

# Example Candidate Responses

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**Business and Management (9771)**



UNIVERSITY of CAMBRIDGE  
International Examinations

# Example Candidate Responses

## Business and Management (9771)

Cambridge International Level 3  
Pre-U Certificate in Business and Management (Principal)

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**Cambridge International Level 3 Pre-U Certificate**

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# Business and Management

## 9771

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## Introduction

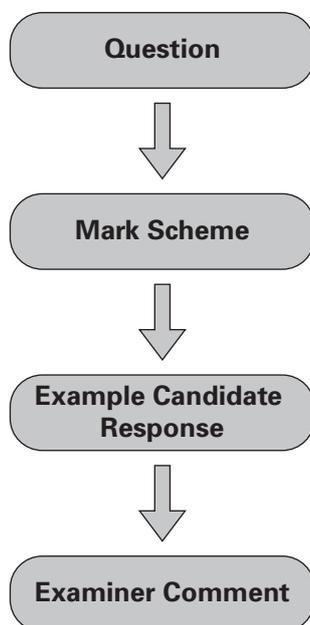
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The main aim of this booklet is to exemplify standards for those teaching Cambridge Pre-U, and to show how different levels of candidates' performance relate to the subject's curriculum and assessment objectives.

Cambridge Pre-U is reported in three bands (Distinction, Merit and Pass) each divided into three grades (D1, D2, D3; M1, M2, M3; P1, P2, P3).

In this booklet a selection of candidate responses has been chosen, to illustrate the middle of each band (Distinction, Merit and Pass), as well as a few examples of the highest grade D1. Each response is accompanied by a brief commentary explaining the strengths and weaknesses of the answers.

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



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

Teachers are reminded that a full syllabus and other teacher support materials are available on [www.cie.org.uk](http://www.cie.org.uk). For past papers and Examiner Reports please contact CIE on [international@cie.org.uk](mailto:international@cie.org.uk).

## Components at a Glance

Component	Component Title	Duration	Weighting (%)	Type of Assessment
<b>Paper 1</b>	Business Concepts	2½ hours	35	Written paper, externally set and marked
<b>Paper 2</b>	Strategic Decisions	3 hours	40	Written paper, externally set and marked
<b>Paper 3</b>	Personal Investigation	–	25	3000–3500 word report, internally set and externally marked

## Paper 1

## Section 2: Case Study

Answer all questions in this section.

You are advised to spend 1 hour 20 minutes on this section.

## WarmIT plc

WarmIT has manufactured gas central heating boilers and radiators in the UK for 35 years. The demand for central heating systems is seasonal – but not in the way many expect. Most new central heating systems are fitted in the summer months. The pattern of sales in recent years is shown in Table A:

Year	Quarter	Sales Revenue £m	4 – period moving average	Moving average trend	Seasonal variation
2006	1	60			
	2	70			
	3	95	72.5	73.125	21.875
	4	65	73.75	75	-10
2007	1	65	76.25	78.125	-13.125
	2	80	80	81.875	-1.875
	3	110	83.75	83.75	26.25
	4	80	83.75	84.375	-4.375
2008	1	65	85	86.25	-21.25
	2	85	87.5	88.125	-3.125
	3	120	88.75	89.375	30.625
	4	85	90	89.375	-4.375
2009	1	70	88.75	W	Y
	2	80	86.25	X	Z
	3	110	83.75		
	4	75			

Table A: Moving average analysis of WarmIT's recent sales.

5

10

15

20

25

### Reduced profit margins

The 2009 downturn in the UK economy was one of the causes of the declining profitability of the company. Sales fell but so too did the net profit margin as the company had not made cuts in overheads to reflect reduced demand. The Chief Executive, Asif Noon, was being pushed by major shareholders to take quick action to reverse these trends. Asif delegated the HR Director with the task of devising a new structure for the organisation that would cut overheads – mainly management costs – by up to 25%. Last month, at a Board of Directors meeting, the HR Director proposed the following changes: 30

- Delay the organisation by removing or re-employing in less significant roles 15 middle managers – 50% of the total. 35
- Break up the hierarchical structure to increase delegation at lower levels in each division of the business – home heating systems, commercial boilers and system installation department.
- Pass down, to each of these three divisions, authority for their own cost and revenue budgets. This would help the company identify the major cost and profit centres of the business so management decision making would be better informed. 40

### Increasing competition

The technology behind gas boilers and radiators has not changed radically for years but market trends, driven by the price of gas, are changing. This is most noticeable in other EU countries like Germany where renewable energy has a high market share. Some EU based firms are entering the UK market with the latest solar energy and heat pump systems. This poses a long term threat to WarmIT's position. At the recent Board meeting the Operations Director proposed a big increase in the company's Research and Development budget. 'This', he said, 'should be used to try to adapt solar power panels to operate with traditional radiators. These panels would not replace but supplement existing heating systems, possibly cutting fuel bills by 50%. Innovative products will be the only way to survive in a market shocked by oil and gas prices and squeezed by foreign competitors. Look at the figures I researched from our three potential German rivals. You can see that, compared to us, R & D seems to be effective.' 45

	2009 R & D budget (Euro values converted into £ at 31/09/09 exchange rate)	Number of patented innovations 2009
WarmIT	£ 2m	1
EuroHeat	£23m	15
EuroSolar	£34m	20
Enviroheat	£26m	6

**Table B:** Research and development spending and numbers of innovations patented. 55

### Managing changes

Asif wanted to prepare the company for rapid and significant changes in the next few years. He concluded the Board meeting by saying: 'We have good staff-manager relationships and low labour turnover for a manufacturing business. However, we need people with vision and leadership qualities, prepared to accept challenges and come up with new ideas. Yet many of our staff, although loyal, still see a 'them and us' divide and their first allegiance is to the Trade Union not to the company. Leading and managing change will be my main priority – and that should satisfy our short-sighted investors!' 60

Question 21

- (a) Calculate the values for W, X, Y, Z in Table A. [4]
- (b) What would be a seasonally adjusted forecasted value for the 2nd quarter of 2010 if the extrapolated trend value is £84m and the average seasonal variation is – £2.3m? [1]
- (c) Briefly assess the value of the moving average technique of sales forecasting to WarmIT. [5]

Mark Scheme

21 (a)

W	$87.5 = (88.75+86.25)/2$
X	$85 = (86.25 + 83.75 )/2$
Y	$- 17.5 (70-87.5)$ OFR
Z	$- 5 (80-85)$ OFR

(Results must have correct sign.)

(b) £81.7m (£84m–£2.3m)

- (c) 1 application mark  
1 analysis mark  
3 evaluation marks

Uses: Helps with forward planning of promotion strategy, workforce planning, resource ordering etc.  
One application to this business e.g. boiler sales are seasonal.

BUT: Only based on past results, downturn is occurring – how relevant are these past results?  
Changes in gas prices and consumer trends in heating market may render extrapolation from past results rather pointless.

General Comment

This question tests the candidate’s knowledge of the moving average sales forecasting method. Part (c) gave the candidates an opportunity to demonstrate an awareness of the limitations of this technique within the context of the business in the case study.

## Example Candidate Response – Distinction (D1)

21a

$$W = 87.5 \quad \checkmark$$

$$X = 85 \quad \checkmark$$

$$Y = -17.5 \quad \checkmark$$

$$Z = -5 \quad \checkmark$$

b.

$$£84m - 2.3m = 81.7m.$$

Ans: £81.7m ✓

c. The moving average technique is a method of finding a trend - an underlying pattern - of which to extrapolation (extend into the future) ~~and~~ to predict future revenue and profits on which to aid budget & target setting. Moving averages smooth out the variations, however allows for the pattern to change into the future (eg. increase at a rate etc.)

In some ways this technique is of great value to Warm IT plc because as their sales and the case study show, their sales are subject to seasonal variation with the majority of their sales occurring in the "summer months". By using this technique the business will be able to forecast this variation and be prepared. Moving averages is ~~also~~ also

significantly useful for Warm IT plc because as their figures show, during the past 4 years their average sales have been increasing (from £72.5m ~~to~~ as the 4-period moving average for <sup>2006</sup> ~~the year~~ ~~2009~~ to £83.75 for ~~the~~ ~~year~~ ~~2009~~), and this increase can be predicted using

this method, unlike other averages that do not account for the change in the rate of revenue coming in each year. Furthermore, this technique was able to account for the cyclical variation of the

However in some ways this technique isn't that valuable as ~~it is~~ it does not take account for the cyclical ~~variation~~ Economical variation - such as their fall in revenue from 2008 to 2009 during the recession, as ~~the~~ although this variation is ~~is~~ recorded - ~~the~~ the method will account it as a seasonal variation - therefore not allow the method to predict the next recession, and distort the seasonal variation factors. The technique is also quite time-consuming and complex (unless carried out using new technology) ~~and other~~.

In conclusion the moving averages is a valuable method to forecast WarmIT's sales as it takes into account their seasonal variations and increasing rate of revenue however it does not take into account external factors such as the economic situation, so overall is limited if ~~only~~ used alone without qualitative knowledge (it's only quantitative).

P1 A1 E3

(10)

### Examiner Comment

- (a) Full marks awarded for correct results.
- (b) One mark awarded for correct result.
- (c) Full marks (5). This answer contains certain significant features that make it worthy of Distinction level (D1). The candidate starts by explaining the moving average method of sales forecasting. The answer quickly refers to the context of the case study by referring to WarmIT's seasonal sales pattern and there are further references when considering both the rate of change of the company's sales and the apparent cyclical effect in 2008/2009. The candidate's analysis of the difference between seasonal factors and cyclical factors is of a high standard. There is very good evaluation of the technique – especially the impact on sales forecasting using this method of unforeseen external events and the need to consider qualitative factors too.

## Example Candidate Response – Distinction

21a	$W = \frac{88.75 + 86.25}{2} = \text{£}87.5 \text{ m}$ $X = \frac{86.25 + 83.75}{2} = \text{£}85 \text{ m}$ $Y = 70 - 87.5 = \text{£}-17.5 \text{ m} = -\text{£}17.5 \text{ m}$ $Z = 80 - 85 = -\text{£}5 \text{ m}$	
21b	forecasted value = $84 + 2 \cdot 3 = \text{£}86.3 \text{ m}$	4 0
21c	<p>This moving average technique is known as Time Series Analysis (TSA). TSA allows future values to be predicted from past data.</p> <p>For WarmIT, TSA has value as an aid to budgeting. Managers can alter plans and change spending in accordance with the predicted values. For instance, if the TSA shows a decrease in sales revenue, managers are able to change budgets to allow a profit to be made.</p> <p>However, the predicted future sales will only be accurate over the short term. The reliability of predicted trends decreases as the length of time increases. The technique is also vulnerable to external shocks, such as an unpredicted economic downturn or an oil price spike.</p> <p style="text-align: right;">POATEZ</p>	3 4 7

Examiner Comment

- (a) Full marks for correct results.
- (b) No marks for incorrect result.
- (c) This answer was brief but contained some relevant points even though there was no definition or explanation of the moving average method.

There was no direct application to the case although the reference to “oil price spike” could have been developed, in the context of the business in the case, to gain an application mark. The answer did explain one use of sales forecasts and was awarded a mark for analysis.

There was an attempt at evaluation and this gained 2 out of 3 marks for this skill. Further marks would have been gained by clearer application and evaluation of the technique by referring to the results gained and their potential usefulness in more detail. 3/5 marks

Example Candidate Response – Merit

21.			
	a) $W = \frac{88.75 + 86.25}{2}$		
	$= \underline{87.5}$	(1)	1
	$X = \frac{86.25 + 83.75}{2}$		
	$= \underline{85}$		1
	$Y = 70 - 87.5$		
	$= \underline{-17.5}$		1
	$Z = 80 - 85$		
	$= \underline{-5}$		1
	b)		4
			0

d) The moving average technique is not very valuable in forecasting sales to WornIT. ~~Trend analysis~~ Time series analysis is only effective in markets which are stable, so taking into account the 2009 downturn in the economy, most markets are not stable.

P1 A1 E0

2

⑥

### Examiner Comment

- (a) Full marks for correct results.
- (b) Not attempted.
- (c) This very brief answer contained very little understanding. Marks were awarded for some recognition that it is only effective when markets are stable – and the reference to 2009 downturn which was mentioned in the case study. To gain further marks this answer needed: Clearer understanding of the technique; more detailed explanation of how sales forecasts can be used and a more detailed discussion of the limitations of a technique that is based on past time series data. 2/5 marks

## Example Candidate Response – Pass

21)

a)  $W = 87.5$  1  
 $X = 85$  1  
 $Y = 87.5 - 70 = 17.5$  X  
 $Z = 85 - 80 = 5$  X

b) ~~£81.7m~~ £81.7m 1

c) The moving average will tell how much the market is growing at the time stated. This will help for future budgets as well as the ~~market~~ trend will depict the future revenues. The seasonal variance also proves how much the WIT should save during the 3<sup>rd</sup> quarter in order to compensate for the rest of the year. These figures could influence the amount of labour needed and whether new employees are needed or overtime to be paid.

APPLIED 2

(5)

## Examiner Comment

- (a) Two correct results and two incorrect results.
- (b) One mark for correct result.
- (c) This is a weak answer as there is no evaluation of the technique. The candidate does not define or explain the moving average technique. There are two references to the potential uses of sales forecasts and these were awarded the 1 mark available for analysis. The reference to higher sales in the 3<sup>rd</sup> quarter is worthy of an application mark. There is no attempt to judge the limitations of this technique. 2/5 marks

## Question 22

Evaluate the extent to which a substantial increase in R & D spending by WarmIT would ensure its future competitiveness in the UK heating market. [10]

## Mark Scheme

	Knowledge 1 mark	Application 3 marks	Analysis 3 marks	Evaluation 3 marks
Level 2		3 marks More than one point applied to case	3 marks Relevant reasoning or theory used to explain answer	3 marks Good judgement shown of the impact of R and D spending on competitiveness and/or other factors being important too
Level 1	1 mark Some knowledge of R and D shown	2–1 marks Application of one point to case e.g. use of Table B	2–1 marks Limited reasoning shown	2–1 marks Limited evaluation of usefulness

- R and D is the scientific research and technical development of new products and processes.
- Can lead to USP, patents, ability to raise prices, lower production costs (process innovations) and entry to new market segments – these should be applied to heating/renewable energies and this business.
- Table B shows some link between R and D spending and patents BUT not for Enviroheat.
- Evaluation could include that R and D does not always lead to inventions, that these may not result in successful innovative products anyway and that the **number** of patents is less important than their significance.
- Other factors affecting competitiveness include exchange rates, labour productivity, material costs.

## General Comment

This question tests the candidate's knowledge of what research and development is and how it can create opportunities for businesses to achieve product differentiation. In addition, the Table B data shows some correlation between R and D spending and the number of patented innovations – but this was not perfect, and candidates were expected to use this as a starting point to evaluate whether R and D spending is always effective or well spent.

## Example Candidate Response – Distinction (D1)

22. R&D is research and development - which is the department in a business that explores and experiments with creating new innovations to distinguish the business from competitors, differentiate new products, and gain a reputation as being an innovative business (~~to attract more demand~~ to gain more market share).

K<sup>1</sup>

P<sup>1</sup> As table B shows, WarmIT's competitors EuroHeat, EuroSolar and EuroHeat have all invested in R&D. The table conveys a positive correlation between the R&D budget, and the number of innovations patented - conveying that by investing in innovation in the heating industry almost guarantees new innovations. However, it also conveys an anomaly: EuroHeat, as although they invested £26m into R&D, they only patented 6 innovations compared to EuroHeat's 15 on a lower budget. This conveys how although R&D can lead to innovations, it doesn't always as there is an element of risk - conveying that although investing in R&D could increase the competitiveness of WarmIT, ~~it will not "ensure" it~~ by differentiating their ~~its~~ heating ~~semi~~ products with new innovations, it will not "ensure" it as R&D is a risk ~~not~~ not a guarantee.

P<sup>2</sup>

A<sup>2</sup>

A <sup>2</sup>	<p>The case study describes how the technology behind heating is starting to change after years of no movement, therefore by investing in a new technology and adapting to this external factor in the environment WamIT could benefit from gaining a reputation for being innovative and therefore gain more demand, revenue, and maybe profit (if costs aren't proportionally higher). Also by investing in R&amp;D, they could create a new differentiated product <del>that could sell</del> such as new solar radiators, <del>that</del> and due to their differentiated nature benefit from their inelastic nature (as they will have no direct competitors so get away with charging consumers higher prices as there are no alternatives). This is a move out of the <del>standardised</del> standardised heating systems that <del>companies had</del> this market have been used to.</p>
A <sup>2</sup> E <sup>2</sup>	<p>However, in some ways this increase in R&amp;D spending may not benefit WamIT. As the case study shows, all of WamIT's competitors are <sup>dramatically</sup> spending on R&amp;D, and instead they could take advantage of their high costs by trying to reduce their costs to <del>become the</del> gain cost leadership. As Porter said, to become competitive <del>the</del> businesses should either adopt a strategy of differentiation or cost-leadership - but not both as they oppose each other in terms of costs (differentiation requiring high costs).</p> <p>In conclusion although R&amp;D <del>costs</del> <sup>has the potential to</sup> increase the competitiveness of WamIT through distinguishing them</p>

## Examiner Comment

The first paragraph defines and explains R and D very effectively. There is recognition of a possible correlation between R and D spending and innovations patented – but the apparent breakdown of this relationship with one of the businesses is also identified.

The answer analyses, from the data given, that R and D spending involves risk – and suggests, evaluatively, that increasing spending on R and D will not necessarily ensure success. There is a clear reference to the potential link between R and D and product differentiation and this is good analysis.

There is frequent evaluation throughout the answer but the conclusion is particularly noteworthy as the candidate makes a judgement that an alternative strategy to product differentiation could be adopted – that of cost leadership. 10/10

## Example Candidate Response – Distinction

22. Research and development is the idea of investing in discovering new, more productive and efficient technologies.

European countries such as Germany ~~have~~ are much keener on renewable energy than the UK, resulting in a higher market share (line 45). These companies producing this cleaner energy are beginning to enter the UK market (line 46). Due to rising prices in gas, consumers are increasingly looking for cheaper, more renewable energy sources. By increasing their spending on R+D, the company is able to better its competitiveness with new, foreign companies entering the market place.

P1	Table B shows the number of products patented in 2009 compared to investments made. It is very clear to see that each company competing with Warm IT plc has benefited from higher investment, the most noticeable being EuroSolar with a total of 20 innovations from a £34m investment. Increased spending to similar levels by Warm IT <del>is</del> may take time to produce similar results which would have to be the result of a strong recruitment process to find the most appropriate candidates to research such innovations.
A1	
B1-	
	Also, it is likely that for Warm IT to be able to spend money on a similar scale would involve backing by the major shareholders. This would seem unlikely as they are wanting to see large scale spending cuts to regain a strong net profit margin (line 28). It would therefore be difficult to persuade these stakeholders to commit to the investment.
P2	Overall, I believe that the investment made would ensure the company's future <del>is</del> competitiveness in the UK heating market however the company would have to convince key shareholders to back the <del>spending</del> investment. KIP3A262

(8)

## Examiner Comment

This answer has many of the features expected of a response at Distinction level. Understanding is clearly shown by the initial definition. Application marks are gained by relevant use of case study information.

The data in Table B is accurately referred to and there is recognition that WarmIt will not be able to match these levels of R and D spending immediately – this is good evaluation. The funding issue is also discussed in context.

The answer could have been further improved to D2 level by a more detailed analysis of the potential benefits of differentiated products and the judgement that R and D spending is risky and may prove to be ineffective – as shown by some data in Table B. 8/10

Example Candidate Response – Merit

22 Increasing R & D would help as there main competitors are spending ~~the~~ £23m, £34m and £26m when they are only spending a fraction of this at £2m. Oil and gas are non-renewable energy sources so they won't be around forever meaning warm IT's boilers will stop be used when this happens. This means that they must find alternative measures in which to heat up houses. The one problem with increasing the budget is that they may not find new ways ~~to budget~~ and it may be a waste of money. I think it is good however because if they find a new way it could mean they become more profitable in the future meaning the costs involved in the research and ~~the~~ development out way the financial gain that they get. A lot of large bio-medical firms such as Glaxo SmithKline invest heavily in to new R & D in the hope they discover a new drug that people will pay for. At the moment the German firms have a lot more patents with Euro Solar having the most showing that there research and development proved to be successful. If they designed a new, innovative product they would stay in the market for years and stay competitive.

(P1-)  
(P1)  
(E1-)  
(A1-)  
K1  
P1  
A1

Recognise the process

KIPAZEI

(6)

Examiner Comment

This answer is quite brief but it does contain key assessment skills. It would have benefited from a clear definition and explanation of the R and D process in the first paragraph. Table B is used quite effectively but the exception of Enviroheat is not discussed.

The potential impact of successful R and D spending is analysed briefly in terms of “new ways” being more profitable – although the explanation of this is rather confused. Evaluation is confined to “they may not find new ways” but, as the previous answers have indicated, there is scope for considerably more judgement than this. 6/10

## Example Candidate Response – Pass

22 Research and Development is the department of the company which comes up with new ideas and products based on advances of technology, market research and the future of the industry.

K1 By increasing spending on research and development in the company it could help come up with new ideas and beating products ahead of the competition which would give Warrington a Unique Selling Point and increase sales. This worked for Lexus when researching the need for more fuel efficient 4-wheel drives by seeing the lack of them in the market they started producing hybrid bigger cars for town urban use and gathered a ~~lot~~ lot of over competitors for a short time until they caught up and this led to an increase in sales. However

Case? E1- they must control how much they spend on R & D as they still must keep their profit margins high to maintain their competitiveness. They must also make sure that although they have spent more money on R & D, that it is worth the money by monitoring how well they are doing at making new products and they aren't wasting the money.

KIPAZEI (5)

## Examiner Comment

This answer contains some points worthy of credit but it is not well focused on the business in the case study. For example, no use was made of the important data contained in Table B. The candidate starts with a definition – albeit of the R and D department rather than the process, but this is acceptable.

There is very limited application and if Table B had been analysed in detail it would have given the candidate a good route for evaluative comment too. The case study questions are expected to lead to answers that are applied to the case study business – not businesses in non-related industries. Candidates are expected to bring in their own examples when writing the essay answer in Section C of the paper.

Evaluation in this answer is very limited with just some recognition that the cost of R and D spending should be controlled. 5/10

Question 23

**Assess the value of establishing a budgetary system for each of the three divisions of the company.**  
**[10]**

Mark Scheme

	K 1 mark AO1	App 3 marks AO2	An 3 marks AO3	E 3 marks AO4
Level 2		3 marks Points made are well applied to case	3 marks Relevant reasoning or theory used to explain answer	3 marks Good judgement shown of the importance and/or potential limitations of this budgetary system
Level 1	1 mark Some knowledge of budgeting or benefit of	2–1 marks Some application of points to case e.g. the creation of separate divisional profit centres	2–1 marks Limited reasoning shown	2–1 marks Limited evaluation of usefulness

- Budgetary system allocates financial targets and plans – allows the use of variance analysis.
- Separate divisions will become profit/contribution centres – allows analysis of best performing divisions.
- Budgets will set targets and this should be motivating and lead to appropriate allocation of resources.
- Variance analysis will allow recognition of main reasons why actual performance varies from budget and could inform management decisions.

BUT

- How are budgets to be set – with involvement of staff who have to carry them out or by a centralised system with no involvement?
- They might be set too ambitiously in which case they may demotivate.
- How will overhead costs be allocated to the 3 divisions? Will only direct costs be included in budgets?
- Will staff be adequately trained in the setting and operation of the budgetary system?

General Comment

This question examines the candidate’s knowledge of budgetary systems, especially those adopting delegated budgeting. It was expected that answers would be applied to the problems faced by this business and the analysis of delegated budgeting was expected to be focused on how it might help to address these problems. Evaluation was likely to be in the form of the limitations of delegated budgeting, applied to this business.

## Example Candidate Response – Distinction (D1)

23 A budgetary system is a method of allocating costs to departments to ensure that each department ~~has~~ has the ~~financial~~ finance they need to function - yet they are limited to ensure that costs are kept as low as possible.

K<sup>1</sup>

In some ways this system would be of value to WarmIT as by splitting the budgets between the "home heating systems", "commercial boilers" and "system installation" departments the business could create ~~profit centres~~ cost and therefore profit centres to monitor the progress of each department, ~~and~~ see which departments are most profitable for the business and which are relying on the success of others and weighing the business down.

P<sup>1</sup>

P<sup>2</sup>

As WarmIT's sales and profit margins recently fell, they could benefit from seeing ~~which departments~~ the progress reports of each department, and

Considering getting rid of ~~the~~<sup>a</sup> department that is not ~~doing~~<sup>as</sup> profitable to reduce costs (eg. labour costs) and become more specific.

~~the~~

A<sup>2</sup>

In some ways budgets would be very ~~of~~ effective for WarmIT because as the HR Director proposed, if they are set by the divisions (the authority is passed down) then each department will be able to finance what they need. By having employees lower down the ~~the~~ hierarchy making these decisions the business could benefit from higher demand, as by allowing these employees with the knowledge of their department to ~~make~~ decide where the money is spent, their departments will be better equipped to serve the consumers (eg. by spending more to improve the home heating systems).

A<sup>2</sup>

However in some ways these budgets would not be very valuable, as by allocating budgets to each division of WarmIT's heating systems, it will be hard for each department <sup>division</sup> such as HR, R&D etc to allocate their costs to each<sup>a</sup> - especially sharing <sup>and overheads</sup> fixed costs<sup>a</sup> such as heating for the ~~office~~ head office. These shared costs will reduce the accuracy and effectiveness on comparing the divisions.

A<sup>2</sup>

Another issue with budgetary systems is that they could demotivate staff. By limiting the amount staff can spend on their division, WarmIT ~~can~~ may prevent them from being creative and innovative by blocking out their input and limiting finance. In some ways by allocating the staff the responsibility to

E <sup>1</sup>	<p>allocate budgets, this problem is overcome - however employees beneath the decision maker within this hierarchy will similarly feel constrained and restricted - so may not be innovative - causing WarmIT <del>having</del> plan to not use their staff to their full capacity (waste). Furthermore, these budgets as "Vroom's theory states, could <del>really limit the</del> totally demotivate if they are set unrealistically - for example <del>being</del> expecting the employees in the home-heating systems <del>department</del> division to create a new successful product with a low budget.</p>
E <sup>2</sup>	<p><del>As Vroom's</del> As Vroom's theory states, this could reduce the productivity of workers, and therefore reduce the efficiency and competitiveness of the WarmIT. Although this may not occur with local level knowledge being inputted from each division - ultimately the management have overall control and an overall view of the corporate aims and objectives that the local level may not have - so may alter the budget to <del>fit them</del> comply with their aim - resulting in this demotivation.</p>
E <sup>2</sup>	<p><sup>in some ways</sup> In conclusion these budgets would be very valuable for WarmIT as they could focus the departments and allow the business to be more efficient (especially as they are facing low sales from the recession) by <del>setting</del> allocating profit <del>and</del> centres and seeing which <del>best</del> areas are most/least beneficial - giving them the opportunity to get rid of specific failing divisions. However overall it</p>

appears that they would be more valuable for WarmIT plc if they were allocated for departments (such as HR, operations, R&D) rather than divisions, as it will be hard to separate overheads and shared fixed costs making the budgets ineffective and inflexible, and could affect their heating divisions by preventing ~~departments~~ the extent to which a number of departments could work with each division - arousing demotivation, <sup>leading to</sup> inefficiency and therefore reducing their competitiveness. K1 P3 A3 E3

10

### Examiner Comment

This answer starts with an explanation of budgetary systems. There is application to the three departments referred to in the case study business. The recognition that WarmIT's profits are falling and the usefulness of being able to identify which departments were contributing most to this is well explained.

