

Markscheme

November 2016

Business management

Standard level

Paper 2

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The markbands and assessment criteria on pages 3–5 should be used where indicated in the markscheme.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"> • Little understanding of the demands of the question. • Few business management tools (where applicable), techniques and theories are explained or applied, and business management terminology is lacking. • Little reference to the stimulus material.
3–4	<ul style="list-style-type: none"> • Some understanding of the demands of the question. • Some relevant business management tools (where applicable), techniques and theories are explained or applied, and some appropriate terminology is used. • Some reference to the stimulus material but often not going beyond the name of a person(s) and/or the name of the organization.
5–6	<ul style="list-style-type: none"> • Understanding of most of the demands of the question. • Relevant business management tools (where applicable), techniques and theories are explained and applied, and appropriate terminology is used most of the time. • Some reference to the stimulus material that goes beyond the name of a person(s) and/or the name of the organization. • Some evidence of a balanced response. • Some judgments are relevant but not substantiated.
7–8	<ul style="list-style-type: none"> • Good understanding of the demands of the question. • Relevant business management tools (where applicable), techniques and theories are explained and applied well, and appropriate terminology is used. • Good reference to the stimulus material. • Good evidence of a balanced response. • The judgments are relevant but not always well substantiated.
9–10	<ul style="list-style-type: none"> • Good understanding of the demands of the question, including implications, where relevant. • Relevant business management tools (where applicable), techniques and theories are explained clearly and applied purposefully, and appropriate terminology is used throughout the response. • Effective use of the stimulus material in a way that significantly strengthens the response. • Evidence of balance is consistent throughout the response. • The judgments are relevant and well substantiated.

Assessment criteria for Section C

Criterion A: Knowledge and conceptual understanding

This criterion addresses the extent to which the candidate demonstrates knowledge and understanding of the given concepts and relevant business management content (theories, techniques or tools, depending on the requirements of the question).

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Superficial knowledge of the given concepts is demonstrated. Business management content is not selected or the content selected is irrelevant.
2	Satisfactory understanding of one or both of the given concepts is demonstrated. Some business management content selected is relevant. The relevant content is satisfactorily explained.
3	Good understanding of one or both of the given concepts is demonstrated. The business management content selected is relevant, though it may not be sufficient. The relevant content is generally well explained, though the explanation may lack some depth or breadth.
4	Good understanding of both of the given concepts is demonstrated. The business management content selected is relevant, sufficient and well explained.

Criterion B: Application

This criterion addresses the extent to which the candidate is able to apply the given concepts and the relevant business management content (theories, techniques or tools, depending on the requirements of the question) to his or her chosen real-world organization(s). **The real-world organization(s) must not be the organization featured in the prescribed case study for paper 1.**

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	The given concepts and/or any relevant business management content are connected to the real-world organization(s), but this connection is inappropriate or superficial.
2	The given concepts and/or relevant business management content are connected appropriately to the real-world organization(s), but this connection is not developed.
3	The given concepts and relevant business management content are generally well applied to explain the situation and issues of the real-world organization(s), though the explanation may lack some depth or breadth. Examples are provided.
4	The given concepts and relevant business management content are well applied to explain the situation and issues of the real-world organization(s). Examples are appropriate and illustrative.

Criterion C: Reasoned arguments

This criterion assesses the extent to which the candidate makes reasoned arguments. This includes making relevant and balanced arguments by, for example, exploring different practices, weighing up their strengths and weaknesses, comparing and contrasting them or considering their implications, depending on the requirements of the question. It also includes justifying the arguments by presenting reasonable evidence or other support for the claims made.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Statements are made but these are superficial.
2	Relevant arguments are made but these are mostly unjustified.
3	Relevant arguments are made and these are mostly justified.
4	Relevant, balanced arguments are made and these are well justified.

Criterion D: Structure

This criterion assesses the extent to which the candidate organizes his or her ideas with clarity, and presents a structured piece of writing comprised of:

- an introduction
- a body
- a conclusion
- fit-for-purpose paragraphs.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Two or fewer of the structural elements are present, and few ideas are clearly organized.
2	Three of the structural elements are present, or most ideas are clearly organized.
3	Three or four of the structural elements are present, and most ideas are clearly organized.
4	All of the structural elements are present, and ideas are clearly organized.

