Example Candidate Responses (Standards Booklet)

Cambridge International AS and A Level
Business Studies
9707
The main aim of this booklet is to exemplify standards for those teaching Cambridge International AS and A Level Business Studies (9707), and to show how different levels of candidates’ performance relate to the subject’s curriculum and assessment objectives.

In this booklet a range of candidate responses has been chosen as far as possible to exemplify grades A, C and E. For short answer questions there is limited correspondence to the grades given so the grades indicate a good, average or weak answer and the marks and comments show where credit was given and why. Each response is accompanied by a brief commentary explaining the strengths and weaknesses of the answers.

For ease of reference the following format for each paper of the subject has been adopted:

Each question is followed by an extract of the mark scheme used by examiners. This, in turn, is followed by examples of marked candidate responses, each with an examiner comment on performance. Comments are given to indicate where and why marks were awarded, and how additional marks could have been obtained. In this way, it is possible to understand what candidates have done to gain their marks and what they still have to do to improve their grades.

Past papers, Examiner Reports and other teacher support materials are available on http://teachers.cie.org.uk
Assessment at a glance

Centres and candidates may choose to:

- Take all A and AS components at one exam session, leading to the full Advanced Level qualification (Papers 1, 2 and 3) or

- Take the AS components (Papers 1 and 2) at one exam session and, having received the AS Level qualification, take the additional A2 component (Paper 3) at a later session, leading to the full Advanced Level qualification or

- Take the AS components only (Papers 1 and 2) at one exam session, leading to the Advanced Subsidiary Level qualification.

<table>
<thead>
<tr>
<th>Paper</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AS Level</td>
</tr>
<tr>
<td>Paper 1</td>
<td>1 hour 15 mins</td>
</tr>
<tr>
<td>Section A: 4 short answer questions</td>
<td>20%</td>
</tr>
<tr>
<td>Section B: Essay on Core curriculum (1 from a choice of 3 questions)</td>
<td>60%</td>
</tr>
<tr>
<td>Paper 2</td>
<td>1 hour 30 mins</td>
</tr>
<tr>
<td>Paper 3</td>
<td>3 hours</td>
</tr>
<tr>
<td>Case study: 5 questions + 1 essay (from a choice of 2)</td>
<td>50%</td>
</tr>
</tbody>
</table>

Teachers are reminded that a full syllabus is available on [www.cie.org.uk](http://www.cie.org.uk)
Section A (Short Answer)

Question 1

(a) State two advantages of using secondary market research data. [2]

(b) Briefly explain why a business might choose to conduct primary market research. [3]

Mark scheme

(a) Advantages of secondary market research data might include:
- secondary is likely to be less expensive than primary research – it could be free
- it may be readily available in government publications, trade/professional journals and newspapers
- may already be available within a business
- obtainable from competitors (sales figures)
- international availability.

Award 1 mark for EACH acceptable advantage stated up to a maximum of 2 marks.

(b) Reasons why a business might choose to conduct primary market research might include:
- a new business might want to collect its own detailed intelligence rather than rely on secondary data which may be out of date
- new to the market – primary research might help to reduce business risk
- more detailed and current information on competitors, the market, and consumer requirements
- might allow market advantage to be gained – establish a competitive edge etc.

An alternative (and valid) approach might be to focus on the limitations of secondary research, e.g. its general nature, less specific.

Very limited response, possibly little more than a repeat of information in part (a). [1]
Sound understanding demonstrated but explanation is limited. [2]
Sound understanding with developed explanation. [3]
Example candidate response – grade A

1.(a) Secondary market research is the process of collecting and analysing data and processing it into more valuable one.

Secondary research is the desk research, means using data which has been already collected before. It is very cheap and it could be obtained very quickly.

1.(b) Primary research means collecting the data for the first time. The business may choose primary research as it provide more detailed data, e.g. if we could ask the consumer why do they prefer about this product it provide the qualitative and quantitative information unlike secondary which is provide quantitative only. Primary research will provide the company more accuracy data unlike secondary which couldn’t know some collected this and whether it is free from errors.

Examiner comment – grade A

In section (a) the answer stated two relevant advantages of using secondary market research only in the last two lines. While the definition of secondary market research given in the first five lines was accurate, it was not required and did not gain any marks. Only the statements “it is very cheap, and it could be obtained very quickly” were rewarded with marks. In section (b) the candidate, while focusing essentially on one significant reason for the choice of primary market research, demonstrated sound understanding and the explanation was well developed with exemplification.

Mark awarded = 5 out of 5
Example candidate response – grade C

(a) It is not time consuming, meaning the time it takes to get the data is shorter than it would take to collect it themselves.
It is less expensive since the data has already been gathered than hiring workers to obtain new data.

(b) They choose to because it helps them know how people feel currently about their product. It involves gathering data through questionnaires and interviews and helps them plan for the long-run, present, and other projects.

Examiner comment – grade C

Two marks were awarded for the identification of two relevant advantages of using secondary market research in section (a) of this answer. However, in section (b) only one mark was awarded for a very limited explanation of one reason for choosing to conduct primary market research.

Mark awarded = 3 out of 5
Example candidate response – grade E

Section A

a) Two advantages of secondary market research data:

i. Secondary market research data helps the business in collecting the data inside the firm and is used to determine customer requirements are fulfilled.

ii. Researching the market will tell us about the taste of the customer, the product, the quality he wants.

b) Primary market research

The product when made is to ensure if the customer will buy it, the product. The market consists of many market research product choosing different products and the quality of the product is good and by knowing the customer wants and need, the product should be made. Primary research is the first set which is expensive and takes a lot of effort to produce a product satisfying the customer.

Examiner comment – grade E

Neither of the suggested advantages of using secondary market research data was relevant or clear enough to merit the award of a mark in section (a). In section (b) of this answer a mark was awarded for the assumed link between the point made about identifying customer wants and the implied role of primary research in producing such data. It was very much a ‘benefit of the doubt’ mark awarded.

Mark awarded = 1 out of 5
Question 2

(a) Define the term ‘current ratio’. [2]

(b) Explain why liquidity ratios are important to the management of a business. [3]

Mark scheme

(a) There are several alternative ways to access full marks:
- current ratio is measured as current assets divided by current liabilities
- a calculation of whether a business has sufficient working capital
- a measure of business liquidity (a current ratio of 1.5:1 and 2:1 is considered to be a safe liquidity position)
- correct formula.

Partial definition given. [1]
Full definition given. [2]

(b) Reasons why liquidity ratios are important to the management of a business might include:
- Liquidity ratios (current ratio and acid test ratio) measure how capable a business is of paying its short-term liabilities. They are calculated from the balance sheet.
- These ratios give an indication of the financial well-being of a business in the short-term.
- A low liquidity ratio may mean the business is overstretched; a figure too high means that the current assets are under-used.
- Indicates to a business if it is overtrading – i.e. in the longer term it may be profitable but in the short-term expanding could put pressure on working capital.

Very limited reference to liquidity ratios. [1]
Sound understanding but limited explanation. [2]
Sound understanding with developed explanation. [3]
Example candidate response – grade A

2a

**Answer 2 (a)**

Current ratio is used to analyse the liquidity of a business. Higher the result, more liquid a business is considered to be. It is calculated by the formula:

\[
\text{Current assets} \div \text{Current liabilities}
\]

Any answer below 1 would reflect that business has liquidity problems and it owes more current liabilities than the value of its current assets.

2b

**Answer 2 (b)**

Liquidity ratios help assess the ability of the business to pay back short-term debts and pay for day to day expenses. The result of a liquidity ratio can be used to identify the liquidity position of a business. A low ratio would reflect liquidity or cash flow problems which would be required to be solved by the managers of the business to ensure that the business does not become insolvent. This can be done either by injecting capital or bank loans. Also, if the ratio is too high, it shows that the current assets are not managed well and too much excess current asset is being tied up.

Examiner comment – grade A

The answer to section (a) gave a clear and accurate definition of the term ‘current ratio’. The narrative indicated a clear understanding of the ratio as a measure of liquidity and the correct formula supported the statements made. In section (b) this candidate gave a very full explanation of the value and importance of liquidity ratios for a business with simple but relevant examples.

Mark awarded = 5 out of 5
Example candidate response – grade C

2. (a) It’s the ratio between current assets and current liabilities. Assets are items owned by the firm, while liabilities are items owed by the firm. Current ratio = \frac{\text{current assets}}{\text{current liabilities}}

(b) Liquidity ratios are very important to any business, as it shows business’s ability to pay its daily expenses. Also, it shows profitability of the business and may compare it to previous years or compare it with other businesses.

Examiner comment – grade C

In section (a) a correct formula for the ‘current ratio’ secured two marks, even though the narrative comment was a little confused. In section (b), although the reference to profitability was not correct, the comments relating to internal and external comparison possibilities were sufficient to merit the award of one mark. With further explanation, more marks could have been awarded.

Mark awarded = 3 out of 5
Example candidate response – grade E

There was nothing relevant in section (a) of this answer to merit any marks. The formula for the term ‘current ratio’ was incorrect and the narrative was confused and vague. In section (b) there was some very limited reference to liquidity, sufficient only for the award of one mark.

Mark awarded = 1 out of 5
Question 3

Briefly explain the main functions of management. [5]

Mark scheme

Explanation could include the functions traditionally referred to as the main functions of management:
- planning – e.g. setting goals, objectives, business planning, project planning
- organising – e.g. designing structures, mobilising resources, defining tasks, roles, systems
- leading – e.g. setting direction, defining vision, values, mission, motivating
- co-coordinating/controlling – e.g. monitoring systems and processes to reach goals, financial controls, performance management.

Explanations could include reference to more modern models of management e.g. Mintzberg’s management roles: interpersonal roles (figurehead, leader, liaison); informational roles (monitor, disseminator, spokesperson); decisional roles (entrepreneur, disturbance handler, resource allocator, negotiator).

A limited knowledge of management functions or explanation of only one function. [1]
Clear understanding and limited explanation of at least TWO management functions. [2–3]
Well-developed explanation of at least TWO management functions. [4–5]
Example candidate response – grade A

While this answer did not refer to any specific theory or framework relating to the functions of management (e.g. Mintzberg), it did identify and explain a range of critical management functions such as objective setting, organisation, co-ordination, motivation, communication, and the ability to be responsive to external situations. This candidate successfully integrated references to different employee reward options and different management styles into this confident explanation of management functions in business organisations.

Mark awarded = 5 out of 5
Example candidate response – grade C

After a quite well-explained recruitment and selection function, this answer mentioned, but did not develop, motivation as a function and then drifted into a vague reference to leadership style. While the latter two are potentially relevant and important functions for management, this answer did not provide the evidence for such a conclusion. This answer lacked the conceptual or theoretical framework (e.g. Mintzberg) necessary to be awarded more than the three marks given.

Mark awarded = 3 out of 5
Example candidate response – grade E

Examiner comment – grade E

This answer did not focus on the main functions of management but drifted into a very general review of organisational activity and management/departmental responsibilities. The candidate was unable to use any established business studies framework or theory (e.g. Mintzberg) to give any detailed explanation of management functions. This was then a very limited response to the question.

Mark awarded = 1 out of 5
Question 4

(a) Define the term ‘job production’.

(b) Outline two benefits to a business of using job production.

Mark scheme

(a) A job production process involves the output of a single product at a time according to individual specifications.

Answers may be based on examples e.g.:

- can be production on a small or large scale e.g. an individual birthday cake or a specific house extension or a bridge/tunnel
- can be found in both manufacturing and service industries.

Partial definition given. [1]
Full definition given. [2]

(b) Benefits to a business of using job production might include:

- the production of a single high specification product, possibly leading to high profit margin
- ability to hire and develop highly skilled and versatile craftspeople
- establish reputation for high quality and precision
- workers more likely to be motivated – more demanding and interesting work
- organisation of job production – easy to organise, monitor and solve problems
- attractive to start-up businesses.

Partial description of ONE benefit. [1]
Sound description of ONE benefit or partial description of TWO benefits. [2]
Accurate description of TWO benefits. [3]
Example candidate response – grade A

40) **job production means that each worker will make the product according to the demand of the customer (according to the nature of the customer), the worker will produce one product after finishing it. he may make the same product but with different requirement. For ex. casting rings, cake, or Tailoring suits. job production is one of the production techniques. It often require skilled workers and it is suitable for small businesses.**

b) As each worker is doing the job, this means that he will take the pride in it. After finishing the product it means that the business workers will be very motivated and thus reduce business cost and being motivated means less strikes, absenteeism and so on, as Taylor said.

The other benefit is that the business will not have any waste and restock, he will be able of responding quickly to their demands, so as the case customer required. i.e. less stock will be handed.

Examiner comment – grade A

The answer to section (a) gave a very comprehensive and accurate definition of the term ‘job production’. The characteristics of this type of production process were clearly stated and the examples given reinforced the strength of the definition given. In section (b) of this answer two potential benefits of job production were accurately identified and described. The first paragraph was particularly strong, with some good analysis of the results of a highly motivated staff.

Mark awarded = 5 out of 5
Example candidate response – grade C

(a) Job production is when a product is made how the consumer asks.

(b) Firms can produce according to the consumer’s order e.g. birthday cakes.

The organisation of job production is fairly simple because workers only one product at a time, communication supervisor can take place regularly.

In case of a decline in the business, they are able to produce another product.

Job production is multi-skilled.

Examiner comment – grade C

The definition of ‘job production’ was succinct but accurate and was awarded two marks. The first statement in section (b) was considered to be an extension of the definition given in section (a). The last statement in section (b) – “Job production is multi-skilled” – was awarded one mark for a relevant but partially-described benefit of job production. Some development of this point would have secured a further mark.

Mark awarded = 3 out of 5

Example candidate response – grade E

(a) Job production is when a product is made how the consumer asks.

Examiner comment – grade E

The definition of ‘job production’ in section (a) included one characteristic feature of job production but was not in itself a complete and full definition. One mark was awarded for a partial definition. To gain two marks the job production process – the output of a single product at a time – needed to be made explicit.

There was no response to section (b). Candidates who gave either an incorrect or only partial definition of ‘job production’ were often unable to outline benefits of the production process.

Mark awarded = 1 out of 5
Section B (Essay)

Question 5

(a) With the aid of an appropriate diagram, explain the stages of a product life cycle. [8]

(b) Discuss how a business might use a product life cycle to plan the marketing of a product. [12]

Mark scheme

(a) Explanation of the stages of a product life cycle, using an appropriate diagram:
- the diagram should show an appropriate shape and stages of a product life cycle: introduction (or launch), growth, maturity (or saturation), decline – or their equivalents
- the stages through which a product passes from its initial market introduction to its final withdrawal
- product life cycle can be quite short or very lengthy depending on the type of product and on the market strategy used to sell it.

A total of 8 marks are available:
Analysis of all stages of a product life cycle. [5–6]
Explanation of at least 3 stages of a product life cycle. [3–4]
Some understanding of a product life cycle. [1–2]
PLUS 1 or 2 marks for the diagram: [PLUS 1–2]
- 1 mark for a correct shape
- 1 mark for writing all the correct stages on the diagram.

Candidates do not need to label axes. Ideally the diagram will show sales on the vertical axis and time on the horizontal (but this is not required for the award of the 2 marks for the diagram).

(b) How a business might use a product life cycle to plan the marketing of a product:
- The discussion might examine how each stage or particular stages of a product life cycle might be used to plan marketing campaigns for particular products/services.
- How the features and characteristics of each stage may act as signals for marketing action. A marketing stimulus might be required to:
  – introduce a new product into a market
  – ensure steady growth
  – freshen up a product in a highly competitive mature market
  – manage the rate of decline (extension strategies).
- Some candidates may link the 4Ps or 4Cs to the stages of a product life cycle (4Cs = customer solution, cost to customer, communication with customer, convenience to customer).
- A product life cycle might be used to identify the strengths and weaknesses of a product portfolio and indicate marketing initiatives.
- Some candidates may well see the limitations of a product life cycle approach: a fall in sales does not necessarily indicate a product is in decline; some products hold a unique product life cycle shape; product life cycle only a rough guide. These may be examples of evaluative comment.

Evaluative comment on the usefulness/limitations of the product life cycle for a business. [11–12]
Analysis of a good range of marketing uses of the product life cycle. [8–10]
Shows understanding of how product life cycle might assist marketing of products. [3–7]
Limited understanding of the application of the product life cycle. [1–2]
5a. Answer 5(a)

A product life cycle shows the fluctuations in the sales of a product as it is introduced until the time it is withdrawn from the market. These stages can be illustrated using the following diagram.

Introduction - a new product has just been developed and launched to the market, but production and sales are slow, the cost of development have not been covered and the business probably faces a negative cash flow for the product.

Growth - as customers are made aware of the product in the market, sales increase by a rapid pace. This is a stage where the cost of researching and developing of the product...
are recouped. The cash flow of the product improves and the production rate is increased.

Maturity: This is a stage where sales come at a saturated point - they neither rise greatly nor fall significantly. This is where the competitors enter the market - a business with a competitive advantage attached to its product would be able to prolong this stage.

Decline: This is where the sales of the product actually begin to fall. At this point, the most likely advantage of the business would be to sell off remaining stock as possible and withdraw the product from the market.

The length or duration of each stage of a life cycle may depend from product to product. If extensive extension strategies are adopted at maturity level, the stage can be prolonged for a longer period. For some products, e.g., Pepsi, Coca-Cola, etc., the maturity stage may last for many years. Furthermore, there is no specific time when one stage ends and the other starts.
Answer 5 (b)

The product life cycle is of great use of managers to achieve a successful introduction and a smooth decline or withdrawal of the products. A product life cycle helps to determine the marketing mix of a product. Marketing mix refers to all the activities that are included in marketing of a product. It includes four Ps - product, price, promotion and place.

The marketing mix adopted at each stage of the product life cycle would vary significantly. At the introduction stage - when the product has just been launched on the market, managers are likely to use informative advertising to make consumers aware of the product. Test samples of the products are used to determine customer's first reactions. The product is launched on a small scale, e.g., small regions. The price is likely to be skinned or penetrating, depending upon the nature of the product and whether the product is an innovation or not.

In the growth stage, the nature of advertising is changed a bit to persuasive and 'brand image' is emphasized. The product is now launched to a larger geographical area, prices are now raised a bit higher (if penetrating pricing were used).
In the maturity stage, advertising and promotion become intense, managers try to showcase the product differentiation and try to bring out a USP (Unique Selling Point). Prices are likely to be competitive. A few changes are likely to be made in the appearance of the product. The product is now sold at the largest geographical area.

At the decline stage, advertising and promotion nearly come to a halt. There is no change made to the product. The product is likely to be withdrawn from most areas of the market. Prices are likely to be reduced.

