



# **MARKSCHEME**

**May 2005**

**BUSINESS AND MANAGEMENT**

**Standard Level**

**Paper 2**

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1. (a) **Explain how the aims and objectives of a charity may be different from those of a profit making organization.** **[4 marks]**

The main aims of a charity are to promote and raise money for good causes. They exist to draw attention to the needs of disadvantaged groups/animals. Their main aim may not be to produce a profit or to grow. Any profit from a charity is considered to be a “surplus”. If the objective is to grow, it is so that they can do more for their good causes. Other aims such as prestige are not as important, though survival may be an objective. The objectives will be determined by the stakeholders.

**[4 marks]**

A detailed explanation of how the aims and objectives of a charity may be different. The main points are all covered.

**[2 to 3 marks]**

An explanation of how the aims and objectives of a charity will differ covering some of the points.

**[1 mark]**

A limited and general response.

- (b) **Examine the effects on *Get Going* of moving from a tall to a flat organizational structure.** **[6 marks]**

There may be changes in jobs and even job losses or job increases. Managers will have different roles and responsibilities and may have training issues. The number of levels in the hierarchy will be reduced. The span of control will increase. This will affect communication both top down and bottom up. Some functions may disappear. Motivation may be affected. Decision making may take longer.

**[5 to 6 marks]**

A relevant examination of the effects of changing the structure related to the case study and entirely appropriate.

**[3 to 4 marks]**

A relevant examination of the effects of changing the structure but it may lack detail. At the lower end it may lack application to the case study.

**[1 to 2 marks]**

A limited and general response.

- (c) Identify *two* examples of formal and *two* examples of informal communications that might be used in *Get Going*.

[4 marks]

Formal communication could include

- all methods approved by employers and employees
- meetings arranged by the organisation representatives
- union meetings
- notices for redundancy
- minutes of meetings
- memos and e-mails
- appraisal.

Informal communication could include

- the grapevine
- spreading rumours
- meetings/get together not approved
- “leaks”
- verbal discussion between employees
- discussion during breaks/lunch *etc.*
- private e-mails between colleagues
- social outings
- other suitable methods may be identified.

Award [1 mark] for each example correctly identified up to a maximum of [4 marks].

- (d) Evaluate *two* solutions to the problems of poor communications in *Get Going*.

[6 marks]

The managing director could minimize and address these issues by holding a briefing meeting for appropriate staff or by publishing a document that outlines the plans for the company. The rumours need to be tackled and facts put to the workers about the current situation. The managing director could link performance management to any decisions that have to be made and if redundancies are planned make plain to the staff the criteria to be used.

The managing director could improve communication in many other ways using solutions such as

- bulletin boards
- newsletters
- e-mails
- get together events
- team events
- team building activities
- assign a manager to develop communication
- Intranet and Internet.

*N.B.* A solution given may be to revert to a tall structure. This needs to be evaluated and while it may be a solution, it is not an appropriate solution.

Answers that include other sensible suggestions should be rewarded.

**[5 to 6 marks]**

Two ways to improve communication are evaluated they are entirely relevant and there is some reference to *Get Going*.

**[3 to 4 marks]**

Two ways to improve communication are given and there is some attempt at evaluation. The methods are generally relevant and there should be some reference to *Get Going*.

**[1 to 2 marks]**

A limited response in terms of methods of communication but there must be some suitability to *Get Going*.

2. (a) **What are the main elements that Roberto, Helena and Isabel should include in their marketing plan?**

*[5 marks]*

Elements include:

- description of businesses future
- PEST analysis
- strategies used to meet goals
- SWOT analysis
- potential problems and ways to solve them
- marketing objectives
- financial information
- marketing mix – analysis of each element
- targets
- competition and how to beat it
- design and development.

*[5 marks]*

Most of the elements of the marketing plan are given and they are relevant to the chauffeur service.

