



International Baccalaureate®
Baccalauréat International
Bachillerato Internacional

Business management

Higher and standard level

Specimen papers 1 and 2

For first examinations in 2016

CONTENTS

Business management higher level paper 1 specimen question paper

Business management higher level paper 1 specimen markscheme

Business management higher level paper 2 specimen question paper

Business management higher level paper 2 specimen markscheme

Business management standard level paper 1 specimen question paper

Business management standard level paper 1 specimen markscheme

Business management standard level paper 2 specimen question paper

Business management standard level paper 2 specimen markscheme

Business management specimen case study



**BUSINESS MANAGEMENT
HIGHER LEVEL
PAPER 1**

SPECIMEN PAPER

2 hours 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- A clean copy of the *Business Management case study* is required for this examination paper.
- Read the case study carefully.
- A clean copy of the *Business Management formulae sheet* is required for this examination paper.
- Section A: answer two questions.
- Section B: answer question 4.
- Section C: answer question 5.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is [60 marks].

SECTION A

Answer **two** questions from this section.

1. (a) With reference to *B-Pharma*, describe **two** ways in which corporate social responsibility (CSR) could be important. *[4 marks]*

(b) Apply the Boston Consulting Group (BCG) matrix to *B-Pharma's* product portfolio. *[6 marks]*

2. (a) With reference to *B-Pharma*, outline **two** key features of operating as a public limited company. *[4 marks]*

(b) Explain the importance of branding for *B-Pharma*. *[6 marks]*

3. (a) Describe **two** benefits for *B-Pharma* of a cost-plus (mark-up) pricing strategy for its drugs. *[4 marks]*

(b) Analyse the effectiveness of Susan James' leadership style at the Canadian subsidiary of *B-Pharma*. *[6 marks]*

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SECTION B

Answer the following question.

4. Suzuko Tanaka now has more financial information for the USA subsidiary of *B-Pharma*:

	2013	2014
Cash	\$50m	\$40m
Creditors	\$800m	\$850m
Debtors	\$350m	\$410m
Short term loans	\$200m	\$400m
Stock	\$360m	\$375m
Ratios:		
Current ratio	0.76	0.66
Acid test (quick) ratio	0.40	0.36

She is concerned with the changes in the subsidiary’s liquidity.

In addition the Board of Directors at *B-Pharma* are considering strategic **Option 2** for future growth:

Market penetration in China

Likely overall cost: \$50 million.

In China, *B-Pharma* supplies private clinics, hospitals and a small consumer segment. **Option 2** is to penetrate further the large Chinese market. Production for this market would be outsourced to Chinese manufacturers that use flow production in the most up-to-date facilities. This contrasts with batch production used at *B-Pharma*. There is rapid economic development in the region and increasing life expectancy in China. Marketing the drugs in China will be achieved through franchising. However some directors are concerned that:

- some local businesses may illegally copy some of *B-Pharma*’s products
- delegation of quality control to the Chinese manufacturers may mean quality will be difficult to manage
- cultural differences between China and Japan could negatively impact on the implementation of this option.

(a) Define the term *franchising*. [2 marks]

(b) Explain **one** advantage and **one** disadvantage to *B-Pharma* of using batch production in the production of pharmaceuticals. [4 marks]

(This question continues on the following page)

(Question 4 continued)

- (c) If *B-Pharma* implements **Option 2** (market penetration in China), explain **one** advantage and **one** disadvantage to *B-Pharma* of outsourcing. *[4 marks]*
- (d) Using the financial information for 2011 to 2014 (Appendix 1 and table on page 4), discuss **two** strategies to improve liquidity at the USA subsidiary of *B-Pharma*. *[10 marks]*

SECTION C

Answer the following question.

5. The Board of Directors at *B-Pharma* are now exploring the other two strategic options:

Option 1: Market development in Europe

Likely overall cost: \$100 million.

To gain productive capacity and a network of distribution channels in Europe, *B-Pharma* could enter this market through hostile takeover of several European companies. The businesses could be bought cheaply.

However, to achieve synergies, some obstacles must be overcome:

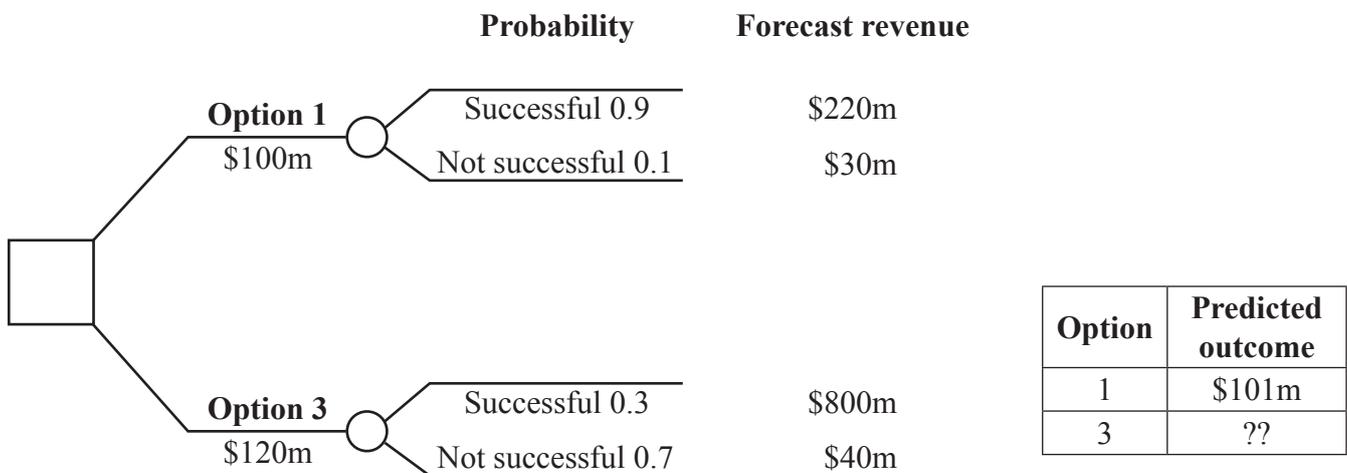
- the plants available for acquisition need modernizing. As a result they could benefit from factories latest total quality management (TQM) methods
- European workers expect empowerment and are likely to resist any attempts at restructuring
- European workers are concerned about *B-Pharma's* reputation after hearing about the animal testing scandal.

Option 3: Diversification of the product portfolio

Likely overall cost: \$120 million.

Some directors think that the company could be seen as more ethical if they made products to improve animal welfare. *B-Pharma* could produce a range of drugs for animals to be sold to vets. This huge and growing market around the world is very competitive and for *B-Pharma* has several risks. This market is completely new to *B-Pharma* so a joint venture with an experienced Japanese company has been suggested. *B-Pharma* is considering a new brand name.

The two options are summarized on the decision tree below:



(This question continues on the following page)

(Question 5 continued)

Using quantitative and qualitative data from the case study and the additional stimulus above, recommend which option 1 **or** 3 is best for achieving *B-Pharma*'s objective of growth.

You will find it useful to calculate the predicted outcome for **Option 3** in the above decision tree.

[20 marks]



MARKSCHEME

SPECIMEN PAPER

BUSINESS MANAGEMENT

Higher Level

Paper 1

The markbands and assessment criteria on pages 2–5 should be used where indicated in the markscheme.

Section A Part (b)	Level descriptor
Marks	
0	The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues and business management tools (where applicable), techniques and theories. • Little use of business management terminology. • Little reference to the stimulus material.
3–4	<ul style="list-style-type: none"> • A description or partial analysis of some relevant issues with some use of business management tools (where applicable), techniques and theories. • Some use of appropriate terminology. • Some reference to the stimulus material that goes beyond the name of a person(s) and/or the name of the organization. • At the lower end of the markband, responses are mainly theoretical.
5–6	<ul style="list-style-type: none"> • An analysis of the relevant issues with good use of business management tools (where applicable), techniques and theories. • Use of appropriate terminology throughout the response. • Effective use of the stimulus material.

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

Section C, question 5**Criterion A: Knowledge and understanding of tools, techniques and theories**

This criterion addresses the extent to which the candidate demonstrates knowledge and understanding of relevant business management tools, techniques and theories, as stated and/or implied by the question. This includes using appropriate business management terminology.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Superficial knowledge of relevant tools, techniques and theory is demonstrated.
2	Satisfactory knowledge and understanding of relevant tools, techniques or theories is demonstrated.
3	Good knowledge and understanding of relevant tools, techniques and theories is generally demonstrated, though the explanation may lack some depth or breadth.
4	Good knowledge and understanding of relevant tools, techniques or theories is demonstrated.

Criterion B: Application

This criterion addresses the extent to which the candidate is able to apply the relevant business management tools, techniques and theories to the case study organization.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	The relevant business management tools, techniques and theories are connected to the case study organization, but this connection is inappropriate or superficial.
2	The relevant business management tools, techniques and theories are appropriately connected to the case study organization, but this connection is not developed.
3	The relevant business management tools, techniques and theories are generally well applied to explain the situation and issues of the case study organization, though the explanation may lack some depth or breadth. Examples are provided.
4	The relevant business management tools, techniques and theories are well applied to explain the situation and issues of the case study organization. Examples are appropriate and illustrative.

Criterion C: Reasoned arguments

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

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

Criterion D: Structure

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

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

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

Criterion E: Individual and societies

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

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

SECTION A

1. (a) **With reference to *B-Pharma*, describe *two* ways in which corporate social responsibility (CSR) could be important.** **[4 marks]**

Customers need confidence in *B-Pharma* drugs, and image is important for trust. Some of *B-Pharma's* past unethical behaviour has damaged its image; CSR should limit unethical behaviour and could strengthen *B-Pharma's* brand image.

- CSR could include banning testing on animals, which would reduce negative publicity.
- For some investors and shareholders, *B-Pharma's* CSR may be a very important factor to decide to invest in *B-Pharma*, as opposed to other companies.
- For some other stakeholders, such as new employees, researchers and scientists, it may be very important to work for a company that takes CSR and business ethics seriously, especially in the pharmaceutical industry which is sometimes seen as controversial.
- As business ethics is increasingly important in society, *B-Pharma* may want to plan for the long-term and consider its image in 2050 as the most ethical pharmaceutical company in the industry.

Accept any other relevant answer.

Mark as 2+2.

*Award [1 mark] for each way identified and [1 mark] for a description of that way in the context of *B-Pharma*. Award up to a maximum of [2 marks].*

(b) Apply the Boston Consulting Group (BCG) matrix to *B-Pharma's* product portfolio. [6 marks]

The BCG matrix distinguishes between four types of products according to their market share and the growth rate of the market in which they are sold.

		Relative market share	
		High	Low
Market growth rate	High	Stars	Question marks
	Low	Cash cows	Dogs

B-Pharma's product portfolio lends itself well to a BCG matrix and the following applications are possible:

- Pharmax is a cash cow: it has a well-established, high market share of “around one-third of the market [for painkillers] in Japan and the USA” (lines 21–22) in a market which is “growing very slowly” (line 23)
- Pharmaflo is a star: launched less than ten years ago, it already has a 15% share in a market that is still growing rapidly (lines 26–27)
- Pharmaslim is a question mark: “the market [...] is growing rapidly” though sales are poor (lines 28–29).

Accept any other relevant application eg about Pharmatics.

Award a maximum of [2 marks] if the matrix is only drawn/described with no application. Award a maximum of [4 marks] if the matrix is correctly applied but with no explanation / justification.

Award [6 marks] if the matrix is correctly applied and explained in relation to the situation facing *B-Pharma*.

Marks should be allocated according to the markbands on page 2.

2. (a) **With reference to *B-Pharma*, outline two key features of operating as a public limited company.** [4 marks]

Key features include the following points:

- *B-Pharma* sells its shares to the general public, so anyone can be an investor and have part ownership of the company
- *B-Pharma* has access to large capital markets and is thereby able to raise more funds
- *B-Pharma's* accounts must be audited and released to the public (they are public information)
- *B-Pharma* may be vulnerable to takeover bids; its value may also be very dependent upon stock exchange fluctuations
- *any other relevant feature.*

Mark as 2+2.

*Award [1 mark] for each correct key feature identified, and [1 mark] for the development of each of these key features in the context of *B-Pharma*, up to a maximum of [2 marks].*

- (b) **Explain the importance of branding for *B-Pharma*.** [6 marks]

Relevant issues include:

- it is a multinational in a variety of markets
- it has a wide range of branded products
- it has attracted brand loyalty
- the brand is well known for quality and safety – important for pharmaceuticals
- there is competition from cheaper, generic drugs so it is important that branding works.

But:

- *B-Pharma* operates in many countries for which a pharmaceutical brand may not universally appeal
- it seems to contradict the existence of subsidiaries – they may well want to develop their own brands
- it may ignore local cultures and languages, for example for the names of drugs.

Accept any other relevant explanation.

Award a maximum of [2 marks] if branding issues are explained with no application.

Award a maximum of [4 marks] if the response lacks depth in the explanation.

Award [6 marks] if the explanation has depth and is applied.

Marks should be allocated according to the markbands on page 2.

3. (a) Describe *two* benefits for *B-Pharma* of a cost-plus (mark-up) pricing strategy for its drugs. [4 marks]

Benefits of a cost-plus (mark-up) pricing strategy for *B-Pharma* include the following:

- it is a relatively easy method, but costs may be difficult to identify (*eg* past R&D)
- it can help ensure a profit is made (by ensuring break-even)
- it is essential since past R&D costs must be recovered
- it allows for a “desired” profit margin
- it is the standard practice in many industries including pharmaceuticals.

Accept any other relevant benefit.

Mark as 2+2.

Award [1 mark] for each valid benefit identified and [1 mark] for a description of each benefit identified up to a maximum of [2 marks].

- (b) Analyse the effectiveness of Susan James’ leadership style at the Canadian subsidiary of *B-Pharma*. [6 marks]

Susan’s leadership style can be defined as autocratic, as she tends to impose her decisions without listening to employees’ requests and desires: she has “rejected requests for greater empowerment” (*line 46*), and she seems unable to communicate with employees (*line 49*).

The style may seem ineffective, as it is exacerbating the tensions between employees and management (threats of strike action (*line 47*)). This is rather the view from the employees who are unhappy with Susan’s leadership style.

The style may be effective, as strict measures must be implemented in order to redress the productivity problems (“the Canadian subsidiary has recently suffered lower levels of productivity compared to other *B-Pharma* subsidiaries” (*lines 42–43*)). Only an autocratic leadership style may result in productivity improvements. This is rather the view from Yukio and the directors at the *B-Pharma* headquarters, which is why they appointed Susan.

Accept any other relevant analysis.

Award a maximum of [2 marks] if leadership issues are analysed with no application.

Award a maximum of [4 marks] if the response lacks depth in the analysis.

Award [6 marks] if the analysis has depth and is applied.

Marks should be allocated according to the markbands on page 2.

SECTION B

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

Franchising is the method of external growth whereby a business is allowed to use an existing business model (eg brand or production methods) in return for paying rights / royalties and following strict conditions.

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

Award [2 marks] for a definition that demonstrates clear understanding.

