

Markscheme

November 2022

Business management

Standard level

Paper 2

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The markbands and assessment criteria on page 3 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.

Section A

1. (a) State **two** features of batch production. **[2]**

Batch production: is the production of a group of identical products (the word “batch” refers to the fact that the items in each group go together from one stage of production to the next).

Features of batch production include:

- **identical products are produced in batches;**
- the method is suitable **to produce a variety of goods;**
- **group of products are produced at one time;**
- one stage of **operation is carried out on whole batch** and **then the whole group is passed on to the next stage;**
- **same type of machines** arranged at one place;
- the work **involves some repetition;**
- batch production often has **changeover costs** when production shifts from one batch to the next.

Accept any other relevant feature.

*Award **[1]** for each relevant feature stated up to a maximum of **[2]**.*

No reference to TI needed.

- (b) For the year ending 31 May 2022:
- (i) calculate TI’s gross profit (**X**) (*no working required*); **[1]**

Sales revenue- cost of goods sold
 =\$1000000-\$700000 = \$300 000
Gross profit: \$300 000

*Award **[1]** for the correct answer. No working required.*

Do not reward formula only.

N.B. accept \$300, 300, or 300 000.

- (ii) construct a fully labelled profit and loss account for TI. **[3]**

Profit and loss account for TI for the year ending 31 May 2022	
Sales revenue	\$1 000 000
Cost of goods sold	\$700 000
Gross profit	\$300 000
Expenses	\$200 000
Net profit before interest and tax	\$100 000
Interest	\$22 000
Net profit after interest before tax	\$78 000
Tax	\$20 000
Net profit after interest and tax	\$58 000

N.B. mark from the heading down through net profit after interest and tax. In the spirit of positive marking, disregard anything that follows (such as dividends and retained profit).

If the profit and loss account is constructed following a generally accepted format and is correct in all respects, award [3].

Award [2] for a largely accurate profit and loss account but with one error of mathematics or labelling or two errors of order.

Award [1] if the candidate shows some understanding of what a profit and loss account is, but the actual account constructed is not in a generally accepted format and has numerous errors.

N.B. *if the profit and loss account does not have a heading to the effect of “for the year ending May 31, 2022,” award a maximum of [2].*

N.B. *a heading such as “as of 31 May 2022” or “at 31 May 2022”, or one that says merely “profit and loss account” (or something to that effect) is inaccurate.*

- (c) Calculate *Tl*'s current ratio at 31 December 2022 (*show all your working*). **[2]**

Current ratio = current assets / current liabilities

Current ratio = (cash + debtors + stock)/current liabilities

Current ratio = (\$14 000 + \$80 000 + \$65 000)/\$90 000 = **1.7666666**

Award [2] if the candidate has the correct answer and shows working.

Award [1] if the candidate makes a mathematical error (thus the answer is incorrect) OR if the candidate has the correct answer but does not show working.

N.B. *accept 1.76666, as long as the candidate carries the number out to at least three decimal places (1.766), 1.77, or 1.8 (Allow rounding).*

If the candidate states their answer as 1.76, award [1] because of the rounding error.

Accept, if the candidate shows their working as (14+80+65)/90.

If the candidate puts a percentage sign after the ratio, the answer is incorrect (the candidate may have calculated the ratio correctly and, thus, would get [1] for correct working, but they would not get [1] for a correct answer.

Award no marks merely for writing the formula.

- (d) Using your answer in part (c), comment on the relationship between the changes in *TI*'s current ratio from 2021 to 2022 and the changes in its net profit margin from 2021 to 2022.

[2]

TI's current ratio fell from 2.1 to 1.77 and its net profit margin declined from 14.8% to 10.0%. The **reduced profitability** probably **meant lesser profits to retain and fund ongoing operations**. As a result, *TI* probably had to **contract its current asset position**, perhaps **cash**, to **support trading activity**. The situation might reflect an **increase in current liabilities (and more interests to pay)**, another approach **to make up for the lesser retained earnings**.