*[3 to 4 marks]*

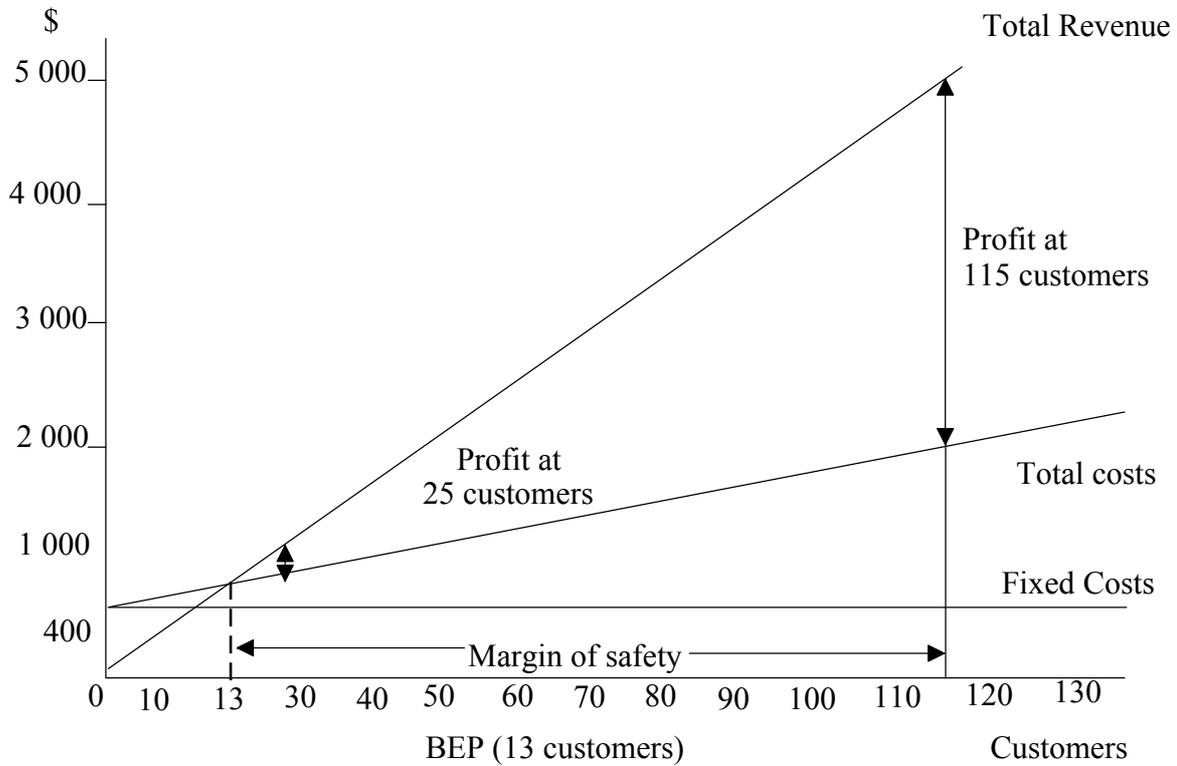
Some of the main elements of the marketing plan are given and they are generally relevant to the chauffeur service.

*[1 to 2 marks]*

A limited answer in terms of the marketing plan elements, but there should be some relevance.

(b) Using the information provided produce a break-even chart.

[6 marks]



[5 to 6 marks]

A fully labelled break-even chart is produced that includes all detail and uses an appropriate layout and use of space. At the lower end there may be one error, or layout might need improvement.

[3 to 4 marks]

A break-even chart is produced that includes most of the detail and uses an appropriate layout but might need some improvement. At the lower end there may be some errors or layout needs improvement.

[1 to 2 marks]

A limited break-even chart but with some correct detail.

Number of customers per week	Fixed costs	Variable costs	Total costs	Total Revenue
0	416	0	416	0
10	416	80	496	400
20	416	160	576	800
30	416	240	656	1200
40	416	320	736	1600
50	416	400	816	2000
60	416	480	896	2400
70	416	560	976	2800
80	416	640	1056	3200
90	416	720	1136	3600
100	416	800	1216	4000
110	416	880	1296	4400
120	416	960	1376	4800
130	416	1040	1456	5200
140	416	1120	1536	5600

10	416		496	400
11	416	88	504	440
12	416	96	512	480
13	416	104	520	520
14	416	112	528	560
15	416	120	536	600
16	416	128	544	640
17	416	136	552	680
18	416	144	560	720
19	416	152	568	760
20	416	160	576	800

BEP = 13 passengers

**(c) Use the chart to find****(i) the break even point;****[1 mark]**

13 customers.

Award **[1 mark]** for a correct BEP.**(ii) margin of safety at 115 customers per week;****[1 mark]**

102 customers.

