

2005 Business Management

Advanced Higher

Finalised Marking Instructions

These Marking Instructions have been prepared by Examination Teams for use by SQA Appointed Markers when marking External Course Assessments.

Business Management – Advanced Higher 2005

NB Credit should be given for any relevant and accurate point or example.

Marks may not be carried over from one section to another

SECTION ONE

1. (a) Analyse ways in which SSE's **e-commerce strategy** may help it to maintain high levels of customer satisfaction.

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- Award a maximum of 4 marks for general points not specifically related to SSE eg Internet can be accessed at any time and from anywhere, saving time and the cost of travelling to shops; savings on costs of maintaining and staffing retail premises, leading to cheaper prices.
- Given that the fuel supply industry is so competitive, the huge growth in on-line buying and the growing number of people who are “cash rich but time poor” mean SSE may lose customers if it does not enter the e-commerce market.
- On-line communication allows SSE to keep in regular contact with customers; it can use personal details to e-mail information about new products and promotions that are particularly relevant to specific customers, thus satisfying their needs more exactly; it can undertake regular market research via e-mail to identify areas of dissatisfaction/new market trends before competitors.
- Convenience of being able to register, receive quotes and get advice at any time from anywhere enhances customer satisfaction; the site could be further developed to enable customers to pay bills on-line.
- The cheaper Internet tariff available to customers means that by signing up with SSE they are benefiting from a cheap rate for all their Internet use.
- The energy shop site, allowing customers to buy products and have them delivered to their door at greatly reduced prices, attracts customers; the financial services website enables SSE to diversify, satisfying a wider range of customers, as evidenced by the site's becoming the leading seller of stakeholder pensions in 2002.

(b) What possible problems might SSE encounter with this strategy?

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At least 2 possible problems should be discussed to score full marks.

- Award a maximum of 3 marks for general points not related specifically to SSE – eg dangers of viruses, hackers, breakdowns; customers resistant to using the Internet.
- Is the high initial cost of £15m for what is only a tiny percentage of SSE's business (nearly 90% of profits in 2003 came from transmitting, distributing, generating and supplying electricity) justified? The Internet is a rapidly developing marketplace; the costs of keeping up to date and ahead of the competition may be significant.
- Very competitive market; once accustomed to Internet purchasing customers may go elsewhere to even cheaper sites.
- Sales of domestic appliances on the Web may reduce sales in SSE's shops, especially as the former are offered at a 20% discount. In the longer term, the future of SSE's shops may be at risk.
- SSE's financial services website acts as a middleman between providers and customers, in return for providers promoting SSE's services; this could be a distraction from their core business; it might be more cost effective to pay for advertisements on other sites rather than maintain a site in a highly competitive area in which it lacks expertise.

2. Assess the extent to which the **requirements of Ofgem** may have influenced SSE's philosophy of being "safe", "focused" and "responsible".

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Maximum of 3 marks for each point discussed. In general, award 1 mark for each attempt to match one of the requirements of OFGEM to "safe", "focused" or "responsible".

- OFGEM's role of setting standards has led SSE to strive to provide a quality service for customers. SSE's focus on safety, which has led to it having the best 3-year safety record in the UK, is a vital part of this, given that safety is a particularly important issue in fuel supply; the focus on customer satisfaction is vital to pursue ways of preventing breakdowns in power supplies as required by OFGEM.
 - Changes such as OFGEM's ending of the Electricity Pool cartel and allowing customers to choose their fuel supplier have led to the need for firms such as SSE to compete for customers; SSE's philosophy stems from these changes; modern consumers are acutely aware of safety and environmental issues and the firm's focus is on achieving the highest rating for customer satisfaction.
 - The 40% fall in the wholesale price of electricity, coupled with the restrictions on price increases imposed by OFGEM, means that SSE must constantly strive to increase efficiency and retain and gain customers in order to remain profitable; its philosophy helps it to "act in a competitive way which benefits consumers" as intended by OFGEM; being "focused" has led to SSE having greater customer satisfaction than any other UK energy supplier.
 - OFGEM's requirement that the gas and electricity industries implement government initiatives on the environment has led to SSE striving to prove itself responsible eg by investing in renewable energy, developing the most thermally efficient power station in the UK and entering the BiE's Premier League.
3. SSE owns and operates over half of the UK's renewable energy capacity. In light of this, explain why **promotion** remains an important part of SSE's marketing mix.