*Award [1] for some understanding of the possible relationship between the changes in *TI*'s net profit margin and the current ratio from 2021 to 2022.*

If the candidate does not directly and accurately address the relationship between the current ratio and the net profit margin but demonstrate some understanding of both the current ratio and the net profit margin, award [1].

Award [2] for a clear explanation.

***N.B.** award [0] if the candidate merely restates the decline in the two ratios.*

2. (a) Define the term *brand awareness*.

[2]

Brand awareness is a marketing term that describes the **degree of consumer recognition of a product or service by its name, logo or sound.**

N.B. No application required. Do not credit examples. Candidates are **not** expected to word their definition **exactly** as above.

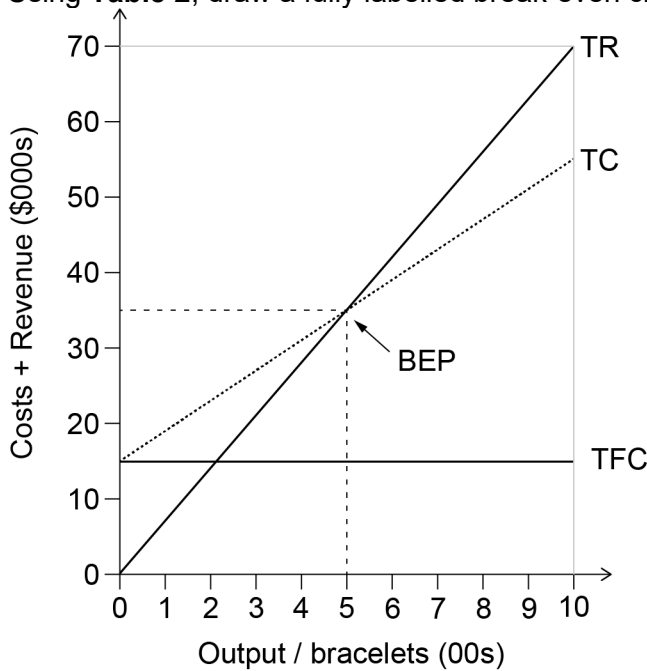
Award [0] marks if the candidate writes a response along the lines of repeating the stimulus such as “customers are aware of the brand.”

Award [1] for a basic definition that conveys partial knowledge and understanding of consumer recognition of the product or service.

Award [2] for a full definition that conveys knowledge and understanding similar to the answer above **and** indicates that the consumer recognizes the brand be at least one of the following: name, logo or sound.

(b) Using **Table 2**, draw a fully labelled break-even chart, to scale, for FS for 2022.

[4]



Sales	TFC	TVC	TC	TR	Profit
0	15000	0	15000	0	-15000
100	15000	4000	19000	7000	-12000
200	15000	8000	23000	14000	-9000
300	15000	12000	27000	21000	-6000
400	15000	16000	31000	28000	-3000
500	15000	20000	35000	35000	0
600	15000	24000	39000	42000	3000
700	15000	28000	43000	49000	6000
800	15000	32000	47000	56000	9000

Candidates do not need to create the table above – these are the figures for the break-even chart.

Candidates could also calculate the break-even point using this alternative method:

Break-even point (units) = Fixed costs / (Price per bracelet – Variable cost per bracelet)

Break-even point (units) = \$15000 / (\$70 - \$40) = \$15000 / \$30 = 500 bracelets

Break-even point (\$) = Price per unit x units = \$70 x 500 = \$35 000; or

Break-even point (\$) = Fixed costs + (Variable cost x units) = \$15000 + (\$40 x 500) = \$35000

Break-even point = 500 bracelets (x-axis) and \$35000 (costs/revenues; y-axis)

Award marks as follows:

[1] for a correctly labelled and accurately drawn total revenue (TR) line – can be TR or revenue (but not “sales” on its own).