The candidate is clearly aware of the motivational benefits and greater budgeting accuracy that could both result from the budgetary system proposed by the HR Director.

The answer contains effective evaluation too – giving opposing arguments to those that have already been put forward in favour of the budgetary system. The candidate makes good use of Business and Management theory regarding motivation, cost and profit centres and there is an effective final conclusion. 10/10

### Example Candidate Response – Distinction

23. A budgetary system ~~is~~ involves passing down authority of a department or division's cost and revenue budgets. In the case of WarmIT, it would mean each of the three divisions controlling their own financial performance.

By establishing a budgetary system, each division would have to work to set targets to meet both cost and revenue budgets (line 39). This would help the company identify the major profit and cost centres in the business. By doing this, the management are then able to identify more efficiently problem areas ~~are~~ and deal with the accordingly. The good staff-manager relationships within

Warm IT (line 64) would suggest ~~to~~ that these changes could be made quickly, effectively and productively.

Secondly, by being able to identify profitable areas, the company may then be able to look into expanding and further developing such stars and cash cows. This could involve  
 A2 increase investment in certain products or looking at reducing the investment to further maximise the potential of the product or service.

However, a problem with setting budgets is the ~~lack~~ of constant reviewing of the figures. For the above to be effective, the company would need managers to be constantly assessing the performance of their division and  
 E as the business is looking to cut 50% of its managers in the coming months, it would put considerable strain on those remaining.

In conclusion I believe that the idea of establishing a budgetary system for each of the three divisions is a very good one. ~~It~~ It will allow Warm IT to make quicker, more efficient decisions based on more transparent data.

However, making cuts in management would significantly reduce its effectiveness in quick implementation of changes.  
 K. PRAZER

(8)

### Examiner Comment

This answer demonstrates that the candidate had a good grasp of the principles of budgeting and budgetary systems. There is less strong application and evaluation compared to answers that reached Distinction D1 level. The answer starts with a strong definition and the second paragraph is a well explained analysis of the potential benefits of budgets and budgetary systems. The third paragraph shows insight but is not applied in any way.

The final two paragraphs show a mature attempt to link the setting of budgets with the proposal to reduce management numbers. There was scope for more detailed application of the benefits and limitations of budgetary systems to WarmIT and for more balance in the answer. 8/10

## Example Candidate Response – Merit

<p>23</p> <p>K</p> <p>A</p> <p>A</p> <p>A</p>	<p>There are a number of benefits to warn IT of establishing a budgetary system for each of the three divisions of the company. Firstly they will be able to make more informed management decisions. Instead of the financial manager doing budgets for all 3 divisions he or she could spend more time looking at the figures for the whole company &amp; working out a way to cut costs. In addition by allowing the employees themselves the ability to do the budgeting, you are motivating them further as you are delegating important responsibilities to less-skilled employees than the financial director himself. Furthermore each particular department will know exactly what is needed or what isn't needed better than the <del>actual</del> financial director himself as he lacks the skill &amp; knowledge to deal with each problem <del>the</del> each department faces on a daily basis.</p> <p>Furthermore by allowing each department to do their own budgeting, <del>not</del> the management will find out more about <del>the</del> how costs can be cut than they would be able to think of themselves. The particular departments will know where <del>that</del> costs could be <del>smoothly</del> saved in places that the management hadn't even thought <del>about</del> about.</p> <p><del>How</del> However on the other hand there are possible problems with delegating budgeting to the 3 different departments. Firstly although they will have greater skill &amp; knowledge <del>then</del> over the daily running of the</p>
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P1 department they will lack the necessary skill needed to create a ~~form~~ budget that tells the management team exactly what they want to know know. In a sense this could de-motivate the employees as far as they are concerned it should be the financial director who deals with the figures whereas they should do what they are good at doing which is what they their own particular department specialises in.

A2 In addition there is the opportunity cost that will be involved by getting each department to do their own budgets. Firstly the time they spend doing the figures figures could be spent doing other, more profitable work work that could contribute to the increasing of sales or the ~~reducing~~ cutting of costs. So therefore even though they could use the budgeting time to make cost cutting decisions & subsequent methods, the opportunity cost is that they could actually be carrying out those methods.

E1 Ultimately delegating a budgeting to the employees of each department will be good as it will not only help help the management be informed about issues they would previously know little about but it will help the employees become more motivated.

K1 P1 A3 E1

6

### Examiner Comment

The candidate demonstrates a good understanding of budgeting – although the answer does not start with a clear definition, which is always the recommended way to commence a response at this level. The potential benefits and limitations of delegating the budgetary process are well explained – but in isolation to the business in the case study.

There is weak application only – and this limits the impact that the candidate's attempt at evaluation has. It is always more effective to show judgement about a business technique or decision when discussed in the context of the case study business. 6/10

## Example Candidate Response – Pass

23	<p>A budgetary system is where each division within a business <sup>is</sup> <del>are</del> given authority over <sup>its</sup> <del>their</del> own individual cost and revenue budgets. Allowing each division to take a certain amount of authority over their department does have some benefits. Firstly, the managers within these departments know their area of expertise thoroughly and so know how the money should be spent. For example, if a certain part of these division needed extra money for a specific job, the manager would be able to assess the need for the money and allocate it accordingly. This also makes decision making faster, as the manager of that department would be able to decide, <del>no</del> without having to refer to the higher authority. This is good for the business as both managers would have more time to focus on other jobs. However, competition and rivalry could be created between the different departments, causing tension within the workplace. This would not be good for employee motivation as they may be pushed to work extremely hard. Each <del>department</del> department may also not have the same objectives in the business as a whole, and may work for different goals if given too much control over how their department is</p>
E	<p><del>un. <del>unconclusive</del></del> In conclusion I think that some authority should be given to each division, the company will be able to make the necessary cuts and save money, however, I feel that there should be a limit to <del>how</del> how much power the individual managers receive.</p>

Examiner Comment

This answer demonstrates a clear understanding of methods of budgeting – zero based and historical based budgeting, for example. The response is not so well directed towards the issue of a budgetary system for each of the three divisions and the potential for some delegation in the budgetary system – which was the focus of the question set.

There is a brief explanation of the problem of allocating costs to individual divisions but this is more of a cost allocation rather than a budgetary issue. The candidate does recognize the relevance of a divisional budgetary system in a business that is attempting to cut costs.

The answer could have been improved by further application to the problems faced by this business, a more detailed explanation of how a divided and delegated budgetary system might offer benefits and the limitations of this approach. 5/10

Question 24

**The company is about to undergo substantial changes. Discuss how the directors of WarmIT might achieve effective change with the minimum of employee resistance. [10]**

Mark Scheme

	Knowledge 1 mark AO1	Application 3 marks AO2	Analysis 3 marks AO3	Evaluation 3 marks AO4
Level 2		3 marks Points made are well applied to case	3 marks Relevant reasoning or theory used to explain answer	3 marks Good judgement shown of the different approaches to change management
Level 1	1 mark Some knowledge of change management shown	2–1 marks Some application of points to case e.g. the need to prepare long established staff for change	2–1 marks Limited reasoning shown	2–1 marks Limited evaluation of change management methods

- Distinction could be made between managing and leading change – latter much more significant in this case.
- Need to explain causes of and reasons for change.
- Explain how people will be affected and what the business intends to do to reduce impact.
- Need to go through Trade Union? Is it a single union business? Can the Trade Union be brought in to assist in the change process if the long term benefits and consequences of it are explained?
- Need to communicate to all staff that change offers opportunities as well as shorter term threats – and that failure to change has more definite long term threats.
- Could just introduce changes and do not worry about staff reaction – time to replace some long serving staff? Chances of industrial action could be remote.
- Is this management team able to lead change? They seemed to be very slow to respond to the economic downturn.

## General Comment

This question examines the candidate's understanding of how substantial change within an organization can lead to resistance, reducing the chances of it being introduced effectively. The different approaches to introducing, leading and managing change could then be discussed and evaluated.

## Example Candidate Response – Distinction (D1)

24 Change ~~manages~~ ~~to~~ ~~be~~ ~~managed~~ management is when change ~~is~~ ~~implemented~~ ~~in~~ ~~the~~ ~~business~~ ~~to~~ ~~reduce~~ ~~employee~~ ~~resistance~~ ~~through~~ ~~different~~ ~~ways~~ ~~or~~ ~~methods~~ ~~of~~ ~~communication~~ ~~and~~ ~~rewards~~. Change is a difference within the business environment, and this may arouse employee resistance (demotivation ~~and~~ ~~and~~ ~~anger~~) ~~and~~ that may prevent the business from succeeding.

WarrIT plc are proposing to change the structure of the organisation by delayering the organisation and especially making 50% of their middle managers redundant (or relocated to a lower position).

Although beneficial to the business by allowing the ~~the~~ channels of ~~the~~ communication to ~~reduce~~ ~~and~~ ~~shorten~~ and allow clearer communication, employees could resist this change as they ~~probably~~ ~~won't~~ <sup>probably won't</sup> want to lose their jobs. To achieve this change with minimal resistance, WarrIT <sup>HR</sup> Managers could consult and have face to face meetings with the

employees to create a clearer communication during the change - preventing a "grapevine" ~~rumour~~ rumours to spread and increase the resistance and the "them and us" divide. By being open, honest ~~and~~ ~~clear~~ through communicating with employees, the business ~~can~~ could gain the trust and loyalty from employees to reduce their resistance. This is especially vital for the business as their employees ~~are~~ have a first allegiance with the "Trade Union", and ~~the~~ industrial action ~~can~~ as a result of employee resistance and lack of communication could create a large cost for WarmIT - preventing their changes from being beneficial. (especially if this attracts media attention that could reduce ~~the~~ <sup>their</sup> reputation ~~and~~ and demand for heating).

E1 To implement the change smoothly they could use a democratic approach by consulting employees (like how Andy Street - leader of John Lewis did when needing to reduce his 1000 workforce in the head office by 40 people). By gaining the opinions of the employees in WarmIT plc, the employees ~~will~~ will feel more valued (vital to Maslow's hierarchy of needs to motivate) and this will reduce the grudges and resistance by conveying the humanity of the management to break the them and us divide. An example of consultation could be to have a large informal meeting with ~~the~~ the middle managers ~~and~~ to tell them why they need to cut 50% of them, and

A2

off them voluntary redundancies or the options to choose ~~that option to~~ to have a lower position, ~~to~~ ~~give them~~ giving them responsibility and therefore reducing their resistance and retaining their company loyalty. However an issue with this method is that if ~~the~~ employee suggestions are not taken on board, employees could feel really devalued and therefore actually increase demotivation.

E<sup>2</sup> The employer could offer financial benefits for the employees being made redundant (as Taylor viewed money as a motivator) to make them leave quietly, however as Wom/Tple have just experienced a lower sales due to <sup>the</sup> recession, they may not have the financial ~~elements~~ ~~to~~ ability to fund this. Furthermore this use of money is dehumanising - taking away Maslow's need for ~~prestige~~ esteem and feelings of self-worth.

E<sup>2</sup> In conclusion ~~Wom/Tple~~ Wom/T should use an open communication with their employees to reduce resistance and rumours to allow them to accept the change and see the redundancies from a managerial point of view. If they are willing to take suggestions on board they could consult them and allow them to choose what to do, however if they are not prepared to take on ~~the~~ decisions made by employees they should be autocratic as this could ~~make~~ demotivating them further. These communication techniques are better than using financial rewards,

as the ~~the~~ money may be hard to source as their business are experiencing low sales, and this money may not fulfil employee esteem needs.

K1 P3 A3 E3

10

### Examiner Comment

This answer has an excellent introduction that indicates that the candidate has really understood the “management of change” topic in the syllabus. The response is fully rooted in the context of the case study business.

There is effective use of Business and Management theory and concepts to support the analysis made. The final two paragraphs demonstrate mature evaluation and a better answer could not be expected of an 18 year old student in the time allocation of around 15 minutes. 10/10

### Example Candidate Response – Distinction

24 Plan Change management – reputation.  
 Trade Union (line 67)  
~~Business~~ Redundancy (line 35)  
 Voluntary Vetrol limiting  
 Enrichment?  
 Motivation.  
 Group Relations.  
 Short sightedness.

<p>(A) K1</p>	<p>Change management is an important factor in many businesses. Especially there in a dynamic market as Walmart is. Change is necessary to adapt to new challenges such as new competition and to innovations (Line 52)</p>
<p>P1-</p>	<p>Asif describes his staff as 'loyal' and claims to have a low staff turnover. This is key to change management. He must aim to ensure change happens, to allow for new conditions, with a minimum of resistance from staff. A policy of staff involvement in change such as Kaizen is likely to be effective. Kaizen would make every worker responsible for the cost and quality of the department they work on. This is hoped to make change understandable and not threatening to workers. Most resistance to change is often attributed to a lack of communication between management and staff. Therefore to achieve change without resistance the 'them and us divide' must be overcome. Kaizen hopes to make workers feel attached to the work they are doing, achieving Self-Actualisation, in the 'Hierarchy of Needs'.</p>
<p>A1</p>	<p>Using the same theory if change can be linked to job security, resistance can be minimised.</p>
<p>A1</p>	<p>However, Kaizen may also place greater burdens on staff, who may feel</p>

P1  
 P2  
 their job has been expanded without reward. This goes against Mayo's insistence that workers should be paid for extra days work. This linked with the inevitable redundancies (line 35) could trigger trade union involvement. This could mean resistance to change is coordinated, this could be one major problem. Trade Union may block actions to involve workers in change as it may see this as strike breaking. Workers that are involved may be subject to ~~the~~ sanctions from the trade union.

E  
 In conclusion, involving the trade union and workers fully in change should so ease resistance to change. Typically workers <sup>K1P2</sup> <sub>A362</sub> who feel attached to their departments and who have been explained to the need and advantages of change will not resist it. If the facts are presented and communication ~~upheld~~ upheld, change can be ~~hoped~~ hoped to the company and the majority of the workers. (8)

### Examiner Comment

This answer begins with an appropriate example of change drawn from the case. The section that explains the use of Kaizen groups to improve communication to facilitate change is analytical.

There is effective use of the Trade Union references in the case study and some understanding of how the Trade Union might be involved in the change process. There is some attempt to make a judgement.

However, this answer could have been further improved by a clearer focus on the changes likely to occur within this business and a discussion of the other ways to introduce and manage change with a judgement made regarding the "best" approach in this case. 8/10

## Example Candidate Response – Merit

24. There are a number of methods that a ~~firm~~ ~~could~~ ~~use~~ ~~to~~ ~~ensure~~ ~~minimum~~ ~~employee~~ ~~resistance~~ ~~to~~ ~~the~~ ~~rate~~ ~~changes~~ ~~they~~ ~~would~~ ~~like~~ ~~to~~ ~~make~~. Firstly by Taylor's motivational theory money is the key therefore in order to stop employee ~~resistance~~ ~~resistance~~ there could be a restructuring of the pay system whereby wages or salaries increase or there is greater opportunity for promotion or bonuses depending on performance, output or quality. However this is not a viable option as in truth the company is having to ~~change~~ ~~due~~ ~~to~~ ~~the~~ ~~firm's~~ ~~financial~~ ~~problems~~ thus increasing costs would be a mistake.

Therefore another method would be to adopt a more consultative method of management whereby employees would be regularly asked what they think should happen over a certain issue. This may go some way to eradicating the "then & as" attitude that Asif mentions. However a problem with this is whether they have the necessary skills to have a viable opinion on certain matters & in addition there will always be a problem with ~~consultative~~ ~~consultative~~ consultative management style that once started employees will expect it but there could be issues that the firm does not want discussed with certain employees.

Furthermore the company could seek to attempt to ~~renew~~ ~~renew~~ motivate the workers by a system of job enrichment, enlargement, ~~rotation~~ or rotation. Via this method employees ~~would~~ ~~would~~

feel more respected and influential in the day to day running of the business & via job rotation they may pick up new helpful skills. However again there are issues with form of motivation as there may not be the opportunity to ~~enrich~~ enrich or enlarge existing job descriptions in this type of business in particular at the time with their poor economic record.

K A final option is to possibly leave the motivational system as it is. The workers are happy enough at the moment even if there is a large amount of ~~irregular~~ Union collaboration. The workers are clearly Theory Y under McGregor's motivational theory therefore they shouldn't be too affected by the possible changes anyway.

E<sup>1</sup> Ultimately the best option for WarrmIT would be to attempt to ~~not~~ start with a more consultative managerial nature with greater delegation whilst ensuring that the changes are implemented as smoothly as possible.

K1 P1 A3 E1

6

### Examiner Comment

This answer is not very well focused on change management and the ways to overcome resistance to change. The candidate suggests that motivational techniques should be used and while these may have a role to play during periods of significant change they are not the "answer" to all HR related problems. There is some content worthy of credit – for example, the discussion of consultative management style is both accurate and appropriate.

The answer could have been improved by a clearer focus on the case and the problems of change that the business is facing. In addition there is scope for much clearer evaluation of the techniques and approaches that could be adopted to achieve effective change and reduce staff resistance to it. 6/10

## Example Candidate Response – Pass

24 They could involve the employees ~~in the~~ by using quality circles and involve them to see what they think about it. They may have better suggestions and it will motivate the staff as they feel more part of the business. They could also inform them at every stage what they are doing so that ~~they~~ feel ~~they~~ the employees don't feel information is being withheld from them. This makes employees be fully aware of what is going on keeping them in the business and involved. They could also test out the changes with one of the divisions to ~~test~~ test whether they like it. They could see if it was going to be put throughout all the divisions or ~~if~~ only some of the changes. This would limit the damage on the whole of the business and would instead only affect  $\frac{1}{3}$  of it.

KIP1A2E1 (5)

## Examiner Comment

This very brief answer is poorly applied to the case – the only reference to it being the suggestion that one division of WarmIt could be used to test the proposed changes.

There is little attempt to discuss the issues involved in the management of change.

The content that is worthy of credit outlined the role of quality circles and “informing them at every stage”.

These points could have been further developed and there is considerable scope for further analysis of these and other points using the theories and concepts of the subject.

There is a brief evaluation that related to the “one division first” suggestion which is appropriate and logically follows from this suggestion. 5/10

**Section 3: Essay****Answer one question in this section.****You are advised to spend 45 minutes on this section. Relevant references to real world business examples will be expected.**

## Mark Scheme

	Knowledge 6 marks AO1	Application 10 marks AO2	Analysis 12 marks AO3	Evaluation 12 marks AO4
Level 3		10–7 marks Excellent application of most points to selected businesses	12–8 marks Extensive reasoning and use of theory to explain arguments	12–8 marks Extensive judgement in answer and conclusion
Level 2	6–4 marks Good knowledge shown	6–4 marks Points well applied to selected businesses	7–4 marks Good reasoning/use of theory to explain answer	7–4 marks Good judgement shown in answer and conclusion or excellent judgement in answer or conclusion
Level 1	3–1 marks Some knowledge shown	3–1 marks Some application of points	3–1 marks Some reasoning/use of theory to explain answer	3–1 marks Some judgement shown in answer or conclusion

### Question 26

**Discuss the view that the continued development of emerging economies such as those of China and India will result in more opportunities than threats for UK based businesses.** [40]

### Mark Scheme

- Outline of what is meant by emerging economies and some sense of scale provided.
- Opportunities:
  - Inward investment
  - Outward investment
  - Outsourcing
  - Cheap supplies of imports – helps keep CPI low
  - Rapidly growing markets
  - Joint ventures
- Threats:
  - Cheap labour products make UK goods/services uncompetitive
  - Huge demand for commodities drives up prices
  - Sovereign funds take over UK companies
  - B of P deficit

### Judgement:

- Depends on type of industry/product – examples needed
- Ability to respond to change and opportunities

### General Comment

Examiners expected candidates to be able to recognize that one feature of globalization has been the growth of the newly developing or emerging economies such as China and India. The impact of these economies on UK business takes several forms including: opportunities for outsourcing; opportunities for expansion into these markets; threats to existing markets from cheaper imports from these countries; increasing levels of integration with businesses from emerging economies.

The impact on any one business would depend on, for example, its level of competitiveness; the type of product it deals in and type of market it operates in.

Some weighing up of the potential threats against potential opportunities would be a good example of evaluation.

## Example Candidate Response – Distinction (D1)

26)

-Dejn-

Texco - 56 stores 50% FTing Hsin lat - 17,600 jobs  
MKT DEVELOPMENT. - low risk, ~~big opp~~ - net 1.5 bill

Woolworths - Hutchinson Essar - \$5.6 bill - MKT - IMPORT COSTS

HOWEVER SO USP. PORTERS DISCREPANT

Lloyds - 180 jobs - LACK OF QUALITY.

LARGE LABOUR MKT BUT Lloyds

lose out to comp if quality low.

Power - SWF - \$2 bill - impossible to compete???

- \$ job losses + relocation - EoS.???

K1

The emergence of Chinese and Indian economies can be seen as a part of globalisation. Globalisation is the process where regional economies, societies and cultures are becoming increasingly integrated through a global spanning network of communications and trade. These networks can include technological advances such as the Internet and e-commerce and infrastructure

improvements. ~~One UK company which has~~  
 There are many opportunities and threats  
 K) for UK businesses, such as cheap  
 labour and production, but competition  
 from abroad. One successful UK business is  
 Q) Dyson, which moved all production to China  
 and Malaysia, due to much lower labour  
 and production costs.

One UK business that has successfully  
 exploited the Chinese economic growth is  
 Tesco. In 2007, Tesco bought a 50%  
 stake in Ting Hsing International, a Chinese  
 based supermarket chain. They did this  
 as they saw that as the Chinese economy  
 grows, so do ~~£~~ disposable incomes, meaning  
 A) more customers are likely to spend more.  
 By looking at Ansoff's Matrix, we can  
 see that Tesco underwent market  
 development. This is a move ~~which involves~~  
 is not too risky, and enabled Tesco to  
 bring their goods to a new market. By  
 buying into an existing company, Tesco  
 didn't need to establish themselves in  
 the market, reducing market competition  
 from new entrants. ~~£~~

This move was very feasible and ~~was~~  
 has a high chance of success. This is

K<sub>2</sub> due to the Chinese economy growing hugely, enabling Tesco to exploit the huge 1.3 billion customer sized market it has entered.

R<sub>2</sub> Another successful company by investment into a company based in an economy with rapid growth is Vodafone. In 2006, they bought a majority stake of Hutchinson Essar, the 4<sup>th</sup> largest phone provider in India, worth £2.6 billion. India is now becoming the 2<sup>nd</sup> largest mobile phone ~~provider~~ market, after the USA, meaning Vodafone, like Tesco, have successfully entered a ~~growing~~ huge market in a rapidly growing economy.

However, Tesco and Vodafone both face challenges abroad, as import costs into both China and India are huge. This means both Tesco and Vodafone will have to charge a higher price on imported goods, meaning they may be losing out to local competition. Porter's Differentiation theory suggests that for a firm to be successful in a market, they must have a unique selling point to stay ahead of market competition and attract a large customer base.

V<sub>2</sub>

I feel that for both Terra and Vodafone, both moves were very feasible, and they both have a high chance of success as long as they are able to compete with locally sourced competition. This is due to the huge market sizes represented by both countries, and the fact that both companies have invested in existing companies while the Chinese and Indian economies are still rapidly growing.

However, there do exist threats to UK businesses. For Lloyd's TSB, the huge labour market presented by India was not to be missed, ~~in 2006 they~~ so they built call centres in India. This is because wages in India are on average less than a quarter of wages in the UK, for skilled workers. However, in 2006, Lloyd's had to shut down their call centres in India, cutting 180 jobs. This is because customers were unhappy with the quality of service provided, as there were communication barriers. This resulted in many UK customers moving banks which provided call centres based locally.

This example shows us how a lack of

quality can result in unhappy customers. Lloyd's saw the opportunity of outsourcing labour very cheaply; however what they didn't see was what the lack of skilled workers and quality of services which they had bought into.

FDI into UK ✓

Another example of a different type of threat to UK based businesses is the Sovereign Wealth Fund of China. Currently the Chinese government have reserves of \$2 trillion. In 2006, Shanghai General Motors, funded by the Chinese Sovereign Wealth Fund, bought out the UK car manufacturer Rover. To many this seemed like an opportunity which could ensure the future of Rover through foreign investment. However, what Shanghai General Motors did was shut down all UK production and move it to China. This move caused a rise in unemployment, as all Rover workers found themselves out of a job. On the other hand, Shanghai General Motors had saved on production and import costs by moving all production to one place; benefitting from economies of scale. This is because when all production is within the same

location, resources such as labour, ~~parts~~ and materials can be shared, creating a cheaper production and so economies of scale as output becomes cheaper the more cars produced.

This type of threat from foreign investment, in particular from China could potentially be huge. Many ~~UK~~ ~~UK~~ and ~~UK~~ companies on the stock market may find themselves vulnerable to takeovers -  
 AB meaning a loss of jobs and rising unemployment if UK production is cut.  
 The other:

However on balance I feel that there are  
 B2 more opportunities presented by the emerging economies of China and India than threats. I feel that the ~~labor~~ opportunity of cheap labour, as well as a huge market, is a very important factor for UK businesses to consider. By ~~bring~~ using market development, or Porter's differentiation, many companies will be able to exploit these growing markets. One further example of the importance of a unique selling point by using Porter's Differentiation is Costa Coffee.....  
 (PLEASE SEE ATTACHED ANSWER BOOKLET).

26 Costa Coffee opened their first store in Mumbai in 2007, and now operate over 30 stores in India. This is because a coffee retailer had never entered the Indian market before, ~~so~~ so Costa had an advantage, and their USP gave them security in India.

However, there will always be <sup>a degree of risk and</sup> threats presented from foreign investors looking to take over a UK based company, but I feel that what is more immediate and more important are the opportunities presented by these emerging economic superpowers.

Input price?

K6 P10 A8 E89

~~32~~  
33

### Examiner Comment

This is a very comprehensive answer to a very important Business and Management question. The response contains key features that allow it to gain a Distinction D1 mark.

The candidate starts with a correct explanation of globalization. There are many relevant and appropriate examples of businesses used to support the answer.

A wide range of factors – both opportunities and threats – is identified and explained. These include the more obvious, such as Dyson moving production to gain from lower production costs to the less obvious, the use of sovereign funds from China to invest in or take over UK businesses.

There are examples of evaluation throughout the answer. For example, the likelihood of success for businesses such as Tesco and Vodafone is discussed in terms of how effective they are at achieving differentiation and the importance of investing at the right time - "while the economies of China and India are still rapidly growing".

The final conclusion and evaluation is also of a high standard as the candidate attempts to balance and compare opportunities and threats and makes a judgement that the immediate opportunities outweigh the potential threats. This is a wide ranging and well balanced answer. 33/40

## Example Candidate Response – Distinction

26. Developing countries such as India and China have benefitted greatly over the past two decades from globalisation. Globalisation is the idea of breaking down international trade boundaries and stimulating free trade between countries. In an ideal 'globalised' world, transnational corporations are king. \*~~the~~

China. The most populous nation on the planet. 1.4 billion people and a GDP of \$3.8 trillion.  
 India, 1.2 billion people and a GDP of \$1.2 trillion.  
 These two nations are the two fastest growing super-powers and are therefore prime locations for UK businesses to develop their brands, not less ~~less~~ so than Manchester United Football Club. Considered by Forbes to be the world's largest football club and Deloitte as the world's biggest sporting franchise, the club is a global force.