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At least 2 reasons should be discussed to score full marks. Award a maximum of 3 marks for general points not specifically related to SSE.

- Deregulation has allowed energy companies to sell their services anywhere in the UK; SSE's major market share is constantly under threat.
- Increased competition has led to large price falls; this means SSE must attract more customers to keep profit margins up.
- SSE has moved into many different fields – eg Internet selling of domestic appliances, financial services – in which competition has always existed; needs to promote itself against long established, nationally known firms.
- SSE needs to keep its existence and name in the public eye; otherwise customers may be lured away by better known competitors with attractive promotions – eg to compete with Atlantic's agreement with Matalan, SSE gives customers Argos Premier Points and Airmiles.
- Convincing customers of safety and environmental concern is crucial to success in the energy market – to do this SSE needs to develop an image as a caring and trustworthy company – eg its partnership with RSPB.

4. (a) SSE has grown by developing its existing activities and by acquiring other companies. Discuss the advantages for SSE of these **two different methods of expansion**.

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NB Both methods of expansion must be discussed for full marks.

- Award a maximum of 5 marks for general points not specifically related to SSE.
 - SSE's traditional business is the generation, transmission, distribution and supply of electricity. Merging Scottish Hydro Electric with Southern Electric to form SSE in 1998 brought the advantages of horizontal integration, such as scope for greater economies of scale, greater market dominance and the combination of expertise of personnel in both organisations.
 - Taking over firms such as SWALEC and Midland Electricity means that SSE has been able to reduce competition further and extend the scope of its operations into a wider area relatively easily using facilities which already exist.
 - Taking over firms such as gas storage facilities (credit candidates who mention that this is an example of lateral integration) enables SSE to move into other areas of the energy market and attract a different segment of the market; it has also moved into other similar but related markets such as electrical contracting and telecommunications networks; such developments may also help ensure continued demand for their core product.
 - Setting up subsidiary companies such as SSE Energy has also enabled SSE to segment its market – eg SSE Energy Supply Ltd builds facilities for the industrial market only. Each company specialises in a particular area as indicated in its name and is set up as a private limited company, which gives it protection from public scrutiny.
- (b) SSE has also undertaken work in **partnership with other organisations**. What are the benefits of joint ventures such as these?

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At least 2 main points should be made for full marks. Credit use of examples from the case study.

- Joint ventures enable SSE to enter markets where it lacks expertise. By joining with Weir Group it benefits from specialist engineering knowledge which could help it enter the market for renewable energy.
- Joint ventures are likely to be much cheaper and quicker to set up than embarking on a new area oneself; less risky where the initial approach is tentative, perhaps trying to get a foothold in an untried market, and the firm wishes to maintain the option of pulling out if necessary.
- Joint ventures can provide finance – eg Lombard providing £40m for SEC Lighting to operate and maintain street lighting for 25 years in Stoke on Trent – this gives SSE a lucrative long term contract which it would not otherwise have been able to undertake.

5. Analyse the effectiveness of the methods SSE uses to **motivate** employees.

8

Maximum of 3 marks per method. Candidates must give a reason why each method they mention motivates.

- SSE's scheme to match funds raised by employees for charitable and community causes up to £500 per employee, does not impact directly on their work but represents management recognition of efforts made by workers (cf Herzberg); may motivate by making employees work harder because they feel that SSE appreciates them and is making a contribution to their local area or favourite charity. (No marks for increased motivation when working for the charity.)
- Employee participation via working in teams can motivate by making workers feel valued and able to contribute, meets their social and self esteem needs.
- Briefings and circulation of an internal magazine may not be very effective if they are just ways of disseminating the decisions of people at the top; they are likely to be more motivating if employee contributions are actively sought and given prominence.
- The motivational effect of being able to speak to senior managers in roadshow sessions depends on how seriously views expressed through such channels are taken by management; if they are clearly not considered the experience is likely to be positively demotivating.
- The joint negotiating and co-ordinating council's remit is to help develop company policies on employee issues; employees are likely to feel motivated because they are involved in joint decision making with management about issues which can make a real difference to the quality of their working life. This meets self esteem needs. Success may also depend on how seriously the views of the council are taken. It may not be closely linked to individual employees.
- The share incentive plan can motivate by making employees part owners; as such they will have an interest in profitability as well as wages and may work harder. Being given one share for every one they buy may also increase loyalty and commitment to the firm.
- No marks for theories of motivation unrelated in any way to the case study.