[1] for a correctly labelled and accurately drawn total cost (TC) line.

[1] for identifying the break-even point. Ideally, the candidate will draw an arrow pointing to the break-even point and label the arrow. However, accept as an accurately labelled break-even point a vertical line from the x-axis to the break-even point, provided that the line is labelled “break-even point”.

[1] for correctly labelling BOTH axes – y-axis must have both costs and revenue; x-axis must have some indication of quantity, e.g. units/quantity/items/bracelets.

A break-even chart that is not neat, not drawn with a straight edge, or is not drawn to scale can be awarded a maximum of **[2]** if the total revenue and total cost lines and axes are all correctly labelled.

If a candidate produces a table rather than a chart, award **[0]**.

N.B. do not penalize if graph paper is not used. However, drawn diagrams must have a consistent verifiable scale, otherwise it cannot be determined if TR and TC are accurate, even if correctly labelled.

(c) Using **Table 2**, calculate:

- (i) the profit or loss in 2022 for *FS* if production and sales increase to 1200 bracelets (*show all your working*); **[2]**

Profit = Total revenue – total costs

$$\text{Profit} = 1200 \text{ bracelets} \times (\$70) - [\$ 15\,000 + (1200) \times (\$40)]$$

$$\text{Profit} = \$ 84\,000 - [\$ 15\,000 + \$ 48\,000]$$

$$\text{Profit} = \$ 84\,000 - \$ 63\,000$$

Profit = \$ 21 000

Alternative method:

Profit = [(Price per bracelet - Variable costs per bracelet) x 1200] - total costs

$$\text{Profit} = [(\$70 - \$40) \times 1200] - \$ 15\,000$$

$$\text{Profit} = [\$30 \times 1200] - \$ 15\,000$$

$$\text{Profit} = \$36\,000 - \$ 15\,000$$

Profit = \$ 21 000

Or

Break-even quantity = 500

Output beyond break even is 1200 - 500 = 700

Unit contribution = 70 - 40 = 30

Profit = 700 x 30 = \$21 000

Award marks as follows:

[1] If a candidate **who has shown working** provides a correct procedure (thus, demonstrates an understanding of the underlying concepts) **but** has made an error in calculation or the answer does not include \$.

[1] If a candidate does not show any working and simply writes \$21 000.

[2] if a candidate provides the **correct answer with working**. A correct answer must include \$.

- (ii) the price *FS* would need to charge per bracelet if it sells 800 bracelets and wants to make a profit of \$10 000. Assume that the costs remain the same (*show all your working*). **[2]**

Target profit = total revenue – total costs

$$\$ 10\,000 = \$ 800X - [\$ 15\,000 + (800 \times 40)]$$

$$\$ 10\,000 = \$ 800X - [\$ 47\,000]$$

$$\$ 10\,000 + \$ 47\,000 = 800X$$

$$\$ 57\,000 = 800X$$

$$X = \$ 71.25$$

Price per bracelet = \$ 71.25

N.B. accept alternative working.

Award marks as follows:

[1] If a candidate **who has shown working** provides a correct procedure (thus, demonstrates an understanding of the underlying concepts) **but** has made an error in calculation or the answer does not include \$.

[1] If a candidate does not show any working and simply writes \$71.25.

[2] if a candidate provides the **correct answer with working**. A correct answer must include \$.

Section B

3. (a) State **two** features of a private limited company. [2]

A private limited company is a limited company whose **shares cannot be sold to the general public**.

Features of a private limited company include:

- **incorporated, therefore a separate legal entity whose owners have limited liability;**
- **shares are not sold in a public market;**
- **restricted number of shareholders**, who are usually family and friends;
- **legal continuity;**
- typically **better access to finance, at least compared to a sole trader;**
- typically **lesser access to finance, at least compared to a public limited company;**
- though laws vary from country to country, in general private limited companies **are allowed to keep most or all of their financial information confidential**.