Considering the size of both of the developing nations, Manchester United is in an ideal place? to take advantage of growing wealth within the states. In the UK, the club is limited to a maximum audience however by using the latest technologies such as the internet and TV, the club can access revenue streams not

possible domestically. In 2001, Man Utd launched their own Chinese website. Annual takings reached £2m in 2003 before rocketing to £14m in 2009. This gigantic rise has been caused by success both on and off the field. On the field triumphs have gained 20 million fans (or 20%) of the football loving Chinese audience, while contracts with Chinese TV stations have made huge inroads off of the field. Currently, 84.3m people in Asia watch MUTV, the club's own TV channel. This has been made possible by the club's product diversification. They have been able to turn a footballing side into a ~~club~~ company offering goods from pencil sharpeners to travel companies.

Growth has not been entirely focused on ~~the~~ China. The club also have 20 million supporters in India for which the club are drastically trying to generate income from. ~~Recently~~ Recently the Man Utd signed a £12m mobile phone deal in India worth £12m and opened their first 'Red Cafe', the club's trademark restaurant & chain. These are another two clear examples of both market ~~development~~ and product development.

The data above all seems very impressive, however for the 1.4bn and 1.2bn living in each ~~rep~~ respective country, the question has to be asked

E of how many of these people enjoy football and how many of the 20 million fans from each country can ~~generally~~ afford to generate the club sufficient revenue streams. Currently, both India and China have low GDP per capita, suggesting that although there is a large target audience, the cost implications to these fans may be too great.

P2 Umbro, England's biggest sports brand dedicate themselves to producing ~~goods~~ ~~in~~ their goods within the UK. They see this as a sign of the quality of their products. Nike however, are very keen to produce their sporting goods at much lower prices and look to countries such as China to do so. In 1997, Nike paid \$1.75 per day ~~to~~ per Chinese worker while that has now rise to \$4 per day. Therefore the total cost of producing a pair of \$100 RRP shoes is \$5. Compare this to Umbro, who ~~charge~~ pay above the UK minimum wage of £5.85, you can see that the UK firm is at a clear disadvantage. Nike's large profit margin has allowed them to pay large sums to big named sportsmen to wear their products. This exploitation of cheap labour in the Far East has certainly put Umbro at a disadvantage, not to a Chinese or Indian firm, but to one from the USA ~~is~~ that is a direct competitor in the UK

A2

E2

market.

Finally, as mentioned above, cheap labour appeals to many firms, both MNCs and also domestic companies. It is also very clear to see that UK businesses also take advantage of this. In the early years of the 21st century, many UK banks sent their call centres to what has now become known as the 'technology centre of the world', Bangalore. Low cost employees and advanced technology brought much lower expense and therefore higher profits to the banks. However, this was short lived as customers backlashed against these companies for their poor customer service levels caused by ~~language~~ language barriers. ~~and~~ This has resulted in a number of firms, not only banks, but also telecom giants such as BT moving their call centres back to the UK. Two good examples of this are Abbey (now Santander) moving 1000 jobs back to the UK in 2005 and BT ~~also~~ announcing their plans to do the same with 1500 jobs only last week. This shows that although the attraction of lower costs of exporting jobs can be beneficial to the balance sheet in the short term, over a longer period it can cause problems with customers and therefore a loss of custom.

Overall, I believe that the continued development of emerging markets such as those of China and India will result in more opportunities than threats for UK based businesses. China and India both have fast growing economies and increasing spending powers. The economic benefits to the UK of sporting clubs such as Manchester United with a target market of over 2.5bn in those two countries alone suggest their future revenue streams will be more and more focused on these countries. Man Utd's aggressive marketing strategies have been testament to this. Secondly, quality levels demanded in the UK cannot be matched ~~to~~ yet by these developing nations suggesting there is ~~limited~~ a limited amount of jobs that can be lost by the UK to these countries.

\* I believe that UK businesses have much more to gain from these developing countries than they are able to lose. Below I will explain why I believe this.

Other threats eg. imports

e FDI from CII?

KS Pg A7 E9

(30)

### Examiner Comment

This has similar strengths as the previous answer but it is less wide ranging in its scope. There was no discussion of the threats posed by lower import prices from emerging market economies nor was there any recognition of the rising risk of UK business takeovers by investment funds from these nations.

Examples used are relevant and well explained. It is recommended that candidates always attempt to make clear references to at least two businesses in their essay answers.

There is good balance in the arguments used – both positive and negative issues are explained. Evaluation is frequent and of a high standard, especially the references to the different impact on profits between the short and long run and the attempt to judge between the relative importance of the threats and the opportunities. 30/40

## Example Candidate Response – Merit

26. Opportunities to business are ~~openings~~ openings that ~~is~~ businesses can exploit in order to gain profits or in general to benefit the business. ~~Threats~~ Threats are bad for a business as they can potentially either cause the business to lose customers or revenue or ultimately cause the business to stop existing.

For UK businesses there are lots of opportunities and threats from the emerging markets of China and India. Manchester United are a company who have grasped this opportunity with both hands. They are now the world's biggest ~~and~~ sports franchise and have conducted themselves brilliantly in the emerging economies around the world. China have 110 million football fans in total and 20 million of these support Manchester United and since MUTV launched in China, 8.25 million people have subscribed to it. A vast ~~amount~~ amount of ~~their~~ their revenue comes from their merchandise sales and when you have 20 million fans in China alone it just shows the revenue that Manchester United can earn from ~~the~~ the market in China.

Also Manchester United go on a tour every year and recently visited China and are going on a tour of USA in 2010 going to these countries creates a massive buzz around the Manchester United team and Manchester as a company can exploit this through merchandise sales and ticket revenue from the matches they play over there so this goes to show for Manchester that they have taken this opportunity with both hands and ensured that they gained every last bit of revenue from these ~~the~~ emerging economies.

Another company taking advantage of the emerging economies is ~~Terco~~ Terco as they have recently opened 58 new stores in China alone. Doing this should create vast amounts of revenue for a company like Terco and ensure they ~~keep a long term future~~ ~~keep~~ keep developing as a business as in some places in the UK they have been rejected the right to open new stores as they would end up dominating the supermarket market in the UK so moving to China means they can expand the business as rapidly as they want to.

There are also opportunities that UK businesses aren't exploiting though like Umbro as they still ~~man~~ manufacture their shoes in the UK and if they were like Nike the American company they would be exploiting the 1.75 dollars per day that they pay to their workers in China. Considering Nike sell their shoes for over 100 dollars in most cases and it costs on average 5 dollars to make it seems quite ridiculous that Umbro haven't taken up an outsourcing option like this in order to produce their products.

Even though their products don't sell for as much as Nikes as there isn't as much demand you would still think that producing the shoes in China could potentially produce more profit for the company than their base in the UK.

On the other hand there can be many threats for <sup>UK</sup> businesses. Lloyds decided to

move their call centres over to ~~and~~ India and create 2,500 jobs over there which seems like a good idea in theory because the wages are a lot lot lower over there. But their UK customers were not satisfied with this and Lloyds ended up losing customers to rival companies because they were not satisfied with the service they were getting from ~~the~~ the Indian call centres so they have had to move them back to the UK. This was very serious for Lloyds because once you have lost customers to rival firms it is almost impossible to get them back so Lloyds had to find ways to gain customers from rival companies.

Another company with the same problem was Povergen as they lost customers because their customers didn't think the workers had enough local knowledge and again it was difficult for them to get customers back.

In conclusion I feel the emerging markets will result in opportunities and threats for UK businesses. If a business can establish itself in a country ~~where~~ where there is an emerging economy then it will be potentially lucrative for the company in the long run. But if the customers are not happy with the service they are getting when a company tries to use these emerging markets then this can be very damaging to the company in the short run as they will quickly lose customers to rival companies so overall if done

Right the emerging markets can offer long term opportunities to UK businesses but on the other hand there are short term threats and these can lead to a slippery slope that is hard to get back up for other UK businesses.

Other O/T

Imports?

FII into UK?

K4 P9 A3 E7

23

### Examiner Comment

This candidate makes a good attempt to apply the points made to actual business examples. The answer is quite narrowly focused, concentrating mainly on UK businesses operating in emerging market economies. There is scope to consider the impact of cheap competing products from these nations and the potential for takeovers from the investment funds controlled by businesses in these economies.

There is an attempt to show judgement when suggesting that the opportunities were long term and the threats – or, rather, the limitations of operating abroad – were essentially short-term problems. A consideration of a wider range of issues would have allowed this answer to gain substantially higher marks.

23/40

## Example Candidate Response – Pass

Developing countries such as China & India are developing at a huge speed. It is due to many factors such as the cheap manufacturing costs that can be achieved in these countries due to there not being a minimum wage enforced, as well as the huge population of these countries, offers a huge workforce for the business world.

Recently many countries including the UK have set up business in countries such as China & India. The reason being that business feel they can exploit these countries and manipulate its population & potential workforce. As there is no minimum wage enforced in these countries many business have decided to transfer production to these countries & pay its workers there ridiculously low wages. This then greatly increases <sup>why?</sup> productivity & large volumes can be produced as the minimum unit cost ~~is~~ as well as economies of scale made possible as a result of this. Economies of scale is the same as increasing returns to scale in that as the business increases as does its efficiency. ~~(10/14)~~

(c) These developing economies will result in more opportunities ~~than~~ than threats for UK based businesses as there are not many

barriers to entry. There is also many other factors which can benefit UK based firms such as possible government grants / income from these countries, lower taxes as well as large spaces for building construction.

A1 Expanding overseas also ~~mean~~ means that the company brand becomes more well known & recognisable, therefore many people will ~~be~~ buy goods / services from them as they develop brand loyalty, thus the size of the business expands.

Eg?

E) There are far more opportunities than threats for UK based businesses as due to the advantage of low costs in these developing countries the cost of running the business will go down ~~£~~ as well as there may be more highly skilled workforce in the countries who find it difficult to get work so are willing to work for less money. ~~that~~

A2

A) Many companies such as BP & Shell involved in the oil & gas industry primarily ~~work~~ work overseas ~~at~~ including developing countries.

K2

due to natural resources being located there, in this case oil. For this reason if this firm were not able to work overseas it would not get access to this oil & would therefore not be able to extract it, most

Probably resulting in its failure.

~~Many~~ Different countries have different cultures and ways of living so some businesses eg? maybe very popular operating overseas, more popular than they would be here in the UK. ~~The~~ Business can adapt in positive ways and then bring this back to the UK.

P2 Because of the cheap workforce it is why many products can be sold for less money in the UK. PRIMARK for example is a clothes retailer whom is very successful during the current recessionary economy, and the reason for this being that they manufacture their clothes overseas in countries like china & India, and because the manufacturing costs are so low, they can pass this on to us in the UK, so we adversely benefit from these countries at their expense.

(R2-)

RAP 5 A6 EA

Some balance = the answer.

19

### Examiner Comment

This answer contains some relevant points but it is rather one-sided in its approach, the potential threats are hardly touched on and there are rather weak references to actual businesses. There is sufficient understanding of some of the issues to gain marks at Pass standard, however. For example, the references to lower labour costs, large potential working populations and low barriers to entry.

Examiners expected a wider range of business examples with more detail about the reasons for operating abroad. The threats of foreign takeovers or increased competition from businesses based in these countries are not considered so the answer is incomplete and narrowly focused. 19/40

### Question 27

**Evaluate the case for and against a UK based manufacturing business relocating its operations to another country.** [40]

#### Mark Scheme

- Location issues are strategic decisions that must be taken at a senior level and are difficult to reverse.

Case FOR:

- Lower labour costs
- Less restrictive legislation
- Faster expanding overseas markets – better to locate closer to these?
- Cheaper land costs
- Lower corporation tax rates than e.g. Poland and Eire.

Case AGAINST:

- Cost of relocation and upheaval
- Redundancy costs
- Failure of social responsibility – pressure group and consumer reaction to this?
- Charges of potential exploitation of labour or of natural resources of countries with weaker controls
- Balanced judgement required based on recent examples e.g. Dyson, Burberry's.

Judgement: Balance of advantages against disadvantages; may depend on type of business and importance of cost savings against quality or customer service.

#### General Comment

This question aims to encourage discussion about the impact on a UK business – and its stakeholders – of a decision to move some of its operations abroad. There is much scope for using recent relevant industrial examples. A well developed answer would be likely to consider more than just profits but also assess the impact on customers (quality of product/service); existing employees (redundancy or relocation); suppliers (potential loss of contracts) and other stakeholder groups.

The overall case for relocation would depend on the weighing up of a number of factors but good evaluation would consider that such relocation is a more effective strategy for some businesses than others.

Example Candidate Response – Distinction

27 Evaluate the case for and against a UK based manufacturing business relocating its operations to another country.

Plan

Defn in context - outsourcing

P1 - Benefits from economies of scale  
 Avoid legislation - lower production costs  
 - Coca Cola plants in India because of free water + cheap labour.

P2 - Costs of quality and brand image  
 - Hogg's TSB 2004 opened open call centres in India, Mumbai causing around 80,000 UK employees to lose jobs + was slated and non-look in UK

Ethics issues

P3 - Nike 2006 outsourced <sup>UK</sup> to China 90,000 employees in China 80% women 18-24.

FRJ - ~~Bad idea~~ Not a good idea for brand image

and company reputations.

— end of plan —

~~Companies outsource good overseas~~

K<sub>1</sub>  
A<sub>1</sub> Companies outsource operations overseas to benefit from lower labour and production costs and sometimes to avoid legislation. During the global recession some companies that had operations in countries such as ~~the~~ China and India, that weren't as badly affected, were better off than ~~some~~ <sup>many</sup> UK based companies that were hit hard by the global recession. Outsourcing to China and India made ~~so~~ companies less vulnerable to external shocks as all their assets and operations aren't based within the same economy.

~~The benefits that can be gained~~

K<sub>2</sub>  
A<sub>2</sub> Companies can benefit from economies of scale by outsourcing operations. This is because in third world countries such as India and China labour costs are a lot lower than in the UK which lowers the average cost per unit of production hence creating economies of scale as the business is reducing its average costs and can benefit from a bigger margin.

P1  
 A1  
 Other Companies such as Coca-cola have outsourced operations in order to avoid UK legislation and benefit from cheaper raw materials. Coca-cola the worldwide soft drinks giant set up plants in India to produce Coca-cola to benefit from the free water supply. In the UK the company would have to pay for this raw material however in India it is free so they can benefit from cheaper production costs which will create lower variable cost per unit so average cost will fall and they can benefit from economies of ~~scale~~ scale.

A2  
 Outsourcing is one of the best ways for growing UK businesses to benefit from economies of scale and increase their international competitive. They can improve their competitiveness by benefiting from low production and labour costs due to the more relaxed legislation. This is the main argument to support the outsourcing of goods & overseas.

~~In 2004 Lloyds TSB, the big UK~~  
~~bank, the large UK bank, outsourced~~

P2  
 In 2006 Nike, the worldwide clothes and footwear manufacturer, outsourced its footwear and apparel factory to China. The company employed 800,000

workers in ~~china~~ China to manufacture shoes and ~~clothes~~ Nike wear. This was headlined in the BBC news and was published in UK news newspapers and these factories were described as 'sweat shops'. 640,000 ~~workers~~ of the workers were women between the ages of 18 and 24 which is 80% of the total labour force. The jobs were low paid and the working conditions were disgraceful. This cause many consumers in the UK to associate the manufacture of Nike trainers to the 'sweat shops' in China. This ~~reason~~ has somewhat tarnished the companies brand image of more exclusive stylish trainers and sportswear.

The Idea of factories in China and India is now seen in the UK as ethically wrong as companies such as ~~the~~ Nike and Primark are paying low wages and ~~letting their~~ ~~wo~~ giving their workers very poor conditions to work in. Many people see this to the extent of against the human rights of those working there.

Despite the cases for manufacturing businesses relocating operations overseas the overall attitude to outsourcing is that it is morally wrong. In the short term companies benefit from lower costs and bigger profit margins but ~~the~~ in the long term the brand becomes associated

with these third world countries and poorer quality. Lloyd's TSB outsourced call centres to Mumbai in India in June 2004 causing 60,000 people in the Newcastle call centres in the UK to be jobless. Within months the company got complaints about these call centres and they moved them back to the UK. Yet again the company name has become tarnished.

### ~~The costs of outsourcing out~~

It is a good idea for UK companies to outsource operations as long as it is seen by the consumer as ethically sound. If it is seen as morally wrong the company would be ~~subject~~ subject to disapproval and in the long term this may result in lost sales and which could cause the company to go out of business. The risk is a lot bigger than the ~~potential~~ benefit in the eyes of the consumer but for small companies the potential reward seems to hard to let slip because it could create the foothold into a highly profitable and competitive market.

Q is not just about outsourcing.

K4 P9 A7 E9

(29)

#### Examiner Comment

This is a detailed answer displaying the skills expected by examiners from a candidate awarded a Distinction mark. The main issue that, if it had been addressed, would have brought the answer to D1 level, is the candidate's assumption right from the outset that the question was only concerned with outsourcing. This limits the range of business examples and business decisions that are discussed and evaluated. Operations abroad could have included taking over an existing foreign company, setting up a factory overseas (and possibly closing a UK based one) or setting up retailing operations in other countries. 29/40

## Example Candidate Response – Merit

27. There are a number of arguments to argue the case for a UK based manufacturing business relocating its operations to ~~another~~ another country. Firstly the potential employees in the area may be far cheaper than here in the UK therefore meaning that costs will be reduced thus profits will be higher. In addition the labour ~~market~~ market may be full in the country that the firm is relocating to therefore the chances of finding the necessary skilled workers is easier & it is easier to find many many of them. Furthermore the country that you move your business to may have a better ideal of quality than in the UK therefore the general quality of your products rises. This would usually happen for no increased cost as the employees will have the improved quality ideal as part of their heritage rather than just ensuring that all products have better quality than before. This occurred in Japan with Toyota's ideal of total continuous improvement or ~~team~~ kaizen whereby the employees will constantly look to improve the products each day.

Furthermore the method of production (i.e. batch, job) may be that the firm ~~are~~ uses may link perfectly to the usual type of production that the employees are used to in that particular country therefore ~~there~~ <sup>there</sup> will needn't be any different training as they are already used to the method of production in question. Furthermore the firm may be able to increase economies of scale in the new country as ~~the~~ the workers may be more

productive than the UK workers but the ~~cost~~ cost per unit will still be the same or ~~maybe~~ maybe even lower. Therefore the company may be able to increase capacity & ~~the~~ thus improve its capacity utilisation and/or increase its ~~bulk~~ buying and/or ~~bulk~~ bulk distribution.

Furthermore if the firm was to relocate to a country where ~~it~~ previously there has been poverty, then the firm could rejuvenate the country by bringing infrastructure, jobs, money and skills to the region. From this the firm will have a good reputation and be fulfilling its corporate social responsibilities as Starbucks have been doing by only selling Fair Trade & Coffee beans. By doing this a firm may be able to increase its competitiveness & therefore sales and ~~the~~ profits.

Balance

E' However there are arguments to suggest that it would not be worthwhile for a UK based manufacturing business to relocate to another country. ~~Firstly~~ Firstly it can be very expensive in terms of both money and reputation to close down its ~~plant~~ operations in the UK. Not only will be expensive to set up in a new country but it will also be expensive to give redundancy packages to all those their employees and they will lose their reputation in the UK. In addition as a ~~manufacture~~ manufacturer, if they keep their ~~revenue~~ revenue in the UK the costs of transport will dramatically ~~more~~ increase ~~as~~ & will be hugely affected by changes in the exchange rate.

Furthermore in the particular country ~~relocated~~

2  
A that the firm moves to there may not be the necessary skills of workers in order to produce the right quantity or quality of the product they ~~not~~ create. Therefore the firm will have to ~~spend~~ spend a large amount on training in order for their new employees to have the right skills to produce the product. This could be particularly problematic ~~if~~ if the workers are not used to the type of production the firm uses.

A3 In addition the firm can ~~lose~~ <sup>be given</sup> a bad reputation by going to another country and being seen to be exploiting the cheap nature of the labour there. This has been the case for many clothes and toy companies who use the cheap labour in China to create their products especially ~~over~~ after the recent investigations into child labour and sweatshops.

E2 Ultimately a firm's decision into whether or not to relocate their ~~manufacturing~~ manufacturing business is dependant on a number of factors such as the type of business, it's production site. However the firm will have to see that in the short term the option may not be viable due to the high costs and possible problems that in the long term then the profitability of the venture ~~will~~ be could be great. Furthermore in order to eliminate any chance that the skills of the employees may not be right or the public perception of exploitation, the firm will do great research into which is the right country, with the right infrastructure & workers for the venture to be profitable.

K S P3 A 10 E 7

25

### Examiner Comment

This answer has several features of a response above Merit standard but it was let down by the weak application to actual business examples. As referred to above, the relevant use of actual business case studies drawn from the candidate's own experience should be a key feature of all essay answers on Paper 1. This answer displays sound knowledge of a range of issues that UK based firms should consider before relocating abroad. Some of these are analysed in depth – such as the issues of quality and staff training costs. Evaluation is relevant and quite effective. It is appropriate that the final paragraph started with the view that the final decision on whether to relocate depends on many factors, including the firm's products and size. The suggestion that the business should undertake research before making the decision is an obvious – but often overlooked – consideration. 25/40

## Example Candidate Response – Pass

27. in some ways relocating ~~operations~~ to another country can be opened for the business. The main reason why a business would completely relocate is if the market they were in wasn't generating them enough profit. By relocating it means the business can change their marketing strategy and use market development to infiltrate a new market with an existing product as Ansoff pointed out in his matrix. This is important for a business because they can use their knowledge from the UK market to ~~promote~~ <sup>cause an immediate increase in</sup> their product in the new market. <sup>sales.</sup> Success entirely depends on how the new customers respond and whether it would be better to stay in both the UK market and the new market. For example if we look at ~~Asda~~, instead of giving up on the UK market ~~but~~ because ~~decided to grow at~~ all their market share was being taken by tesco's, they merged with wal mart who are the leading business in the American supermarket industry. In this case it was a great success because it meant that they could generate more profit <sup>through a merge</sup> even though they were shopping in the UK market because of a lack of market share.

Another benefit for the business would be cheap labour. This means a significant decrease in cost for the business and therefore a result in increase in profit. For example if we take a car manufacturer like Toyota the reason they have so much success in other countries is because of their cheap labour in Japan. This compared to a UK based manufacturer is a massive cut in costs allowing them to produce and more and therefore gaining a huge international dominance. Relocating to another country also means that new jobs will arise for local communities and so the countries economy will be boosted.

However from the point of view of an employee relocating to another country may not be so appealing. Employees from the UK may have families that may not want to leave causing unemployment increases in the UK. As a consequence for the business if they want the skilled workers who would come under Macleod's theory employees who the business would want to keep, they would have to pay extra as giving up everything in the UK to go abroad can be seen as a big ~~cost~~ sacrifice.

A<sup>2</sup> would be a positive move. However for the business this relocating would be very costly. Every worker would have to be paid off <sup>due to trade unions</sup> and new research and development would have to happen <sup>in the new country</sup> causing more costs. The implications on the business would be very negative indeed. ~~This is because~~ Brand reputation would be damaged by the employees becoming unemployed causing a negative effect on the new market. Also motivations would be very low ~~at~~ with employees who remained loyal to the business and ~~so~~ so this may cause a decrease in productivity.

A<sup>2</sup> To conclude one of Porter's five forces to improve competitiveness is focus. This means identifying a market ~~and~~ with a weak leader and bringing new innovations across to the new market to become more competitive <sup>which is what</sup> ~~then~~ from the business as a whole <sup>relocating would be</sup> relocating appears to be a successful <sup>in the</sup> thing. ~~But~~ However the success will <sup>long term.</sup> be judged by how well the new consumers react to the new market entry. On the other hand from an employees point of view this is very negative and will cause job losses.

E<sup>1</sup> consumers react to the new market entry. On the other hand from an employees point of view this is very negative and will cause job losses.

As a consequence the business will  
 suffer large costs and a damaged brand  
 reputation.

K4 P6 A7 E3

20

### Examiner Comment

This answer gained just above the mid-level Pass mark. There is recognition of some important issues – such as labour costs and problems and costs of relocating existing staff (if this were to be attempted).

Application is rather thin – although the Wal-Mart example is not manufacturing (this was allowed by examiners) the fact is that this is an example of a US based company integrating with a UK based one. The assertion that labour costs are low in Japan is also questionable.

The analytical reference to Ansoff is relevant but could have been further developed in terms of the degree of risk involved in this strategy.

Evaluation is limited to the final paragraph. The potential for conflicting interests between customers and workers is interesting but the overall impact on business success and profitability might also have been assessed. 20/40

Question 28

**28** 'The style of leadership and management used within a business has much less impact on its success than is generally thought to be true.' Discuss this statement. [40]

Mark Scheme

- Explain management and leadership and distinction between them.
- Explain styles of leadership – give business examples of them in operation.
- Discuss how different leadership styles can have a negative/positive impact on business development and success – examples needed to support assertions made.
- Other factors that can affect success apart from or despite leadership style must also be discussed e.g. product innovation, customer service, economic environment, legal environment etc.
- BUT the response of the business to these other factors could also depend on the leadership style used e.g. a democratic style will encourage new product ideas and reduce resistance to change, both of which are crucial to success. So perhaps leadership style IS a very important factor in success? Other interpretations are, of course, possible.

General Comment

The main purpose of this question is to examine the candidate's ability to discuss the role of leadership in achieving business success. There is not expected to be a "right" answer to this question. Different approaches could be taken to consider this issue and the arguments used would depend heavily on the business examples used. Is leadership style the most important factor determining business success or are other factors – such as external forces – likely to be more significant? This question gives scope for a wide ranging discussion but it proves to be much less popular than Q26 and Q27.

Example Candidate Response – Distinction

28 Plan

Intro – Leadership styles

Apple – best tech comp comp

P2 Custom 21% of it Part

Review of ownership of Libman

BPA – <sup>Communication</sup> relative of challenges

22 billion profit

W(E)	<p>Typically the success of business is put down to the <del>the</del> person head at the top. CEOs are often the public face of a company and may become household names. However some <del>markets</del> companies seem to succeed without the a great leader.</p>
P MA	<p>BP is one of the largest companies in the UK and the world. It is a household name <del>throughout</del> across the globe. It contributes more than a quarter of all dividends issued in the UK. However its leadership has been criticised repeatedly and has been the source of much controversy. Yet it has continued to grow and do well. The Texas City oil refinery explosion in 2005 killed 15 men and led to a \$87 million fine; this was a record at the time. Yet it continued to report profits of £2.2 billion in 2005. Leading many to suggest its success is down to the inelastic nature of its key product petrol. Demand for oil is growing daily, fuelled by growing economies in Asia and Americas countries dependence on it.</p>
E1	<p>BP appears to be successful despite its leadership rather than because of it. Petrol prices, although volatile, remain high and are rising. Little has been reported about the leadership style of BP's CEO and with the</p>

size of the company communication is difficult. Suggesting the CEO has little to do with the every day success of the company.

In other cases, the success of the leadership of a company is attributed almost exclusively to the CEO. Apple Inc. the year over took Microsoft as the world's largest technology company. This has been heavily attributed to the leadership of Steve Jobs. It is reported that his autocratic style of leadership means many major decisions are made by him alone. It has been reported that 55% especially over now, the development of the iPhone one of Apple's most iconic and successful products. The leadership's importance is shown through the significant fall in Apple's stock price during a period of illness for him. According to a bar judge when investors insisted on reports on his health being published as they considered his health to be a key investment approval area.