Therefore, a manager should carefully mobilize the stage of product cycle to plan the marketing mix accordingly. This aids in creating an integrated marketing mix which ensures that all elements are well-coordinated and blend in well with each other and do not send confused signals to the customers. It also helps business to create a balanced product portfolio - to cover the negative cash flow of one product from the positive cash flow of others.

"A well-integrated marketing mix with the aid of product life cycle helps greatly in achieving competitive edge and maximize profits with efficiency and effectiveness."
Examiner comment – grade A

In section (a) the answer provided an appropriate diagram to explain the stages of a product life cycle (2 marks) and then described and analysed each of the identified stages. The description and analysis was of a high quality with frequent references to relevant business studies concepts (for example, competitive advantage). The final paragraph of this section was especially strong as the candidate demonstrated a detailed understanding of product factors that might affect the features of particular product life cycles.

In section (b) the answer was strongly focused on the question – how a PLC could be used to plan the marketing of a product – and the use of the 'marketing mix' concept allowed the candidate to analyse effectively a good range of potential marketing uses of a PLC. Throughout the discussion the opportunity was taken to refer to business studies concepts and issues such as brand, product differentiation and USP. Once again, this candidate produced a concluding synoptic section in which the reader was reminded of the focus of the question and was given further examples of high quality analytical comment.

Mark awarded = 18 out of 20
Every product has got a product life cycle. Women pass through the following stages: research and development, introduction, maturity, saturation, and decline.

In research and development stage, new thinking of possible ideas for a new and innovative product and for new markets is needed. During this stage, more or no sales.

Once the product has been developed, it is launched. At this stage, introduction, the product needs lots of promotion, such as below-the-line or above-the-line so more customers are aware that it does exist. Sales will grow slowly, and not much profit will be made.

Following this, the product will reach the maturity stage in which the product is very known and more businesses will have more sales. Sales will grow and businesses will start to obtain some profit.

But then, it reaches saturation in which there are too many products in the market segment as competition has increased. The business has got two options or make a huge investment in promotion and hope that sales will recover, or if not, then have to make the product decline.

Finally, if promotional strategies have not been effective, the product will start to decline, and sales will decrease and so will profits.
The product life cycle shows me... different stages... that a product passes through, depending on the stage the product will need more marketing, less marketing, etc.

The stages of saturation and introduction are... the ones... which need more marketing as one needs to get the customers to recognize the product and the other needs to be better than competitors in order to survive. If no there was no product, the cycle business would not be able to produce and gain a following. At a time to maintain the product in the market, like this... businesses are prepared for the future and have a budget to know how much to spend on marketing, advertising, sales to decrease rapidly and profit maintained.

Also, the product life cycle shows me... time... when goods or services will take to get to the next stage, for example in the stage of research and development... business would promote during a period of time, and a new product would be in product very soon; this will make customers want... recognizing the product... when it is advertised. More stock will be needed to be produced.

In the research to know... what kind of product... are more used by consumers, business will obtain information about gender, age, group... and... places... on... product will be more efficiently sold.

So this will also help the marketing of the product. The know in which places... should be sold and which... channels... of distribution... should be used... to make it to be sold quickly.
Examiner comment – grade C

In section (a) this answer provided an adequate diagram to represent a PLC and a sound explanation was given of each stage. A few more examples and a little more development could have increased the mark awarded.

In section (b) the answer presented a potentially strong platform for comment and analysis by examining the potential usefulness of a PLC but unfortunately the discussion of some of the stages of a PLC did not sufficiently exploit this conceptual platform. The specific examples of marketing action and activity at various stages of a PLC were disappointingly quite limited. This was a missed opportunity to secure a much higher mark.

Mark awarded = 12 out of 20
Product Life Cycle

- Introduction
- Growth
- Maturity
- Decline

First, the product is developed and might be introduced as by sampling in the market and by advertising so that people attract from that and buy the product as people get familiar with the product. As like that the stage of growth start and at period of growth, might be price of product are not much high. I will also make new ideas to develop the product more so that people will brand good and can buy more with this. The period of boom come when the sales of that product is own peak point. There are more demand of that good people like the product but then might be the competition rise up. Existing competitors became more powerful come with new features of same product and might have low price so this will cause the decline the firm. Then it is same firm just...
than want to succeed in the industry so
him again leaves the prices & thinking for more better idea to compete his
competitors

5(b) product life cycle can help the business in marketing of a product. As
introduction period tells that nobody no about the product which is exist for thinking about the introduction of the
product marketing strategy like sampling is the best way of marketing research.
 marketing of a new product at new should be done on small scale if the firm
make too many units of product & start marketing of a that product &
find not much response business become face great loss so that few even
units of good tests that manufactures than keeping in mind of product life cycle
mode the product. In introduction people like that product move to next growth
on whole of product life cycle just most have test the market for the product
if it is not done like by people than
short production frequently so that might be people like product in introduction & firm start manufactures the product
frequently & when search to the
growth period people are not prefer to buy that this will be less to him
Examiner comment – grade E

In section (a) of the answer an adequate diagram of the PLC was supported only by some very general descriptive material. The different stages of the PLC were not well distinguished and the comments made were not always clear. Rather than identify how stages of a PLC might act as signals for marketing action, the answer in section (b) drifted into a very unstructured discussion of a very few aspects of product marketing. The material was not well organised and there was little coherence. Only quite limited understanding and focus were shown throughout this answer.

Mark awarded = 9 out of 20
Question 6

Discuss how the management of an airline might motivate its cabin crew. You should make reference to relevant motivation theories you have studied.

Mark scheme

Ways in which airline management might motivate cabin crew, with reference to relevant motivation theories, might include:

- The discussion may suggest a range of financial and non-financial motivational methods and approaches and may make reference to a number of motivational theories.
- The context is an airline cabin crew – opportunity to reward staff/satisfy needs (perhaps a combination of financial/non-financial and tangible/intangible rewards) – e.g.:
  - pay higher than competitor airlines (industry pay is generally not high)
  - incentives to sell products on the plane e.g. ‘food/drink/duty free’ (tax-free products)
  - quality of hotels at stop-overs for rest days
  - increase rest days
  - attractive fringe benefits such as free or discounted flights
  - develop a satisfying teamwork approach with emphasis on customer care culture.
- Question requires proposals for specific motivational approaches linked to and supported by specific motivation theories/ theorists, e.g. Taylor and money, Maslow and needs, Herzberg and hygiene/motivators, Mayo and teamwork.

Evalutative comment on possibility and likely impact of specific measures linked to motivation theory in context.

| Analysis of motivational methods and theories related to the context of cabin crew. | 14–16 |
| Good understanding of motivational methods and theories. | 11–13 |
| Some understanding shown of motivational methods and theories. | 5–10 |
| Limited understanding of motivation/motivation theory. | 1–4 |
Example candidate response – grade A

6. First of all, motivation means a sense of job satisfaction which results from satisfying the cabin crew's needs, they will have the desire to work. First of all, motivating the cabin crew is done by many ways. If there are two types of the crew, some who are motivated by the money and the other is motivated by non-financial factors.

The crew which are motivated by financial factors, the manager might increase the co-workers pay, giving them bonuses, but actually the crew provide services to the consumer so the bonus will not be given for producing certain number of output, but by providing a certain level of service, and that about achieving customer satisfaction. I also be might give the co-workers some of the company's share or profits, this will reduce the conflict between the managers and the airline and the cabin crew. They will have sense of accomplishment, also he might motivate the co-workers by the performance related pay, which means by setting targets and objectives and then measuring it at the end of the period, this is suitable as the work they provide is intangible.
Motivating the cabin will depend upon whether they are Theory X or Y. Whether they see the work as a natural play or fun, and the way to motivate them is by delegation or they are Theory Y, and they dislike the work, and their main needs is the salary and feeling safe, also it will depend whether they are motivated by money or satisfying their needs as I said before, but motivating the cabin by only giving them money is an undesirable way. This means applying Taylor, which he believed that workers are like machines, when they are paid more, they will work more. The cabin do have other needs to be satisfied, as Maslow said.
The non-financial factors, as Maslow drew the hierarchy of needs, show that the cabin staff are diverse needs, he will motivate the workers by giving them fringe benefits, as related to the cabin by giving them free tickets to visit the places, discount for their children. A cabin crew means that they will not have enough time to make friends with the other cabins. So, the manager may make a trip for them, parties and games. He will have to provide them with medical conditions, contracts with a good working conditions. He might make "Cabin of the month," he could delegate some of the authority to the cabin, but while still retaining the overall responsibility. He may quality circles in order to make the workers feel that they are valued. As the cabin will discuss the problems together, but this may be time-consuming and might take the cabin away from their work. Homework and job rotation means making the workers to understand and make effort. Service, for example, provide service for the VIP people or the economic.
ones. ... job enlargement, but this may require training, so as there will be more tasks he could motivate the more team work could motivate a team. ... to develop a team spirit, Taylor.

The motivated team cabins will reduce the cost of the business, and they will be more motivated to work and do something other than their contractual obligation. But workers do have different need applying. Maslow mean that?

Motivation.

Taylor

Herbert

They will be very stressed.

Financial / non financial
Examiner comment – grade A

This essay provided some excellent analysis of a good range of motivational tools which the management of an airline could use to motivate cabin crew. After a clear definition of motivation, the essay immediately set motivational methods and theories into a very strong contextual situation. This candidate was very focused throughout on the airline cabin crew context and successfully integrated a number of motivational ideas and theorists with recognisable real life working situations.

While there was implicit evaluation throughout this essay, it could have been further improved with a short evaluative concluding section.

Mark awarded = 17 out of 20
Example candidate response – grade C

There are many ways to motivate an airline's cabin crew. In the airline industry, cabin crew members are usually interested in their income or salary, according to Taylor's theory of motivational factors. Money is the greatest motivational factor. They might wish to fulfill their needs (e.g., job satisfaction) or work for job security. Personal reasons (e.g., work-life balance) might also be decisive. Moreover, they are usually concerned with their needs such as job security, personal reasons, and work-life balance. However, a person who chooses the airline industry as a career will be motivated to learn more about the business and the motivating factors for the workers, which is a key aspect of Herzberg's theory. By teaching the workers foreign languages, they will be able to deal with a wider range of passengers.

Therefore, the airline industry can motivate its cabin crew to increase their wages, give them health insurance, and increase their job security. Training them to do things that will increase their job satisfaction is also important. Using job rotation to avoid boredom, employees can feel valued because they are doing jobs and are promoted.
Examiner comment – grade C

This was a very succinct essay which did not score the high marks that it had the potential to achieve. The candidate addressed the context of the question, identified three relevant motivational theorists and made some practical proposals. However, the discussion was quite limited and the analysis of motivational theories and theorists was, at best, partial.

The structure and style of this essay were sound but there was a lack of a supportive business studies knowledge base to meet the requirements for a higher mark.

Mark awarded = 12 out of 20
Motivation: It is the way in which we increase the confidence of the worker so that the business could flourish. For a very large business, it is vital for any type of business, it is very important to bring motivation in practice because the de-motivated workers will come late, increase in absenteeism (i.e., being absent without any major reason). Therefore, in order to increase efficiency of the worker, which will benefit the business, the management starts motivation.

To motivate the workers of cabin crew, first of all, we will highlight its meaning. The cabin crew are the people whose job is to take care of the people in an aircraft. As the real meaning suggests, it is very tedious job staying in the aircraft for long so specially in this case, motivation has to be in...
such a way that it pleases cabin crew so they can further please the passengers.

Bringing Herzberg theory into account, he suggested that other factors such as working conditions are not good then the worker will be highly demotivated. Therefore what the management of airline needs is taking care of the hygiene factors from the very depth as the cabin crew has to work in airplane for very long and the air hostess will have to serve food and do duties to its passengers they should have a very clean spottless kitchen plus a very good airplanes. These factors will highly motivate the worker because the hygiene would be good thus, the cabin crew being satisfied.

Next major theory is Maslow who provided his motivation in the form of levels. There were five different hierarchical
levels which are as follows: self-actualisation, status, social, security and being welcomed. These levels are achieved by the workers they will be satisfied and work with greater interest and motivation. Therefore, for the management of airlines it can be used in such a way that they can give their cabin crew, complimentary goods and bonus payments plus perks "perks" also called fringe to increase their social confidence plus status. This will remind the these should only be given when their performances are good. It will make the workers keen to do work to have these incentives and protocol. This will help them in reaching the greatest hierarchical level which is self-actualization by increasing their confidence of job. Next but not the least, McGregor's Theory X and Theory Y will also do the trick for the cabin crew to be motivated.
to the fullest extent. In this management takes into account Theory X, if the management think that the workers are lazy and they dislike work or they can think of Theory Y which says workers are efficient and they are very keen to do work. These theories of McGregor will help management believe on few things and according to that belief it is Theory X or Y they will motivate the workers. Cabin crews are categorized under theory X will be motivated in such a way that they start liking working while those categorized under theory Y will be given more confidence to take care of the people in excellent way. When the management has taken few of these theories into account according to what strategy they want to apply on it will produce positive results and the name of the airline will be better established as cabin crews by the essence of airlines when they are highly motivated the position and behavior of the airline gets better.
Examiner comment – grade E

While this answer attempted to respond to the context of the question, the contextual references were often quite simplistic. The motivational methods and theorists cited – Hertzberg, Maslow, and McGregor – were only partially explained and the suggested applications and impacts lacked evidential justification.

The framework adopted was sound but this answer lacked comprehensive discussion and analysis. This candidate wrote a long essay but secured relatively low level marks due to limited and partial knowledge and explanation of relevant business studies concepts.

Mark awarded = 9 out of 20
Question 7

(a) Explain the usefulness to a new business of cash flow forecasts. [8]

(b) Discuss the importance of published accounts to three stakeholder groups in assessing the performance of a company which is planning to expand. [12]

Mark scheme

(a) Usefulness to a new business of cash flow forecasts might include:
- cash flow forecasts are a prediction of the timing and amount of cash moving in and out of a business over a given period of time
- used to predict cash imbalances (amount and duration)
- a crucial aid to business planning – cash flow forecasts convert business strategies into cash requirements along with an assessment of the ability to fund future expenditure
- a new business may have a weak liquidity position with small cash reserves – may need to pay suppliers promptly so need to plan cash flow carefully; may have a significant overdraft
- if a new business plans for fast growth there is a danger that the business may overstretch itself and run out of cash
- forecasts will aid potential backers to assess financial needs and requirements of a new business and its ability to service debts.

NB the question is about cash flow forecast, not cash flow statements.

Analysis of role and use of cash flow forecasts for a new business. [7–8]
Good explanation of role and use of cash flow forecasts for a new business. [5–6]
Limited explanation of potential use of cash flow forecasts for a new business. [3–4]
Little understanding of cash flow forecasts. [1–2]
(b) Candidates should identify the stakeholder groups, the importance of performance indicators (from published accounts) that are relevant to each of the stakeholders, and in the context of a business that is going to expand.

- Published accounts give quantitative results and those from the balance sheet are only a snapshot in time.
- The following are examples of relevant stakeholders and performance indicators that may be important in this context:
  - venture capitalists considering financing any expansion will examine existing long-term liabilities, sales growth in recent times and net profit margins
  - banks will review accounts carefully in assessing risk involved in any future lending
  - competitors will take an interest in the potential capability of a business to expand, as evidenced by the financial performance as reported
  - managers will be interested in issues such as profitability, cost control, ability to service future debt etc
  - shareholders may use the accounts to calculate ratios to indicate performance levels and capability to support expansion (risk).
- Candidates may legitimately apply the same performance indicators to more than one stakeholder.
- Candidates might unpack the accounts and give examples linked to specific stakeholders. Reference may well be made to the limitations of the accounts: they are historical documents, do not reflect qualitative aspects of a business, may be subject to ‘window dressing’ and may not reflect the true performance of individual parts of a business.

Some evaluative comment on the importance of published accounts to 3 specific stakeholders in context of a company planning to expand. [11–12]
Analysis of the importance of published accounts to 3 specific stakeholder groups with some reference to a company planning to expand. [8–10]
Shows understanding of the importance of published accounts for stakeholder groups. [3–7]
Limited understanding of published accounts and/or stakeholders. [1–2]
Example candidate response – grade A

Cash flow forecasts are prepared by the management of a business to forecast the future inflows and outflows of cash to the business. A new type of business has to take a large number of decisions for the present and the future, which are related to the cash available to the business. A decision to launch an advertising campaign requires a lot of cash. Through a cash flow forecast, the business can get an idea of when such cash will be available to the business. If it is not available, a decision to take a loan can also be made by studying the cash flow forecasts. When a business applies for a loan, a bank uses the cash flow forecast of the business to analyse whether...
It will have the necessary cash to pay interest on the loan and will be able to pay the loan back. The financial position of a business can be estimated by studying a cash flow forecast. Of the business is seasonal, to an extent, a cash flow forecast will tell you whether the business will be able to survive in the off season and what steps it should take to stabilise the business.

Stakeholder groups are any and all people which have an interest in the business, e.g. owners, government, society etc. Published accounts are documents or statements that are numerical data relating to the business, such as its costs, revenues, profit, etc. Capital accounts are not complete accounts but summaries of accounts released to the public. Stakeholders can use these to:

1) Government: To a government, the interest lies in the profit, revenue generated by the business, how it affects the economy, and whether the business is following the law. An expanding business is going to have increased sales, production, revenue, and might trade internationally, create more jobs, and possibly pollute the environment, more etc.

Not all of these can be evaluated from the...
accounts and forecasts of the business, but those that can be evaluated will be assessed, and if
any restrictions have to be forced, will be forced. Also, if any help is required, such as a grant or
subsidy, the government will take it under consideration consideration. The amount of tax revenue earned
can be calculated, also, the cost data to be used for economic position evaluation will be taken.

ii) Shareholders/Owners: These stakeholders are mainly concerned with the return they receive on their investment. Some of them may also be involved directly in the workings of the business. The published accounts will give them an idea of the business' financial position. It can also be compared whether the return on investment is profitable enough with other investments. Decisions to invest more in the expanding business can also be taken as they will require more capital.

iii) Bank Managers:

iv) Suppliers: All businesses require suppliers. An expanding business is likely to increase its suppliers or change them. It may also ask for an increase in purchasing. In all these cases, the suppliers will study the published accounts of the business.
Examiner comment – grade A

In section (a) this answer initially provided a definition of cash flow forecasts and then gave a clear focus to the discussion by referring directly to the context of the question – a new business. A number of simple but relevant examples of new business decisions and situations were then provided to illustrate the usefulness of cash flow forecasts. These examples provided a measure of analytical comment to support the relevant descriptive material. The discussion here was quite succinct but the use of realistic examples moved this answer into the top level of marks to be awarded.