Accept any other relevant feature.

Award [1] for each relevant feature up to a maximum of [2] marks.

N.B. *no description is required.*

- (b) With reference to *TJ*, explain **one** economy of scale **and one** diseconomy of scale. [4]

An **economy of scale** occurs when, because of growth, a business is able to lower its per unit cost of production. Two examples of economy of scale in the stimulus are:

- (1) **workers were specializing** more than in years past and;
- (2) the firm now **buys raw materials in bulk**.

In both instances, *TJ* can have specialized workers because of the expanded scale of operations.

A **diseconomy of scale** occurs when, because of growth, a business experiences increased per unit cost of production. Two examples of diseconomy of scale in the stimulus are:

- (1) Current work areas are **overcrowded** and;
- (2) **maintenance costs** were **increasing**.

Because of growth, *TJ* had to pack an **expanded workforce** and equipment into the same factory, **lowering efficiency**. Also, because some resources (managerial time and financial resources) were devoted to supporting growth, *TJ* had fewer resources to have a reasonable equipment update program.

Accept any other relevant economy of scale and diseconomy of scale, such as, for a diseconomy of scale, overspecialization (though a response based upon overspecialization cannot earn an application mark).

Mark as 2+2

*Award [1] for a clear understanding of **one** economy of scale and an additional [1] for application to the stimulus. Award a maximum of [2].*

*Award [1] for a clear understanding of **one** diseconomy of scale and an additional [1] for application to the stimulus. Award a maximum of [2].*

In the definitions, candidates must say something along the lines of “average cost” or “per unit.” If they do not, award a maximum of [1] per term.

*[2] cannot be awarded per economy/diseconomy of scale if the response lacks either explanation **and** / or application.*

For example:

*For an identification or a description of an economy/diseconomy of scale **with or without** application award [1].*

*For explanation of an economy/diseconomy of scale with **no** application award [1].*

*For explanation of an economy/diseconomy of scale **and** application award [2].*

Maximum award overall: [4]

- (c) With reference to TJ, explain the relationship between **investment, profit and cash flow**. **[4]**

At some point in TJ's past, the business opened its current factory, which required capital expenditure, an investment. With this factory, the company was able to manufacture scissors and build a steady customer base. Growth appears to have been steady and good, and indications, from the net profit margins, that the company was profitable (5.0% NPM in 2021 and 4.4% in 2022).

From these profits, the business was able to generate cashflow, which it used to fund growth. Eventually, because of growth, the company started to experience diseconomies of scale and, thus, the NPM fell in 2022. To rectify this situation, the company now needs to make a new investment, either to build a second factory or to build a new large factory and sell the old one.

Without that investment, sales growth will eventually stall (TJ will be at its maximum capacity) and have inefficient operations. As its NPM continues to fall, competitors will have a pricing advantage and could start pulling TJ's customers away. Already, the industry average NPM is 1.6% higher than TJ's. When that happens, sales will fall, profits will fall, and cash flow will worsen.

Award [1] for some understanding of the terms investment, profit, and cashflow.

Award [2] if the candidates also demonstrates some understanding of the relationship between the three words but does not apply to the stimulus.

Award [3] if the candidates knows the three terms, understands their relationship, and applies the concepts to the stimulus. with a clear explanation.

*Award [4] if the candidates knows the three terms, understands their relationship, applies the concepts to the stimulus. with a clear explanation, and **refers to some of the financial figures to give concreteness to their response.***

Maximum award: [4]

(d) Recommend whether *TJ* should choose **Option 1** or **Option 2**. [10]

Option 1 (Keep the current factory and build a second one in Mexico):

The **advantages** include:

- a **smaller capital investment** compared to building one new large factory;
- the new factory will be **located near a potentially large and profitable market**, and that geographic proximity will probably give some potential customers some comfort knowing that shipping distance will be lower and potentially less complicated. Though students are not expected to know this fact, they might refer to the fact that Mexico is one of the United States' top trading partners;
- the **overall cost of the investment is lower**.

