



MARKSCHEME

May 2011

BUSINESS AND MANAGEMENT

Standard Level

Paper 1

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The markbands on pages 3–4 should be used where indicated in the markscheme.

Section A			Level descriptors
Q1 (c)	Q2 (c)	Q3 (d)	
Marks 0–7			
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the case study.
3–5			<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the case study, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical.
6–7			<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the case study.

Section B	Level descriptors
Q4 (d)	
Marks 0–8	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study.
3–4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the case study, not just to the name of the organization. • The response is mainly theoretical.
5–6	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the case study are made at places in the response.
7–8	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the case study are made throughout the response.

SECTION A

- 1. (a) (i) Identify *two* external stakeholders of *Reach Out*. [2 marks]**

External stakeholders of *Reach Out* include:

- families of children with autism (and children themselves) – do not count twice
- private therapists (accept “private sector companies” but not just “competitors”)
- local university and trainee teachers who need work experience with children with autism
- companies producing communication resources/PECS cards
- government (local, regional or national – not all)
- *accept any other relevant external stakeholder* (as long as they are relevant for *Reach Out* – for example “suppliers” is too vague unless specified).

Award [1 mark] for each correct and relevant external stakeholder identified up to a maximum of [2 marks].

- (ii) Outline a possible interest of *one* of *Reach Out*'s external stakeholders identified in part (i). [2 marks]**

Answers will depend on the chosen stakeholder – for example, the private therapists see *Reach Out* therapists (trainee teachers) as a new form of competition (*i.e.* new entrants); *Reach Out*'s approach to pricing (up to four times cheaper) presents a real threat to them, hence the interest. They may protest or complain over the fact that the *Reach Out* therapists are not professionally qualified.

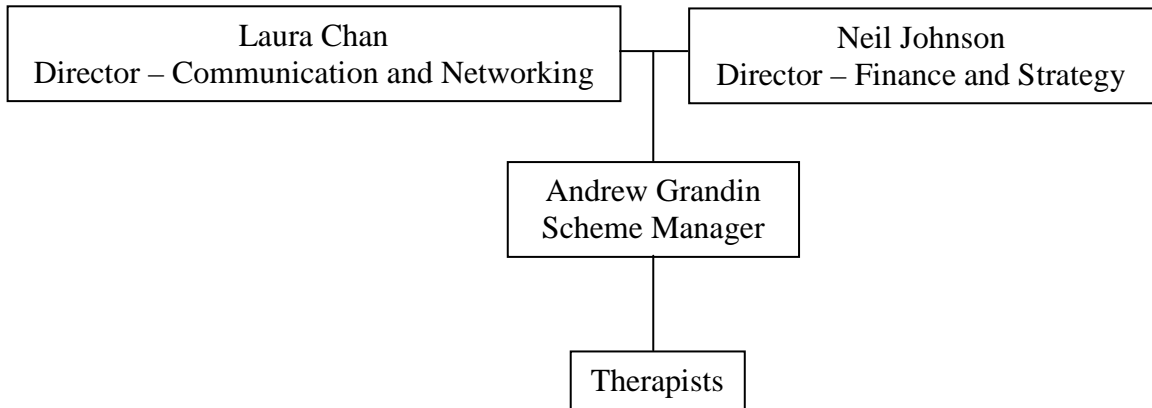
Accept any other relevant outline.

Award [1 mark] for a basic outline of a possible interest of one external stakeholder identified in part (i).

Award [2 marks] for a clear outline of a possible interest of one external stakeholder identified in part (i); for [2 marks] the interest must be realistic and explicit.

If the chosen external stakeholder is not from the answer to part (i), award a maximum of [1 mark], no matter how good the outline of the possible interest.

- (b) Construct a fully labelled organizational chart of *Reach Out* after the appointment of Andrew Grandin. *[4 marks]*



Note: the job titles might be on one side, depending on the layout.

Award *[1 mark]* for the relationship between Neil and Laura (at the same level).

Award *[1 mark]* for the relationship between Andrew, Neil and Laura (Andrew reporting to both of them).

Award *[1 mark]* for the relationship between Andrew and the therapists (trainee teachers) (the number of therapists on the chart does not matter).

Award *[1 mark]* for the labelling of the job titles (for Andrew, accept alternatives such as “manager” or “therapists manager”; for Laura and Neil, accept “co-directors”).

