

MARKSCHEME

May 2007

BUSINESS AND MANAGEMENT

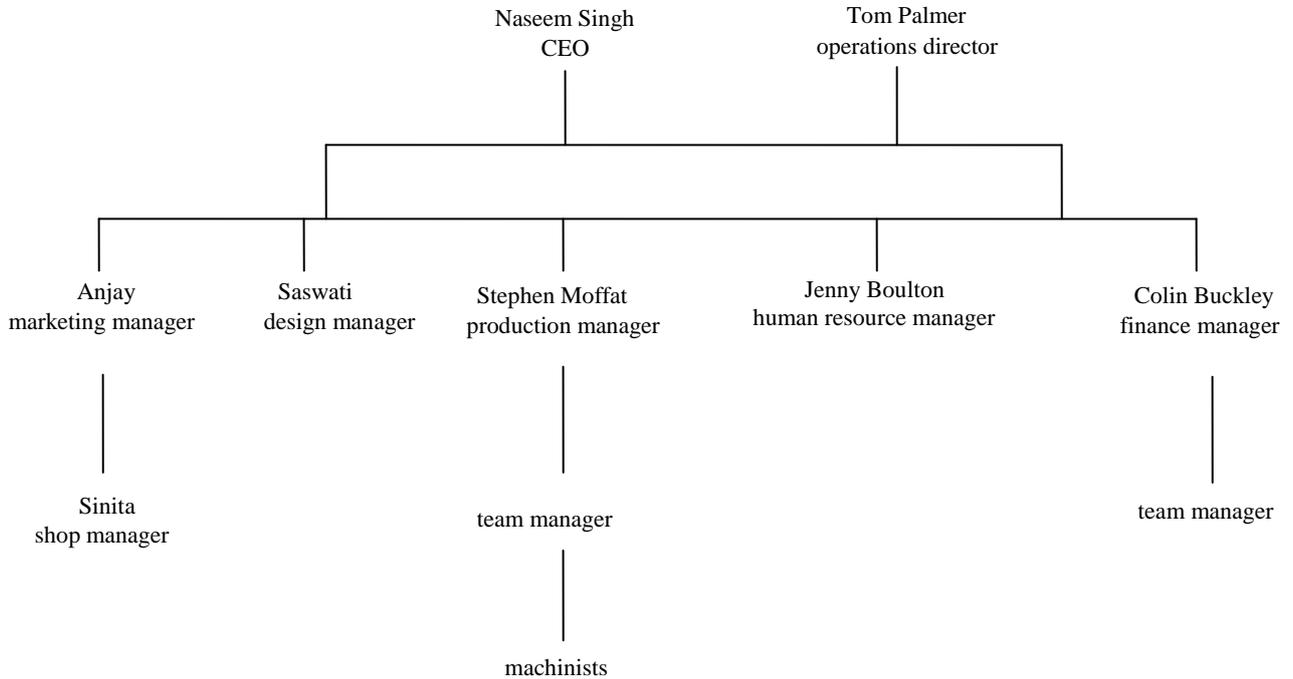
Standard Level

Paper 1

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1. (a) Draw an organizational chart for *Gladrags Ltd*, clearly identifying each person's functional responsibility. [6 marks]



There are a number of possibilities that should be accepted as a correct organizational chart for *Gladrags Ltd*. Some candidates might see Tom as dependant on Naseem, which would give the organization yet another layer and influence the chain and the answer to 1(b). Some candidates might include potential positions in departments for which there is little information in the case study. It is also quite acceptable for Sinita to be positioned level with Anjay and the others.

A good answer should include the functional positions and the names of the people involved who hold them, whenever available. The chart should include the lines of command, and different levels of managerial control.

[5 to 6 marks]

A representative organizational chart for *Gladrags Ltd* is drawn. Each person's functional responsibility is clearly identified. Functional positions are given a distinctive name (production manager, finance manager, *etc.*). If one key person is missing then **[5 marks]** should be given.

[3 to 4 marks]

An organizational chart for *Gladrags Ltd* is drawn, which lacks accuracy and/or is incomplete in terms of names of individuals and functional positions included.

[1 to 2 marks]

For an answer that shows only a basic understanding of an organizational chart. The answer lacks accuracy, functional positions might not be shown and layers might be incomplete and/or important departments missing.