The **disadvantages** include:

- though the construction will **eliminate some diseconomies of scale**, it **will introduce new** other ones;
- TI has **never operated** a facility in **Mexico**, so the company lacks extensive first-hand knowledge of the local market conditions, laws, and customs;
- **more difficult to coordinate/manage**.

Option 2 (Build a new factory):

The **advantages** include:

- **all operations will be at one site**, which means there does not have to be duplication of plant management and **few planning and organizational costs**;
- all of TI's operations will be brand new, built-for-purpose, with **modern equipment**.

The **disadvantages** include:

- the **capital investment** is substantial **higher** to build one new large factory;
- TI's owners would have to sell some additional shares, which will lead to **dilution of ownership**;
- **selling old industrial sites is difficult** and often the actual sales price is lower than forecasted.

Accept any other relevant advantages and disadvantages.

N.B. Judgments include:

- choosing Option 1, if justified.
- choosing Option 2, if justified.
- assuming that the uptick in sales to the North American market was not permanent, and looking for a less costly way (than Option 1 or Option 2) to meet short-term demand variability, such as subcontracting.
- expanding the existing factory, but on a lesser scale than suggested in Option 1.

Accept other relevant judgments, if justified.

Maximum mark award	Option 1	Option 2	Judgments/conclusion
3	One option unbalanced		N/A
4	One option balanced (one argument for and one argument against; or Both options in an unbalanced fashion		N/A
5	One balanced and one unbalanced		N/A
6	Both balanced		No judgments/conclusions

7-8	Balanced Largely effective use of business language and the stimulus	Judgments/conclusions based upon analysis and explanation in the body of the response
9-10	Balanced Rich use of business language, business theory, and the stimulus	Judgments/conclusions based upon analysis and explanation in the body of the response

Use the above table and mark according to the markbands found on page 3.

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

Equity is the measure of **value** that the **owners** have **in the company** or business. It is calculated by:

- a. subtracting all debts from total assets, or
- b. adding share capital and accumulated retained earnings

An alternate definition is something along the lines of “Equity finances assets or is used to pay off liabilities” and then the candidate provides one of the two ways above to calculate equity.

Candidates are **not** expected to use the **exact** wording above.

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

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

N.B. *If a candidate merely states the correct way equity is calculated but otherwise offers no other definition, award [1]. No application required. Do not credit examples.*

N.B. *if a candidate writes something like “It shows how much a company would have if they liquidated all their assets,” do not accept. Unless a company has substantial “hidden equity,” typically in real estate, rarely will the results of a liquidation equal the book value equity of a going concern.*

- (b) With reference to the new residents of Uisge, explain **one** advantage for employees of teleworking. [2]

Advantages of teleworking include:

- **less expensive for employees** (savings of fuel, vehicle maintenance and parking), as they do not have to drive to Glasgow every day; if a candidate explains this point, they must state “Glasgow” to get the application mark.
- not commuting saves time, which may allow people to spend more time with their families. Many of the people moving to Uisge are in “young families”.greater **employee satisfaction**. Commuting less frequently to work, employees can enjoy Uisge’s slower paced life, one of the reasons they moved there in the first place.
- cheaper housing is available in Uisge compared to Glasgow.
- **eliminates the need to relocate.**

N.B. “If a candidate says teleworking is convenient” but offers no explanation as to why, award [1].

Accept any other relevant advantage.

Award [1] for an identifying or describing of an advantage with or without application.

Award [1] for explanation of an advantage with no application.

Award [2] for explanation of an advantage and application.

*If a candidate states a generic advantage with no possible reference to the stimulus, such as **higher productivity from home** (which is also an advantage to their employer) or **convenience**, award a maximum of [1].*

N.B. Teleworking is not the same thing as flexible working schedule. Many teleworkers are at their home work stations the same hours they are when working at their employer's offices.

