

# **MARKSCHEME**

**May 2007**

**BUSINESS AND MANAGEMENT**

**Higher Level**

**Paper 1**

*This markscheme is **confidential** and for the exclusive use of examiners in this examination session.*

*It is the property of the International Baccalaureate and must **not** be reproduced or distributed to any other person without the authorization of IBCA.*

**SECTION A**

1. (a) **Explain possible areas of conflict between any two stakeholder groups in *Gladrags Ltd.***

**[4 marks]**

Two stakeholder groups should be chosen. These may include:

- employees
- shareholders
- suppliers
- local government
- customers
- or any other valid stakeholder group.

The areas of possible conflict between these groups should then be identified and explained. For example, shareholders and employees might be chosen. Possible areas of conflict between these groups may include:

- outsourcing of production to Vietnam and Bangladesh – employees will be concerned about their job security, shareholders will be considering profitability and margins more closely
- cost-cutting measures – Stephen Moffat was recruited with a brief to reduce costs and increase efficiency and this has caused concern among production staff. Shareholders will be more concerned to maximize efficiency and therefore profitability
- machinists are under increasing pressure to meet production targets because of recruitment problems and a shortage of skilled labour. Shareholders will be more concerned about ensuring targets are met to ensure they can deliver to customers
- *any other relevant point.*

**[3 to 4 marks]**

Two relevant stakeholder groups are clearly identified and there is a clear explanation of possible areas of conflict that may be emerging between them.

**[1 to 2 marks]**

Two relevant stakeholder groups are identified and there is some explanation of possible areas of conflict though this may be lacking in detail.

For **[1 mark]**, there may simply be two stakeholder groups identified with no explanation of possible areas of conflict. If individuals rather than groups are quoted, limit to **[2 marks]**.

- (b) Prepare a decision-making framework to support *Gladrags Ltd* in its development of a future strategic direction.

[6 marks]

*Gladrags Ltd* need to consider their future strategic direction and there are a number of alternative options proposed. To help them make a decision, they may need to adopt an appropriate decision making framework. Decisions can be based on:

- scientific data or facts
- experience
- intuition or “gut feeling”.

If they adopt a more scientific approach, then they may want to go through the following phases of decision-making:

- **Set objectives** – they need to consider what they are trying to achieve
- **Clarify the present situation** – they need to analyse where the business is at present and identify any underlying problems or issues that require attention
- **Gather information** – they can use primary and secondary research to collect relevant data to support decision-making
- **Ideas and innovation** – they can consider potential activities strategies, approaches and opportunities
- **Deciding between alternatives** – *Gladrags Ltd* cannot pursue all their possible opportunities, as resources are finite
- **Planning** – having made choices about alternatives, *Gladrags Ltd* will need to decide how to implement the chosen strategy
- **Action** – they will then need to put the strategy into action
- **Control and review** – once implemented they will need to check the progress against the plan.

Some elements of this process or alternative processes should be identified as part of the answer. Students may use a variety of decision making processes, such as force field analysis, SWOT or decision trees as part of one stage. It is unlikely that answers will cover all the stages identified above, and answers may be fragmented.

[5 to 6 marks]

A suitable framework for decision-making is identified and fully and accurately explained. The framework is related to the decision that *Gladrags Ltd* needs to make. Intuitive decision making is addressed at the top end of this band.

[3 to 4 marks]

A framework for decision-making is partially identified and there is some explanation of how it will help *Gladrags Ltd* make their strategic decisions, though this may be fragmented and limited at the bottom end of the range.

[1 to 2 marks]

There is some consideration of the decision-making process, but this may be very limited in nature.

2. (a) (i) **Identify the target market for the traditional clothing range and the target market for the new exclusive designer range created by Saswati.**

*[2 marks]*

The main target market for the traditional clothing range offered by *Gladrags Ltd* was middle to lower socio-economic groups and included a significant group of older Indian immigrants who had previously bought this style of clothing when living in India

By contrast the new designer range is focused on higher-income earners in the Indian (and possibly British) population in the UK. The new range targets those with some of the following characteristics:

- rebellious
- youthful
- preference for stylish, expensive clothes

*[2 marks]*

An element for each target group is identified.