Award [1 marks] for a definition that only demonstrates partial understanding.

- (b) **Explain *one* advantage and *one* disadvantage to *B-Pharma* of using batch production in the production of pharmaceuticals.** [4 marks]

Advantages of using batch production in the production of pharmaceuticals include:

- it suits the production of differentiated drugs, for example the size of tablets
- it enables batch sizes to meet the demand for particular drugs
- it is a standard method of production in the industry
- *B-Pharma* has a wide range of drugs, so flow production may not be appropriate
- the quality is easier to manage, which is essential for drugs.

Disadvantages of using batch production in the production of pharmaceuticals include:

- it may miss opportunities for economies of scale
- it is less flexible than other methods
- it may involve higher stock holding costs, which may be a problem for drugs which can go out of date.

Accept any other relevant advantage / disadvantage.

Mark as 2+2.

*Award [1 mark] for a relevant advantage / disadvantage identified, award an additional [1 mark] for a relevant explanation of that advantage / disadvantage in the context of *B-Pharma*. Up to a maximum of [2 marks].*

- (c) **If *B-Pharma* implements *Option 2* (market penetration in China), explain *one* advantage and *one* disadvantage to *B-Pharma* of outsourcing.** [4 marks]

Possible advantages of outsourcing include:

- no need for investment in China
- third party may do a better job as they focus on it (specialization)
- there may be lower costs.

Possible disadvantages of outsourcing include:

- quality control can become an issue
- it may be difficult to prevent illegal copying.

Accept any other relevant advantage / disadvantage.

Mark as 2+2.

*Award [1 mark] for a relevant advantage / disadvantage identified, award an additional [1 mark] for a relevant explanation of that advantage / disadvantage in the context of *B-Pharma*. Up to a maximum of [2 marks].*

- (d) Using the financial information for 2011 to 2014 (Appendix 1 and table on page 4), discuss *two* strategies to improve liquidity at the USA subsidiary of *B-Pharma*. [10 marks]

Liquidity is clearly worse.

Current ratio declined from 1.5 (generally regarded as an ideal level) to 0.66. Very high risk of liquidity problems.

Acid test (quick) ratio declined from 1 (again an ideal level) to 0.36.

Looking at individual items:

- Clearly a worry with creditors going unpaid. They may demand their money back once they realise there is a problem.
- *B-Pharma* seems to be borrowing to get out of the problem. Bad strategy as banks may demand their money and short-term borrowing is usually expensive
- Stock has grown a lot. Is this because of increased sales? If so, may not be such a problem, but more likely it is because of poor management.
- Debtors has more than doubled. Poor credit management. Who are the debtors? Individuals or businesses?

Strategies include:

- Improved stock control. Maybe be good because drugs often have a short “shelf life”. Production is managed locally so this could be feasible.
- Better credit management. Who are the debtors? Why are they not paying? What credit controls are there?
- Debt factoring. A quick source of finance, good but expensive. This may have an impact on the current levels of liquidity, but does not solve the underlying problems.
- Borrow or getting more credit does not solve the problem.
- Sell more – but not an instant solution and may well increase liquidity.

Purely theoretical answer, or no effective use of case study material award a maximum of [4 marks].

Only one strategy considered in context award a maximum of [5 marks].

Two strategies considered, but limited use of data award a maximum of [6 marks].

Two strategies considered, good use of data, but limited discussion award a maximum of [8 marks].

For full marks, data used effectively, two strategies considered and discussed.

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

SECTION C

5. Using quantitative and qualitative data from the case study and the additional stimulus above, recommend which option 1 or 3 is best for achieving *B-Pharma's* objective of growth.

You will find it useful to calculate the predicted outcome for *Option 3* in the above decision tree.

[20 marks]

Option 1:

- overall cost less than option 3
- lower predicted outcome than option 3 (\$101 million rather than \$148 million)
- lower risk of failure than other option
- so purely on decision tree, not the best, unless risk is the major factor
- would hostile takeover work?
- businesses could be bought cheaply, may give long term benefit
- businesses would have local market knowledge
- risk spread among several firms
- also markets more similar to their traditional markets.

However:

- costs of modernizing
- workforce issues.

Option 3:

- by far the highest predicted outcome, but risks very high and highest cost
- may help to appear more ethical
- huge and growing market worldwide.

However:

- cost of failure is the highest
- would joint venture work?
- new to this market.

Decision largely depends on *B-Pharma's* attitude to risk. There is no market research on which to base the decision.

Accept any other relevant substantiation.

Marks should be allocated according to the assessment criteria on pages 4–5.

The text below gives additional guidance for when applying the assessment criteria.

Criterion A: Knowledge areas could include: risk, decision trees and predicted outcomes, Ansoff matrix, diversification, market development, takeovers, joint ventures, strategic decision making. No understanding of decision trees / predicted outcomes, award a maximum of [3 marks].

Criterion B: Application will be judged by the use of the stimulus material in particular the extra material. If only one option considered, award a maximum of [2 marks].

Criterion C: For full marks, there needs to be a balanced comparison between the two options. If no comparison but analysis of one option, award a maximum of [2 marks].

Criterion D: see criterion.

Criterion E: Likely issues include: impact on workers, views of the shareholders / management, other stakeholders.

Note – a recommendation that a decision cannot be made due to lack of information (eg market research) can be regarded as a decision provided the arguments are supported.



**BUSINESS MANAGEMENT
HIGHER LEVEL
PAPER 2**

SPECIMEN PAPER

2 hours 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- A clean copy of the *Business Management formulae sheet* is required for this examination paper.
- Section A: answer one question.
- Section B: answer two questions.
- Section C: answer one question.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is [70 marks].

SECTION A

Answer **one** question from this section.

1. Safe Passage (SP)

Trent Peters is one of seven partners at *Safe Passage (SP)*. It provides bodyguard* services to film stars, politicians and other important people in Europe and the Americas. With increasing income levels and greater wealth, Asia has become a potential market opportunity and Trent has been tasked with developing the workforce planning.

Trent has identified two options for the recruitment and training of bodyguards in Asia. These are:

- offshoring by setting up its own overseas branch in Asian country X or Y or Z
- outsourcing/subcontracting by using an external agency in Asian country X or Y or Z.

The forecast costs and revenues of offshoring are given below (all figures in US\$ millions):

Option	Forecast costs	Forecast revenue if successful	Forecast revenue if not successful
		Probability: 0.3	Probability: 0.7
1. Offshore to country X	1		
a) If there is a change of government (probability 0.2)		4	3
b) If there is no change of government (probability 0.8)		19	2
2. Offshore to country Y (no possibility of a change of government)	6	21	4
3. Offshore to country Z	4		
a) If there is a change of government (probability 0.6)		16	4
b) If there is no change of government (probability 0.4)		12	3

- (a) Outline **one** feature of a partnership that would help *SP* as a business. [2 marks]
- (b) Construct a fully labelled decision tree and calculate the predicted outcome of each offshoring option (*show all your working*). Identify the best option for *SP*. [8 marks]

* bodyguard: a person who is responsible for protecting a person from harm

2. **Dan Electro**

Dan Bowen is a sole trader who sells digital cameras directly to consumers. He owns an online business and all sales are processed electronically under the business name *Dan Electro*.

Financial information for 2012 (all figures in US\$)

Fixed costs per year	
Rent	20 000
Marketing	4000
Administration	5000
Interest payments	1000
Variable costs per camera	
Camera	135
Transportation	45
Direct labour	20
Price per camera	250

Dan forecasts selling 700 cameras in 2012.

- (a) Define the term *variable costs*. [2 marks]

- (b) (i) Construct a fully labelled break-even chart for *Dan Electro* for 2012. Calculate and indicate the break-even point and the margin of safety and calculate the forecasted profit from the sale of 700 cameras (*show all your working*). [6 marks]

- (ii) Calculate the number of cameras *Dan Electro* must sell in order to double the forecasted profit (*show all your working*). [2 marks]

SECTION B

Answer **two** questions from this section.

3. Hands

Hands, a partnership set up in 1968 in southern Argentina, manufactures hand-knitted items such as sweaters, scarves, bags, carpets and blankets produced using the job production method. It employs around 300 craftswomen from the rural areas of Patagonia. Workers are paid on a piece rate basis.

The business has faced several challenges over the years such as a lack of finance and economic recessions. Elizabeth Sosa, managing partner, said that *Hands* survival depended not only on the product, but also on the craftswomen’s loyalty to the business and the partners’ democratic leadership style. She said “our workers have developed a strong sense of belonging to *Hands*. We are a team, everyone’s opinion is heard”.

The partners wanted *Hands* to enter into international markets. They consulted with the craftswomen several times over this idea. Reaching a consensus on the decision took a long time. For *Hands* to compete effectively in international markets, some craftswomen would have to be given managerial authority. Many craftswomen expressed concern over these proposed organizational changes.

Despite fierce competition from hand-knitting companies in India, New Zealand and Uruguay, within two years *Hands* had entered both the American and European markets by using high quality raw material and quality control methods. It now supplies its products to well-known companies and designers such as Marc Jacobs, Donna Karan, and Polo Ralph Lauren. These new customers are outside the regional trading bloc* Mercosur, where *Hands* is located, requiring new distribution channels. Consequently, *Hands*’ working capital needs have increased.

[Source: adapted from <http://www.manos.com.uy>, accessed 13 July 2010]

- | | |
|---|------------|
| (a) Identify two features of quality control. | [2 marks] |
| (b) Explain one advantage and one disadvantage to <i>Hands</i> of using a piece rate rewards package for its workers. | [4 marks] |
| (c) Explain two challenges that <i>Hands</i> may have faced entering into international markets. | [4 marks] |
| (d) Evaluate the effectiveness of the democratic leadership style of the partners at <i>Hands</i> . | [10 marks] |

* regional trading bloc: a group of countries that restrict trade from non-member countries with mechanisms such as tariffs

4. Maquinaria de la Oficina de Santiago, Ltda. (MOS)

Maquinaria de la Oficina de Santiago, Ltda. (Office Machinery of Santiago Ltd., *MOS*) is a private limited company run by Maria Salazar, who in 2009 became Chief Executive Officer (CEO) of the company after her father, Martino, retired. When Martino opened the business in 1959, he mainly sold typewriters. Now *MOS* sells the following for personal and small business use:

- modern mobile telephones (for example *Apple* iPhones)
- portable DVD players
- personal computers
- typewriters.

Because of liquidity problems when she became CEO, Maria conducted a detailed analysis of sales and stock (inventory). She discovered the following:

	% of sales, 2009	% of sales, 2011	Sales, 2011 in \$	% of stock, 2011	Average stock, 2011 in \$	Market growth rate, %, 2011	Estimated <i>MOS</i> market share, %, 2011
Modern mobile telephones	12	15	1 800 000	12	73 000	12	0.1
Portable DVD Players	30	34	4 080 000	31	188 000	2	2
Personal computers	55	50	6 000 000	50	304 000	2	1
Typewriters	3	1	120 000	7	43 000	-5	30
Total	100	100	12 000 000	100	608 000		

Maria concluded that *MOS* should stop selling typewriters, as they are at the end of their product life cycle. Reducing the stock of these items would release funds to help with the liquidity problem. The gross profit margin for the company on all products is 50%, whereas for typewriters it is 60%.

Maria wants to modernize the image of *MOS*. She would like to change the name of the company to *Electrónica Moderna de Santiago, Ltda.* (Modern Electronics of Santiago Ltd.). Her father, a major shareholder in the company, dislikes the idea. He argues that too many loyal customers still use typewriters and that the company’s name is well-known in the Santiago business community. The legal and other costs of changing the name would use up all the funds released by the reduction in typewriter stock.

(This question continues on the following page)

(Question 4 continued)

- (a) Define the term *product life cycle*. *[2 marks]*

- (b) Calculate (*show all your working*):
 - (i) the 2011 stock turnover in days at *MOS*. *[2 marks]*

 - (ii) the 2011 stock turnover in days for **typewriters**. *[2 marks]*

- (c) Analyse *MOS*' product portfolio by applying the Boston Consulting Group (BCG) matrix. *[4 marks]*

- (d) Discuss Maria's plans to stop selling typewriters and to change the name of *MOS*. *[10 marks]*

5. Changing employment patterns and practices

Following concerns about the falling level of motivation at work, the government has commissioned a report. The main conclusions are:

- employees are experiencing more stress at work and spend more time travelling to and from work than in previous years
- a majority of employees feel that job satisfaction is an important part of their life
- women see the number and pattern of hours of work as more important than the level of pay
- employees who are on long-term contracts are more committed to their work
- employees are more likely to leave their jobs if their employers have taken measures that create a fear of redundancy
- many office employees would like to make use of recent technological advances in order to work from home and to achieve a balance between their work and home life
- some employees, especially those in low paid jobs, seem to resist flexible work practices.

Some employers have responded positively by introducing flexible work patterns and practices. After overcoming some resistance to change and enduring extra costs of implementing the new practices, some employers reported more organizational flexibility, an increase in employees commitment and, for some organizations, a higher level of profit.

Some employers, however, do not like the idea of flexible work patterns and practices.

- (a) Define the term *redundancy*. [2 marks]
- (b) Explain **two** financial rewards that an organization can use to motivate employees. [4 marks]
- (c) Suggest **two** reasons why some employers do not like the idea of flexible work patterns and practices. [4 marks]
- (d) With reference to **two** motivation theories, discuss the effects of the trend towards offering flexible work patterns and practices on employee motivation. [10 marks]

SECTION C

*Answer **one** question from this section. The organizations featured in Sections A and B and in the Paper 1 case study may not be used as a basis to your answer.*

6. With reference to **one or two** organization(s) that you have studied, discuss how marketing **strategies** may differ in **two cultures** that you are familiar with. *[20 marks]*

 7. With reference to **one** organization that you have studied, examine what **changes globalization** brings about in the management of human resources. *[20 marks]*

 8. With reference to **one** organization that you have studied, compare and contrast the importance of **innovation** and of **ethics** in product development. *[20 marks]*
-



MARKSCHEME

SPECIMEN PAPER

BUSINESS MANAGEMENT

Higher Level

Paper 2

The markbands and assessment criteria on pages 2–4 should be used where indicated in the markscheme.

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

Assessment criteria for Section C

Criterion A: Knowledge and conceptual understanding

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

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

Criterion B: Application

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

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

Criterion C: Reasoned arguments

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

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

Criterion D: Structure

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

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

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

Criterion E: Individuals and societies

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

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

SECTION A

1. (a) **Outline *one* feature of a partnership that would help *SP* as a business.** [2 marks]

Features could include the following:

- up to 7 partners each specializing in an area or function
- limited or no requirement for published accounts depending on country of operation
- a written agreement / deed of partnership to be drawn to decide on responsibilities / profit and loss sharing / conflict resolution
- responsibilities are shared, implying collaboration in decision making.

Accept any other relevant feature with a description.