Although the case is extreme, clearly in a highly competitive market where one product can make or break a company leadership is seen as important. In some cases the most important impact on success.

The profitability of a company can be  
 & inherently linked to management decisions.  
 P2  
 P2 Cussons increased profitability by 21%  
 when Joe sighted management headed production  
 and marketing of Lux hand wash, in the build  
 up to the Juroflex case. Sales soared and  
~~the stock rose~~ Sales were targeted at the  
 public sector and schools who quickly  
 bought large quantities of a product  
 brand to other years.

The success of a business is based on many things.  
 The market in which they operate being a key one  
 & determine. However leadership is also  
 significant in many areas. It can affect  
 motivation, through style of management, with  
 aut. critic nature of Willie Walsh has  
 alienated some staff. Communication also  
 and span of control also effect the impact  
 of leadership. The reason of P2 Cussons was  
 only possible due to good communication,  
 and the small span of control at the top  
 of Apple meant that it could personally personally  
 be more involved in projects.

Overall, the impact of leadership style  
 on business success is clearly very important. It  
 can effect the overall strategy of the business,  
 and can touch every area of business.

PR, to profitability, to Research and development,  
 K5 P9 A8 E7 (29)

## Examiner Comment

This candidate adopts a wide ranging approach to answering the question as is demonstrated by the final sentence in which it is claimed that leadership styles can influence so many aspects of business strategy and policy. The candidate tends to assume that the reader knows what is meant by “leadership style” and there is no discussion of different theoretical leadership styles. If this were effectively incorporated into the answer then higher marks for analysis would be likely.

Good application using three business examples help to support the arguments used by the candidate. Judgement is evident in several sections of the answer but this could be demonstrated even more effectively by returning to the original question and assessing clearly what factors determine those situations in which leadership styles have more (or less) impact on success than is “generally thought” to be the case.  
 29/40

## Example Candidate Response – Pass

28. Success can be measured in many different ways. From profits, to turnover, market share and share price. Many factors equate to success, leadership being one of them, but to what extent? The least desirable leadership style is ~~laissez~~ Laissez-Faire, it is not widely used, and not a single global business empowers the staff to that extent, which shows leadership can play a big part in success.

112 Willie Walsh is an autocratic leader. He took over as CEO of British Airways and ~~for~~ increased profits immediately. Using McGregor's X and Y theories, Walsh is a theory Y

P<sub>1</sub>  
 leader, who believes staff are only there because they have to be and are lazy. He is currently in a dispute with the largest BA worker's union UNITE. He has taken away fringe benefits from the cabin crew, and their strike is causing the company to lose millions. Nevertheless, the financial position of the company has increased year on year upto 2008. In 2008, BA recorded a net profit margin of 10% for the first time in their history. On the other hand, in 2009, ~~the~~ although the profits turnover increased, the business didn't make a profit, losing £401 million. This can't be seen as Walsh's fault, as the UK was in the middle of a recession. ~~But first~~

K<sub>2</sub>  
 R  
 Walsh's harsh leadership style has taken BA to new highs, and although the main priority of BA must be to make the greatest profit possible, Walsh's leadership style has lead to disputes with the employees, which is another main priority. ??

A<sub>2</sub>  
 Richard Branson is a democratic leader. He started off his own business in 1970 and now owns over 400 companies, called the Virgin Group. The Virgin Group has a turnover of \$17 Billion and is worth £5 Billion. Branson's democratic leadership style has seen him inspire others, suggesting that ~~the~~ the leadership style of Branson is important to the success of his business.

Referring back to McGregor's theory X and Y, Branson is a theory Y leader, which suggests that workers can

P2  
A1

show initiative, ~~and~~ but they need to be given a chance. He has no history of any disputes with the employees, and due to the market development of his business, the turnover of the Virgin Group has increased year on year. Branson and his leadership style are the only constant factor in Virgin for the ~~last~~ whole 40 years, resulting in me coming to the conclusion that he has had a significant role in the success of Virgin, and had his leadership style diggered, he could potentially have had disputes with the employees, hence reducing his success.

B2

Over recent times, due to discrimination acts, the minimum wage acts and the introduction of trade unions, the leadership style has had less of an effect on the businesses, because leaders have been forced to comply with the legislation acts.

UFD  
EVIDENCE

This brings me to conclude that ~~it~~ although leadership may once have had an integral role in the success of a business, the role is now much less. Within BA, Willie Walsh has played a part in the financial success, and Richard Branson has played ~~as~~ a substantial role in the success of Virgin, which brings me to further conclude that leadership style does not ~~play~~ have a big impact on the success of a business, as two leaders, with very different views on business, can both succeed.

K 5 P 6 A 3 E 5

(19)

### Examiner Comment

This brief answer does contain some relevant points which, if developed further, could have taken the answer into a higher grade band. There are references to different leadership styles and McGregor's theory is applied.

Arguments are used to support or deny the central suggestion that leadership styles are less important than is thought to be the case. But these arguments are rather confused.

The final evaluation, in the final paragraph, is interesting and it would appear from much of what is written here that Branson's leadership style has been very influential in success – yet this seems to be denied in the final sentence.

Further examples together with deeper analysis of how leadership can influence motivation levels, communication methods, decision making methods and strategic direction would have added considerably to the quality of this answer. 19/40

## Paper 2 Case Study

### BT Group (BT)

#### Introduction

BT Group is a British telecommunications company that was privatised in 1984. It serves customers in 170 countries around the world. The company has a market capitalisation of £5747m and is a member of the FT 100 index (largest 100 companies in the UK by market capitalisation). BT provides many products and services including local, national and international telecoms services and infrastructure such as Internet access, fixed line telephone services and information technology products and consultancy. 5

It is February 2009. BT currently commands approximately three-quarters of the UK fixed line residential telephone market and is also the UK's most popular broadband Internet provider. To give some indication of the market penetration of BT, consider that approximately one million businesses rely on the company worldwide and this includes 65% of all FT 100 companies. 10

BT has 4 key areas of business. These are:

BT Retail (BTR) – this is a major force in the UK communications market. It employs over 18000 people and has 18.3 million customers. It predominantly serves the UK household market and offers products such as BT Talk Together and BT Broadband.

BT Wholesale (BTW) – this gives businesses access to BT's telecoms infrastructure. It brings economies of scale to over 700 communication companies. This division runs BT's networks and provides network services and solutions to other communications companies. This area of business handles more than 300 million calls every day and 350 million Internet connections every month for more than 600 customers.

BT Openreach (BTO) – this area of the company is responsible for keeping customers connected to their local telephone exchange. Openreach is not a communications retailer. It does not deal with residential and business customers. It only deals with communication providers.

BT Global Services (BTGS) – this division serves companies and government organisations in the UK and around the world, providing high-performance managed networked information technology services. It employs around 30000 people in 50 countries and delivers services in nearly 200 countries.

In 2008, Ian Livingston the Chief Executive of BT identified three key priorities for the company:

- 1 Accelerate the focus on customer service.
- 2 Expand BT's operations in international markets.
- 3 Increase the speed at which BT reacts to and anticipates market changes. 15

#### Challenges facing BT

BT has already announced that it is to reduce its total global workforce from 160000 at the end of 2008 to approximately 150000 or less by mid 2009. The company stated that the job losses were not a 'direct result' of the economic downturn. Ian Livingston said that the job cuts were 'a reflection of the fact we have to become leaner'. In the UK the unemployment rate has soared to over 2 million (6.5%) for the first time since 1997 and some analysts feel it could peak at approximately 3 million people unemployed. 20

The reduced labour costs could be seen as part of a broader cost reduction strategy. BT aims to reduce its costs by approximately 7% by the end of 2009. It plans to do this through labour force reductions and reduced overtime, improved network reliability, increased automation in fault handling and general overhead savings. 25

Another area of concern for BT is its pension fund deficit. This currently stands at £2.4bn. The company is paying in an extra £280m a year to pay off the deficit. In April 2010 the company hopes to save £100m in pension contributions per year when it adopts radical changes to its final salary pension scheme. This change will reduce the pension entitlements of 65 000 employees. The final salary scheme was closed to new joiners after 2001. In addition to this policy, some employees will need to make larger pension contributions, and the standard retirement age will rise from 60 to 65 years old. The policy to amend or stop the final salary scheme is not unusual for large UK companies as these schemes are very expensive. Additionally, the deficit on the pension fund has been increased by record low interest rates and falling global stock markets. 30 35

The telecoms market is very competitive and BT faces competition from fast growing rivals such as BSkyB and the Carphone Warehouse TalkTalk package. It is becoming increasingly popular for customers to purchase a bundle of products from one provider. This usually includes phone line rental, broadband, satellite television access and various other products. BT has found it difficult to penetrate the digital media market with its product called BT Vision. The company is hoping to partially insulate itself from price competition by concentrating on customer service and increased marketing efforts but the present climate of economic recession is making some customers far more price sensitive and BT is already engaging in some price discounting. The level of competition has increased with the proliferation of comparison websites that allow consumers to compare the price and features of rival providers. 40 45

In the broadband market BT offers 3 options, ranging from the entry level Option 1 to the premium Option 3. The different packages represent different download allowances, connection speeds and additional features such as anti-virus software. This segmentation is also used in the landline telephone market where 3 differentiated products are also offered.

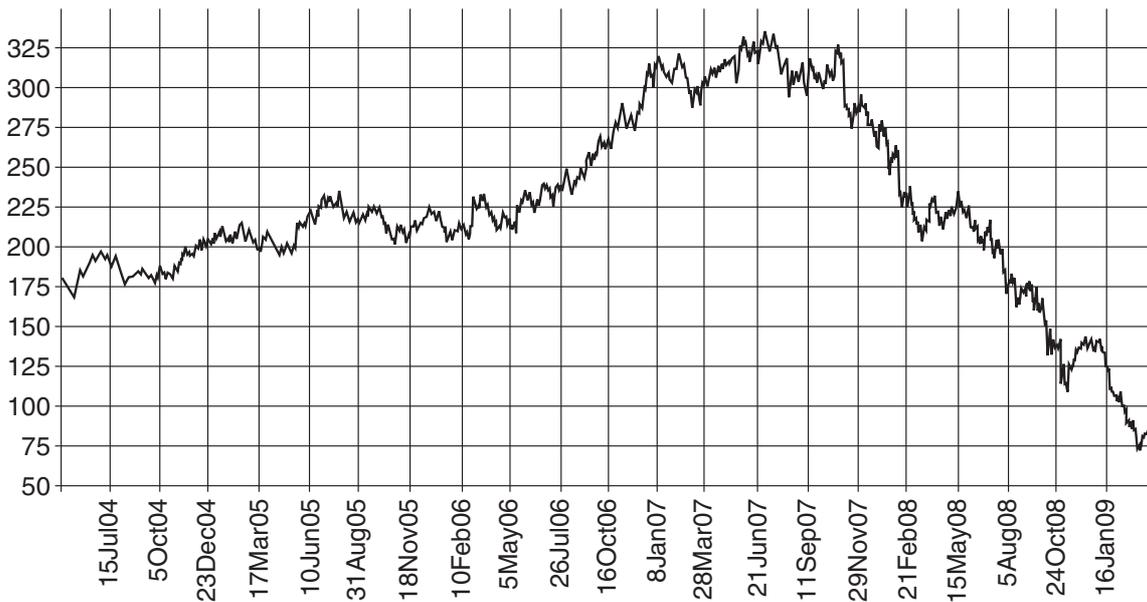
The worldwide nature of the current economic crisis has particularly hurt BT's Global Services Division (BTGS). The recent financial results of this division were described as 'particularly disappointing' by the Chief Executive and the head of the BTGS division resigned as a result. This division has been hindered by the sustained and widespread nature of the current economic slowdown and a failure to fully implement cost saving measures. Global Services has 17 major contracts and 2 have performed very badly with major cost overruns. One of the very poor results came from BT's contract with the National Health Service (NHS) in the UK. 50 55

Two profits warnings have been issued by BT in response to the poor performance of BTGS and this has had a major impact on the share price. Additionally, stock markets in general have been in decline since the beginning of the sub-prime induced credit crunch. In line with this, a number of share analysts have re-rated BT shares. Cazenove reported that 'given current stock market conditions, sentiment towards BT is likely to remain depressed for some time'. Other analysts have suggested that the BT dividend yield is also under threat. (Dividend per share: 2008: 15.8p, 2007: 15.1p, 2006: 11.9p.) 60

**Opportunities for BT**

The outlook for BT is not all doom and gloom. The performance of the divisions (excluding BTGS) 65 has been ahead of expectations. Indeed the other three divisions delivered the best year-on-year profit growth for five years.

Additionally, the BT brand was recently awarded a ‘Trusted Brand’ accolade by Reader’s Digest magazine. BT has the largest market share in the UK fixed line telephone and broadband Internet 70 markets (broadband market share 35%). The company is winning back customers who had transferred to other companies because BT has become far more price competitive and is seen to offer a more reliable service with better customer support.



**Figure 1: BT share price in pence (5 years).**

BT has also managed to secure a minimum 10% return on its network that is used by competing telecoms firms. This ruling by Ofcom (the national telecoms regulator) is certainly welcome news for BT. 75

The company is also committed to implementing its superfast fibre optic broadband in many areas of the UK. Ofcom considers this a potentially risky strategy requiring large set-up costs and will allow BT to set its own reasonable rate of return on this product.

The future of this former state owned monopoly seems uncertain. If the company can survive this major economic downturn it will emerge leaner and more customer focused than at any time 80 in its history. Many challenges still remain and it will be a stern test of the leadership skills of Ian Livingston and his Board of Directors.

Year	Advertising spend £m	Sales change (on previous year)
2006	£56m	+8%
2007	£64m	+12%
2008	£71m	+8%
2009	–	–

**Table 1: Advertising spend on BT Broadband Option 1**

Product	Average income 2008	Average income 2009 (forecast)	Estimated change in quantity demanded
BT Broadband Option 1	£31 000	£30 320	+3%

**Table 2: Average gross income of BT Broadband Option 1 customers**

	<b>2008</b> £m	<b>2007</b> £m
<b>Fixed assets</b>		
Investments in subsidiary undertakings	10 182	10 064
<b>Total fixed assets</b>	10 182	10 064
<b>Current assets</b>		
Debtors	996	137
Cash at bank and in hand	16	17
<b>Total current assets</b>	1 012	154
Creditors: amounts falling due within one year	184	40
<b>Net current assets</b>	828	114
<b>Total assets less current liabilities</b>	11 010	10 178
<b>Capital and reserves</b>		
Called up share capital	420	432
Share premium account	62	31
Capital redemption reserve	15	2
Treasury shares reserve	(1 843)	(884)
Profit and loss account	12 356	10 597
<b>Total equity shareholders' funds</b>	11 010	10 178

Table 3: Extract from BT Group plc Balance Sheet as at end of financial year 2008

	<b>2008</b> £m	<b>2007</b> £m
Revenue	21 011.8	20 396.6
Cost of Goods Sold	4 633.7	10 631.5
Gross Profit	16 378.1	9 765.1
Overheads	11 133.4	4 336.7
Depreciation	2 888.8	2 911.1
Operating Income	2 355.9	2 517.3

Table 4: Extract from BT Group plc Income Statement as at end of financial year 2008

## Section 1

## Question 1

- (a) Using the information in Table 1, calculate the advertising elasticity of demand from 2007 to 2008 for BT's Broadband Option 1. [3]

## Mark Scheme

Table 1: Advertising spend on BT Broadband Option 1

Year	Advertising spend £m	Sales change (on previous year)
2006	£56 m	+8 %
2007	£64 m	+12 %
2008	£71 m	+8 %
2009	–	–

Sales change +8 %

Change in advertising spend  $\frac{7}{64} \times 100 = 10.94\%$  (1)

Formula: % change in demand (sales)/ % change in advertising (1)

=  $8/10.94$  (2)

= 0.73 (3 marks for correct answer)

## Example Candidate Response – Distinction

1a. advertising elasticity of demand.

2007	2008	option 1
64m	71m	

difference 7m

$$\frac{7}{64} = \frac{7}{64} \times 100 = 10.9375$$

~~change in spend~~      ~~change in sales %~~

change in sales %      change in spend %

$$\frac{Q}{P} \frac{8\%}{10.9\%} = \frac{8}{10.9375} = 0.73 \text{ (2dp)} \checkmark$$

3

## Examiner Comment

This question requires the calculation of the advertising elasticity of demand. The candidate has clearly set out the answer and shown the formula and working. This is best practice and should be encouraged. The candidate achieved the correct response and accordingly all 3 marks are awarded. Candidates can achieve part marks for showing the correct steps followed to achieve their answer and they should do this. Answers that are written to two decimal places (rounded) are to be encouraged.

Example Candidate Response – Pass

1a)  $\frac{\Delta \text{ Demand}}{\Delta \text{ Ad. Exp.}} = \frac{-33\%}{11\%} = -3$

Examiner Comment

This answer correctly identifies the formula. This is awarded one mark. No other credit can be given. The candidate should show all working as part marks are available.

(b) Using the information in Table 2, calculate the income elasticity of demand for BT's Broadband Option 1. [3]

Mark Scheme

Table 2: Average gross income of BT Broadband Option 1 customers

Product	Average income 2008	Average income 2009 (forecast)	Estimated change in quantity demanded
BT Broadband Options 1	£31,000	£30,320	+3 %

Estimated change in quantity demanded = +3 %

Percentage change in income =  $\frac{-680}{31,000} \times 100 = -2.19\%$  (1)

Formula: % change demand / % change in income (1)

=  $3 / -2.19$  (2)

= -1.37 (3 marks for correct answer\*)

\* If the minus sign is not present in the answer the maximum mark should be 2 marks.

Example Candidate Response – Merit

b. income elasticity of demand:

2008 31000     % <sup>money</sup> ~~price~~ change =  $\frac{680}{31000}$

2009 30320

2.19354...

$\frac{Q}{P} = \frac{3}{2.19354...} = 1.36764...$

= 1.37 (2dp)

no(-)

2

## Examiner Comment

This question requires the calculation of the income elasticity of demand. As in Q1 (a) candidates should show the formula and all working. This candidate achieved this but failed to include the (-) sign before the answer. This is crucial for income elasticity of demand as it shows the product is inferior. Accordingly the candidate was awarded 2 of the 3 marks available.

**(c) Comment on the significance of these elasticity values for the strategic direction of BT. [6]**

## Mark Scheme

	<b>Knowledge AO1 2 marks</b>	<b>Application AO2 4 marks</b>
<b>Level 2</b>	<b>2 marks</b> Candidate shows clear knowledge of the elasticity concepts and values.	<b>4–3 marks</b> Candidate clearly applies both elasticity values using clear case context.
<b>Level 1</b>	<b>1 mark</b> Candidate shows some knowledge of the advertising and income elasticity concepts.	<b>2–1 marks</b> Candidate includes some application of elasticity to the case context.

**Advertising elasticity (AED)**

- Definition of AED.
- Formula for AED.
- AED is inelastic.
- Numerical interpretation: 10 % increase in advertising spend leads to a 7.3 % increase in quantity demanded.
- AED diagram may be used.
- Advertising expenditure by BT may need to be reviewed or BT may need to change its advertising strategy.
- ARA

**Income elasticity of demand (YED)**

- Definition of YED.
- Formula for YED.
- Elasticity values suggest BT Broadband Option 1 is an inferior good (-1.37).
- If income falls 1 % then quantity demanded rises by 1.37 % (elastic).
- YED diagram may be used
- BT Broadband Option 1 is the basic package and is an inferior good so in an economic slowdown customers may choose this option.
- BT should plan for continued demand during the economic downturn and ensure sufficient supplies of components and support for Option 1.
- The case data for income and change in demand are estimates/forecasts.
- ARA

## Example Candidate Response – Distinction

c	<p>The advertising elasticity of BT is 0.73 <del>at</del> (according to my calculations) which means that for every £1 invested in advertising, the sales <sup>have</sup> increase by 73p. The income elasticity of demand of BT (is according to my calculations) 1.37, which means that for <del>every pound earned</del> <sup>decrease consumer</sup> by each percentage <del>decrease</del> in income, the <del>business</del> sales will increase by 1.37%.</p>
K <sup>1</sup>	<p>This is significant for BT's strategic direction, as they are wanting to carry out a "cost reduction strategy" and reduce cost by 7% by the end of 2009. This advertising elasticity is 0.73 which is less than 1, so therefore <del>not very</del> moderately elastic, which means that they could cut down on their advertising expenditure without facing too greater fall in sales as a result (to carry out their <del>cost</del> reduction strategy). The income elasticity of 1.37 is very elastic and therefore means that BT are very dependant on the income of their consumers - so <del>may face a fall in</del> <sup>can benefit a economic</sup> demand if the recession is prolonged as the case study described. This is significant for their strategy, as they know that the lower the income the higher their sales, so the prolonged recession could actually benefit them. <del>Their strategy of cost minimisation is</del> strat direction?</p>
K <sup>2</sup>	<p>K 2 A 3</p>
p <sup>2</sup>	
p <sup>1</sup>	

5

## Examiner Comment

The key to a successful answer for this question is to show excellent knowledge and interpretation of the elasticity values and then suggest how the data could inform BT's strategic direction. In the first paragraph the candidate shows relatively clear awareness of the meaning of the values. The candidate does not show the income elasticity value as negative but the interpretation is correct. The answer could have been further improved by a concise definition of the elasticity concepts. In the second paragraph the candidate attempts to comment on the significance of the elasticity values with regard to the strategic direction of the company. The use of relevant case data to support a point is to be commended. The candidate does make an error with the advertising elasticity and refers to it as elastic when in fact it is inelastic but the explanation shows that the candidate is aware of the meaning of the coefficient. The candidate correctly suggests that the advertising budget could be vulnerable to cuts given the objectives of the company. The answer also reviews income elasticity and suggests that a prolonged recession could be good for this particular product. The answer could have been further improved by suggesting how the business direction could be influenced by this knowledge.

## Example Candidate Response – Pass

(c) The AED figure of ~~13.39~~ -3 is quite <sup>low</sup> a ~~high~~ low figure showing that demand is very receptive to change in advertising expenditure for this particular year. The figure does not justify BT's advertising campaign as this very low number could be caused by the recession or a cheaper substitute being introduced. For every 1% ~~increase~~ increase in advertising expenditure there is a 3% decrease in demand. (AED)

The YED figure of ~~-13.64~~ -13.39 is an abnormally large number for YED. It shows that YED is extremely sensitive towards demand. The -13.39 shows that BT are attracting people at the <sup>lower</sup> end of the market, and they offer a ~~premium~~ premium good. It shows if people's income decreases then people will look for a cheaper alternative\*. For every 1% increase in income there will be a 13.39% decrease in demand. (YED)

\* or use option 1.

Examiner Comment

The candidate has clearly struggled with this question. The ideas are very confused and the candidate shows a lack of basic knowledge of the concepts. The candidate does manage to get knowledge marks due to the application of OFR. The candidate has attempted the answer and this is to be encouraged because they have managed to accumulate some of the marks on offer. Section 1 of paper 2 is likely to feature quantitative analysis and candidates should devote a suitable amount of revision to this area.

**(d)** 'In the Broadband market BT offers three options, ranging from the entry level Option 1 to the premium Option 3. The different packages represent different download allowances, connection speeds and additional features such as anti-virus software.' (lines 46-48)

Analyse potential pricing strategies for BT's Broadband Option 1. [13]

Mark Scheme

	<b>Knowledge AO1 2 marks</b>	<b>Application AO2 5 marks</b>	<b>Analysis AO3 6 marks</b>
<b>Level 3</b>		<b>5 marks</b> Candidate fully engages with the case context.	<b>6–5 marks</b> Candidate fully develops analytical points.
<b>Level 2</b>	<b>2 marks</b> Candidate shows clear and precise knowledge of pricing strategies.	<b>4–3 marks</b> Candidate links case material to his answer.	<b>4–3 marks</b> Developed analysis of arguments.
<b>Level 1</b>	<b>1 mark</b> Candidate offers a sufficient definition/understanding of pricing strategies.	<b>2–1 marks</b> Candidate makes a limited attempt to apply knowledge of pricing to the case study.	<b>2–1 marks</b> Weak analysis of ideas; failure to develop points.

- Different categories of pricing strategy: Cost, Market-Customer, Competition.
- Potential pricing strategies could include mark-up, penetration or going rate.
- Recognition that consumers are usually more price sensitive in an economic slowdown
- Very competitive market.
- How does BT Broadband Option 1 fit into the full Broadband offering (Options 1–3).
- Is the Broadband package a stand alone product or bundled?
- What is the objective of BT for this particular package?
- What role does Ofcom play in determining pricing strategies?
- BT has excellent market share in the Broadband market (35 %).
- The pricing strategy could be determined by the ability to cut costs and therefore keep margins.
- Could the price sensitivity of consumers be lessened by excellent customer service?
- Strategies should be realistic given the circumstances of BT and the external environment.
- The price elasticity for the product is unknown.
- Perhaps a market or consumer based approach is best given that price comparison is popular (Internet comparison sites).
- ARA.

## Example Candidate Response – Distinction

d.	Potential pricing strategies.
K <sup>1</sup>	<p>BT are offering their packages for beam broadband and <del>landlines</del> at three different levels of service - each package from "entry level" to "premium" offering more and more features. A strategy to price these packages could be to price the <del>low</del> <sup>Option 1</sup> strategy (entry level) at a very cheap price to draw in new consumers (price penetration) and then increase the prices of each package to correlate with the increase of service of each package. By initially having a really low price for the lowest package BT can draw in new consumers to their brand (away from competitors) - and when on the basic package tempt them with their quality service, <del>and</del> <sup>and</sup> brand, <del>and</del> <sup>and</sup> <del>with</del> <sup>to</sup> buy the more expensive packages. In some ways this could be difficult and ineffective, as BT may have to work at a loss on the entry level packages to pass on low prices to consumers - however if their <del>high</del> <sup>better</sup> packages are higher prices they could make a larger profit margin on options 2 and 3 to fund the option 1.</p>
P	
A <sup>2</sup>	
K <sup>2</sup>	<p>Another price strategy they could adopt is price skimming by introducing the option 2 at a high price to skim off the <del>people</del> consumers who are willing to pay a high price. This price perception could <del>also</del> draw people into BT's brand <del>by</del> as the high price could suggest that the product is</p>

luxury and of a very good quality - making consumers want to buy it. However, although this high price is in some ways beneficial in terms of high profit margins, it may not increase their market share (due to some consumers with lower income being unable to pay these high prices) so BT may risk losing their position as market leader (their market share falling from 35%). To resolve this they could then reduce their prices (continuing with the skimming strategy) to a very low ~~low~~ ~~price~~ ~~allow~~ and competitive price - gaining back lots more consumers and market share. Similarly to the penetration strategy previously described this ~~low~~ low price for option 1 could then tempt consumers to buy higher priced 2 and 3, ~~because~~ (through their excellence in customer service as fast innovations offered in the more advanced packages). This low ~~initial price may~~ price for option 1 again may function at a loss £, however, BT could use the high profits from the initial high prices of this option to pay for the option 2. Furthermore, the fall from high prices to low prices will suggest to consumers that they are getting a bargain (tempting them to move from other competitors), and also suggest their service is of very high quality. However a disadvantage of this is that consumers paying these low prices (skimmed from high initial prices) may expect a high quality service that BT

bad reputation) - however, Ian Livingstone describes how their priority is to focus on customer service therefore this shouldn't be a problem.