Award **[1 mark]** for a correct margin of safety.**(iii) profit/loss at 25 customers per week;****[1 mark]**

Profit = revenue – costs

$$1000 - 616 = \$384$$

Award **[1 mark]** for a correct profit/loss.**(iv) profit/loss at 115 customers per week.****[1 mark]**

Profit = revenue – costs

$$4600 - 1336 = \$3264$$

Award **[1 mark]** for a correct profit/loss.**(d) Analyse how *Heroes Taxis* would be affected by changes to its external environment.****[5 marks]**

The increase in oil prices would not only affect the price of their petrol, making taxi fares more expensive and less competitive, but also the price of aviation fuel which could increase air fares. This would increase direct costs from petrol and could also increase passenger fares. If a runway is partly funded from passenger fares also the two factors might make flying to Madrid unpopular and would again affect the business. Local residents might oppose night flights and protest thereby putting passengers off. The situation would decrease passengers needing taxis if they did not fly due to increased air fares or protests from residents. Other external factors such as competition and weather may be analysed and may be appropriate.

**[5 marks]**

A relevant analysis of how *Heroes Taxis* would be affected by changes to the external environment covering most of the points including aviation fuel.

**[3 to 4 marks]**

An attempt at an analysis of how *Heroes Taxis* would be affected by changes to the external environment covering some of the points.

**[1 to 2 marks]**

A limited and general response.

3. (a) Explain what is meant by a franchise. [2 marks]

A franchise is an agreement where a business (the franchisor) sells rights to other businesses (the franchisees) allowing them to sell products or use the company name.

Award up to [2 marks] for a suitable explanation.

(b) Identify three types of stakeholder and explain their relationship to the restaurant. [6 marks]

Stakeholders include	Relationship to restaurant
Suppliers	Provide supplies to the restaurant, the busier the restaurant the more supplies they will need.
Employees	Their jobs and working condition depend on the success of the restaurant.
Stockholders	Stockholders have invested in the business; the success of the restaurant affects their investment.
Customers	Customers use the services and buy the goods in the restaurant. They want quality products at a suitable price.
Local residents	Local residents are interested in what the restaurant does and how the activities affect the environment and local area.
Creditors	Creditors will not be paid if the restaurant is not successful and meeting its commitments.
Competitors	Competitors are affected by the success or failure of the restaurant and will keep a close eye on activities that will affect their business.
Local government	Local government will receive an income in taxes/rates and closure will affect this.
Franchisor	The franchisor's reputation will be affected if the restaurant receives negative publicity and/or fails. Royalties may also be affected.
Franchise/Owner	The franchisee/owner will be affected by the profit generated by the business.

**[5 to 6 marks]**

Three stakeholders are identified correctly and a relevant explanation is given of their relationship to the restaurant.

**[3 to 4 marks]**

Some stakeholders are identified correctly and some explanation is given of their relationship to the restaurant.

**[1 to 2 marks]**

A limited response in terms of stakeholders and relationship to the restaurant.

- (c) **Describe *three* activities that the restaurant could undertake to improve its image in the community.** **[6 marks]**

The restaurant must work with the local media to gain positive publicity about their activities.

The restaurant needs to have a promotion campaign to stress its benefits to the community. They could have a healthy eating event to raise awareness. They could employ local people and have special events to promote to customers. They could provide sponsorship to the health service. They need to address the issues of litter and rat infestation, either themselves or by working with the local council.

Other activities could include

- sports programmes
- adult training courses
- school visits
- visits from schools
- competitions
- sponsorship
- improving infrastructure, *e.g.* improving roads, providing a health centre
- environmental projects
- health awareness projects.

**[5 to 6 marks]**

A detailed description of three ways in which the restaurant could improve its image in the area. Suggested activities are entirely relevant to the restaurant and the area.

**[3 to 4 marks]**

A description of at least two ways in which the restaurant could improve its image in the area. Suggested activities generally relevant to the restaurant and the area.

**[1 to 2 marks]**

A limited response in terms of improvements relevance and activities.

- (d) **Discuss ethical approaches that may help *Fast Food Express* to address issues of social responsibility.** **[6 marks]**

*Fast Food Express* has a responsibility to address issues of obesity and poor health. It could address these by educating the residents about healthy eating and including health options on the menu. It could also work with employees to train them and educate them, as well as provide free health insurance.

The company has a responsibility to reducing litter and eliminating rats. An ethical approach would include employing staff to pick up litter and providing posters and bins. Clearly rat infestation is a priority and either the council or a local private company must be employed to get rid of them.

**[5 to 6 marks]**

A detailed discussion of most of the ethical approaches that might help address issues of social responsibility. They are relevant to the case study.

**[3 to 4 marks]**

A discussion of some of the ethical approaches that might address issues of social responsibility. There is some relevance to the case study. Answers may lack discussion at the lower end.

**[1 to 2 marks]**

A limited and general approach in terms of ethical approaches, social responsibilities and relevance to the case study.

4. (a) **What is meant by market share and how is it measured?** [3 marks]

Market share refers to a brand's share of the total sales of all products within the product's category in which the brand competes. It is measured as a percentage of the total market.