Criterion E: Individuals and societies

This criterion assesses the extent to which the candidate is able to give balanced consideration to the perspectives of a range of relevant stakeholders, including individuals and groups internal and external to the organization.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	One individual or group perspective is considered superficially or inappropriately.
2	One relevant individual or group perspective is considered appropriately, or two relevant individual or group perspectives are considered superficially or inappropriately.
3	At least two relevant individual or group perspectives are considered appropriately.
4	Balanced consideration is given to relevant individual and group perspectives.

Section A

1. (a) Define the term *loss leader pricing strategy*. [2]

A loss leader pricing strategy occurs when a business sells a product or products at a low price, often at a loss, to attract more customers. The approach can increase awareness of the business, lead to sales of other products, and lead to higher market share.

Candidates are not expected to word their definition exactly as above.

Award [1] for a basic definition that conveys partial knowledge and understanding similar to the above answer. The first mark would typically come from conveying the idea that a loss leader pricing strategy involves very low prices.

Award [2] for a full, clear definition that conveys knowledge and understanding similar to the answer above. Candidates should receive a second mark if they convey the idea that the intention of the low prices is some other benefit to the business (awareness, sales of other items, market share, etc).

- (b) Using information from the table:

- (i) calculate the missing figures **V**, **W**, **X** and **Y** (*no working required*); [4]

V: 3500

W: 1500

X: 300

Y: 300

Award [1] for each correct answer V, W, X, and Y up to a maximum of [4].

- (ii) calculate the gross profit margin for 2015 **and** 2016 (*no working required*). [2]

2015: 34.88 %

2016: 31.37 %

Accept 34.9 % for 2015 and 31.4 % for 2016.

N.B. *allow candidate own figure rule.*

Award [1] for each correct answer (no working required) up to a maximum of [2].

- (c) Using the quantitative information in the table **and** your answers to part (b), comment on the impact of a loss leader pricing strategy on VG.

[2]

The primary two impacts of the loss leader pricing strategy appears to be (1) an 18.6 % increase in sales revenue, which rose from \$4 300 000 in 2015 to \$5 100 000 in 2016, and (2) a decrease in the gross profit margin, which fell from 34.88 % in 2015 to 31.37 % in 2016. The net profit before interest and tax remained unchanged. If the intention of the loss leader pricing strategy was to increase sales revenue, the strategy appears to have worked: the low prices on certain items led to increased sales revenue. If it were to increase overall profitability, it did not.

N.B. allow candidate own figure rule.

Award [1] if the candidate links the loss leader strategy to a decrease in gross profit margin. Award an additional [1] if the candidate makes some other relevant comment related to pricing, profits, or profitability. Award up to a maximum of [2].

2. (a) Define the term *fixed cost*. [2]

A fixed cost is a cost that does not change with the level of production/output.

Candidates are not expected to word their definition exactly as above.

Award [1] for a basic definition that conveys partial knowledge and understanding similar to the above answer. The first mark would typically come from awareness that the payment does not change.

Award [2] for a full, clear definition that conveys knowledge and understanding similar to the answer above. Candidates should receive a second mark if they convey the idea that it does not change according to the level of production/output. Do not credit an example.

- (b) Calculate the break-even quantity of meals that CL must sell to pay for the increase in fixed costs of \$3000 to provide these meals (*show all your working*). [2]

Just to pay for the increase in fixed costs of \$3000, CL must sell 600 meals per month, calculated as follows:

Average sales price per meal – average variable costs per meal = contribution

$$\$10 - \$5 = \$5 \text{ contribution}$$

$$\frac{3000}{5} = 600 \text{ meals per month/units}$$

For full marks all stages of the calculation – the two stages- are expected.

An alternative method would be:

Total revenue (TR) = total costs (TC), where total revenue = Price × quantity sold and TC = Total fixed cost + total variable costs

$$10 [\text{price}] \times Q [\text{quantity sold}] = \text{Total fixed cost} + (\$5 [\text{variable cost per unit}] \times Q)$$

$$10Q = 3000 + 5Q$$

$$5Q = 3000$$

$$\frac{3000}{5} = 600 \text{ meals per month/units}$$

Award [1] for correct working and [1] for the correct answer. Award up to a maximum of [2].