A Overall I think the strategy of skimming would be best (if they use penetration after ✓ when lowering the price) as they gain the best of both worlds: an initial high profit margin, followed by a potentially even higher market share than pure penetration (as consumers will view the brand as luxury and think they are getting a bargain) - and from this high market share have the opportunity to tempt more consumers to advance their packages through their USP of customer service.

K2 PS A S

12  
10



### Examiner Comment

This answer is well structured and shows clear knowledge, application and analysis. The candidate immediately tackles the question but it could have benefited from a brief definition of pricing strategies with some examples. This process allows a candidate direct access to most of the knowledge marks available. The candidate identifies penetration pricing as a potential pricing strategy. This is then analysed and the candidate uses case context to support the reasoning. The candidate then reviews a second potential pricing strategy (price skimming). The candidate again uses case data to review this suggestion and clearly illustrates potential pros/cons. Finally the candidate offers a judgement. This is not necessary for this question as the top assessment objective is analysis. This answer shows best practice by only considering two potential pricing strategies. It could be suggested that price skimming is unrealistic in the economic circumstances mentioned in the case but the candidate shows a logical approach to the construction of the argument.

## Example Candidate Response – Pass

D) BT could use either ~~and~~ customer-based pricing or market-based pricing. The option 1 for BT is their basic range for ~~Broadband~~ Broadband and therefore either targeting small homes or families with low income, rather than businesses. ~~is shown~~ ~~is the CEO figure~~ There are several different methods of pricing that BT could use. Loss leader, ~~Retention pricing~~, Mark up and destroyer pricing. Mark up is where BT finds out how much the service costs and increase the price to increase the profits. This is a basic form of pricing and should not be one of the methods for BT as it does not take into account of competitors. Destroyer pricing is an aggressive method to drive out competitors as BT can set a low price and let other parts of the companies profit equal it out. This method can be risky as consumers may be devoted to other competitors and then BT will ~~lose~~ lose money without gaining any more of the market share. Loss leader is where BT sets the price very low and hopes that the customer will not only buy that particular service, but others as well. Even though they are making a loss on Option 1 range they hope that customers buy other services. This is because it is becoming increasingly for customers to purchase a bundle of products from one provider' (line 37)

This shows that BT are hoping to sell other services.

The best pricing method for BT is loss leader as they will gain a larger ~~for~~ portion of the market share and possibly the chance to sell other products/services.

Whereas mark-up and destroyer pricing are risky as mark-up doesn't take into account of customers and destroyer pricing is risky due to customers faithfulness to competitors. Finally with loss leader once a <sup>sufficient</sup> market share has been obtained then you can always bump up the price again.

K 2P2A3

7

### Examiner Comment

This candidate makes an encouraging start and clearly shows some knowledge of pricing strategies. This could be improved by a more concise definition, examples of pricing strategies and perhaps some contextual detail. This response is very typical in its style. It does not fully develop the clear knowledge that the candidate shows. The analysis and context is relatively superficial and the candidate would have benefited from the statement 'less is more'. This means the best responses fully develop points using all the assessment objectives before moving on to another section of the answer. The use of line references is a useful example of best practice but it must be relevant and explained. This answer finishes with a discussion of the best strategy. Evaluation marks are not on offer but the answer does include analysis and it is rewarded for this.

## Section 2

## Mark Scheme

	<b>Knowledge AO1 3 marks</b>	<b>Application AO2 6 marks</b>	<b>Analysis AO3 8 marks</b>
<b>Level 3</b>		<b>6–5 marks</b> Arguments are consistently based upon specific case context.	<b>8–6 marks</b> Candidate fully develops analytical points.
<b>Level 2</b>	<b>3–2 marks</b> Candidate shows detailed knowledge.	<b>4–3 marks</b> Candidate makes a good attempt to apply knowledge to the specific case context.	<b>5–3 marks</b> Developed analysis of arguments.
<b>Level 1</b>	<b>1 mark</b> Candidate shows some knowledge.	<b>2–1 marks</b> Candidate makes very limited attempt to apply knowledge to the specific case context.	<b>2–1 marks</b> Weak analysis of the ideas; failure to develop points.

	<b>Evaluation Descriptor AO4</b>	<b>Marks</b>
<b>High</b>	Extensive reasoned judgement in answer and conclusion	<b>8–6</b>
<b>Mid</b>	Good reasoned judgement shown in the answer and conclusion, or extensive reasoned judgement in answer or conclusion	<b>5–3</b>
<b>Low</b>	Weak judgement shown in answer or conclusion.	<b>2–1</b>

## Question 2

To what extent is BT a successful company?

[25]

## Mark Scheme

- Current situation of BT.
- What are the parameters by which success is measured: profits, market share, share price?
- Different stakeholders may view success differently.
- The compliance with objectives (stated or implied) can be a measure of success.
- Relative success of BT compared to new rivals.
- Success can be judged relative to the prevailing economic conditions.
- Ratios/numerical formulae and manipulation may be used to support ideas.
- BT has experienced differing levels of success depending on the division and market.
- The success of BT is partially in the hands of the regulators.
- ARA
- Evaluation could include: A reasoned view with supporting evidence; what is success and from which perspective; discussion about the extent of any success; reaching a decision highlighting that success is relative, possibly transient and to some degree determined by external factors; recognition that regulatory bodies have a remit to review companies such as BT; how is success defined? BT has many potential success criteria such as environmental and shareholder value.

Example Candidate Response – Distinction

20

Depends on how success is defined  
 + may be viewed as several things  
 by various stakeholders in business

✓ define stakeholders - take 3 <sup>employees</sup> - stakeholders  
 consumers

Perhaps conflicting interests

Employees - Bt announced to reduce workforce

radical change  
 for financial  
 salvage scheme.

cause lack of motivation - Maslow  
 hierarchy of needs

Pension entitlements reduced  
 employees high <sup>pension</sup> contributions  
 high retirement age. - However,  
 not crucial

	<p>Shareholders <sup>share analysts - BTES failings</sup> - Dividend yield under threat decreasing - see figures.</p> <p><del>good year on</del> year growth <sup>dropping</sup> share price - all time low since July 04.</p> <p>Carriers - Market leader</p> <p>The extent to which BT is a successful company will depend on <del>several</del> factors, such as how success is defined. This may be defined in several different ways by different stakeholders in the business, as many will likely have conflicting interests and desires. A stakeholder is <sup>K</sup> an individual or group which is affected by a business and thus has an interest in its activities. As there are many stakeholders, I will choose three different groups to analyse and evaluate whether BT can be defined as a successful firm to these varying stakeholders.</p> <p>✓ Employees are a significant stakeholder group as they work for the firm and so are essential to its efficiency and <del>so</del> its productivity. The <del>success</del> success of this firm to employees will most likely be defined in terms</p>
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of how high their levels of motivation are and how satisfied they are with their jobs. As we see from the case study, BT plans to reduce its workforce from 160,000 at in 2008 to 150,000 or less by mid 2009. This would be seen as a very negative to employees of the business as they will view their jobs as being in danger which, according to Maslow's hierarchy of needs, will reduce their motivation as safety needs are necessary for motivation.

Also, BT's plans to reduce pension entitlements of 65,000 employees and increase the standard retirement age to 65, will further ~~decrease~~ decreasing the motivation and job satisfaction of workers as, according to F.W Taylor's theory on motivation, workers need money to be motivated to work and the fact reduction of pension entitlements will hinder this. However, while this may seem ~~the~~ unfortunate for the employees, it says in the case study that the policy to amend or stop the final salary scheme is not unusual for large UK companies, and so it is possible that employees expected and accepted this, thus not damaging their motivation.

Another key stakeholder in BT will be its shareholders. This is because they are

responsible for a large quantity of funds put in to the business: in 2008 the ~~total equity shareholders' funds was \$1100 million.~~ called up share capital was £420 million. Shareholders will likely view the success of the business as giving them large dividends and a rising share price, to one which was higher than what they bought at. As we see from the case study, the dividend per share has increased since 2006 from 11.9p to 15.8p, which shareholders will undoubtedly be pleased about, although share analysts do suggest that the BT ~~dividend~~ <sup>yield</sup> dividend yield is under threat. They will also not be pleased to see that the share price is at an all time low since at least July 2004 and thus they have made a loss on their investment into the company, which will lead the shareholders into believing they are not successful.

Finally, consumers are an essential stakeholder group as they are the reason for the firm's existence, so they can sell products to consumers and make profit. As consumers are not overly concerned with the financial situation of the

business, there is not much to suggest to them that the firm is not successful. Success of a firm to a consumer will be defined by their size, and the quality and price of which they sell their products, which could change according to economic factors and what bracket of consumers is being targeted. As BT are one of the largest telecom firms in the UK by market capitalisation and have a product range which varies through all segments of the telecommunication market, through it 4 areas, they could be viewed as successful by consumers.

To conclude, success is defined differently by varying stakeholders and while stakeholders who will face negative consequences of BT's cost savings strategy, such as employees, and stakeholders whose needs are met will still view it as successful, particularly those who see that apart from BT's, all divisions have performed ahead of expectations.

K3 PG AG E 6

21

### Examiner Comment

It is considered best practice to start the section 2 answers with a plan. The candidates have sufficient time to do this and it helps to give the answer a coherent structure. This candidate discusses the concept of 'success' (the key parameter) and this is typical of a good answer. The candidate then explains that in this particular answer that success will be measured in terms of 3 key stakeholders. This gives the answer structure. This framework is not the only framework that could be used by good candidates.

This candidate has a clear structure to the answer and explains points using specific case context, theory and analysis. Reasoned judgements are made in the answer but these could have benefited from further elaboration or specific case evidence to support the views presented. Candidates should be encouraged to evaluate throughout the answer and not just at the end. Candidates should also try to support their answers using data from the case. Very few candidates engaged with the data given and it was rare to see candidates manipulate case data effectively and accurately.

## Example Candidate Response – Merit

2. ¶ To a large extent you could argue that from the point of view of a shareholder the business is a very successful one, However this also depends on how success is judged. ✓

E1 The most basic way to argue that BT is highly successful is their market share. BT as it says in the article had the largest market share in the UK

P1 faced line telephone and broadband internet markets, currently at 35%. From a Stakeholder's point of view BT are very successful due to this fact. A high market share means high profits for the owners of the business, higher share price for the shareholders of the business and an increase in jobs for the local communities. However since the credit crunch has hit BT share prices have fallen and jobs have been made redundant perhaps suggesting that BT are not as successful as we thought.

A1 Another way to argue that BT is very successful would be their competitiveness. In the article it has said that BT have become for more price

P1 competitive and is seen to offer a more

reliable service with better customer support. This is particularly important for BT as they are in the technology market meaning customers need help deciding which is the best product for them. It also says that BT is in the FTSE 100. This means that BT is one of the top 100 companies in the UK. So if competitiveness is the judge of success BT appear to be very competitive and aim to further improve their competitiveness through cost cutting and promotion. From the point of view of a shareholder competitiveness is very important as a measure of success because it means that their business is attracting the consumer attention from other firms causing more sales and more profit, leading to a number of affect to the shareholders and owners.

On the other hand from the point of view of an employee BT are not very successful. The credit crunch according to the article as the fact that they need to become 'lean' means 10,000 jobs have to be cut globally. And it aims to reduce its costs by 7% by the end of 2009. This means that employees may be made

unemployed or if they don't they may have to face a pay cut because of the need for an increase in efficiency. Because this is such a competitive industry it has a knock on affect to the employees who are also stakeholders in the business. So in the short term for the employees it is bad and shows that BT are not successful. However in the long term for employees it may be better because an increase in efficiency may mean an increase in productivity causing a pay rise. ~~also~~ also the fact that ~~also~~ 65,000 persons are going to be cut from the employees and so from the point of view of these stakeholders BT are not very successful because it means less money for the employees, if there are ~~any~~ employee happiness ~~is a success~~ is the judge of success they are not going to be successful in the short term.

E<sup>1</sup> To conclude to a certain extent BT can be seen as a very successful business and ~~from~~ this is shown in them having a high market share, ~~for~~ but only for some stakeholders. However for employees they are not successful and so to judge the successfulness of BT ~~is~~ depends on what defines a business as being successful and the most common one

K3 PH AS E2

(14)

market share. <sup>because it compares it to the rest of the</sup> ~~market~~ <sup>market</sup> ~~share~~ ~~is~~ ~~the~~ ~~key~~ ~~to~~ ~~very~~ ~~successful~~.  
Successful.

### Examiner Comment

This answer does not have a plan but the structure is satisfactory. The answer does identify that the definition of success is important but does not elaborate this sufficiently. This answer reviews success by looking at typical KPI (Key Performance Indicators). The answer initially looks at market share and uses case data to support this argument. The candidate also uses best practice by using analysis 'trigger words' such as 'however' and 'on the other hand'. The analysis is relatively superficial and would benefit from greater depth and perhaps the use of supporting theory/concepts. The candidate shows glimpses of evaluation in the answer and more consistently at the end. The candidate could benefit from making judgements and then giving supported discussion using a mix of case context and business theory/concepts.

### Example Candidate Response – Pass

2 A successful company is one  
~~profitable~~ / perceive to be profitable,  
honest, efficiently lean, ethically  
and morally fair, bring something  
K good to the community they are  
present within, have good customer

service, lowly geared etc.

~~acid test~~

2008 current ratio =  $\frac{\text{current assets}}{\text{current liabilities}}$   $\frac{184}{1012} = 0.18$

✓ ~~1012~~ ~~184~~ ~~184~~ ~~1012~~

so per every £1 <sup>asset</sup> liabilities they have 18p liabilities ~.

p1 From the case study it appears that BT are a very large company who are not focusing on their profit centres and core strengths, such as the BT ADS which is bringing down their overall profit. They are successful in being representative of Britain as a whole which is indicative of their once ~~next~~ success and growing so large. As a former state owned monopoly I think they need to re-structure the organisation and reduce their scale by limiting the different areas they are involved in, or even selling some of these on to competitors. Despite this they were awarded a

'Trusted brand' accolade by Readers Digest which shows they are well supported and have a good reputation. They just need to focus on what they are best at and sell the rest. ~~They are~~

E' The answer to this question is ambiguous in how success is measured? They have an impressive gross profit of £16378.1 million which would indicate their success. They are not highly geared with creditors of £84(m) in contrast with £996(m) worth of debtors. ~~18% of what they~~ What they owe is 18% of what they are owed, which shows success. Yet whilst dominating the market as leader they have had 'profit warnings' and 2 badly performed contracts with cost overruns. To ensure their future they must work out where their strengths lie and focus on them.

K2 P3 A3 E2

(10)

#### Examiner Comment

This candidate gives a list of criteria to judge success but some of them are very vague and difficult to quantify such as 'honest' and 'efficiently lean'. The candidate then uses a ratio and this is good practice. Unfortunately the calculation alone is not the key source of credit. Candidates need to fully explain the relevance of calculations used and how they help analyse the question at hand. This candidate is vague in the main paragraphs and any context is superficial. The answer shows glimpses of all the assessment objectives but fully develops few.

Question 3

Evaluate the strategies which BT could adopt in response to a prolonged worldwide economic slowdown. [25]

Mark Scheme

- Question mentions a prolonged economic slowdown, so the strategy needs to mid to long term.
- The slowdown will be more severe in some markets and BT may concentrate on the more robust markets.
- The slowdown in growth may be accompanied by falling interest rates (inflation depending). This may make borrowing for potential capital investment cheaper.
- BT may need to be very price competitive as this is important in a downturn.
- The services that BT provides could be viewed as relatively robust, even in a slowdown.
- It may see a large fall in demand for its premium products.
- BT will need to closely monitor the actions of its competitors or try to lead the market.
- BT could consider cost cutting to preserve profitability.
- BT could increase diversification or concentrate on its most profitable areas.
- BT may cut its dividend to enable further investment.
- BT may try to grow revenues in new areas of telecommunications or other aspects of new/low exposure markets.
- BT may try to reduce the impact of the slowdown by keeping/improving its excellent customer service record.
- BT may seek regulatory approval to increase the costs of using its infrastructure.
- ARA
- Evaluation could include: A strategic response is essential: how deep is the economic downturn; are BT's core products highly sensitive to falling incomes; what are the core priorities and which elements of a strategy are required in the short term-long term? Potential benefits of a slowdown could be incorporated, such as the potential demise of competitors; focus on cost savings giving rise to long term efficiencies.

## Example Candidate Response – Distinction

3. As the case study describes, BT are in a prolonged worldwide economic slowdown - a recession in which consumer spending is low and ~~sensitive~~ very price sensitive, ~~and~~ business confidence is low, and unemployment is high.)

However

There are many strategies that BT could adopt to settle this environment, and even take advantage of the economic situation to come out of the recession even stronger.

During the past recession, many businesses carried out strategies of cost-minimisation - for example John Lewis when they closed the Sterenage warehouse to reduce the cost of holding stock, and implement a more efficient Just-in-Time strategy. Similarly BT could adopt a policy of cost-minimisation to reduce their costs and pass their savings on to the consumers - making them more competitive within the business environment, and increasing their demand (and market share) by appealing to the low levels of disposable income of consumers. As the case study describes, BT are currently already looking to cut costs by "7.1" through labour force reductions, reduced overtime, improved reliability in their network and general overhead savings. However, although in the case of John Lewis cost cutting was effective, BA similarly tried to reduce their costs by cutting their workforce and introducing flexible working - however due to poor leadership,

2  
p

~~the~~ demotivation and lack of loyalty of the staff at BA<sub>2</sub> resulted in industrial disputes costing over £5 million - ~~that~~ more than their cost savings anyway, and tarnishing their reputation. Therefore it is vital that BT ensure that they have a strong loyal workforce and effective leader (Ian Livingstone) to keep workers motivated at BT during cost-cutting processes to succeed in the recession, as if they cannot carry out effective change management this strategy could backfire (such as in the case of BA). Furthermore, another ~~other~~ reason for BT to carry out cost minimisation to battle the recession is due to the competitive telecoms market and proliferation of comparison websites, as by cutting costs they will be able to more effectively compete with rivals such as the Carphone Warehouse TalkTalk package - especially as the consumers are price sensitive and the phone and broadband packages are so elastic during the recession. When looking at the fixed costs of BT ~~we~~ can also see that costs have dramatically risen from ~~£1,133.4~~ £436.7 million to £1,133.4 million - conveying an opportunity for the business to reduce their costs.

Porter ~~the~~ states that to gain a competitive advantage businesses should either ~~concentrate~~ ~~the~~ strive to achieve cost leadership (to offer the best prices in a saturated standardised environment with elastic products) or differentiation (to prevent competition by gaining a USP to make their

products inelastic and (therefore recession-proof). Therefore during this economic ~~slowdown~~ <sup>slowdown</sup> BT could ~~use~~ <sup>either</sup> use the elasticity of their services to their advantage through carrying out cost-minimisation (as explored) - or ~~strongly~~ pursue differentiation to make their products inelastic and recession proof.

The case study ~~clearly~~ describes how BT are looking to improve their customer service to insulate itself from price competition (and state customer service within their company priorities) conveying the relevance of this strategy. By differentiating their service through quality customer service, ~~their business could~~ BT have the opportunity to gain more profit overall by being able to charge more for their services (and not having to squeeze the profit margins to compete for price). Within the telecoms industry they have the opportunity to diversify in terms of technological improvements too (however a disadvantage of this strategy would be the high initial outlay - which they may not have to spend on R&D - which may not even produce a new innovative product (risk it may fail) - ~~especially as~~ <sup>however</sup> last year they ~~only~~ <sup>did</sup> make £2,355.9 million which ~~may have to be spent elsewhere in the business~~ could be used to finance the research - however this net profit may have to be used elsewhere in the business). John Lewis similarly have a USP of providing quality customer service,

and as a result of the loyal customer base that this strategy gave them, managed to achieve ~~sales~~ <sup>profits</sup> of £20 million → £32 million higher than the predicted ~~to~~ loss of £12 million. Similarly by providing a quality customer service BT can compete against rivals on the cheap price comparison sites more effectively (as expensive Waitrose (partner of John Lewis) competed with cheap Tesco) by providing an inelastic service. Furthermore this can continue into the long term after the slowdown in the worldwide economy, as when the economy ~~is~~ recovers, consumers may start to demand more luxury products and not value the low prices ~~and~~ that Telecom companies were initially striving to achieve. However in some ways the necessary service of telecommunications services will always be competitive with price ~~therefore~~ - as it is a basic necessity in the modern environment - therefore in some ways cost minimisation is also an appropriate strategy - especially as the efficiency gained from the strategy during the short-term recession will ~~also~~ make BT come out even stronger in the future.

E<sup>2</sup> However, I have hesitations with BT's suggested  
 A<sup>3</sup> strategy of both cutting costs in labour, and trying to improve customer service at the same time, because as Porter said, ~~it is~~ businesses should choose just one strategy - either cost minimisation ~~or~~ or differentiation when competing (in this case

When competing in the economic slowdown) as they both oppose each other. By cutting staff they will reduce the staff available to provide customer service, and by cutting costs they will prevent their finance from financing training to aid the customer service (which could <sup>ultimately</sup> demotivate staff if they do not have the necessary skills for the job). Both of these targets therefore appear quite overambitious (which could ~~stabilise~~ slow down production according to Vroom's theory) therefore I would suggest either choosing one or the other.

E 3 In conclusion I would suggest that BT continued to ~~offer~~ carry out a differentiation strategy to respond to the worldwide economic downturn - as within the competitive telecommunication environment it will be difficult for them to compete for cost-leadership - especially as they may risk losing their key ~~to~~ business consumers in the FT/100 if their quality suffers as a result. By working on their customer service they can remove themselves from the standardised competition, create a recession-proof inelastic service, and overall <sup>turn</sup> generate ~~an~~ <sup>their</sup> reputation as a quality differentiated brand (like "Apple") which in the long term will aid them ~~in any future recessions~~ performance in any future economic slowdown.

K3 P5 A<sup>4</sup> E 7

Keep other losses eq to a minimum (not reqd)  
BA, John Lewis etc

(21)

## Examiner Comment

Questions that require a 'strategy' are likely to be a common feature on this paper. Accordingly candidates need to be aware of the specific demands of this type of question. Answers must be a coherent, step by step response to the particular parameter of the question. A series of unconnected ideas is clearly not a strategy.

This response concentrates on the possible strategy of cost minimisation and continued emphasis on customer service. The potential of these strategies is scrutinised in great detail with a blend of relevant case material, theory and analysis. The candidate also clearly evaluates at the end of the answer and makes judgements in the main body of the answer. The candidate does use the example of 'John Lewis' to support the answer. These 3rd party examples can sometimes be useful but the core example must always be the case study business. This is clearly a very strong answer.

## Example Candidate Response – Merit

3.

K A worldwide economic slowdown or recession occurs when there is two successive quarters of negative growth. It affects almost all walks of life and has large impacts on firms as consumers look to reduce spending due to a reduction in disposable income.

K BT could adopt a number of strategies both financially based (pricing strategies) and non-financially based (non-pricing strategies) depending on a number of factors including their corporate aims and objectives.

P Financially, cost reduction is an obvious strategy to follow during an economic downturn. Reducing gearing (loans), fixed costs and variable costs is an essential part of any businesses survival. BT have already reduced labour costs / a reduction of 70 000 workers, as well as a reduction in

their staggering 2.4 bn pension deficit) and are aiming to reduce overall costs by approximately 7% by the end of 2009 through strategies such as increased automation and improved network liability.

Although cost reduction is an obvious strategy for the survival, a large and established brand may be looking to do more than just survive / even during an economic downturn. The "Trusted Brand" that is BT may choose to implement pricing strategies such as cost leadership in order to gain competitive advantage and improve sales.

A<sup>1</sup> Cost leadership allows BT to improve its market share (35% in broadband) as well as drive sales. Price discrimination may become a legal disadvantage, but BT may choose to use a pricing strategy for increased profit, that allows them to achieve key priorities such as growth into international markets.

Non-pricing strategies such as brand building and an increased emphasis on marketing may also be viable strategies for a large and established company (such as BT) during an economic downturn.

A<sup>2</sup> Brand building techniques such as advertising and / customer loyalty campaigns (such as Tesco club card) may be seen as extremely beneficial strategies as it

promotes benefits to BT's 18.3 million, "price sensitive" customer base. During an economic downturn, ~~they~~ retaining loyal customers may be key in achieving priorities such as growth. An accelerated interest in customer focus may also help loyalty. Increasing BT's marketing campaign may be a good way to drive sales, emphasise increasing customer focus (maybe as a USP) and achieve international growth through steadily increasing profit margins (NPM of 250 million in 2008). However, due to the inelasticity of BT's advertising elasticity of demand ~~to~~ (-1.75) this may be seen as wasted capital, as well as marketing campaigns become extremely expensive and thus in may effect BT's overall priorities due to financial deficits.

A<sup>2</sup>

In conclusion, BT may choose to adopt a number of both pricing and non-pricing strategies in response to prolonged worldwide economic slowdown.

E<sup>1/2</sup>

They have already chosen to use cost reduction (7% in the next year) as a major strategy to help achieve their aims. They may also choose pricing strategies such as cost leadership in order to drive sales as well as non-financial strategies such as marketing campaigns and brand loyalty in order to emphasise new customer focus.

~~14~~  
 (14)  
 (14)

~~K2 P4 A5 E3~~  
 K2 P4 A5 E3

~~14~~

└

### Examiner Comment

Candidates should be encouraged to include plans for questions in this section of the examination. This answer makes a good start by defining the term 'recession'. The candidate also identifies that potential strategies can be financial and non-financial. The answer starts its strategic emphasis with a discussion of cost minimisation. This is reviewed with limited context and analysis. Pricing strategies are then reviewed followed by non-pricing strategies. The elements seen in the answer could potentially form a strategy but the candidate must link the ideas in a logical order with an explanation of the order and priority. The answer is not very evaluative in nature and this is a key skill if candidates want to access the very top marks available.

## Example Candidate Response – Pass

3. K1	<p>A recession is two successive quarterly years of negative growth. It affects many companies, causing many to go bankrupt and unemployment rates to rise. However recessions can also provide opportunities for some firms.</p>
R2	<p>BT is in a very strong position and holds a foothold in the UK fixed land line telephone market; 75%. On top of this, it is also the UK's most popular broadband provider (line 9). However, BT's main rivals in the market, such as B Sky B, may be able to use the recession to full effect by getting land for cheaper, or setting their prices lower to attract more customers. However, from table 2 we can see that as incomes drop, the need for BT's Option 1 increases. There is good news for BT. One option for BT to utilise is the going rate pricing strategy, this way BT can keep up <del>with</del> with its competitors and also not experience market myopia as it will be prepared for any changes in the market, thus when the recovery takes shape, BT will be able to reasonably price its superfast optic broadband to maximise full profits, which would contribute greatly to the pension fund deficit and trying to reach the target of saving £100m in pension contributions per year by April 2010 line</p>

A 28). The recession is a very good time to exploit full value for money out of land. On top of this, there is a wider range of potential employees to choose from with the unemployment rate being 6.5% (2 million people).

On balance, BT should change to a going rate pricing strategy to make sure it is in-line with the market, and line 70 shows us it is also winning back customers which is a major positive for BT. Other strategies?

B In order for BT to react to the prolonged recession, it must ~~cut~~ cut costs or face heavy repercussions. Due to a recession, interest rates are low, people's salaries drop and general sales are poor for most companies. Unfortunately BT's option 1 is an elastic good, making it sensitive to changes in the business environment. This means BT will have lost out, and we can see this in the 125% decrease in shares from Feb 08 to Jan 09. BT knows it must cut costs and thus has set up a plan to axe 10,000 jobs by mid 2009 (line 18). This is a very smart move, however many employees may be resistant to change and so BT should reassure workers that everything will be fine and explain the situation.