*[1 mark]*

One element for a single group is identified.

- (ii) **Explain the different buying behaviours of consumers in each of these target markets.**

*[6 marks]*

The main target market for the traditional clothing range offered by *Gladrags Ltd* was middle to lower socio-economic groups. The clothes were good value for money and are relatively price sensitive being aimed at middle to lower income groups. Increasingly *Gladrags Ltd* have had to reduce their prices to remain price-competitive and their customers expect the clothes to be good value for money. The clothing range was essentially Indian in style and quite traditional in nature (according to focus group research). The target market is essentially quite a broad target market and given that the clothes are perhaps considered necessities or “everyday” clothing, they will be relatively income-inelastic in nature.

The target market is higher-income earners in the UK. These higher socio-economic groups being targeted are prepared to pay more for more exclusive designer clothing and this means that the range will be much less price sensitive and more income elastic. The target market is one that is more concerned about design rather than functionality.

*[5 to 6 marks]*

The consumer buying behaviour in each of the target markets is clearly identified and the characteristics of each of the markets are identified and explained.

*[3 to 4 marks]*

The consumer buying behaviour for the two ranges is identified and the characteristics of each of the markets are identified with some limited explanation of the nature of them.

*[1 to 2 marks]*

A limited and essentially descriptive answer.

- (b) **Analyse the role of market research in the development of the new “Sassy” brand.**

*[8 marks]*

Market research will be crucial to the success of the “Sassy” brand. In the initial stages of development, *Gladrags Ltd* will need to undertake market research to identify the size of the market, the geographical nature of the market and to identify the profile of customers in their target group. Further market research will then need to be undertaken to research the product itself and see that it is suitable for the target market. This may involve considering the strengths and weaknesses of existing products and then looking at the sales potential for the new product range. If this is not considered suitable then the product may need to be redeveloped in the light of the market research. Market research at this stage will need to be both primary and secondary in nature. Some qualitative and quantitative research will be necessary.

Once the products have been developed market research will still be important. Market research will be required to analyse the reaction to the product and ensure that it met the perceived target market. Reactions to the product can be fed back into any process of redevelopment.

Market research may also be required to establish the most effective promotional and pricing strategies for the new range and to test the reaction of the target market to these strategies. Without adequate market research the success of the “Sassy” range may be in doubt and the risks associated with its launch will be considerably greater.

The company will choose a mix of primary and secondary research appropriate to its needs.

*[6 to 8 marks]*

The role of market research in the launch of the new range is identified and thoroughly analysed. The answer considers a number of aspects of market research and analysis is related the case study where relevant.

*[4 to 5 marks]*

The role of market research is identified and there is some analysis of the importance of market research in the development of a new product range, though this may be limited at the lower end of the mark range.

*[1 to 3 marks]*

A limited and essentially descriptive answer, which has no reference to the case study.

3. (a) (i) **Explain the “proper recruitment procedures” (line 83) that should have been followed when recruiting Stephen Moffat.**

*[4 marks]*

When recruiting a member of staff the first step is to analyse the nature of the job. This will consider the overall purpose of the post, the tasks to be carried out, responsibilities, training needs, performance criteria and so on. Once this has been done a job description/person specification can be drawn up. The post can then be advertised and a shortlist of candidates drawn up. Interviews can then take place and the candidate can be selected from the shortlist and offered the post.

*[4 marks]*

These procedures relate to the whole process of recruitment from start to finish. Where relevant these are related to the case study.

*[3 marks]*

Appropriate recruitment procedures are accurately explained.

*[1 to 2 marks]*

Some elements of the recruitment process are explained, though this may be incomplete and limited in nature.