- (c) Analyse the advantages *and* disadvantages for *Reach Out* of accepting the sponsorship offer from *N-Pharma* (*Option 3*). [7 marks]

Advantages include:

- a new and regular source of income for *Reach Out* (\$10 000 a month), without any need for extra work/activities/spending
- the sponsorship from *N-Pharma* could, in turn, attract other sponsors
- the marketing advantage of being associated with *N-Pharma* – a well-known company
- potential advice and support
- information or research into autism
- *accept any other relevant advantage.*

Disadvantages include:

- compromising *Reach Out's* integrity (Laura's main argument against it)
- there is no link between a pharmaceutical company and the mission and vision statement of *Reach Out* (other than research on autism, *line 137*), so it is not clear what message this sponsorship would communicate to *Reach Out's* stakeholders
- should *N-Pharma* suffer bad publicity, *Reach Out* too could be negatively affected
- *accept any other relevant disadvantage.*

Accept any other relevant analysis.

Marks should be allocated according to the markbands on page 3.

2. (a) Neil Johnson has prepared a business plan for *Reach Out* (line 31). Identify four elements of a business plan. [4 marks]

Possible elements could include:

- an overall summary
- the mission statement/vision statement
- the aims/objectives of the business
- a section about legal status
- a section about marketing
- a section about human resources (HR)
- a section about operations
- a section about finance/accounting
- a calculation of start-up costs
- appendices such as cash-flow forecast
- *accept any other relevant element.*

Award [1 mark] for each correct element identified, up to a maximum of [4 marks].

- (b) With reference to *Reach Out*, distinguish between a vision statement and a mission statement (lines 44–47). [4 marks]

The vision statement is about the future: it presents the purpose of the organization, usually in terms of values or ideals. *Reach Out's* vision is that “no child with autism will be left behind”: this is *Reach Out's* driving force, the ultimate aim they seek, hence the idea of “vision”.

In contrast, the mission statement is a concise description of what the organization does: in the case of *Reach Out*, they “provide online support for families of children with autism”. It is concrete and practical: it is about what they already do (e.g. through Laura’s blog and web site), their purpose or what they want to do as soon as possible (“to offer them communication resources at a greatly reduced price”).

Accept any other relevant distinction.

[1 to 2 marks]

Award [1 mark] for an answer that just copies/lifts quotes from the case study. Award [2 marks] for an answer that shows some limited understanding of the difference between a vision statement and a mission statement, for example through a theoretical definition of the two.

[3 to 4 marks]

Award [3 marks] for an answer that combines “theory” (i.e. definition) and “practice” (i.e. reference to the case study). Award [4 marks] for an answer that clearly distinguishes between a vision statement and a mission statement, stressing the difference, with explicit reference to *Reach Out*.

- (c) **Analyse the importance of information and communication technology (ICT) in the creation *and* operations of *Reach Out*.** [7 marks]

On the one hand, ICT played an important role right from the beginning as *Reach Out* is originally based on Laura’s blog about raising a child with autism. That blog even enabled Laura and Neil to meet, as Neil read it and saw the business potential. The first part of *Reach Out*’s mission statement is about online activities; some fundraising comes from it and it has further potential, for example with the sponsorship from *N-Pharma*. ICT is also important in the interactions between families and therapists; it is through ICT shortcomings that Neil found out that Andrew is not able to use a computer, which is a major problem for *Reach Out*, as they rely a lot on electronic communication.

On the other hand, ICT remains a tool to support the other activities of *Reach Out*, especially the current therapist scheme and the future marketing of communication resources such as PECS cards. Both could not just exist virtually: therapists need to be in a room with the children, the PECS cards have to be real objects in the hands of the parents.

Accept any other relevant analysis.

Answers must be balanced and analyse both creation **and** operations for full marks.

Note: the balance may be between creation and operations; it does not have to be “for” and “against” the importance of ICT.

Marks should be allocated according to the markbands on page 3.

3. (a) **Define the term *corporate social responsibility* (line 138).** [2 marks]

A socially responsible business is one that realises it has an obligation or commitment which incorporates the interests of various stakeholders and the environment in a manner which is deemed to be beneficial and correct according to societal values, *e.g.* a socially responsible business may manufacture products in such a way as to limit carbon emissions. (This includes behaving **ethically** to its stakeholders.)

Award [1 mark] for a basic definition that conveys partial knowledge and understanding.

Award [2 marks] for a full, clear definition that conveys knowledge and understanding similar to the answer above.