E1	<p>To conclude, BT must make sure workers are kept happy during difficult times, so much communication is needed to present internal communication economies of scale. It is also essential to make sure BT do meet the pension fund deficit target by 2010 <del>then</del> set by Ian Livingstone, otherwise the workers may become settled and unmotivated, having a negative effect on the productivity of the company and losing that special quality of service BT seems to offer. This is the last thing BT needs, after <del>the</del> 'particularly disappointing' financial results from BTGS. In addition, BT must use a going rate strategy to make sure full profits and high market share is gained in the rising limb of the trade cycle.</p>
	<p>Strategies?? U 2 P4A2 E2</p>

(10)

### Examiner Comment

This response starts with a good definition and this is to be commended. The answer is relatively strong in terms of knowledge and context but quite weak in terms of analysis and evaluation. The answer offers some strategic content about pricing and cost reduction but these are presented without a coherent and logical explanation as to why they are the best strategies or in what order they should be implemented. Candidates should be reminded that strategy questions have specific requirements in terms of content and structure.

## Question 4

Discuss how BT could maintain and improve its reputation for good customer service, while trying to reduce costs. [25]

## Mark Scheme

- What are the types and levels of customer service that customers want (market research)?
- Review customer service measures of competitors.
- Reputation for good customer service could be promoted by highlighting awards such as the Reader's Digest award.
- Make sure customer service is used as a Key Performance Indicator (KPI).
- In house training-costs?
- Monitoring of customer service via feedback or taped customer service conversations.
- Good customer service can reduce costs by getting issues resolved 'first time'.
- Poor customer service would have its own costs, such as customers leaving BT.
- Costs could be reduced in other areas apart from customer service.
- Is there any scope for cost reductions in customer service when customers could view this as a USP for BT?
- ARA
- Evaluation could include: Is cutting costs necessarily going to impact on customer service; does customer service or cost reduction have the greater strategic importance; cost reductions can be made to other areas such as Global Services; to what extent is customer service a distinguishing feature for BT; what is the extent of any cost cuts?

## Example Candidate Response – Distinction

<p>4. K<sub>2</sub> IL</p>	<p>As just discussed in question 3, Porter said that to succeed in competitive environments, businesses should either focus on <del>cost</del> achieving cost leadership or differentiating, but not <u>both</u> as they in some ways cancel each other out - taking away all USP's from the business. BT want to maintain and improve their differentiated <del>set</del> customer service and at the same time reduce their costs - strategies that Porter would oppose, but that are possible.</p>
	<p style="text-align: center;">motivate - intrinsic - leadership employees not Taylor but Maslow get employees to brain each other</p>
<p>P<sub>1</sub> A<sub>1</sub> P<sub>2</sub> A<sub>2</sub></p>	<p><del>But</del> To carry out their cost reduction strategy BT are planning to cut down their workforce by 10,000 - and these redundancies could really demotivate staff by sacrificing their job security (one of Maslow's motivators in his hierarchy of needs), and taking away fellow employees that they may have made groups with (remembering Mayo's motivator of working in groups). Therefore this demotivation may <del>even</del> give BT problems in trying to give their customers quality service through angry and demotivated employees. To solve this problem, BT could try using other methods of motivation - such as through the use of a good leader to intrinsically motivate them by persuading them the positive aspects of BT's move through cost leadership (change management). As the managing director</p>

<p>P2</p> <p>A2</p>	<p>Lan Livingstone is charismatic and relatable, and able to persuade the workers at BT that the redundancies are positive (like Andy Street <del>the</del> CEO of John Lewis did with his partners when he had to reduce his workforce by 40 in the head offices), then BT maybe able to prevent the staff from <del>becoming</del> becoming demotivated. By communicating with employees and democratically listening to their opinions <sup>(change management)</sup> Lan will be able to reduce demotivation as a result of the redundancies due to cost-cutting - enabling them to carry out better quality service.</p>
<p>E1</p>	<p>However in some ways communicating with the staff and listening to their input may be very time consuming and actually reduce the impact of the cost-savings by spending the wages of the employees on listening to their opinions - removing people such as the managers from focusing on other elements of the business by distracting them with long decision-making. Although <del>staff</del> increasing the responsibility of staff <del>is</del> to motivate them (Maslow's hierarchy of needs - empowerment) - listening to their input will make the process of cost-cutting and reducing the labour workforce. In some ways we need to determine whether the motivation of the workforce due to increased democracy on the issue of redundancy is more important than cutting the costs and making the redundancies quickly - autocratically</p>

~~which could~~ which could sacrifice their customer service (going back to Potter's idea of the opposing strategies).

A
p
~~Furthermore~~ Furthermore, to improve the customer service of BT, BT may have to invest in training to carry out the strategy and improve their customer service (which possibly will also improve the motivation of staff by improving their skills) which would again reduce the impact of the cost saving methods. However an idea to get over this problem could be by carrying out job enrichment and letting the staff train each other. Instead of investing in expensive training programmes for all of the staff working with customers, BT could train just a few, (reducing costs), and let these employees train the others. By letting employees train each other not only will BT be saving costs on training, but they will also be improving the staff morale by motivating them (Maslow's empowerment and self esteem elements) by giving them control and responsibility, which could further improve their customer service by having positive and motivated employees. However an issue with this strategy is that employees may not want the extra responsibility of training others (they may be McGregor's Theory X workers) and this could further demotivate them. Furthermore, getting ~~the~~ the BT staff to train others ~~may~~ <sup>will</sup> take time and ~~may~~ could create rivalry between employees. It could remove the employees from

their core focus (and actually providing customer service) in the short term (which could reduce demand in the short term) - however overall this strategy could increase demand in the long term through their positive morale and new skills.

As previously explored, a strong leader is vital to create a vision for a company, and BT could cut costs yet keep staff motivated to carry out good customer service through the intrinsic motivation of a strong leader. As well as providing good change management to keep morale high (eg. through the periods of redundancies), the leader could work on changing the culture of BT to allow the employees to carry out customer service whilst cutting costs.

The case study does not describe the type of culture that currently exists at BT, however through the treatment of employees as assets by enforcing intense workforce planning (reducing workforce by 10,000 in recession) I will assume that ~~their culture~~ BT currently have a role culture - where employees work according to their job descriptions, and are (like BT are currently doing) made redundant if their roles are unnecessary. Instead of maintaining this culture, Lan could implement a Task Culture to improve the motivation between workers (by making them work together towards tasks) but also by making them more aware of BT's overall <sup>corporate</sup> aims of cost minimisation and improving customer service - allowing them to work towards the united goal, and

T  
P  
E  
P

E2

be more understanding and sympathetic to Lan's decisions (such as redundancies or ~~the~~ decisions for employees training each other). This culture could improve both communication in the business whilst reducing employee resistance and increasing their motivation - overcoming the issue that ~~is~~ the job enrichment strategy produced. Furthermore, by adapting the culture Lan could also make it more responsive to the competitive external environment by teaching tasks as groups of employees in the task culture - fulfilling another one of ~~the~~ his priorities for BT.

E<sub>3</sub> In conclusion BT could maintain its reputation for good customer service and at the same time reduce costs by enriching the jobs of employees, and motivating them through a strong leader. Although job enrichment is a motivator in itself, BT employees may dislike responsibility therefore need more motivation which can be provided intrinsically through a strong leader, and through open communication within a task culture. BT can train their employees internally (trained employees teaching others) which can reduce costs (complying with the cost-cutting strategy) whilst at the same time improving customer service and the teamwork within the business - overall improving morale. Through change management, intrinsic motivation from a strong leader, awareness of a united goal within a task culture, and motivation

Through job enrichment Lan could improve the morale and skills of the workforce whilst maintaining low costs. The issue with this strategy is that changing the culture can be a ~~slow~~ long process - however if Lan is charismatic and a strong leader he will be able to change it rapidly ~~etc~~ (as the case study described ~~the~~, his leadership skills will be tested under this strategy).

K3 P6 A7 E7

23

#### Examiner Comment

This is a very well structured long answer. It uses relevant case context to support the analysis and combines this with excellent basic business knowledge and grasp of core theories. The answer is also very balanced and weighs up the competing arguments in a thorough manner. The answer is clearly evaluative and reasoned judgements are discussed in detail. This was a potentially difficult question because the ideas of cost reduction and improvement of quality are difficult to conceptualise and requires the linking of diverse aspects of the specification.

## Example Candidate Response – Merit

4. Because BT is in a highly competitive market, with other large companies trying to increase their market share, the businesses reputation is important. A bad reputation can result in a lack of sales and therefore profit which makes the business less competitive. However another way of ~~reducing~~ making the business more competitive is by reducing its costs as this leads to more profit.

For BT to try and maintain a good reputation for customer service and reduce costs, it has to find a way of reducing costs which does not affect customers. This means reducing costs in production could lead to a decrease in quality and bad quality could result in the business being sued or losing money by having to repay that customer. Bad quality means bad customer service which would cause harm to BT's reputation. This means that BT would have to put in a range of methods to stop bad quality. This can be done by various techniques.

Firstly BT could introduce Total Quality Management (TQM) which involves everyone in the company working to ensure total quality, this also improves motivation as the employees are more happy. However this would be hard to achieve in such a large company. It also requires a high level of training which is expensive and ~~not~~ <sup>might not be</sup> worth it if the business is trying to reduce costs. Similarly BT could introduce Quality Circles which help stop defective

goods and services reaching the market and can improve motivation as the employees feel that they are contributing to the business more.

Improving Customer Service can also involve reacting to all customer needs in a professional way as to try and keep the customer and to try and not harm the business reputation. This can include things like offering the customer free options if they encounter a problem. This is an initial loss for the business but it is more likely that the customer will stay with the business if treated well despite an initial lack of customer service.

AZ Increased Training for staff can result in better customer service which leads to a better reputation. However training is expensive. Different types of training are more expensive than others, for example on the job training is more expensive but employees can learn more and possibly new skills which they then take back to the business. However the business is always worried that they may leave afterwards to get a better job at a competitor firm. There is also on the job training which is less expensive but workers can pick up bad habits, which could lead to poor customer service.

Finally ~~the~~ BT could include customer service in its advertising campaigns, showing potential customers that they care about them etc. However this

is also expensive which makes it unlikely for a business to do if trying to reduce costs.

\*  
 E1  
 ↑↑  
 To conclude, BT could try and improve quality by using TQM and Quality Circles, which also improves employee motivation along with training. However training is expensive and therefore unlikely to use by BT to improve its <sup>customer</sup> service. Advertising can also be used to increase potential customer awareness of BT's helpfulness and try to improve sales and reputation.

\* BT could also try to increase motivation on the side, as an increase in motivation can cause better customer service. However ~~to~~ to increase motivation ~~the~~ BT would need to spend more as according to Taylor money motivates and to increase working area and satisfaction also requires costs.

K3 P4 A5 E<sup>2</sup>2

(14)

## Examiner Comment

This answer has strengths and weaknesses. It would benefit from using more case specific context to support the views shown and by including a broader use of core theories/concepts. The use of TQM was useful in this particular response. The main weakness of this answer is the lack of evaluation. This assessment objective attracts 8 of the 25 marks on offer and is a key determinant of a candidate's success.

## Example Candidate Response – Pass

4 Customer service is the process ~~in~~ which a business operates to satisfy customers needs. BT could focus their marketing campaigns on customer services and emphasises that it values customer services as one of the main priorities.

~~John Lewis, is one of the ~~company~~ companies that are associated with good customer services. When Dyson, one of its main competitors launched a marketing campaign directly targeted ~~at~~ John Lewis, it ~~was~~ fought back with ~~it~~ / cost.~~

The amount of money that BT spends on marketing will be roughly the same when the effects ~~on~~ on ~~and~~ improving customer services can be doubled. This is because by marketing focus on customer services, consumers can be more aware of the services provided by the company and they will expect great services from the business. As a result, employees will work harder and try to make sure that the service they provide satisfy customers' expectations.

BT could also ~~introduce TQM - total quality management~~ introduce TQM - total quality management on the ~~the~~ customer service team. Total quality management makes sure that services provided are up to standards and they are provided through effective and efficient means. However, the establishment of

TQM is often associated with high level of initial costs. This means that BT has to make decisions whether it wants to take this opportunity cost or not.

Alternatively, BT could ~~train its existing employees~~ adopt a market-led strategy.

A2 Market-led strategies ensure consumers' opinions are taken into consideration. This means that every product or service that BT is to provide need to meet customers' expectations. If the company is able to do just that, its reputation for customer service will automatically be improved.

On the other hand, it is impossible to improve the company's reputation for good customer service while trying to reduce costs because many methods involve inputs of capital. For example, the easiest way to ~~improve~~ improve its reputation for customer service is to set up a PR department specifically for it. But this again needs investment inputs.

E1 In conclusion, BT has to compromise because it is unlikely to achieve both objectives at the same time. They need to prioritise objectives in terms of their importance.

K2 P3 A3 E2

(10)

### Examiner Comment

This candidate has attempted to answer this question but the assessment objectives are only superficially covered and the answer fails to develop any of its points in detail. The answer has started by trying to define the key words in the question and this is to be encouraged. Candidates should try and avoid words such as 'impossible' in the answer. The candidate fails to grasp how the simultaneous achievement of cost reduction and improved quality of service are possible, if somewhat difficult to achieve.

## Paper 3 Personal Investigation

### Mark Scheme

Assessment Criteria	Description	Level Descriptors
Knowledge (4 marks)	The Problem in Context	<p>Band 3: 4 marks. Includes a full and detailed description of the nature of the business problem, why a solution is required, who it affects and future implications of failure to solve the problem.</p> <p>Band 2: 3–2 marks. Includes a full description of the nature of the business problem and who it affects, demonstrating some understanding of implications of failure to solve the problem.</p> <p>Band 1: 1 mark. Includes a description of the business problem which is lacking in detail and depth.</p> <p>Band 0: 0 marks. No relevant material.</p>
Application (4 marks)	Methodology – Quality and Relevance of the Research	<p>Band 3: 4 marks. Clear evidence of relevant primary and secondary research, including the ability to comment critically on methods used.</p> <p>Band 2: 3–2 marks. Clear evidence of relevant primary and secondary research, including the selection of appropriate research methods.</p> <p>Band 1: 1 mark. Some evidence of primary or secondary research.</p> <p>Band 0: 0 marks. No evidence of research.</p>
Analysis (24 marks)	Analysis of Research Findings and Use of Business Theory	<p>Band 5: 24–21 marks. Substantial analysis of the data, selective use of various written and numerate techniques to identify causes and/or possible solutions and showing judgement in techniques used. Comprehensive and accurate use of relevant business theory throughout.</p> <p>Band 4: 20–16 marks. Substantial analysis of the data using various written and numerate techniques to demonstrate insight and depth. Accurate use of relevant business theory throughout.</p> <p>Band 3: 15–11 marks. Some analysis of the data using written and numerate techniques, showing understanding but lacking insight and depth. Accurate use of relevant business theory throughout.</p> <p>Band 2: 10–6 marks. Some analysis of the data using written or numerate techniques, showing understanding but lacking insight and depth. Accurate but limited use of business theory.</p> <p>Band 1: 5–1 mark. Limited analysis of the data using written or numerate techniques, showing understanding but lacking insight and depth. Limited use of business theory.</p> <p>Band 0: 0 marks. No relevant analysis or theory.</p>
Evaluation (28 marks)	Conclusions, Recommendations and Evaluation	<p>Band 5: 28–25 marks. Appropriate conclusions and recommendations fully justified by the evidence, showing awareness of wider issues and their implications for the business concerned. Detailed evaluation of the strengths and limitations of the investigation and suggested solution(s).</p> <p>Band 4: 24–19 marks. Appropriate conclusions and recommendations fully justified by the evidence. Detailed evaluation of the strengths and limitations of the investigation and suggested solution.</p> <p>Band 3: 18–13 marks. Appropriate conclusions and/or recommendations partially justified by the evidence. Some evaluation of the strengths and limitations of the investigation.</p> <p>Band 2: 12–7 marks. Some conclusions and/or recommendations partially justified by the evidence. Limited evaluation of the strengths and limitations of the investigation.</p> <p>Band 1: 6–1 mark. Limited conclusions and/or recommendations.</p> <p>Band 0: 0 marks. No conclusions drawn.</p>

<p>Communication (40 marks)</p>	<p>Presentation of Report</p>	<p><b>First refer to Descriptor Table for Communication Assessment Criteria.</b></p> <p>Band 8: 40–36 marks. Reports in this band must also clearly communicate (valid) limitations of the investigation. There will be little (or no) information that is not directly relevant to the candidate’s subject of investigation. To reach the top of the band the report will <b>communicate</b> the candidate’s substantial depth of understanding of the relevant business theory, the problem investigated and its solution (or potential solution), and the report as a whole will be convincing and comprehensive (allowing for the upper limit of 3500 words).</p> <p>Band 7: 35–31 marks. To reach the top of the band the report will contain little (or no) information that is not directly relevant to the candidate’s subject of investigation.</p> <p>Band 6: 30–26 marks. To reach the top of the band the recommendations must be convincing by being based on sound reasoning from the theory, data and/or results.</p> <p>Band 5: 25–21 marks. To reach the top of the band the reasons for choice of research methodology must be communicated clearly and the recommendations must be realistic.</p> <p>Band 4: 20–16 marks. To reach the top of the band the bibliography must be logically organised and include details of most or all the references cited in the main body of the report.</p> <p>Band 3: 15–11 marks. To reach the top of the band there must be relevant use of tables, diagrams and/or other illustrations.</p> <p>Band 2: 10–6 marks. To reach the top of the band the report must <b>communicate</b> the candidate’s understanding of research methodology and list some references.</p> <p>Band 1: 5–1 marks. To reach the top of the band there must be recognisable objective(s), data and conclusions.</p> <p>Band 0: 0 marks. Poorly expressed ideas. Many errors in grammar, punctuation and spelling.</p>
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Note: the following Investigations have been anonymised and the company names have been changed.

Example Candidate Response – Distinction (D1)

# **Cambridge Pre-U** **Personal Investigation**

**An Investigation into how Company X could  
Improve their Product Portfolio to  
Expand into the Teenage Market**

**Word Count: 3491**

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**Business Background:**

Company X was established in 1999. They manufacture jute bags and are Fairtrade certified; employing 75 women and distributing to 10 countries. The headquarters is based in the UK, however the bags are manufactured in India. They sell two types of products: bags designed by X for the general public, and bags designed for specific businesses and conferences. After a semi-structured interview with UK Marketing Director (Appendix 1), I gained a better view of the business structure, and found an issue the business wanted to tackle. He described how designs are discussed informally between England and India; and inspired by casual feedback gained from distributors (Appendix 1)

**Business Objectives:**

The Philosophy and Mission Statement driving the business is “Profit for People”, and they exist “to provide freedom for women forced into prostitution by trafficking or poverty”. They aim to spread the message of freedom and Fairtrade through their sales to reduce unethical action within the accessory industry. There are many more women in the red-light district they want to provide freedom for, therefore a crucial part of their business plan is to constantly grow and increase demand and awareness so they can provide more women with employment.

**The Problem in Context:**

The X customer base has changed due to the recent economic slump, as corporate customers and banks they previously supplied cut the bags from their budget, as the luxury products can be spared during this economic climate. X are considering targeting the teenage market who compose a large proportion of bag and accessory sales, as they think they could benefit from selling their own bag designs to teenagers, where the recession has not hit so hard; so by expanding they spread their risks, reducing their dependence on temperate businesses requiring their custom. The average ages of X’s consumers are around 20-30 and 50-60, however the “I’m a celebrity obsessed bag” was popular with under 18s (appendix 1), proving X can attract this new market if they have the right product.

As a result of the recent economic recession, the 2009 expected turnover is similar to last year’s which is problematic as X are unable to increase employment to fulfil their mission statement. They need to find an alternative method to ensure increasing demand and growth, otherwise in the short term X will be unable to provide more employment, and if their demand remains the same or falls in the future, long term consequences could result as costs rise due to inflation - taking away the women’s freedom by releasing them back into the red light district – opposing their mission statement.

**Methodology:**

I need to find a solution that increases demand and spreads risks to ensure X achieve their aim of providing employment for the disadvantaged women. I need to consider X’s financial limitations as a Fairtrade not-for-profit business, and X’s aim to spread their message of Fairtrade to consumers – therefore must maintain this ethic within the solution. X are considering growing by

targeting the teenage market (new market development) – which may require adaptations to their product to suit this new market; therefore I will analyse whether - and if so – how this market should be targeted to benefit X and solve their problem of low increase in demand and recruitment. I will carry out this analysis through secondary research from the library, historical figures and competitors to learn from the success of other businesses, using realistic figures and methods that have already been carried out and achieved; and through primary research in the form of surveys and questionnaires to gain more specific and current data.

X were missing out on the opportunity to sell bags to teenagers – especially as teenagers compose the majority of bag and accessory buyers (“Library Research” and Appendix 2). This would benefit X and solve their problem by expanding their consumer base and spreading their message of Fairtrade within a new market. I decided to investigate into the Fairtrade and ethical buying habits of the whole UK market, and also the accessory buying habits of the general market, to see if there was any correlation between the two, and to confirm whether the idea to combine the teenage accessory market with Fairtrade would be beneficial; and I carried out this research in the Business Library in London.

### **Findings – Library Research:**

I discovered, although most Fairtrade products are bought by women over the age of 45, Fairtrade products were becoming more fashionable, and predictions forecasted an increase in Fairtrade (Key Note Ltd (2008a)) (Appendix 2). I researched the specific teenage clothing and accessory market and found the value is predicted to rise to £12.09bn by 2013(Key Note Ltd (2008b)). After finding both the Fairtrade and the teen market are forecasted to increase in the next few years, it seems beneficial for X to take advantage of the teen market not only gain more demand, but to spread their Fairtrade message further.

### **Survey Methodology:**

I carried out a survey to find primary data more specific to my investigation. I wanted to survey a representation of the entire population to confirm the library results showing female teens were amongst the largest market for bags. I carried out a pilot to ensure my survey contained realistic options, and then interviewed a group of people selected through stratified sampling to collect data from an accurate representation of the population (weighted by the percentage within the UK population (National Government Statistics (2008))). The survey contained questions on past, present and future habits of consumers; questioning habits surrounding both Fairtrade bags as well as bags in general ( Appendix 3). I surveyed random people in the street within these numbers to ensure my survey was accurate and unbiased– as if I purely questioned friends, they may share traits which would affect my results.

#### **Stratified sampling method from UK population:**

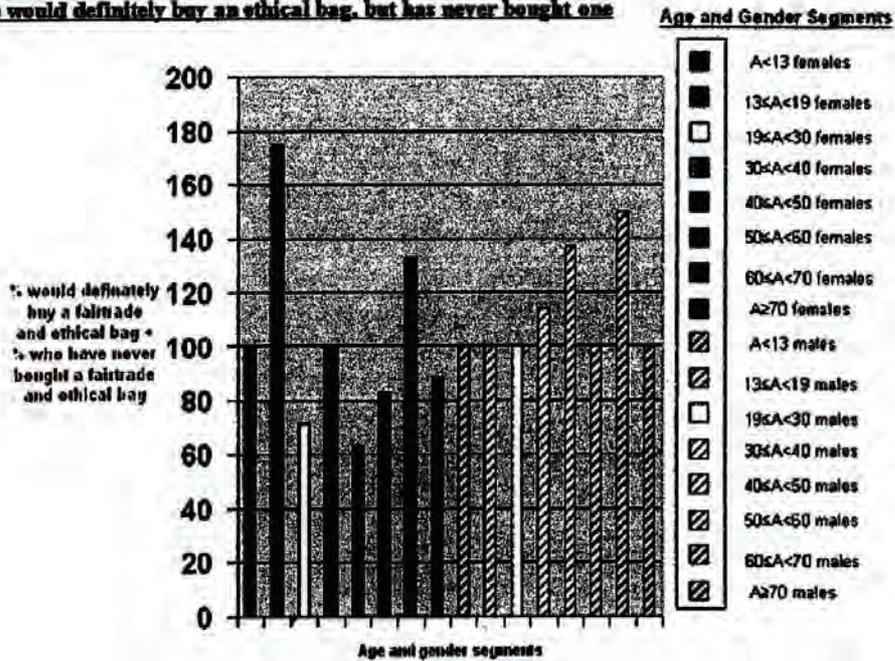
Age	Female pop.	Male pop.	% of overall population		Number to survey	
			Females	Males	Females	Males
A<13	14%	15%	7.0%	7.5%	7	8
13≤A<19	7%	8%	3.5%	4.0%	4	4
19≤A<30	13%	14%	6.5%	7.0%	7	7
30≤A<40	13%	14%	6.5%	7.0%	7	7
40≤A<50	15%	15%	7.5%	7.5%	8	8
50≤A<60	12%	12%	6.0%	6.0%	6	6
60≤A<70	11%	11%	5.5%	5.5%	6	6
A≥70	15%	11%	7.5%	5.5%	8	6
TOTAL	100%	100%	50.0%	50.0%	53	52
TOTAL:					105	

**Results Analysis:**

After carrying out the survey (Appendix 3) I decided to focus on the market segment that had the largest proportion of 'definitely's' to buying an ethical bag, and the smallest proportion of 'yes's' to have bought one in the past when carrying out cross tabular analysis (graph below). These potential consumers would, but do not, buy the products, so are a perfect opportunity for X to target their products at and spread their message. This contrast in definitely's and yes's shows how ethical awareness is becoming more fashionable, as the majority who answered wanted to say they would buy ethically; but in reality did not. X should take advantage of this natural instinct and change the no's to yes's.

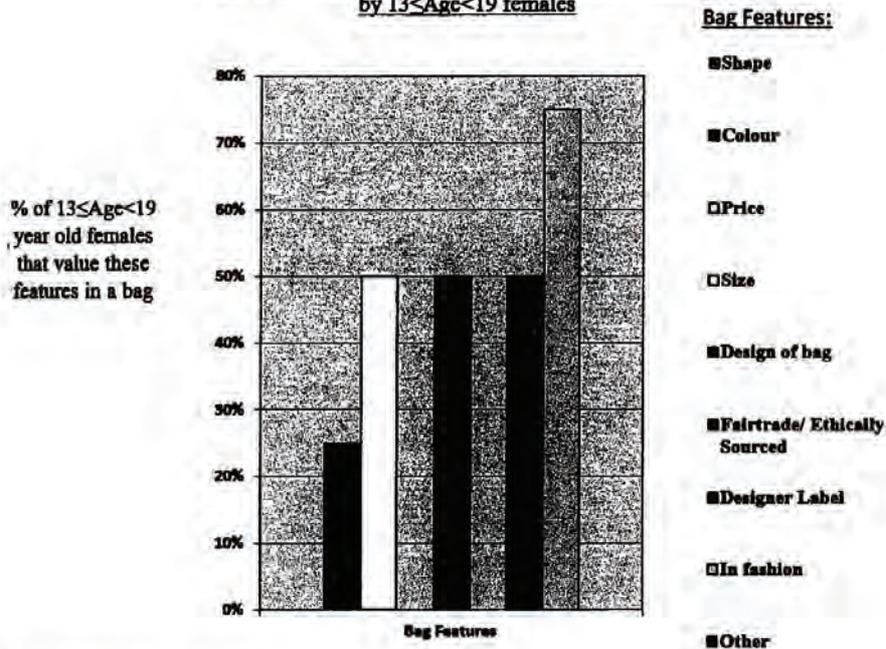
To measure this contrast I added the percentages of 'definitely's' and 'no's' to these questions (see below). Overall the teenage girls aged 13 ≤ age < 19 had the largest figure (as 100% would 'definitely' buy a Fairtrade and ethical bag, but 75% had never bought one); therefore I would recommend X focus on this target market.