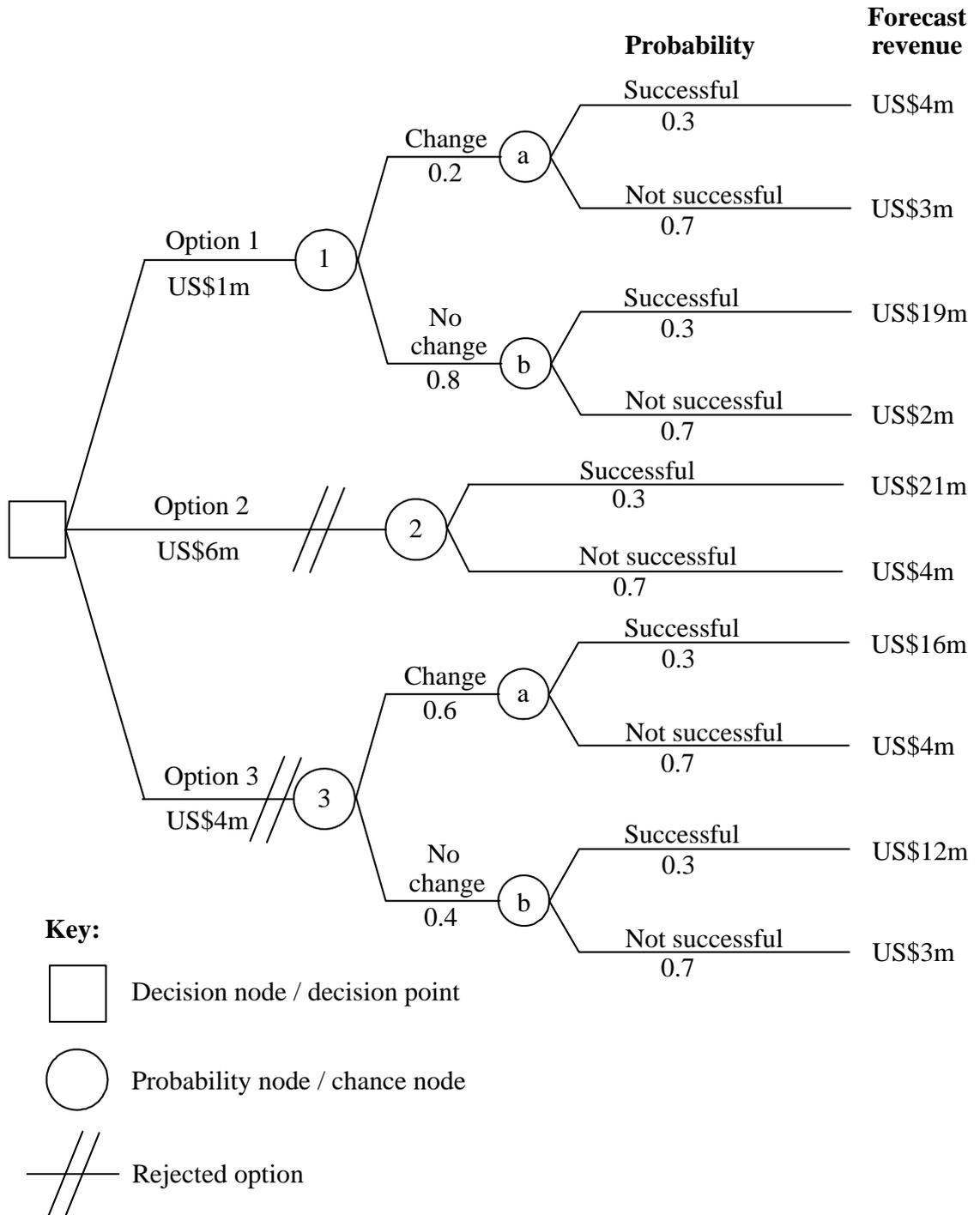
N.B.

- Features are attributes and are **not** advantages or disadvantages of this organizational form.
- Do **not** credit separately “the share of responsibility, profit and risk” (*count as one answer*).

Mark as 1+1.

Award [**1 mark**] for identifying an appropriate feature and [**1 mark**] for an appropriate outline of that feature with respect to *SP* up to a maximum of [**2 marks**].

(b) Construct a fully labelled decision tree and calculate the predicted outcome of each offshoring option (*show all your working*). Identify the best option for SP. [8 marks]



All predicted outcomes are in \$US millions

$$\text{Ev (1)} = (0.2 \times 3.3) + (0.8 \times 7.1) = 6.34 - 1.0 = 5.34$$

$$\text{Ev 1(a)} = (0.3 \times 4) + (0.7 \times 3) = 1.2 + 2.1 = 3.3$$

$$\text{Ev 1(b)} = (0.3 \times 19) + (0.7 \times 2) = 5.7 + 1.4 = 7.1$$

$$\text{Ev (2)} = (0.3 \times 21) + (0.7 \times 4) = (6.3 + 2.8) - 6 = 3.1$$

$$\text{Ev (3)} = (0.6 \times 7.6) + (0.4 \times 5.7) = (4.56 + 2.28) - 4 = 2.84$$

$$\text{Ev 3(a)} = (0.3 \times 16) + (0.7 \times 4) = 4.8 + 2.8 = 7.6$$

$$\text{Ev 3(b)} = (0.3 \times 12) + (0.7 \times 3) = 3.6 + 2.1 = 5.7$$

Country X (Option 1) is the best option.

Please note that candidates may represent the first branch off as “successful/not successful” instead of “change/no change of government”. This is equally acceptable as the decision tree shown above.

[0 marks]

The decision tree does not reach a standard described below.

[1–2 marks]

The decision tree is not accurately constructed, the calculations of each option are not all presented or accurate. However, there is some evidence of a general knowledge of the model.

[3–4 marks]

The principal elements of the decision tree are constructed, but may not be entirely accurate. The calculations of each option are largely correct. Working may not be shown.

[5–7 marks]

The decision tree is accurately constructed. The calculations of each option are correct and well presented. For **[7 marks]** a key is provided. Workings are shown.

Award an additional **[1 mark]** for identifying the best option for *SP*.

N.B. For an accurately constructed decision tree with incorrect calculations, award up to a maximum of **[4 marks]**.

Apply candidate Own Figure Rule (OFR) throughout this response.

2. (a) Define the term *variable costs*.

[2 marks]

Variable costs are costs that vary in direct proportion to change in output/level of production.

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

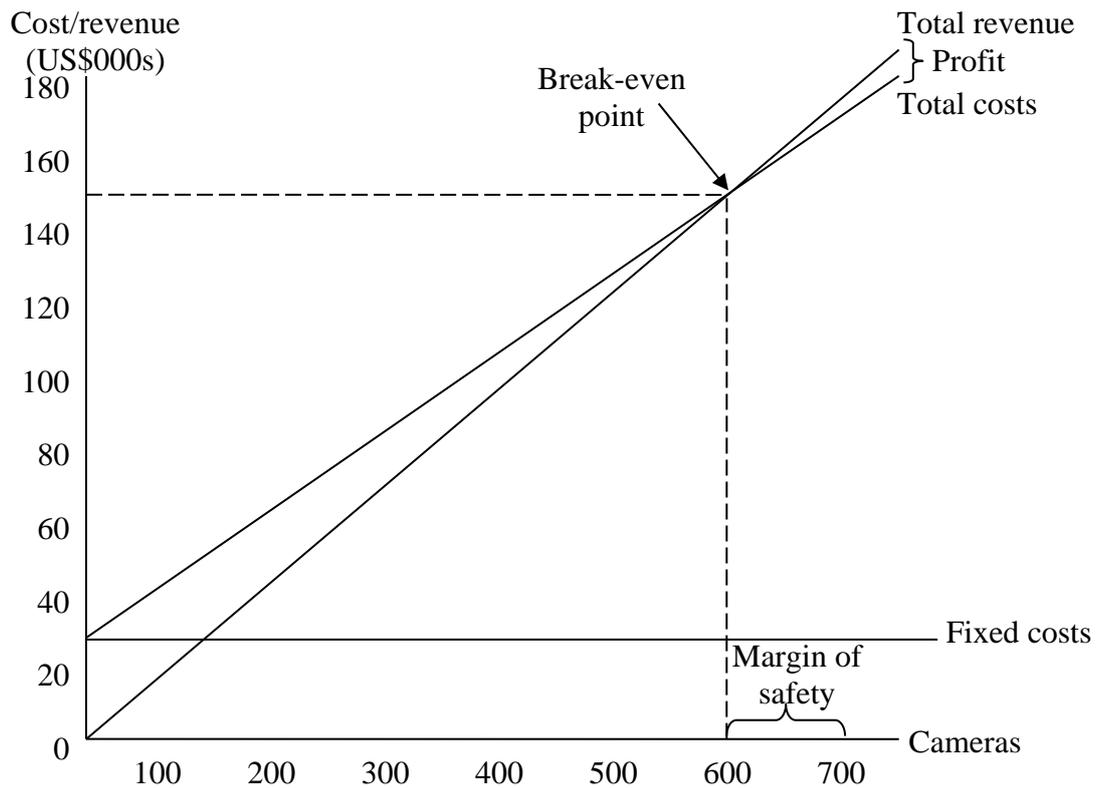
Award [1 mark] for a basic definition that conveys partial knowledge and understanding.

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

- (b) (i) **Construct a fully labelled break-even chart for *Dan Electro* for 2012. Calculate and indicate the break-even point and the margin of safety, and calculate the forecasted profit from the sale of 700 cameras (*show all your working*). [6 marks]**

The break-even point is:

$$\frac{\text{Fixed cost}}{\text{Contribution}} = \frac{\text{US\$30000}}{\text{US\$250} - \text{US\$200}} = 600 \text{ cameras}$$



The margin of safety is:
 $700 - 600 = 100 \text{ units}$

The forecasted profit at 700 units is:

$$\text{Margin of safety} \times \text{contribution per unit} = 100 \text{ units} \times \text{US\$50} = \text{US\$5000}$$

OR:

$$\text{Total revenue} - \text{total cost} = \text{US\$175000} - \text{US\$30000} + (200 \times 700) = \text{US\$5000}$$

Allow Own Figure Rule (OFR). Do not double penalize candidates.

Award marks as follows:

[1 mark] for appropriately labelled axes.

[1 mark] for an accurately drawn and labelled total revenue curve and total costs curve.

[1 mark] for identification of the break-even point and [1 mark] for showing calculation at the correct value of 600.

[1 mark] for identification of the margin of safety.

[1 mark] for correct calculation of the projected profit.

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

Award a maximum of [3 marks] if the chart is not neat, not drawn with a straight edge, or is not to scale.

- (ii) Calculate the number of cameras *Dan Electro* must sell in order to double the forecasted profit (*show all your working*). [2 marks]

The doubled level of profit is:

Target: $US\$5000 \times 2 = US\10000

$$\frac{\text{Fixed cost} + \text{target profit}}{\text{Contribution}} = \frac{US\$30000 + US\$10000}{US\$50} = 800 \text{ cameras}$$

OR:

To double its profit, *Dan Electro* would need to make another US\$5000.

Each additional unit sold contributes US\$50.

Therefore, 100 more units would need to be sold to make an additional US\$5000 in profit: $US\$5000 / US\$50 = 100 \text{ units}$.

To double its profit, *Dan Electro* would need to sell the original 700 units + 100 units = 800 cameras.

Allow Own Figure Rule (OFR). Do not double penalize for a mistake carried forward.

Award [1 mark] for the correct workings and [1 mark] for the correct calculation. Award up to a maximum of [2 marks].

SECTION B

3. (a) **Identify *two* features of quality control.**

[2 marks]

Features of quality control could include:

- it is a set of procedures intended to ensure a certain level of quality in a product or service
- it emphasizes testing of products to uncover defects
- it is product orientated instead of process orientated
- quality control activities are usually performed after the production has been completed
- it is reactive rather than proactive
- *accept any other relevant feature.*

N.B. Some candidates may define quality control. If in their definition, two appropriate features are identified, award marks for identification of those features.

Award ***[1 mark]*** for each correct and relevant feature of quality control identified up to a maximum of ***[2 marks]***.

- (b) Explain *one* advantage and *one* disadvantage to *Hands* of using a piece rate rewards package for its workers. [4 marks]

A piece rate reward package (scheme) is such that workers are paid purely on results.

Advantages for *Hands* could include the following:

- It could increase motivation among workers and therefore increase productivity.
- It helps to reward extra productivity. This means that efficient and fast craftswomen who make an extra effort will be rewarded for it.
- It allows some labour costs flexibility. If the business faces a downturn in sales, labour cost can be easily adapted to the circumstances as craftswomen are only paid if they produce.
- *Accept any other relevant advantage.*

Disadvantages for *Hands* could include the following:

- Craftswomen may worry about losing pay if production and sales are lowered.
- The quality of knitted items could be affected as workers mainly focus on production. This could negatively affect sales and threaten *Hands*' permanence in sophisticated and competitive markets.
- It could be more complicated to administrate than other payment schemes, as each craftswoman will see her wage calculated every payroll. This could lead to an increased administrative cost for the business.
- Innovation and group work could be discouraged as the workers' main focus is quantity produced. This can particularly affect a business in the fashion industry like *Hands*, where creation of new designs is essential.
- *Accept any other relevant disadvantage.*

Mark as 2+2.

Award [1 mark] for each correct and relevant advantage/disadvantage identified and award an additional [1 mark] for a relevant explanation of the advantage/disadvantage up to a maximum of [2 marks].

- (c) **Explain *two* challenges that *Hands* may have faced entering into international markets.** [4 marks]

The entrance into international markets may have placed several challenges on *Hands*.

For example:

- *Hands* may have faced strong competition from other hand knitting companies from India, New Zealand and Uruguay wanting to reach the same markets. However, the usage of high quality raw materials and exhaustive quality controls methods may have helped *Hands* to finally access those markets.
- Additional working capital to expand internationally and to develop new distribution channels may have been difficult to find. This may have been solved through government grants, or financial support from international institutions helping small businesses in developing countries.
- Entering into international markets implied that some workers were given managerial authority; these organizational changes may have caused concern over workers and may have led to de-motivation and/or conflict among them. However, craftswomen's loyalty to *Hands* may have helped to cope with these challenges.
- Exchange rate fluctuations between the Argentine Peso and the Euro and the US\$, may affect sales and profitability.
- *Hands* may have faced problems when contacting important clients overseas and when bridging cultural and language barriers. Agents in the target countries where *Hands* was willing to export may have been contacted for this purpose.
- *Hands* may have faced additional innovation costs to introduce new knitting techniques and designs. It is possible that *Hands* may have contacted national and international designers to develop new products to meet the needs of top fashion markets.
- *Accept any other relevant challenge.*

Candidates are not expected to incorporate all of the above points in their response.

Mark as 2+2.

Award [1 mark] for each correct and relevant challenge identified and an additional [1 mark] for a relevant explanation of the challenge up to a maximum of [2 marks].

- (d) **Evaluate the effectiveness of the democratic leadership style of the partners at *Hands*.** [10 marks]

In a democratic leadership style workers are involved in the decision-making processes of the business; that is, consultation and collaboration are considered central elements.

- The collaborative environment created by a democratic leadership style could have resulted in better solutions to the challenges that the business had to face over the years, such as lack of finance and economic recessions.
- A democratic leadership style could have also enabled the sense of belonging and loyalty of craftswomen and thus increase motivation among them.
- A democratic leadership style probably enabled the sharing of ideas, designs, and knitting techniques which could have led to the success of *Hands*' products in international markets.

