



2008 Business Management

Higher

Finalised Marking Instructions

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Higher**

Section 1

1. *Identify the problems faced by Lees. You should use the following headings.*

- Marketing
- Human Resource Management
- Finance
- Operations

**SOME OF THESE PROBLEMS CAN APPEAR IN MORE THAN ONE
HEADING – ONLY AWARD ONCE.**

Marketing

- Producing only a handful of old-fashioned products.
- Had outdated 1930's style packaging.
- Competitive market.
- Low profit margin eg cut-throat price discounting.

Human Resource Management

- Anxious and nervous workforce concerned for the future of their jobs/
demotivated workforce.
- Many senior managers were not performing to the standards that Miguel
demanded.
- Miguel's style of management is a 'bit more hard nosed' causing conflict with
some of the long term managers.
- Inadequate sales staff.

Finance

- In the 1980s sales dropped to an all time low.
- In 1993 they nearly folded with high debts/liquidation/bankruptcy.
- The company had a balance sheet worth just £350,000.
- The world wide economic recession.
- Sales staff were also not making enough of a profit margin for the company.
- Pre tax profits fell.

Operations

- Lees couldn't cope with increased demand.
- Inherited 2 run down factories.
- Miguel felt that many of the production and operations aspects of the business were in a mess.
- Increase in costs – max 1.

(10)

MAX 3 PER HEADING

NO HEADINGS – MAX 3

CLEAR SECTIONS BUT NO HEADING – AWARD MARKS

2. *Organisations often use an entrepreneurial structure. Explain the advantages and disadvantages of an entrepreneurial structure.*

Advantages

- Decisions are made by experienced managers of the organisation.
- Decisions are made quickly as managers do not consult staff.
- Staff know who they are accountable to.

Disadvantages

- Is difficult to use in larger businesses.
- Top managers carry a heavy workload/burden.
- Does not allow for initiative from staff.
- Demotivated staff as they are not included in decision making.

Max 3 for advantages or disadvantages

(4)

3. *Lees could use the Internet to market their brand name to overseas customers. Describe the benefits of using the Internet to market products.*

- Can sell its products on the Internet, e-commerce **OR** customer benefit of on-line shopping eg free delivery, online discounts etc.
- Increased potential market to become worldwide.
- Consumers can order 24/7.
- Customers can leave their details on company website.
- Customers can gain information about the products.
- Market research can be carried out/on-line questionnaires.
- Can research information on competitors or suppliers.
- Gives the image of an up-to-date company.
- Hyperlinks with other sites.
- Quality of internal information.

(5)

4. *Lees' Board of Directors has identified growth as a strategic objective.*

(a) *Explain internal factors which could be taken into account prior to an organisation setting strategic objectives.*

- Size of the organisation, smaller firms strategic objectives will be of a smaller nature than multi-national companies.
- Company Policy eg social and ethical responsibility.
- Shareholders points of view.
- Whether a private or public sector organisation.
- Internal financial situation.
- Technological factors.

(4)

(b) *Describe 3 tactical decisions that could lead to growth.*

- Open new branches.
- Offer internet shopping.
- Target new market segments.
- Launch a new range of products.
- Vertical integration.
- Horizontal integration.

(3)

5. *Lees' management use ratios to analyse financial data.*

(a) *Describe ratios which could be used to ensure appropriate levels of profitability and liquidity are maintained.*

- Gross Profit % measures the gross profit, on each sale, from buying and selling.
- Net profit % measures the profit after expenses, on each sale.
- Mark Up – measures how much has been added to the cost of the goods as profit.
- Return on capital employed – measures the return on investment in the business.
- Current ratio – shows how able a business is to pay its short term debts.
- Acid test ratio – ability to pay short term debts after stock is deducted.

Must have one profitability and one liquidity.

(5)

MAX 4 PER RATIO

(b) *Describe the limitations of using ratio analysis.*

- Information is historical.
- Does not take into account external factors eg recession.
- Does not show the staff morale.
- Does not take into account recent investments.
- Does not take into account new products launched.
- Can only compare like organisations with like eg size, market etc.