In section (b) a simple definition of stakeholder groups and public accounts provided a sound basis for an examination of how certain stakeholders might examine information in public accounts to assess business performance of a company planning to expand. This answer addressed all the components of a challenging question – stakeholder groups, public accounts, business performance, and planned expansion. Each of the three chosen stakeholder groups was analysed in a focused and relevant way with evaluative comment throughout, supported by a sound concluding contextual paragraph.

Mark awarded = 18 out of 20
Example candidate response – grade C

Cashflow forecasts are prediction of cash flowing in and out over the future period. So it will indicate the figures that might happen in the near future of the business. So for a new business it is very important to assess whether or not the cash flows and cash inflows and outflows to plan ahead. A cashflow forecast gives the business a direction of where it is going. It will give you a clear plan and will also tell you where cash is going. It also predicts future cash flow losses and surpluses. So in the end it is a very useful material to look at. So that you can be aware of company's cashflow. It is very easy for a new business to make if they know how to make these figures. Cashflow does not show long-term profit, but it is quite helpful.
Investors/Shareholders = This published accounts are very much important to this particular shareholders because they need to see how the business is doing, i.e., if it is making profits or losses or new investment or stake. Should they sell their shares? Shareholders need higher dividends and they don't want long investments. So they need to see the books of the business (Balanace Sheet, Profit & Loss Account) for the past few years or five years, and profits might be very useful and they might want to see if business is solvent.

Workers-Managers = Managers and workers are part of the business and they play an important role in the company. They are the workforce. They are the ones driving the company, so it will be very important for workers to see the accounts of the business to see how solvent the business is doing. So if business is making huge losses and paying in wages, they need to balance the books to business. How to cut costs? Let some staff go retraining. So managers and workers will want to see the accounts, as soon as they become pay want job security and wage increases and bonuses. Since the business is making profits.
Examiner comment – grade C

In section (a) of this essay a number of quite strong and relevant statements were made. However, these statements relating to the usefulness of cash flow forecasts were neither well developed nor exemplified. Clearly the candidate understood this question but the answer given did not exploit fully, explain and analyse the issues raised.

The discussion in section (b) was stronger but there was still a missed opportunity to give a little more explanation of published accounts and the way in which they indicate business performance. There was some limited analysis here but it could have been much stronger if the information platform had been a little more specific and detailed.

Mark awarded = 13 out of 20

Example candidate response – grade E
A new company failure in earlier also because of their financial...they not...carefully look at their financial cash flow. By the cash flow forecasts they can...preventing...planning...for...their business. Planning...a strategic...for...get...more profit to their new company. What kind of...in cash flow...will bring...more profit to their company...and...what kind...of...our cash flow...that can...reduce...their new company. Also the cash flow forecasts...is it...useful...for a new business...for...to get an investment. They can show their cash flow forecasts...to their investor...that cash flow forecasts...show the performance of your business...in the next year...so the investor might more interesting...with...your...new company...and...also the cash flow forecasts...also important for a new business...is need...for...take...a...bank...loan...the cash flow forecast...can...show...the...performance...our business...in future...and...the bank...will...trust...our company...then...give...us...a...bank loan...so...cash flow forecast...is important for a new business...because...it...useful...for a company...preventing...the...worth...condition...to...that...would...be happen...to...our company...and...we...still...can...planning...a strategy...to...prevent...it...and...the...cash flow...forecast...is...need...for...show...our picture...of our company...for...a...investor...and...the...bank...so...they...can...trust...our...company.
The importance of published accounts to three stakeholder groups in assessing the performance of a company which is planning to expand.

The company which is planning to expand, they must need extra money to expand their business, they must need another external financial resources for their company. The published accounts are their company is important and needed for their company to get extra money.

First, a stakeholder that need a published account is shareholder, they need a published account to look on the business performance or the where they invest their money in that company. The published account can show the image or a picture of the company. If the condition of published account is good, that means the performance or the condition inside the company is also good. When the company planning to expand their business, they need money from other resources. Might if the company published their good published account, might increase their number of investors in their company. It will increase the total money in their company, so the company can expanding their business.

Second, a stakeholder that need a published account also is a bank. Bank need our published account for they considered to borrow their money
to our company or not. If our published accounts lend is good, and the bank will easier to give us the money because they trusted the trust us that we can give back that money. If the bank already lend us their money, we can expanding our business.

The third stakeholder group might need the published accounts is government. The government like to see how the performance of our business. If our business get higher income or not. It will be the resources of their data. In the published account, the government can see our company can bring higher capital income for our country or not. If our company can increase the income of our country, the government might will support us or might will give or a subsidy to help our company. So if our company want expanding our business, the government will help us because we can give many benefit to our country.

However, in published accounts there are a window dressing, which the published account is not totally reflect to our business. The company can manipulate the information inside the published account. It is purpose to attract more investor to invest to their company, and the bank which willing lend their money to the company.
Examiner comment – grade E

In section (a) this answer attempted to define the term ‘cash flow forecast’ with only limited success. The definition was rather vague and somewhat tautologous. After identifying a cash flow forecast as being important for survival the discussion rather confused cash flow with profit. Relevant points were made in relation to investment and potential bank loans but opportunities were missed to explain how important cash flow forecasts are for business planning. The outline structure of this section was appropriate but the exploration was rather limited and more explicit examples of liquidity issues were needed to improve the marks awarded.

In section (b) three appropriate stakeholders were identified and discussed and the candidate clearly understood the importance of published accounts for these stakeholder groups. However, the references to published accounts were very, very general. Such comments as “If the condition of published accounts is good” revealed a basic lack of detailed business studies understanding of the components of published accounts. As in section (a), the discussion did not provide a sufficiently strong knowledge base to support strong and relevant analysis and comment, and thus significantly limited the marks that could be awarded.

Mark awarded = 9 out of 20
Question 1

**Turbo Tractors (TT)**

TT is a private limited company which manufactures farm tractors. TT finds it difficult to compete with larger international businesses that benefit from economies of scale.

TT’s Income Statement (Profit and Loss) shows that profits are falling:

<table>
<thead>
<tr>
<th>Table 1: Extract from Income Statement ($000)</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (sales turnover)</td>
<td>50</td>
<td>60</td>
<td>70</td>
</tr>
<tr>
<td>Cost of sales (cost of goods sold)</td>
<td>20</td>
<td>30</td>
<td>40</td>
</tr>
<tr>
<td>Overhead costs</td>
<td>10</td>
<td>15</td>
<td>20</td>
</tr>
</tbody>
</table>

A survey of customers has identified the following key problems:
- Lost sales due to late deliveries
- Increased complaints about poor quality tractors.

Tariq, the Finance Director, has identified the need to reduce costs. He believes that this could be achieved through improvements in:
- Inventory (stock) control
- Productivity of workers.

**Inventory Control Issues**

Asmir, the Production Manager, has produced the following information relating to inventories:

<table>
<thead>
<tr>
<th>Table 2: Inventory Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component</td>
</tr>
<tr>
<td>Engine</td>
</tr>
<tr>
<td>Gearbox</td>
</tr>
<tr>
<td>Wheels</td>
</tr>
<tr>
<td>Instruments</td>
</tr>
</tbody>
</table>
Productivity Issues

Balzac, the Human Resources Director, is planning to introduce a new payment system for production workers to try to overcome the problem of late deliveries and poor quality. This new payment system includes:

- Replacing the existing basic wage rate with a piece rate system
- A bonus for completing a tractor on time
- No extra payment for long service
- Ending the profit-sharing scheme.

Question 1(a)

(a) Explain the following terms:

(i) Economies of scale (line 2) [3]
(ii) Revenue (sales turnover) (line 6). [3]

Mark scheme

Turbo Tractors (TT)

(a) Explain the following terms:

(i) Economies of scale [3]

Content:
Average costs decrease as scale of production increases. NOT average cost decreases as more units produced. Internal and External. Examples needed.

Level 2: Good explanation (2–3 marks)
Level 1: Partial explanation/understanding (1 mark)

(ii) Revenue (sales turnover). [3]

Content:
Monetary income from sales (cash or credit). Starting point of Income statement (P/L). Revenue = Quantity x Price. Use. Needs more than just a definition.

Level 2: Good explanation (2–3 marks)
Level 1: Partial explanation/understanding (1 mark)
Example candidate response – grade A

Economies of scale are those factors which a business gains when its operations grows beyond a certain scale. They lower average unit costs and benefit firms greatly. In this case, the international business are likely to benefit from purchasing and marketing economies of scale.

Revenue is the amount of money flowing into a business from the sale of a product. It can be calculated by quantity sold x price sold for. In this case study, the revenue, also known as sales turnover was $70,000 in 2011.

Examiner comment – grade A

The candidate mentioned the falling average costs of operations as a business grows in scale. The candidate also mentioned two examples of economies of scale. This was sufficient for full marks.

Mark awarded = 6 out of 6
Example candidate response – grade C

Anslai. Economies of scale are those factors which reduce the average cost of production of a business which leads to a reduction in cost of production of a firm’s product. Which results in higher profit so eventually it will make the business successful and get a high return. Example: There are factors which lead the business to benefit of scale economies of scale, such as, buying in bulk, so the supplier will lower the price or give some discount. There can be many other factors too like technical, managerial, marketing and so on which can allow firm to enjoy economies of scale.

Anslaiii. Revenue means the money the firm gets by the sales of goods and services. Revenue is calculated by selling price x quantity.

Formula: \[ \text{Revenue} = \text{Total Quantity} \times \text{Selling Price} \]

Example: 100 x 10 = £1000

In revenue the cost and profit are all added together so it does show the cost of production or profit/loss separately so it just show the money gain from sales.

Examiner comment – grade C

Although the candidate mentioned falling average costs and gave several examples of types of economy of scale, there was no sense that these related to changes in the scale of operation of a business. It was important to distinguish scale of operation from level of production in this instance. This is at the top end of what is expected from a grade C candidate.

Mark awarded = 5 out of 6
Example candidate response – grade E

Examiner comment – grade E

The candidate had a vague understanding that the term relates to a firm’s size (correctly) but also mentioned a firm’s production (incorrectly). There were no examples given, which would be needed for additional marks.

Mark awarded = 1 out of 6
Question 1(b)(i)

Using the information in Table 1, calculate the net profit margin for TT in 2011. [3]

Mark scheme

Net Profit = 70 - 40 - 20 = 10
NPM = 10 / 70 x 100 = 14.3% (allow sensible rounding)
Lack of % = 2 marks

Correct answer
Right method with mistakes
Valid attempt e.g. formula

(3 marks)
(2 marks)
(1 mark)

Example candidate response – grade A

Examiner comment – grade A

The candidate performed the calculation correctly and set out their workings appropriately.

Mark awarded = 3 out of 3
Example candidate response – grade C

Examiner comment – grade C
The candidate showed the correct formula but calculated net profit incorrectly. The formula was applied correctly with this wrong figure for net profit.

Mark awarded = 2 out of 3

Example candidate response – grade E

Examiner comment – grade E
The candidate calculated net profit correctly although they omitted the units ($000). There was no attempt to convert this figure into a margin (%).

Mark awarded = 1 out of 3
Question 1(b)(ii)

The net profit margin in 2009 was 40% and in 2010 it was 25%. Briefly comment on the trend in the net profit margin. [3]

Mark scheme

Content: Rapidly falling. However 14% not too bad. Costs and expenses rising proportionally faster than sales.

OFR
ARA

Knowledge and Application

Level 2: Shows understanding of NPM in context. (2–3 marks)
Level 1: Simple statement(s). (1 mark)

Example candidate response – grade A

ii) The net profit is continuously declining and so is the net profit margin where it dropped by 15% from 2009 to 2010 and by 10.7% from 2010 to 2011. This decline is continuing to unacceptable levels where if it continues to decline this way it will soon make losses, can risk survival and cannot finance itself. The decline in net profit margin here came as although sales increased steadily, cost of sales and overheads increased at a higher rate, making net profit decrease and due to the decrease in net profit and increase in sales, the net profit margin is declining.

Examiner comment – grade A

The candidate observed that the margin was decreasing and that this was not a good thing. The answer went on to explain that this was due to cost of sales and overheads increasing proportionately more than sales, causing net profits to fall. This provided a good answer.

Mark awarded = 3 out of 3
Example candidate response – grade C

The net profit margin has decreased over the years from 2009 to 2011. During these years, the gross profit has remained constant at $30,000. However, Turbo Tractors has been unable to control its overheads. This ineffectiveness is illustrated with the rise in expenses over the years and the decline of the net profit.

Examiner comment – grade C

The candidate observed the falling trend and attempted to relate this to increasing overheads and expenses. However, there was no mention of the role of sales revenue in the equation. This was needed for a better answer.

Mark awarded = 2 out of 3

Example candidate response – grade E

The net profit margin of TT has increased from 25% in 2010 to 28.5% in 2011. Although it was higher in 2009 with 40%, it being 28.5% shows that cost and sales need to be managed very effectively. Poor performance and profitability problems could occur. TT cannot afford a lower net profit margin as it is already a small firm.

Examiner comment – grade E

The candidate observed the decline in the margin, but the rest of the answer was speculative, without reference to the data provided. To gain higher marks, use had to be made of the data.

Mark awarded = 1 out of 3
Question 1(c)

Discuss whether Balzac’s proposed new payment system is likely to solve the problems of lost sales and increased customer complaints. [10]

Mark scheme

Discuss whether Balzac’s proposed new payment system is likely to solve the problems of lost sales and increased customer complaints. [10]

Content:
Problems are mainly quality and late deliveries.
Focus on piece rate puts quantity before quality.
As does bonus culture.
As does long service policy.

These will help overcome late deliveries. May make quality problem worse.

Which is more important to TT’s customers?
Management system may prevent finding out why there is falling quality.
Other pay ideas do not encourage loyalty, commitment.

ARA
Evaluation likely to come from balancing arguments.

For 4 marks K+A must address problems.

<table>
<thead>
<tr>
<th>Knowledge and Application</th>
<th>Analysis &amp; Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 2: Shows understanding of payment systems/problems in context of the business. (3–4 marks)</td>
<td>Level 2: Evaluation of impact of payment systems in context of problems. (3–6 marks)</td>
</tr>
<tr>
<td>Level 1: Shows understanding of payment systems/problems. (1–2 marks)</td>
<td>Level 1: Analysis of impact of payment systems. (1–2 marks)</td>
</tr>
</tbody>
</table>
Example candidate response – grade A

Balzac is hoping to replace the old payment system of profit sharing with that of a piece rate system. This would involve workers being paid for the quantity of good tractors they produce. A basic wage may be paid as well as a bonus being given to employees who produce over the output target. This new system could bring about both benefits and drawbacks to Turbo Tractors.

In Taylor’s opinion, each worker is follow the belief of the “economic man” and will be motivated by the chance to earn extra money. Thus, following this ideology, it is possible that the firm will benefit from greater labour productivity as they work faster and produce more in an attempt to raise their incomes. This may solve the customers complaint of late deliveries as the workers will speed up their output.

Also, the firm could benefit from lower costs due to no more profit sharing. This money could rather be injected back into Turbo tractors for more efficient purposes which will help solve its problems.

However, Maslow and Herzberg would disagree with Taylor’s theory and the idea that this payment scheme would improve motivation and productivity. Herzberg believes that there will be “movement” towards being efficient but no long term effects. Thus, the problem of productivity would not be solved in their opinion.
Examiner comment – grade A

The candidate showed very good understanding of the situation facing TT and applied motivational theories effectively. At all times the answer was trying to address the two problems facing TT: complaints by customers (implying poor quality) and late deliveries (implying poor production levels). Appropriately the candidate concluded that while production levels might improve, quality was likely to suffer. This conclusion was largely justified by the earlier discussion. The final paragraph demonstrated evaluation skills arising from the earlier analysis of the issues.

Mark awarded = 9 out of 10
Example candidate response – grade C

Ans (c) Yes to some extent I do we can say that the Balzac's proposed new payment system is likely to solve the problem of lost sales and increased customer complaint because there are many other factors that even can be related to solving the problem. In this situation Balzac's has removed the hourly wage rate so to be applied the piece rate system which I think it can result in increasing the production process so the customer demands are met on time so the customer doesn't complain for late delivery so sales will increase and the new customer will be lost instead of gaining more. Piece rate system is that if the workers are
paid according to the product produced so this will increase the efficiency of the labour in producing the tractor because if they don't produce or produce a tractor then they will not be paid. The more tractors the worker produce the more they will be paid so it will motivate the worker to produce more instead of wasting time like they do in the basic wage because it doesn't really effect their income/salary if they produce one or more so eventually they will be tired if they produce more or less which will not effect their salary so they are lazy and in some cases the worker produce more to and the next produces less then it demotivate the one producing more because he/she will be like I am producing more and he/she is producing less and they salaries we get are same so why should I work hard.

A piece rate system there is a disadvantage it is that the quality of the form tractor will not be maintain to it minimum standard because in piece rate the workers are all after in producing more tractor rather seeing the quality because they will be only paid more if it on the quantity of tractor made so quality which will decrease where there is already 300 complaints from the customer about the quality of tractor so the piece rate system will not work that affects effective
In regard to quality but too production level it will work perfectly and effectively. So bonus is also a good method of motivating staff to complete the tractor on time because each and everyone wants to avail this benefit. There are many other methods to solve the problems of lost sales and the decrease the quality can be financial and non-financial. A financial method the staff should be made a basic salary and on top of it they should add up this policy so that the much quantity has to be produced and the worker producing above it will be made more like bonus or commission on the sale of the tractor they produced more. The IT company also needs to give such non-financial rewards like free health, education for their children or extra so it motivates the or make the worker feel that they need to put in all effort in the production of tractor be and be loyal because the firm is even helping some of my family. There can be many one way or like job rotation in which each worker perform one task at a time and eventually there will be no late delivery or any other problem in meeting the demand.
Examiner comment – grade C

The candidate showed clear understanding of a range of motivation issues and used the case material from time to time. However, some of the answer read more like a textbook rather than being effectively applied to the situation described in the case. Some of the issues were discussed relative to one or other of the problems facing TT but never both. Having undertaken some of the necessary analysis, the candidate did not take the final step of evaluating the likelihood of the two problems being solved by the changes in the payment systems. Better use needed to be made of the case material.

Mark awarded = 6 out of 10

Example candidate response – grade E

c. Balzac has proposed piece rate system as a new payment system. In this system wage rate is provided as per the goods produced. As wages is provided service given to customer worker would be motivated and they would work fast as they might provide service in time as they get reward according to the number of service provided. So, there would might be no delay for the delivery. Also, bonus is provided for worker for completing work on time. So, worker will rush for work as they get benefit. However, there is already customer complaint. Piece rate means worker will rush for work and quality might had to be compromised. This system may be able to improve rate deliveries but worsen the quality.