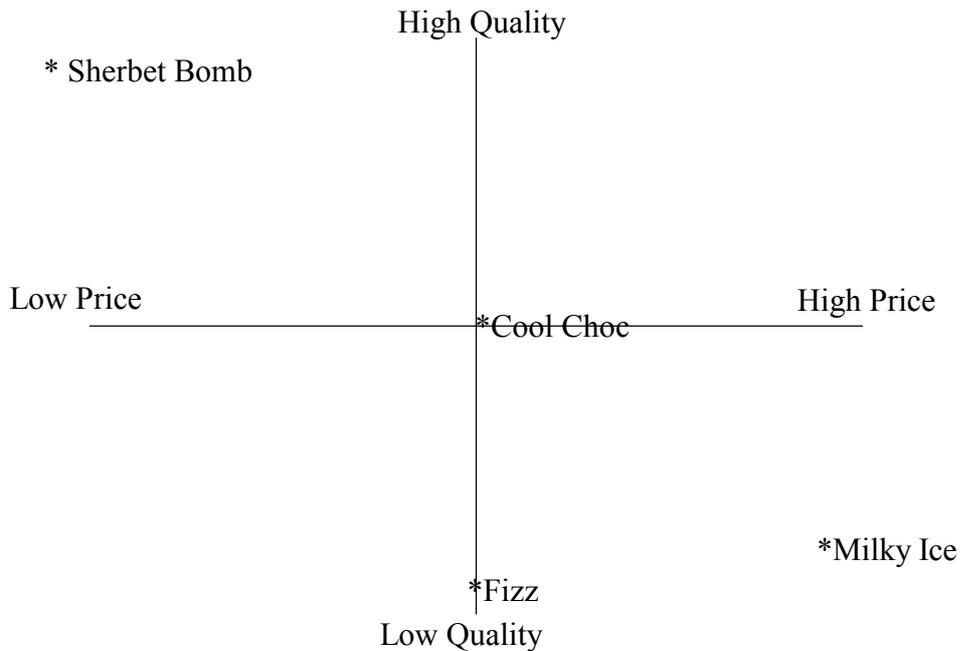
[2 to 3 marks]

An adequate explanation is given of market share and how it is measured. At the upper end it cover all the points.

[1 mark]

A limited response in terms of explanation of market share and measurement.

(b) **Produce a product position map for Licky Lolly Ltd products.** [5 marks]



[5 marks]

The position map is correct in terms of labelling, layout, placing and axes.

[3 to 4 marks]

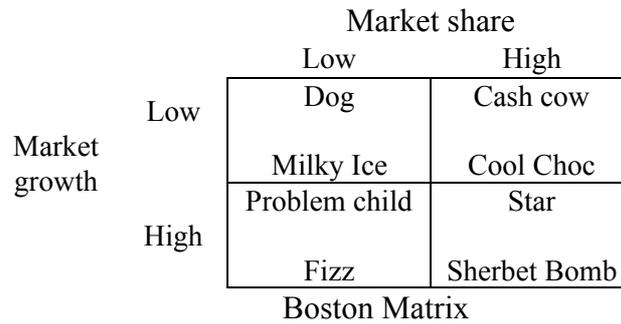
The position map is generally correct but there may be one or two errors.

[1 to 2 marks]

A position map that is limited in terms of labelling, layout, placing and axes.

(c) Construct a Boston Matrix diagram for the four products.

[4 marks]



[4 marks]

The Boston Matrix is correct in terms of labelling and correct placement of products.

[2 to 3 marks]

There may be errors in the layout but generally the diagram is correct and products are generally in the correct box.

[1 mark]

A limited diagram in terms of content, application and labelling.

- (d) **Analyse the price, quality, market share and market growth of each of the products making a recommendation as to how each of the products could be developed by *Licky Lolly Ltd.*** ***[8 marks]***

Sherbet Bomb is a high quality, low-priced product, which has a high market share and high market growth. On the Boston Matrix, it is classified as the star.

Fizz is a low quality, medium-priced product, which has a low market share but high market growth. On the Boston Matrix, it is classified as the problem child.

Milky Ice is a low quality, high-priced product, which has a low market share and low market growth. On the Boston Matrix, it is classified as the dog.

Cool Choc is a medium quality, medium-priced product, which has a high market share but low market growth. On the Boston Matrix, it is classified as the cash cow.

Recommendations could include introducing product changes such as new flavours. New types of product such as desserts, chocolate branded as ices. Accept suitable recommendations.