- (ii) **Discuss whether Jenny Boulton’s proposal to offer higher wages will solve *Gladrags Ltd’s* recruitment problem.**

**[8 marks]**

Jenny, the human resource manager, has proposed raising the level of wages to try to help alleviate the problems they have had recruiting new production staff. Possible relevant points could include:

- there may be more applications for the positions, but will these people be appropriately trained and qualified? They may still need the same level of training as other staff
- higher wages may help motivate staff more, but it will also raise costs. Will costs per unit rise or will the higher level of productivity be sufficient to compensate for the higher costs?
- the PEST analysis identifies that there is a shortage of skilled production staff in the clothing industry and so raising wages may still not help attract appropriately qualified staff
- higher wages may attract workers from other clothing firms in the region/area and in the short-term this may help ease recruitment, but given the shortage of skilled staff, other firms may also then raise wages in reaction and this will then simply lead to higher costs for all firms, making them less competitive internationally
- the training period for machinists is quite long and if the higher wages attract a significant number of staff they may find it difficult to organize adequate training
- higher wages for production staff will probably mean paying higher wages to other groups in the firm to maintain differentials and this may reduce the impact.

The answer should discuss whether this approach will help to solve the recruitment problem. Candidates will not be expected to cover all of the bullet points.

**[6 to 8 marks]**

A clear and thorough discussion of the effect on recruitment of offering higher wages. The discussion is related to the case study where relevant. Business concepts and theories are used appropriately where relevant.

**[3 to 5 marks]**

There is an examination of the impact of offering higher wages with some reference to the case study. There is some analysis of the effect on recruitment, though this may be limited and essentially descriptive in nature at the lower end of the mark range.

**[1 to 2 marks]**

A limited and essentially descriptive answer.

- (b) **Jenny Boulton is proposing the introduction of a flatter organizational structure. Using appropriate motivation theory, evaluate the likely impact of this change.**

*[10 marks]*

*Gladrags Ltd* currently has a tall hierarchy and a narrow span of control. The introduction of a flatter organizational structure will result in a broader span of control. This, it is argued, will create a more flexible organization that is better able to cope with rapid change. Chains of communication should be shorter and this may result in improved communication. This change may have a significant impact on motivation and a number of issues could be raised including:

- workers may be empowered by the additional responsibilities that are likely to result from a broader span of control. However, this will require the assumption by managers that their workers are essentially Theory Y in nature (McGregor)
- the additional responsibilities may help workers to move to a higher level of needs in Maslow's hierarchy of needs in particular, social and esteem needs. However, this will only be the case if lower level needs have already been met and given the uncertainties about their future, this may not be possible
- production staff are currently organized in small groups with a team manager. There may need to be a culture shift in management style if the broader span of control is to be effective and potential motivation benefits are to be realised
- the broader span of control and the empowerment of employees may act as a "motivator", as identified by Herzberg. This job enrichment should help raise motivation.

Other issues may be raised and should be appropriately related to motivation theory. Answers should evaluate the likely impact and give an appropriate supported judgment.

***[9 to 10 marks]***

The impact of the change in organizational structure is evaluated in detail and appropriate motivational theory is identified and applied to the proposed change. Business theory and concepts are used appropriately where relevant and are related to the case study where required. For ***[10 marks]*** a supported judgment is given.

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

The impact of change in organizational structure is analysed in detail but is unbalanced or even one sided, if thoroughly covered. Appropriate motivational theory is identified and applied to the proposed change. Business theory and concepts are used appropriately where relevant and are related to the case study where required.

***[4 to 6 marks]***

The impact of the change in organizational structure is explained with some analysis though this may be limited at the lower end of the range. Some motivational theory is identified though this may not always be appropriately applied. Business theory and concepts are occasionally used though this may not always be related to the case study.

***[1 to 3 marks]***

Some issues relating to the change in organizational structure are considered, though these may not always adequately explained. Some motivation theory may be identified though not necessarily appropriately applied to the given change.

