2015/BUSMT/HP1/MOCK

**MARKSCHEME**

**Mock 2015**

**BUSINESS AND MANAGEMENT**

**Higher Level**

**Paper 1**

24 pages

- 2-

*This markscheme is**to be used with the Triple A Learning Case Study pack and exemplar mock examination*

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**The markbands on pages 3 - 6 should be used where indicated in the markscheme.**

**Section A**

**Q1 (c)**

**Q2 (c)**

**Marks 0-7**

**0**

**1 - 2**

**3 - 5**

**6 - 7**

**Q3 (c)**

**Level descriptors**

• No knowledge or understanding of relevant issues,

concepts and theories.

• No use of appropriate terminology.

• Little knowledge and understanding of relevant issues,

concepts and theories.

• Little use of appropriate terminology.

• No reference is made to the information in the case study.

• A description or partial analysis/examination with relevant

knowledge and/or understanding of relevant issues, concepts and theories.

• Some use of appropriate terminology.

• Some reference is made to the information in the case

study, not just to the name of the organization.

• At the lower end of the markband responses are mainly

theoretical.

• A balanced analysis/examination with accurate, specific,

well-detailed knowledge and understanding of relevant issues, concepts and theories.

• An analysis/examination that uses appropriate terminology

throughout the response.

• Explicit references are made to the information in the case

study.



**Section B**

**Q4 (d)**

**Marks 0 - 8**

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**Level descriptors**

 **0**

**1 - 2**

**3 - 4**

**5 - 6**

**7 - 8**

• No knowledge or understanding of relevant issues,

concepts and theories.

• No use of appropriate terminology.

• Little knowledge and understanding of relevant issues,

concepts and theories.

• Little use of appropriate terminology.

• No evidence of judgments and/or conclusions.

• No reference is made to the information in the case study.

• A description with some knowledge and/or understanding

of relevant issues, concepts and theories.

• Some use of appropriate terminology.

• No evidence of judgments and/or conclusions.

• Some reference is made to the information in the case

study, not just to the name of the organization.

• The response is mainly theoretical.

• A response with relevant knowledge and understanding of

relevant issues, concepts and theories.

• A response that uses relevant and appropriate terminology.

• Evidence of judgments and/or conclusions that are little

more than unsubstantiated statements that has balanced analysis and demonstrates understanding.

• Explicit references to the information in the case study are

made at places in the response.

• A response with accurate, specific, well-detailed

knowledge and understanding of relevant issues, concepts and theories.

• A response that uses appropriate terminology competently

throughout the response.

• A response that includes judgments and/or conclusions

that is well supported and underpinned by a balanced analysis.

• Explicit references to the information in the case study are

made throughout the response.

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**Section C**

**Q 5 ( c)**  **Level descriptors**

**Marks 0 - 9**

**0**

**1 - 3**

**4 - 6**

**7 - 9**

• No knowledge or understanding of relevant issues,

concepts and theories.

• No use of appropriate terminology.

• Little knowledge and understanding of relevant issues,

concepts and theories.

• Little use of appropriate terminology.

• No reference is made to the information in the case study

and/or the extension material within Section C.

• A description or partial analysis/examination with relevant

knowledge and/or understanding of relevant issues, concepts and theories.

• Some use of appropriate terminology.

• Some reference is made to the information in the case

study and/or the extension material within Section C, not just to the name of the organization.

• At the lower end of the markband responses are mainly

theoretical.

• A balanced analysis/examination with accurate, specific,

well-detailed knowledge and understanding of relevant issues, concepts and theories.

• An analysis/examination that uses appropriate terminology

throughout the response.

• Explicit references are made to the information in the case

study and/or the extension material within Section C.

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**Section C**

**Q5 (d)**

**Marks**

**0-12**

**0**

**1 - 3**

**4 - 6**

**7 - 9**

**10 - 12**

**Level descriptors**

• No knowledge or understanding of relevant issues, concepts and theories.

• No use of appropriate terminology.

• Little knowledge and understanding of relevant issues, concepts and theories.

• Little use of appropriate terminology.