On the other hand:

- A democratic leadership style could have negatively affected the efficiency of the business by slowing down the decision-making processes. As the business employs around 300 craftswomen, coordination and cooperation although valuable, may have been chaotic, time consuming and therefore costly. Reaching a consensus over decisions may have been difficult.
- It is highly probable that most craftswomen belonging to *Hands* lacked managerial skills. For urgent decisions in challenging times, the democratic leadership style may have been inappropriate.

Hands' survival over the years and its current success seem to show that the application of a democratic leadership style was effective. Such success is clearly crystallized in the achievement of *Hands*' challenges in entering into the world's most demanding markets despite fierce competition.

Accept any other relevant evaluation.

Marks should be allocated according to the markbands on page 2.

4. (a) Define the term *product life cycle*. [2 marks]

Any product introduced to a market typically goes through six sequential stages: development, introduction, growth, maturity, saturation, and decline. The term product life cycle refers to the full cycle of the different stages in the life of a product and the anticipated sales volume at each stage.

N.B. Not all sources list six stages to the product life cycle. Some list only five and do not have saturation. A good definition for full marks does **not** have to include saturation.

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.

(b) Calculate (*show all your working*):

(i) the 2011 stock turnover in days at *MOS*. [2 marks]

Stock turnover is calculated with the formula:

$$\frac{\text{Average stock}}{\text{Cost of goods sold}} \times 365 = \text{stock turnover in days}$$

$$\frac{608000}{50\% \times 12000000} \times 365 = 37 \text{ (36.99 to 2 d.p.) days}$$

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

(ii) the 2011 stock turnover in days for *typewriters*. [2 marks]

The stock turnover for typewriters can be calculated with the information given:

$$\frac{43000}{40\% \times 120000} \times 365 = 327 \text{ (326.98 to 2 d.p.) days}$$

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

- (c) **Analyse *MOS*' product portfolio by applying the Boston Consulting Group (BCG) matrix.**

[4 marks]

The BCG matrix is a technique that is used by firms to analyse their overall product portfolio, showing market growth and relative market share on the two axes. The four product categories are star, cash cow, problem child and dog. The BCG matrix provides insight into the product mix at *MOS*.

Personal computers (PCs) are cash cows. PC sales are growing only gradually and declining slightly at *MOS* which suggests saturation of the market and shift to sales at replacement rate.

Typewriters are a dog: few sales in a contracting market. Though typewriters are probably very hard to find in Santiago, as indicated by *MOS*' high relative market share, the company may want to discontinue offering them – big investment and limited sales.

Modern mobile telephones are a “problem child” for the company – enormous growth potential, but, for whatever reason, people are not going to *MOS* to buy them.

Though *MOS* has had success with portable DVD players, they may be eclipsed by video streaming, as indicated by slow market growth. Thus, despite the solid sales, they are probably not stars but soon to be cash cows: products at the top of the product life cycle.

Accept any other relevant analysis.

[1–2 marks]

For basic reference to the BCG matrix, however it is not applied to *MOS*' product portfolio. For **[2 marks]** there is good theoretical knowledge of the model.

[3–4 marks]

For application of the BCG matrix to *MOS*' product portfolio. For **[4 marks]** the points are well analysed.

- (d) **Discuss Maria’s plans to stop selling typewriters and to change the name of *MOS*.** *[10 marks]*

Maria’s plans for the business are driven by need (the liquidity problem) and by her desire to update the image of the company. By eliminating typewriters from the product line, she will be able to invest those funds currently invested in typewriters into items such as modern mobile telephones, portable DVD players, and personal computers, that turnover faster. She will also be able to give the business a fresher, newer look as typewriters, which are rarely used and have an outdated feel about them, will be removed from the shelves. These changes, coupled with the name change and, presumably, a new logo and business look, will give *MOS* a more modern feel. These kinds of changes can invigorate a business by attracting new customers and getting existing customers to consider new types of products and services.

Her father, however, has reason to be concerned. One of the strengths of the business is its long-standing ties with the Santiago business community. Some of those loyal customers still use typewriters – and *MOS* owns a large part of this market in Santiago. If *MOS* no longer supplies them, these customers might start going to other office supply stores, giving *MOS*’ competition an opportunity to establish relationships with some of *MOS*’ oldest customers. At the least, these customers will feel slighted and feel that their business is less meaningful to *MOS* than previously. Moreover, these changes to the business may not immediately resolve the liquidity problem. Just to move out the typewriters, *MOS* may have to sell them at deep discounts, lowering their current above-average profitability. Changing the name and signs (and probably the logo) will be expensive, and there will be some disruption in the business community, unless *MOS* introduces the changes with an extensive marketing campaign, which will also involve expenses.

Accept any other relevant discussion.

Marks should be allocated according to the markbands on page 2.

5. (a) **Define the term *redundancy*.** **[2 marks]**

The laying off (dismissal) of an employee because of a lack of available work, as the employer is unable to afford to employ them anymore or the business no longer has a need for an employee to carry out work of a particular kind.

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.

(b) **Explain *two* financial rewards that an organization can use to motivate employees.** **[4 marks]**

The financial rewards could include:

- salary
- wages (time and piece rates)
- commission
- profit-related pay
- performance-related pay (PRP)
- employee share-ownership schemes
- fringe payments (perks).

Accept any other financial reward with an explanation.

Mark as 2+2.

Award **[1 mark]** for each correct financial reward identified and an additional **[1 mark]** for a relevant explanation of the reward up to a maximum of **[2 marks]**.

- (c) **Suggest *two* reasons why some employers do not like the idea of flexible work patterns and practices.** **[4 marks]**

Some employers may not like the idea of flexible work patterns and practices for the following reasons:

- they may not be able to control the quality and/or quantity of work done by the employees (lack of supervision, quality control, time keeping)
- it may be difficult to organize structurally (as the company may need to be staffed at some specific opening hours, for example a school needs its teachers during the day; this is called “core times”)
- in some sectors, there must always be some employees on duty, for examples in hospital and in the police force (not only at some “core times”, but 24/7)
- coordinating flexibility may not be practical for some small businesses, where there are not enough employees to implement systems of flexible work patterns and practices.

Accept any other relevant reason.

Mark as 2+2.

Award **[1 mark]** for each correct reason identified and an additional **[1 mark]** for a relevant development of the reason up to a maximum of **[2 marks]**.

- (d) **With reference to *two* motivation theories, discuss the effects of the trend towards offering flexible work patterns and practices on employee motivation.** *[10 marks]*

Candidates may refer to the following motivation theories: the works of Taylor, Maslow, Herzberg, Adams, Pink.

Candidates are expected to use two theories in order to discuss the link (if any) between (a) the trend towards offering flexible work patterns and practices on the one hand, and (b) an increase in employee motivation. It is expected that candidates will demonstrate how the trend will positively result in improving employee motivation and continue their discussion while presenting opposing views of theories or parts of a particular theory. Candidates should be able to demonstrate that the link is not obvious. (Most theorists mentioned above wrote at a time when flexible work patterns and practices were not so common, and consequently did not explicitly refer to them.) Candidates are tested on their ability to apply theories with constant use of and reference to the information from the stimulus.

Herzberg's motivation factors, for example, can be widened so as to include job satisfaction through flexibility. Maslow's higher level of needs can be reached due to empowerment and trust. Flexible working practices can be perceived as either motivating or de-motivating (due to uncertainty, short-term contracts).

However, candidates should demonstrate understanding that some of the new practices also give employers the option of providing employees with short-term contracts only, which are subject to the market demand. This can cause insecurity and a feeling of injustice. Consequently the employees might be unmotivated and hence reduce their efforts. Some employees might not be interested in flexible working practices and will appreciate more money. Employees might also feel isolated professionally and socially and some may fear change.

The above are just brief examples of two-sided analysis of the two types of theories. The analysis should lead to some conclusions. For example, the effects on motivation are not predictable and can vary considerably. The effects may depend on the culture of the organization, the type of the employees in terms of skills, experience, position or any other relevant factors. Accept any relevant theory that is applied to the information given in the stimulus material. Theorists and theories should be applied not just mentioned.

Accept any other relevant discussion.

Marks should be allocated according to the markbands on page 2.

SECTION C

For questions 6 to 8, marks should be allocated according to the assessment criteria on pages 3–4. These marking notes are intended to help and standardize examiners’ interpretation of the assessment criteria and to provide some examples of the kinds of points that merit being awarded higher marks. The examples are indicative only, and examiners should consider the quality of an answer on a case-by-case basis; this depends much on the type of organization(s) candidates select and the kinds of arguments they put forward.

- 6. With reference to *one or two* organization(s) that you have studied, discuss how marketing *strategies* may differ in two *cultures* that you are familiar with. [20 marks]**

Criterion A

In order to demonstrate that they fulfil this assessment criterion, candidates should be able to:

- demonstrate an understanding of the concepts given in the question (for example, by explaining that strategy in this context is the overall approach chosen by an organization in the particular area of marketing and that culture is a set of values and behaviours)
- select relevant and sufficient business management content from the syllabus, and explain this content in a helpful way, given the demands of the question (for example, by selecting the four Ps model as a tool to study the choice of marketing strategies in different cultures, and by explaining that the four Ps refer to the product, price, promotion and place choices made in marketing).

Please note that how much business management content it is appropriate to select and in what degree of detail it is appropriate to explain this depends on the question and the real-world organization(s) candidates choose.

As the question refers to “marketing strategies”, candidates are expected to refer to more than one strategy (such as consideration of the various Ps, or choice of various marketing techniques) in order to be awarded the highest mark.

Criterion B

In order to demonstrate that they fulfil this assessment criterion, candidates should be able to:

- apply the given concepts and the relevant business management content to explain the situation and issues of their chosen real-world organization(s) (for example by explaining that *Starbucks*[®] needs to adjust its product range depending on the food preferences, role of coffee drinking and different climate conditions in the Malaysian and German markets)
- give appropriate and illustrative examples from the real-world organization(s) (for example, by referring to halal products in Malaysia and convenient to-go products in Germany).

Please note that sometimes, candidates’ research allows them to give very specific examples, but other times they are only able to apply more generic knowledge of the organization to the question. Very specific examples should not be expected for full marks, as long as the examples are appropriate and illustrative of the points the candidate wants to make.

If a candidate uses a section A or B organization, or the paper 1 pre-seen case study organization in their response, award **[0 marks]** for this criterion.

The question asks candidates to refer to one or two organization(s); full marks can be achieved by referring to one organization only.

Criterion C

In order to demonstrate that they fulfil this assessment criterion, candidates should be able to:

- make relevant and balanced arguments (for example, by discussing the extent to which consumers might have a preference for variability with respect to the four Ps on one hand and a preference for standardization on the other hand)
- present reasonable evidence or other support to justify their arguments (for example, by explaining that while other forms of social drinks and gatherings have traditionally been more prominent in many parts of the world, the penetration of Western cultural practices is changing this: there are consumers who want the same *Starbucks*[®] experience everywhere!).

Please note that evidence from the real-world organization(s) does not need to be very detailed or perfectly accurate for full marks. Other support may include candidates' general knowledge of business management, of other organizations or specific contexts they are familiar with.

Criterion D

For structure, please refer to the assessment criteria.

Criterion E

In order to demonstrate that they fulfil this assessment criterion, candidates should be able to:

- consider the perspectives of various stakeholders (for example, by discussing consumer and leadership/management perspectives on the four Ps)
- for the highest achievement level, consider the relevant stakeholders' perspectives in a balanced way (for example, by discussing that the consumer preference for variability on one hand and standardization on the other puts *Starbucks*[®] leadership/management in a difficult position of balancing these two conflicting aims in marketing).

Please note that whether a focus on individuals or groups, or a focus on internal or external stakeholders is appropriate depends on the question and the organization(s) the candidate chooses.

7. With reference to *one* organization that you have studied, examine what *changes* globalization brings about in the management of human resources. [20 marks]

Criterion A

In order to demonstrate that they fulfil this assessment criterion, candidates should be able to:

- demonstrate an understanding of the concepts given in the question (for example, by explaining that globalization is a reduction in economic, technological and cultural barriers facilitating companies' growth beyond their national borders and change is the evolution in businesses' strategies, objectives and processes)
- select relevant and sufficient business management content from the syllabus, and explain this content in a helpful way, given the demands of the question (for example, by selecting human resource management content such as organizational structure, communication and rewards, and by explaining that organizational structure is about how responsibilities are set up in a company, communication is about how messages are sent and received in a company and rewards include financial and non-financial benefits employees get for the job they do).

Please note that how much business management content it is appropriate to select and in what degree of detail it is appropriate to explain this depends on the question and the real-world organization(s) candidates choose.

Criterion B

In order to demonstrate that they fulfil this assessment criterion, candidates should be able to:

- apply the given concepts and the relevant business management content to explain the situation and issues of their chosen real-world organization (for example, by explaining that *Unilever* needs to address issues such as salary levels, pay structures and non-financial rewards offered in its different operating locations)
- give appropriate and illustrative examples from the real-world organization (for example, by referring to *Unilever's* ability to have different contractual relationships with its employees in different locations, as evidenced by the temporary contracts it has provided to the majority of its tea plantation workers in Pakistan, with the implication that their salaries may be lower and they may not be entitled to the same annual and medical leave as permanent employees*).

Please note that sometimes, candidates' research allows them to give very specific examples, but other times they are only able to apply more generic knowledge of the organization to the question. Very specific examples should not be expected for full marks, as long as the examples are appropriate and illustrative of the points the candidate wants to make.

If a candidate uses a section A or B organization, or the paper 1 pre-seen case study organization in their response, award [0 marks] for this criterion.

* Source: International Labour Rights Forum, <http://www.laborrights.org/end-violence-against-trade-unions/unilever-lipton-workers>, accessed on April 11, 2013.

Criterion C

In order to demonstrate that they fulfil this assessment criterion, candidates should be able to:

- make relevant and balanced arguments (for example, by examining how organizational structure and communication are interconnected in the context of a large multinational company)
- present reasonable evidence or other support to justify their arguments (for example, by explaining that while a narrow span of control and systems of delegation and empowerment might be good for more personalized communication, these might not be possible in a global company like *Unilever*, as they would risk different operating practices getting established in different parts of the company).

Please note that evidence from the real-world organization(s) does not need to be very detailed or perfectly accurate for full marks. Other support may include candidates' general knowledge of business management, of other organizations or specific contexts they are familiar with.

Criterion D

For structure, please refer to the assessment criteria.

Criterion E

In order to demonstrate that they fulfil this assessment criterion, candidates should be able to:

- consider the perspectives of various stakeholders (for example, by examining the differing perspectives institutional owners and individual employees might have to the kinds of human resource management changes global growth brings)
- for the highest achievement level, consider the relevant stakeholders' perspectives in a balanced way (for example, by considering that what institutional owners in a multinational business like *Unilever* see of the company's practices is numbers, and hence their view of human resource matters may not be as personalized as that of individual employees, to whom work and work conditions are an important constituent of well-being).