Maximum award: [2].

- (c) Explain **three** possible reasons for the decline of sales at SSG. **[6]**

Possible reasons that SSG's sales revenue is falling include:

- **People are attracted to MM because of their lower prices** than SSG.
- **New residents** to Uisge **do not have the same brand awareness** and loyalty to SSG than long-established residents. Without that awareness and loyalty, they may be buying sporting goods in stores in Glasgow or, after MM opened, at MM.
- **Many consumers**, and in all likelihood the new residents who are proficient in modern computer technologies (as they telework), **are ordering** sporting goods **from online retailers**.
- **MM sells many types of products other than sporting goods**, including groceries, clothing, hardware, and electronics. **Consumers may find it convenient** that they can shop for a variety of needs, including sporting goods, at MM and not have to make a dedicated trip to SSG.

Accept any other relevant and plausible explanation.

Mark as 2 + 2 + 2

*Award [1] for an identification or description of a reason **with or without application**.*

Award [1] for explanation of a reason with no application.

*Award [2] for explanation of a reason **and** application.*

If a candidate states a generic advantage with no possible reference to the stimulus, award a maximum of [1].

Maximum award [6].

- (d) Evaluate the two options that Douglas is considering (**Option 1** and **Option 2**). **[10]**

Douglas really does not have very good options.

Option 1: Given MM's price advantage, **SSG is unlikely ever to compete genuinely in terms of price**. Further, lowering prices, reducing staff, and operating more leanly could very well undermine SSG's branded identity of excellent service. **Customer loyalty will erode**, and then MM's USP, incredibly low prices, will further hurt SSG.

The **advantage** of this option is that the **future is unknown**. MM has not been successful in every market it has entered. **If MM is unsuccessful**, this cost-cutting, lean-operating approach may **get SSG through a few difficult years**. If MM **then** withdraws from the market, **SSG can return to being the excellent-customer-service store** for which it is known.

Option 2: The **disadvantage** of this option is that the large chain is **offering to buy SSG for well below its book value**. The chain has clearly factored in the impact that MM will have on SSG's future income streams and has discounted them accordingly.

The **advantage** of selling the business now is that the **Stewart family can get £1 100 000** equity out of the business. **If SSG** stays in business and **does not sell** to the large chain, possibly the increased competition will lead the business to **start making losses**, in which case the **equity position will erode** and could eventually leave the Stewart family with little to no value. **Selling the business now guarantees that the family at least gets something.**

Maximum mark award	Option 1	Option 2	Judgments/conclusion
3	One option unbalanced		N/A
4	Unbalanced	Unbalanced	N/A
5	One option balanced (one argument for and one argument against; or Both options in an unbalanced fashion		N/A
6	Both balanced		No judgments/conclusions
7–8	Balanced Largely effective use of business language and the stimulus		Judgments/conclusions based upon analysis and explanation in the body of the response
9–10	Balanced Rich use of business language, business theory, and the stimulus		Judgments/conclusions based upon analysis and explanation in the body of the response

Use the above table and mark according to the markbands found on page 3.

5. (a) State **two** characteristics of a niche market. **[2]**

Niche market is a **well-defined segment of a market** with consumers in that market having **specific characteristics**.

Characteristics include:

- is made up of that segment of consumers within the larger market place, who possess a common demographic, purchasing behaviour and lifestyle.
- segment likely to be very small compared to the market as a whole.
- it has its own distinctive set of needs, preferences, or identity, making it unrelated from the traditional market.
- it often gives firms the opportunity to deliver goods and/or services that target the audience, and to build a competitive position in the market to defend against new entrants.
- products or services are often tailor-made hence able to charge higher prices.
- products are generally more expensive than products for a mass market.
- customer loyalty tends to be higher than in a mass or large market.

N.B. No application required. Do not credit examples.