• No evidence of synthesis of information from the case study, the extension material in Section C

and, where applicable, from other responses within Section C. Information is merely lifted and

copied into the response.

• No evidence of judgments and/or conclusions.

• No reference is made to the information in the case study and the extension material within

Section C.

• A description with some knowledge and/or understanding of relevant issues, concepts and

theories.

• Some use of appropriate terminology.

• No evidence of synthesis of information from the case study, the extension material in Section C

and, where applicable, from other responses within Section C. Information is merely lifted and copied into the response.

• Evidence of judgments and/or conclusions that are no more than unsubstantiated statements.

• Limited reference is made to the information in the case study and the extension material within

Section C.

• The response is mainly theoretical.

• A response with relevant knowledge and understanding of relevant issues, concepts and theories.

• A response that uses appropriate terminology.

• At places in the response information from the case study, the extension material in Section C

and, where applicable, from other responses within Section C is (synthesised and) integrated to provide a basis for analysis and evaluation.

• A response that includes judgments and/or conclusions that have limited support and are

underpinned by a balanced analysis.

• Explicit references to the information in the case study and the extension material within

Section C are made at places in the response.

• A response with accurate, specific, well-detailed knowledge and understanding of relevant issues,

concepts and theories.

• A response that uses appropriate terminology competently throughout the response.

• Information from the case study, the extension material in Section C and, where applicable, from

other responses within Section C is proficiently (synthesised and) integrated to provide a basis for analysis and evaluation.

• A response that includes judgments and/or conclusions that is well supported and underpinned by

a thorough and balanced analysis.

• Explicit references to the information in the case study and the extension material within

Section C are made throughout the response.

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**SECTION A**

**1.**  **(a)**  **Define the following terms:**

**(i)**

(**ii)**

***sole trader (line 5)***

A private profit-making organisation owned by one person, although it may have many employees. The sole trader has unlimited liability and bears the entire financial risks of the business being responsible for any debts the business accrues. It is the most basic form of business organisation.

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

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

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

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

***revenue (line 73).***

The money received from the sale of output. Total revenue is worked out from the number of goods sold multiplied by the price charged for each one

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

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

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

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

***[2 marks]***

***[2 marks]***

- 8- 2015/BUSMT/HP1/MOCK

**(b)**

**With reference to *LadyA*, distinguish between *autocratic* and *laissez-faire***

**leadership styles.**

*Laissez-faire* leadership is a style of leadership where employees are left to make decisions and carry out their tasks much more independently than under other leadership styles. Employees are given a greater degree of freedom in their roles. Some argue that this approach is not a leadership style at all as it involves an abdication of the leadership role and can lead to poor communication and a lack of efficiency.

*Autocratic* leadership is a style of leadership where a leader dictates policies and procedures, decides what goals are to be achieved, and directs and controls all activities without any meaningful participation by the subordinates. This style of leadership can often lead to dissatisfaction as employees do not feel involved in the process of decision-making.

In the case study, Lady A was inconsistent in her style of leadership. Sometimes she was very direct, giving detailed instructions and getting angry if they were not followed – in other words, an autocratic approach - and at other times she adopted a laissez faire approach. The employees never knew what to expect and communication was poor.

*Accept any other relevant, and accurate distinction in the context of The LadyA case study.*

**Mark as 2 + 2.**

Award ***[1 mark]*** for each accurate definition of the leadership style, and ***[1 mark]*** for each development of this definition in the context of *LadyA.*

Award a maximum of ***[2 marks]*** if there is no application to the case study.

***[4 marks]***

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**(c)**

**Analyse the marketing techniques of charitable organisations and compare these to profit making organisations, like *LadyA Management Limited*.**

There are both differences and similarities between the marketing of profit-making organisations, such as *LadyA Management Limited* (*LAM*) and non-profit organisations, such as charities, but these differences have diminished as non-profit organisations recognised that effective marketing has significant advantages for increasing income for their good causes. The main purpose of charitable marketing is to build awareness of an issue, or cause, and to gain financial support. The ‘customer’ donates money to a charity in the knowledge that it will be used for a philanthropic purpose. Profit making organisations, however, use revenues from customers for any purpose they wish. *LAM* will use its profits to reward its stakeholders and pay dividends to its shareholder, *LadyA* and her parents.