(3)

6. *Lees changed the packaging of their products which made them more eye-catching and appealing to consumers. Explain 5 other methods of extending a product's life cycle.*

1 mark for appropriate diagram

- Improve the product – eg lighter, new features etc.
- Alter price – eg increase/decrease price.
- Change the method of advertising – eg from TV to radio.
- Change the use of the product – eg Lucozade once was used to reenergise ill people, now used as a sports drink.
- Introduce line extensions to the product – eg different flavours, sizes, formats etc.
- Change the name of the product – eg Opal Fruits to Starburst, Marathon to Snickers.
- Alter the place the product is sold – eg selling on-line.

(5)

METHOD CAN BE EXPLAINED THROUGH AN EXAMPLE

7. *Wholesalers buy goods in large quantities directly from manufacturers. Discuss the advantages and disadvantages to a manufacturer of using a wholesaler.*

Advantages

- Saves on a number of smaller deliveries.
- Administration costs are reduced.
- Less money tied up in stock.
- Less stock goes obsolete.
- Wholesalers may label the product.
- Wholesalers break product down into smaller more saleable size.
- Wholesalers can give market research direct to manufacturer.

Disadvantages

- Loss of control of how the product is presented.
- Less profits as wholesaler makes profit, ie using middle men.
- Costs involved in producing point of sale merchandising for wholesalers. (5)

MAX 4 PER AREA

8. *Discuss the role of appraisal and its ability to motivate staff.*

- Appraisal should give feedback on the review of an employee's past performance.
- It should involve a discussion about expectations and targets.
- Is an opportunity to support development needs of employees.
- Can be used to assess employees potential for promotion.
- It may involve bonus schemes or be linked to pay.

Motivates staff by

- Improving communication channels between managers and staff.
- Should increase job satisfaction as employees will have a better understanding of how to do their job.
- May improve loyalty to the organisation if positive rewards are given.
- Allows for a feeling of personal satisfaction if targets are met.
- Training and development in itself can be motivational as staff feel valued.
- Could be demotivational if negative aspects focused on.

(6)

MUST MENTION MOTIVATION TO GAIN FULL MARKS

NO FLIPS

[END OF SECTION ONE]

Section 2
SOLUTIONS

1. (a) *Describe how both horizontal and vertical integration could allow an organisation to become even larger and more profitable.*

Horizontal integration

- Can use economies of scale and reduce unit cost of products.
- Can dominate the market as a larger single organisation.
- May allow for higher prices to be charged as competition is reduced.
- Reduction in costs – max 1.

Vertical integration

- Profits are increased by cutting out the ‘middle men’.
- Stock can be cheaper due to backward integration.
- Guaranteed source of supplies and prices of stock.
- Reduction in costs – max 1.

Maximum of 4 for only horizontal or vertical.

(5)

(b) *Describe methods a limited company could use to finance a successful takeover.*

- Share issue – shares issued on the stock market.
- Bank Loan – a loan paid back over time/with interest.
- Commercial Mortgage – a loan secured against property owned by the organisation.
- Sell Assets/land – sell unwanted assets to raise funds.
- Venture Capitalists – obtain a loan from a venture capitalist who will receive a share in the organisation in return.
- Retained profits – use retained profits from previous years to fund the takeover.
- Debentures – loans paid back over a period of time/with interest.

(4)

MINIMUM OF 2 METHODS MUST BE DESCRIBED (MAX 3 PER METHOD)

(c) *Explain why firms use loss leaders as a pricing tactic.*

- Brings customers into the shop to buy the products.
- Customers then buy other products which are normally priced.
- Profits are made on the whole amount a customer purchases.
- Creates customer loyalty as customers don't go to competitors shops.
- Can be used in a marketing campaign.

(3)

(d) *Describe the methods available to a Public Relations department to improve the image of an organisation.*

- Use of press release to counteract bad publicity.
- Give donations to charities.
- Sponsor events locally and nationally.
- Product endorsements/celebrity endorsements.
- Publicity literature given out.
- Give out company merchandise.
- Use press conference – invite media to attend – 2-way interaction.