For a correct response that demonstrates understanding and application of the formula, even if no specific headings are presented, award full marks.

- (c) Using the information in the table **only**, prepare a monthly cash flow forecast, for CL, for the first six months of operation.

[6]

All figures in \$

	July	August	September	October	November	December
Sales revenue	4000	4000	3500	3500	4000	4500
Government payment toward rent	1000	1000	1000	1000	1000	1000
Total receipts	5000	5000	4500	4500	5000	5500
Rent	2000	2000	2000	2000	2000	2000
Purchases	1600	1600	1400	1400	1600	1800
Salary	1600	1600	1600	1600	1600	1600
Electricity		200		200		200
Cleaning supplies	100	100	100	100	100	100
Total payments	5300	5500	5100	5300	5300	5700
Net cash flow	<300>	<500>	<600>	<800>	<300>	<200>
Opening balance	0	<300>	<800>	<1400>	<2200>	<2500>
Closing balance	<300>	<800>	<1400>	<2200>	<2500>	<2700>

N.B. Allow candidate own figure rule (OFR): if a candidate makes an error in one row and carries it through the remainder of the forecast, that is only one error. This provision includes both **mathematical** errors and **conceptual** errors (for example, if a candidate has the electricity fee monthly rather than every other month, it is one error) and candidates should only lose [1] for that error. Candidates who only show net rent payment should be penalised as one error as they have omitted the inflow.

[1] if the candidate has some idea of the structure of a cash flow forecast.

[2] for a cash flow forecast that has **more than 3** mistakes or omissions in layout/ heading/ calculations (apply OFR).

[3] for a largely correct cash flow forecast that has three mistakes or omissions in layout/ headings and/or calculation (apply OFR).

[4] for a largely correct cash flow forecast that has some minor mistakes with layout and /or headings and which has one mistake (apply OFR) **or** the candidate does not produce a mathematically correct cash flow.

[5] for a largely mathematically correct cash flow forecast that has one omission of one category **or** one mistake in calculations or headings.

[6] for a fully correct cash-flow forecast with a generally accepted format and lines/ headings for total inflows/receipts, total outflows/payments (or some other acceptable wording), a line/ headings for Net cash flow / inflow, etc and lines/ headings for opening and closing balance.

Section B

3. (a) Describe **one** feature of a private limited company. [2]

Features of a private limited company may include:

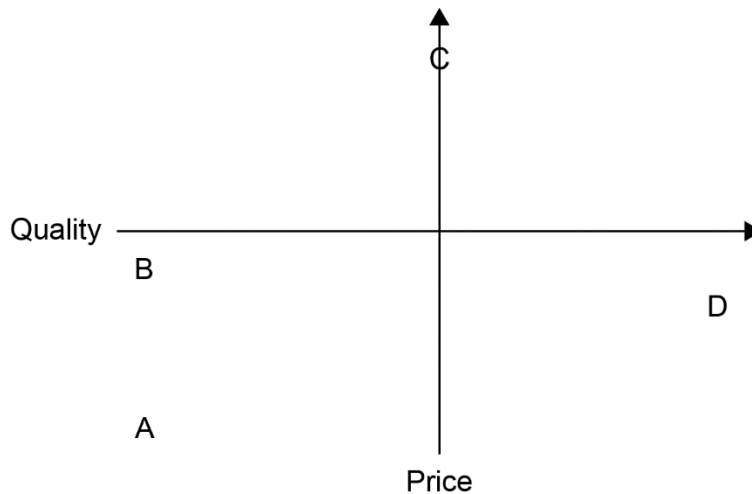
- the company is incorporated. There is a separate legal entity between the shareholders and the company itself.
- the shareholders have limited liability. Their private assets will not be affected in the event of any financial problems.
- *accept any other relevant feature.*

*Award [1] for identifying an appropriate feature and [1] for an appropriate description (application **not** required), up to a maximum of [2].*

- (b) Construct a position/perception map for all four brands of scooter. [4]

*Award [1] for the overall layout of the map with **both** axes correctly labelled (price: high or low; Quality: high or low).*