6. Evaluate the importance of RSPB as a **stakeholder** in SSE.

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Maximum of 3 marks if no evaluative statement about the importance of RSPB is made. Maximum of 2 marks per point.

NB The question deals with the extent of the RSPB's influence on SSE. Marks should therefore not be awarded for discussion of RSPB's interest in SSE.

- SSE's "green" company RSPB Energy, set up in partnership with RSPB, has given SSE another outlet for its energy sales; although it is making a donation to RSPB for each customer, it is likely to attract environmentally aware customers who would not otherwise have bought from SSE; the fact that it has been successful indicates that the partnership has generated profits for SSE.
- Its link with RSPB also helped SSE to gain customers who might otherwise have purchased from rival firms and has been a useful weapon in dealing with the high level of competition among energy suppliers.
- The fact that the money SSE pays RSPB is used to create nature reserves and invest in local community, renewable energy products gives SSE a chance to demonstrate corporate responsibility, which can lead to good PR.
- Forming an environmentally friendly company which matches each unit of energy bought with electricity generated from renewable sources has also helped SSE to meet the requirements of OFGEM and to achieve its philosophy of being "responsible".
- Important: SSE pays RSPB a lot of money.

(50)

[END OF SECTION ONE]

SECTION TWO

NB Candidates need not make specific reference to SSE. Those who do should be given credit for doing so. Relevant references to other organisations and suitable examples should also be credited. Throughout this section 1 mark should be awarded for each suitable point, with 1 mark for development points, including suitable examples.

7. SSE has faced many changes to its external environment since its formation, although so far it has restricted its operations to the UK.
- (a) Analyse how the **change process** might affect the **style of management** adopted in a firm such as SSE.

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Answers should cover both the process of change and leadership style. A maximum of 6 marks may be given to the former. Answers should recognise that the style of management will be affected by the way in which change is implemented.

NB The question is about the influence of the change process on management style, not vice versa.

- The process of change can be seen as preparation, unfreezing, changing, refreezing, evaluation. Credit candidates who discuss styles of management in relation to each of these stages.
- Change can be carried out in several ways eg top-down – change is achieved by management deciding what to do and imposing it; action centred – the process begins with a general idea of the problem and involves trying out various solutions eg in pilot projects; negotiated – change is agreed through a bargaining process between interested parties eg management and employees; piecemeal initiatives – small incremental changes are made over time as and when necessary; participative – change is the result of discussion and consensus among all those involved.
- The leadership style varies depending on how change is carried out eg an autocratic style is appropriate for a top-down change as here management make all the key decisions and employees are bound to accept them. If things are urgent and action must be taken, there is no time for consultation to decide what to do, but commitment can come from a siege mentality.
- A participative style fits well with participative change and with piecemeal developments as both require time and discussion with those involved. Discussion can gain commitment and help employees take ownership of the change. This approach is incompatible with being told what to do all the time so an autocratic management style is unlikely to be effective. A participative style may not always suit rapidly changing, fast moving situations as it is usually time consuming. It is also inappropriate where change must take place quickly and is urgent.
- A contingency leadership style – ie one that aims to get a fit between the leader, the led, the task and the context – may be the most suitable general approach. It may work particularly well with action centred and negotiated change but is likely to be especially suitable in a fast moving, rapidly changing environment where managers must be flexible and respond to each situation as it arises. Contingency theory involves considering all the requirements of a situation together and responding accordingly, so it means that managers adapt their style to the circumstances.

(b) Explain how any **two** of the following aspects of the **European Union** may affect the operations of companies such as SSE.