**4. Discuss the advantages *and* disadvantages of outsourcing production of *Gladrags Ltd's* clothing ranges to Vietnam and Bangladesh.**

**[12 marks]**

*Gladrags Ltd* is considering outsourcing their production to Vietnam and Bangladesh. This will have a number of possible advantages and disadvantages. Advantages may include:

- outsourcing may allow *Gladrags Ltd* to focus on their core activities of design, distribution and selling
- outsourcing may help them to streamline business operations
- it may give access to professional capabilities at the outsourcing partner(s)
- it may help share some of the risk with the outsourcing partner(s)
- it may help give peace of mind that the process is in good hands if the outsourcing partner(s) are well chosen
- *Gladrags Ltd* may not have to worry about continually introducing new technologies as the outsourcing partner(s) will need to do this
- it may help free up human resources locally for other purposes
- it may help ease cash flow as the outsourcing partner(s) will be paid after production has taken place
- outsourcing may make the business more flexible to changes in the pattern of demand and external change. It may also enable more rapid potential growth.

There may, however, also be a number of disadvantages of outsourcing. These may include:

- there may be some worries about the possibility of bankruptcy at the outsourcing partner(s)
- there may be some loss of control of the manufacturing process and perhaps quality issues if this is not carefully monitored
- outsourcing is likely to create potential redundancies and there have already been concerns among the staff at *Gladrags Ltd* – indeed industrial action has only narrowly been avoided once already. Motivation and productivity are both likely to suffer while the decision is being made
- other companies may also be using the outsourcing partner(s) and so there may be some dilution of interest
- there may be some loss of focus on the customer if too much time is spent focusing on the outsourced process
- there may be a significant loss of internal talent if redundancies result from the outsourcing
- they may be attacked by pressure groups for being unethical, which may negatively affect their brand image
- variation in exchange rates
- transport issues
- regional trade blocs.

The answer needs to discuss some of these issues and consider the validity of the above issues. Outsourcing should not simply be regarded as an opportunity for saving money – there need to be other reasons. Regular liaison with the outsourcing partner(s) will be required if *Gladrags Ltd* is to avoid loss of control over the process. Candidates will not be expected to cover all of the bullet points.

***[10 to 12 marks]***

A balanced and thorough discussion of the issues relating to outsourcing production. The discussion refers closely to the case study where relevant and uses business concepts and theories extensively and appropriately. A judgement about outsourcing is attempted.

***[7 to 9 marks]***

A generally balanced discussion of the issues relating to outsourcing production. The discussion refers to the case study and uses business concepts and theories appropriately.

***[4 to 6 marks]***

There is some analysis of the issues though it may not be balanced in approach. The analysis generally refers to the case study though may be more descriptive at the lower end of the range. There is some reference to subject concepts and theories though this may be limited at the bottom end of the range. There is a limited understanding of the concept of outsourcing.

***[1 to 3 marks]***

Some issues relating to outsourcing are raised but these may be limited and essentially descriptive in nature or perhaps listed. There may be little or no reference to the case study material.

**SECTION B**

5. (a) **Explain the reasons for the board of directors wanting to see the budget extracts and variance analysis reports produced by Colin.**

*[3 marks]*

The board of directors wanted to see these budgets and variances because they are concerned about the financial state of the company. The finance director has been giving positive reports to the board, but some directors are concerned about the low rate of growth, falling margins and increasing short-term borrowing. Financial accounts can be backward looking and they hope that by looking at more recent data, they will be able to establish more closely the financial position of the firm. Consideration of the budgets may also help with strategic planning, motivation and the control and evaluation of the financial performance of the business. The variance analysis will help the board to see how much the actual performance has deviated from the plan and therefore see if the performance has deteriorated significantly quicker than expected.

*[3 marks]*

A thorough explanation of the need for the budgets extracts and variance analysis and the reasons why the board wanted to see them.

*[2 marks]*

Some explanation of the need for the budget extracts and/or variance analysis, though perhaps not considering both areas.

*[1 mark]*

A limited response.

**(b) Explain**

- (i) possible reasons for the changing pattern of labour costs shown in Table 1.**

*[3 marks]*

Labour costs increase in November 2006 and then reduce again in December and reduce further in January 2007, rise in February 2007 and then fall again in March 2007. The increase in November is likely due to the increase in sales around the Christmas period. This will mean increased production sometime before Christmas. Given that *Gladrags Ltd* is short of machinists, they will have had to pay significant overtime to deliver this extra production – hence the increase in labour costs. By December, most of the extra production will have been completed and so overtime requirements will have been reduced. Sales and therefore production will be lower after Christmas and this will reduce budgeted labour costs.