Worker might work for long period of time in order to improve the quality of the tractor. As bonus is provided for them for completing the tractor. Here on the other hand, profit-sharing scheme will not be there. Employee might had felt as a part of the business when they had got profit. At present they might work only for some wages not as per their interest. So, quality might decline.

Therefore, Balzac’s has to consider others
Examiner comment – grade E

The candidate did attempt to relate the payment system to the problem of late deliveries, but the analysis of this issue lacked depth. There was an attempt to link these ideas to customer complaints/quality but there was little explanation as to why quality might be worse. The other payment systems were not discussed effectively. There needed to be a judgement as to the extent that the payment systems were, or were not, going to solve the firm’s problems and this conclusion was not made.

Mark awarded = 4 out of 10
Question 1(d)

Using Table 2 and other information, analyse the usefulness of just-in-time inventory (stock) control to TT. [8]

Mark scheme

Using Table 2 and other information, analyse the usefulness of just-in-time inventory (stock) control to TT. [8]

Content:

Could include:

Features of JIT compared with other systems.

Instruments seem to meet all the requirements for JIT.

Is JIT being used for gearboxes?

JIT would not work for gearboxes because of unpredictable supply and fact that they are imported.

Shortage of engines. Would need to build up stock before JIT introduced. Long lead time (imported).

Candidates are expected to use Table 2 for context.

ARA

<table>
<thead>
<tr>
<th>Knowledge and Application</th>
<th>Analysis and Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 2: Shows understanding of JIT in context of the business. (3–4 marks)</td>
<td>Level 2: Analysis of JIT in context. (3–4 marks)</td>
</tr>
<tr>
<td>Level 1: Shows knowledge of JIT. (1–2 marks)</td>
<td>Level 1: Analysis of JIT. (1–2 marks)</td>
</tr>
</tbody>
</table>
Example candidate response – grade A

Just in time is a lean production technique and a stock control method based on keeping virtually zero stock level and ordering stock just when needed to produce tractors. In this case, use of just in time depends on many factors such as reliability of suppliers, skills and flexibility of workforce, lead time, location of the supplier, extent of discounts for bulk buying, stock holding costs and risks, and availability of storage. In this case, it seems most suitable for instruments as supplier is local, reliable, takes only 1 week to deliver and they seem to have too much stock of instruments enough for 6 weeks production. As for engines and wheels, although engines are imported and wheels are bought locally, the both seem to have reliable suppliers but long delivery times of 6 weeks and low stock levels compared to time needed for delivery. For these two, JIT might be applied if they have very accurate demand and production levels forecasts which doesn’t seem to be true at the moment as they have very low stock compared to what they need. For gearboxes, the supplies are imported from unreliable suppliers so although they have exactly enough stock till new stock is delivered as the delivery time is short, still they can’t guarantee their supplies will be delivered on time so JIT might be only applicable if they change suppliers. If JIT is not applicable, they may use buffer stock. In this case,
JIT may be beneficial if used with TQM as there will be no stock for replacing mistakes if workers don’t get quality right at the first time so they may be heavily accounted. It provides them more capacity to produce benefit and become more competitive. However, it might lead to stoppage if production if supplies are not delivered on time and so wastage of time and resources and more delays to customers. They may also lose discounts from bulk purchasing.

Also it will save tractor component storage costs which are likely to be high.

Mark awarded = 8 out of 8
Example candidate response – grade C

(d) Usefulness of JIT stock (inventory) control will be very beneficial to Ti. At new inventory or stock will arrive just in time when they are needed in the production or will arrive only when the customers want it. This method is a lean production method and basically used to reduce time and waste of resources. As Ti is a private limited company it cannot enjoy economies of scale that adopting JIT methods will help the firm get cheaper costing on the products once delivered on time. With JIT, there will be no need for Ti to spend these extra costs of warehouse and storage and security facilities for the stock. Also with the help of JIT there will be reduced costs on cost of storage in expensive which is now eliminated due to JIT. Also they will have a benefit of opportunity cost, and there will be minimal on goods, so if a good is damaged the
Examiner comment – grade C

This candidate showed a very good textbook understanding of the issues involved in JIT. In fact the first half of the answer provided a theoretical discussion of the topic. Examiners were looking for practical applications of the theories rather than duplicating what appears in textbooks. The second half of the answer started relating the theories to the data provided. However, the data were used in a limited way and there was little depth of analysis. For example, the issue of reliability of suppliers seemed to be mentioned only in passing but needed to be developed.

Mark awarded = 6 out of 8
Example candidate response – grade E

10. Just-In-Time: The term Just-in-time means that in one of the types of production, in which a firm produces only when a consumer demands a product, the production of the products under Just-in-time are very limited, less stock is needed for this type of production. In this production, the product is usually a high-priced product because of its cost.

So the finance director has identified the need to reduce costs. He believes that this could be achieved through improvements in:

- Inventory (stock) control
- Productivity of workers.

Well, I guess this is very useful for the firm. In order to get improvements in productivity, the term which means the ability to produce goods when the firm is using the Just-in-time production, then they will definitely be needing the skilled workers to perform the task, and the production in Just-in-time is very limited, so the workers will not have to produce the same product and not in the same quantity also. The workers will now be producing a limited number of products so they will definitely work more efficiently, so when the workers will work with efficiency definitely the quality of the product will be risen. So I guess the Just-in-time production will definitely help the firm to be a team coming to solve their problems and to gain high margin profit.
Examiner comment – grade E

This candidate demonstrated some understanding of JIT in terms of production systems but only loosely related the concept to stock (inventory) control as asked in the question. It is important that candidates focus on the question that has been asked. As important a shortcoming was the absence of any reference to the data provided on stock (inventories). This is a data response paper and candidates are expected to respond to the data provided. Although the candidate did attempt to relate their answer to the problems facing the firm, this reference was not convincing due to the lack of consideration of stock control issues.

Mark awarded = 3 out of 8
Question 2

McQuarry (MQ)

MQ is a family run partnership. MQ owns and operates a quarry that produces high quality stone used in modern buildings. The quarrying process produces a lot of waste material including pieces of stone that are not up to standard. At present this waste is sold at a low price and used for road building.

With decreased Government spending, road building has fallen so that there is now little demand for this waste material. MQ has developed a process that crushes this waste material and changes it into lightweight building blocks called Crushblocks. MQ is considering investing in a factory to make Crushblocks. MQ would then be operating in the secondary sector.

Sam, the Finance Director, has produced the following cash flow forecast for the Crushblocks project.

Table 3: Cash Flow Forecast ($m)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>5</td>
<td>-62</td>
<td>-64</td>
<td>-70</td>
<td>-40</td>
</tr>
<tr>
<td>Sales of waste</td>
<td>17</td>
<td>5</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Sales of Crushblocks</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>40</td>
<td>150</td>
</tr>
<tr>
<td>Development costs</td>
<td>80</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Operating costs</td>
<td>4</td>
<td>2</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Closing balance</td>
<td>-62</td>
<td>-64</td>
<td>-70</td>
<td>-40</td>
<td>?</td>
</tr>
</tbody>
</table>

Press statement from MQ:

MQ are pleased to announce the new Crushblock project. The planned factory will add value to our waste material. There will be an increase in the demand for skilled employees and a boost to the local economy. Crushblock will decrease building costs and help with the construction of more energy efficient houses. We will need to import some extra raw materials, but we believe the impact on the local community will be less than with lorries carrying waste material away as happens now.
Summary of article in a local newspaper:

MQ's Crushblock project looks good on paper but where is the material going to come from for the new roads that we need? What about the houses near to the noisy and polluting crushing machine? And the promised new jobs? Lorry drivers and unskilled workers will actually lose their jobs. There's huge unemployment already. This country is in big enough trouble without having more pollution and more imports.

80

Question 2(a)(i)

(a) Explain the following terms:

(i) Secondary sector (line 9)

Mark scheme

Secondary sector

Content:
That part of the business economy concerned with converting raw materials into finished products. Manufacturing. Examples.

Level 2: Good understanding (2–3 marks)
Level 1: Partial understanding (1 mark)

Example candidate response – grade A

(a) Secondary sector is the manufacturing sector of the economy. It takes raw materials provided from the primary sector, manufactures it into goods and then the tertiary examples-like manufacturing industry. Developing countries usually produce largely in the primary and secondary sector. A move towards the secondary sector is called industrialisation.
Examiner comment – grade A
The candidate gave a good definition of ‘secondary sector’ and provided a suitable example. The explanation went further to highlight the importance to developing countries through the process of industrialisation.

Mark awarded = 3 out of 3

Example candidate response – grade C

Examiner comment – grade C
The candidate gave a good definition of ‘secondary sector’ but the answer lacked quality in explanation. The explanation would have been helped by the use of an illustrative example. The types of products from the secondary sector (consumer goods and industrial goods) mentioned in the answer are not necessarily exclusive to that sector.

Mark awarded = 2 out of 3

Example candidate response – grade E

Examiner comment – grade E
Although the candidate gave a good definition of ‘secondary sector’, the examples given were all from the primary sector. A moment’s reflection might have gained the candidate extra marks.

Mark awarded = 1 out of 3
Question 2(a)(ii)

(a) Explain the following terms:

(ii) Add value (line 28).

Mark scheme

Add value.

Content:
Process of converting (low value) raw materials/products into higher value finished/partially finished products. Measured by difference between cost of materials and components and price. Adding value through marketing is rewarding. Example helps.

Level 2: Good explanation
Level 1: Partial explanation/understanding

Example candidate response – grade A

ii) It's the process of increasing added value which is the difference between the selling price and cost of input of raw materials can be done by several means as manufacturing processes, branding, promotional campaigns and these means make consumer to pay more than the raw material costs.

Examiner comment – grade A

This candidate correctly defined ‘added value’ as the difference between the costs of inputs and the selling price of a product. Further explanation was given through linking the concept to relevant marketing issues, which took the answer to a higher level.

Mark awarded = 3 out of 3

Example candidate response – grade A

Add value

Add value is the cost of raw material minus sales revenue obtained. It can be gained by unique selling point, high quality, multi-skilled worker and so on.
Examiner comment – grade A
This candidate gave the definition of ‘added value’ the wrong way round. However, the explanation demonstrated understanding of the concept even though there was insufficient precision in the answer.

Mark awarded = 3 out of 3

Example candidate response – grade C

Examiner comment – grade C
Although the definition lacked some precision (it was the costs of inputs that were relevant rather than the costs of production), the explanation did demonstrate limited understanding in the rest of the answer. Precise definitions are essential.

Mark awarded = 2 out of 3

No grade E example candidate response available
Question 2(b)(i)

With reference to Table 3, calculate the closing balance for 2016. [2]

Mark scheme

With reference to Table 3, calculate the closing balance for 2016. [2]

Opening balance + income – costs

(-40) + 150 – 10 = $100m

Correct answer

Identifies all the data but flawed calculation (2 marks)

Example candidate response – grade A

closing balance in 2016

\[-40 + 150 - 10 = $100m\]

Examiner comment – grade A

The answer is correct and the units are stated.

Mark awarded = 2 out of 2

No grade C and E example candidate response available.
Question 2(b)(ii)

Comment on the usefulness of this cash flow forecast to MQ. [6]

Mark scheme

Comment on the usefulness of this cash flow forecast to MQ. [6]

Content:
Useful for planning, progress monitoring.

Shows need for $70m finance.

Good for ‘What if?’
OFR

<table>
<thead>
<tr>
<th>Knowledge and Application</th>
<th>Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 2: Shows understanding of cash flow in the context of the business. (3–4 marks)</td>
<td></td>
</tr>
<tr>
<td>Level 1: Simple statement(s). (1–2 marks)</td>
<td>Level 1: Brief analysis. (1–2 marks)</td>
</tr>
</tbody>
</table>

Example candidate response – grade A

Cash flow forecast is the prediction of future cash inflows and future cash outflows of the business. It will give a brief idea of what the future of investing in the project is.

Though, it seems that for 3 years consecutively, MQ are close a loss, but in the fourth year, in 2016, it shows a positive net cash inflow, which is a good indication. Maybe in the coming years, it will drastically increase. It clearly shows, sales of waste is decreasing and sales of Crushblocks are increasing. Another big question is, the $925m development costs? How will a partnership
Examiner comment – grade A

The answer made good use of the candidate’s understanding both of cash flow and the situation facing MQ. Particularly useful was the relating of the need for $85m development costs to the fact that MQ is a partnership, and so there would be difficulties raising the finance. The candidate observed that the project does produce positive cash flows but there may be uncertainties in these figures.

Mark awarded = 6 out of 6
Example candidate response – grade C

This cash flow forecast illustrates the cash inflows and outflows the firm will come upon in the future. It shows that in the first 4 years of production MQ will make a loss. However, in the 5th year, the firm’s closing balance will be +£100 m. This shows that the project will be worthwhile financially in the long run.

MQ could use this cash flow forecast when it applies for a bank loan for the investment. The bank managers will be able to assess the credibility of the firm and decide on whether to approve the loan or not. Without this cash flow forecast, it is unlikely that the bank would take MQ seriously.

The operations and finance manager will also be able to control working capital more efficiently by improving cash flow using different methods. Their planning will also be more effective. Potential partners may also want to join the firm and this will inject more money into MQ for expansion.

Examiner comment – grade C

The candidate began by interpreting some of the cash flow data, however, this was limited and made little use of the situation that is particular to MQ. The rest of the answer did address uses of cash flow forecasts, but the answer could apply to almost any business – it was a textbook answer. The candidate needed to relate the comments to MQ.

Mark awarded = 4 out of 6
Example candidate response – grade E

Cash flow forecast shows the inflow and outflows of the business, the business can know how much money is coming in the business and how much is going out. By using this cash flow forecast, the business can also calculate the closing balance of the year and also the opening balance for the next year. So I guess cash flow forecast is very important for the business to see that when they should increase their production and how they can decrease their costs. The business can also know if its position by seeing its closing balance.

Examiner comment – grade E

This candidate made no reference to MQ. The answer also lacked any reference to this being a cash flow forecast for an investment project. The comments made were very general and lacked any real development in terms of usefulness to MQ.

Mark awarded = 2 out of 6
Question 2(c)

Briefly analyse the problems that MQ's management might have if workers are made redundant. [6]

Mark scheme

<table>
<thead>
<tr>
<th>Knowledge and Application</th>
<th>Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 2: Shows understanding of redundancy in the context of the business. (3–4 marks)</td>
<td>Level 1: Analysis of problems. (1–2 marks)</td>
</tr>
<tr>
<td>Level 1: Shows understanding of redundancy. (1–2 marks)</td>
<td></td>
</tr>
</tbody>
</table>
Example candidate response – grade A

Examiner comment – grade A

Many candidates found it difficult to answer this question in the context that was provided. This candidate did make an attempt by mentioning the need to provide assistance to redundant workers because of the high levels of unemployment in the country. The other context that could have been usefully developed was that the workers are unskilled so any kind of redeployment was probably out of the question. Although lacking some context there was a strong sense that the candidate understood the management issues involved in redundancy.

Mark awarded = 6 out of 6
If workers are made redundant, MQ’s management will face many problems from a number of stakeholders, especially the government. Lorry drivers and unskilled workers working in MQ will be made redundant. This will increase the level of unemployment in the country. One of the government’s macro-economic objectives is low levels of unemployment. This decision made by MQ will force the government to set laws and rules protecting employees. If MQ breaks any of the laws and exploit workers or be unfair to them, the government would create court cases against MQ, force them to pay heavy fines, or even force them out of business.

Increasing levels of unemployment is bad for the society because it leads to crime and theft. It also leads to low standards of living, making it harder for the country to achieve economic growth. So, a reduction in employees will not only decrease the firms’ costs but it creates problems that can risk MQ’s survival. The government will increase MQ’s costs as they have to pay fines, it will also have a bad image discouraging customers to buy from them. The manager will also face problems with trade unions and pressure groups leading to a bad publicity for MQ. It might even slow the production of MQ as many workers may decide to strike.
Examiner comment – grade C

The candidate attempted to answer the question in context but tended to focus on the impact of the redundancies on the country and the business rather than looking at how the situation might be managed. Although the discussion of the impacts did show analytical skills, this was largely not in the context of the question asked.

Mark awarded = 5 out of 6

Example candidate response – grade E

There are many problems which Md’s management will face if workers are made redundant. The workers are asked to leave the firm because the production level has decreased and unskilled labour is not needed. Md’s management will have to recruit new labour who are skilled and can produce or operate the machines. The first problem that the Md’s management will face is recruiting in which they have to make job description in which all the details are recorded and employees are recorded. Accordingly, they recruit new workers. After they have to make job specification in which they need to state down the requirements.
Examiner comment – grade E

This candidate started off in a promising way by referring to the unskilled nature of the redundant employees and the need to recruit skilled workers (although the idea needed to be developed to show that this is a completely different group of employees). However, the answer then proceeded to address a completely different question – that of recruiting suitable skilled employees. Better focus on the question set was needed.

Mark awarded = 4 out of 6
Question 2(d)

Evaluate the impact of the Crushblock project on two of MQ's stakeholders. [10]

Mark scheme

Evaluate the impact of the Crushblock project on two of MQ's stakeholders. [10]

Content:
Owners (NB not shareholders): opportunity of investment returns. May not be keen on risk. Will they be concerned about adverse criticism?

Government: tax revenues a long way in the future. Licences/planning etc? Adds to GDP, Exports?

Community: jobs, disruption, some possible benefits

Suppliers: services. Machinery. Buildings. May be some good contracts. Right sort of local suppliers?

Workers: new jobs, skills, redundancies?

Financiers.

ARA

One stakeholder max K + A = 3, An + Ev = 4.
Evaluation through prioritisation of impacts or arguing which stakeholders are impacted the most.

<table>
<thead>
<tr>
<th>Knowledge and Application</th>
<th>Analysis and Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 2: Shows understanding of stakeholders in the context of the business. (3–4 marks)</td>
<td>Level 2: Evaluation of impact in context. (3–6 marks)</td>
</tr>
<tr>
<td>Level 1: Shows understanding of stakeholders. (1–2 marks)</td>
<td>Level 1: Limited analysis of impact. (1–2 marks)</td>
</tr>
</tbody>
</table>
Example candidate response – grade A

A3.2d. Stakeholders are the people who are affected by the decision making of the business and by statute. Stakeholders are those who are indirectly related to the business, for example, government, community, Bank and etc.