***[7 to 8 marks]***

An appropriate analysis of each of the products covering all four areas with reference to the position map and the Boston Matrix. A suitable recommendation for development is given for each of the products.

***[5 to 6 marks]***

There is some analysis of most of the products covering most of the areas with reference to the position map and the Boston Matrix at the upper end. A recommendation for development is given for most of the products that is generally relevant.

***[3 to 4 marks]***

The answer lacks analysis but covers some of the products, some of the areas, and some of the recommendations.

***[1 to 2 marks]***

A limited response in terms of discussion of products and recommendations

5. (a) Prepare a profit and loss account for 2003 and 2004. *[5 marks]*

Profit and loss account	2003	2004
Sales revenue	20 000	24 000
<i>Less</i>		
Cost of sales	<u>9 000</u>	<u>12 000</u>
Gross profit	11 000	12 000
<i>Less</i>		
Overheads	<u>3 000</u>	<u>3 000</u>
Net profit	8 000	9 000

*[5 marks]*

The profit and loss accounts are laid out in a suitable format and contain the correct figures.

*[3 to 4 marks]*

The profit and loss accounts are generally laid out in a suitable format and contain most of the correct figures. At the upper end there may be one error which may be carried on.

*[1 to 2 marks]*

The profit and loss account(s) are limited but there is some recognition of the correct format and figures.

**(b) Prepare a balance sheet for 2003 and 2004.**

**[5 marks]**

Balance sheet	<b>2003</b>	<b>2004</b>
Fixed assets	120 000	120 000
<i>Plus</i>		
Current assets		
Stock	8 000	9 000
Cash in bank	2 000	2 500
Debtors	<u>10 000</u>	<u>12 500</u>
	20 000	24 000
<i>Less</i>		
Current liabilities		
Creditors	20 000	30 000
Net current assets	0	(6 000)
Total/net assets employed	120 000	114 000
 Represented by		
Share capital	52 000	52 000
Reserves	28 000	22 000
Long term liabilities	40 000	40 000
Total capital employed	120 000	114 000

**[5 marks]**

The balance sheets are laid out in a suitable format and contain the correct figures.

**[3 to 4 marks]**

The balance sheets are generally laid out in a suitable format and contain most of the correct figures. At the upper end there may be one error.

**[1 to 2 marks]**

The balance sheet(s) are limited but there is some recognition of the correct format and figures.

(c) Using *four* appropriate ratios analyse the liquidity and profitability of the company and comment on its performance.

[10 marks]

Profitability	2003	2004
Gross profit $GPM = \frac{GP}{SR} \times 100$	$\frac{11000}{20000} \times 100 = 55\%$	$\frac{12000}{24000} \times 100 = 50\%$
Net profit $NPM = \frac{NP}{SR} \times 100$	$\frac{8000}{20000} \times 100 = 40\%$	$\frac{9000}{24000} \times 100 = 37.5\%$
Return on Capital employed $ROCE = \frac{NP}{\text{Capital employed}} \times 100$	$\frac{8000}{120000} \times 100 = 6.6\%$	$\frac{9000}{114000} \times 100 = 7.89\%$
Mark up $\frac{GP}{COGS} \times 100$	$\frac{11000}{9000} \times 100 = 122.2\%$	$\frac{12000}{12000} \times 100 = 100$
<b>Liquidity</b>		
Current ratio $\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{20000}{20000} = 1$	$\frac{24000}{30000} = 0.8$
Acid test ratio $\frac{\text{Current assets} - \text{stock}}{\text{Current liabilities}}$	$\frac{20000 - 8000}{20000} = 0.6$	$\frac{24000 - 9000}{30000} = 0.5$

Gross profit and net profit have decreased slightly in 2004 but the situation in both years is still quite healthy. This shows a relative increase in cost of goods sold and overheads Return on Capital Employed has increased and in both years and gives a good return showing increased profitability. Mark up is high but has decreased in 2004. Overall the company is profitable, but it needs to keep an eye on the situation as it is decreasing.

Current Ratio has decreased and is just within an acceptable range. Acid test has reduced. The situation needs to be monitored.

[8 to 10 marks]

Four appropriate ratios are used to analyse in detail the liquidity and profitability of the company. The comment on performance is correct. At the lower end the response may lack detail.

[4 to 7 marks]

Some appropriate ratios are used to analyse the liquidity and profitability of the company. The comment on performance is generally correct and contains some detail.

[1 to 3 marks]

A limited response in terms of ratios and comments.

*N.B.* Do not double penalize, if candidates figures in 5(a) and 5(b) are incorrect.