- The Social Chapter
- The Single European Market
- European Monetary Union

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Answers should explain what the aspect is (maximum 2 marks) and then indicate how it may influence the operations of companies. A maximum of 3 marks should be given for each point of influence. Up to 7 marks may be awarded for discussion of each area.

The Social Chapter:

- What it is – a legal mechanism whereby member states can develop common social and employment policies – covers issues such as Working Time Regulations, Works Council Directive, part-time workers, minimum wage.
- Its effects may be general or specific depending on the issue concerned and the extent to which the effects are beneficial or adverse will vary between issues.
- It may impose additional costs and bureaucracy on firms – in particular some firms fear higher labour costs through the minimum wage, paid holidays etc and feel they may be unable to compete against countries which do not have such requirements.
- Regulations may inhibit labour market flexibility – although this effect is likely to be less severe with regulations that apply to all firms.
- Benefits are that workers' rights may be protected, which may improve motivation and productivity. May also encourage worker participation which could enhance commitment to decision making process in firms.

The Single European Market:

- What it is – extended the EU's basic principles of free trade and covers issues like removal of frontier controls and customs duties, harmonisation of product standards, free trade in services like insurance and the lifting of restrictions limiting public procurement to suppliers from the home country.
- Benefits to firms are that the existing benefits of common market will be enhanced eg lower costs of doing business (eg because of common standards, free movement of goods across borders); opening up of markets may lead to new opportunities, especially in industries like energy which were previously heavily regulated; increased economies of scale will benefit firms which do get new business.
- However, some countries have adopted delaying tactics and continue to protect domestic markets in services and to favour local suppliers in public contracts; services are less easy to trade than goods and are often more culturally dependent eg different types of insurance are popular in different countries, language may be more important in services and language differences remain.

European Monetary Union:

- What it is – EMU is the framework for the euro which has not been adopted by the UK. Issues thus revolve around the case for and against the euro.
- If the UK joins the euro there may be a number of benefits eg lower transaction costs because of the ending of the need to exchange currencies; the ability of companies to invest in Europe more easily because of the common currency; stable exchange rates may help trading by removing the risk of adverse currency movements; comparing prices of suppliers would be easier, which may help firms source cheaper supplies or gain contracts with other firms (as all prices would be in euros).
- There may also be costs if the UK joins the euro eg change-over costs of conversion; less flexibility in monetary policy which may affect interest rates and thus the cost of borrowing; competition may increase because price comparisons would be easier for customers; the euro has not been stable since its inception and this may affect trade outwith the eurozone.
- If the UK continues to stay out of the eurozone, then the benefits above may be lost but costs will be avoided. UK manufacturing industry is generally in favour of joining to gain the benefits of transparent pricing and no conversion costs (many companies already operate in euros). Opinion among other firms is divided. However, uncertainty over UK position may itself have an effect.

(25)

8. (a) SSE may in future decide to expand into other countries. Examine the reasons why **multinational companies** have increased in size and importance in recent years.

13

A maximum of 5 marks should be given for each main reason. This means that, to gain full marks, candidates should refer to at least 3 different reasons. Answers should take account of the fact that the question refers to 'recent years'. Some of the reasons given below overlap and answers may use different classifications to make the same points.