The impact of the closure on the project or two of MB’s stakeholders are likely to be the government and the society who are the people around. This will be a huge issue for the government because after MB’s management making the redundant of the employees, the unemployment rate will increase because there are people willing to work but cannot find jobs so the pressure will be on the government.
because they need to settle all the unemployment workers and provide them with food and shelter. Due to redundant unemployment will increase resulting into a bigger picture on government so get eventually government spending will be high and the gross domestic product will decrease due to decrease in GDP and the amount of GDP per capita so living standard will decrease. The government might even place the per pollution effect by the MS project so the government needs to spend money on controlling it. The import might increase due to imports of machines for production.

There will be a positive impact on society by the MS project which are that the building cost of house will decrease due to cheaper brick workers so its a benefit to society in construction. Cheaper price doesn’t mean that the quality is lower and in this case quality is much better so construction of strong house will be more creating self sustainability to be the to improve of a proper structure house so the impact on society is positive. The impact on government will be negative due to unemployment and MS will even impact some extra raw material will air create an increase in import which will effect the balance of payment. There can be pollution 4 + 4
Examiner comment – grade A

The candidate showed a very good understanding of the role of two stakeholders in MQ and how they are likely to be affected by the project. The analysis of these effects was good, with hints of evaluation when the effects were judged to be ‘positive’ on society and ‘negative’ on the government. However, these judgements needed to be more fully supported by the analysis. It would have been good to see a discussion as to which was likely to be the biggest impact or which stakeholder was likely to be affected the most.

Mark awarded = 8 out of 10
a) Stakeholders are groups who have an interest in the company. They are related to the business. Since Mon is a partnership business, they won’t have any shareholders.

Interested groups might include the government and the managers of Mon.

Government of the country would be interested in two main things or more: will it increase employment, tax revenue, import tariffs revenue and economic growth. If the Crush block is proceeded then this would increase the efficiency of the economy. Because wastes are not going as waste and are being processed for the benefit of the economy. What will be the tax revenue from the new project? How much will they receive from import tariffs, if they happen to happen one. Will economic growth take place after the Crush block project or will itwick more.

Managers would be interested because they should know how much are they earning. Will they be able to maximize the profits of the company from the introduction of Crush blocks. The gross profit margin, net profit margin, return of capital employed and many more other ratios considering that Crush block is introduced in the market. Will they be able to concentrate on production or other
Examiner comment – grade C

This candidate clearly had an understanding of stakeholders and went some way towards examining the impact of the project on them. However, this examination appeared more as a list of influences rather than a detailed analysis of the consequences. There was no attempt to evaluate the impacts. Some key issues were overlooked, such as the possible impact on the environment (presumably of considerable interest to the government). On reflection, the choice of ‘managers’ as a stakeholder may have limited the extent to which the impacts could be examined.

Mark awarded = 5 out of 10
Example candidate response – grade E

Stakeholders are the people who have a direct interest in the business. This crushblock project is a very big project, and the government will definitely help this project in order to get economic growth and increase the production with new technology as the production will grow it will boost up the economy of the country. Balance of payment will be surplus the government might also start exporting it in order to gain more economic growth. The skilled employees are also looking forward to this project in order to get paid higher. They knew that this is a very big project which will boost up the whole economy, so they will definitely work more efficiently in order to get paid. The impact of on the government will be very good because of this crushblock project and as there will be boost in the economy of the country and definitely the skilled workers will be paid high salaries in order to work in difficult working conditions and with the change of technology...
Examiner comment – grade E

This candidate had a clear understanding of stakeholders. However, the impact was only examined from the positive perspective. This severely limited the analysis and removed the potential for demonstrating any evaluation skills (through, for example, weighing up the arguments). In addition, some of the answer wandered off the point by considering how the government might help the project – this had the impact the wrong way round. Some ideas were a little confused, for example, the link between skilled employment opportunities and the boost to the economy. Ten-mark questions need to answered in a discursive way so both sides of an issue need to be examined.

Mark awarded = 4 out of 10
Paper 3 – Case Study

The beginning
Azureen opened her first shoe shop, called FitsU, 30 years ago. She correctly identified a market gap for women’s fashionable shoes at reasonable prices. Imports of cheap but well-designed shoes from several low-cost factories gave Azureen’s shop a wide choice for customers. At first, her shop had little competition as few other retailers were selling imported shoes. Her business grew organically and rapidly. By 2005 FitsU owned 300 shops. It was the second largest shoe retailer, by value, in the country. Azureen sold the business in that year to venture capitalists who floated it shortly afterwards on the Stock Exchange as a public limited company.

2005 – Change of ownership and culture
The new directors of FitsU kept the brand name – but much else about the business changed. The profit-sharing scheme for all employees was withdrawn without negotiation and all shop staff and shop managers were paid a low basic wage. This could be supplemented with bonuses if sales rose above a target fixed by Head Office. Without these bonus payments a Trade Union representative claimed that: ‘My members’ wages are now below the national minimum wage as the bonus payments are not guaranteed. My members do not feel involved in the huge changes that directors are forcing on them’.

The weekly staff consultation meetings were dismissed by the new Chief Executive Officer as ‘a waste of time – workers could spend their time more effectively cleaning the shops’. As national unemployment was rising these changes had not led to an increase in staff turnover, but the number of suggestions made by staff for new shoe styles, ways to improve customer service and shop layouts had fallen to a record low level. Directors and senior managers at Head Office were paid generous salaries and were offered a share purchase scheme.

Rapid expansion continues
The company has added another 200 shops since 2005. Fifty of these are new branches and the rest were obtained by a takeover of a large but unprofitable shoe retailer, ShoeHut. The rate of organic and external growth has not been without its problems. Working capital is very limited, loans have increased and internal communication problems have arisen. There have been serious disagreements between directors of FitsU and ShoeHut. Rationalisation after the takeover led to many sudden job losses.

FitsU – planning to make shoes too
By 2010 the directors of FitsU were considering a proposal to open its own shoe-making factory to supply all FitsU shops. This would be operated for a trial period of four years and would be extended beyond that if successful. An existing FitsU manager from Head Office would be given the responsibility of operating the factory, as he has some experience of manufacturing.

‘Vertical integration is the way to go in this industry – the cost savings and close cooperation with our shops will make sure the right styles are ready at all times’ said the Chief Executive Officer. ‘When we build up to full capacity we will be able to supply 80% of the shoes sold in our shops. I have prepared a forecasted net cash flow for this project.’ (See Appendix A.)

The Marketing Director had always opposed this change in strategic direction for the business. She had said at a recent Board meeting: ‘With rising disposable incomes our customers are increasingly looking for the well known global brands and just offering our own branded products will turn some of them away’. The directors agreed to use appropriate techniques to assist them make this strategic choice.
Financing decision
The Finance Director has been worried about the financial implications of rapid growth. She has gathered some recent accounting data to analyse the company's gearing and liquidity (Appendix B). She might have to consider sources of finance, other than further loans and debentures, to pay the $15m required for the purchase of the four year lease of the new factory and machinery, if this option is decided upon.

Technology – a new opportunity?
The current directors have a plan to revolutionise the approach of the business to IT. The Operations Director is keen to adopt Enterprise Resource Planning (ERP). He has said that: 'ERP software will allow us to track all orders to suppliers, the delivery of stock and the sale of each item. It will keep check on the progress of all orders and the sales performance of all styles. This will be particularly important if we open the factory – we will be able to keep a check on work-in-progress easily'.

The Marketing Director is looking into selling shoes through a newly designed website: 'Access to customers all over the world could double our sales rapidly and it would provide us with an instant way of communicating with potential customers', she told the FitsU marketing staff.

Product portfolio – is the balance right?
The business sells in four main market segments:
• Women's fashion shoes
• Sports shoes
• Children's school shoes
• Men's formal shoes.

The Marketing Director has obtained the data shown in Appendix C about these market segments.

The Marketing Director planned to analyse these data by using Boston Matrix analysis but workload had prevented her from doing this. The rapid expansion of FitsU was putting all directors under much pressure.

Appendix A: Forecasted Net Cash Flows, $m

<table>
<thead>
<tr>
<th>End of year</th>
<th>New factory</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>(15.0)</td>
</tr>
<tr>
<td>1</td>
<td>4.5</td>
</tr>
<tr>
<td>2</td>
<td>4.5</td>
</tr>
<tr>
<td>3</td>
<td>6.5</td>
</tr>
<tr>
<td>4</td>
<td>6.5</td>
</tr>
</tbody>
</table>

10% discount factors:
Year 1 0.91
Year 2 0.83
Year 3 0.75
Year 4 0.68
Appendix B: Accounting data for FitsU

<table>
<thead>
<tr>
<th></th>
<th>As at: 31 May 2010</th>
<th>As at: 31 May 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable (Debtors) $m</td>
<td>24</td>
<td>32</td>
</tr>
<tr>
<td>Inventories (Stocks) $m</td>
<td>35</td>
<td>38</td>
</tr>
<tr>
<td>Cash $m</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Current liabilities $m</td>
<td>65</td>
<td>88</td>
</tr>
<tr>
<td>Capital employed $m</td>
<td>200</td>
<td>215</td>
</tr>
<tr>
<td>Non-current (Long-term) liabilities $m</td>
<td>85</td>
<td>100</td>
</tr>
<tr>
<td>Gearing ratio %</td>
<td>42.5</td>
<td></td>
</tr>
<tr>
<td>Acid test ratio</td>
<td>0.43</td>
<td></td>
</tr>
</tbody>
</table>

Appendix C: Shoe sales and market growth data

<table>
<thead>
<tr>
<th></th>
<th>Growth of national sales in this sector between 2008-2010</th>
<th>Total national sales in each segment in 2010 $m</th>
<th>FitsU sales in each segment in 2010 $m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Women’s fashion shoes</td>
<td>30%</td>
<td>250</td>
<td>150</td>
</tr>
<tr>
<td>Sports shoes</td>
<td>2%</td>
<td>50</td>
<td>5</td>
</tr>
<tr>
<td>Children’s school shoes</td>
<td>13%</td>
<td>100</td>
<td>20</td>
</tr>
<tr>
<td>Men’s formal shoes</td>
<td>1%</td>
<td>80</td>
<td>40</td>
</tr>
</tbody>
</table>
Question 1

Analyse the advantages to FitsU of increasing the use of technology in marketing and operations management. [10]

Mark scheme

<table>
<thead>
<tr>
<th>Knowledge 3 marks</th>
<th>Application 2 marks</th>
<th>Analysis 5 marks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Level 2</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 marks</td>
<td>2 marks</td>
<td>3–5 marks</td>
</tr>
<tr>
<td>Two or more relevant points showing understanding.</td>
<td>Points made are applied to case and both departments.</td>
<td>Good use of theory to explain advantages in both departments.</td>
</tr>
<tr>
<td><strong>Level 1</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1–2 marks</td>
<td>1 mark</td>
<td>1–2 marks</td>
</tr>
<tr>
<td>One or two relevant points made.</td>
<td>Some application to case for one department.</td>
<td>Some use of theory to explain advantage(s) in one department.</td>
</tr>
</tbody>
</table>

Answers could include:

Technology: the use of IT and other technical developments to increase efficiency.

For example:

- ERP: using single computer system to track the operations of the business – supplies, customers’ orders, inventories etc.
- Advantages: keeps track of all goods supplied, work in progress, inventory levels – gives complete computerised overview and allows accurate monitoring of the operations of the business.
- May be particularly useful in this case if the factory is opened as there will be raw material inventories and work in progress.

Internet selling – using websites to promote products and take orders.

- Advantages: worldwide market coverage – FitsU might be selling in a mature market with limited opportunities for growth.
- Direct selling of own shoes (if factory is opened) – no mark-up given to other intermediaries and business gains useful direct communications with customers.
- May be able to close retail outlets and reduce fixed costs.

Other applications of IT and technology may be possible and should be suitably rewarded.
FitsU had started as a small retailer and soon it came to be one of the biggest retailers in the country. However, as a golden rule of business management we all know that a business always needs to be dynamic and should always try to expand and maintain an edge over their counterparts in the industry.

The Chief Executive of FitsU had rightly pointed out that vertical integration would be the norm to go ahead in this industry which would give them a competitive advantage in the long-run.

The current directors at FitsU had decided to adopt Enterprise Resource Planning (ERP) in their factory. With globalization and competition from MNC’s, production planning has become increasingly competitive and the installation of an ERP system would definitely help FitsU. ERP systems integrate internal and external management information to all parts of the organization, enhancing financial, sales, production to information. ERP systems automate this activity through a database software application which helps to update stakeholders in a business with the continuous flow of management information.
Systems are generally consisting of different modules.

The Production Planning and Control (PPC) module will help the business improve its value chain by controlling orders from when they are received till they are shipped. These kinds of specialized ERP systems help to automatically adjust working to clean themselves, set up, and attain necessary conditions for production. Since FisU is aiming products at different segments of the market, such techniques can help to switch production to different items through adopting flexible machinery. The Inventory Control Module (ICM) will help the business to set real-time information on inventory, physical amount, will automatically re-order when needed, and record sales. It ensures keeping an industry always on top of everything, and decisions can be executed and under performance can be tracked and corrective measures can be taken at any point in time. FisU not being experienced in manufacturers and the problems and complexities that may arise. ERP will be a definite need at this point in time.

The Marketing Director had also thought of selling through the Internet. Their will satisfy the communication needed, identified with the 4’s.
g marketing and will help FlexiU to gain access to a greater potential market and thus increasing sales in the future and maintain competitive advantages at a point in time when the company is facing serious competition from rivals such a step may be necessary.

Despite all the advantages that technology might bring to the plans of FlexiU, the company needs to consider the resultant effect that this change would have on the already demotivated workforce. There might be resistance to change because of self-interest, habit, and different assessment of the situation by the workforce. Moreover, FlexiU needs to consider whether this is a right time to go ahead with such a plan at a time when they are suffering from liquidity problems and this decision might further add to the liquidity crisis, please. C3 P2A4

The Average Rate of Return (ARR) or the Accounting Rate of Return measures the overall profitability of the business in comparison to the initial investment.
Examiner comment – grade A

This was an interesting answer in that it provided a great deal of the information and analysis demanded by the mark scheme – but it also strayed off the point of the question at both the start and the end. This illustrates an important rule of IGCSE/AS/A level marking – no marks are deducted for incorrect or irrelevant material. Positive marking is always used, which means examiners only take note of, and reward, content that is correct and relevant.

This candidate clearly understood the scope and nature of technological change in business. There was very good analysis of the impact on operations management of ERP. Application to the case was made several times, especially the reference to FitsU aiming products at different segments of the market. The answer could have been further improved by more detailed analysis of the marketing benefits of new technology such as the Internet and online selling. This could have been applied to FitsU. For example, by expanding online selling not only is a larger market for shoes accessed but also the importance of opening costly new shoe shops to expand the business is likely to be much reduced.

Mark awarded = 9 out of 10

Example candidate response – grade C
of the details of their operations. However, in order to use ETP software, FItzL will need to purchase new machinery (computers) and also either train their existing staff or employ skilled staff who know how to operate the computers and the specific software. FItzL will also need to consider whether they will also have an alternative way of keeping track of their information in case the system crashes - this again will increase their costs.

Since the company already needs $15m to finance the new factory, they will need to see whether they can afford the extra cost of introducing this new technology.

Increasing their use of technology in the form of a newly designed website maybe the right way to go as in today’s modern world, online shopping has become increasingly popular as it is more convenient and people do not have the time to go to stores as often. It will also give the company the chance to expand into the world market which could rapidly increase their sales. However, since this
Examiner comment – grade C

This answer had merit but the explanation and analysis of the impact of new technology, such as ERP systems, was much less detailed than the grade A response. Again, there was some irrelevant material – this time in the form of a consideration of some of the limitations or disadvantages of adopting new technology. Candidates should not automatically assume that every question – especially the first question on the case study paper – will demand an evaluative approach that requires a consideration of both advantages and disadvantages. This candidate did refer to ERP and website usage and sufficient knowledge was shown of these. The explanation of the benefits was quite weak but there were two relevant references to the business scenario in the case study.

Mark awarded = 6 out of 10
Example candidate response – grade E

Technology is becoming outdated quickly due to rapid technological changes in marketing and operations management. This will have the following advantages of increasing the use of technology in marketing and operations.

1. First, due to increased technology, workers will become more multi-skilled and flexible. This supports the principle of lean production. This will improve the efficiency of the workforce.

2. Second, an increase in technology will lead to outsourcing in Fitch. This will make Fitch's communication better with suppliers, hierarchy, and there will be an increase in technological delegation in Fitch, which will benefit workers.

3. One manager will be replaced by younger technological workers who are more efficient and more creative. This may lead to new ideas coming into the company.

Introducing technology will help Fitch to improve the distribution channel of the small consumers. It will be able to buy products online specifically with the existence of Enterprise Resource Management. Fitch's sales will increase rapidly. Introducing technology will be beneficial by heavy
Examiner comment – grade E

This answer took quite a long time before referring to specific applications of technology in business – the first three paragraphs were rather general or not clearly related to the impact of technology. Eventually, the candidate did make reference to ERP and online selling and there was adequate knowledge shown of these. There were references to the business in the case but these were not well used to illustrate the points being made and analysis was weak. The benefits of the ERP for operations management were not made clear but the explanation of the potential to reduce costs in retail stores (presumably by closing some?) was an attempt to start analysing one of the benefits of using e-commerce.

Mark awarded = 4 out of 10
Question 2(a)(i)

(a) Using data in Appendix A, calculate for the factory project:

(i) The Average Rate of Return (ARR)

\[
ARR \% = \frac{\text{Annual profit}}{\text{initial capital cost}} \times 100
\]

\[
= \frac{7}{4} = 1.75m/15 \times 100 = 11.67\% 
\]

Mark scheme

<table>
<thead>
<tr>
<th>Result</th>
<th>Explanation</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.67%</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>7/15 \times 100 = 46.67%</td>
<td>Does not calculate annual profit</td>
<td>3</td>
</tr>
<tr>
<td>36.67%</td>
<td>Does not deduct capital costs</td>
<td></td>
</tr>
<tr>
<td>2 errors</td>
<td>Formula only</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

Example candidate response – grade A

\[
\begin{align*}
\text{Average Rate of Return} &= \frac{\text{Average Annual Profit}}{\text{Capital Cost}} \\
&= \frac{1.75}{15} \times 100 \ \\
&= 11.67\%
\end{align*}
\]

Examiner comment – grade A

This was a clearly laid-out and accurate calculation.

Mark awarded = 4 out of 4
Example candidate response – grade C

Examiner comment – grade C

This was also a clearly laid-out calculation but the candidate made a common error. In calculating the average annual profit, the initial cost of the project was not subtracted from the total net cash inflows.

Mark awarded = 3 out of 4

Example candidate response – grade E

Examiner comment – grade E

The candidate had undertaken the first stage in the process for calculating the ARR – in fact, the candidate seemed to think that the annual average profit is the ARR result. If this had been expressed as a percentage of the initial capital cost then this should have led to the correct result.