(5)

MINIMUM OF 2 METHODS (MAX 4 PER METHOD)

(e) *Many organisations group their activities by function. Discuss other methods an organisation could use to group their activities.*

Product/service grouping

- Each division will be grouped according to a product or product range.
- Allows for an organisation to be more responsive to changes in that market.
- Expertise is developed within each specialised division.
- Allows management to identify poor performing products.
- There can be duplication of resources and personnel across groups.
- Divisions may find themselves competing against each other.

Geographical

- Grouping of resources is carried out across a geographical area, ie, Midlands, Scottish, South-East Division, etc.
- Allows to cater closer for the needs of different areas.
- Can become familiar with local customs and cultures.
- Is expensive with regards to administration and staffing costs.

Technological

- Organisations group their activities according to technological process.
- Suitable for large organisations with different production processes.
- Again duplication of resources occurs.

Customer

- Resources are organised around groups of customers with similar needs.
- Allows for services to be tailored to each group of customers or a specific customer.
- Builds up customer loyalty due to the personal service they receive.
- There can be large staffing costs with this type of grouping.
- Also duplication of resources in administration, finance, etc.

Max 6 per grouping

(8)

Total 25

NO REPETITION

2. (a) *Employees may undertake industrial action in an attempt to force employers to meet their demands. Describe types of industrial action that employees could take.*

- Strike – employees refuse to do their work and do not enter the workplace.
- Sit in – employees are in their place of work but do not do any work.
- Work to rule – employees only undertake the exact jobs written in their job description.
- Go slow – employees deliberately work at a much slower rate.
- Overtime ban – employees do not do any overtime.
- Picketing – employees protest at entrance to the place of work.

(4)

MAX 2 PER TYPE

(b) *Explain possible effects that prolonged industrial action could have on an organisation.*

- Loss in production will lead to possible shortages in stock.
- Loss in sales revenue may lead to liquidation.
- Long term loss of customers who now shop at competitors.
- Image of organisation is tarnished.
- Damage to long term reputation of organisation.
- Share price can fall.
- May result in redundancies.
- Improves working practices.
- Facilitates change.

Credit positive effects.

(5)

(c) (i) *Distinguish between delayering and downsizing.*

- Delayering involves removing a whole level of management to flatten an organisation's structure.
- Downsizing involves closing specific areas of the organisation to cut costs.
- Purpose.
- Span of control.
- Communication.
- Efficiency.
- Cost.
- Competitiveness.
- Empowerment.

(3)

DISTINGUISH ON A FACTOR BUT SHOW THE DIFFERENCE BETWEEN THEM EG WAGES – DELAYERING SAVES COST ON MANAGEMENT WAGES WHEREAS DOWNSIZING SAVES COST ON WAGES OF ALL LEVELS OF WORKERS

(ii) *Explain the benefits to an organisation of using outsourcing.*

- Specialist firms can carry out the work better than the organisation itself.
- The organisation that the work is outsourced to will have specialist equipment.
- Reduces costs of the area that is being outsourced.
- Allows an organisation to concentrate on its core activities.
- Organisation only pays for the activity when it is required.

(4)

(d) *ICT is used to help head office communicate effectively with branches in remote areas of the country. Explain how modern technology can be used to communicate effectively within an organisation.*

- Use of shared resources on LAN's – work can be done by more than one employee at different branches on the same software or file.
- Staff can have their own area or could have departmental areas where information is stored.
- E-mail – messages can be sent to more than one employee at a time.
- Attachments can be sent between employees.
- Video-conferencing – branch managers can hold meetings without leaving their office, saves costs of travel and accommodation.
- Mobile phones – used by sales person to stay in touch with head office or branches.
- Fax machines – information can be faxed from one branch to another.
- Internet – used to check company website information.
- Powerpoint used for delivering training.
- Spreadsheets – used to show charts/graphs and allow for easier analysis of information.
- Word processing – can be used to send letters, memos, notices to employees.
- Database – can be used to sort large quantities of information for use by staff.

(6)

SAME ID BUT DIFFERENT EXPLANATION GAINS MARKS

NO REPETITION OF HOW IT HELPS EFFECTIVE COMMUNICATION

(e) *Describe 3 types of production.*

- Batch production – groups of similar products are made at the same time and no item in the batch goes to the next stage until the whole batch is ready.
- Flow production – items move continuously from one operation to the next and each part of the process leads to the completion of the final product.
- Job production – a one-off single product is made to a customer's specification.