- Award a maximum of 2 marks for a definition of multinational companies.
- Improvements in communication – ICT makes it much easier for various parts of a company to communicate with each other. Hence, co-ordination between different facilities is easier, operations can be planned and monitored wherever they take place eg car companies now produce on a global scale (models are made in one or two locations and sold all over the world). It can also allow companies greater freedom of location (eg call centres in India). ICT can affect demand as well as supply – consumers can now buy from other countries through the Internet.
- Improved transportation – this is linked to the first point above as goods can now be moved from one place to another much more quickly eg food can reach UK supermarkets from Southern Africa within 24 hours; (cheap flights facilitating movement of personnel between countries.)
- Harmonisation of demand – developments in communication (eg TV, cheaper international travel) mean that tastes throughout the world have become more similar (and that people are more aware of what happens outside their own country) so companies can sell the same product in different markets; brand names have become global (eg McDonalds, Coca Cola, Toyota).
- Deregulation in trade and capital movements – growth of trading blocs like EU and work of WTO (and its predecessors) have led to a reduction in barriers to trade in goods and services while free trade philosophy has also contributed to the removal of rules on flows of capital between countries. MNCs can thus switch funds between countries and move goods and service more easily.
- Economies of scale – all the above can help companies produce on a large scale and thus experience lower costs. They may be especially important in the development of new products where research costs may be very large as products become more sophisticated. MNCs are large enough both to have enough money for research and to sell enough of the final product to recover the money spent in development.
- The ability to exploit differences between countries – the above developments also make it easier for MNCs to move between countries. This enables them to choose what they see as the best location eg where labour is cheap (eg manufacturing in China); where well-qualified staff are available (eg Sony research centre in Germany); where environmental or anti-monopoly legislation is weak (eg training shoe production in the Philippines); where financial assistance is available from governments (eg Chungwa in Scotland).
- Desire to increase market share – saturation of markets in countries such as the UK and the USA has caused firms to look abroad to attract a wider range of customers.

- (b) Discuss how dividing workers into autonomous **teams** might contribute to organisational effectiveness.

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A maximum of 4 marks should be given for each point. Answers must demonstrate how the points discussed influence organisational effectiveness. No marks for description of theories, such as those of Tuckman and Belbin, which are not related to the question.

- Nature and clarity of task – teams can develop a clear focus which enables them to pull together to achieve their goal. This helps them to develop an identity which means they can work on their own initiative and monitor their own work.
- Teams can be small enough to communicate with each other but not too large to become unwieldy. Effective communication between team members ensures that all are aware of what is required and that each works for the team.
- Relatively small teams can cover all the necessary team roles which Belbin argues are necessary for an effective team (maximum of 3 marks for discussion of Belbin).
- Appropriate processes and procedures – successful teams develop ways of working which help them to achieve eg forming, storming, norming and performing.
- Teams provide organisational benefits also eg they enable companies to avoid the hierarchical levels of bureaucracy and adopt a flat structure; they are flexible, as teams can easily be formed or disbanded as situations change; they can promote innovation as ideas come forward more quickly when people work in small groups; they can lead to increased motivation as people have more responsibility, more control and more challenging jobs.
- On occasion teams may damage organisational effectiveness – eg if social interaction lengthens the time taken to come to decisions; if “groupthink” or “parochial self interest” develop (explanation of terms needed to merit a mark).

(25)

9. (a) **Force-field analysis** is a management technique for analysing the factors which may contribute to a change in an organisation. Explain the advantages and disadvantages of this technique.

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2 marks may be given for an explanation of force field analysis; a further 2 marks can be given for a suitable diagram showing drivers and resistors plus arrows indicating their relative importance (watch for repetition).

An answer which only refers to advantages or disadvantages should be given a maximum of 7 marks (not including any marks for a diagram).

Advantages:

- FFA helps in the gathering information stage of the decision making process by summarising all the helping and hindering forces (drivers and resistors) – by allocating weightings to the different forces, FFA can help a firm to evaluate the relative strength of the forces for and against change.
- FFA helps the firm to identify constraints (resistors) and take steps to overcome or reduce them in advance of making the final decision as well as helping it to identify ways to increase the strength of the drivers eg by encouraging development of new skills.
- Reference to internal/external forces – eg could be used in conjunction with SWOT or PEST (or SLEPT or STEEP) analysis to ensure that all factors have been taken into account. It represents one way in which SWOT can be turned into a proposal for change.
- To gain a mark for describing the benefit of identifying drivers or resistors, at least 2 examples must be given in each case.

Disadvantages:

- FFA lacks precision and can only give a broad general picture.
- It may not be comprehensive as there is no guarantee that all relevant factors will be included and some significant factors could be ignored.
- It may be subjective so that relative strengths of drivers and resistors may be under or over-estimated – attempts to manage the change may thus focus on factors which seem important but are not, or neglect factors which appear insignificant but are actually important.
- FFA is a static representation of a dynamic situation – in a change relevant factors alter over time but management may not review force-field analysis; also it does not give any indication of how a change actually progresses or how it should be managed.