N.B. *It does not matter which one is horizontal / vertical.*



Correct positioning:

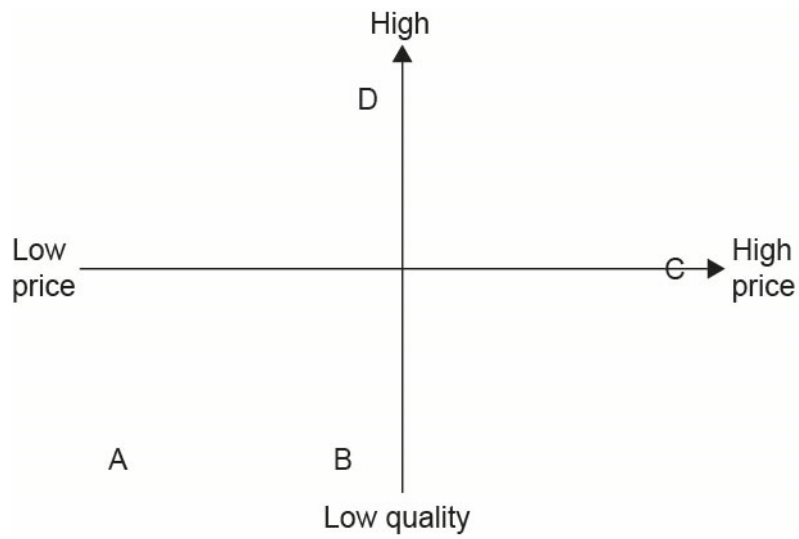
- A. Zoom in the quadrant “Low and Low”. The placement should be **very** low and **very** low.
- B. Elegante in the quadrant “low and low”. **N.B.** Elegante is described as “low quality” and its price should put it near the x-axis, which needs to be graphically or textually indicated. It should not be considered correct if this aspect is not clear.
- C. Electrico on the axis of price (thus medium quality), at the very high end of price.
- D. Rasen in the low price, high quality quadrant. Quality should be very high and price fairly close to the x-axis but lower than Elegante.

Award [2] for a correctly labelled position map with two of the brands properly placed.

Award [3] for a correctly labelled position map with three of the brands properly placed.

Award [4] for a correctly labelled position map with all four brands properly placed.

If a candidate orients the perception map differently (that is, has price as the x-axis, use the map below and follow the same scoring mark-award scheme:



- A – Zoom
- B – Elegante
- C – Electrico
- D – Rasen

Also, if a candidate uses “consumer opinion” rather than quality, accept.

- (c) Explain the relationship between Rasen’s product life cycle and *FC*’s marketing mix. **[4]**

Based upon the evidence from the stimulus, the place of Rasen on the product life cycle curve is at the beginning of the decline phase. The perception of Rasen in the market place no longer matches the needs and wants of consumers, despite the fact that it is an excellent product (high quality product at a middle-low price). This situation puts *FC* in a difficult position. *FC* has an excellent location, so changing place will probably not impact on sales. The product is out of *FC*’s hands in that it sells Rasen scooters but has meaningful voice in the changes to the product (like all dealers, it can suggest and Rasen probably asks its dealers their opinion). Finally, *FC* probably would not want to change price, as Rasen scooters are very reasonably priced as it is. Given the quality of the product, the price appears to be excellent. The main area where *FC* can try to change the situation is by new forms of promotion. However, brand perception is determined largely by above the line promotion, which is probably too expensive for a little business like *FC*. Perhaps *FC* can try new forms of below the line promotion than the ones it currently uses, or try to influence Rasen to alter the product and/or the brand perception. Given that people want scooters that are fashionable and “cool,” perhaps *FC* can with other dealers try to persuade Rasen to modify the design of the product slightly and launch a new promotion campaign aimed at changing the perception of Rasen.

If a candidate says that Rasen is in the decline phase rather than the beginning of the decline phase, accept if the explanation reasonably justifies.

Accept any other relevant explanation.

Mark as 2 + 2.

Award [1] for some understanding of the product life cycle and [2] if the candidate both demonstrated an understanding and makes the assertion that Rasen appears to be at the end of the maturity phase or the beginning of the decline phase.