Please note that whether a focus on individuals or groups or a focus on internal or external stakeholders is appropriate depends on the question and the organization the candidate chooses.

8. With reference to *one* organization that you have studied, compare and contrast the importance of *innovation* and of *ethics* in product development. [20 marks]

Criterion A

In order to demonstrate that they fulfil this assessment criterion, candidates should be able to:

- demonstrate an understanding of the concepts given in the question (for example, by explaining that innovation is the ability to think anew and create new products or services or improve existing ones and ethics is considerations about different stakeholders' perspectives and well-being)
- select relevant and sufficient business management content from the syllabus, and explain this content in a helpful way, given the demands of the question (for example, by selecting market research and R&D, and by explaining that market research is about researching customer needs and R&D is about developing products and services that meet those needs).

Please note that how much business management content it is appropriate to select and in what degree of detail it is appropriate to explain this depends on the question and the real-world organization(s) candidates choose.

Although marks are not awarded for definitions, it is likely to be helpful to provide brief but clear explanations of the given concepts and selected business management content early on in the response and to formulate these explanations so that they fit the question.

Criterion B

In order to demonstrate that they fulfil this assessment criterion, candidates should be able to:

- apply the given concepts and the relevant business management content to explain the situation and issues of their chosen real-world organization (for example, by explaining that *McDonald's*[®] product development consists of primary and secondary market research and of continuous trialling which products and services fit the concept of a fast food experience, but as one part of the concept is low prices and generally unhealthy food, ethical concerns may be raised about sourcing of these products and services as well as their impact on health)
- give appropriate and illustrative examples from the real-world organization (for example by referring to Happy Meals as a good innovation to attract families with children to *McDonald's*[®], but there having been ethical concerns about use of child labour in the production of the toys included in Happy Meals as well as concerns about the increasing problem of childhood obesity*).

Please note that sometimes, candidates' research allows them to give very specific examples, but other times they are only able to apply more generic knowledge of the organization to the question. Very specific examples should not be expected for full marks, as long as the examples are appropriate and illustrative of the points the candidate wants to make.

If a candidate uses a section A or B organization, or the paper 1 pre-seen case study organization in their response, award [0 marks] for this criterion.

* Source: The Financial Times, <http://www.ft.com/intl/cms/s/0/36c6170a-0875-11e0-80d9-00144feabdc0.html#axzz2Qc4FhIE9> and The Independent, <http://www.independent.co.uk/news/world/asia/mcdonalds-faces-childlabour-furore-699441.html>, accessed on April 11, 2013.

Criterion C

In order to demonstrate that they fulfil this assessment criterion, candidates should be able to:

- make relevant and balanced arguments (for example, by contrasting the integral link between innovation and product development with a less close relationship between ethics and product development)
- present reasonable evidence or other support to justify their arguments (for example, by explaining that innovation is needed both to come up with a tastier variant of an existing *McDonald's*[®] meal by slightly adjusting the ingredients and to trial cheap toys with children's meals, but ethical questions are raised more prominently in the latter type of product development).

Please note that evidence from the real-world organization(s) does not need to be very detailed or perfectly accurate for full marks. Other support may include candidates' general knowledge of business management, of other organizations or specific contexts they are familiar with.

Criterion D

For structure, please refer to the assessment criteria.

Criterion E

In order to demonstrate that they fulfil this assessment criterion, candidates should be able to:

- consider the perspectives of various stakeholders (for example, by comparing and contrasting the differing perspectives leadership and employees might have on the importance of innovation and ethics in product development)
- for the highest achievement level, consider the relevant stakeholders' perspectives in a balanced way (for example, by considering that for *McDonald's*[®] leadership, innovation and ethics may be equally important considerations in evaluating the success of the company's product development, as they are responsible for *McDonald's*[®] reputation in the public space, while employees in the marketing or R&D department may evaluate the success of their work by how innovative they are).

Please note that whether a focus on individuals or groups or a focus on internal or external stakeholders is appropriate depends on the question and the organization the candidate chooses.



**BUSINESS MANAGEMENT
STANDARD LEVEL
PAPER 1**

SPECIMEN PAPER

1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- A clean copy of the *Business Management case study* is required for this examination paper.
- Read the case study carefully.
- A clean copy of the *Business Management formulae sheet* is required for this examination paper.
- Section A: answer two questions.
- Section B: answer question 4.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is [40 marks].

SECTION A

Answer **two** questions from this section.

1. (a) With reference to *B-Pharma*, describe **two** ways in which corporate social responsibility (CSR) could be important. *[4 marks]*

(b) Apply the Boston Consulting Group (BCG) matrix to *B-Pharma's* product portfolio. *[6 marks]*

2. (a) With reference to *B-Pharma*, outline **two** key features of operating as a public limited company. *[4 marks]*

(b) Explain the importance of branding for *B-Pharma*. *[6 marks]*

3. (a) Describe **two** benefits for *B-Pharma* of a cost-plus (mark-up) pricing strategy for its drugs. *[4 marks]*

(b) Analyse the effectiveness of Susan James' leadership style at the Canadian subsidiary of *B-Pharma*. *[6 marks]*

SECTION B

Answer the following question.

4. The Board of Directors of *B-Pharma* are considering two of the strategic options for future growth.

Option 1: Market development in Europe

Likely overall cost: \$100 million.

To gain productive capacity and a network of distribution channels in Europe, *B-Pharma* could enter this market through hostile takeover of several European companies. The businesses could be bought cheaply.

However, to achieve synergies, some obstacles must be overcome:

- the plants available for acquisition need modernizing
- European workers expect empowerment and are likely to resist any attempts at restructuring
- European workers are concerned about *B-Pharma*'s reputation after hearing about the animal testing scandal
- very high competition increases risk of failure.

Option 2: Market penetration in China

Likely overall cost: \$50 million.

In China, *B-Pharma* supplies private clinics, hospitals and a small consumer segment. **Option 2** is to penetrate further the large Chinese market. Production for this market would be outsourced to Chinese manufacturers that use flow production in the most up-to-date facilities. This contrasts with batch production used at *B-Pharma*. There is rapid economic development in the region and increasing life expectancy in China. There is also limited competition so low risk of failure. However, some directors are concerned that:

- some local businesses may illegally copy some of *B-Pharma*'s products
- quality may be difficult to manage
- cultural differences between China and Japan could negatively impact on the implementation of this option.

- (a) Define the term *takeover*. [2 marks]
- (b) Explain **one** advantage and **one** disadvantage to *B-Pharma* of using batch production in the production of pharmaceuticals. [4 marks]
- (c) If *B-Pharma* implements **Option 2** (market penetration in China), explain **one** advantage and **one** disadvantage to *B-Pharma* of outsourcing. [4 marks]
- (d) Using the additional information above and the case study, recommend either strategic option 1 **or** 2 for *B-Pharma* to achieve future growth. [10 marks]
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MARKSCHEME

SPECIMEN PAPER

BUSINESS MANAGEMENT

Standard Level

Paper 1

The markbands and assessment criteria on pages 2–3 should be used where indicated in the markscheme.

Section A Part (b)	Level descriptor
Marks	
0	The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues and business management tools (where applicable), techniques and theories. • Little use of business management terminology. • Little reference to the stimulus material.
3–4	<ul style="list-style-type: none"> • A description or partial analysis of some relevant issues with some use of business management tools (where applicable), techniques and theories. • Some use of appropriate terminology. • Some reference to the stimulus material that goes beyond the name of a person(s) and/or the name of the organization. • At the lower end of the markband, responses are mainly theoretical.
5–6	<ul style="list-style-type: none"> • An analysis of the relevant issues with good use of business management tools (where applicable), techniques and theories. • Use of appropriate terminology throughout the response. • Effective use of the stimulus material.

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

SECTION A

1. (a) **With reference to *B-Pharma*, describe *two* ways in which corporate social responsibility (CSR) could be important.** **[4 marks]**

Customers need confidence in *B-Pharma* drugs, and image is important for trust. Some of *B-Pharma's* past unethical behaviour has damaged its image; CSR should limit unethical behaviour and could strengthen *B-Pharma's* brand image.

- CSR could include banning testing on animals, which would reduce negative publicity.
- For some investors and shareholders, *B-Pharma's* CSR may be a very important factor to decide to invest in *B-Pharma*, as opposed to other companies.
- For some other stakeholders, such as new employees, researchers and scientists, it may be very important to work for a company that takes CSR and business ethics seriously, especially in the pharmaceutical industry which is sometimes seen as controversial.
- As business ethics is increasingly important in society, *B-Pharma* may want to plan for the long-term and consider its image in 2050 as the most ethical pharmaceutical company in the industry.

Accept any other relevant answer.

Mark as 2+2.

*Award [1 mark] for each way identified and [1 mark] for a description of that way in the context of *B-Pharma*. Award up to a maximum of [2 marks].*

(b) Apply the Boston Consulting Group (BCG) matrix to *B-Pharma's* product portfolio. [6 marks]

The BCG matrix distinguishes between four types of products according to their market share and the growth rate of the market in which they are sold.

		Relative market share	
		High	Low
Market growth rate	High	Stars	Question marks
	Low	Cash cows	Dogs

B-Pharma's product portfolio lends itself well to a BCG matrix and the following applications are possible:

- Pharmax is a cash cow: it has a well-established, high market share of “around one-third of the market [for painkillers] in Japan and the USA” (lines 21–22) in a market which is “growing very slowly” (line 23)
- Pharmaflo is a star: launched less than ten years ago, it already has a 15% share in a market that is still growing rapidly (lines 26–27)
- Pharmaslim is a question mark: “the market [...] is growing rapidly” though sales are poor (lines 28–29).

Accept any other relevant application eg about Pharmatics.

Award a maximum of [2 marks] if the matrix is only drawn/described with no application. Award a maximum of [4 marks] if the matrix is correctly applied but with no explanation / justification.

Award [6 marks] if the matrix is correctly applied and explained in relation to the situation facing *B-Pharma*.

Marks should be allocated according to the markbands on page 2.

2. (a) **With reference to *B-Pharma*, outline two key features of operating as a public limited company.** [4 marks]

Key features include the following points:

- *B-Pharma* sells its shares to the general public, so anyone can be an investor and have part ownership of the company
- *B-Pharma* has access to large capital markets and is thereby able to raise more funds
- *B-Pharma's* accounts must be audited and released to the public (they are public information)
- *B-Pharma* may be vulnerable to takeover bids; its value may also be very dependent upon stock exchange fluctuations
- *any other relevant feature.*

Mark as 2+2.

*Award [1 mark] for each correct key feature identified, and [1 mark] for the development of each of these key features in the context of *B-Pharma*, up to a maximum of [2 marks].*

- (b) **Explain the importance of branding for *B-Pharma*.** [6 marks]

Relevant issues include:

- it is a multinational in a variety of markets
- it has a wide range of branded products
- it has attracted brand loyalty
- the brand is well known for quality and safety – important for pharmaceuticals
- there is competition from cheaper, generic drugs so it is important that branding works.

But:

- *B-Pharma* operates in many countries for which a pharmaceutical brand may not universally appeal
- it seems to contradict the existence of subsidiaries – they may well want to develop their own brands
- it may ignore local cultures and languages, for example for the names of drugs.

Accept any other relevant explanation.

Award a maximum of [2 marks] if branding issues are explained with no application.

Award a maximum of [4 marks] if the response lacks depth in the explanation.

Award [6 marks] if the explanation has depth and is applied.

Marks should be allocated according to the markbands on page 2.

3. (a) Describe *two* benefits for *B-Pharma* of a cost-plus (mark-up) pricing strategy for its drugs. [4 marks]

Benefits of a cost-plus (mark-up) pricing strategy for *B-Pharma* include the following:

- it is a relatively easy method, but costs may be difficult to identify (*eg* past R&D)
- it can help ensure a profit is made (by ensuring break-even)
- it is essential since past R&D costs must be recovered
- it allows for a “desired” profit margin
- it is the standard practice in many industries including pharmaceuticals.

Accept any other relevant benefit.

Mark as 2+2.

Award [1 mark] for each valid benefit identified and [1 mark] for a description of each benefit identified up to a maximum of [2 marks].

- (b) Analyse the effectiveness of Susan James’ leadership style at the Canadian subsidiary of *B-Pharma*. [6 marks]

Susan’s leadership style can be defined as autocratic, as she tends to impose her decisions without listening to employees’ requests and desires: she has “rejected requests for greater empowerment” (*line 46*), and she seems unable to communicate with employees (*line 49*).

The style may seem ineffective, as it is exacerbating the tensions between employees and management (threats of strike action (*line 47*)). This is rather the view from the employees who are unhappy with Susan’s leadership style.

The style may be effective, as strict measures must be implemented in order to redress the productivity problems (“the Canadian subsidiary has recently suffered lower levels of productivity compared to other *B-Pharma* subsidiaries” (*lines 42–43*)). Only an autocratic leadership style may result in productivity improvements. This is rather the view from Yukio and the directors at the *B-Pharma* headquarters, which is why they appointed Susan.

Accept any other relevant analysis.

Award a maximum of [2 marks] if leadership issues are analysed with no application.

Award a maximum of [4 marks] if the response lacks depth in the analysis.

Award [6 marks] if the analysis has depth and is applied.

Marks should be allocated according to the markbands on page 2.

SECTION B

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

The term takeover simply means that one business acquires the ownership of another business, *ie* buys it. This can happen through the purchase of shares, in the case of an incorporated business.

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

Award [2 marks] for a definition that demonstrates clear understanding.

Award [1 mark] for a definition that only demonstrates partial understanding.

- (b) **Explain *one* advantage and *one* disadvantage to *B-Pharma* of using batch production in the production of pharmaceuticals.** [4 marks]

Advantages of using batch production in the production of pharmaceuticals include:

- it suits the production of differentiated drugs, for example the size of tablets
- it enables batch sizes to meet the demand for particular drugs
- it is a standard method of production in the industry
- *B-Pharma* has a wide range of drugs, so flow production may not be appropriate
- the quality is easier to manage, which is essential for drugs.

Disadvantages of using batch production in the production of pharmaceuticals include:

- it may miss opportunities for economies of scale
- it is less flexible than other methods
- it may involve higher stock holding costs, which may be a problem for drugs which can go out of date.

Accept any other relevant advantage / disadvantage.

Mark as 2+2.

*Award [1 mark] for a relevant advantage / disadvantage identified, award an additional [1 mark] for a relevant explanation of that advantage / disadvantage in the context of *B-Pharma*. Up to a maximum of [2 marks].*

- (c) **If *B-Pharma* implements *Option 2* (market penetration in China), explain *one* advantage and *one* disadvantage to *B-Pharma* of outsourcing.** [4 marks]

Possible advantages of outsourcing include:

- no need for investment in China
- third party may do a better job as they focus on it (specialization)
- there may be lower costs.

Possible disadvantages of outsourcing include:

- quality control can become an issue
- it may be difficult to prevent illegal copying.

Accept any other relevant advantage / disadvantage.

Mark as 2+2.