(b) With reference to the organizational chart define the terms

(i) *chain of command*

[2 marks]

The chain of command is the length of the hierarchy in an organization, or the links that exist from top to bottom; the chain of command for *Gladrags Ltd* is four or five – depending on answer given above. The application is consistent with the chart drawn above. (If candidate has not answered 1 (a) do not penalize. Credit the answer as long as it fits the case study.)

Award **[1 mark]** for correct definition and **[1 mark]** for the application to the case study.

(ii) *span of control.*

[2 marks]

The number of people referring directly to one manager is called the manager's span of control. Naseem's span of control (or Tom's) is five. Accept other examples. The application is consistent with the chart drawn above. (If candidate has not answered 1 (a) do not penalize. Credit the answer as long as it fits the case study.)

Award **[1 mark]** for correct definition and **[1 mark]** for the application to the case study.

- (c) **Anjay wants to change the organization to a flatter structure. Discuss the reason for the change using relevant motivation theory to argue the case.** *[10 marks]*

Flatter structures have the advantage of allowing workers to participate more fully in the everyday running of the firm, becoming more active and committed to the decisions taken. The firm could cut the layer team managers, empowering machinists (same in administration). Anjay might feel that they are wasting funds on a layer that could be economized, and that these savings will exceed, in the long run, the costs of giving redundancy payments in the short-run. On the other hand, he might think that the taller structure is more organized and communications might flow better.

There are dangers in flattening the structure too. When workers' motivation is a priority, it is easy to argue that flatter structures that promote worker involvement are better than tall hierarchical ones. If production or efficiency in terms of output is a priority, then flatter structures might not be ideal. The case study shows that Anjay is concerned with the workers' well being, and that is why he is looking at shortening the structure.

According to different theorists workers will enjoy more responsibility, although this might depend on the type of worker employed. Theory X workers will look at the extra responsibility as a burden, while Theory Y workers will take it as a challenge (Taylor/McGregor).

Maslow could be used by candidates to illustrate the movement up the hierarchy of needs, showing how workers who are respected and included in decision-making satisfy their esteem needs.

Herzberg suggests that accepting responsibility and the nature of the job itself will act as motivators for the worker. How workers feel at their jobs also has to do with what Herzberg calls hygiene factors.

Mayo also suggests that people work best in groups and respond positively when management considers the needs of the workers.

There are different theorists who could be referred to and they should be credited as long as the explanation is consistent with the case study.

[8 to 10 marks]

The reasons for the change are discussed and relevant theory is used to support the arguments. The answer shows the capacity to think critically and apply theory efficiently to the case study.

[5 to 7 marks]

Reasons may be put forward but the discussion may tend to be descriptive. Motivation theory is used to support answer though the application may be superficial.

[3 to 4 marks]

A basic understanding of the benefits of a flatter structure is shown. Theory is perhaps limited to a descriptive approach of Maslow and/or Theory X and Y (McGregor).

[1 to 2 marks]

A brief and generalized response.

2. (a) **Analyse the differences between marketing clothes under the family brand *Gladrags* and marketing the individual brand “Sassy”.**

[8 marks]

Family branding is cheaper when it comes to product design, packaging, and promotion. All the products are sold under the same name, same logo, with one similar packaging and one design. All the products are promoted at the same time. No need to seek copyrights for each brand or logo. The firm will enjoy marketing economies of scale. People will recognize the family brand and it is easier to introduce new products into the market – the halo effect of the well known brand will protect the newly launched products.

Individual branding allows for increased product differentiation. By differentiating products a larger market with different degrees of elasticity of demand can be targeted; hence very different prices can be charged, and the products with different brands can be positioned in different ways in the minds of consumers. Possibility of cross subsidization exists, with the more successful brands paying for the introductory stage of the new ones.

With *Gladrags* the firm runs the risk of positioning the new product in an unwanted market. Market research shows that *Gladrags* is identified by consumers as a no frills type of clothing which is purchased by older consumers in low socio economic groups. The brand is associated with “value for money, everyday, consistent, traditional”.

“Sassy” needs to have a position of its own, with a completely different name and marketing strategy to *Gladrags*, since it is clearly aimed at a different market (young and high income consumers). In fact any association with the *Gladrags* brand might be detrimental rather than favourable.