(3)

Total 25

3. (a) *Describe how stakeholders could make use of financial information provided by an organisation.*

- Use ratios to check on the organisation's performance and to compare to other organisations and previous years. Use sales figures to set targets.
- Use the annual reports to decide whether to purchase shares. Use share prices to decide to buy or sell shares.
- Look at liquidity ratios to decide if they should allow credit or if they will receive payments for the goods they have sold the organisation.
- Interest in the profit figure to decide what taxation is due.
- The overall profit of the business could be used to decide on wage rises.
- Interest in the liquidity position of an organisation to ensure job safety.
- Profitability and liquidity position will be used to decide if they should be granted loans.
- Look at the level of creditors the organisation already has to make decisions on loans.
- Analyse the profitability and liquidity of the organisation to make decisions on the local economy.

(7)

NO ID OF STAKEHOLDER REQUIRED – DIFFERENT STAKEHOLDERS CAN HAVE SIMILAR USES (EG SUPPLIER AND BANK)

COMPETITOR IS NOT A STAKEHOLDER

(b) Describe 4 causes of cash flow problems.

- Too much money tied up in stock.
- Customers being given too long a credit period or too high a credit limit.
- Owners taking out too much money through drawings.
- Having high borrowings with increased rates of interest.
- Suppliers not allowing credit or very short credit period.
- Sales revenue not high enough.
- Sudden increase in expenses (1 expense only).
- Capital expenditure.

(4)

(c) (i) *Identify and explain 3 economic factors that can affect the profitability of a business.*

Inflation – increased prices or cost.

- Exchange rates – value of one currency compared to another.
- Interest rates – cost of taking out a loan.
- Recession – a slow down in the economy/fall in demand.
- Boom period – an upturn in the economy/increase in demand.
- Unemployment – fewer people working.

(6)

FACTOR CAN BE EXPLAINED THROUGH THE USE OF AN EXAMPLE

(ii) *Describe 4 other external influences that can affect the success or failure of a business.*

- Political factors – laws from both UK and EU affect organisations in a variety of ways.
- Social factors – society is continually changing and organisations must adapt to changing demographic trends as well as cultural trends.
- Technological factors – technology is continually advancing and organisations must keep up-to-date with new developments in technology.
- Environmental factors – weather changes in recent years have caused problems, also in recent years environmental issues have become increasingly important.
- Competition – the way competitors act will impact on how an organisation needs to alter the way it operates.

(4)

WATCH FOR REPETITION FROM C(i)

(d) *Discuss the advantages and disadvantages to organisations such as Asda of selling own brand products.*

- Own labels require very little advertising.
- Can attract customers to the store ie George at ASDA.
- The retailer does not need to produce the own brand products.
- A range of products with own labels can be sold.
- Some 'own brands' can be seen as value for money and a quality product.
- Own labels are cheaper to customers.
- Whole brands can be tarnished over 1 products failure or problem.
- Run the risk of imitator brands.

Maximum of 3 advantages or disadvantages.

(4)

Total 25

4. (a) *Organisations spend vast sums of money developing new products. Describe the stages that take place before a new product is launched onto the market.*

- Generate the idea through market research.
- Analyse the idea.
- Find the appropriate finance for the new product.
- Decide if product is legal/technically possible/can be produced.
- Produce a prototype.
- Test market.
- Make any required alterations.
- Full scale production.
- Advertise the product prior to launch.

(6)

ONLY ONE MARK EACH FOR PROTOTYPE, TEST, ALTER

(b) *Explain the advantages to an organisation of using market segmentation.*

- Products are developed that suit a particular market segment.
- Allows price differentiation for different market segments.
- The place products are sold at will be appropriate for the particular segment.
- Advertising can be specific for certain segments.
- Promotional offers can be targeted to specific segments.

(4)

(c) *Explain the purpose of the Advertising Standards Authority.*

- Monitors advertising in newspapers, magazines, billboards to ensure they are up to standard.
- Can have adverts changed or withdrawn if found to be untruthful or offensive.
- To investigate complaints.