For **only** a relevant: example **or** application to the case study award [1 mark].

- (b) Identify *two* possible indirect costs of *Reach Out*. [2 marks]

Organizations' indirect costs include rent, utilities, taxes *etc.* Possible answers in the case of *Reach Out* include the electricity bill, internet access and web site hosting – though a range of other answers can be accepted (*e.g.* office sundries, even rent as Laura's office is in her house and *Reach Out* could pay her some rent).

Award [1 mark] for each correct possible indirect cost relevant to *Reach Out* identified, up to a maximum of [2 marks].

- (c) Using information from Appendix 1,

- (i) calculate the total cash receipts *and* the closing balance at the end of September 2010 if all figures follow the same pattern as in the previous months. [2 marks]

	September 2010
Opening balance (start of month)	16 920
Cash receipts	
Commission from therapist scheme	32 000
Charity contributions (donations)	200
Total cash receipts	32 200
Cash paid out (expenses)	
Neil's salary (10 % of cash receipts)	3 220
Laura's salary	2 000
Andrew's salary	1 000
Direct costs	350
Indirect costs	150
Total cash paid out	6 720
Net cash flow	25 480
Closing balance (end of month)	42 400

Candidates are not expected to complete the cash-flow forecast for September as above.

Total cash receipts = 32 200
Closing balance = 42 400

Award [1 mark] for each correct calculation, up to a maximum of [2 marks].

- (ii) calculate the total cash receipts *and* the closing balance at the end of September 2010 if Neil Johnson’s proposal to ask families to pay higher fees (*lines 121–124*) is implemented that month. *[2 marks]*

	September 2010
Opening balance (start of month)	16 920
Cash receipts	
Commission from therapist scheme	64 000
Charity contributions (donations)	200
Total cash receipts	64 200
Cash paid out (expenses)	
Neil’s salary (10 % of cash receipts)	6 420
Laura’s salary	2 000
Andrew’s salary	1 000
Direct costs	350
Indirect costs	150
Total cash paid out	9 920
Net cash flow	54 280
Closing balance (end of month)	71 200

Candidates are not expected to complete the cash-flow forecast for September as above.

Total cash receipts = 64 200

Closing balance = 71 200

Award *[1 mark]* for each correct calculation, up to a maximum of *[2 marks]*.

(d) Examine the success of two elements of the marketing mix used by *Reach Out*. [7 marks]

The 7 Ps of the marketing mix may be used here: candidates are expected to examine two elements from the list of price, product, promotion, place, people, process and physical evidence.

Example for promotion:

Reach Out's promotion has two main channels: Laura's blog (and other online activities such as podcasts where she must mention the therapist scheme) and word-of-mouth (as parents of children with autism must talk to one another about the scheme). This has been very successful (as "the number of families asking for support was doubling each month" (lines 77–78), ensuring an ever increasing stream of income for *Reach Out* (see monthly cash flow) but many other promotional methods could be considered. Neil's proposal about brand development would further develop *Reach Out's* notoriety and goodwill, which could also help with further fundraising. At the moment, fundraising is a minor source of income (\$200 on average a month) but it has a lot of potential (e.g. with the sponsorship from *N-Pharma*) – however, promotion and communication are essential: this is one aspect of its marketing mix that has been successful but *Reach Out* could further develop.

Example for people:

People here refers to all the staff of *Reach Out*: the two directors, Andrew as well as the therapists. They all have skills and strengths that contribute to the success of *Reach Out* (e.g. Neil's business acumen, Laura's passion and drive) but some weaknesses too (e.g. Andrew's inability to use a computer, the therapists' lack of qualifications). From a marketing viewpoint, *Reach Out* could further use its strengths (e.g. Laura's and Andrew's personalities for networking and fundraising) – however they have to be careful that the weaknesses do not negatively affect the charity (e.g. Andrew's lack of computer literacy blocking the process of booking/confirming therapists' sessions). This is an aspect of the marketing mix that has not been so successful.

Accept any other relevant examination.

If the response is a one-sided relevant approach with no examination, award a maximum of [4 marks]. If only one element of the marketing mix is examined, award a maximum of [4 marks].

Marks should be allocated according to the markbands on page 3.

SECTION B

- 4. (a) Identify *four* elements of the process of setting up a business. [4 marks]**

Although there is no definite answer, the following shows what could be included:

- identifying a business opportunity *e.g.* a gap in the market
- preparing a business plan (*i.e.* considering all aspects of the venture, from objectives to finance via staffing and operations)
- finding the necessary resources especially from a financial viewpoint (funding)
- preparing the launch or the opening
- *accept any other relevant element.*

Please note that country-specific answers must be accepted.