Other appropriate and relevant reasons should also be credited.

*[3 marks]*

A thorough explanation of possible reasons for the changing pattern of labour costs that is directly related to the data given.

*[2 marks]*

Some explanation but perhaps lacking some detail of possible reasons for the changing pattern of labour costs that is generally related to the data given.

*[1 mark]*

A limited response.

**(ii) possible reasons for the variances shown in Table 2.**

**[4 marks]**

The variances given are all negative and unfavourable. Actual sales have consistently been lower than budgeted sales. Possible reasons for this could include:

- a lower than expected level of economic growth, resulting in lower sales of clothes
- a deterioration in the brand identity of *Gladrags Ltd's* main clothing ranges resulting in lower sales – poor customer perception could contribute further to this
- a lack of price competitiveness against competitors resulting in lower than expected sales
- a loss of a distribution contract or lower than expected orders from *Gladrags Ltd's* distributors
- over-optimistic budgeting.

The worst variance was in April to June 2006 – this may perhaps have been related to the release of a new range that did not do as well as expected.

**[3 to 4 marks]**

A thorough explanation of possible reasons for the variances, though this may be lacking in depth at the lower end of the range. The explanation is related to the case study where relevant and business concepts and terms are used appropriately.

**[2 marks]**

A limited and essentially descriptive answer that may consider possible variances, but not relate the explanation to the case study.

**[1 mark]**

A limited response.

- (c) Using the information in Tables 1 and 2 above and the accounts in Appendix 1, analyse the financial position of *Gladrags Ltd* from the perspective of the Indian multinational corporation that is considering a takeover.

[10 marks]

Candidates may choose to carry out some ratio analysis of *Gladrags Ltd*. This may help in the analysis of their financial position, though would not necessarily be required to answer the questions. The key ratios from the financial accounts in the appendices are:

	<b>2004</b>	<b>2006</b>
<b>Gross profit margin (%)</b>	24.71	21.70
<b>Net profit margin (%)</b>	11.58	7.55
	<b>2004</b>	<b>2006</b>
<b>Current ratio</b>	1.76	1.64
<b>Acid test ratio</b>	1.05	0.73
<b>Gearing (%)</b>	0.34	0.38
<b>ROCE (%)</b>	21.7	12.6

It is evident from this data that:

- gross and net profit margins are both falling, though the net margin has fallen by more. This may be due to a faster growth in expenses per unit. The falling margins would appear to indicate some pressure on price, or perhaps poor cost control, but they have been under pressure from distributors to reduce margins
- the current ratio has fallen though the firm still has an adequate liquidity position in terms of current liabilities and current assets
- the acid test ratio indicates excessively high levels of stock and the realisable value of the current assets may not be sufficient to cover liabilities
- gearing has risen, but is still relatively low and the value of the fixed assets of the firm have risen, perhaps indicating a revaluation of their assets
- the sales variances have been consistently unfavourable and worsening and this may indicate an underlying deterioration in the sales position
- expenses are budgeted to rise and this may indicate poor control over them
- both debtors and creditors have fallen, perhaps giving some indication of improved credit control, particularly given a relatively small rise in turnover and cost of goods sold.

The Indian multinational may have taken account of all these factors in their valuation of the firm for takeover, but they will clearly be concerned at some underlying signs of financial deterioration. Outsourcing of production and the introduction of the new product range may help to compensate for these trends, but it would be important to have more detailed information about this to judge. The sales forecasts do not look optimistic and given previous adverse variances, they may even be overstated.

***[8 to 10 marks]***

A clear, broad and thorough analysis of the financial position of the firm from the perspective of the Indian multinational. The analysis looks at a range of financial indicators and refers closely to the case study where relevant. Business concepts and theories are used appropriately.