[7 to 8 marks]

The differences between marketing clothes under the family brand *Gladrags Ltd* and under the individual brand “Sassy” are analysed. The answer shows knowledge of both concepts and it is relevant to the case study.

[5 to 6 marks]

The differences between marketing clothes under the *Gladrags* and “Sassy” brands are described. Some reference is made to the case study. The answer may tend to be about marketing the brands *Gladrags Ltd* and “Sassy” generally rather than specifically related to individual and family brands.

[3 to 4 marks]

Shows some knowledge of branding issues, but there are elements of confusion pertaining to the benefits of each. Little or no reference is made to the case study.

[1 to 2 marks]

A limited and generalized response.

(b) Using the Ansoff Matrix, propose a future marketing strategy for *Gladrags Ltd.*

[8 marks]

The answer to this question will necessarily be rather open, since there are different possibilities. From the case study it can be inferred that the firm knows where it is at present and has an idea of where it wants to go in the future. There is a need to do something with the *Gladrags* brand and there is also a need to introduce “Sassy”. Market research has already been carried out.

Ansoff Matrix

		Products	
		Existing	New
Markets	Existing	Market Penetration	Product Development
	New	Market Development	Diversification

- **Market penetration** – achieving growth in existing markets with existing products. To penetrate the market better *Gladrags Ltd* could use a variety of promotion techniques to convince customers to purchase more of the traditional clothes range. Each candidate will come up with different promotional ideas.
- **Product development** – this is when a company markets new or modified products in an existing market or markets. The “Sassy” brand has to be developed further, and marketed in the local market. The *Gladrags* brand can also be altered and developed to be more modern and suitable to the market.
- **Market development** – this involves marketing of existing products in a new market. The existing *Gladrags* brand can be sold in different European countries. If successful, the new “Sassy” brand could also be taken to continental Europe.
- **Diversification** – new products are developed for new markets. This is the most risky of any growth strategy as the firm lacks core competence and market knowledge. It does not seem likely that *Gladrags Ltd* will really diversify. It first must be concerned with its current products. Although candidates might argue that the introduction of other products like accessories, handbags, shoes, or in fact any product that might appeal to the Indian market might be profitable.

“Sassy” brand is not really an example of diversification since it is without a doubt an innovative product within the original field of production of *Gladrags* (the clothing industry).

[7 to 8 marks]

A future marketing strategy for *Gladrags Ltd* is proposed, using the Ansoff matrix accurately. The answer shows knowledge of the Ansoff matrix, and a relevant application of theory to the case study. The answer must either show the Ansoff matrix model, or include the four entries that make up the matrix. The answer shows creativity and critical thinking capacity.

[5 to 6 marks]

A future marketing strategy for *Gladrags Ltd* is proposed, showing knowledge of the Ansoff matrix. The answer might not relate the theory to the case study accurately, or the answer might be incomplete and not consider all the elements of the matrix.

[3 to 4 marks]

There is an attempt at proposing a future marketing strategy. The answer may show confusion in terms of the different Ansoff entries, although there is knowledge of the two axes (product and market). There might be knowledge of theory but limited or no application to the case study.

[1 to 2 marks]

A limited and generalized response.

3. **With the help of four ratios, discuss how the financial situation of *Gladrags Ltd* has changed between 2004 and 2006.** *[12 marks]*

Different ratios can be used to answer this question.

	2004	2006
Current ratio	1.75:1	1.64:1
Acid test ratio	1.05:1	0.725:1
ROCE	21.74 %	12.61 %
Net profit margin	11.58 %	7.5 %
Gross profit margin	24.71 %	21.69 %
Gearing	33.69 %	37.53 %

Although sales have increased, and debtors are down, the ratios are not very promising. In fact they all show that the financial situation is deteriorating.

The gross profit margin has gone down by three points, and so has the absolute figure. This shows that the cost of making the clothes *Gladrags Ltd* sells is going up, and there is difficulty in transferring the higher costs to higher prices without loss of sales. (Reference to price elasticity of demand is welcome.)

Expenses have increased approximately 10 %. The net profit margin has decreased by 4 percentage points. Finally borrowing has increased causing a higher interest payment. Gearing is up by four points, although the gearing ratio is low, and in principle would allow for further borrowing.

The return on capital employed has gone down enormously – it is 9 percentage points below what it was in 2004. Owners have to be concerned about this decrease and look at ways of bringing the return on capital up again, or stop the falling trend.