It is often the case that charities have lower marketing budget than profit making firms of a similar size. Consequently, marketing techniques used by charities tend to consist of low-cost marketing tactics. These tactics may include an element of surprise, or ones that set out to shock, similar to the strategies used in guerrilla warfare. Ultimately, differences may come down to objectives and terminology. The creation of an appropriate image is important for any organisation, and so promotion needs to be effective. Profit making firms seek to maximise revenues and profits and charities seek to maximise fund raising for their client groups, so profit or surplus may, in reality, be very similar. The more funds charitable organisations like UNICEF raise, the more they can support their projects.

Charities must raise awareness of the causes they represent, possibly more than raising awareness of the organisation itself. This could entail taking a political stance and lobbying important decision makers. Naturally, marketing techniques are used to increase pressures on these decision makers to listen and act.

To increase available income, many charitable organisations provide services more commonly seen in the profit sector, such as operating retail outlets like the ones used to sell *LadyA’*s perfumes and cosmetics, or selling newspapers to raise funds. Here the normal marketing approaches associated with selling products apply. There are examples of joint ventures between profit and not-for-profit organisations; a possibility if *LadyA* decides to adopt option 3. Profit making firms may wish to support good causes as it helps promote a socially responsible image.

*Candidates are* ***not*** *expected to refer to all of the above points for top marks, but analysis must be balanced in order to reach the highest level of the markband*.

***[7 marks]***

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**2.**  **(a)**  **Using a SWOT analysis for *LadyA Management Limited*, identify two current**

 **weaknesses and two current threats:**

 ***[4 marks]***

**Possible weaknesses and threats:**

**Weaknesses**

* Lack of parental support for career choices
* Possible underlying resentment and lack of respect from staff
* Inconsistent leadership and poor communication
* Quality control issues in Malaysia
* Reliance on intermediaries in distribution channels
* Batch production reduces economies of scale
* 60% upfront costs on production
* High expenses from media activities and large staff
* *LadyA* is approaching her forties

**Threats**

* Demographic change and negative political reaction to increase in Hispanic

 groups in the U.S.

* Falling sales revenue resulting from technological change
* Economic downturn in 2008 and recession in key markets
* Growing expenses and falling revenues lead to liquidity issues
* Changing social and cultural tastes

 *Accept any other relevant weakness or threat.*

**Mark as 2 + 2.**

Award ***[1 mark]*** for each valid weakness up to a maximum of ***[2 marks]***

Award ***[1 mark]*** for each valid threat up to a maximum of ***[2 marks]***

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**(b)**

**Explain two reasons why *LadyA* decided to set up a private limited company.**

Private limited companies are easy and cheap to set up and offer a number of advantages that are of benefit to *LadyA*. Perhaps the key advantage of a private limited company, over operating as a sole trader, is that of limited liability. On incorporation an organisation is created separate from its owners. All actions taken by the company are actions of the company, rather than the individual owners and so owners cannot be held responsible for the debts of the business beyond the amount they invested – in other words the value of their shares. For *LadyA*, this reduces the risks associated with operating her business as personal possessions cannot be seized to pay for debts incurred by *LadyA Management Limited*.

The protection awarded by limited liability means that more shareholders are prepared to put their money into the business, so increasing the amount of capital available for expansion. For *LadyA Management Limited*, this might allow greater investment in new products, such as a new clothing line or to increase marketing.

In addition, being a limited company ensures the continuity of the business in the event of the death of any of its shareholders such as either of LadyA’s parents, since the shares are passed on by inheritance arrangements. It is also argued that operating as a company offers greater status and customers see the business as more trustworthy and/or reliable.

It may have been an option to float LadyA’s business as a public limited company, but by choosing to be a private company, LadyA can restrict the sales of shares to ensure she is able to retain control.

**Mark as 2 + 2.**

Award ***[1 mark]*** for each accurate reason, and ***[1 mark]*** for its development, identifying the advantage for *LadyA*. A purely theoretical answer is not sufficient for full marks.