*Award [1 mark] for a relevant advantage / disadvantage identified, award an additional [1 mark] for a relevant explanation of that advantage / disadvantage in the context of *B-Pharma*. Up to a maximum of [2 marks].*

- (d) Using the additional information above and the case study, recommend either strategic option 1 or 2 for *B-Pharma* to achieve future growth. [10 marks]

Option 1:

- higher overall cost (\$100 million rather than \$50 million)
- but is the China market larger than Europe?
- would hostile takeover work?
- businesses could be bought cheaply, may give long term benefit
- businesses would have local market knowledge
- risk spread among several firms
- also markets more similar to their traditional markets.

However:

- costs of modernizing
- workforce issues.

Option 2:

- large market
- more efficient production systems, but is flow appropriate?
- rapid growth and aging population – higher demand for drugs
- benefits of outsourcing.

However:

- copyright issues
- quality
- cultural differences
- do they have experience of markets such as China, seems unlikely
- how would they market, distribute and sell?

Decision largely depends on *B-Pharma's* attitude to risk. There is no market research on which to base the decision. *B-Pharma* has experience in both developed and developing markets.

Purely theoretical answer, or no effective use of case study material, award a maximum of [4 marks].

Only one option considered in context, award a maximum of [5 marks].

Both options considered, but limited use of data award a maximum of [6 marks].

Both strategies considered, good use of data but no clear recommendation, award a maximum of [8 marks].

For full marks, both options considered, data used effectively, clear recommendation of one option.

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



**BUSINESS MANAGEMENT
STANDARD LEVEL
PAPER 2**

SPECIMEN PAPER

1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- A clean copy of the *Business Management formulae sheet* is required for this examination paper.
- Section A: answer one question.
- Section B: answer one question.
- Section C: answer one question.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is [50 marks].

SECTION A

Answer **one** question from this section.

1. Dan Electro

Dan Bowen is a sole trader who sells digital cameras directly to consumers. He owns an online business and all sales are processed electronically under the business name *Dan Electro*.

Financial information for 2012 (all figures in US\$)

Fixed costs per year	
Rent	20 000
Marketing	4000
Administration	5000
Interest payments	1000
Variable costs per camera	
Camera	135
Transportation	45
Direct labour	20
Price per camera	250

Dan forecasts selling 700 cameras in 2012.

- (a) Define the term *variable costs*. [2 marks]

- (b) (i) Construct a fully labelled break-even chart for *Dan Electro* for 2012. Calculate and indicate the break-even point and the margin of safety and calculate the forecasted profit from the sale of 700 cameras (*show all your working*). [6 marks]

- (ii) Calculate the number of cameras *Dan Electro* must sell in order to double the forecasted profit (*show all your working*). [2 marks]

2. BBT

BBT is a well-established small private limited company specializing in online education, based in the United States.

BBT's accountant has just presented the following financial information for *BBT* as of 31 October 2012, which raised some working capital and liquidity issues.

Extract from the balance sheet for *BBT* as of 31 October 2012 (all figures in US\$)

Accumulated depreciation	1500
Accumulated retained profit	8500
Cash	2000
Creditors	Y
Debtors	28 000
Equity	X
Fixed assets	30 000
Long-term liabilities (Debt)	0
Net assets	Z
Share capital	2000
Short-term loans	0
Stock	0
Total current assets	30 000
Total current liabilities	48 000

- (a) Identify **two** disadvantages for *BBT* of operating as a private limited company. *[2 marks]*
- (b) (i) Calculate the missing figures X, Y, Z **and** with those figures and from the financial information provided, construct a complete balance sheet for *BBT* as of 31 October 2012. *[7 marks]*
- (ii) Calculate *BBT's* current ratio. *[1 mark]*

SECTION B

Answer **one** question from this section.

3. Changing employment patterns and practices

Following concerns about the falling level of motivation at work, the government has commissioned a report. The main conclusions are:

- employees are experiencing more stress at work and spend more time travelling to and from work than in previous years
- a majority of employees feel that job satisfaction is an important part of their life
- women see the number and pattern of hours of work as more important than the level of pay
- employees who are on long-term contracts are more committed to their work
- employees are more likely to leave their jobs if their employers have taken measures that create a fear of redundancy
- many office employees would like to make use of recent technological advances in order to work from home and to achieve a balance between their work and home life
- some employees, especially those in low paid jobs, seem to resist flexible work practices.

Some employers have responded positively by introducing flexible work patterns and practices. After overcoming some resistance to change and enduring extra costs of implementing the new practices, some employers reported more organizational flexibility, an increase in employee commitment and, for some organizations, a higher level of profit.

Some employers, however, do not like the idea of flexible work patterns and practices.

- (a) Define the term *redundancy*. [2 marks]
- (b) Using **two** examples, explain how financial rewards can be used to motivate employees. [4 marks]
- (c) Suggest **two** reasons why some employers do not like the idea of flexible work patterns and practices. [4 marks]
- (d) With reference to **two** motivation theories, discuss the effects of the trend towards offering flexible work patterns and practices on employee motivation. [10 marks]

4. Lominex

Lominex is a partnership of five young IT professionals. It recently developed an online travel software product called “Roadex” that prepares a personalized itinerary (travel plan) for those travelling by car, based on their interests and trip preferences, such as romantic trips, business journeys or family holidays. The itinerary includes maps, driving directions, tourist attractions and hotels. Discounts are offered if booked using Roadex.

Roadex software was developed because market research indicated that:

- the majority of leisure travel is done on the road
- the majority of road travellers book mid-range or expensive hotels
- most currently available online tourism search products are mainly focused on air travel, not travel in cars
- after years of increasing popularity, online booking for air travel is actually becoming less popular because people are tired of spending two or three hours trying to find the airline, hotel, or vacation package that meets their needs.

Lominex will promote Roadex using promotional strategies incorporating new technology (viral marketing, social networking, social media marketing) in order to capture new market segments and to fill a niche in the online travel business market, which is experiencing growing revenue and fewer customers.

- (a) Outline **one** primary market research method that *Lominex* could have used for its market research. [2 marks]
- (b) Explain **one** advantage and **one** disadvantage for *Lominex* of being a partnership. [4 marks]
- (c) Explain how *Lominex* can segment its market for Roadex. [4 marks]
- (d) To what extent can *Lominex* use promotional strategies incorporating new technology (viral marketing, social networking, social media marketing) to promote Roadex? [10 marks]

5. Fabia

Fabia is a fashion dress company based in Melbourne, Australia. Using a process of batch production, *Fabia* manufactures dresses for the Australian market. The main target segment is middle-aged women with high incomes who prefer high quality, luxurious dresses, for which they are willing to pay premium prices. Sometimes *Fabia* also produces dresses for famous designers and celebrities using a job (customized) production process. *Fabia's* unique selling point (USP) is based on high quality and original design, as well as its ethical business behaviour.

The global economic recession has resulted in a severe fall in demand for *Fabia* dresses and consequently profit. Despite some optimism about economic recovery, *Fabia's* Finance Manager is considering outsourcing to Vietnam the manufacturing of all the dresses made using the batch production process. *Fabia* plans to work with the Vietnamese company *Patella*, which is well-known for its reliability and prompt delivery. Taking advantage of the lack of regulations in Vietnam with regard to employment and to the environment, *Patella* can manufacture *Fabia* dresses at a very low cost, two thirds cheaper than in Australia. *Fabia* would only retain the design and marketing departments in Australia, as well as a very small production team for the customized dresses. *Fabia's* Marketing Manager believes that all dresses should continue to be sold under the *Fabia* brand.

If *Fabia* outsources the production of the batch produced dresses to *Patella*, the closure of the main manufacturing facility in Australia will save millions on fixed costs, but two thirds of the Australian workforce will face redundancy.

- (a) Define the term *unique selling point (USP)*. [2 marks]

- (b) Explain the advantages to *Fabia* of continuing to sell dresses under the *Fabia* brand. [4 marks]

- (c) With reference to *Fabia* and **one** other organization that you have studied, distinguish between batch production and job (customized) production. [4 marks]

- (d) Discuss the proposal to outsource the production of the batch produced dresses to *Patella*. [10 marks]

SECTION C

*Answer **one** question from this section. The organization featured in Sections A and B and in the Paper 1 case study may not be used as a basis to your answer.*

6. With reference to **one or two** organization(s) that you have studied, evaluate different **strategies** businesses can adopt to respond to issues of **globalization**. *[20 marks]*

 7. With reference to **one** organization that you have studied, examine what **changes globalization** brings about in the management of human resources. *[20 marks]*

 8. With reference to **one** organization that you have studied, discuss the importance of **innovation** and of **ethics** in marketing. *[20 marks]*
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MARKSCHEME

SPECIMEN PAPER

BUSINESS MANAGEMENT

Standard Level

Paper 2

The markbands and assessment criteria on pages 2–4 should be used where indicated in the markscheme.

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

Assessment criteria for Section C

Criterion A: Knowledge and conceptual understanding

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

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

Criterion B: Application

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

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

Criterion C: Reasoned arguments

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

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

Criterion D: Structure

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

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

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

Criterion E: Individuals and societies

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

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

SECTION A

1. (a) Define the term *variable costs*. *[2 marks]*

Variable costs are costs that vary in direct proportion to change in output/level of production.

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

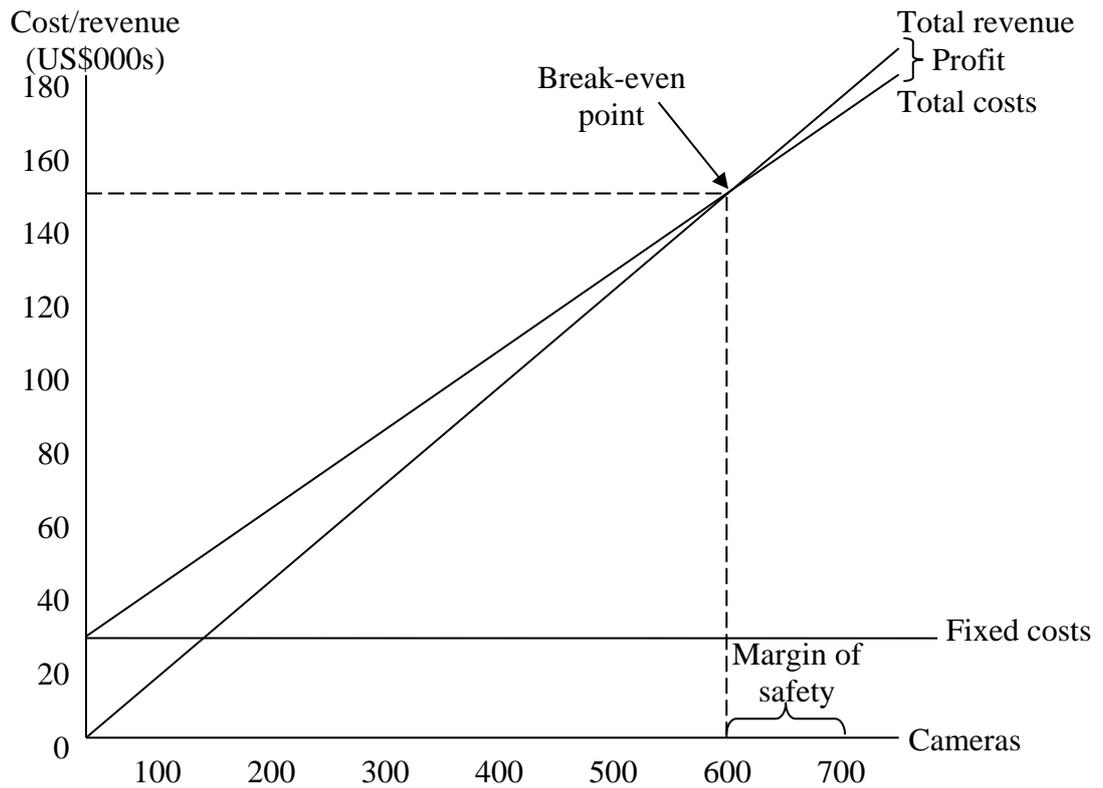
Award *[1 mark]* for a basic definition that conveys partial knowledge and understanding.

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

- (b) (i) **Construct a fully labelled break-even chart for *Dan Electro* for 2012. Calculate and indicate the break-even point and the margin of safety, and calculate the forecasted profit from the sale of 700 cameras (*show all your working*). [6 marks]**

The break-even point is:

$$\frac{\text{Fixed cost}}{\text{Contribution}} = \frac{\text{US\$30 000}}{\text{US\$250} - \text{US\$200}} = 600 \text{ cameras}$$



The margin of safety is:
 $700 - 600 = 100$ units

The forecasted profit at 700 units is:

$$\text{Margin of safety} \times \text{contribution per unit} = 100 \text{ units} \times \text{US\$50} = \text{US\$5000}$$

OR:

$$\text{Total revenue} - \text{total cost} = \text{US\$175 000} - \text{US\$30 000} + (200 \times 700) = \text{US\$5000}$$

Allow Own Figure Rule (OFR). Do not double penalize candidates.

Award marks as follows:

[1 mark] for appropriately labelled axes.

[1 mark] for an accurately drawn and labelled total revenue curve and total costs curve.

[1 mark] for identification of the break-even point and [1 mark] for showing calculation at the correct value of 600.

[1 mark] for identification of the margin of safety.

[1 mark] for correct calculation of the projected profit.

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

Award a maximum of [3 marks] if the chart is not neat, not drawn with a straight-edge, or is not to scale.

- (ii) Calculate the number of cameras *Dan Electro* must sell in order to double the forecasted profit (*show all your working*). [2 marks]

The doubled level of profit is:

Target: $US\$5000 \times 2 = US\10000

$$\frac{\text{Fixed cost} + \text{target profit}}{\text{Contribution}} = \frac{US\$30000 + US\$10000}{US\$50} = 800 \text{ cameras}$$

OR:

To double its profit, *Dan Electro* would need to make another US\$5000.

Each additional unit sold contributes US\$50.

Therefore, 100 more units would need to be sold to make an additional US\$5000 in profit: $US\$5000 / US\$50 = 100 \text{ units}$.

To double its profit, *Dan Electro* would need to sell the original 700 units + 100 units = 800 cameras.

Allow Own Figure Rule (OFR). Do not double penalize candidates.

Award [1 mark] for the correct workings and [1 mark] for the correct calculation. Award up to a maximum of [2 marks].

2. (a) Identify *two* disadvantages for *BBT* of operating as a private limited company. *[2 marks]*

Some of the disadvantages for *BBT* may be:

- Private limited companies are not able to raise as much finance as public limited companies. *BBT* is unable to raise share capital from the general public to finance the R&D since shares can only be sold to private family members and friends with the approval of the board (although currently Mark is the only shareholder in the company).
- Despite Mark being the sole shareholder of the company, he does not have complete privacy enjoyed by sole traders and partnerships due to the fact that some of the financial data and other information have to be published.
- Mark needs to have his company accounts audited by an external accountant, which adds to the administrative costs of the business.
- It is usually far more expensive to establish a private limited company compared to setting up a sole proprietorship or a partnership.
- *Accept any other relevant disadvantage identified.*

Award *[1 mark]* for each appropriate and relevant disadvantage identified, up to a maximum of *[2 marks]*.