Mark awarded = 1 out of 4
**Question 2(a)(ii)**

Using data in Appendix A, calculate for the factory project:

(ii) The Discounted Payback Period. [4]

**Mark scheme**

<table>
<thead>
<tr>
<th>Year</th>
<th>Option A</th>
<th>DCF</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>(15)</td>
<td>(15)</td>
</tr>
<tr>
<td>1</td>
<td>4.5</td>
<td>4.1</td>
</tr>
<tr>
<td>2</td>
<td>4.5</td>
<td>3.74</td>
</tr>
<tr>
<td>3</td>
<td>6.5</td>
<td>4.88</td>
</tr>
<tr>
<td>4</td>
<td>6.5</td>
<td>4.42</td>
</tr>
</tbody>
</table>

Discounted payback: 3 years and \(2.28/4.42 \times 12 = 6.2\) months.
3 years 6.2 months (Allow 3 years 6 months)

4 marks – correct answer
3 marks – one error
2 marks – 2 errors
1 mark – some idea e.g. some use of discount factors or discounted cash flow total of $17.14m
**Example candidate response – grade A**

<table>
<thead>
<tr>
<th>Year</th>
<th>New factory</th>
<th>I0% DF</th>
<th>DCF</th>
<th>Payback</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>(15)</td>
<td></td>
<td>(15)</td>
<td>(15)</td>
</tr>
<tr>
<td>1</td>
<td>4.5</td>
<td>0.41</td>
<td>4.095</td>
<td>(10.905)</td>
</tr>
<tr>
<td>2</td>
<td>4.5</td>
<td>0.83</td>
<td>3.735</td>
<td>(7.17)</td>
</tr>
<tr>
<td>3</td>
<td>6.5</td>
<td>0.75</td>
<td>4.875</td>
<td>(2.295)</td>
</tr>
<tr>
<td>4</td>
<td>6.5</td>
<td>0.68</td>
<td>4.42</td>
<td>2.125</td>
</tr>
</tbody>
</table>

\[
\text{No. of months} = \frac{2.295}{4.42} \times 12 = 6.23
\]

\[\therefore \text{Discounted Payback Period} = 3\text{ years and } 6.23\text{ months} \]

** Examiner comment – grade A**

This was a clearly laid-out and accurate calculation. Even if the candidate had made an error in calculating the last stage – the actual month of the 4\text{th} year in which payback occurs – credit would have been awarded for an easy to follow method of calculation.

**Mark awarded = 4 out of 4**
Example candidate response – grade C

Examiner comment – grade C

This answer illustrates the point made above. This is a clearly laid-out answer which allowed the examiner to see that there was good understanding of the principle of calculating payback. Unfortunately, the candidate believed that payback occurs in the fifth year not the fourth year – although the “monthly calculation” was correct.

Mark awarded = 3 out of 4
Example candidate response – grade E

\[
\begin{align*}
\text{ii) the discounted payback period} \\
1) 4.5 \times 0.91 &= 4.095 \\
2) 4.5 \times 0.83 &= 3.735 \\
3) 6.5 \times 0.75 &= 4.875 \\
4) 6.5 \times 0.68 &= 4.42
\end{align*}
\]

\[
\text{Sum} = 17.125
\]

\[
\text{Payback period} = \frac{5 \text{ years and 11 months}}{15 - 12.29 = 2.71}
\]

Examiner comment – grade E

This candidate demonstrated some knowledge of the technique as the net cash flows were multiplied by the discount factors. There was no clear understanding after this stage was undertaken, however.

Mark awarded = 1 out of 4
Question 2(b)

Comment briefly on the likely accuracy of the net cash flow data in Appendix A. [4]

Allow own figure rule

<table>
<thead>
<tr>
<th>Knowledge 1 mark</th>
<th>Application 1 mark</th>
<th>Analysis 1 mark</th>
<th>Evaluation 1 mark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 mark</td>
<td>1 mark</td>
<td>1 mark</td>
<td>1 mark</td>
</tr>
<tr>
<td>Shows some</td>
<td>Some application</td>
<td>Some use of</td>
<td>Judgement used</td>
</tr>
<tr>
<td>understanding</td>
<td>to case</td>
<td>theory to explain</td>
<td>to assess</td>
</tr>
<tr>
<td></td>
<td></td>
<td>answer</td>
<td>accuracy of cash</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>flows.</td>
</tr>
</tbody>
</table>

Answers could include:

- Net cash flows are forecast annual cash inflows from the project less forecast cash outflows. Year 0 is the expected capital cost.
- Inflows may be based on market research data or internal data about cost price of shoes. Outflows may be based on industry data on operating costs of show factories.
- Cash flows could be affected by competitors’ actions e.g. their decision to open factories etc.

Evaluation:

- How reliable are the forecasts? Likely to be much less reliable than, for example, estimating cash flows from a new shop as the business has not operated a factory before.
- Have management influenced the data in any way to achieve a particular decision?
Example candidate response – grade A

2. b) Net cashflows show the net of turnover and expenditure.

Net cashflow data in Appendix A is based on future predictions or forecasts.

They have been made keeping in mind taking into account current economic conditions, hence cashflow of the 1st and 2nd year may be accurate.

But, their accuracy is questionable as maybe accurate as it relatively a short period. However, the cashflows of the last two years maybe inaccurate due to changing economic conditions such as an economic recession.

Also, it is mentioned in the case that consumer incomes are rising, and this may lead to inflation and so the government may decide to increase interest rates to curb inflation.

This will increase Fitsu’s interest payments and hence may increase cash outflows.

Examiner comment – grade A

This candidate clearly understood the purpose of the question and also recognised that a brief but well-focused answer would be sufficient for maximum marks. There was clear understanding of the predicted nature of cash flow forecasts and the reference to the case was relevant and well explained. There was a good judgement made that the cash flow forecasts will become less accurate the further into the future these predictions are made.

Mark awarded = 4 out of 4
Example candidate response – grade C

Since the cashflows in Appendix A are forecasted, values they are only estimates of how much inflow there will be annually so it is not possible for the data Net Cash Flow to be completely accurate.

There are also many external economic factors which could influence their cashflows such as a recession in the economy which has not been taken into account.

However using discount factors does increase the accuracy of their payback period as the value of money has been taken into account.

Examiner comment – grade C

This answer made similar points to the Grade A response but there was no clear contextual reference to this business or the economic conditions it operates in, which were explained in the case study. No application marks can be awarded without relevant use of case material and without application, evaluation marks will not be awarded either. On this case study paper, generalised evaluative comments are not awarded credit unless some part(s) of the answer has been applied to the business in the case study.

Mark awarded = 2 out of 4

No grade E example candidate response available.
**Question 2(c)**

Discuss, using your results to (a) and other information, whether FitsU should open the shoe-making factory. 

**Mark scheme**

<table>
<thead>
<tr>
<th>Knowledge 2 marks</th>
<th>Application 2 marks</th>
<th>Analysis 4 marks</th>
<th>Evaluation 4 marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 marks</td>
<td>2 marks</td>
<td>3–4 marks</td>
<td>3–4 marks</td>
</tr>
<tr>
<td>Good knowledge/understanding shown.</td>
<td>Points made are well applied to case.</td>
<td>Good use of theory to explain results and other information.</td>
<td>Judgement shown in considering this decision plus clear recommendation.</td>
</tr>
<tr>
<td>Level 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 mark</td>
<td>1 mark</td>
<td>1–2 marks</td>
<td>1–2 marks</td>
</tr>
<tr>
<td>Some knowledge/understanding shown.</td>
<td>Some application to case.</td>
<td>Some use of theory to explain results OR other information.</td>
<td>Some judgement shown e.g. on accuracy of results.</td>
</tr>
</tbody>
</table>

**Answers could include:**

- Analysis of results (accept OFR analysis).
- ARR of 11.67% may not be considered high for a relatively risky project – but depends on cost of capital.
- Discounted Payback (may define or explain this for knowledge marks) is long in terms of the 4-year initial period of the lease.
- Quantitative data are not strongly in support of decision to open factory – but what other uses of capital are there? Do they offer higher returns/quicker payback?

**Other factors:**

- Consumer preference for branded shoes.
- May take longer to reach capacity than expected – raising unit costs above forecast.
- No experience in this sector – manager has manufacturing experience but not in shoe production.
- Gives cost/quality control of shoes to FitsU.
- Takes finance and focus away from retail shop business.

**Evaluation:**

- Most important factor?
- Need to give the project a longer life span before deciding on permanent production?
- Final, justified, conclusion is needed for level E2.
Example candidate response – grade A

2c) Fitchll opens the shoe-making factory, then it will be integrating growing externally. This is vertical backward integration where the shoe retailer is opening its own shoe manufacturing factory, i.e., amalgamating with another firm in the previous stage of the production process.

This will bring many advantages to Fitchll. Sustained control over the production process and output quality can be gained, thus improving customer's trust in Fitchll's shoes. Furthermore, economies of scale can be achieved in terms of purchasing economies and financial economies. Large discounts can be gained whilst buying raw materials, decreasing cost & production, which could be translated
into reduced prices for customers.

There will be an increase in control of response to the dynamic market conditions, as production methods can be halted and raw materials altered to suit the new market dress styles in demand. This will enable Fink to keep up with changing market styles.

Further cost savings will be achieved as all costs incurred will be spread out over much longer output time before.

The Marketing Director said that consumer incomes are rising. Hence in the long run, the government may increase interest rates to curb inflationary pressures in the country, thus increasing the payback period to within the trial period of 4 years. This ensures positive return.

However, Fink is already under a lot of pressure as it has tenure low working...
Capital, and $100,000,000 long-term borrowings at

Raising the $15m required for this project
will be very difficult and will further
increase the gearing of the company if loans
are taken.

There already exist internal communication
problems, and if the firm grows larger
may it may start experiencing diseconomies
of scale.

Adoption of ERP is already planned, and this
may be expensive to implement, further putting
a constraint on financial resources of the firm.

Consumer incomes have been said to
be rising, and this means that they
will want to buy more imported
shoes made by global brands. In this case,
such a scenario, where manufacturing shoes
may not be cost profitable.

Even though the payback period is
quick, the cash flows used are not
forecasts and do not guarantee large
inflows as projected.

There is also no data about the
Examiner comment – grade A

This answer was easy to follow and, for the most part, was well focused on the question set. It started off well with useful knowledge demonstrated on the type of expansion being considered in this case. There was a range of qualitative factors analysed and discussed but the answer could have been improved with a more detailed analysis of what the ARR result from section 2(a)(ii) meant for the business and how it could be compared with other projects or with the cost of capital. All factors referred to were relevant, with the exception of “economies of scale can be achieved”, as FitsU is not currently buying materials for making shoes. There was an attempted final evaluation but it could have been more carefully supported. By stating that the project is not a “very profitable idea” the candidate should have analysed the meaning of the ARR result. This suggests a potential level of profitability so, if the candidate had questioned the accuracy of this result or the unreliability of the net cash flows that were used to calculate it, then this would have supported the final conclusion more effectively.

Mark awarded = 9 out of 12
Example candidate response – grade C

c) There are various advantages and disadvantages of Fitz U operating its own production unit and not doing vertical integration.

Vertical integration is when a firm controls an entire stage of production, for example, starting in a processing stage and controlling the next stage of production. Here, vertical backward integration is occurring as Fitz U is buying these supplies.

One disadvantage of this purchase is that the price is relatively low. As the business gets an annual rate of return of only 11.67%, this shows that the return is low and hence, this investment is not likely to give high returns and hence is bad for the decision for Fitz U.
Another disadvantage of this decision is the customers are now facing a rise in disposable income and the demand for their products. So by creating these new items, the business will be losing out on their customers and thus losing out on sales and hence profit levels may suffer.

At the same time, the marketing department will be having a high capital demand of $15m, but at the same time, the payback period is expected to be 3 years 6-23 months, which is long and hence a disadvantage to the business. Along with this, the company has already a high gearing ratio and hence taking loans for this situation will worsen the situation.

This option has advantages as well. One advantage may be the level of risk of operation will go down as the firm will no longer have to operate in an international market where there have been need to import show and thus is affected by exchange rates and economic demands of both nations. Along with this, the interdependence to suppliers is no longer there as they are these ones.
Another advantage that the firms may gain from this integration is cost savings. As the firm operates five units, the firm can gain from economies of scale and gain market share on gain higher levels of profit from keeping the price constant.

Another main problem though, with this idea, is that it has not been able compared with other previous research on competition of A&R and by this period. So the decision maybe better off even if it appears not to be.

The disposable income rise may be occurring only due to present economic situation. So with a change in the economic situation, a change may occur in disposable income and the demand for global companies change as well.

The business may not have to take a loan and then the businesses may not lead the longer payment period to be a disadvantage for them.
Examiner comment – grade C

This answer contained many relevant points but it failed to develop or analyse many of them in great detail. For example, the reference to the payback period of 3 years 6.2 months could have been compared with the trial period for the factory project of just 4 years – making the profit-earning period of the project rather short. Similarly, the point about exchange rate changes affecting the purchase of imported shoes could have been developed more fully – why is this a significant risk factor for the business at present? Although the answer did contain some judgement – in questioning the size of the ARR and suggesting that the “main point” is the lack of other data to compare with – there was no clear final decision given by the candidate and this was a weakness that could have been easily overcome by stating what decision, on balance, the business ought to take and why.

Mark awarded = 7 out of 12

There are no grade E example candidate responses available.
Question 3(a)(i)

Using data in Appendix B, calculate for year ending 31st May 2011:

(i) The acid test ratio

Mark scheme

Using data in Appendix B, calculate the acid test ratio and the gearing ratio of FitsU for the year ending 31st May 2011.

Formulæ:

\[
\text{Acid test} = \frac{\text{Liquid assets}}{\text{Current liabilities}} = 33/88
\]

\[
\text{Gearing ratio} \% = \frac{\text{Long term liabilities}}{\text{Capital employed}} \times 100 = 100/215 \times 100
\]

<table>
<thead>
<tr>
<th>2011</th>
<th>Acid test</th>
<th>Gearing ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.375 (0.38)</td>
<td>46.5% (47% or 0.465/0.47)</td>
</tr>
</tbody>
</table>

Ready reckoner:

<table>
<thead>
<tr>
<th>Result for each ratio</th>
<th>Explanation</th>
<th>Mark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correct</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Correct data identified but incorrect result</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Correct ratio formula</td>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

Example candidate response – grade A

Examiner comment – grade A

This was a clearly laid-out and accurate answer.

Mark awarded = 3 out of 3
Example candidate response – grade C

\[
\text{Acid test ratio} = \frac{\text{Cash} + \text{accounts receivable}}{\text{Current liabilities}} \\
= \frac{32 + 1}{88} \\
= 0.367
\]

Examiner comment – grade C

The candidate completed two steps in the calculation correctly but made a calculation error – 88 was divided by 33, not 33 divided by 88.

Mark awarded = 2 out of 3

Example candidate response – grade E

Examiner comment – grade E

The correct formula was stated and this was awarded one mark. The candidate did not show the data used to give the incorrect result and therefore no further marks could be awarded. This answer demonstrates the importance of always laying out each stage of a calculated answer.

Mark awarded = 1 out of 3
Question 3(a)(ii)

Using data in Appendix B, calculate for year ending 31st May 2011:

(ii) The gearing ratio.

Mark scheme

Using data in Appendix B, calculate the acid test ratio and the gearing ratio of FitsU for the year ending 31st May 2011.

Formulae:

Acid test \[= \frac{\text{Liquid assets}}{\text{Current liabilities}} = \frac{33}{88} \]

Gearing ratio \[\% = \frac{\text{Long term liabilities}}{\text{Capital employed}} \times 100 = \frac{100}{215} \times 100 \]

<table>
<thead>
<tr>
<th>Year</th>
<th>Acid test</th>
<th>Gearing ratio %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>0.375 (0.38)</td>
<td>46.5% (47% or 0.465/0.47)</td>
</tr>
</tbody>
</table>

Ready reckoner:

<table>
<thead>
<tr>
<th>Result for each ratio</th>
<th>Explanation</th>
<th>Mark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correct</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Correct data identified but incorrect result</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Correct ratio formula</td>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

Example candidate response – grade A

Examiner comment – grade A

This was a clearly laid-out and accurate answer.

Mark awarded = 3 out of 3
Example candidate response – grade C

\[
\text{Gearing ratio } \% = \frac{\text{Long term liabilities} \times 100}{\text{Capital employed}}
\]

\[
= \frac{100}{215} \times 100
\]

\[
= 42.5\%
\]

Examiner comment – grade C

This candidate had undertaken two correct steps in the calculation of the gearing ratio – the formula plus correct data taken from Appendix B. However, the candidate had actually used other data in calculating the 2010 gearing ratio. Full marks could not be awarded for this result.

**Mark awarded = 2 out of 3**

Example candidate response – grade E

\[
\text{Gearing ratio } \% = \frac{\text{Long term liabilities} \times 100}{\text{Capital employed}}
\]

\[
= \frac{88}{215} \times 100
\]

\[
= 40.9\%
\]

Examiner comment – grade E

This candidate had written down the correct formula but mistakenly calculated the ratio using the current liabilities figure – not non-current liabilities. Incorrect data had been selected.

**Mark awarded = 1 out of 3**
Question 3(b)

Assume the decision to build a new factory is taken. Discuss whether the business should raise the finance required for the new factory from additional long-term loans. [8]

Mark scheme

<table>
<thead>
<tr>
<th>Level 2</th>
<th>Knowledge 2 marks</th>
<th>Application 2 marks</th>
<th>Analysis 2 marks</th>
<th>Evaluation 2 marks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2 marks Good understanding shown.</td>
<td>2 marks Good application to case.</td>
<td>2 marks Good use of theory to explain impact of using long-term loans.</td>
<td>2 marks Good judgement shown in assessing sources of finance.</td>
</tr>
<tr>
<td>Level 1</td>
<td>1 mark Some understanding shown.</td>
<td>1 mark Some application to case.</td>
<td>1 mark Some use of theory to explain how long-term loans would impact on business.</td>
<td>1 mark Some judgement shown.</td>
</tr>
</tbody>
</table>

Answers could include:

- Relatively high gearing already – this would raise it to 115/230 = 50%.
- Risky – interest costs. Interest rates could increase/profits could fall, both of which would make servicing the loans more difficult.
- Should perhaps not raise all of the finance from loans – suggest and support other sources, e.g. share capital is possible as it is a plc. But to what extent would this dilute control/ownership?
Example candidate response – grade A

3b) If additional long term loans are taken to raise the finance required for the new factory, then the gearing ratio of the company will worsen.