With respect to the marketing mix, award [1] for each P of the marketing mix that the candidate addresses up to [2].

- (d) Discuss the importance of branding for *FC* and for Rasen.

[10]

Branding creates a perception of Rasen in the marketplace. Once brand perception exists, it influences consumers, who come to associate certain characteristics with the product. Branding can create customer perception and loyalty, but brand perception can also lead consumers to misunderstand a product as well. The power of the old branded identity endured. Rasen seems to benefit significantly from the power of its branded identity. Even though consumer tastes have changed, *FC* was still able to sell 1200 scooter sales per annum, which represents 20 scooters per week. The impression from the stimulus is that, though market share is declining, it is not doing so too rapidly. Rasen and *FC* probably have time to make changes.

Branding, or in this case rebranding, would be important to both Rasen and *FC* but arguably more important to *FC*. Rasen has more control over the situation: more financial resources, more power over product, price, and promotion. Rasen also has control over the markets where the product is sold. Well off young Germans may be more interested in fashionability and coolness than their parents' and grandparents' generation, but perhaps Rasen needs to look to new markets – in eastern and southern Europe, South America, Africa, or Asia – where quality and reasonable price may be more valued (though Rasen may also have to sell scooters at lower prices in these markets). *FC*, as noted in the response to marketing mix above, has relatively little control over than the marketing mix, unless it were to drop Rasen altogether and start selling a different brand. Thus, to *FC*, Rasen's branded identity is exceptionally important.

Accept any other relevant discussion.

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

4. (a) Define the term *target market*. [2]

A target market is defined as a group of consumers with similar needs and wants/characteristics that a business decides to focus on in terms of its operations and/or marketing. A4A's target market for its adventure parks has been teenagers and adults.

Candidates are **not** expected to word their definition **exactly** as above.

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

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

Award [0] if the candidate writes "target market is when an organization targets a particular part of a market". Or a similar answer where the candidate repeats the question using the same terminology in the answer. If a candidate just provides examples from the stimulus, award [0]. Do not penalize if a candidate has a definition and includes the examples from the stimulus (and examples from the stimulus can further demonstrate understanding. However, a circular definition (writes "target market is when an organization targets a particular part of a market") with examples from the stimulus is **not** enough for [1].

- (b) Explain **two** roles of A4A's mission statement. [4]

A mission statement is a way of communicating to its stakeholders the current purpose of a business. It can be used to guide current objectives. For A4A, the mission is to provide fun, safe and affordable adventures for families.

From the stimulus, the role of this mission statement is that it allows A4A to position itself away from its competitors and, given the number of long-serving managers who have been at A4A with Tama since its creation, acts as a strong motivational force for employees to stay.

The mission statement could also act as an incentive to encourage ethical external sources of finance by investors who are motivated by A4A's objective (or mission) to provide adventures for all.

Accept any other relevant explanation.

If a candidate makes the claim that the mission statement communicates to stakeholders that a core value and/or competency is affordability and then, as a second point, makes the claim that the mission statement communicates to stakeholders that a core value and/or competency is safety, consider this one role of a mission statement, which, for [2], must have identification, explanation, and application.

Mark as a 2+2.

Award [1] for each role identified and an additional [1] for development with reference to A4A. Award a maximum of [2] per role.

- (c) Explain **one** advantage and **one** disadvantage for A4A of using a predatory pricing strategy.

[4]

Predatory pricing (also undercutting) is a pricing method where a product or service is set at a very low price, intending to drive competitors out of the market, or create barriers to entry for potential new competitors.

Predatory pricing has the advantage for A4A as a competitive tool given that its target market is families who we assume would be price sensitive given that there are other competing forms of adventure activity entertainment. Therefore A4A is trying to get rid of the competitors by using this pricing strategy.

“Affordable” pricing is enshrined in its current mission statement and predatory pricing thus also deemed to be appropriate and ethical. A reference to **competitors** should be accepted as application as there is not much more info in the case about the competitors.

