

2005 Business Management

Intermediate 2

Finalised Marking Instructions

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

**2005 Business Management
Intermediate 2**

Section 1 Solutions

1. *Rizwan and Azia are having a few problems with their business at present. Identify 2 problems highlighted in the information given and explain why these are concerning them.*

Limited finance – no money to carry out refurbishments

High level of complaints

Reduced number of bookings – business may end up closing

Not making any profit – unable to put any profits back into the business or take vast sums from the business for personal use

Bad reputation

Needs redecorated

Cash flow problems – difficulties paying mortgage in quiet times

(4)

2. From their **“Options for the Future”** Rizwan and Azia have chosen Options 1 and 3.

(a) (i) Give **one** reason to explain why they may have chosen Option 1.

Option 1

- To give them funds in order to refurbish the guest house and help them over this period of financial difficulty (needs developed)
- Attracting more guests
- Paid back over a long period of time (1)

(ii) Give **one** reason to explain why they may have chosen option 3.

Option 3

- To increase the number of customers they have, become better known.
- Cheap way to advertise
- World wide/further away (1)

(b) Give **one** reason why they did not choose Option 2.

Option 2

- They are not gaining a huge amount of custom as it is, if they were to raise their prices they may lose even more. May not be as competitive a price. (1)

3. (a) *Apart from the business name, address and telephone number, identify 3 other pieces of information that could be included on the website Rizwan and Azia are going to design.*

See below (3)

(b) *Outline 3 purposes for putting information on a website.* (3)

- Picture of the guest house – to let people know what it looks like
- Map of Scotland/St Andrews – to let people know directions/where it is
- Interactive tour of the guest house – to let people see inside the guest house
- Prices of rooms – to ensure people are clear about how much a room costs
- Interactive booking – to allow people to book on-line without any hassle
- E-mail details – to allow customers to email the business with enquires
- Link with other associated sites – ie the Scottish Tourist Board that may encourage people to book with this business as they can easily access other information (ie book tickets for other sites in the area)
- Business Name – to let people know the name of the Guest House
- Address – to let people know where the business could be found
- Telephone Number – to allow people to contact them
- Show facilities
- Star rating
- Special deals

4. *Rizwan and Azia are considering applying for a bank loan. They could also apply for a grant.*

(a) Explain the difference between these two sources of finance.

Bank loan – they would have to apply to the bank for a loan and justify what they want it for. It would have to be paid back with interest.

Grant – could be applied for from various sources and this would not have to be paid back. Incentive to set up in area of high unemployment. (2)

(b) Identify an organisation which might provide a grant.

- Prince's Trust
 - Government
 - National Lottery
- (1)

5. *The guest house has cash flow problems. Explain how Rizwan and Azia could improve the business's cash flow.*

They could improve their cash flow by:

- Gaining extra capital, eg taking out a loan/grant
- Tightening their credit control
- Delaying payment on bills/invoices
- Tightening stock control
- Spreading their costs (ie Hire Purchase or leasing)
- Increasing their selling price
- Reducing their outgoings – eg cutting back on staff
- Increasing the number of bookings
- Sell off unnecessary assets
- Proper monitoring of cash flow using budgets

(5)

6. *If the guest house venture is successful, Rizwan and Azia may have to employ more staff. Describe any 4 steps in the recruitment and selection process.*

- Identify job vacancy
- Carry out a job analysis
- Prepare a job description
- Prepare a person specification
- Advertise the vacancy (internally or externally)
- Send out application forms
- Look through application forms/CVs
- Test candidates
- Interview suitable candidates
- Select the most suitable candidate(s)
- Inform the successful candidate(s) and unsuccessful

(4)

Max 1 for ID

Section 2 Solutions

1. *Businesses need information in order to make good decisions.*

(a) *Describe **four** characteristics information should have in order to be useful for decision-making.*

- Accurate – no errors in the information given
 - Concise – to the point
 - Appropriate – for the purpose it will be used for
 - Timely – available when it is needed and it is up-to-date
 - Objective – free from bias
 - Cost Effective – the cost to gather the information does not outweigh the benefits it brings
 - Complete – the information needed is present
 - Available – the information is accessible to the business
 - Relevant – pertaining to the business and its problems
- (4)

Max 1 for ID

(b) (i) *Managers make strategic, tactical and operational decisions. Explain each of these decisions and give an example of each type in relation to a McDonald's fast food chain.*

Strategic Long-term decisions made by senior management. These decisions are concerned with the strategic direction of the organisation.