Accept any other relevant characteristic.

Award **[1]** for each relevant characteristic stated up to a maximum of **[2]**. An example is not necessary but may help to clarify a definition.

- (b) Explain **two** methods that MM could use to reduce its labour turnover. **[4]**

Methods include:

- MM could change the pay structure, allowing for increases in pay, providing opportunities for bonuses, or offering fringe benefits (perks) to prevent employees from going to competitors who offer better salaries. In 2021, 3 people gave pay as a reason for leaving.
- MM could be creative with low-cost rewards, such as flexible work hours, employee discounts, etc.
- MM could create new posts with promotion in mind, that way employees become aware of career progress opportunities. In 2021, 2 people gave lack of promotion as a reason for leaving.
- MM could recruit internally for vacant senior posts, that way employees know that they have a chance of promotion provided they meet qualifications. Application similar to above.
- MM could invest in training, which subsequently could help promote career opportunities and professional advancement (as stated above), given that according to the table employees left for a more interesting job. This training is likely to be needed if MM transitions to more complex keyboards with additional features.
- MM could make job more interesting by proceeding with the change marketing strategy which would involve moving from batch to job production methods. In 2021 5 people gave being offered a more interesting job as a reason for leaving.
- MM could provide meaningful feedback in appraisals of employees so that they feel respected and seen (no opportunity for an application mark if a candidate expresses this idea).

N.B. regarding application, **candidates must use wording from the stimulus or directly and explicitly link the response to the stimulus**. For example, if a candidate says “offer better pay” they have not applied that response to the stimulus. Thus, they receive **[1]**. If the candidate says “MM could offer better pay, as 3 employees left last year because of higher pay offered by a competitor,” they have linked the response to the stimulus.

Further, if a candidate writes that “MM should motivate its employees” or “improve motivation,” even if they name a theorist, this response is not enough. They must correctly specify a method to reduce labour turnover.

Finally, if a candidate cites from the table in the stimulus with no precise and appropriate method, award [0].

Accept any other relevant method.

Mark as 2 + 2

For [2], candidates must identify a method, explain it, and apply it to the stimulus up to a maximum of [4].

- (c) Explain **two** ways in which MM’s profits could be affected by changing from batch production to job/customized production. **[4]**

Answers should reflect the idea that **profits are determined by (revenues – costs) and that either element could be affected.**

Ways include:

- **smaller volumes** are likely to be **produced**. This could lead to **lower incomes**, and possibly **lower profits** but that depends on the price relative to home/school sales. It states that these individually produced items could be sold at a much higher price. **The profits also depend on what happens to costs;**
- the per unit cost is likely to increase because (1) in general it is cheaper per unit to produce with batch production than by job production and (2) the new keyboards will be more complex. Whether this increases or decreases profits will depend on price;
- the **change in production** method leads to **increased costs** (hiring skilled workers, training existing workers etc.) which would have a downward impact on profits;
- the change in production method is also likely to be more time consuming hence adding to production costs, However, this may not affect profits adversely if higher prices negotiated in advance offset this cost increase;
- **the marketing strategy** is likely to be **different**. The new market is much more of a niche market and easier to target so may cost less. Price is less likely to be a key element of the strategy giving the opportunity for higher prices negotiated in advance with musicians. These suggest a **reduction in marketing costs** and a **possible increase in profits.**

Accept any other relevant influence on profits.

N.B. *answers must reflect the impacts specifically on profits NOT just on costs.*

Accept any other relevant influence on profits.

Mark as 2 + 2

Award [1] for each influence on profits and an additional [1] for an explanation of the influence in context. Award a maximum of [2] per influence.

Maximum award overall: [4].