(2)

(d) (i) *High quality and reliable information is essential if a manager is to make effective decisions. Describe the characteristics of high quality, reliable information.*

- Timely – information is available when required and is up-to-date.
- Accurate – information does not contain errors.
- Appropriate – information is suitable to the task required.
- Objective – information is free from bias.
- Available – information is there when needed.
- Complete – information contains all the required parts.
- Concise – information is brief and to the point.
- Cost effective – information is not more expensive than it needs to be.
- Sufficient – there is enough information to make a decision.

1 mark for each correct description.

(4)

(ii) *The Data Protection Act 1998 is the legislation which covers information stored on computers about individuals. Describe the main features of the Data Protection Act.*

- Information must be obtained lawfully.
- Must be accurate and up-to-date.
- Must only be held for the purpose stated.
- Must be securely stored.
- Should only be held for the time it is required.
- Needs to be altered if inaccurate.
- For a small fee individuals must be shown the information stored on them.
- Cannot be disclosed.
- Must be adequate and relevant.

(5)

(e) *Explain the role of testing in the selection of new staff.*

- Tests are used to provide further information than is obtained during an interview.
- Helps management decide a candidate's suitability for a position.
- Used to allow candidates to demonstrate skills they require for the position.
- Helps assess the natural abilities of staff.
- Can help assess personality traits in an attempt to see if a candidate will fit into the culture of the organisation.

(4)

Total 25

5. (a) (i) Describe how the introduction of Quality Management (formerly TQM) techniques could ensure a quality product or service.

- Constant improvement philosophy.
- Zero errors are tolerated therefore cuts down on wastage.
- All staff are committed to producing a perfect product.
- Quality circles are set up to make the processes more efficient.
- Clearly defined policies regarding quality exist.
- Teamwork is carried out at all levels.
- Staff training is an ongoing process.
- The organisation focuses on customer satisfaction.
- All processes are evaluated on a regular basis to ensure quality.
- Motivated staff should ensure a quality product/service.

(5)

(ii) *Explain how the Human Resource Department can help to ensure that a quality product or service is produced.*

- Recruitment and selection process ensure only high quality and appropriately qualified staff are hired – max 1.
- Staff training should be carried out continuously.
- Appraisal systems are set up and carried out.
- Clearly defined roles for all staff are laid out in handbooks.
- Health and safety procedures are adhered to.
- Staff are motivated through staff welfare.

(4)

(b) (i) *Describe the JIT stock control system.*

- JIT is a system that involves only ordering stock when it is needed and when an order has been placed.
- Stocks arrive just in time to be used in the production process.
- Goods are not produced unless an order is placed from a customer.
- Relies on efficient suppliers.

(2)

(ii) Describe the advantages and disadvantages of using such a system.

Advantages

- Money is not tied up in stock.
- Less space is required to store stock.
- A close relationship is built up with suppliers.
- Less wastage due to deterioration.
- Less wastage due to fashion changes.
- Reduces costs – max 1.

Disadvantages

- If suppliers don't deliver production is affected.
- High dependence on suppliers.
- High admin costs due to continual ordering.
- Higher transport costs.
- May lose discounts due to bulk buying.

Maximum of 4 for advantages or disadvantages.

(5)

(c) *Describe how a manager could evaluate the effectiveness of a decision.*

- Have the objectives been reached (ie problem solving)?
- Is the organisation operating effectively?
- Is there an increase in sales/profits?
- Has staff turnover/absenteeism decreased?
- Has staff morale improved?
- They may issue questionnaires/interview staff/observe.

(4)

(d) Describe the advantages and disadvantages of a wide span of control.

Advantages

- Staff are empowered to make their own decisions and to carry out their own tasks without interference by managers.
- Less managers are required and wages are saved.
- Less levels of communication for decisions to pass through.
- High quality staff should exist.

Disadvantages

- Managers may make snap decisions as they are looking after too many employees.
- Managers time will be at a premium.
- Managers will have less time for planning.
- Subordinates may make decisions they are not trained to make.

Must have at least one advantage and disadvantage.

(5)

Total 25

[END OF MARKING INSTRUCTIONS]