Example To expand and open another fast food outlet in the area.

Tactical Medium term decisions which middle/senior managers usually make. These decisions are about how to achieve the organisation's strategic objectives.

Example To advertise, recruit and train more staff to work in the new outlet.

Operational Short-term, day-to-day decisions made by first-level managers/supervisors. These decisions are made in response to a change in circumstances.

Example To rearrange employee shifts in response to someone phoning in sick.

(6)

(ii) *Describe the stages of a decision-making process.*

- Identify the problem
- Identify the objectives
- Identify the constraints
- Gather information
- Analyse the information gathered
- Devise possible solutions
- Select the best solution
- Communicate the decision
- Plan and Implement the decision
- Evaluate the effectiveness of the decision
- Pest Analysis
- Swot Analysis

(5)

Notes – need not be in order

only I/D needed

(c) Explain the terms “downsizing” and “delaying”. Identify a situation where each may happen.

Downsizing This involves an organisation removing areas of its business – either by closing factories or merging departments/divisions together.

Situation May find that one factory/division is making huge losses and therefore decide to close it down.

Delaying This is when an organisation removes levels in its business – usually a level of middle management.

Situation If the organisation became too large and communication was ineffective.
If management costs were too high.
If the organisation was changing its structure from a hierarchical structure to a flat structure.

NB Two different situations are needed (4)

(d) Employees often feel threatened when change occurs.

(i) Identify any change employees may have to deal with in a business.

- Change of structure
 - Introduction of new technology
 - Change of personnel in charge
- (1)

(ii) Describe **five** actions an employee may take in response to this, or any other change.

Action an employee may take:

- Be hostile to the change
 - Sabotage the equipment
 - Discuss their concerns with their manager
 - Involve Trade Unions
 - Work to rule
 - Strike
 - Go Slow
 - Boycott
 - Take days off due to stress
 - Actively seek/get training to develop the necessary skills
 - Involve works council
 - Involve quality circle
- (5)

Total (25)

2. *Eric is a landscape gardener. He has recently extended his services to include making and fitting specially designed timber decking.*

(a) (i) *Name the method of production Eric is using.*

Job Production

(1)

(ii) *Describe 2 advantages and 2 disadvantages of such a method of production.*

Advantages

- Work is very specific to customer demands so a higher price may be charged.
- Employees are more likely to be highly motivated.

Disadvantages

- Expensive in terms of paying skilled craftsmen higher wages.
- A wide variety of tools may be required to meet the demands of each job.
- Each 'job' can take a long time to complete.

NB if (i) is wrong, mark (ii) according to the answer given for (i)

(4)

(b) *Eric's employees require continuous training to carry out their role effectively. Identify and describe 2 types of training existing employees could undertake.*

Off the job training

- This is training which takes place away from the work station at a college/university, training organisation or in-house.

On the job training

- This is training which takes place while you are doing the job – ie 'sitting next to Nellie'.

(4)

(c) *Eric is currently a sole trader.*

(i) *Identify and describe 2 alternative types of business organisation Eric could form.*

Partnership

- This is where 2-20 people own and control the business.

Private Limited Company

- This is a company where shares are owned privately – usually by family members. Shares are not available on the stock exchange.

Public Limited Company

- Shares can be bought by anyone/on the stock market. Control may easily be lost.

(4)

(ii) Give an advantage and a disadvantage of each of the 3 types of business organisations (the sole trader **and** the 2 other business organisations identified).