**Graph showing a representation of the percentage of the population who would definitely buy an ethical bag, but has never bought one**



Through the survey results I discovered the female teenage market's reasons behind not purchasing ethical or 'X' bags were that they had never seen any, or that they disliked the style. Therefore to target this market, X should market themselves using teenage-friendly methods, and improve their bag designs to keep up with trends of current competitors. The largest feature of a bag on which the purchase was dependant on for this market was whether it was fashionable (see below); therefore when devising a strategy to create a new product to target this market, I will take into high consideration the bag's design, and external influences occurring within the fashion industry.

**A graph showing the features of a bag that are valued by 13≤Age<19 females**



### **Options Freetset could consider:**

Hamel and Prahalad's core competencies model (Hamel G and Prahalad C.K (1995)) describes how devising an effective marketing strategy should focus on the main strengths of the business, and their third step details how core competencies should be difficult for competitors to imitate. Similarly Porter's five forces (Porter M.E (1979)) say businesses should differentiate themselves or become market leader – to gain a competitive advantage, resulting in higher profits – which is usually a business' main objective. Although X does not aim to make profit, they still aim to sell as many bags as possible to employ as many disadvantaged women as possible; therefore it appears X should target this market by creating a new product that is different from other current products, to attract their attention, and reduce competition already present in the saturated market of teenage girls' accessories. X, being a Fairtrade business, already have a competitive edge differentiating themselves from other standardised accessory companies such as Y and Z that do not hold these values prominently in their philosophies. However, my market research showed that none of the females 13≤Aged<19 valued this ethical feature in their bags. Therefore, to attract this target group, X could create a bag using a market-led approach to develop their accessories focusing on colour, price and design (features valued by the market) to keep with current trends appealing to females 13≤Aged<19 X will not be moving into a new niche, as rather than using their own designs they will move into the saturated area of copying fashion trends; however they do not need this differentiation of design as they already have a USP of being ethical to gain competitive advantage over competitors producing these standardised bags. Although ethical sourcing was not a highly valued

feature in their bags, my market research showed that this market actually wanted to purchase an ethical bag – it just needed to comply with the other features they were looking for such as design; therefore it is likely they will purchase a X bag over another brand if both were of similar style.

Robert Camp actually describes that a business can be successful by finding a niche when comparing themselves with other similar businesses through developing a 12-step-structure to benchmarking, using competitors actions to develop newer ideas and find gaps in the market that a business can target (Camp R.C. (1989)). ‘ A ’, similarly to X , ethically produces accessories, and when looking at previous marketing campaigns I found they increased demand from teenagers when collaborating with designers such as Bora Aksu . The B similarly joined with well-known names in fashion (e.g. Luella Bartley) to successfully promote their message to the younger generation (Johnson R. (2010)). These collaborations enabled both A and B to increase brand awareness; and as X want to spread their message of Freedom further, and their target market valued designer names within their bags, they may highly benefit from learning from these competitors like Robert Camp describes, and using a strategy of collaborating with designers to attract this target market.

Before analysing these solutions I carried out another survey specifically for the female teenage market to gain a larger sample of quantitative and qualitative data (Appendix 4), as after reviewing my methodology I found my stratified sampling resulted in just 4 females  $13 \leq \text{Aged} < 19$  being surveyed – and this small number may not be a wholly accurate representation of teenage girls to base X ’s market-led strategies on. From these specific results I will evaluate ideas that will suit the market’s needs and solve X ’s problem.

### **Analysis using quantitative and qualitative techniques:**

I have two strategies X could use to succeed within the teenage market through using an AIDA and DAGMAR approach of gaining their attention and interest in the products through these solutions to result in them desiring and buying the bags to increase X ’s demand; spreading their Fairtrade message into a new market segment, and achieving their aim of providing freedom for women through increasing employment to supply higher demand.

1. Create a line of bags following current fashion trends similar to the high street to appeal to this feature valued in bags by teenagers, but also to rival against these competitors with X ’s differentiated niche of being ethical and Fairtrade (especially as being ethical is becoming more fashionable)
2. Use famous designers to design bags for X to gain brand awareness, and attract the target market that value designer names.

I analysed both quantitative and qualitative elements of these strategies (Appendix 7) to compare their suitability for X . Qualitatively Strategy 1 has potential as current trends would appeal to the market (shown through my market research), however X may find it difficult to keep up-to-date with the rapidly changing Fashion Industry in their external environment with their high labour turnover, and their ethical nature may prevent them from competing price-wise with businesses such as Y who benefit from economies of scale, cheap labour, and machinery (Appendix 7). Strategy 2 would raise brand awareness and demand as the designer name will differentiate the brand in favour of the female teenage market; however finding a free designer to collaborate may be problematic as designers may be unwilling to reduce the exclusivity of their name.

Quantitatively using the 90/30 rule to be prudent, and figures from my survey results, I worked out potential revenue, costs and profits for both projects (Appendix 7) to compare and assess benefits they will bring to the business. Strategy 1 generated a higher profit selling more bags – which would

provide more work for the women in Calcutta and fulfill X's mission; whereas although Strategy 2 generated a lower profit, a larger percentage of the population would buy the bags – fulfilling X's aim of spreading their message. The figures I worked with (Appendix 7) were obviously unrealistic as a result of my method of targeting the entire UK population, and these would not be possible within X's manufacturing capacity; however by using the same method for finding potential revenue for both strategies, these unrealistic figures still allow me to compare the potential relatively.

### **Evaluation:**

Overall both strategies are profitable for X. In some ways I would recommend X chose strategy 1 as although it generates a lower profit compared to strategy 2, it will be making more teenage girls aware of X as a larger proportion of this target market would buy the bags (72% compared to 63%) - fulfilling their aim of increasing awareness. However, X was originally formed to create employment for women in Calcutta, therefore strategy 2 would contribute more to their philosophy as a larger number of bags would be sold to this smaller proportion of the market, therefore more women will be needed to manufacture these bags. However although in theory strategy 2 has potential, collaborating with a designer may be difficult (as it may be hard to find a designer to work for free, and their availability may be dependant on the uncontrollable external environment of the fashion industry); however within the current economic climate where employment is low, designers may be seeking for ways to gain awareness themselves.

I carried out an investment appraisal using the payback method to evaluate these strategies as described there is no capital or retained profit available internally within X to spend on strategies as X are a not-for-profit business and spend all the profit on helping the women in Calcutta, therefore costs must be minimal, and be paid back as quickly as possible, as they cannot afford to pay high interest repayments which would be an opportunity cost and could rather be spent on helping the women in Calcutta. I did not use the NPV ratio when comparing strategies, as I analysed the duration of the project within the short term.

**Investment Appraisal Strategy 1**

	Month	Cost	Revenue	Cumulative profit (revenue-cost)
Year 1	September	£660,996		-£660,996
	October	£660,996	£6,609,960	£5,287,968
	November	£660,996	£6,609,960	£11,236,932
	December	£660,996	£6,609,960	£17,185,896
	January	£660,996	£6,609,960	£23,134,860
	February	£660,996	£6,609,960	£29,083,824
	March	£660,996	£6,609,960	£35,032,788
	April	£660,996	£6,609,960	£40,981,752
	May	£660,996	£6,609,960	£46,930,716
	June	£660,996	£6,609,960	£52,879,680
	July	£660,996	£6,609,960	£58,828,644
	August	£660,996	£6,609,960	£64,777,608
September	£660,996	£6,609,960	£70,726,572	
	<b>Total</b>	<b>£8,592,948</b>	<b>£79,319,520</b>	<b>£70,726,572</b>
<b>PAYBACK:</b> what you need/ what you get		<b>0.20</b>		
<b>ARR:</b> Profit Per Annum / Cost x 100		<b>823.08</b>		

Investment Appraisal Strategy 2

	Month	Cost	Revenue	Cumulative profit (revenue-cost)
Year 1	September	£739,777.50		-£739,777.50
	October	£739,777.50	£11,096,662.50	£9,617,107.50
	November	£739,777.50	£11,096,662.50	£19,973,992.50
	December	£739,777.50	£11,096,662.50	£30,330,877.50
	January	£739,777.50	£11,096,662.50	£40,687,762.50
	February	£739,777.50	£11,096,662.50	£51,044,647.50
	March	£739,777.50	£11,096,662.50	£61,401,532.50
	April	£739,777.50	£11,096,662.50	£71,758,417.50
	May	£739,777.50	£11,096,662.50	£82,115,302.50
	June	£739,777.50	£11,096,662.50	£92,472,187.50
	July	£739,777.50	£11,096,662.50	£102,829,072.50
	August	£739,777.50	£11,096,662.50	£113,185,957.50
September	£739,777.50	£11,096,662.50	£123,542,842.50	
	<b>Total</b>	<b>£9,617,107.50</b>	<b>£133,159,950.00</b>	<b>£123,542,842.50</b>
<b>PAYBACK:</b>		what you need/ what you get		<b>0.13</b>
<b>ARR:</b>		Profit Per Annum / Cost x 100		<b>1284.62</b>

When executing this investment appraisal, I divided the overall cost per year by 12 to work out the cost per month, and divided the revenue similarly. This does not account for seasonal variations, and therefore will not be wholly accurate or realistic – however the external and seasonal factors are not measurable at this modelling stage – therefore I used this basic model as both strategies are selling similar products to similar markets so will face similar variations. I generated revenue from the second month as the director said it took a month at shortest to design and create a new bag – therefore X will face this cost in advance. I excluded bags bought as one off purchases within the life of the projects, as these were too unpredictable to place within the time scale of my investment appraisal tables. As the tables show, the second strategy has a larger initial cost, however its dramatically larger revenue per month results in a faster payback after the first 1/7 th of a month (0.13) rather than strategy 1 that is paid back after 1/5<sup>th</sup> of a month (0.2) – however overall these figures are both so similar, with a difference of about 2 days between them, that this payback method is ineffective in differentiating the projects. When carrying out ARR there was a slightly larger difference with Strategy 2 having a 150% larger return as it generates a lot larger revenue with only a slightly larger cost; however ARR is not as significant as payback for X, because as long as they minimise interest repayments on borrowed money (which for both projects will be after just a few days of selling bags) X will not suffer or benefit dramatically from either of these rates of return; but will rather benefit from the larger profit Strategy 2 generates. Both projects require similar initial costs that can be repaid in similar periods of time; therefore investment appraisal is a fairly insignificant variable in determining the best strategy quantitatively compared to the profits I previously considered.

**Limitations:**

This report, as previously described, has limitations restricting its reliability and accuracy. As I surveyed a representation of the population, small strata only surveyed a few people which could have produced unreliable and biased data; such as females 13≤Aged<19 of whom only 4 were initially surveyed. Furthermore the results were only from a sample so may differ from the actual views of the UK; and the survey results cannot be fully relied upon, as surveys are purely theoretical, which tends to trigger optimistic responses. The investment appraisal does not account for seasonal variations, so cannot be wholly dependent on, and furthermore the figures do not consider X’s manufacturing capacity. In addition, this project only considered two options – restricting other possibilities for X.

As a fairtrade and ethical business, X are internally constrained as they are unable to lower costs by cutting wages as this would oppose their philosophy, so are limited in competing with low-cost companies using cheap labour such as Y. Having just 300 human workers further constrains them in the capacity they can produce. They are similarly restricted by external factors, such as their dedication to using Calcutta's jute fabric limiting the designs and therefore success of Strategy 1, as 'jute' fabric may become 'unfashionable' within the constantly changing fashion industry; the industry and current trends also externally influencing sales. Physically implementing these strategies is another limitation of this investigation, as although in theory they appear realistic, X may face unforeseen problems – such as difficulties in finding a designer for Strategy 2.

### **Recommendation:** ?

I would recommend X do enter the female teenage market, as both secondary research in the library as well as first hand surveys proved this market are keen to purchase ethical accessories if X accommodate their needs for fashion, design and style. I would further recommend that to target this need of the market, X should adopt strategy 2: (use famous designers to design bags for X); as charity B successfully used this to gain awareness from their target market, and as explored, the market valued the design and style compared to other features of bags. This strategy would generate the most revenue and profit (although from a smaller proportion of the market), overall providing more jobs for the women in Calcutta – achieving their philosophy, without investing in major resources (necessary due to X's financial constraints).

### **Conclusion:**

In conclusion I feel this project has been worthwhile in solving X's problem of creating more demand and jobs for women in Calcutta using the expanding market of teenage girls within the accessory market. Although the projected figures was obviously very unrealistic, I felt my method of forecasting was accurate, through using stratified sampling to represent the population accurately, carrying out a more specific survey after reviewing my initial survey and realising the sample of teenage girls was too small and liable to inaccuracy and bias, and using precise mathematical techniques to involve all of the survey data (such as the frequency of purchasing bags) into the projected figures. Although these figures would not be useful to X alone, when comparing both strategies I felt they were accurate in determining which strategy was best as they both used the same methods so were relative.

I investigated, as proposed, how X could expand into the teenage market, firstly analysing whether they should at all to check X do not lose capital in the short term on ineffective strategies; and focusing on the overall corporate aim to provide the women of Calcutta employment in the long term. I did not focus on X's overall product portfolio, as when surveying this target market, the majority were uninterested in X's current products.

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**Appendix 1:**

**Semi-Structured Interview**  
with **.....** – **UK Marketing Director of Company X**

Company X:

\* Where is X based? What is the structure of the business? \* Where do the marketing and design decisions get made? How many people are involved with these processes?

Global structure: Management and design team are based in India – with number working there, employ women in factory, then shipped to distributors in England. Designs, quantities etc are discussed informally between England and India, however there are usually about 2 designers in India working for a 6 month period in design. X takes in feedback from distributors on how to improve designs or ideas for new products and can either alter product design by calling over the phone (by requiring exact dimensions for example if a certain style bag needs longer handle) or tell the 2 Indian designers in Calcutta the requirements of a new bag style – the type of use, and get them to design it themselves.

Something that they would like to develop is the design of their bags to become more fashionable or gain more demand from a younger market, as although they are able to provide easily for conferences – for example soul survivor – as the businesses they supply for personally design their own bags – they would also like to be more confident in their own retail designs.

However a problem is that when X began, not only did they want to help the women in Calcutta, but they also had a vision to support business in Calcutta and therefore use the jute fabric that Calcutta is famous for – however its getting hard to keep designing from a single fabric.

They have just bought a new building in Calcutta, which will now enable them to hopefully increase employment to 300 women

**Product development:**

\* How long does it take in general from initially designing a new product to selling it?

Can be 1 month at the earliest – however recently they've been working on a Bollywood design which recycles Indian billboards within their bags, which will probably altogether take about 4/6 months. X are expanding their product portfolio by introducing t-shirts, and these have taken about 12/18 months to be designed, created and finally launched onto the market.

\* How often are new products developed, and is there a structure, or a group of people who specifically deal with this?

There isn't really a structure – quite informal – based on feedback from customers – however in the past 12 months they have produced more products than they had in the earlier 3 years due to the recession – as they need more products to encourage more sales in this difficult time. However, also recently jute (the fabric that the bags are being made of) has become really popular – resulting in more designs in the last year.

\* What factors do you take into consideration when designing a new product? Do you do any market research?

They take into consideration the current styles – such as the "I'm a celebrity obsessed bag" taken from popular slogans on bags becoming more fashionable – mostly take on board feedback from distributors and customers and what they think of the products. They can't afford to carry out extensive market research – it's a luxury and can't take out the loan.

**Consumer Trends:**

\* What is the average age of your consumers?\*

20s-30s and 50s-60s however there was one bag design that was popular with teenagers (under 18s) – the "I'm a celebrity obsessed bag"

\* Do you market X products to a specific target market?

Target ethically minded people – looking at value of product – often provide for universities, trade unions, Christian groups such as soul survivor, NHS, greenbelt. Their retail bags focus on ethical and fairtrade buying – aim adverts at these people for example on google and in the "Ethical consumer" – however now are producing more adverts online.

**Sales:**

\* What were your overall sales in 2008 (quantity of sales, and overall value)?

2008 -37620 bags

Turnover £ XXXXX

£ XXX on custom printed bags  
£ XXX selling to shops – fairtrade shops etc  
£ XX on the internet

£ XXX at events such as soul survivor

£ XX individual sales through distributors such as mum

£ XX sold directly to family and friends

They also get donations sometimes

\* How did they compare to previous years - percentage growth?

Previous turnover

2007 - £ XXXXX

2008 - £ XXX

\* Has X been affected by the current economic recession positively/negatively and how?

The recession has been quite negative because as their orders have decreased, there is not enough work for the women to do and manufacture – so not enough employment. Also, the customer base has changed, as the corporate customers and banks that they previously supplied have cut out the bags from their budget, as they seem to be luxury products that can be done without in this difficult time.

In the past 12 months they have produced more products than they had in the earlier 3 years due to the recession – as they need more products to encourage more sales in this difficult time. However, also recently jute (the fabric that the bags are being made of) has become really popular – resulting in more designs in the last year.

\* Has your consumer base changed as a result of the economic climate?

Also, the customer base has changed, as the corporate customers and banks that they previously supplied have cut out the bags from their budget, as they seem to be luxury products that can be done without in this difficult time.

\* What are your predictions/ aims for the next few years?

2009 expected turnover is similar to last year. £ XXX - standing still - no increase as recession. However in the future they hope to keep developing more products such as the t-shirts, and new bag designs, and start supplying more events to increase turnover.

**Product:**

\* How important do you value the price of the product, the promotion and message behind the product, the product itself, and the way in which the products are sold, when selling the products? Which element is most important and why? How important is the design of the product itself when selling it?

A mix of the design and the message behind it - they want to balance the two together - move away from the 'charity' style where people just buy things to fund a charity rather than because they like the product - they want people to like the design and want the design to lead it but still make sure that the story is still behind the product.

Do you face any strong competitors?

We face competition from other bags that are promoting themselves as alternatives to plastic bags to gain the ethical consumers - as although X not only are an alternative to plastic bags - but are fairtrade too (have two ethical features), often customers and businesses looking for bags for their conferences only need one ethical feature to buy the product.

A lot of businesses are now using ethical tag lines to gain demand as ethical awareness is becoming more fashionable, and these are competing against X - which isn't good as X don't produce their bags for the ethical spin - but because they think that all products should be like this (fairtrade).

How are the bags priced?

To price the products, X look at the cost of the product, and then look at similar products in the market place and see how much they are priced at. This way they try to make sure all the prices are fair and reasonable. However, they adjust prices as they go along e.g. if they are not selling due to high prices etc. The place where the product is sold is also a large variable that determines the sales, as a lot more can be sold in busier areas such as central London.

How much on average does a single bag cost to make?

The average bag costs about £2.00 to make altogether.

You were saying how there's usually about 2 designers working every 6 months - how much does it cost to have these designers at X?

To date they have worked for free and cover their fair

Have you considered getting a famous designer to design a bag? How much this would cost (like an estimate) or is it possible to get them to design for free...?

I've considered it but not had the contacts to make it happen so it's just stayed an idea. If you'd be interested in seeing if you could make any contacts let me know!

**Appendix 2:**

**Business library research:**

**The Ethical Consumerism Report Key Note Ltd 2008**

- Women are more likely to buy fairtrade clothes and accessories than men (9.8% to 5.5%)
- The main group to buy Fairtrade clothes and accessories are the over 45 year old women
- There has been a large growth of fairtrade and organic clothing- there was a 79% market increase in 2006

**"Teenage Fashionwear" Key Note Ltd 2008**

- 72% of 16-19 year olds agreed with the statement "I like to buy clothes from a retailer with a modern image"
- The female 13-24 clothes/shoes/accessory market is larger than the male market, and is increasing
- The value of the teen market is predicted to rise to £12.09 bn by 2013, a growth rate of 17.6% compared with forecast value in 2009
- 40.7% of 16-19s agreed that "it is important for me to have the latest fashions"

Overall I found this secondary research very reliable, however some of the data and figures were slightly out of date - such as the 2008 ethical consumerism report that gave figures referring to 2006 - which although are useful in viewing the ethical market as a whole - may slightly differ from the current environment in 2010 - and therefore although informative, are not wholly reliable sources to base my strategies on. Therefore I carried out my own primary research in the form of structured interviews and questionnaires to refine my research down to the specific questions and answers I was looking for, and get more current data to validate these results.

Appendix 3

Market Research: Questionnaire:  
(tick the boxes under your column, and if "other" write on the line and write your number next to it)

Male Details:

10	9	8	7	6	5	4	3	2	1

- Age: (tick one)
- age <13
  - 13 ≤ age <19
  - 19 ≤ age <30
  - 30 ≤ age <40
  - 40 ≤ age <50
  - 50 ≤ age <60
  - 60 ≤ age <70
  - Age ≥70

- Gender: (tick one)
- Male
  - Female


- Work Status: (tick one)
- School (if so school name.....)
  - Employed
  - Unemployed
  - Self Employed
  - Other .....


- If Employed – Occupational area: (tick one or more)
- Administration
  - Dental
  - Educational
  - Engineering
  - Management
  - Medical - Specialist
  - Medical - Other and related
  - Rural
  - Safety
  - Scientific/research
  - Servicing/installation
  - Technical
  - Other .....


- Children: (tick one)
- Yes (aged 18 or under)
  - Yes (over age of 18)
  - Yes (both of the above)
  - No


Past Habits:

10	9	8	7	6	5	4	3	2	1

1. How often do you buy a new bag? (Tick one)
- >Once every 2 months
  - Once every 2 months<time<Once every 6 months
  - Once every 6 months<time<Once every year
  - Once every year<time<Once every 5 years
  - <Once every 5 years
  - Never – only have one (a one off purchase)
  - Don't own a bag


2. What brands do you purchase? (Tick one or more)
- Supermarket brands
  - High street brands
  - Designer Brands
  - Other.....


3. Where do you buy your bags? (Tick one or more)
- The Internet
  - Designer Outlets
  - Department Stores
  - High street Shops
  - Independent Retailers
  - Other.....


4. What feature(s) do you value most in a bag? (Tick one or more)
- Shape
  - Colour
  - Price
  - Size
  - Design of bag (e.g. zips/ pockets)
  - Fairtrade and Ethically sourced
  - Designer label
  - In fashion
  - Other.....


5. How much do you usually spend on a bag? (Tick one or more)
- £5 > price
  - £5 ≤ price < £10
  - £10 ≤ price < £20
  - £20 ≤ price < £35
  - £35 ≤ price < £50
  - £50 ≤ price < £70
  - £70 ≤ price < £100
  - £100 ≤ price < £200
  - £200 ≤ price

6. What size bags do you usually purchase? (Tick one or more)

- Small bags (size<A.5)
- Medium sized bags (A.5≤size<A.4)
- Large bags (A.4≤size<A.3)
- Very large bags (size≥A.3)

10	9	8	7	6	5	4	3	2	1

7. What style of bags do you usually purchase? (Tick one or more)

- Handbags
- Tote bags
- Travel bags
- Rucksacks
- Bag with long straps
- Bag with short straps
- Other.....


8. For what purpose do you usually buy bags for? (tick one or more)

- Everyday general
- Work or School
- Gym
- Shopping
- Weekend / Holiday trips
- Evenings
- Storage
- Other.....


9. Would you consider buying a bag that is Ethical and Fairtrade? (Tick one)

- Definitely
- Probably
- Maybe
- No


9a. If probably or maybe – why? (Tick one or more)

Depending on:

- Shape
- Colour
- Price
- Size
- Style
- Design of bag (e.g. zips/ pockets)
- In Fashion
- Other.....


10. Have you ever bought a Fairtrade or Ethical bag? (Tick one)

- Yes
- No


10a. If yes – how often? (Tick one)

- >Once every 2 months
- Once every 2 months time <Once every 6 months
- Once every 6 months time <Once every year
- Once every years time <Once every 5 years
- ≤Once every 5 years
- Once ever – a one off purchase

10	9	8	7	6	5	4	3	2	1

10b. If no – why not? (Tick one or more)

- Never seen any
- Dislike the style of bags
- Don't need one
- Too expensive
- Other .....


11. Have you ever bought a X bag? (Tick one)

- Yes
- No


11a. If yes – how often? (Tick one)

- >Once every 2 months
- Once every 2 months time <Once every 6 months
- Once every 6 months time <Once every year
- Once every years time <Once every 5 years
- ≤Once every 5 years
- Once ever – a one off purchase


11b. If no – why not? (Tick one or more)

- Never heard of
- Dislike the style of bags
- Don't need one
- Too expensive
- Other .....




**Specific questions for Females 13<Age<19:**  
Based on results of last survey, and future possible options

In the last survey the teenage girls group was very conscious about the designer and the colour of their bags – therefore I decided to investigate further in these areas in this market:

1. Why do you buy designer brands (if you do)? (tick one)

- More fashionable design
- The label (the designer image)
- Higher quality
- Celebrities wear them
- Enticed by their advertising
- Other .....

10	9	8	7	6	5	4	3	2	1

2. What colour tones would you prefer in a bag? (tick one)

- Neutral (creams/ beiges/ whites etc)
- Warm (reds/ oranges/ yellows/ pinks)
- Cool (blues/ greens/ purples)
- Dark tones (blacks/ greys)


**Future:**

Would you buy a X bag currently with their unique designs? (tick one)

- Definitely
- Probably
- Maybe
- No


How often would you buy one? (Tick one)

- >Once every 2 months
- Once every 2 months time <Once every 6 months
- Once every 6 months time <Once every year
- Once every years time <Once every 5 years
- ≤Once every 5 years
- Once ever – a one off purchase


How much would you be willing to spend on it? (tick one)

- £5- price
- £5≤ price<£10
- £10≤ price<£20
- £20≤ price<£35
- £35≤ price<£50
- £50≤ price<£70
- £70≤ price<£100
- £100≤ price<£200
- £200≤ price


10a. If yes – how often? (Tick one)

- >Once every 2 months
- Once every 2 months time <Once every 6 months
- Once every 6 months time <Once every year
- Once every years time <Once every 5 years
- ≤Once every 5 years
- Once ever – a one off purchase

10	9	8	7	6	5	4	3	2	1

10b. If no – why not? (Tick one or more)

- Never seen any
- Dislike the style of bags
- Don't need one
- Too expensive
- Other .....


11. Have you ever bought a X bag? (Tick one)

- Yes
- No


11a. If yes – how often? (Tick one)

- >Once every 2 months
- Once every 2 months time <Once every 6 months
- Once every 6 months time <Once every year
- Once every years time <Once every 5 years
- ≤Once every 5 years
- Once ever – a one off purchase


11b. If no – why not? (Tick one or more)

- Never heard of Freetset
- Dislike the style of bags
- Don't need one
- Too expensive
- Other .....


Would you buy a X bag if it was in fashion and constantly adapted to the current trends? (tick one)

- Definitely
- Probably
- Maybe
- No

10	9	8	7	6	5	4	3	2	1

How often would you buy one? (Tick one)

- >Once every 2 months
- Once every 2 months
- Once every 6 months
- Once every 6 months time <Once every year
- Once every year
- Once every 5 years
- Once every 5 years
- Once ever – a one off purchase


How much would you be willing to spend on it? (tick one)

- £5> price
- £5≤ price<£10
- £10≤ price<£20
- £20≤ price<£35
- £35≤ price<£50
- £50≤ price<£70
- £70≤ price<£100
- £100≤ price<£200
- £200≤ price


Which type of designer would you buy a bag from? (tick one or more)

- A high-profile designer (e.g. Marc Jacobs/ Lulu Guinness/ Jimmy Choo etc)
- A low-profile designer (e.g. Liz Claiborne, Adrienne Vittadini etc)
- A celebrity designer (e.g. Kate Moss/ Mischa Barton etc)
- All of the above
- None of the above
- Other.....