However for disadvantages:

- A4A has already started to experience a fall in profit. Predatory pricing can only be used in the short term especially now given A4A’s fall in revenue and profit. Therefore this pricing strategy does not fit the changes in the external environment as stated in the stimulus that caused a fall in profit.
- predatory pricing has been considered in some countries as illegal or anti-competitive (but there is no evidence from the stimulus that this has occurred for A4A).
- more importantly there could be “quality concerns” by some stakeholders that much lower than competitor prices may imply a poor quality service and safety concerns. This could be significant given that in the stimulus a new service aimed at special needs children and adults is to be introduced.
- if costs rise, then A4A could lose its competitive advantage if it is forced to change its pricing method to be more market based.
- the stimulus suggests that profits and revenues are falling. Predatory pricing limits the possibility of reducing prices further to fuel sales growth.

Accept any other relevant explanation.

Mark as a 2+2.

Award [1] for an appropriate advantage/disadvantage identified and an additional [1] for development of the explanation illustrating the appropriateness of predatory pricing with respect to A4A. Award a maximum of [2].

If the answer has an advantage and disadvantage of predatory pricing but no application (or just mentions the name of the business) then award a maximum of [2] overall.

- (d) Using the Ansoff matrix, evaluate the **two** possible growth strategies for A4A. [10]

The two possible growth strategies are linked to two cells of the Ansoff matrix.

Catering for children and adults with disabilities and access requirements could be considered as market development as there is a new market to be catered for with an existing product (A4A's current facilities).

The corporate team building market, which would require A4A creating a new product to cater for a new target market could be referred to as diversification.

(Please accept other classifications of the Ansoff matrix if the explanation is justifiable eg market penetration and/or product development).

The Ansoff matrix would highlight that the latter diversification option would be the riskiest given the lack of familiarity and experience in servicing the corporate senior leadership team market.

For the top markband, candidates must apply the Ansoff matrix to their analysis.

The first growth strategy is likely to be cheaper and quicker for A4A to organize. They will probably have experience of this market already and it is assumed that compared to the corporate team building market, only minor modifications of equipment may be necessary. There will be possibly additional health and safety concerns given that the market development strategy is focusing on children and adults with disabilities and access requirements. The mission of A4A need not be violated and predatory pricing can remain a competitive tool.

However, staff training across all four centres will be an important consideration in both options but especially in this market development given that safety is part of A4A's mission. Tama will need to ensure that he has clear guidelines in place to run this service for children and adults with disabilities and access requirements. However, this market development idea will also need additional market research to see exactly how big this new market could be. Profit growth may be small and there are issues of sustainability for the whole of A4A's workforce if this market development strategy is not successful as highlighted by two of the senior managers.

The second growth strategy is riskier, although it is assumed that Tama will conduct thorough market research of an untested market for A4A. The expected profitability of the second option will protect all 342 jobs across the 4 centres and therefore assumes greater significance than the market development option. Set up costs are likely to be higher given that A4A is moving into a higher valued/priced niche market, but higher prices and thus revenues should compensate. This new pricing method though may confuse some potential customers given A4A's mission and knowledge of A4A's predatory pricing strategy.

It is not clear whether the second option violates A4A's mission statement, although some senior managers think so. Already resentment is growing and Tama can ill afford conflict at a difficult financial time especially as long serving managers with experience are the ones who seem to be the most concerned. Tama's loyalty to his senior staff will be tested and he may have to make some managerial changes if this resentment grows if the diversification option is selected.

On balance, the second growth strategy is recommended. If A4A maintains three adventure parks as suitable for families with an option to service children and adults with disabilities and access requirements because of the financial success of the team building option in the fourth centre, then A4A could conceivably implement both options gradually and adopt a wait and see approach. This would have the benefit of protecting all jobs at A4A and reassuring the dissenting voices that A4A is still being true to its mission in offering adventures for all. However, the transitional costs will be considerable and there will be some managerial conflict to address.

Accept any other relevant evaluation.

