long working hours.

Availability of technical equipment/support.

(Points under wrong headings not accepted)

- (b) *Moving to Poland is an example of a strategic decision. Suggest tactical and operational decisions required to achieve this.* **(6 marks)**

Tactical

Buy/rent premises.
Buy/rent machinery.
Employ/transfer staff.
Set up factory/offices.
Set production target.

Operational

Implement production methods laid down by head office.
Train new members of staff.
Decide on layout of eg office.
Decide on working patterns to fit in with local circumstances.

Max 4 per section

- (c) *Communication is essential for a company like Cadbury Schweppes which has branches all over the world.*

- (i) *Describe the advances in technology which have made the decision to move to other countries easier.* **(6 marks)**

E-mail allows for fast, 2-way communication.

Video-conferencing allows meetings to take place.

Improvements in telephones/mobile phones mean people can be contacted wherever they are.

Satellite networks make communication easier.

Information can be centralised due to computerisation.

Possible for individuals in different places to work on projects at same time.

Tighter control and monitoring of activities is possible if information is stored centrally on a computer.

- (ii) *Discuss the factors which might restrict an organisation's use of modern technology.* **(5 marks)**

Availability of finance to purchase/maintain equipment.

Lack of training for staff to be able to use equipment.

Unwillingness of staff to use equipment.

Break downs.

Incompatibility with other systems.

No/poor technical support.

4 *An entrepreneur is considering opening a new Leisure Club in his local town.*

- (a) (i) *Identify and describe 2 sources of information which would be of use to him when considering this venture.* **(4 marks)**

Primary

Information gathered first hand for a specific purpose.

Gathered by means of questionnaire, interview, etc.

Secondary

Information which already exists for another purpose.

Obtained from books, internet, etc.

Internal

Information gathered from the company's own records.

External

Information gathered outwith the company.

Description without identification acceptable

- (ii) *For each source of information, analyse its value and reliability.* **(4 marks)**

Primary

Valuable because it is known where it comes from.

Should be free from bias/distortion.

Secondary

Is cheaper to obtain.

Less reliable than primary because it was collected for another purpose.

Internal

More likely to be reliable than information from external sources.

External

Gives information on the general business environment.

Provides information on competitors, customers, trends, etc.

Not so reliable as internal as the source cannot be checked.

- (b) *Describe how employment legislation and EU directives might affect the running of the Leisure Club:* **(10 marks)**

Must make sure their policies and procedures comply with the following.

Sex discrimination/Race Relations Act

Unlawful to discriminate on grounds of sex, marital status, colour, race.

Employment Rights Act

Employees entitled to receive a Contract of Employment within 2 months of starting work.

The right of an itemised payslip.

Rights regarding Sunday working, maternity and termination of employment.

Health and Safety at Work Act

Duty of care.

Employers must meet minimum regulations concerning temperature, first aid, space, cleanliness, etc.

Training should be provided for staff to enable them to carry out the H & S specified responsibilities.

Minimum wage

Employees must receive the minimum wage specified.

May affect the age of employees selected.

Policies must be kept up to date.

Additional staff may be required - the payroll increases.

Costs and time are involved with implementing and checking legislation.

Maximum 3 for naming Acts.

- (c) *A Cash Budget (Cash Flow Forecast) is an accounting statement the entrepreneur would prepare before implementing his idea. Describe its contents and how it would be used.* **(7 marks)**

A statement which lists all likely inflows and outflows of cash on a monthly basis.

A prediction so adjustments can be made to expenditure or income

Such as leasing equipment

Increasing revenue

Invest in assets for the future

Borrowing arranged.

More likely to convince lender if it can be shown that the money borrowed could be paid back.

Applying for bank loan

Comparisons

- 5 (a) *Coca-Cola manufactures products for different sections of the market eg Diet Coke, Original and Cherry.*

- (i) *Identify 2 ways in which an organisation may segment its market.* **(2 marks)**

Age, gender, socio-economic group, income, education, religion.

- (ii) *What are the advantages of using market segmentation?* **(6 marks)**

Organisation obtains information about its customers so it can tailor products to suit their needs.

Target specific groups with products/promotions.

Able to market differentiated products.

May wish to specialise in a specific market (eg 18-30 holidays).

Different marketing mix may be used for each segment (eg pricing may differ or the type of promotion).

Identify a gap (niche) in the market

(b) *Coca-Cola has chosen to outsource part of its bottling process.*

Describe the advantages and disadvantages of outsourcing for an organisation.

(8 marks)

Allows them to concentrate on their core activity (production).

Allows them to employ specialists in the field outsourced.

The organisation to whom they have outsourced may have specialist equipment.

No need to employ labour themselves to do the job, thus cutting costs of wages and training.

A specialist firm may produce goods at lower cost.

Downsizing possible.

May enable them to cope with a higher production level/take on additional orders.

May be able to accept a rush order.

Less control over function which is outsourced - firm may let them down or not produce goods of the same quality.

Confidentiality issues (accountancy).

Communication problems between the two firms may hinder the work.

Max 5 for advantages/disadvantages

- (c) *Effective stock control is important to achieve efficient production. Describe the just in time system and its advantages and disadvantages for an organisation such as Coca-Cola.*

(9 marks)

Advantages

Costs of stockholding minimised.
Able to use money elsewhere which was previously tied up in stock.
Elimination of waste - materials deteriorating or becoming obsolete.
Less vulnerable to changes in fashion.
More space available.
Closer relationships with suppliers.

Disadvantages

Danger of disrupted production due to non-arrival of supplies.
Danger of lost sales.
High dependence on suppliers.
Less time to check quality of materials on arrival.
Loss of bulk buying discounts.
Increase in transport costs.
Increased volume of traffic (many small loads instead of a few large ones).
Increase chance of transport failure.
Increased ordering and administration costs.

Credit description of JIT (one mark)

[END OF MARKING INSTRUCTIONS]