Both the current ratio and the acid test ratios are falling, with the acid test ratio falling more than the current ratio. Both these ratios are slightly lower than advisable.

The 2006 acid test shows insufficient cash to meet current liabilities.

The ratios are showing a rather weak financial position, with increasing costs, lower liquidity and indeed lower profitability.

The use of efficiency ratios should be credited, but these can be considered to be of more relevance to financial management and efficiency than the “financial situation of *Gladrags Ltd*” and so are less likely to lead to appropriate discussion.

[10 to 12 marks]

There is detailed analysis of four ratios and the candidate shows that the profitability has dropped considerably, and that the liquidity position has worsened. The answer shows elements of critical thinking.

[7 to 9 marks]

There is detailed consideration of at least two ratios or some analysis of three or four ratios, though this may be lacking in some detail or depth. The answer shows knowledge of theory and capacity to calculate the ratios, but lacks the depth to use the financial ratios in a meaningful manner.

[4 to 6 marks]

Less than four ratios are considered and the answer may tend to be descriptive in nature with consideration of the values, but lacking any analysis of them.

[1 to 3 marks]

A limited and essentially descriptive answer.

4. After the board meeting (*line 149*) the following decisions were taken:

- to target the European market
- to produce the *Gladrags* brand in Vietnam and produce the “Sassy” brand in Britain.

Justify both decisions to the shareholders. Use the PEST analysis provided in the case study to support your answer.

[12 marks]

Targeting the European market

Following the previous analysis and as a response to the market research commissioned by Anjay, *Gladrags* has to look for new markets. It will be able to face the bigger output by outsourcing the production to Vietnam; it is a circle: more needs to be sold, so that more can be produced, and the greater production in a less developed country will allow the selling of clothes to a mass market. Therefore the larger market allows for the mass production and the mass production will allow the outsourcing of production in Vietnam.

Different conditions seem to be ready for this to happen.

Political: the increased trade between China and Europe means openness of markets and hence there might be an easy entry of *Gladrags* from Vietnam into Europe.

Reduction in regulations will have the same effect.

Economic: Growth of economies in Europe while the British economy declines.

Pattern of spending: higher income will lead to more being spent on clothing.

***Gladrags* production in Vietnam and “Sassy” production in Great Britain**

Gladrags is a family brand that sells well and has a reasonable reputation. It is therefore positive for the firm to keep it. The problem lies with the costs of production and outsourcing will help the problem. Production costs are cheaper abroad. An aging population will keep the sales of this brand going.

Lower costs of production, given the fact that Vietnam has a very low GNP and per capita income. These lower costs of production can translate into lower prices for better competition, or prices can remain the same and lower variable costs can allow for greater profit margins.

Outsourcing to Vietnam will solve the problem of not finding machinists in England. For the same reason mentioned above, there is a greater chance of finding willing unskilled workers in less developed countries than in the UK.

Labour intensive production, which cannot be found in Great Britain.

“Sassy” brand requires greater skills and a more sophisticated type of production. This can be found in Great Britain.

Capital intensive textile production in Great Britain, with new computer design programmes, facilitate the production of quality clothing. Capital is more accessible in Great Britain than in less developed countries.

The production decisions taken by the board will allow for the sale of the original premises and therefore raise enough capital to invest in the British production of “Sassy” in Great Britain. Only a small plant is necessary for “Sassy”, whilst *Gladrags Ltd’s* brand needs to be produced in large quantities so it can reach a mass market.

So as the firm targets different markets, investments are better hedged, production will increase and profit margins will rise.

[9 to 12 marks]

Both decisions are justified to the shareholders. The answer provides a full analysis of the decisions, making close reference to *Gladrags Ltd’s* problems and bringing relevant PEST issues into the answer. Critical thinking is evident in the answer.

[6 to 8 marks]

Both decisions are justified to shareholders, although the justification may be lacking detail and/or balance. Only a few PEST factors may be taken into account. There may be a lack of critical thinking. If only one decision is analysed and justified in depth then a maximum of **[6 marks]** should be awarded.

[3 to 5 marks]

There is an attempt at describing the decisions but justification may be lacking. The answer may be limited to a list, some of which is simply taken from the PEST analysis.

[1 to 2 marks]

A limited and generalized response.