***[4 marks]***

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**(c)**

**Analyse the usefulness of market segmentation and consumer profiles, if *LadyA* decides to widen her product portfolio and distribute to a global market *(option 2*).**

Instead of attempting to market products and services to an entire market, market segmentation is the process of dividing the market into smaller sub-groups or segments, which share similar characteristics and focusing marketing on these groups, rather than wasting money on groups unlikely to purchase. For example, *LadyA* may only sell her perfumes in countries where her music is successful. Market segmentation uses characteristics, such as age, gender, region or income. If the resulting sub-groups are small in number, the process is referred to as niche marketing.

Successful segmentation relies on *LadyA* understanding the characteristics of the consumers likely to purchase her products. This requires the creation of consumer profiles of potential customers, based on the demographic details of the target segment, such as age and gender, so that marketing approaches and marketing mix elements can be specifically focused on these consumers. As a consequence, marketing activities should be both effective and cost efficient. Consumer profiles will be different for each of a *LadyA’*s target markets.

Well-targeted marketing focused on the needs of the selected market segments, should ensure that the marketing budget is not wasted on consumers, who will not purchase the products at all whatever the level of marketing.

If *LadyA* widens her product portfolio to include shoes, handbags and lingerie, with the intention of distributing these to a global market, it will be essential to understand, as far as possible, the characteristics of the new markets and customers’ needs and wants, as far as the new fashion ranges are concerned. With this knowledge her firm can decide on the specifics of an appropriate marketing mix, such as price and promotion, as well as the most effective ways to distribute the products to the selected market segments. This is likely to involve substantial investment in market research. The question is whether the cost of this market research is affordable and whether the results are likely to be accurate, especially given the dynamic nature of the fashion markets. The other issue is whether the selected market segments are sufficiently large to justify *LadyA* marketing to these at all. There may be an argument for an undifferentiated marketing approach if there is too much uncertainty about new markets and customers.

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

***[7 marks]***

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**3.**  **(a)**  **Define the following terms:**

**(i)**

(**ii)**

***focus group (line 64)***

Small groups of people who are gathered to discuss a product, service or marketing policy. The aim is to provide an insight into consumers’ behaviours and attitudes, to help inform the development of new products or marketing policies.

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

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

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

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

***Fringe benefits (line 13).***

Benefits given to employees in addition to their basic pay. Examples are health insurance, company cars, discounts on purchases, membership of clubs and societies, free food and drink.

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

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

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

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

***[2 marks]***

***[2 marks]***

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**(b)**

**With reference to *LadyA*, explainthe difference betweenabove-the-line and below-the-line promotion.**

Above-the-line promotion is paid-for promotion that is carried out through independent media, which enable the firm to reach a mass audience. These might include newspapers and television. For *LadyA* this will include paid-for adverts for her perfumes and cosmetics in magazines and on the television, and promotion for upcoming concerts in the music media. It could also include posters on billboards.

Below-the-line promotion is promotion over which the firm has direct control. It includes methods like direct mailing, exhibitions and trade fairs and sales promotions. For example, LadyA may appear on television programmes which feature celebrities, where she demonstrates how she uses her make up before her concerts. Alternatively, her Public Relations department might send press releases to the media about activities designed to improve her brand image, such as visits to hospitals, where she meets with sick children.

**Mark as 2 + 2.**

Award ***[1 mark]*** for each accurate definition, and ***[1 mark]*** for its development, identifying possible applications of each type of promotion by *LadyA*.

The development must contain examples, which illustrates the differences between the two promotional approaches.

A purely theoretical answer is not sufficient for full marks.

***[4 marks]***

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**(c)**

**Using a PESTLE analysis, examine the impact of the external environment on the operations and profitability of *LadyA Management Limited*.**

The following are examples of entries in each of the segments of a PESTLE:

*Political factors*

* Negative political reaction to growth of Hispanic population in U.S.

*Economic factors*

* Economic downturn in 2008 negatively affected music sales.
* Recession encourages singers to become ‘media personalities’.