Maximum award	Option 1	Option 2	Judgments/conclusion
3	Unbalanced	N/A	N/A
4	Unbalanced	Unbalanced	N/A
5	One balanced and one unbalanced		N/A
6	Both balanced		No judgments/conclusions
7–8	Balanced		Judgments/conclusions based upon analysis and explanation in the body of the response
9–10	Balanced		Judgments/conclusions based upon analysis and explanation in the body of the response

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

*For one relevant issue that is one-sided, award up to **[3]**. For more than one relevant issue that is one-sided, award up to a maximum of **[4]**.*

*Award a maximum of **[6]** if the answer is of a standard that shows balanced analysis and understanding throughout the response with reference to the stimulus material but there is no judgment/conclusion.*

*Candidates cannot reach the **[7–8]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.*

*If a candidate makes no use of the Ansoff matrix, award a maximum of **[4]**.*

5. (a) Define the term *de-layering*. [2]

To reduce the size of a business hierarchy, especially in terms of a reduction in management. This creates a flatter (less layered) organizational structure.

*Candidates are **not** expected to word their definition exactly as above*

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

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

- (b) Using Herzberg motivation theory, explain **one** reason for the recent issues at *TH* with punctuality and absenteeism. [2]

The use of flexible contracts which do not provide benefits such as paid sick leave or holidays is according to Herzberg, hygiene factors which causes dissatisfaction among the function room workers. The function room workers express this dissatisfaction through poor punctuality and absenteeism.

Accept any other relevant explanation.

Award [1] for the correct use of the term hygiene factors and award an additional [1] for explaining that the lack of benefits are factors that have caused dissatisfaction. Award a maximum of [2].

- (c) Explain **two** benefits and **one** negative consequence for *TH* of an increase in labour turnover. [6]

Positive benefits include:

- Some level of labour turnover is important to bring new ideas, skills and enthusiasm to the workforce.
- Wages are kept low due to new staff starting on the lowest rates.
- Can be a way in which a business can slowly reduce its workforce without having to resort to redundancies.
- *Accept any other relevant benefit.*

Negative consequences include:

- There will be an increase in recruitment costs as vacant posts will need to be advertised and staff interviewed.
- There will be an increase in training costs as new staff will need induction training and may need additional training for their posts in the function room.
- There is likely to be an impact on the quality of customer service at least in the short run whilst new staff are trained and get used to the function room's systems. This may result in customer complaints and a poor image.
- *Accept any other relevant consequence.*

Accept any other relevant explanation.

Mark as 2+2+2.

*Award [1] for a correct benefit / negative consequence identified and [1] for a relevant explanation with application to *TH*. Award up to a maximum of [4] for two benefits and [2] per negative consequence explained.*

- (d) Discuss the proposal to outsource all function room services to a private contractor. **[10]**

Outsourcing is when a business ceases to run a functional area of its business and instead contracts this out to a third party. This third party provides the staff to run these functional areas of the business. They are responsible for recruitment, training and disciplinary matters.

There may be short-term cost increases as there may be redundancies amongst the staff currently employed in the function room. However, the hotel may be able to negotiate with the outsourcer to offer employment to some of the current staff.

The hotel will no longer need to recruit; train or discipline function room workers and this will cut its indirect costs.

Overall this may or may not save the hotel money. Whilst some indirect costs will fall, the outsourcing is more expensive than providing the function room “in-house”.

However a slight increase in costs might be worthwhile if it results to improved customer care.

The problems with food being delivered late from the hotel restaurant may be solved as the outsourcer may use its own food supplier.

However the impact on customer care is less clear. The function room has been suffering from absenteeism and punctuality problems and this is likely to have reduced the standards of customer care at wedding and conferences. This should be less of a problem as the outsourcing company will ensure it has sufficient staff to provide the correct levels of customer care and the contract between the hotel and the outsourcer would lay down staffing level needed.

On the other hand, these employees will owe no loyalty to the hotel as they are not employed by them. They may therefore not be as well motivated as the success of the hotel means less to them. Will they share the hotel’s mission statement? Will customer care improve? Punctuality and absenteeism should become less of a problem, but it is debateable as to whether or not the outsourced staff will embrace the hotel’s philosophy.

The hotel needs an outsourcer that shares or is willing to embrace the hotel’s mission statement. If it does not then the standard of customer care the hotel wants may not be achieved.

The hotel will have drawn up a contract with the outsourcer and it is likely that service standards will be written into this – if the outsourcer fails to meet the standards then the hotel will be able to terminate the contract at short notice. However this would result in even further upheaval for the business with consequences for customer care.

There will be another impact on restaurant sales – currently 30 % of restaurant sales are to the function room – the outsourcer may use its own supplier of meals and if so restaurant sales and profits will fall.