It is already at 46.5%, and any future loans will increase it. A highly geared company, such as FitsV, will become unable to pay high interest payments and this will reduce profits over time.

Dividends paid out to shareholders will fall, and this may lead to dissatisfaction.

Shareholders FitsV cannot afford to anger as they provided a large amount of capital to the firm.

However, the firm's liquidity situation will also worsen due to interest payments on the loan being taken:

Working capital is currently very little and will be further affected.

There will be an increase in the cash outflows from the company. FitsV can raise finance from
Examiner comment – grade A

This was a brief but well-focused answer. The candidate clearly understood the significance of the gearing ratio result and stated, correctly, that this will increase if further loans are taken out, but the new ratio was not calculated based on this assumption. The potential consequences of a higher gearing ratio were briefly, but correctly, analysed. The answer did display some references to the case – in terms of recognising low working capital and in suggesting that additional shares might be sold in FitsU – which was stated in the text as being a public limited company. The answer could have been improved with a stronger final evaluation which made clear whether a further issue of shares was actually a better option than further long-term loans. Possibly the fact that this is initially a four year project would, in real life, have tipped the balance against a permanent source of finance such as a share issue.

Mark awarded = 7 out of 8
Example candidate response – grade C

Examiner comment – grade C

This answer had potential which was not fully realised by the candidate. The explanations given were too brief and cursory and too weakly applied to the case study for them to be awarded full marks for application and analysis. The understanding of the gearing ratio result and the reference to “floating more shares” was certainly acceptable but neither of these points were developed fully. In particular, the impact on the gearing ratio of taking further loans and the potential consequences of this were not clearly analysed. The emphasis of the answer was clearly against taking on additional loans but this could have been stated emphatically at the end together with a recommendation of the “preferred” alternative source of finance.

Mark awarded = 5 out of 8

No grade E example candidate response available.
Question 4

Discuss how the company should respond to the data in Appendix C, using Boston Matrix analysis to support your judgements. [16]

### Mark scheme

**Discuss how the company should respond to the data in Appendix C, using Boston Matrix analysis to support your judgements.**

<table>
<thead>
<tr>
<th></th>
<th>Knowledge 3 marks</th>
<th>Application 3 marks</th>
<th>Analysis 4 marks</th>
<th>Evaluation 6 marks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Level 2</strong></td>
<td>3 marks Good knowledge shown.</td>
<td>3 marks Good application to case.</td>
<td>3–4 marks Good use of theory to explain answer.</td>
<td>4–6 marks Good judgement shown.</td>
</tr>
<tr>
<td><strong>Level 1</strong></td>
<td>1–2 marks Some knowledge shown.</td>
<td>1–2 marks Some application to case.</td>
<td>1–2 marks Some use of theory to explain answer.</td>
<td>1–3 marks Some judgement shown.</td>
</tr>
</tbody>
</table>

**Answers could include:**

- Definition/diagram/explanation of Boston Matrix.
- Calculation of market share:
  - W 60%; S 10%; C 20%; M 50%
- Allocation of products to each category: W = Star; S = Dog; M = Cash Cow; C = Problem child.
- Options: divest the dog.
- Support the problem child – cash from cash cow?
- Maintain the star – how? Cost of this?
- Other strategic options possible e.g. replace dog with products in other market segments.

- **Marks** to be awarded for calculations of market share:
  - K1P1 for one correct calculation.
  - K2P2 for two or more correct calculations.

- **Marks** to be awarded for correct classification of products to Boston Matrix:
  - K1P1 for one correct classification.
  - K2P2 for two or more correct classifications.

**Evaluation:**

- Need more data before major strategic decisions can be taken? How useful is Boston Matrix in actually making strategic decisions about products?
- For example, sales of individual product ranges/styles.
- External data would be useful too e.g. social and demographic trends.
- Competitor analysis would be useful before major decisions are taken.
## Example candidate response – grade A

### Case Study

**Market Share**

- **Staff:** High
- **Capri:** Low

**Problem**

- Women's Fashion
- Child
- School

**Cash Cow**

- Women's Fashion
- Sports
- Men's Formal

**Dog (Decline)**

- Child
- School

<table>
<thead>
<tr>
<th>Product (Shoes)</th>
<th>Market growth</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Women's Fashion</td>
<td>30%</td>
<td>60%</td>
</tr>
<tr>
<td>Sports</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Children's School</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Men's Formal</td>
<td>50%</td>
<td>50%</td>
</tr>
</tbody>
</table>

**Notes:**

- Introduction
- Women's Fashion
- Child
- School
- Men's Formal

**Conclusion:**

- Capri needs to focus on expanding its women's fashion line to increase market share.
- The company should diversify its product range to cater to children and schoolwear.
Boston matrix is an analytic tool for identifying the current market share and growth rate of products. As shown in the matrix, if identified in the table and identified in the matrix, the company is affected in a few ways.

C2. Fitch must at all times support and help Fitch must at all times support and help.

E1. Build the ‘problem child’ children’s school shoes with the assistance from cash cow’s funds.

A1. ‘Cash cow’ - new formal shoes.

The funds from the cash cow can be used to promote and support both the star products and problem child product. If Fitch is successful in doing so, then it has a balanced portfolio since women’s fashion shoes (star) will move to the maturity phase and following, it will enter the growth phase.

Fitch should implement new extension strategies.

E1. Regular cashflow.

Fitch should stop production of sports shoes (dog).

C2. Since it has a low market share and growth.
There should be sustained promotion of the ‘star’ product, otherwise sales might fall.

After considering the Boston matrix, the Fitkell team must synchronize this with the other aspects of marketing strategy. The marketing mix is a very important factor for the success of a business.

If Fitkell increases promotion, then it should support it with an increase in distribution methods. Why?

The matrix will help Fitkell to identify and understand when it should launch new products, introduce extension strategies in order to keep the cash flow running.

C3 P8 A3 E3
Examiner comment – grade A

This candidate clearly understood the structure of the “Boston Box” diagram and allocated the four product ranges produced by FitsU accurately into the appropriate segments with the correct “titles”. It was significant that the candidate used the data provided in another way – to calculate the market share of each product range and this useful manipulation of the figures provided allowed the candidate to grasp fully the market positions of each of them. The candidate made observations about “maturity” and “growth” stages which were based on product life cycle analysis but these could not be supported without further data on how long each product range had been sold for on their respective markets. The candidate’s analysis of the actions to be taken for each of the four product ranges was sound but could have been improved by putting the suggestions made into the context of this business. For example, how could children’s shoes be “built up”? Perhaps by offering more than school shoes (if, indeed, this is all that FitsU currently offers) or by offering a wider range of styles to suit fashion-conscious teenagers. These strategies could then have been evaluated in more detail in context. For example, it may take a long time for a shoe business to build a brand image for selling fashionable shoes if they have only previously been known for school shoes. There was scope for further evaluation of the Boston Matrix model itself. For example, one set of data from one year does not show trends clearly and may not really be sufficient on which to base important strategic decisions.

Mark awarded = 12 out of 16
Example candidate response – grade C

Above is a diagram of a Boston Matrix which shows a company where its products stand in terms of market share & market growth.

A product which has both high market...
Growth and market sales is known as the 'star' product. In the case of FitS, their star product is most likely to be Women's Fashion Shoes as it has the highest growth share (80% and $150m). If this product continues to do well and grow, it is likely to become a 'cash cow' however if it fails then it will become the 'dog'. FitS should continue investing in and promoting the Women's shoes so that it will eventually become a 'cash cow'.

FitS's 'cash cow' right now is Men's formal shoes as it has a slow growth rate (1%) and a high market share ($40m). FitS can 'milk' the money coming from Men's shoes and can use it to fund their 'problem child' the Children's school shoes as it is a product in the growth stage that has the potential of becoming a 'star' but will need further expenditure on it.

For FitS, the product which is the 'dog' is Sports shoes as both growth (2%) and market share (20%) ($5m) are the lowest of all their products.
Examiner comment – grade C

This answer was weaker than the grade A answer as there was no attempt to calculate market shares, there was limited analysis of the suggestions made and the evaluation of the strategies to be followed was less detailed. There was, again, no attempt to query the validity of the Boston Matrix model in this context.

Mark awarded = 9 out of 16
The women’s fashion shoes tend to have a higher sales compared to the rest. The growth of national sales in this sector between 2008–2010 is 20%. The total national sales in each segment is $250 m and total sales in each segment in 2010 is $150 m. It therefore means that the women’s fashion shoes has a high market growth and a high market share. Many women are purchasing the shoes and on the overall market, it is reaching a sales of $250 and in the first segment $150 m. The women’s fashion shoes is in the star category. Market research can be made to increase sales, and new style of shoes can be put in the market according to the taste and preferences of customers. Primary market research can be made where first hand data would be obtained.

Moreover, sport shoes has a lower percentage of sale compared to the women’s fashion shoes. It is in the cash cow category that is, people are demanding less sport shoes. To become a star, the promotion should be made to increase sales. Promotion can be made to differentiate.
Examiner comment – grade E

This answer took a long time to make a rewardable point. The diagram was less detailed than those produced by the other two candidates. Knowledge of the Boston Matrix was demonstrated. Some of the classifications of the products were incorrect and the explanation of the measures to be taken lacked detail. There was no evaluation in this answer – either in terms of judging the measures suggested or in querying the usefulness of the Boston Matrix model.

Mark awarded = 7 out of 16
Question 5

Evaluate the most appropriate Human Resource strategies that FitsU could adopt to increase staff motivation without increasing the unit costs of sales. [16]

Mark scheme

<table>
<thead>
<tr>
<th>Knowledge 3 marks</th>
<th>Application 3 marks</th>
<th>Analysis 4 marks</th>
<th>Evaluation 6 marks</th>
</tr>
</thead>
</table>
| Level 2
  3 marks
  Good knowledge shown. | 3 marks
  Good application to case. | 3–4 marks
  Good use of theory to explain answer and impact on unit costs. | 4–6 marks
  Good judgement shown. |
| Level 1
  1–2 marks
  Some knowledge shown. | 1–2 marks
  Some application to case. | 1–2 marks
  Some use of theory to explain answer. | 1–3 marks
  Some judgment shown. |

Examiners’ note: Max L1 for Analysis/Evaluation if no specific reference to unit costs.

Answers could include:

- Details of present pay system and the problems this is causing.
- Seems to be a Taylorite approach – yet senior managers and directors know how to motivate themselves.
- ‘Them and us’ approach could be very damaging to long-term motivation and morale.
- Bonus system may encourage sales – but does it lead to effective customer service and relations in the long term?
- Profit-sharing scheme for all staff? Would this increase motivation without increasing unit costs?
- Share ownership scheme to promote sense of ownership and belonging?
- Non-financial motivators need to be reviewed – no attempt to adopt job enrichment etc.
- Analysis of likely impact of suggestions made on unit costs.

Evaluation:

- Suggestions must be applied to case and assessed in terms of ‘not increasing unit costs’.
- Best methods are… plus justification.
- How likely is the existing management to adopt a less Taylorite approach to both financial and non-financial motivators? This could be a major obstacle.
Example candidate response – grade A

5. The current problems it amongst the Fitav staff which have led to decrease in staff motivation are withdrawal of the profit sharing scheme for employees without some consultation with them. Low basic wages for shop staff and shop managers which were below the national minimum wage rate, dismissal of staff meetings every week, a more centralised structure of management and directors and senior managers being offered share purchase scheme and generous salaries.

The staff was demotivated and this could be charged if following methods were adopted. Since an increase in cost of sales
is not wanted, staff could be offered a share purchase scheme like the senior management also.

This will increase their involvement in the company as they will be part owners and will so motivate them to work better in order to increase profits, and hence their returns as dividends.

However, this will also help to reduce the anxiety of withdrawal of the profit sharing scheme earlier.

This will not increase costs for the firm and also increase motivation for the staff.

However, Taylor's theory of economic man supports this move, and hence motivation levels will improve. However, money is not the only factor that drives people to work according to Herzberg. It is just a hygiene factor that will lead to demotivation if not in place. In order to increase motivation levels, according to Herzberg, motivators have to be in place. These include giving more...
responsibility to staff, encouraging them to work better. Hence, if the staff was given more responsibility while handling stores and customers, then motivation levels could improve.

However, some staff members may not be willing to take on responsibility and so may actually misuse it if given to them, and hence not lead to more motivation.

Introduction & quality circles & learning

The weekly staff meetings will help motivate workers as they will be able to discuss problems and grievances with each other and come up with solutions within themselves. For example, how to handle irritable customers.

However, this will increase training costs and time will be spent on this, leading to less time being spent in the shops probably.

Another method that could be adopted is job enrichment and enlargement, allowing the staff to do different jobs each week, maybe to maintain...
their interest and reduce eliminate
freedom from monotonous tasks.
Staff suggestions for improvement should be
encouraged, and two-way communication
channels should be established to
allow staff to share their problems and
suggestions.
Adopting these strategies will require
senior management to loosen their
control and allow a more decentralised
structure. Management in place. They will
have to be comfortable with delegation
and learn to trust their staff.
The wages if increased right
now to raise it up to the national
minimum wage level will lead to a rise
in cost, which the company does
not want. Hence, the CEO, directors, will
then explain the problems of low
liquidity to staff and assure them that
their wages will be increased when
possible.
Also, the hefty salaries paid to
senior management could be reduced as
Examiner comment – grade A

This answer started with background information about the causes of the existing motivation problems within the business, which then led on to a discussion of what measures might best be taken to reduce the scale of the problem. Weaker answers often did not refer to the “without increasing unit cost” requirement of the question but this candidate made several references to whether the suggestions made will, or will not, be likely to lead to increased unit costs of production. There was effective and selective use made of motivational theory. The answer could have been further improved by making a clear recommendation for one HR strategy to improve staff motivation. The candidate seemed to suggest that they should all be used – but the question included the term “most appropriate” and this required candidates to weigh up the advantages and disadvantages of different strategies and then make a reasoned recommendation for at least one of them to be applied to the business in the case.

Mark awarded = 13 out of 16
Example candidate response – grade C

5. "The human resource department plays a major role like any of the other departments in the organization. It is responsible for selecting, recruiting appropriate staff. For selecting, training staff, for motivating them, appraising them as well. These, along with continuous appraisal and development of staff. Currently, the workers at Fitzell are undergoing poor motivation and low productivity due to disparity in income levels between higher level managers and themselves.

Firstly, the issue of withdrawing the profit sharing scheme and introduction of a low basic wage rate has indeed brought down motivation. When workers were paid profit sharing scheme under (ownership) Fitzell Agency, there is insufficient evidence to suggest any motivational issues. So, HR department must come with appropriate financial motivational tools, such as the re-introduction of profit sharing scheme. But the constraint is that management is unwilling to increase unit cost of sales, so..."
indirectly unwilling to increase unit cost.

Alternative methods include only non-financial motivational tools. Also, as identified by many theorists that financial incentives have success for a very limited period as it is.

So it is just safe for Firth to replace current pay system with non-financial motivators.

The current style of management is centralized and decision making lies on top. There is evidently one-way communication and interaction between workers. This is now termed as a "waste of time" by the Chief Executive.

One way of resolving this matter is that Firth could "delay" where chunks of levels in the hierarchy are removed, which also will benefit the workforce a great deal. As there is delayering, many of the managers who receive generous salaries and shares are being redundant. This increases span & control, which eventually should lead to delegation & empowerment.
to motivate workers, delegation will show a
certain level of trust in its workers.
Along with this, clear communication and
reduction of the communication gap
between high level managers and subordinates.

The Chief Executive should try to

reinforce or maintain a culture of quality

These are daily or weekly meetings between
groups of workers to discuss

working conditions and office problems

are discussed and solved sorted out.

Other non-financial motivators would include

Maslow’s hierarchy of needs, illustrated in

the form of a pyramid that shows the

basic needs, social needs, esteem needs, and the

self-actualisation levels of an employee.

Job enrichment or job rotation and enlargement

are also options that can be adopted.

Job rotation is when workers are asked to

switch from one task to another which

improves flexibility of workers and takes away

the monotony from their lives.

However, higher level managers may be reluctant

against such change or freedom of speech in
Examiner comment – grade C

This answer provided quite a comprehensive review of different approaches that could be adopted to try to solve the motivation problem. There were also attempts to evaluate some of these – for instance, by suggesting that flexible working hours might not be workable in this business. However, the answer could have been improved by correcting its two main deficiencies – the lack of any mention of “unit costs” and the absence of an overall evaluation of the “most appropriate” strategy.

Mark awarded = 11 out of 16

No grade E example candidate response available.
Question 6

Evaluate the usefulness of strategic choice techniques that FitsU directors might use in making the decision to manufacture shoes.

Mark scheme

<table>
<thead>
<tr>
<th>Knowledge 3 marks</th>
<th>Application 3 marks</th>
<th>Analysis 4 marks</th>
<th>Evaluation 10 marks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Level 3</strong></td>
<td></td>
<td></td>
<td>7–10 marks Good judgement shown in text and conclusions.</td>
</tr>
<tr>
<td>3 marks Good knowledge/understanding shown.</td>
<td>3 marks Good application to case</td>
<td>3–4 marks Good use of theory to explain points made</td>
<td>4–6 marks Some judgement shown in text and/or conclusions</td>
</tr>
<tr>
<td><strong>Level 2</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1–2 marks Some knowledge/understanding shown</td>
<td>1–2 marks Some application to case</td>
<td>1–2 marks Limited use made of theory.</td>
<td>1–3 marks Limited judgement shown</td>
</tr>
<tr>
<td><strong>Level 1</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Examiners’ note: good answers considering just two techniques can gain max. marks.

6 Evaluate the usefulness of strategic choice techniques that FitsU directors might use in making the decision to manufacture shoes.

Answers could include:

- Definition of strategic choice – choosing between strategic options including not going ahead with a major decision.
- This is a major change from existing growth strategy.
- Vertical integration has cost/control benefits – should increase profit margins.
- Break-even analysis might be useful to aid this decision.
- Use of decision trees and/or force field analysis? Assess the usefulness of these techniques, in this case including their benefits and limitations.
- Can probabilities be assessed?
- Can ‘restraining’ and ‘driving’ forces be measured quantitatively?
- Ansoff’s matrix – is this a form of diversification i.e. into production even though in the same industry? Risks associated with this.
- How reliable would the data be for basing a scientific decision on? Are qualitative factors more important than quantitative ones?
- Investment appraisal is an appropriate technique but how reliable are the cash flows and results of investment appraisal?