*Social/cultural factors*

* Ethnic groups favour artists that speak their own language
* Trends in fashion change over time, such as ideas of beauty.
* American fans prefer younger musicians and film stars.

*Technological factors*

* Increase online file sharing using online software
* New technologies, e.g. MP3 players and smartphones.
* Video hosting websites replacing television videos.
* Communication opportunities improved by social networks.
* E-commerce opening up global markets.

*Legal factors*

* Government taxation rules.
* Laws on working age and responsibility, e.g. 18 to produce a CD.
* Illegal file sharing.
* Copyrights and royalties protect intellectual property.

*Ethical factors*

* Demand for charitable work and celebrity endorsement

*Accept any other relevant factor.*

Each of the PESTLE factors will influence the operations and profitability of *LadyA* Management Limited. For example, the economic downturn lowered the disposable income of consumers, which reduced the demand for *LadyA* products and for tickets for her shows and inevitably profitability. Technology has enormous impacts on both operations of *LadyA* in terms of how her music is presented and sold and possible negative effects of her business in terms of illegal downloads of her music and less profitable video platforms. Technology may, however, be positive in that social media outlets may spread her music and performances around the world. However, the law may impact on both of these in terms of prosecuting the illegal downloading and copying.

PESTLE factors may also impact on the other aspects of *LadyA*’s business. For example, Perfume sales will be reduced by economic downturns as perfume is a luxury product and likely to be price elastic. E-commerce will help *LadyA* access global markets.

Candidates are **not** expected to cover all the above-mentioned points.

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

***[7 marks]***

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**SECTION B**

**4.**  **(a)**  **Outline one advantage and one disadvantage of ethical marketing**  ***[4 marks]***

Ethical marketing is a philosophy that informs all marketing efforts. It promotes honesty, fairness, and responsibility in all advertising and is about making marketing decisions that are morally right. It is a process through which companies generate customer interest in products or services, build strong customer interest/relationships and incorporate social and environmental considerations in products and promotions. The establishment of marketing ethics has the potential to benefit society as a whole, both in the short- and long-term.

## Features of ethical marketing

## Advantages

* Business ethics offer companies a competitive advantage over non-ethical competitors.
* Consumers trust ethical brands and may remain loyal to them, even during difficult periods, and/or if it means paying a little more.
* Employees may be more motivated and loyal, particularly younger employees who want to feel proud of, rather than embarrassed by, the organisations for which they work.
* In business to business relationships, clients are starting to ‘screen’ suppliers against their corruption policies, human rights, labour standards and environmental performance. This is particularly evident in construction, oil and gas and public procurement processes.
* Society benefits from business ethics, because ethical companies recognise their social responsibilities.

## Disadvantages

* Ethical marketing may be more expensive, reducing profits and dividends.
* From a consumer perspective, there are many who are more interested in the quality and price of the goods and services a company produces, than in its ethical conduct.
* Some consumers perceive ethical marketing as a cynical ploy to differentiate a business. This has led to the use of the term ‘greenwashing’.
* Some stakeholders do not believe it is the function of businesses to operate in the interests of society, but to maximise profits.

***N.B.*** No reference to the case study needed.

**Mark as 2 + 2.**

Award ***[1 mark]*** for a correct advantage and ***[1 mark]*** for a correct disadvantage.

Award ***[1 mark]*** for the development of each.

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**(b)**

**Explain one function of the human resources department in the successful operation of *LadyA Management Limited*.**

The human resources department is a critical component of employee well-being in any business, no matter how small. It has a number of key functions which will influence the successful operations of *LadyA Management Limited* including:

*Workforce Planning*

Future planning to ensure *LadyA* has the right number of people with the right skills in the right place at the right time to deliver its short- and long-term organisational objectives, especially as planning for expansion.

*Recruitment*

Advertise job vacancies, sourcing and screening candidates, conducting interviews and making the final selection to ensure that new employees share *LadyA’*s aims and aspirations.

*Health and safety*

Supporting workplace safety training and compliance with legislation. This will be important for the crews setting up equipment for *LadyA’*s concert performances.