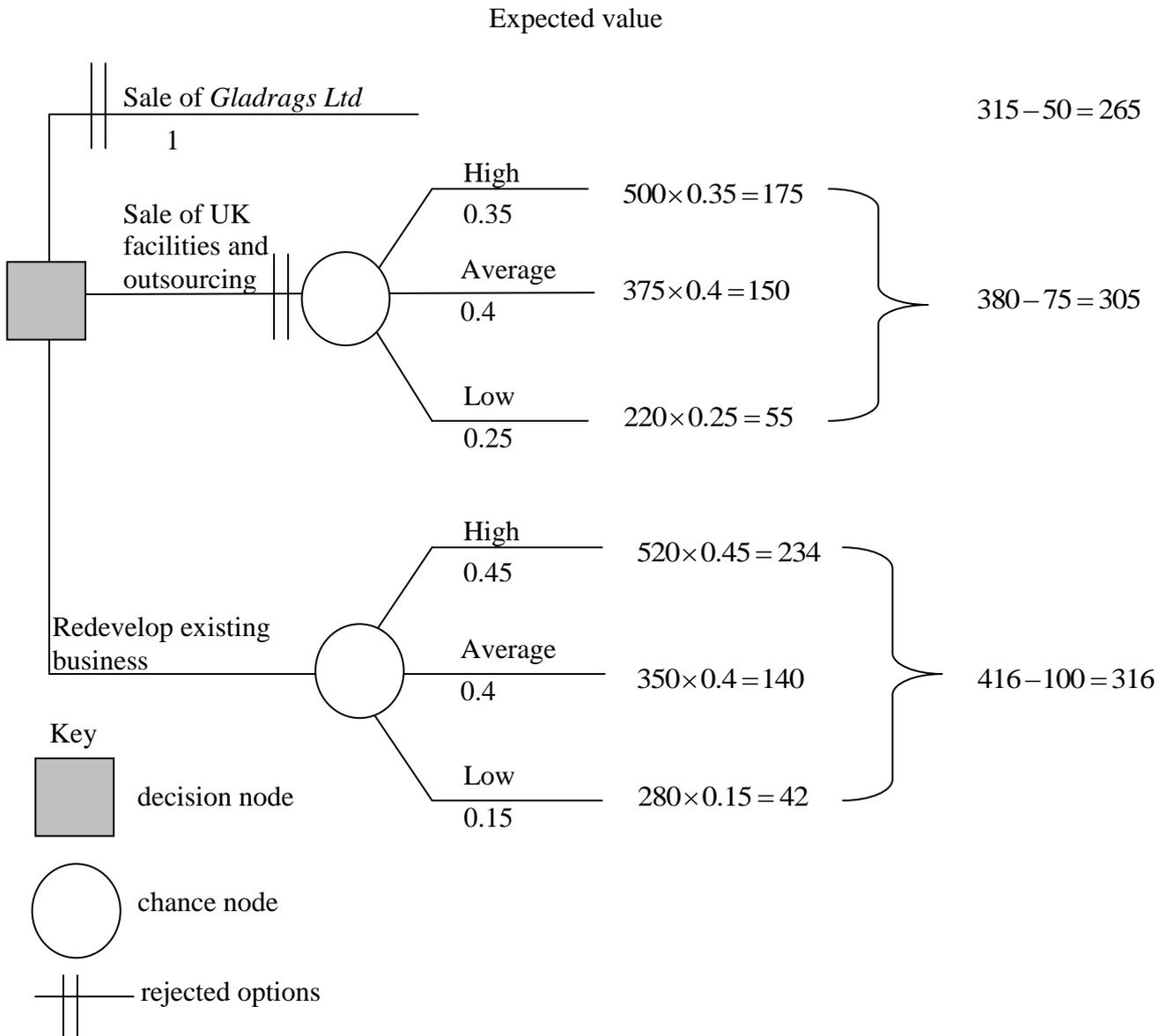
***[4 to 7 marks]***

A sound examination of the financial position of the firm, though this may not necessarily be from an appropriate perspective and may tend to be descriptive at the lower end of the range. There is some reference to the case study, though this may not always be appropriate at the lower end of the range. There is good use of ratio analysis at the top end of the range.