Advantages of a Sole Trader

- Get to make all the decisions
- Get to keep all the profit
- Easy to set up

Disadvantages of a Sole Trader

- Unlimited liability
- Additional finance may be hard to come by
- Owner has no-one to share the responsibility with

Advantages of a Partnership

- Partners can bring in different ideas/expertise
- Partners can bring in additional finance
- Workload can be shared
- Partnerships can be in a stronger position to gain outside finance

Disadvantages of a Partnership

- Partners have unlimited liability
- Profits have to be shared between partners
- There may be disagreements
- Partnership Agreement has to be drawn up

Advantages of a Private Limited Company

- Shareholders have limited liability
- The business is not controlled by outsiders
- More finances can be raised from shareholders/lenders

Disadvantages of a Private Limited Company

- Profits have to be shared amongst more people
- Firms have to abide by the Companies Act
- Firms must publish annual accounts
- Shares cannot be sold to the public, so raising finance can be more difficult than a Public Limited Company

(6)

(d) Explain how each of the following stakeholders can **influence** Eric's business.

Employees

- Could alter their rate of work (positively and negatively), take industrial action.

Suppliers of timber decking

- May refuse to supply Eric, may increase their prices, may alter the firm's credit terms.

Government

- May introduce a law which affects Eric and his firm.

Local Community

- May protest against the firm.

Customers

- May stop buying from Eric, may recommend him to friends.

Bank

- May authorise/refuse a loan.

(6)

Total (25)

NB if the influence is only developed and not explained as to possible effects then I/D max-1.

3. (a) *Identify the elements of the Marketing Mix and describe why each is important.*

Product

- Must meet the needs of the customer, if not they won't buy it.

Price

- Must be calculated to cover costs and make a profit, but not be too high that customers will not be willing to pay it.

Place

- Must be available to consumers in the right location to match the target group for the product.

Promotion

- Must be advertised and promoted correctly otherwise consumers won't know about it.

NB watch repetition of the phrase "they won't buy it" (or similar) (8)

(b) (i) *Describe what is meant by the term "Market Research".*

Market research involves finding out what customers' wants and needs are and what will encourage them to buy your product. (1)

(ii) *Explain why it is important for organisations to carry out Market Research.*

Market research is important because it tells an organisation:

- What customers want from them
- Where they should sell their product
- What customers think of their product
- What price they should sell their product at
- Why some customers prefer competitors' goods/services
- What size of market they are working in
- Helps an organisation avoid making mistakes
- Helps them launch a new product successfully
- Which market to target with their product/who would be interested in the goods/service. (5)

- (c) *Some products have a long Product Life Cycle. Explain why this is, and give an example of a product with a long Product Life Cycle.*

Some products never really go into the decline stage of the Product Life Cycle because they are well established and remain popular and/or have injected new life into their product successfully to avoid the decline stage.

Example: Coca Cola, Mars Bars, Heinz Baked Beans (2)

- (d) (i) *Explain the term “Just-in-Time” and describe 2 advantages and 2 disadvantages of this system.*

JIT is a method of stock control that involved getting stock to arrive just before it is needed in the production process.

Advantages

- Money is not tied up holding stock
- Stock does not deteriorate
- Storage costs are reduced

Disadvantages

- Production may be disrupted if stock doesn't arrive on time (no spare stock to fall back on)
- High dependence on the supplier
- Little/no chance quality control of stock
- Increased ordering and admin costs
- May lose bulk buy discounts
- Increased transport costs (5)

(ii) *Identify 2 problems an organisation may face if it overstocks and 2 problems it may face if it understocks.*

Problems of overstocking

- Cost relating to storage increase
- Cash is tied up in stock
- Stock may perish/deteriorate
- Stock may become out-of-date and no longer in fashion

Problems of understocking

- Production may have to be stopped until other supplies arrive
- Customers may be unhappy if they have to wait for their goods
- Firms may incur increased administration costs if they are frequently re-ordering.