- (b) (i) Calculate the missing figures X, Y, Z and with those figures and from the financial information provided, construct a complete balance sheet for *BBT* as of 31 October 2012. [7 marks]

X = 10 500, Y = 48 000, Z = 10 500

Balance sheet for *BBT* Limited as of 31 October 2012

	US\$	US\$
Fixed assets		
Fixed assets	30 000	
Accumulated depreciation	1500	
Net fixed assets		28 500
Current assets		
Cash	2000	
Debtors	28 000	
Stock	0	
Total current assets	30 000	
Current liabilities		
Creditors	48 000	
Short-term loans	0	
Total current liabilities	48 000	
Net current assets (working capital)		(18 000)
Total assets less current liabilities	10 500	
Long-term liabilities (Debt)	0	
Net assets		10 500
Financed by:		
Share capital	2000	
Accumulated retained profit	8500	
Equity		10 500

Award [1 mark] each for the calculation of (X) equity, (Y) creditors and (Z) net assets. Award a maximum of [3 marks] for calculations.

In terms of layout, award [4 marks] for a fully accurate and fully labelled balance sheet that conforms to the layout in the guide. If the balance sheet balances but the order of the assets or liabilities is inaccurate (according to the generally accepted method the candidate has chosen), award up to [3 marks]. If the balance sheet balances but the order of the assets or liabilities is significantly inaccurate, such as placing share capital and retained profit as a liability, award [1 mark].

Do not penalize a response more than once for errors that are carried forward.

(ii) Calculate *BBT's* current ratio.

[1 mark]

$$\text{Current ratio} = \frac{\text{US\$30 000}}{\text{US\$48 000}} = 0.625$$

Award [1 mark] for the correct answer (no working required). Apply Own Figure Rule (OFR).

SECTION B

3. (a) **Define the term *redundancy*.** **[2 marks]**

The laying off (dismissal) of an employee because of a lack of available work, as the employer is unable to afford to employ them anymore or the business no longer has a need for an employee to carry out work of a particular kind.

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.

- (b) **Using *two* examples, explain how financial rewards can be used to motivate employees.** **[4 marks]**

The financial rewards could include:

- salary
- wages (time and piece rates)
- commission
- profit-related pay
- performance-related pay (PRP)
- employee share-ownership schemes
- fringe payments (perks).

Accept any other financial reward with an explanation of how they can be used to motivate employees.

Mark as 2+2.

Award **[1 mark]** for each correct financial reward identified and an additional **[1 mark]** for a relevant explanation of the reward with regards to motivation of employees up to a maximum of **[2 marks]**.

- (c) **Suggest *two* reasons why some employers do not like the idea of flexible work patterns and practices.** **[4 marks]**

Some employers may not like the idea of flexible work patterns and practices for the following reasons:

- they may not be able to control the quality and/or quantity of work done by the employees (lack of supervision, quality control, time keeping)
- it may be difficult to organize structurally (as the company may need to be staffed at some specific opening hours, for example, a school needs its teachers during the day; this is called “core time”)
- in some sectors, there must always be some employees on duty, for example, in hospital and in the police force (not only at some “core time”, but 24/7)
- coordinating flexibility may not be practical for some small businesses, where there are not enough employees to implement systems of flexible work patterns and practices.

Accept any other relevant reason.

Mark as 2+2.

Award **[1 mark]** for each correct reason identified and an additional **[1 mark]** for a relevant development of the reason up to a maximum of **[2 marks]**.

- (d) **With reference to *two* motivation theories, discuss the effects of the trend towards offering flexible work patterns and practices on employee motivation.** *[10 marks]*

Candidates may refer to the following motivation theories: the works of Taylor, Maslow, Herzberg, Adams, Pink.

Candidates are expected to use two theories in order to discuss the link (if any) between (a) the trend towards offering flexible work patterns and practices on the one hand, and (b) an increase in employee motivation. It is expected that candidates will demonstrate how the trend will positively result in improving employee motivation and continue their discussion while presenting opposing views of theories or parts of a particular theory. Candidates should be able to demonstrate that the link is not obvious. (Most theorists mentioned above wrote at a time when flexible work patterns and practices were not so common, and consequently did not explicitly refer to them.) Candidates are tested on their ability to apply theories with constant use of, and reference to, the information from the stimulus.

Herzberg's motivation factors, for example, can be widened so as to include job satisfaction through flexibility. Maslow's higher level of needs can be reached due to empowerment and trust. Flexible working practices can be perceived as either motivating or demotivating (due to uncertainty, short-term contracts, *etc*).

However, candidates should demonstrate an understanding that some of the new practices also give employers the option of providing employees with short-term contracts only, which are subject to the market demand. This can cause insecurity and a feeling of injustice. Consequently the employees might be unmotivated and hence reduce their efforts. Some employees might not be interested in flexible working practices and will appreciate more money. Employees might also feel isolated professionally and socially, and some may fear change.

The above are just brief examples of two-sided analysis of the two types of theories. The analysis should lead to some conclusions. For example, the effects on motivation are not predictable and can vary considerably. The effects may depend on the culture of the organization, the type of the employees in terms of skills, experience, position or any other relevant factors. Accept any relevant theory that is applied to the information given in the stimulus material. Theorists and theories should be applied not just mentioned.

Accept any other relevant discussion.

Marks should be allocated according to the markbands on page 2.

4. (a) **Outline one primary market research method that *Lominex* could have used for its market research.** [2 marks]

Primary market research methods that could have been used include:

- questionnaires
- surveys
- interviews
- focus groups (panels)
- *Accept any other appropriate primary research method or any variation of the above (eg telephone interviews).*

Award [1 mark] for each type of relevant and appropriate primary research method identified, and [1 mark] for each relevant and appropriate outline of the method, up to a maximum of [2 marks].

- (b) **Explain one advantage and one disadvantage for *Lominex* of being a partnership** [4 marks]

The advantages for *Lominex* of being a partnership include the following:

- the partners each have a large stake in the business and are likely to work hard to make the organization and its projects (such as the development of Roadex) succeed
- as each partner injects capital, more finance is available for investments (such as the development of Roadex) than in a sole trader set-up
- at the same time, partners have better control over decision-making than in a public limited company set-up (eg they can develop Roadex on terms they themselves choose)
- the partners can each specialize in different areas of the business (eg in the case of Roadex, different individuals can focus on developing the software and marketing it)
- there are fewer legal formalities in running the business.

The disadvantages for *Lominex* of being a partnership include the following:

- if the business does not succeed, the partners have unlimited liability (eg they will be liable for the financial losses if Roadex does not succeed)
- compared to a sole trader, profits need to be shared by all partners
- financing options are more limited than for a public limited company, which may prevent some large projects that require much up-front investment from getting realized
- potential disagreements between partners may be difficult to solve (eg if the partners have very different views of how Roadex should be developed).

Accept any other relevant advantage/disadvantage with an explanation.

Mark as 2+2.

Award [1 mark] for each correct advantage/disadvantage identified and an additional [1 mark] for a relevant explanation up to a maximum of [2 marks].

(c) **Explain how *Lominex* can segment its market for Roadex.**

[4 marks]

The purpose of market segmentation is to allow companies to generate greater sales volume or generate higher profits, by targeting specific groups of customers. Market segmentation, by providing companies with more knowledge about their customers, allows variation in products or the marketing mix to better suit customers' needs. Segmentation also allows companies to target particular sub-groups suitable for the marketing mix and, therefore, not waste resources by marketing to inappropriate sub-groups. Market segmentation can also allow companies to offer differentiated products to different groups.

Lominex will segment its market by targeting potential customers:

- who like leisure travel (as opposed to those planning itineraries for business travel)
- who travel by road (as opposed to airplane)
- who are in a hurry (and do not want to spend “two or three hours trying to find the airline, hotel or vacation package that meets their needs”)
- who use the internet (as this is an internet software)
- who tend to be well-off (as they “stay in mid-range or expensive hotels”).

Without market segmentation, *Lominex*'s marketing mix might be inappropriately shaped for its potential market (promotion might not be via the best media, or the software making the itineraries might book the wrong quality of hotels).

Accept any other relevant explanation.

Award **[1–2 marks]** for a basic answer that shows some understanding of market segmentation (this can be a theoretical answer).

Award **[3–4 marks]** for an answer that shows a good understanding of market segmentation applied to *Lominex* and Roadex.

- (d) **To what extent can *Lominex* use promotional strategies incorporating new technology (viral marketing, social networking, social media marketing) to promote Roadex?** *[10 marks]*

Using new technology (viral marketing, social networking, social media marketing) presents many advantages:

- as Roadex is a piece of online software, it is logical to use online media to promote it, especially as many intended users of Roadex are probably users of new technology (*eg* they are familiar with viral marketing)
- new technology makes it possible to be more creative (*eg* in the design of promotional campaigns); this again may appeal to Roadex's intended users
- advertising online will enable *Lominex* to modify its promotion rapidly, for example, to respond to some current events, even anecdotally and humorously, in its promotion (for example, "if the President had used Roadex, he would not have arrived late at the international summit")
- by using multimedia technology in its promotion, *Lominex* could add links to Roadex directly.

However, new technology also has disadvantages that *Lominex* must not ignore:

- some potential users (for example, elderly users) might be more receptive to traditional promotional techniques (such as television or radio campaigns)
- online promotional messages can get out of control (for example, Roadex might be parodied in a negative way that goes viral on the internet)
- *Lominex* may not have the human resources knowledge to manage marketing on the internet, as this is a highly specialized area where new products and new techniques are rapidly launched, updated or become obsolete.

Candidates may distinguish between viral marketing, social networking and social media marketing

Accept any other relevant substantiated response.

Marks should be allocated according to the markbands on page 2.

5. (a) Define the term *unique selling point (USP)*. [2 marks]

Unique selling point refers to the features of a product or service that make it different from (and presumably better than) other products in the market.

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.

- (b) Explain the advantages to *Fabia* of continuing to sell dresses under the *Fabia* brand. [4 marks]

Fabia already has a strong brand identity. It is known in the market for its unique selling point of high quality and original design, as well as for its ethical behaviour. Famous designers and celebrities often wear *Fabia's* special-order dresses (customized production). Were *Fabia* to start selling dresses not under the *Fabia* name, it would not get any marketing advantage from the long-term brand identity it has built. Rather, the dresses now made by *Patella* and marketed under some other name would have no brand awareness in the market. *Fabia* would have to build a new brand identity, which in the competitive women's fashion market is not easy to do.

Accept any other relevant explanation.

Award [1–2 marks] for a basic answer that shows some understanding of the importance of branding (this can be a theoretical answer).

Award [3–4 marks] for an answer that shows a good understanding of the importance of branding applied to *Fabia*.

- (c) **With reference to *Fabia* and one other organization that you have studied, distinguish between batch production and job (customized) production.** [4 marks]

Batch production occurs when a company produces a group of identical products in a group (batch), before moving on to another identical group of products. This can occur with dresses, where *Fabia* makes 100 dresses of one particular pattern, material, and size before refitting the production room (modest though the changes might be) to make a group of another, different dress (perhaps different in size, or material, or pattern, or some combination thereof). Batch production can also occur because the patterns of consumption so dictate. For example, a bakery will make a batch of bread early in the morning for sale to consumers who shop first thing. The bakery may then make another batch late morning for those shoppers who want fresh bread (virtually right out of the oven) but purchase their bread on their way home for lunch.

Customized production refers to when a company produces something specifically to meet the needs of a particular customer. In the fashion industry, often female celebrities will want to wear a dress that they know no one else will have. Thus, they get a dress label or designer such as *Fabia* to make a customized product – a unique dress. In the bakery industry this can occur as well. Wedding cakes, for example, are often customized.

Accept any other relevant distinction.

Award [2 marks] if the candidate clearly distinguishes between batch and job (customized) production. Award an additional [1 mark] for the application to *Fabia* and a further [1 mark] for the application to another organization. Up to a maximum of [4 marks].

N.B. Accept as application a reference, as above, to “a bakery” (the candidate does not have to specify a specific bakery).

- (d) **Discuss the proposal to outsource the production of the batch produced dresses to *Patella*.** *[10 marks]*

The decision to outsource to *Patella* has advantages and disadvantages.

Advantages/benefits could include:

- *Patella* is well-known for reliability and promptness
- *Patella* will allow *Fabia* to lower significantly the cost of producing dresses
- closure of the Australian factory will lower fixed costs and allow *Fabia* to be more flexible
- *accept any other relevant advantage.*

Disadvantages/costs could include:

- many employees will be made redundant, which could generate negative publicity
- Vietnamese labour and environmental practices could also generate negative publicity and compromise an aspect of *Fabia*'s USP
- *Fabia* would be losing control of the production processes, which could harm them in the event of changing circumstances at *Patella* (change in ownership, deterioration of quality, *etc*)
- *accept any other relevant disadvantage.*

Accept any other relevant discussion.

Marks should be allocated according to the markbands on page 2.

SECTION C

For questions 6 to 8, marks should be allocated according to the assessment criteria on pages 3–4. These marking notes are intended to help and standardize examiners’ interpretation of the assessment criteria and to provide some examples of the kinds of points that merit being awarded higher marks. The examples are indicative only, and examiners should consider the quality of an answer on a case-by-case basis; this depends much on the type of organization(s) candidates select and the kinds of arguments they put forward.

6. **With reference to *one or two* organization(s) that you have studied, evaluate different *strategies* businesses can adopt to respond to issues of *globalization*.** [20 marks]

Criterion A

In order to demonstrate that they fulfil this assessment criterion, candidates should be able to:

- demonstrate an understanding of the concepts given in the question (for example, by explaining that strategy is a company’s activity of long-term planning and globalization is the increasing competition and connectivity of countries, people and economies)
- select relevant and sufficient business management content from the syllabus, and explain this content in a helpful way, given the demands of the question (for example, by selecting the Ansoff matrix as a tool to analyze a company’s strategy options, and by explaining, most likely with the help of drawing the Ansoff matrix, how companies can develop through market penetration, market development, product development and diversification).

Please note that how much business management content it is appropriate to select and in what degree of detail it is appropriate to explain this depends on the question and the real-world organization(s) candidates choose.

As the question refers to “different strategies”, and “issues of globalization”, candidates are expected to refer to more than one strategy (such as market development and product development) and more than one issue of globalization (such as the creation of a multinational and multicultural workforce) in order to be awarded the highest mark.

Criterion B

In order to demonstrate that they fulfil this assessment criterion, candidates should be able to:

- apply the given concepts and the relevant business management content to explain the situation and issues of their chosen real-world organization(s) (for example, by explaining *Easyjet's* strategy of market development and *British Airways'* strategy of market penetration)
- give appropriate and illustrative examples from the real-world organization(s) (for example, by referring to *Easyjet's* introduction of flights to new countries in Eastern Europe with a population who now can afford to travel more and *British Airways'* use of the idea of customer loyalty in advertising campaigns in existing markets).

Please note that sometimes, candidates' research allows them to give very specific examples, but other times they are only able to apply more generic knowledge of the organization to the question. Very specific examples should not be expected for full marks, as long as the examples are appropriate and illustrative of the points the candidate wants to make.

If a candidate uses a section A or B organization, or the paper 1 pre-seen case study organization in their response, award **[0 marks]** for this criterion.