***[1 to 3 marks]***

A limited and essentially descriptive answer with some mention of the financial position of the firm, but this may be limited in scope.

6. (a) Construct a decision tree showing which option is best on financial grounds. (Show your working) [5 marks]



[5 marks]

Labelled, complete and accurate decision tree, showing workings required to calculate expected values. Clear identification of redevelopment of existing business as the best option. The rejected options will be shown, but no key is necessary.

[3 to 4 marks]

Complete decision tree with one or two types of error in calculation. For [4 marks] candidates must have clearly identified redevelopment of existing business as the best option.

[1 to 2 marks]

The framework of a decision tree but this may be incomplete or inaccurate.

- (b) (i) **Identify *two* additional sources of secondary data that will help support the decision about the most appropriate option.**

*[2 marks]*

The board of directors will want to see a range of data before making their decision. This data might include:

- detailed property valuations for the site that may be sold
- details of contracts and costings for the outsourcing of production
- market data and statistics (perhaps from government statistics) for the market for the redevelopment of the business and new product range
- market research reports from appropriate organisations to give them further information about the potential markets
- *any other relevant point.*

No credit should be given for primary sources identified.

*[2 marks]*

Two appropriate secondary sources of data are clearly identified.

*[1 mark]*

One appropriate secondary source of data clearly identified or two secondary sources that may not be entirely appropriate to the decision.

- (ii) **Explain how this data will inform this decision.**

*[4 marks]*

The data sources identified in part (i) will help the board of directors to put more precise financial values on each of the options and enable them to project potential revenues more clearly. The data should also help them identify potential risks as well as the potential rewards. This will help them make a more appropriate decision. Answers should consider the data sources identified in part (i) in detail.

*[3 to 4 marks]*

The way in which the data identified in part (i) informs the decision is clearly and fully explained with appropriate reference to the case study.

*[1 to 2 marks]*

The way in which the data informs the decision is explained though this may not be related to the data identified in part (i) or fully related to the case study.

- (c) **Taking into consideration the external opportunities and threats in Appendix 2 and the information given in the table above, evaluate whether *Gladrags Ltd* should expand the “Sassy” brand into Europe.**

**[9 marks]**

The answer to this part involves consideration of all the data given and the external opportunities and threats identified in Appendix 2. Candidates should draw all these points together, discuss them and use them to make a judgment about whether the “Sassy” brand should be launched in Europe. Relevant discussion points could include:

- the ending of the multi-fibre agreement is likely to lead to a high level of competition at the lower end of the market with cheap clothing being produced in China and elsewhere at very low cost. However, this may not affect the “Sassy” brand as much as it is targeted at higher income groups
- a shortage of skilled workers may mean that outsourcing production is necessary to meet demand for the “Sassy” brand. Production targets cannot be met with existing capacity
- economic recovery is expected in Europe and this may help boost demand for the “Sassy” range which is likely to be fairly income elastic in nature, though some increase in interest rates is expected and this may adversely affect the level of consumption and spending. A greater proportion of income is being spent on clothing and this may increase further as economic growth returns
- an aging population may reduce the potential market, though this may not be important given expansion into the larger European market
- the expected value of the redevelopment of the business is highest on the basis of the financial information, but *Gladrags Ltd* will also need to take account of non-financial factors. These may include the accuracy of the data, the staffing implications of the decision, the changes required in the corporate culture of the firm, the nature of the markets that they wish to enter and so on
- use of decision tree information
- *any other relevant point.*

**[8 to 9 marks]**

A clear and thorough evaluation of the decision about expansion with detailed reference to relevant material from the case study. Subject theories and concepts are used appropriately where relevant. A judgment about the expansion is made.

**[4 to 7 marks]**

Some examination of the decision about expansion with reference to material from the case study, though this may not always be appropriate at the lower end of the range. Some subject theories and concepts are used where relevant.

**[1 to 3 marks]**

A limited and probably essentially descriptive answer with some limited reference to opportunities and threats, though these may not be related to the decision under consideration.

---