- (b) Analyse the **personal qualities and skills** that can help a chief executive such as Ian Marchant to be effective.

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The answer lends itself to examples and these should be given credit. Answers should explain why particular qualities and skills will be helpful.

Answers could be based on Mintzberg and/or Fayol (though they need not be) and credit should be given for suitable references to them or other management writers.

- One mark for each accurate list of a writer's ideas eg Fayol's 5, Mintzberg's 10, Stewart's demands, choices and constraints etc.
- The ability to set a direction for the future – by doing this, CEO can provide a way forward for the company which can provide a benchmark against which to measure progress and against which to make decisions on what actions to take eg which new markets to move into; whether or not to acquire other companies (may be Fayol's commanding and Mintzberg's leader role as well as his entrepreneur role).
- Communication skills – CEO must be able to communicate this 'version' but also have the communication and influencing skills to persuade senior management, to get ideas across to other employees etc. (May be Fayol's co-ordinating and Mintzberg's dissemination and spokesperson roles).
- Negotiation skills – CEO must be able to negotiate with people within the company but, at this level, most is likely to be with outsiders eg government agencies, companies which may wish to acquire or co-operate within a joint venture; financial institutions which may provide funds etc. (Mintzberg's negotiation and liaison roles.)
- Planning and organising (Fayol) – CEO must be able to set in motion specific plans for the future and set up an organisation for the company which can make these plans work.
- Monitoring – CEO must also monitor the progress of the company against targets (Fayol's control and Mintzberg's monitor role).
- Representing the company (Mintzberg's figurehead role) – CEO must be able to act as a focal point for the company and represent it at meetings with shareholders and other stakeholders.
- Taking decisions – CEO must take responsibility for what the company does and must thus decide on key actions for the company (Mintzberg's decisional roles including resource allocation and disturbance handling).
- Self confidence, self reliance and ability to deal with uncertainty – qualities such as these can help a CEO to gain commitment for the direction which has been set, to instil confidence during lean times, to rely on her/his own resources because CEO cannot go to a higher level for support and advice.

(25)

10. (a) The **Human Relations School** and **Scientific Management** are two management theories. Explain the circumstances in which each approach could help managers in firms such as SSE to manage effectively.

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1 mark for each suitable point, with one mark for each development of a point. A maximum of 3 marks should be given for each separate reason. As a rough guide, the marks should be equally allocated to the human relations school and scientific management but up to 8 marks may be given for either one of them.

For each school answers should explain what it means (up to a maximum of 4 marks for each school) and point out where it may be appropriate to companies. Answers could also highlight the contrasts between the two schools.

- Scientific management emphasises efficiency eg to find the best way of doing a particular job. It is associated with developing effective processes and the measurement of what workers do eg work study, setting targets eg Taylor.
- Human relations school was a reaction to the classical school and scientific management and focused on importance of social factors and human behaviour (eg Mayo). By taking account of workers, needs, eg by providing good working conditions, management could achieve higher productivity.
- Scientific management remains highly significant (especially as information can be computerised) where measuring performance and output is important, which is normally the case in operations environments. Many modern techniques like lean production and business process re-engineering are based on the principles of scientific management eg attempts to measure the time it takes to get an order to a customer and to reduce the time spent on each of the steps in the processes involved.
- The human relations school has influenced thinking on the importance of formal organisation and non-monetary factors. It is likely to be appropriate where worker involvement is important – eg in rapidly changing industries where employee initiative is seen as important – and in industries where employees’ work is difficult to measure eg many service employments. Modern theories like team working owe their origin to the human relations school.
- Both have been heavily criticised. Scientific management is seen as promoting boring, unskilled work; treating workers like machines; emphasising management control over what workers did; arguing that worker motivation depended entirely on financial rewards (organisations without people). The human relations school ignored issues of how the wishes of individuals could be aligned to that of the organisation (people without organisations) and over-simplified complex issues of what happens at work (eg one size fits all).
- It is unlikely that a modern organisation would use either scientific management or the human relations school but some of what every organisation does is likely to have been influenced by these schools of thought. Subsequent developments such as the systems approach and contingency theory have attempted to address the issues of the 2 approaches.