The question asks candidates to refer to one or two organization(s); full marks can be achieved by referring to one organization only.

Criterion C

In order to demonstrate that they fulfil this assessment criterion, candidates should be able to:

- make relevant and balanced arguments (for example, by evaluating the effectiveness of *British Airways'* strategies with respect to altogether new service categories)
- present reasonable evidence or other support to justify their arguments (for example, by explaining that while *British Airways* could do market research on new service categories, these remain challenging as the company's knowledge is of the aviation market).

Please note that evidence from the real-world organization(s) does not need to be very detailed or perfectly accurate for full marks. Other support may include candidates' general knowledge of business management, of other organizations or specific contexts they are familiar with.

Criterion D

For structure, please refer to the assessment criteria.

Criterion E

In order to demonstrate that they fulfil this assessment criterion, candidates should be able to:

- consider the perspectives of various stakeholders (for example, by evaluating the impact of *British Airways* and *Easyjet* globalization strategies on customers and societies)
- for the highest achievement level, consider the relevant stakeholders' perspectives in a balanced way (for example, by considering that while individuals and societies benefit from global travel as this increases people's awareness of different cultures, global travel also has a potential harmful long term impact on societies due to the high environmental costs of air travel).

Please note that whether a focus on individuals or groups, or a focus on internal or external stakeholders is appropriate depends on the question and the organization(s) the candidate chooses.

7. With reference to *one* organization that you have studied, examine what *changes* globalization brings about in the management of human resources. [20 marks]

Criterion A

In order to demonstrate that they fulfil this assessment criterion, candidates should be able to:

- demonstrate an understanding of the concepts given in the question (for example, by explaining that globalization is a reduction in economic, technological and cultural barriers facilitating companies' growth beyond their national borders and change is the evolution in businesses' strategies, objectives and processes)
- select relevant and sufficient business management content from the syllabus, and explain this content in a helpful way, given the demands of the question (for example, by selecting human resource management content such as organizational structure, communication and rewards, and by explaining that organizational structure is about how responsibilities are set up in a company, communication is about how messages are sent and received in a company and rewards include financial and non-financial benefits employees get for the job they do).

Please note that how much business management content it is appropriate to select and in what degree of detail it is appropriate to explain this depends on the question and the real-world organization(s) candidates choose.

Criterion B

In order to demonstrate that they fulfil this assessment criterion, candidates should be able to:

- apply the given concepts and the relevant business management content to explain the situation and issues of their chosen real-world organization (for example, by explaining that *Unilever* needs to address issues such as salary levels, pay structures and non-financial rewards offered in its different operating locations)
- give appropriate and illustrative examples from the real-world organization (for example, by referring to *Unilever's* ability to have different contractual relationships with its employees in different locations, as evidenced by the temporary contracts it has provided to the majority of its tea plantation workers in Pakistan, with the implication that their salaries may be lower and they may not be entitled to the same annual and medical leave as permanent employees*).

Please note that sometimes, candidates' research allows them to give very specific examples, but other times they are only able to apply more generic knowledge of the organization to the question. Very specific examples should not be expected for full marks, as long as the examples are appropriate and illustrative of the points the candidate wants to make.

If a candidate uses a section A or B organization, or the paper 1 pre-seen case study organization in their response, award [0 marks] for this criterion.

* Source: International Labour Rights Forum, <http://www.laborrights.org/end-violence-against-trade-unions/unilever-lipton-workers>, accessed on April 11, 2013.

Criterion C

In order to demonstrate that they fulfil this assessment criterion, candidates should be able to:

- make relevant and balanced arguments (for example, by examining how organizational structure and communication are interconnected in the context of a large multinational company)
- present reasonable evidence or other support to justify their arguments (for example, by explaining that while a narrow span of control and systems of delegation and empowerment might be good for more personalized communication, these might not be possible in a global company like *Unilever*, as they would risk different operating practices getting established in different parts of the company).

Please note that evidence from the real-world organization(s) does not need to be very detailed or perfectly accurate for full marks. Other support may include candidates' general knowledge of business management, of other organizations or specific contexts they are familiar with.

Criterion D

For structure, please refer to the assessment criteria.

Criterion E

In order to demonstrate that they fulfil this assessment criterion, candidates should be able to:

- consider the perspectives of various stakeholders (for example, by examining the differing perspectives institutional owners and individual employees might have to the kinds of human resource management changes global growth brings)
- for the highest achievement level, consider the relevant stakeholders' perspectives in a balanced way (for example, by considering that what institutional owners in a multinational business like *Unilever* see of the company's practices is numbers, and hence their view of human resource matters may not be as personalized as that of individual employees, to whom work and work conditions are an important constituent of well-being).

Please note that whether a focus on individuals or groups or a focus on internal or external stakeholders is appropriate depends on the question and the organization the candidate chooses.

8. With reference to *one* organization that you have studied, discuss the importance of *innovation* and of *ethics* in marketing. [20 marks]

Criterion A

In order to demonstrate that they fulfil this assessment criterion, candidates should be able to:

- demonstrate an understanding of the concepts given in the question (for example, by explaining that innovation is the ability to think anew and develop new services and ethics is considerations about different stakeholders' perspectives and well-being)
- select relevant and sufficient business management content from the syllabus, and explain this content in a helpful way, given the demands of the question (for example, by selecting aspects of marketing such as ethical considerations in marketing, branding and differentiation from competitors, and by explaining that ethical considerations in marketing involve how a company approaches its customers, branding is the kind of image a company portrays of itself and its services, and differentiation from competitors can happen, for example, through developing a service that allows altogether new customer behaviours).

Please note that how much business management content it is appropriate to select and in what degree of detail it is appropriate to explain this depends on the question and the real-world organization(s) candidates choose.

Although marks are not awarded for definitions, it is likely to be helpful to provide brief but clear explanations of the given concepts and selected business management content early on in the response and to formulate these explanations so that they fit the question.

Criterion B

In order to demonstrate that they fulfil this assessment criterion, candidates should be able to:

- apply the given concepts and the relevant business management content to explain the situation and issues of their chosen real-world organization (for example, by explaining that *Safaricom*, a Kenyan mobile network operator, has re-invented the idea of banking in Kenya and followed this up with some innovative marketing initiatives that raise interesting ethical considerations)
- give appropriate and illustrative examples from the real-world organization (for example, by referring to *Safaricom*'s service M-PESA, whereby its customers can transfer money by mobile phone, which has differentiated *Safaricom* from competitors, allowed the company to develop a brand closely associated with development and provided in many cases a life-changing service to its customers).

Please note that sometimes, candidates' research allows them to give very specific examples, but other times they are only able to apply more generic knowledge of the organization to the question. Very specific examples should not be expected for full marks, as long as the examples are appropriate and illustrative of the points the candidate wants to make.

If a candidate uses a section A or B organization, or the paper 1 pre-seen case study organization in their response, award [0 marks] for this criterion.

Criterion C

In order to demonstrate that they fulfil this assessment criterion, candidates should be able to:

- make relevant and balanced arguments (for example, by discussing how having such a positive impact on people's lives through a radical innovation like M-PESA increases expectations on a company's ethical standards)
- present reasonable evidence or other support to justify their arguments (for example, by explaining that while e-learning projects fit well with *Safaricom's* brand, the company needs to be careful in their planning of such projects).

Please note that evidence from the real-world organization(s) does not need to be very detailed or perfectly accurate for full marks. Other support may include candidates' general knowledge of business management, of other organizations or specific contexts they are familiar with.

Criterion D

For structure, please refer to the assessment criteria.

Criterion E

In order to demonstrate that they fulfil this assessment criterion, candidates should be able to:

- consider the perspectives of various stakeholders (for example, by discussing that younger and older consumers may have differing views of what is appropriate use of language in advertising campaigns).
- for the highest achievement level, consider the relevant stakeholders' perspectives in a balanced way (for example, by considering that older consumers may consider the penetration of English into the Swahili language as weakening Kenyan identity whereas youth may not worry about this to the same degree).

Please note that whether a focus on individuals or groups, or a focus on internal or external stakeholders is appropriate depends on the question and the organization the candidate chooses.



**BUSINESS MANAGEMENT
CASE STUDY: B-PHARMA**

For use with specimen examination papers

INSTRUCTIONS TO CANDIDATES

- Case study booklet required for Higher Level Paper 1 and Standard Level Paper 1 Business Management examinations.

B-PHARMA

B-Pharma, a public limited company, is one of the biggest multinational companies (MNC) in the pharmaceutical industry. It employs over 30 000 people globally. The corporate headquarters are in Tsukuba Science City, Japan.

5 *B-Pharma* was founded in 1973 by Yukio Nakamura. Strong demand in the mid 1980s and a period of economic boom in Japan enabled *B-Pharma* to grow and expand within the Pacific Rim. In 1986, a first subsidiary was established in Seattle, United States (USA). *B-Pharma* has also opened smaller subsidiaries in other countries such as Canada, Chile, Mexico, New Zealand, South Korea and Vietnam. Subsidiaries are responsible for both production and distribution of *B-Pharma* drugs in their national markets, as well as research and development (R&D).

Marketing

10 In the pharmaceutical industry, R&D departments have a critical role in ensuring successful innovation. New product development can lead to competitive advantage, business growth, higher profits and therefore shareholder satisfaction. However, R&D is a long and expensive process, and strategically challenging: it could take more than 17 years from the discovery of a new drug to its
15 launch into the market. The process of approval involves significant testing to ensure the safety of the drugs. This is why all new drugs, once commercialized, tend to be expensive.

When *B-Pharma* sets the prices of its drugs, it must cover not only the costs of production and distribution, but also the costs of past R&D. Pricing is usually cost-plus, although some other factors may be taken into account, for example the price of competitors' drugs. Pharmaceutical companies do not normally use pricing strategies of penetration or skimming.

20 *B-Pharma* has a portfolio of drugs at different stages of their product life cycle, for example:

- Pharmax, a painkiller and *B-Pharma*'s bestselling drug. It has a share of around one-third of the market in Japan and the USA. That figure has been stable for the last 10 years. Although the market is saturated and growing very slowly, this painkiller is a well-established product. Following the expiration of the original patent, competitors are now starting to produce cheaper
25 substitutes.
- Pharmaflo, a drug that prevents heart attacks. Launched in 2006, it has a 15% market share in a rapidly growing market.
- Pharmaslim, a drug for weight control. It is selling poorly even though the market for anti-obesity drugs is growing rapidly.
- 30 • Pharmatics, a new anti-aging drug, launched in 2014. Its first sales results were satisfactory due to significant introductory marketing efforts. Whether sales will continue to grow is unclear.

Although launching a new drug is a complex marketing activity, *B-Pharma* has a key strength: its well-established brand name has been maintained by aggressive advertising in specialist magazines. *B-Pharma's* logo is present on all its products. *B-Pharma* has considerable brand loyalty. Market research shows that most adults across East Asia recognize *B-Pharma* labels and regard them as a mark of quality and safety. *B-Pharma* drugs are trusted but are expensive. In periods of economic difficulties, many people prefer to buy generic drugs¹, which are cheaper.

Managing human resources in a multinational company

B-Pharma has attempted to introduce the same tall organizational structure in all its subsidiaries. However, this uniform approach to hierarchical organization has not proved appropriate as it ignores cultural differences between some of the countries where *B-Pharma* operates.

In Canada, employees have repeatedly stated that they want more delegation and a wider span of control. The Canadian subsidiary has recently suffered lower levels of productivity compared to other *B-Pharma* subsidiaries. In this current financial year, it has even traded at a loss. Several managers have been unable to improve productivity, so Yukio has appointed Susan James as chief executive officer (CEO) in Canada to return the subsidiary to profitability in the coming financial year. Susan has rejected requests for greater empowerment.

Although morale has deteriorated and strike action has been threatened, she refuses to change her leadership style. She has the support of the rest of her management team. The problems have been exacerbated by her inability to communicate and by the tall hierarchical structure. With collective bargaining now in process, Susan understands that employees may be left demotivated and that productivity might suffer. She knows that Canadian employees respond well to financial motivation, so her solution to the problems is to redirect some of her R&D budget to her human resources (HR) department in order to implement performance-related pay (PRP).

Current issues: *B-Pharma* in the media

B-Pharma's public image has recently been tarnished by some events and problems.

In 2012, one of *B-Pharma's* laboratories found itself at the centre of a controversy reported by international media. Its scientists were conducting research on the effects of a new drug and as part of the testing, they carried out experiments on animals. Many of these animals suffered a painful death. A “whistleblower”² alerted the authorities because the standard regulations and benchmarks that were supposed to ensure the care of animals were not followed. Unannounced, veterinary inspectors visited the premises and wrote a damaging report. The document was leaked to journalists and this started a “media frenzy” with headlines such as “Animals tortured at *B-Pharma* lab” and “*B-Pharma* lab of shame”. Animal rights activists vandalized several laboratories as well as the Tsukuba headquarters; Yukio Nakamura himself received letters threatening him and his family. The weight of public opinion worldwide was against *B-Pharma*, even though a costly public relations exercise reduced the impact to a certain extent.

¹ generic drugs: as opposed to branded drugs, generic drugs are produced and sold without patent protection

² “whistleblower”: an employee who reveals wrongdoing within an organization

70 Following the negative publicity, *B-Pharma* tightened its procedures and created a new post of “Director of Corporate Social Responsibility (CSR)”. The person appointed to the position was Tadashi Agi, a Professor of Business Ethics at the National University of Tsukuba. Tadashi is now writing a corporate social responsibility manual for the company. He plans to introduce corporate social responsibility objectives, measures and actions across all departments and is making extensive use of new technology to communicate this ethical vision to all internal and external stakeholders.

Accounts and finance

Although *B-Pharma* has large financial reserves and could theoretically withstand any financial instability including an economic recession, the Board of Directors is aware that financial markets are volatile.

75 The USA subsidiary of *B-Pharma* recently had a liquidity problem and as a form of crisis management the Tsukuba headquarters had to intervene to provide some extra short-term capital. The Board of Directors of *B-Pharma* sent Suzuko Tanaka, one of the Japanese financial auditors, to Seattle to enquire about the problem. Although Suzuko found that the financial information was not up-to-date she managed to collect some data (Appendix 1).

The future: external growth and strategic options

80 In October 2015, the value of *B-Pharma* shares dropped by 25%. Although the market recovered, *B-Pharma* remains vulnerable to takeover. The Board of Directors of *B-Pharma* is considering several strategic options for the future growth of *B-Pharma*:

- Strategic option 1: Market development
- Strategic option 2: Market penetration
- 85 • Strategic option 3: Diversification.

Additional terms not in the Guide

Diversification

Patent

Appendix 1: Data collected by Suzuko Tanaka at the USA subsidiary of B-Pharma

	2011	2012
Cash	\$150m	\$60m
Creditors	\$200m	\$500m
Debtors	\$200m	\$330m
Short term loans	\$150m	\$150m
Stock	\$175m	\$325m
Ratios:		
Current ratio	1.50	1.10
Acid test (quick) ratio	1.00	0.60

Companies, products, or individuals named in this case study are fictitious and any similarities with actual entities are purely coincidental.