Note: correct answers are likely to be written with verbs (*e.g.* “carry out market research”) though shorter answers such as “market research” are acceptable; vague answers however such as “finance” are not enough.

Award [*1 mark*] for each correct element identified (*e.g.* reference to objectives) up to a maximum of [*4 marks*].

(b) Explain the purpose of *Reach Out*'s final accounts (line 32). [4 marks]

Final accounts include profit and loss accounts (candidates may refer to statement of financial activities (SOFA) for charities) and balance sheets (as well as others e.g. for manufacturing firms, final accounts also include trading accounts and appropriation accounts). They are called “final” because they are written at the end of a company’s financial year. The main purpose of these financial statements is to provide information to stakeholders (especially directors, managers and investors) about the financial profile, health and performance of the organization. It seems that *Reach Out* is a very successful venture but at the end of the financial year, when Neil prepares the final accounts, he will be able to calculate ratios such as current ratio and acid test ratio. He can then compare them to other charities’ benchmark performances. Once they start producing and commercializing communication resources, this will be very important; at the moment, they only deal with services and have no debt. A particular purpose here is to identify the success of the venture in meeting the needs of its client group – children with autism and their families.

[1 to 2 marks]

Award [1 mark] for an answer that shows some knowledge of what final accounts are (e.g. with references to profit and loss accounts (accept charity equivalent) and balance sheets). Award [2 marks] for an answer that refers to the purpose of final accounts at a generic, theoretical level (e.g. about providing financial information to stakeholders).

[3 to 4 marks]

Award [3 marks] for an answer that combines “theory” (i.e. definition) and “practice” (i.e. reference to the case study) though not fully/clearly explaining the purpose of final accounts to *Reach Out*. Award [4 marks] for an answer that fully and clearly explains the purpose of final accounts to *Reach Out*.

(c) Explain two reasons why Neil Johnson wishes to brand the products offered by *Reach Out* (Option 2). [4 marks]

Neil wishes to brand the products for several reasons:

- the name *Reach Out* is already well-known so there will be no need to spend much time and money on raising brand awareness
- some potential customers may buy the products (clothes and accessories) to support the charity as they recognize its name and its cause (children with autism)
- all marketing and promotion for the brand *Reach Out* will benefit all products (e.g. accessories) and services (e.g. the therapist scheme) that are commercialized under the same umbrella name
- to raise additional revenue for *Reach Out* which will also increase his salary.

Mark as 2+2.

Award [1 mark] for each correct reason identified, and [1 mark] for the development of that reason up to a maximum of [2 marks].

- (d) **Laura Chan is unsure about the future growth of *Reach Out* (lines 156–158). Recommend an appropriate scale of operation for *Reach Out*, justifying your answer.**

[8 marks]

Laura is torn. On the one hand, she can see some of the long-term advantages of Neil’s plans (for example about branding) but on the other hand she does not want *Reach Out* to grow for growth’s sake.

Different scales of operations are possible:

- Neil could convince Laura that the next six months should be about maximum growth – then once *Reach Out* has one million dollars (for example as a target) of surplus in the bank, they will be able to start producing and distributing communication resources. (They will also be in a strong position to negotiate good deals with suppliers.)
- Laura could convince Neil that the focus should already be on the communication resources (the mission statement), using the ongoing revenue from the therapist scheme for funding, rather than diversifying towards sponsorship or branding.
- Laura and Neil could review the funding structure of the charity, deciding to develop the fundraising strand of income (rather than marketing, especially branding) by making use of Laura’s and Andrew’s public relation (PR) profile.
- Laura and Neil could realize that their ambitions, motivations and personalities are too different and that they cannot work together any more on *Reach Out*; they would need to decide on the best exit strategy (for either of them – or both of them, should they decide to fold *Reach Out* in its current form).

Accept any other relevant recommendation.

Candidates could consider the advantages and disadvantages of small versus large organizations. This could be with reference to economies of scale, bureaucracy, organization, specialization, financial security, *etc.*

Candidates are not expected to cover all the suggestions outlined above: they are only expected to recommend a scale of operation, examining its advantages and possibly disadvantages. The recommendation must be justified to reach the top markband.

Marks should be allocated according to the markbands on page 4.