In conclusion, outsourcing should lead to fewer problems with absenteeism and punctuality as the outsourcer should have sufficient staff to deploy on any given day. It will relieve the hotel of the need to recruit and train staff and this will cut the hotel's costs. However outsourcing is more expensive than providing the function room "in-house" – whether it is cheaper depends on how much is saved in recruitment and training of function room staff.

The reduced problems with absenteeism and punctuality should improve customer care, but the doubt remains as to whether these staff will feel part of the business and be committed to the hotel's mission statement. It may lead to an improvement in basic customer care but not to the level that the hotel's mission statement aspires.

However, there is no guarantee that the current managers will either get jobs with the outsourcer or will want to work for them. This may lead to a period of transition and their knowledge of how the business runs will be lost. The owners might consider that other solutions might be more effective and less risky, such as operating a rewards system that improves attendance and punctuality amongst the lower paid staff.

Accept any other relevant discussion.

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

*For one relevant issue that is one-sided, award up to **[3]**. For more than one relevant issue that is one-sided, award up to a maximum of **[4]**.*

*Award a maximum of **[4]** for an answer that deals with either customer care or the business' costs as such an answer lacks balance.*

*Award a maximum of **[6]** if the answer is of a standard that shows balanced analysis and understanding throughout the response with reference to the stimulus material but there is no judgment/conclusion.*

*Candidates cannot reach the **[7–8]** markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.*

Section C

Questions 6 to 8. Please mark the candidate response using the assessment criteria on pages 4 to 5.

6. With reference to an organization of your choice, discuss the ways in which **culture** can influence international marketing **strategy**. [20]

7. With reference to an organization of your choice, examine the impact of **globalization** on business **ethics**. [20]

***N.B.** Although the question asks for the application of one concept on another, it is still expected that Business Management content will be aligned with the concepts especially ethics. For example, what types of business ethics? What strategies were changed or not due to globalization which impacted on business ethics.*

Please note that candidates can conclude that there was a minimal impact, however it has to be based on balanced arguments and evaluation.

8. With reference to an organization of your choice, discuss the ways in which **innovation** can influence organizational **change**. [20]

Additional guidance in relation to the assessment criteria

For each criterion, the aim is to find the descriptor that conveys most accurately the level attained by the candidate, using the best-fit model. It is not necessary for every single aspect of a level descriptor to be met for that mark to be awarded.

- *The highest level descriptors do not imply faultless performance and should be achievable by a candidate.*
- *A candidate who attains a high level of achievement for one criterion will not necessarily reach high levels of achievement for the other criteria and vice versa.*

*If only **one** concept is addressed:*

Criteria A, B, C and E: award up to a maximum [3].

Criterion D: full marks can be awarded.

*Where the question ask for impacts of **two concepts on content**, examiners must allow for unbalanced treatment of the two concepts throughout a candidate's response. One concept may be more significant than the other.*

Criterion B

For [2]: "...connection is not developed" should be treated the same as superficial.

Criterion C

1+1 arguments are expected per concepts.

- *Questions 6 to 8 require consideration of the impact of one concept **on** a second concept – therefore accept 2+2 arguments for a balanced response.*
- *Justification is through logic or data.*
- *For [2] there is no balance as there are no counter arguments at all, or the arguments are all one-sided then this would be unjustified.*
- *For [3] there are some balanced arguments – some of which are justified.*

Criterion D

- *Introductions need to be concise and related to the question.*
- *The candidate's response does not to have explicit headings for each structural element.*
- *A body is the area in which the substance of arguments occur. It is usually located between the introduction and the conclusion.*
- *Fit-for-purpose paragraph means that ideas are presented in a clear academic way. For example, one idea per paragraph.*

Criterion E

- *One example of an "individual" could be an individual consumer or an individual manager. However this cannot be considered with a "group" of consumers or a management team.*
 - *For [4], a balanced response: look at the perspectives of **both** individual **and** group(s). The chosen individual, group needs to be **applicable** and **relevant** to the question with specific explanation.*
 - *Candidates need to go beyond stating the stakeholder. Candidates need not explicitly say "stakeholder".*
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