*Employee Relations*

Strengthening employer-employee relationship by measuring job satisfaction, employee engagement and motivation and resolving workplace conflict, such as improving communication and motivation among her household staff.

*Compensation and Benefits*

Setting compensation such as wages, salaries, fringe benefits and bonuses and evaluating pay practices to enable *LadyA* to recruit the staff it requires to be competitive within its budget.

*Compliance*

Compliance with labour and employment laws to avoid unnecessary penalties.

*Training and Development*

Having hired staff, *LadyA* needs to train its new recruits to maximise their performance and develop their skills and competencies. Training includes induction training and on-the-job and off-the-job training.

*Accept any other relevant function.*

Award ***[1 mark]*** for a correct function and ***[1 mark]*** for an explanation of why this function supports the successful operation of ***LadyA Management Limited***

***[2 marks]***

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**(c) Construct an organisation chart for *LadyA Management Limited* after its**

 **2011 reorganisation and describe the nature of its organisation.**

 ***[6 marks]***



*LadyA* *Management Limited* is a traditional hierarchical organisation with clear levels of command and channels of communication. The structure is based on individual functions. There are few levels of authority and narrow spans of control. The organisation is centralised with *LadyA* taking all the major decisions.

**Mark as 4 + 2.**

Award ***[4 mark]*** for an accurate organisation chart, showing the correct functional relationships and placement of individuals.

Award ***[2 - 3 mark]*** for an organisation chart showing functional relationships and placement of individuals, although these may not all be accurate. For 3 marks, there can be a maximum of two errors.

Award ***[1 mark]*** for a chart that is mostly inaccurate, but shows some understanding of the concept and structure

Award a maximum of ***[2 marks]*** for accurately describing the nature of the organisation using appropriate terminology.

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**(d) Evaluatethe value of primary and secondary research methods in deciding**

 **between the strategic options identified by *Kersey &Joyce*. *[8 marks]***

The purpose of market research is to reduce the number of bad product decisions and minimise the risk of failure. It should increase company profits and help pinpoints strategies for increasing the reputation of the firm. For *LadyA Management Limited*, market research will help inform the decision between strategic options by providing data on markets, and on the needs and wants of consumers within these markets. Market research can be used to gather opinions on products before launch and to estimate the revenues and potential profits from a product, or range of products.

*Primary research* is the gathering of new or ‘first-hand’ data specifically tailored to provide information on products, customers and markets. *LadyA* can collect data by fieldwork, such as questionnaires, observation, experimentation and surveys and is often expensive, but also directly relevant, accurate and up-to-date.

*Secondary research*, also known as desk research, is the assembly, collation and analysis of existing or ‘second-hand’ marketing data. This is cheaper than primary research, but the data may be less relevant as it was not collected for the specific needs of the firm and may already be out of date.

Secondary data may be collected from some of the following existing sources:

* *Internal:* annual reports, sales data, customer records and survey, client databases, payment records.
* *External*: government data, media, competitor reports, marketing research companies, trade associations, company websites.

If *LadyA* decides to choose option 1, the market data should not only be more available, but cheaper to access, especially if primary research is collected. Choosing option 2 involves global markets, so primary research becomes not only more expensive, but far less realistic, especially given that *LadyA’*s target markets are less clear. As a result, *LadyA Management Limited* would probably concentrate more on existing secondary data, which although cheaper may be more expensive and less focused on the firm’s specific requirements. It might be possible to hire a specialist market research agency that deals with foreign markets, but the costs are likely to be considerably higher. Gathering data for option 3 will be more difficult as it would need to focus more on the intangible of brand image and the future impact of this on new revenue streams. Primary data might be the only way to gather this information.

When it comes to deciding between the options, therefore, the nature of the available data may be quite different, both in terms of quality and quantity and will make the comparisons more difficult as a result.

Marks should be allocated according to the markbands on page 4

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**SECTION C**

**5.**  **(a)**  **Using Ansoff’s matrix, classify option 1 (line 139) and option 3 (line 153)**  ***[2 marks]***

The Ansoff Matrix is a marketing planning tool, which helps a business determine its growth strategies by focusing on whether the products are new or existing and whether the market is new or existing.