- (d) Discuss the impact on *MM*'s marketing mix if *MM* changes its target market to professional musicians. **[10]**

Price:

- **current price is set low** and aimed at consumer market via shops and contracts with schools. Likely to be a standard price, as low as possible;
- **new price is negotiated**. Likely to be different for each professional musician customer, depending on the specification. Likely to be much higher due to the uniqueness of each product and its complexity relative to existing market;
- change is from standard process to negotiated, **custom prices – more work and skills**;
- it is not known whether the new niche market is competitive. If so, this may affect the degree of flexibility with pricing.

Place:

- **currently** distributed **through third party retail outlets** or through **direct supply** to schools. The requirements of these customers remain fairly constant;
- **new** arrangements will be **sales direct to the customer**. *MM* lacks experience in this type of marketing where customers often have varied requirements meaning *MM* need to be constantly aware of market changes;
- change is **from mixed retailer/direct to all direct** so some skills already.

Promotion:

- **currently** likely to be **done by retail outlets** with the addition of the free training packages. Currently, *MM* probably relies mostly on below-the-line (BTL) promotion and that is unlikely to change, though it may switch to different types of BTL promotion. Promotion to schools may be done through personal contact or through educational exhibitions, conferences, etc.;
- **new** promotion could be **through musical publications or direct contact**. Mass methods of promotion wasteful and not appropriate. Overall effect could be to lower promotion costs;
- **change is to in house** rather than relying on others. However, this may involve hiring staff with specialist knowledge adding to costs.

Product:

- **currently** a **standard** design, fairly simple in terms of standard features. Appearance may be less important to the current target market. This may enable *MM* to save on finishing costs;
- **changing** to a **tailor-made product** with **customized** features. Musicians likely to each have the owned demands in terms of appearance and features. Lack of standardization of the product however may increase costs of customized production but may well be offset by higher prices.

People:

- currently, *MM* has 50 employees, and some of them have left in search of better opportunities. *MM* should find out if there is a skills gap to implement the change they have in mind. Those staff involved directly with musicians will need to understand the specific needs of this type of customer. Dealing with schools was likely a much simpler task. Rectifying any skills gap through training or external hiring may prove expensive. However, job production may prove more motivating to staff and hence reduce the high cost of labour turnover.

Process:

- MM should find out if there are any internal barriers in the way to delivering the best customer value at the time of changing the product design by adding the range of different sound features and improving the appearance of the keyboards. This will depend on how MM interact with musicians during the design part of the process.

Physical evidence:

- how does MM reassure the customers? Are MM staff well-trained? Will they continue to offer free online courses? Does MM offer a place where professional musicians can come and try/test the products?

The overall judgment is that no element of the marketing mix will remain unchanged and that MM will have to take on more responsibility for its own marketing and develop some skills. Also, the transition to the new market will not happen overnight, hence, MM will need to run two complimentary marketing strategies alongside each other for an undetermined period of time. This could lead to a lot of marketing confusion regarding where their priorities lie.

A conclusion with judgment is expected.

*Candidates **do not** have to address the extended marketing mix, which is higher level only. However, if a candidate does address a P in the extended marketing mix, accept.*

Marks should be allocated according to the markbands on page 3 with further guidance below.

N.B. *the marks listed in the left column are maximum awards. Candidates could technically have a response that addresses two Ps in a balanced way yet still lacks the depth, precision, or application for [4] (for example). In other words, use the table below as a guideline but also make some holistic judgment about the quality of the response.*

1-2	No application, theoretical answer	
3	Some elements, very limited application	lacks depth
4	Two or three elements	Some depth on one P and some discussion of the others.
5	Three elements	Some depth on at least two Ps and some discussion of at least one other but lacks conclusion or conclusion is nominal.
6	Three elements	Some depth on three of four Ps but lacks conclusion or has an unsupported conclusion.
7-8	Three of the Ps considered well	All three in-depth with a conclusion that flows out of the arguments made and has more than a nominal conclusion.
9-10	All 4 Ps	In-depth discussion of all four Ps with a conclusion that flows out of the arguments made. Draws from the stimulus but also makes insightful inferences.