- (b) Analyse how any **two** of the following might help a firm such as SSE to improve its effectiveness.
- SWOT analysis
 - Budgetary control
 - Management information systems
 - Market segmentation

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Maximum of 7 per heading. Answers will depend on the choice made but marks should be awarded for:

- Explanation of the concept (one mark maximum).
- General and specific examples of how it can be used in companies.

SWOT analysis:

- Definition (may be in the form of a diagram) – a method of bringing together an evaluation of a firm's internal factors (strengths and weaknesses) and its external environment (opportunities and threats). The latter part is often based on a framework like PEST.
- It is used by companies as a way of analysing their current situation and pointing the way to future strategies eg ways of using strengths to exploit opportunities or combat threats; addressing weaknesses so that threats do not materialise.
- It is a good starting point because it is easy to understand and convey to others, recognises that a firm cannot be separated from its environment and summarises the key issues facing a firm and the resources that it has to face the future.
- However, it does not indicate any particular strategy nor does it suggest the relative merits of different strategies; it is static and may be outdated as soon as it is complete; it gives no direct indication of the relative importance of particular factors; factors included and any evaluation of their importance may be subjective; what appears to be a robust analysis may disguise a hurried attempt to assess a firm's situation and be a poor substitute for a deeper analysis.

Budgetary control:

- Budgetary control is the use of budgets to monitor the performance of a company. Actual performance can be compared with expected or target performance on an on-going basis; variances can be calculated. Budgets are usually financial but do not have to be eg overtime budgets or sales budgets.
- Budgetary control can be used to keep track of performance in all areas of managerial activity eg spending, progress of a project, amount of production. It can help identify the need for corrective action; ensure costs are not rising unexpectedly and sales are at the projected level; that managers are meeting the targets set for them; that new investment projects stay within the projected financial targets. Monitoring and control are essential aspects of management (see Fayol) and budgetary control is one way in which this function can be exercised.
- However, budgets must be related to meaningful targets as otherwise managers may concentrate on peripheral areas of activity in order to meet budgetary targets; they may inhibit initiative by constraining the ability of managers to make independent decisions eg a new opportunity might be ignored if a budget did not have sufficient money to pursue it; the budget setting process may become inflexible and not change from year to year so budgetary allocations reflect situations that are no longer current.

Management information systems:

- Definition – systems within a company which are designed to provide managers on a regular basis with the information they need to make decisions. Nowadays these tend to be computerised and cover a wide range of information that managers may need eg financial data such as costs of inputs, overheads, sales revenue; production data like output per time period; marketing information such as sales; HR data such as labour turnover, output per employee. MIS can be related to budgets so that managers can compare performance with what was expected – also may allow comparison between different time periods.
- Benefits to companies are that they can keep a regular check on what is happening and thus take corrective action quickly if it is needed; the danger of being surprised by events is reduced; MIS make it easier to see whether targets have been met and this encourages setting of targets which ideally should all be consistent with a firm's main objectives.
- However, setting up and maintaining suitable systems may be costly but this is only likely to be a problem when very sophisticated systems are used (software packages are readily available) or systems collect a lot of unnecessary data. More importantly, systems may become data heavy so that attention is deflected from the key measures as it is unclear which they are; data may be presented in a format which managers cannot understand; more effort may go into collecting data than in ensuring that the company's key objectives are met.

Market segmentation:

- Definition – a method of dividing up a market into groups with common characteristics.
- Market segmentation could help a company to identify and target a new group of customers – eg environmentally conscious consumers.
- It enables a company to design promotional campaigns appropriate to the segment, design the product and its packaging, select an appropriate price and identify channels of distribution for its products.
- Products can be aimed at different segments and companies can identify a segment previously untargeted and develop a new product or modify an existing product to suit. SSE's co-operation with RSPB enables it to target the environmentally concerned consumer with its energy services.
- It can help firms to target market research more precisely – by concentrating the research on their chosen segment they save the cost of questioning people who are unlikely to be interested in their product.
- No marks for mention of adaptation of marketing mix factors without explanation/examples.

(25)

[END OF SECTION B]

[END OF MARKING INSTRUCTIONS]