Evaluation:

- Lack of management expertise could be major problem in applying these techniques.
- Is Ansoff appropriate as this is a move towards manufacturing not a marketing growth strategy?
- Prioritisation of techniques – which is likely to be of most use in this case?
- Discussion of their relative importance in this case. Should the decision be taken scientifically or with ‘instinct’?
Example candidate response – grade A

There are many strategic choice techniques which could be used by Fitall directory when deciding whether or not to manufacture the shoe. This would include evaluating a factory and trial period of 4 years.

From these techniques in the investment appraisal which are a

1. Scoping technique would be a help in making a choice of whether to invest in the factory or not. These techniques are payback.
2. Calculating the breakeven period needs to be done for both the storage and production which in this case is 3 years and 6.2 months, AAR which is the rate of return on capital employed invested from the average profit which is 16.69% and NPV which is the discounted profit that an exercise expected to make which is £2.125m. From this, I think the Fitall should not go ahead with this proposal. However, they should consider that if it is all based on assumptions and other factors.
3. Incase of the payback time will be not all the net cashflow is taken into consideration and that in AAR the OH1 payback the decrease in money value isn’t taken into consideration. IRR is usually the best method in investment appraisal because it takes into consideration changes in money value, all the net cashflow and.
4. Helps in making a choice between two propositions that have different capital. Also, it don’t take qualitative factors into consideration.

Then there is the decision tree, which is a tree used to show the expected value of the proportion income if income of a shoe, finishing, been and services. In this case, it could be used to show the expected value of the shoe manufacturing and whether it is better to carry on with this proposition or not. However, it’s usually

In conclusion, except sometimes the economic condition. Also, it’s usually based on assumptions about the probability of failure, success.
It usually needs a highly professional person for this.

Then, there is the force field analysis which is usually accompanied by market research, which involves analyzing the driving forces and as well as the negative forces. Then these forces are written on numbers which are compared with each other. If the driving forces are more, then they should be dealt with. In the case of shoe manufacturing, it is usually very difficult to make because it needs a highly experienced manager to be able to collect all these factors and then express them in numbers. Also, it is mostly based on aggregated past information that isn’t happening now and future information that might be inaccurate. However, it takes qualitative factors into consideration, which should help in making the choice.

Furthermore, there is Ansoff’s Matrix which analyzes the factors that might affect the market. It is strategic, like market development where an old product is sold in a new market or product development where a new or updated product is sold in the existing market or market penetration where the sales are increased in the existing market or diversification where a new product is sold in a new market.

I think in this case the product development is the best method of diversifying the company if the shoes fail to sell then one may diversify (new product) in their shops.

This strategic choice technique is usually accompanied by SWOT and PEST analysis and Porter’s five forces.
Examiner comment – grade A

This answer explained a large number of different techniques that could be used by FitsU in making this strategic decision. Very good understanding was shown of the uses and limitations of most of these techniques. The approach adopted by the candidate of explaining each technique, applying it to the decision in the case study and then evaluating the technique before moving on to consider another one worked very effectively. The candidate also referred to strategic analysis techniques. Examiners were instructed to award these marks if these techniques were explained in terms of how they can assist managers to make strategic decisions by highlighting and analysing important information. The answer ended with a firm evaluative paragraph which suggested that these techniques on their own were insufficient to take important decisions and that other information together with a consideration of market research data should also be used by managers. The answer could have been further improved by contextualising some of the evaluative points more clearly. For example, predicting the likely chances of success or failure of the shoe making factory for use within the decision tree technique could be particularly uncertain given that FitsU has no experience of manufacturing operations at all.

Mark awarded = 16 out of 20
6) **Strategic choice techniques** are techniques which help management to choose between alternative options and help decide which is the best one. The techniques that can be used by Fitsu are the Ansoff matrix, the force field analysis and the decision tree. The Ansoff matrix will place the four options available.

The Ansoff matrix helps to decide whether to sell old or new products in old or new markets. Hence, Fitsu directors can choose to
aim the manufactured shoes at her existing market or aim for a new market. This would be product development and diversification respectively.

The company can calculate the returns to be received from each option, and estimate the risks of failure present using the Break-even Matrix in coordination with the Decision Tree. Product development will be easier for Fiksu as it already has a strong brand name and so will help boost sales of the manufactured shoes.

Diversification involves targeting an entirely new market, where Fiksu has little experience. The risks are already high with Fiksu manufacturing shoes, something it has little experience in.

The decision tree will lay out all the options available, possible if the shoes are manufactured in front of the directors logically and clearly. This will make the directors consider situations that
they previously may have overlooked such as an economic recession. The probability of high sales will be very low in such a scenario.

Hence, the decision tree allows the calculation of expected monetary return in each scenario and hence can help a firm quantify the risk associated with manufacturing shoes. It will also allow shareholders to determine by how much the returns can be greater than the initial investment over the long run.

However, the decision tree techniques uses estimates and any change in economic conditions, market conditions such as a boom or a new competitor will cause changes in the expected return. Hence, these values can only be used as a guide rather than accurate indicators.

A success or failure of the face-to-face analysis helps to place the advantages and disadvantages...
of manufacturing shoes clearly on each side.

The forces for and against our project can be given a ranking in order of strength of the force. The total of the forces for and against can be calculated using the forces against the manufacturing of shoes weigh up to be greater then the management can try to find ways to turn these forces for our project.

For example, resistance from the staff could be a force against our project, as

For example, a large number of competitors could be a force against our project.
However, this firm could analyse the

After all methods have been tried to increase the share of the push forces, and yet the pull forces cannot be reduced, then maybe the project will cause a lot of friction and may need to be abandoned for the time. However, these techniques only consider
a few factors that will affect the decision to manufacture shoes.

Other factors such as cost of land for the factory, recruitment of workers, developing appropriate pay systems, for their, current economic conditions, and forecasted government actions, environmental laws, etc. will also have to be considered.

These strategic choice techniques here will just guide the fit and layout the risks, costs, returns and factors which could be potential problems.

The final decision will depend on whether the FitU directors can find solutions to eliminate or mitigate the risks and potential problems. If these can't be found, then the decision to manufacture shoes may be abandoned.

Being here, these techniques provide the basis of the factors that the firm will have to consider and how depending on the level of risks the risk-taking behavior directors are willing to take, will the final decision be made.
Examiner comment – grade C

The approach used by this candidate was similar to that shown in the Grade A answer but it was less effectively done. The candidate clearly understood the strategic choice process and how the main techniques can be applied. There was some application to the case – for example, the lack of experience of FitsU in manufacturing which increases the risk element. The evaluation was not as strong as in the previous answer, especially the final concluding paragraph. The candidate could either have suggested that these techniques were only an aid to decision making and other factors needed to be considered too – as in the Grade A answer – or there could have been a justified recommendation for the most appropriate decision making technique in this case.

Mark awarded = 13 out of 20
Strategic analysis will help FitU to see where they stand as a company in the present market and will help them whilst making the decision to manufacture shoes or not. FitU's directors could carry out a SWOT analysis of their business in order to find out what their internal strengths (S) and weaknesses (W) are and what their external opportunities (O) and threats (T) will be if they decide to start manufacturing shoes. For example, for FitU as a shoe manufacturer, their strength maybe that they are already a retailer and have outlets to sell the shoes in and hence will not have to search for customers for their shoes. Their opportunity could be selling the manufactured shoes online on their website. Their weakness could be that they do not have experience in the market or that their finances are heavily leveraged on borrowing.
Their threat could be the already established shoe manufacturers in the market or their present suppliers themselves, etcetera...

Thus using SWOT they will be able to analyse whether their strengths and opportunities are for the decision to manufacture or not.

Another strategic choice technique that can be used is PEST analysis, they have to see whether the Political, Economic, Social and Technological factors in their country are in favour of them manufacturing shoes. For example, if governments are offering incentives to companies producing shoes for export (Political aspect), the country is currently experiencing a boom so that demand for shoes is high, the interest rate in their country is low so that borrowing is cheaper (Economic aspect), whether people will mind a new factory being opened in their community (Social aspect) and whether the the right high tech machinery required to produce the shoes is readily available in their country (Technological aspect).

Hence in this manner PEST analysis will help...
in deciding whether or not to open a new factory to manufacture shoes.

Another strategic analysis technique, Porter’s 5 will help in their decision. This will take into consideration:
1. Threats from substitute goods
2. Threats from established rivals
3. Threats from new entrants
4. The bargaining power of suppliers
5. The bargaining power of consumers. Thus, Fitch will need to carry out market research to find out about their competition in the shoe manufacturing business before deciding whether or not to produce shoes. Also, what the bargaining power of their suppliers of raw materials (such as leather and rubber for the soles) is and whether they will be their own customers and hence this favours their option.

Fitch must also check whether they have a core competency, an aspect of their business that will set them apart from all the other businesses in that market so hence if they do have such a unique selling point (USP) they should consider...
opening the factory to manufacture shoes.

However, to make sure that their competency is true core competency, 

Prablad and Hamel have named three criteria that must be met. Firstly, their core competency must be something so unique that consumers are willing to pay a higher price for their product. Secondly, it must be so unique that it is very difficult for other firms in the market to imitate, and hence they will be able to sustain themselves. Thirdly, using a Boston matrix will help them to see which products they should produce in what quantity for them to earn the highest amount of profit. For example, if they begin their own production first, they may want to consider not producing sports shoes at all because they are the 'dog' product with low market share and low market growth.
Examiner comment – grade E

The main weakness of this answer was that it focused entirely on methods of strategic analysis. As explained above, these can be awarded marks in answer to the question given if the candidate explains how analysing the market and the firm’s position within it can assist directors in taking strategic decisions. This candidate did this quite effectively but the answer could have been improved by explaining at least two strategic choice techniques and evaluating the importance of these in the context of FitsU and the strategic decision that had to be made for this company.

Mark awarded = 9 out of 20
Question 7

Discuss the importance of effective management of change to the future success of FitsU. [20]

Mark scheme

<table>
<thead>
<tr>
<th>Knowledge 3 marks</th>
<th>Application 3 marks</th>
<th>Analysis 4 marks</th>
<th>Evaluation 10 marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 3</td>
<td></td>
<td></td>
<td>7–10 marks Good judgement shown in text and conclusions.</td>
</tr>
<tr>
<td>Level 2</td>
<td>3 marks Good knowledge/understanding shown.</td>
<td>3 marks Good application to case</td>
<td>4–6 marks Some judgement shown in text and/or conclusions</td>
</tr>
<tr>
<td>Level 1</td>
<td>1–2 marks Some knowledge/understanding shown</td>
<td>1–2 marks Some application to case</td>
<td>1–3 marks Limited judgement shown</td>
</tr>
</tbody>
</table>

7 Discuss the importance of effective management of change to the future success of FitsU. [20]

Examiners’ note: Level 1 max for Application/Analysis/Evaluation if not specifically applied to change management.

Answers could include:

- Definition of change management – the process of managing and leading strategic change to achieve desired objectives.
- Knowledge marks can be gained for understanding of management/management functions.
- FitsU current management have not done this effectively so far it seems – recent changes have caused resistance.
- Lack of staff involvement, lack of communication of the need for change, lack of ownership of the change process is a major weakness.
- This could lead to serious HR problems and a lack of competitiveness in the future e.g. in terms of customer service.
- Will the vertical integration of the business be handled well?
- Will future takeovers be handled better than that of FeetHut?
- Pace and scale of change is likely to accelerate e.g. Internet selling and globalisation. FitsU might not be prepared for effective management and leadership of these changes.
- Steps to be taken in effective change management include: vision for the business; ‘selling’ change to staff; communication of reasons for change and consequences; involvement in change process.

Evaluation:

- How important is strategic change in this context and the management of such change? Will effective change management make any difference to the future success of FitsU?
- Can management culture towards change management and the role of staff be adapted to meet future challenges?
- If unemployment is rising perhaps autocratic management of change might be ‘acceptable’ but will it lead to longer term problems e.g. when unemployment is falling?
- Examination of factors other than effective management of change that could affect the future success of this business.
Effective management is a key factor to help the business flourish in the future. Effective management comprises so many aspects. Firstly, this is concerning the corporate culture of the business, it would be how the company works. For example, if the company used autocratic leadership, the way it was done, the corporate culture would be like a negative atmosphere that heavily damages against their staff and fosters an unproductive, demotivating multiplier which in the
end, affects the business negatively. Management has not been effective in this case. There are many duties and responsibilities put on the management, some of which are co-ordinating resources and people, creating a work environment, etc. That being said, effective management of change is when the business realises that they have to adapt and be flexible in different situations. Business conditions and economic conditions and market conditions may never repeat themselves, they constantly change. It is then, for a business to survive they need to adapt to changing conditions and make the most out of them. For example, FitsU has been a rapidly growing business that is currently unstable, but they continue to employ the same management decisions the business will be in more trouble than they already are. The only way management of change will be effective is if there is co-operation amongst all departments of FitsU they need to agree on what needs to be done for the future so that they can proceed with clear objectives in mind. In this period of instability, the Director of Finance could suggest better cost-saving techniques and tell the directors to wait before buying the factory as it may increase losses. It is the adaptability of everyone in the organisation. The Operations Department for FitsU see the sales of sports shoes as problematic, what would they do to resolve it? They won’t leave it as it is. They could try to come up with ways to increase its sales just marginally before the product declines. Businesses can’t stay static they need to continuously update.
record, change different aspects of their processes to stay competitive in the world where there are technologica
tical advancements daily. Previous trends become obsolete fast and the need to stay ahead of the trend is what helps a business become successful. Effective trend analysis, budget making, sales forecasting, market research and evaluation, work
ers appointments, continuous monitoring of activities etc. Everything plays an important role to determine success. For example, Fiz-U’s marketing director wanted to launch a website to help promote the shoes, this is a prime example of management change. Also the Director who wants to implement the (ERP) software. This is all management change, what previously may have been a tedious way of recording orders, suppliers and deliveries is now done through an up-to-date continuous monitoring system which gives all the data from those activities. This would be a great cost effective change for Fiz-U since companies that are becoming increasingly technologically related can’t lose sight of other factors. Smaller businesses that adapt to consumer preferences with small unique products are also occupying the niche market that sometimes larger businesses may ignore. Fiz-U could benefit by working into similar markets after the decline of sports.
Examiner comment – grade A

This answer started off in a very similar way to those produced by the majority of candidates – with an explanation of effective management. Only later in the answer did the candidate realise that the main thrust of the question was about effective management of change and then the answer developed into an effective response to this. Even the best candidates must be advised to read every question very carefully to ensure they are writing an answer that addresses the key issues raised by it – and not writing an answer to a question they wish had been set!

This candidate stressed the need for adaptability, cooperation between departments and a preparedness to accept change as being key features in managing change. These points were well explained with examples of change being introduced into FitsU. The final paragraph suggested that effective management needs to consider all change scenarios and the outcomes of them and prepare for these. There was also the suggestion that contingency planning is an important part of change management when major decisions are being taken. The answer could have been further improved by analysing how managers can attempt to lead change effectively so that everyone in the organisation becomes willing to accept and adapt to change. This requires openness, communication and involvement of staff – and, in the case of FitsU, these features of change management might only be introduced if the senior managers changed their style of leadership.

Mark awarded = 15 out of 20
Example candidate response – grade C

1) Effective management of change is of vital importance to the future success of Fitall.

As we can see, the business has undergone dramatic change already over the years. The shoes, originally only dealt with

older, fashionable men and therefore competed with

other manufacturers of menswear.

It offered a wide variety of shoes, but these were imported from overseas manufacturers.

But now, the business has rapidly expanded in size, it

has now become a public limited company, dealing in a wide

variety of types of shoes. But now with plans for a

self-manufacturing and limited company change.

So, the business has changed a lot has obviation from the

management and this change how allowed the business to?

continue to succeed.

As the business grew in size, it must have had a objective

setting up as a small business, it may have aimed at survival

as the main business objective. But for the business

growth, the objective may have changed to increase

of market share and then eventually to profit maximisation.
The management will be responsible for coming up with new plans and strategies to satisfy the different needs of the customers and their changing tastes and preferences.

Especially in a market where there is constant change in tastes and preferences due to new designs. The management will be responsible for continuously investing in the design department and updating products to satisfy these changing demands.

As the business grows in size, so does the number of workers working in the business. These workers all have different needs and wants. Some workers may work well under pressure, some work well under freedom. It is up to the manager to find a mix between the two and ensure the management styles.

The business is also facing a change in its type of business, as it plans to move from the testing sector to the production sector and become a manufacturer. This change will have a major consequence on the business. The production side complete working rotation will change on a
As the business grew, it planned to venture onto known markets like Fitz's in a plan of using the Internet to sell shoes through. This means that the whole business structure itself will be altered as a result. The management will be responsible for making this change work. There is a successful plan for the marketing mix of it, etc.

The management in other responsibility for the marketing mix. As the business grew, it was keen to expand its product portfolio. When it was grown, the production of fashionable shoes for women had been increased in terms to production of sports shoes, children's shoes, men's formal shoes, etc. It was necessary for the management to decide on unassisted diversified diversification ideas or the firm risk would be split up into various options.
Examiner comment – grade C

This answer started with two descriptive paragraphs that did not show any analytical skills but allowed the candidate to make it clear that the question was about change within business and that FitsU has undergone change and is planning further change. The candidate attempted to explain the decisions that management might have to take and the processes it might have to put in place in order to deal with change. In concluding, the candidate made an attempt to consider other factors that might determine the future success of a business. This answer could have been improved by more detailed analysis of the process of change management in terms of creating a vision, ensuring resources are in place and convincing workers of the necessity for change. These points could then have been applied and evaluated in terms of FitsU and the changes that were being considered by directors for this business.

Mark awarded = 11 out of 20
An effective management is very important for any business. Managers are people who lead or organise a business. They can also be called a leader without an effective management business can make losses, their allocation of resources are not done properly. A successful manager will make sure that the resources in a business are allocated efficiently so that the business might not face problems. A good or successful manager will make plans for the business, it will contain the goals and objectives of a business. Managers should check and plan the objectives and aims that need to be achieved by a business.

Then after planning, the managers need to organise the resources properly according to the objectives and goals that are set by the manager of the business to be achieved. When the resources are allocated properly or efficiently managers will co-ordinate with the workers so that they

be will bring them together, so that they
Examiner comment – grade E

This answer provided an effective introduction to the issues raised by the question. The candidate laid out quite clearly different steps that managers should take to deal with change – such as “planning objectives” and “coordinating with workers”. There was much scope for further improvement, however, as none of the points raised was fully developed or put into the context of FitsU. In fact, the only reference to the case study business was towards the end of the answer when the importance of skilled workers for the new factory was mentioned. There was no consideration given to other factors that might determine the success of FitsU other than effective management of change. This answer had potential to become a good response to this question but the candidate did not effectively demonstrate the key skills of application, analysis and evaluation.

Mark awarded = 8 out of 20