*Option 1* involves *LadyA* moving into South American markets with her existing products, but focusing on the Spanish-speaking market. Ansoff would classify this strategy as ‘market development’ or ‘extension’, because it involves selling existing products into new markets.

*Option 3* involves LadyA rebranding and associating herself with charitable causes. To do this, she would set up various non-profit organisations and employ marketing techniques to allow for new revenue streams. Ansoff would classify this as ‘diversification’, because it involves selling new products or services to new markets at the same time.

Award ***[1 mark]*** for an accurate classification of one option, and award ***[2 marks]*** for accurate classifications of both options.

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**(b)**  **(i)**  **Using the decision tree (item 1), calculate the expected values for**

 **options 1 and 2 using only the three-year net profit after interest**

 **and tax totals. *[4 marks]***

|  |
| --- |
| **Option 1: Figures in *($ millions*)** |
|  | Probability |  | Outcome |  |  | EV  | *less* cost | Net EV |
| Success | 0.2 | x | 152 | = | 30.4 |  |  |  |
| Satisfactory | 0.6 | x | 102 | = | 61.2 | 106 | 12 | 94 |
| Failure | 0.2 | x | 72 | = | 14.4 |  |  |  |

|  |
| --- |
| **Option 2: Figures in *($ millions*)** |
|  | Probability |  | Outcome |  |  | EV  | *less* cost | Net EV |
| Success | 0.3 | x | 220 | = | 66.0 |  |  |  |
| Satisfactory | 0.3 | x | 168 | = | 50.4 | 117.2 | 21 | 96.2 |
| Failure | 0.4 | x |  2 | = |  0.8 |  |  |  |

Award ***[4 marks]*** for a correct response and full demonstration of working with clear understanding of the method and accurate presentation.

Award ***[2 - 3 marks]*** where the candidate makes calculation errors and/or has unclear method. Deduct up to a maximum of ***[2 marks]*** for calculation errors, but with a clear method and deduct a maximum of ***[1 mark]*** for an unclear method.

Award ***[1 mark]*** for an answer with a limited understanding of the method, but incorrect calculation.

Award ***a maximum of [1 mark]*** for a correct response, but with no working.

**(ii) Compare and contrast the timings, size and probabilities of the**

 **financial outcomes for options 1 and 2. *[3 marks]***

*Apply Own Figure Rule (OFR).*

Award ***[1 mark]*** for a basic answer, with the candidate recognizing that option 2 is better, though the difference is relatively minor.

Award ***[1 mark]*** for each additional comparison point ***[up to a maximum of 2 marks]*** from the list below, which providing some nuance to their basic answer:

* Options 1 and 2 have differences in timings, despite having similar net EVs, or
* Developing the idea that, option 2 offers by far the best outcomes if it is successful, but the worst outcomes if it is not, *or*
* That the differences between financial outcomes grows over the three years, *or*
* Some other relevant commentary adding meaningful nuance.
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 **(c)**  **Using information from the case study and item 2, analyse the arguments for**

 **and against outsourcing manufacture of the new product range to Malaysia.**

 ***[9 marks]***

The figures in Item 2 represent the relative costs of buying in *LadyA* perfumes compared to manufacturing them in the proposed U.S. factory. Comparison of cost to buy (CTB) and cost to make (CTM), using the figures provided:

**CTB** = P x Q

 = $10 x 100,000

 = $1,000,000

**CTM** = FC + (VC x Q)

 = $700,000 + ($4.50 x 100,000) = $700,000 + $450,000

 = $1,150,000

On the basis of a limited comparison of only one perfume spray, it appears it is cheaper to outsource production to Malaysia. However, *LadyA*’s accountant points out that on larger orders over 150,000, the variable costs of manufacturing in the US will fall to approximately $3.50, which would reduce the difference in CTB and CTM to only $50,000.