(4)

Total (25)

4. (a) *Describe 3 channels of distribution for a producer and give examples of products or businesses that would use each channel. (Use a different example for each.)*

Producer directly to the consumer

Example: Virgin Vie Make-up

Producer to a retailer to the consumer

Example: Washing machine manufacturer

Producer to a warehouse to a retailer to the consumer

Example: Heinz Baked beans

(6)

Diagrams may be accepted

- (b) (i) *Businesses may choose to grow. Describe each of the methods of growth listed below.*
- Internal growth – company buying additional premises to expand their current business.
 - Backward vertical integration – company buying a business that is at an earlier stage in the production process than themselves.
 - Forward vertical integration – company buying a business that is at a later stage in the production process than themselves.
 - Horizontal integration – company joins with another company producing the same type of goods/service.
 - Diversification – company starting up/taking over a completely different business to their original one.
- (5)

- (ii) *Give 4 reasons why a business may choose to grow.*
- Product/service they are providing has increased in popularity
 - They see a gap in the market
 - They wish to dominate the market
 - Less subject to a takeover themselves
 - Take advantage of economies of scale
 - May acquire additional assets
 - Any reasonable business objective
- (4)

- (c) *Identify and describe 4 external influences that affect a business.*
- Political – changes in law/taxation
 - Economic – recession/boom in the economy
 - Social – changes in society, people’s tastes and views
 - Technological – advances in technology
 - Environmental – increase use of environmentally friendly materials
 - Competitive – increasing amounts and types of competition
 - Climatic – changes in the weather
 - Any external stakeholder
- (8)

(d) Describe 2 internal pressures that put constraints on a business's activities.

- Lack of finance to enhance the business
- Lack of up-to-date equipment
- Lack of co-operation from employees
- Lack of trained employees
- Shortage of trained/experience managers

(2)

Total (25)

5. (a) *Accounting ratios measure the areas of profitability, liquidity and efficiency.*

(i) *Explain why an organisation is concerned with each of these areas.*

Profitability

- Businesses will be concerned with their profitability to ensure they are making a profit from their business activity.

Liquidity

- Businesses will be concerned with their liquidity to ensure they can pay their debts easily.

Efficiency

- Businesses will be concerned with their efficiency to ensure they are using the businesses resources well.

(3)

(ii) *Identify a different ratio that would be calculated in each area.*

Ratios that measure profitability are:

- Gross Profit %
- Net Profit %
- Return on Capital Employed.

Ratios that measure liquidity are:

- Acid Test/Quick ratio
- Working Capital Ratio.

Ratio that measures efficiency is:

- Rate of Stock Turnover.
- ROCE

(3)

Correct formula would be accepted as identification of ratios

(b) *Explain the limitations of ratio analysis.*

Ratio analysis is limited because:

- It doesn't take into account factors such as morale, quality of staff etc
- It doesn't take into account external economic factors eg inflation
- Ratios can only be compared to similar businesses in relation to type of business and size of business
- Information in the final accounts is historical
- It doesn't reflect the implication of new products/declining products. (4)

(c) *A multi-national organisation is thinking about introducing ICT (Information Communication Technology) as a means of improving communications throughout its branches.*

(i) *Identify and describe 3 methods of ICT that would improve communications for this organisation.*

Fax

Allows an exact copy of a document to be transmitted through the telephone line in seconds

E-mail

Allows an organisation to send a message electronically (or from one computer to another) in seconds

Video Conferencing

Allows people in one country to talk face-to-face with people in another country without needing to travel there

Mobile/WAP/TV Telephone

Allows people to be contacted very easily wherever they are.

Internet plus some mention of website/computers/software (6)

(ii) *Increased use of ICT raises health and safety issues.*

Identify 5 ways an organisation could address health and safety issues in relation to ICT.

- Lighting should be adequate
- Monitors should have no glare
- Employee work chairs should be adjustable
- Employees have the right to have their eyes tested at the firm's expense
- Employees should be allowed regular breaks
- There should be space in front of keyboards to support wrists
- Footrests should be provided
- Monitors/keyboards should be adjustable. (5)

(d) *With the introduction of ICT, a business has recruited new employees to provide ICT support for the organisation. Each employee has been given a Contract of Employment. Identify 4 pieces of information that would be contained in this Contract of Employment.*

- Title of the job
- Hours of work
- Holiday entitlement
- Sickness pay/allowance
- Rate and timing of pay
- Discipline/grievance procedures
- Pension scheme
- Date employment began
- Notice required (4)

Total (25)

[END OF MARKING INSTRUCTIONS]