However, financial costs are not the only factors underpinning the choice. An agreement would be necessary with the US distributor on a joint-venture. In addition, there are several non-financial issues underpinning the choice as well as issues resulting from a dynamic external environment:

*Reasons for outsourcing*:

* *LadyA Management* *Limited* can concentrate on its core activities, which relate to creating and developing the brand image for their product ranges.
* The firm has no expertise in production, unlike the Malaysian producers.
* Production costs should be lower and delivery time reduced.
* Operational and recruitment costs can be minimized to a great extent.

  *Reasons against outsourcing:*

* Following the recession, there will be pressures to produce in the U.S. to provide employment opportunities for both English and Hispanic employees.
* Outsourcing costs are influenced by the rate of exchange between the US and Malaysian currencies. which are unpredictable increasing risks and/or costs.
* *LadyA* has less control over production (including exploitations issues) and the reported quality control issues can negatively impact the brand.
* *LadyA* becomes dependent on the outsourcer and disruptions in production e.g. strikes or breakdowns can impact on delivery and stock levels.
* Changes in the law and/or regulations related to international trade can increase the relative costs of outsourcing.

Marks should be allocated according to the markbands on page 5.

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**(d)**  **Using information from the case study and item 1 to 5, and applying suitable**

 **business tools, evaluate the strengths and weaknesses of options 1 and 2 and**

 **make a supported recommendation to *Lady A* on which to select.**

 ***[12 marks]***

***Option 1*: Move into South American markets**

*Strengths*

* Declining popularity of *LadyA* in U.S. markets as she grows older.
* Negative political reaction to demographic changes and increasing Hispanic population.
* South American markets generally accept older female musicians and film stars.
* Concentrates on LadyA’s key strengths – her brand image and abilities as an artist.
* Focus on *LadyA’*s Hispanic heritage and language.
* Hispanics represents 52 million US residents and growing rapidly **(item 3).**
* Hispanics more receptive to digital advertising **(item 3)**, offering more opportunities for marketing communications.
* Hispanics more e-commerce purchases than non-Hispanics **(item 3).**
* Opportunity to extend *LadyA’s* life cycle and access additional revenue streams, including from new clothing/accessory range and touring/merchandising **(item 5).**
* Decision tree suggest risks of failure are lower than option 2 and net EV similar.

*Weaknesses*

* Declining demand and revenues for music from its peak on 1999 **(item 5)** probably exacerbated by future new technologies.
* No certainty that *LadyA*’s popularity will transfer to South American markets.

***Option 2*: Broaden *LadyA’*s product portfolio and develop a global market**

*Strengths*

* Takes advantage of *LadyA’*s brand name to develop products, using family branding.
* Opportunity to extend *LadyA’s* life cycle and access additional revenue streams, including global sales of both perfumes/cosmetics and the clothing/accessory range.

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* The growth of ecommerce outside of the U.S, particularly in Asia-Pacific **(item 4)**.
* Growing importance of social media as a marketing tool.
* Hispanic market in U.S and South America are significant online purchasers and are likely to purchase new clothing/accessory ranges using dedicated website.
* The decision tree suggests that the potential returns from this option are not only higher than those offered by option 1, but appear to accelerate into the future.
* Availability of new sources of finance, such as *Kickstarter,* to fund expansion*.*
* Existing global logistics expertise offered by *World Facing Inc*.
* Decision tree suggest risks of failure are lower than option 2 and net EV similar.

*Weaknesses*

* No certainty that *LadyA*’s popularity, goodwill and brand image will transfer to global markets.
* The risks of failure are higher than for option 1 and, although the net EV is higher, the financial outcomes of failure are significant and could lead to liquidity problems, especially if funds are borrowed to build the U.S. production facility.
* There is no guarantee that *Kickstarter* will provide adequate funding.
* Wider global distribution is far more complex and potentially expensive than using existing channels, and more risky. Reliability issues may arise with *World Facing Inc*.

Recommendations should draw on the above lists, although other valid strengths and weaknesses are acceptable. Not all of *Kersey & Joyce’s* key suggestions need to be accepted. Recommendations should be supported with reference to issues such as:

* Risk and complexity
* Objectives
* Financial requirements and liquidity concerns

Marks should be allocated according to the markbands on page 6.