Would you buy a X bag if it was designed by this type of designer? (tick one)

- Definitely
- Probably
- Maybe
- No


How much would you be willing to spend on it? (tick one)

- £5> price
- £5≤ price<£10
- £10≤ price<£20
- £20≤ price<£35
- £35≤ price<£50
- £50≤ price<£70
- £70≤ price<£100
- £100≤ price<£200
- £200≤ price


How often would you buy one? (Tick one)

- >Once every 2 months
- Once every 2 months
- Once every 6 months
- Once every 6 months time <Once every year
- Once every year
- Once every 5 years
- Once every 5 years
- Once ever – a one off purchase


Appendix 5

Method of working out the number of bags that could potentially be sold per year.

(Numbers are used for the figures for strategy 1; however same method was also used for figures within strategy 2)

How often would you buy one? (Tick one)

- > Once every 2 months
- Once every 2 months time < Once every 6 months
- Once every 6 months time < Once every year
- Once every year time < Once every 5 years
- Once every 5 years
- Once ever – a one off purchase

Results out of 40:

0	=20%
8	=30%
12	=40%
16	
0	
4	=10%

To work out the average number of times a year that someone in this market would buy a bag (so that I could then work out the potential revenue) I then multiplied the results for each time period by a number that reflected the average no. of times per year that someone who ticked that category would purchase a bag:

- Once every 2 months time < Once every 6 months (ev every 4 months) = 3x a year
- Once every 6 months time < Once every year = 1.5x a year
- Once every year time < Once every 5 years = 0.6x a year

So out of 100, 20 people would buy 60 bags, 30 people would buy 45 bags and 40 people would buy 24 bags a year, so out of the 90% of people that would buy bags per year (not including the 10% one off purchases) 129 bags would be bought, which is 1.43 (reoccurring) bags per person who would buy a bag, per year.

Using the 90/10 rule, 72% of the teenage female population would buy a bag, and 90% of them would buy 1.43 bags per year (as worked out above)

Teen female population = 4270000  
 $4270000 \times 0.72 = 3074400$  people  
 10% would buy one off purchases = 307440 people  
 90% would buy 1.43 bags/year = 2965976 people

Appendix 6

Company B

4. structured question to employee X

Q: "How was the designers such as Laila Bartley (were they contacts, or did you approach them/ they approach you etc?), and was there a cost involved in getting them to design for B?"

A: " B approached the designers (there were no previous contacts) and there is no cost to B for this project. 4 designers are added to the collection each year."

Quantitative and Qualitative Analysis of Strategy 1 and 2

<p>Qualitative</p>	<p><b>Strategy 1</b></p> <p>This strategy seems appropriate as my market research showed teenage girls were willing to buy ethical bags if they were in the colour, design and current fashion that they wanted. On the other hand this market valued the price at which bags would be sold, and it will be difficult for X to compete with companies such as Z that are able to produce masses of cheap fashionable accessories imitating current trends, as they do not want to use machinery (as their aim is to provide employment for disadvantaged women) so can't produce as much and benefit from economies of scale such as bulk buying, and they are primarily a Fairtrade business and therefore want to provide their workers with fair wages so will be unable to offer prices as low as Z. X's by cutting labour costs (which "The Telegraph" highlighted in their article "Z faces inquiry over use of illegal labour" – describing how workers were being paid less than the minimum wage to lower Z's prices).</p> <p>X's Marketing Director – described that the bags are made of jute fabric as it creates an industry for the poor in India to create the fabric – therefore X's designs will be limited in copying the current trends – limiting the success of this strategy. However, this fabric could actually give X's products a competitive advantage with the market by differentiating themselves from competitors that directly imitate trends.</p> <p>The fashion industry within X's external environment is rapidly changing – therefore designs need to be updated constantly which will take a lot more research and planning to get designs out on time. This is not problematic for employees creating them as they hand make the bags and can easily switch projects – however designers will have to keep up to date with trends to give employees enough time to make them, as described that it takes 18 months to two years to develop new bags. This length X takes to develop new products could sabotage the project, as they will be unable to keep up with demands of the rapidly changing fashion industry. Furthermore, X's designers have a high labour turnover – on average 2 designers every 6 months – which will make it hard for them to quickly adapt and work within the constantly changing environment. Alternatively, X could employ a permanent designer, but this would cost £ a year which is too high for X which would sacrifice their Fairtrade status, and may result in redundancies of the employees from the red light district which would oppose their mission of providing them employment.</p>
<p>Quantitative</p>	<p><b>Strategy 2</b></p> <p>By collaborating with a well-known designer, X could boost brand awareness and popularity as shown through competitors. However, by using a strategy that competitors have adopted, they are not gaining a competitive edge as they will be using the same strategy. Nevertheless if X are able to use different designers that competitors have not used to suit the target market, their products will still be differentiated. By collaborating the designer will get credit for being ethical, and the X will gain brand awareness and recognition which could also boost sales across other products in their portfolio.</p> <p>However designers may not want to work with X as they may consider the collaboration reducing the exclusivity of their name by working with cheaper products. Alternatively X could launch a limited range – which although would not sell as many bags – will raise brand awareness for the business – which did with her limited range "I am not a Plastic Bag" – as although she only sold them for £3 compared to her usual prices within the £100s, her brand gained more awareness, and received more demand for her expensive bags. I was unable to get information on the costs of A's designers (which I assume was nothing), however when contacting B (see appendix 6) I found that designers such as Luella Bartley working for B were approached by the charity, and work for free. However, X is not a registered Charity a business set up to carry out a charitable cause – therefore it may be harder to implement this plan and gain designers to work for free – yet as they are a not-for-profit business and have an ethical mission designers may still want to get involved.</p>

<p>Quantitative</p>	<p><b>Strategy 1</b></p> <p>After carrying out the specific survey targeting teenage girls I used the 90/30 rule on the 28 definitely's and 12 maybes to purchasing a bag from this strategy, and worked out that 72% of the teenage female population would purchase one of these bags. The most popular price range for a bag was between £10 and £20, and after looking at the results of how often one of these bags would be purchased (see appendix 5), I found 90% of the people buying the bags would buy 1.43 bags per year, and 10% of the market purchasing the bags would buy a one off purchase.</p> <p>To work out a potential revenue for this strategy, setting the price per bag at £20 and using the UK teenage female population at 7% of 61,000,000 (4,270,000) my figures suggest the strategy would sell 3,965,976 bags/year with an additional 307,440 one-off purchases spread over the years of the project, generating £79,319,520 per year and an additional £6,148,800 from one off purchases over the strategy's duration. Being unit costs on £2 per bag ( – including materials, labour costs and proportion of overheads using profit centres) this strategy should cost X £7,931,952 per year (excluding one-off purchases) and therefore generate £71,387,568 profit per year from the strategy (excluding one off purchases)</p> <p>Looking back, these figures are obviously very optimistic and unrealistic when seeing X's overall revenue was £ last year. Furthermore these figures would be unachievable with the capacity of X's factory of 300 employees. However by using the same method for working out potential revenue on both strategies these unrealistic figures still allow me to compare the potential of the relative strategies.</p>
<p>Strategy 2</p>	<p>After carrying out the specific survey targeted towards the teenage female market I discovered they were willing to spend more on a X bag designed by a significant designer (the most popular price range was £20- £35), however after using the 90/30 rule realised there would be less demand for the designer bags compared with the fashionable bags from strategy 1 (as only 63% would buy one) – but that the higher prices may increase the overall revenue. Using Appendix 5's method I worked out that 70% of the people buying a bag would buy 2.4 bags per year, and 30% would buy one off purchases (within the 30% to be prudent I including the 7.5% of the market who would buy a bag less than once every 5 years). Setting the price per bag at £30 and using the UK teenage female population at 7% of 61,000,000 (4,270,000) my figures suggest the strategy would sell 4,438,665 bags/year with an additional 807,030 one-off purchases spread over the strategy's duration, generating £ per year with an additional £ from one off purchases. The designer creating the bag would collaborate for free, therefore being the unit costs on £2 per bag this strategy (including one-off purchases) and generate £ profit per year from the strategy (excluding one off purchases).</p> <p>Looking back, these figures are obviously very optimistic and unrealistic when seeing X's overall revenue was £ last year. Furthermore these figures would be unachievable with the capacity of X's factory of 300 employees. However by using the same method for working out potential revenue on both strategies these unrealistic figures still allow me to compare the potential of the relative strategies.</p>

### Examiner Comment

The context of this Investigation was to consider methods by which a 'fair trade' textiles manufacturing company may expand its product portfolio in order to appeal to the teenage market. The report was very well structured and focused on answering the questions posed by the Investigation.

#### **Section 1 – Knowledge. The Problem in Context**

Band 3 - 4/4

This report included a detailed account of the business problem, who is affected and implications if it is not solved. Especially relevant to this specific problem was the observation that if sales do not increase, redundancies may occur, which will mean the women who make the products will probably return to prostitution, which works directly against the company's mission statement.

#### **Section 2 – Application. Methodology – Quality and Relevance of the Research**

Band 3 - 4/4

This report contained clear relevant primary and secondary research, which had been carefully selected and commented on critically. Especially detailed and relevant to this specific research was the account and critique of the survey which outlined the way in which the writer tried to avoid bias – by random questioning, but still observing the possibility of unrepresentative information due to 'optimistic' responses. As to secondary research, the 'business library research' in Appendix 2 was very well chosen and directly relevant to the problem as the Keynote extracts related to ethical consumerism and teenage fashion.

#### **Section 3 – Analysis. Analysis of Research Findings and Use of Business Theory**

Band 5 – 22/24

The analysis in this report was detailed, focused and very selective in terms of techniques. Especially insightful was the method used and commented on to predict potential sales using data from primary research customer survey and secondary population data. Business theories were accurately and relevantly used throughout. It was particularly interesting to see relevant use of Porter's Five Forces in the consideration of the company's aim to maximise sales.

To reach the top of Band 5 and achieve full marks in this section, more detailed analysis of the causes of the problem could be included, such as changing corporate demand for 'giveaways'.

#### **Section 4 – Evaluation. Conclusions, Recommendations and Evaluation**

Band 5 – 25/28

The evaluation section in this report was very comprehensive, including conclusions, recommendations and limitations. Conclusions were very realistic and entirely based on evidence collected in the research. Especially creditable was the evaluation of two possible strategies, both of which would increase sales. It was useful to relate solutions back to the aim to provide more employment for women in India. Also, the recognition of the limitations of an investigation which is largely theoretical in nature, despite being based on a real business problem was insightful, as was the observation that a projection based on the whole UK population was unrealistic, given capacity. The wider issues relating to the business' fair trade philosophy were also included in detail, for instance the fact that wages to producers cannot be reduced as a cost-cutting measure.

To reach the top of Band 5 and achieve full marks, further sources of research could have been recommended, also some appreciation of present and potential competition within this sector, for instance from similar products made in other developing countries such as Africa.

**Section 5 – Communication. Presentation of Report**

Band 8 – 36/40

This report was excellently structured and fully ICT based, including clear objectives, integrated tables and diagrams, page numbering, logical index and bibliography. Appendices were also indexed so it was very easy for the reader to follow. The language used was concise and the business terminology accurate and all research, results and conclusions were clearly explained. Especially creditable was the concise nature of the report, with excellent use of appendices, all of which were clearly explained.

To reach the top of Band 8 and gain full marks, the recommendations section could have been more closely linked with the research and analysis. The strategy of using famous designers without incurring major costs, added a hint of un-realism to this section and this could have been explored in terms of how such individuals may be induced to be involved. Referencing throughout the report and in the bibliography could also have conformed fully with the Harvard referencing system. The use of first person ('I' or 'we') should be avoided in these reports.

Total mark = 91/100

Example Candidate Response – Distinction

**Should X Kennels invest in the replacement of its Cattery Building?**

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## The Problem in Context

### Introduction to the Firm

X Kennels provides tertiary sector services comprising: dog, cat and small animal boarding; dog training; canine hydrotherapy; dog grooming; and pet supply retailing. X employs 15 people, two thirds being full time workers. From 1/10/2005 to 1/10/2008, the average annual Turnover was almost £250,000.

In Figure 1, X is at B. Local Catteries are highlighted in red, but this includes very small catteries or 'Pet Sitting' Services. The black circle marks the area in which X collection/delivery service operates. [Map removed]

### Nature of the Problem

Boarding demand is dropping, as *'over a third (35%) of [the population] admit that the recession has prevented [them] from booking a main holiday in the next six months'* McCoy (2009)<sup>1</sup>. Accordingly, June-August boarding Sales have dropped 25% between 2007 and 2009. However, simply reducing capacity is not an option the business favours, as in August there is always over a week of full capacity utilisation.

Equally virulent a problem is one that has been creeping for years. Changes to the Animal Boarding Establishments Act in 1995 that allow the local authority to adjust license requirements mean as of this year X will no longer be able to board 2 cats in 1 pen, as pen sizes are currently too small.

Additionally, the aging cattery building now sits below standards maintained by competitors in terms of pen size and materials used. Maintenance costs are rising, especially after the harsh winter.

### Why a solution is required

The inconsistent demand is a particularly prevalent issue in the cattery, as this February marked the first day in 20 years of business that the cattery had no paying occupants. X owners and employees suggest that this is symptomatic of a long-term trend in consumers opting for virtually free feline care by friends and neighbours. An ideal solution for X would be one that increased profit by stimulating demand and/or reducing costs, while keeping full-capacity utilisation to an absolute minimum.

### Affect on Stakeholders

Currently, a portion of X customers will be disappointed, as they were previously able to board together 2 or more of their cats, giving them peace of mind and a discount. Increasing average costs will lead to lower profits for the owner and/or higher prices for customers. Employees working in the cattery have to deal with the effects of increasing disrepair.

**Implications of Failure to Solve**

The inability to provide for 2 cats in 1 pen will worsen the over-capacity utilisation in summer. X was previously charging 81.8% more for the same use of space, and less use of heating (as pens are individually heated). Seasonal variation will probably continue to increase, as the deterioration (Figures 2-4) of the cattery will not attract as many new customers for quieter times of the year. This issue would only be exacerbated by increasing costs related to the deterioration, leading to higher prices, and eventually, lower profits.

**Figure 1****Figure 3****Figure 2**

**Objectives**

1. To identify the problem, its relevance, and the stakeholders affected. Describe the problem and implications of failure to solve.
2. Outline the research methods used. Assess the relevance of the primary and secondary research methods proposed in order to establish their suitability for addressing the problem.
3. Display the research results. These should be clear and specific to solving the problem.
4. With reference to the research results, examine 4 main business theory areas (Marketing, Accounts and Finance, Operations Management and People in Organisations) and fully analyse the problem and the logistics of potential solutions. Other relevant areas, such as the Business Environment, should be considered throughout this analytical process.
5. Draw conclusions from case research and the analysis of business theory, and link these conclusions to the objectives.
6. Provide a feasible, cost-effective set of recommendations to the firm of the strategies that will best suit their needs.

## Research Methodology

### Primary Methods

In order to make sense of the effect an investment will have on demand the most logical step was to take a sample of the views of consumers. A pilot questionnaire was produced, and then altered after review to provide a set of specific, measurable options rather than simple yes/no responses, and to make the questionnaire more user-friendly. It is likely that responses will contain some bias, as in the presence of the researcher, pet owners may feel obliged to appear more concerned at non-material factors.

However, the consumers important to the focus of the investigation are cat owners in the local area, and a random sample on the street would not be an effective use of resources.

Marshall (1996 v13: pp522) outlines the following technique:

*Judgement sample: Also known as purposeful sample, this is the most common sampling technique. The researcher actively selects the most productive sample to answer the research question. This can involve developing a framework of the variables that might influence an individual's contribution and will be based on the researcher's practical knowledge of the research area, the available literature and evidence from the study itself.<sup>2</sup>*

With that in mind, I took samples of cat owners at local Veterinary Surgeries. However, there may be bias here, as most of those sampled had their pets vaccinated a requirement for feline boarding. On the other hand, Turner (2008) states that 'vaccination rates are no lower in areas where the local authority does not require boarding establishments to check all animals have current vaccinations.'<sup>3</sup>

For a sample size, a total of 50 individuals, split equally between customers at 2 veterinary surgeries was deemed the most appropriate considering the constraints in carrying out the survey.

Secondly, I interviewed the 2 X employees with the most cattery experience. They were asked a number of pre-determined questions, with the interviewer adding auxiliary questions where appropriate, such as when more feedback on a particular topic would be useful. The aim was for insightful information about the business problem. Bias in this part of the investigation may come from the employees' awareness of the management's access to their answers, as it may be harder for employees to feel able to admit poor working methods or areas in which they believe improvement is required. Also the information given may be simply anecdotal and should be considered with reference to other available data.

### Secondary Research

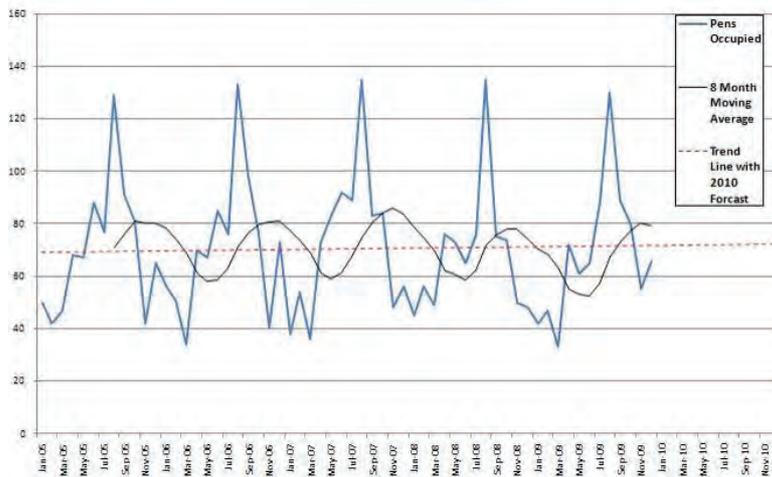
For desk research, the 2 main sources of information have been ONS and Kennel and Cattery Management Magazine (KCMM). This provides both information specific to the

business, and general population data. The population data is, however, national, and so may not be as relevant as local census data. On the other hand, such local data is in many ways limited, with censuses taking place every 10 years, and much of the data for the local area is not as up-to-date as ONS. The information in KCM is both statistical and journalistic. It is important to consider that any bias in their research is unknown, and the relevance and credibility of information used must be measured.

## Marketing

### Income Elasticity of Demand

To determine if the current downturn in demand for cat boarding represents a long-term trend or just a cyclical variation as a result of the recent recession, it is useful to assess the YED, using demand data from the past 5 years. The data in Chart 1 displays a slight upward trend in demand, although the 8 month moving average shows that in the past 2 years there has been a general decline in demand compared to previous years.



**Chart 1**

improve with the economic climate, however the annual increases in YED suggest that there

**Table 1**

<u>Month</u>	2005	2006	2007	2008	2009
<b>Jan</b>	50	56	38	45	42
<b>Feb</b>	42	51	54	56	47
<b>Mar</b>	47	34	36	49	33
<b>Apr</b>	68	70	73	76	72
<b>May</b>	67	67	83	73	61
<b>Jun</b>	88	85	92	65	65
<b>Jul</b>	77	76	89	76	89
<b>Aug</b>	129	133	135	135	130
<b>Sep</b>	91	98	83	75	89
<b>Oct</b>	81	76	84	74	80
<b>Nov</b>	42	40	48	50	55
<b>Dec</b>	65	73	56	48	66
<b>Demand % Change</b>		0.2%	4.0%	-7.7%	-0.9%
<b>Real Wage % Change</b>		0.19%	2.64%	-4.21%	-0.45%
<b>YED</b>		<b>1.25</b>	<b>1.52</b>	<b>1.84</b>	<b>1.92</b>

In Table 1, the numbers confirm that there was an annual decrease in demand from 2007 to 2009. Furthermore, when this demand shift is divided by the change in Real Income provided by the ONS (2010)<sup>4 5</sup>, results show a YED greater than 1, steadily increasing from 2006-2009. This indicates that it is a normal good and the situation will

improve with the economic climate, however the annual increases in YED suggest that there is also a second factor present, slowing demand, which may be endemic of growing consumer distaste for impersonal cat boarding services.

### Pricing

Should X build improved cattery facilities, the management would be inclined to charge a greater amount for the added luxury. Table 4 shows current pricing of local boarding catteries, with a simple, in-house, brief daily pet sitting service shown as a control. More personal pet-sitting is benchmarked at around £12 per

day, and X would be unlikely to be competitive with them if they set prices any higher than £10 per day for cats. A rebuild, will however, create possibilities for providing for 3-5 cats sharing, which is currently not possible.

**Table 2**

Fig. 1 Ref.	Cattery	1 Cat	2 Cats	3 Cats
B	Willows	£6.00	£11.00	n/a
E	Comp 1	£5.50	£8.75	£10.50
C	Comp 2	£6.25	£11.00	£16.00
D	Comp 3	£6.50	£12.00	n/a
J	Comp 4	£6.50	£9.25	£12.00

The current YED of 1.92 for the cattery means that demand should enter an upward trend as Real Income rises, with an increase in demand of up to 19.2% if incomes rise 10%. However, other factors bringing down demand as real incomes fall may be deceptive, and the actual figure is likely to be closer to the pre-recession figure of 12.5%. Either way, in the case of a rebuild X needs to set pricing

so as to make the most of demand. Currently, X is price-competitive, and if using going rate pricing could increase prices by 8-10% in order to improve revenue. However, the research shown on page 13 indicates that cost is a major consideration of consumers. This suggests that to retain a competitive edge, X would be wise to keep prices at their current level.

If capacity is lowered, the long-term effects of turning away customers during August could mean losing out on demand throughout the year. One possible step for X to take would be to provide exceptionally competitive prices, such as those of Competitor 1 in Table 2, to those repeat customers who book 3 months in advance. This would encourage customer loyalty, and allow X to plan more effectively.

**Accounts and Finance****Cost of Project**

The capital cost of the potential rebuilding project is perhaps the most important consideration in decision making, and the return on the investment needs to be calculated and considered. In table 4 below are the best quotes for various layouts of the new cattery, with estimated additional costs not covered by the building firms.

**Table 3**

Company	Estimated Cost	No. of Units	Strengths	Weaknesses
Pet Homes (Wood)	£75,000-£100,000	30-40	This company are the only ones offering digital thermostats.	This option includes a very large amount of wood, which may need regular replacement, and fall short of new Environmental Health regulations in coming years.
Pet Homes (Steel)	£95,000-£125,000	30-40	As above, and the galvanised steel in the current cattery is in fine condition, and costs could be cut by re-use.	While maintenance costs should be almost nil in comparison with other constructions, this is the highest capital cost.
Canine Kennels	£66,000-£80,000	25-30	Very high quality construction, well exceeding regulations.	Even with the most efficient layout, there is likely to be a drop of capacity due to the large pen sizes.
Pedigree Pens	£90,000-£105,000	30-35	PVCu: Exceeds standard on cleanliness and structure. Smaller pens allow smaller capacity drop.	PVCu construction cannot be substituted with parts of current cattery in order to cut costs.

While the first option would not be acceptable in the long term due to the wooden construction, the company offers an alternative, which is leasing. A one-off fee of £18,000 would be required, after which X would have to pay £640 a week. This however, could create cash-flow problems, as while the leasing would more than pay for itself in the middle of summer, it would drain money from the business during much of the year. In

reality, the most cost-effective offer is that of Pedigree Pens, which offers very low maintenance construction, and will have a very long life. The other options would not have a great saving in average costs, and the re-sale value would not be as high. However, very little of the current cattery structure could be recycled to cut costs, so dropping below the estimated cost is unlikely.

**ARR/NPV**

**Table 4**

Year	Net Profit p.a.	Present Value of Income at:	
		5.0%	2.5%
0	£89,000.00	£89,000.00	£89,000.00
1	£16,240.00	£15,466.67	£15,843.90
2	£16,483.60	£14,951.11	£15,689.33
3	£16,730.85	£14,452.74	£15,536.26
4	£16,981.82	£13,970.98	£15,384.69
5	£17,236.54	£13,505.28	£15,234.59
6	£17,495.09	£13,055.11	£15,085.96
7	£17,757.52	£12,619.94	£14,938.78
	<b>NPV</b>	<b>£9,021.83</b>	<b>£18,713.52</b>

**ARR** 18.36%

In table 5, I have calculated the ARR and NPV of the project over 7 years, using the quote from Pedigree Pens, and assuming 35 pens are built. The profit prediction is assuming construction in late 2011, starting at £16,000 and forecast to increase at a rate of about 1.5% (the current annual increase in demand). Both ARR and NPV suggest that as an investment provides far better returns than current Reuters (2010)<sup>6</sup> base rate forecasts of 2.25% by 2012. However, this does not consider the availability of funding for the original

capital cost of £105,000.

**Sources of Finance**

As leasing would be inappropriate for the needs of X in order to make the project a reality the full amount will have to be secured in the long term. Appendix Table 2 shows the Balance Sheet for the beginning of 2009. With a gearing of 70.6%, in the current economic climate it may be difficult to borrow more money. However, if the project was to be undertaken in 5-10 years, when retained profits could subsidise the amount required, and/or the gearing ratio has improved, the feasibility of securing the funds necessary for the rebuild steadily increase. Lloyd’s TSB’s Business Banking service allows loans of £100,000 at rates individual to each business, at around 7% APR. Over 7 years, the project would continue to provide a greater return than the cost of the loan, if the estimates of the business are correct. After the loan was paid off, the cattery building would begin providing regular income to the owners at a far higher rate.

## Operations Management

### **Capacity**

Currently, every single August has a period of full-capacity utilisation. This issue was raised in the interview with the owner, and is a problem to any business, but the specifics to catteries are summed up by Radev (2009):

*“Most people tend to plan their holidays with their own flights and accommodation first, before they worry about their cat’s accommodation. What’s more, if they do have to book elsewhere there’s always the possibility that they will then re-book their next holiday with the other cattery and we will have lost their business for good.”*<sup>7</sup>

The issue this project raises is that the number of pens outlined in the quotes above represents a capacity reduction of 20-50%. Chart 3 shows that the only time a 20% reduction would be an issue is in the month of August. However, with much of the year being well under-capacity, it stands to reason that reducing overall capacity would reduce costs, as for example, currently the cattery corridor is heated in halves, meaning 50% of the cattery is heated in February, when capacity utilisation has been as low as 4%.

On the other hand, in August 2008, of the 50 pens occupied daily, approximately 17 were occupied by 2 cats. With this service no longer being offered, capacity will be drop by around 34%. Therefore it should be considered that building pens that will once again provide this service will offset some capacity reduction.

One method of dealing with these issues is suggested by Radev (2009) in KCMM. They outfitted an existing room as an ‘overflow room’ for summer. When full capacity overlapped by a couple of hours or days they were able to temporarily increase capacity. While space is at a premium at X for permanent buildings, a more simple construct could be produced for less than £2000.

### **Managing Projects**

In order to build a new cattery, some capacity would have to be removed during construction. However, if the project was begun in December of a given year, and undertaken in 2 halves, with half the cattery remaining open at any one time, as long as the project was completed by Easter, X could avoid disruption to their ability to supply the given demand.

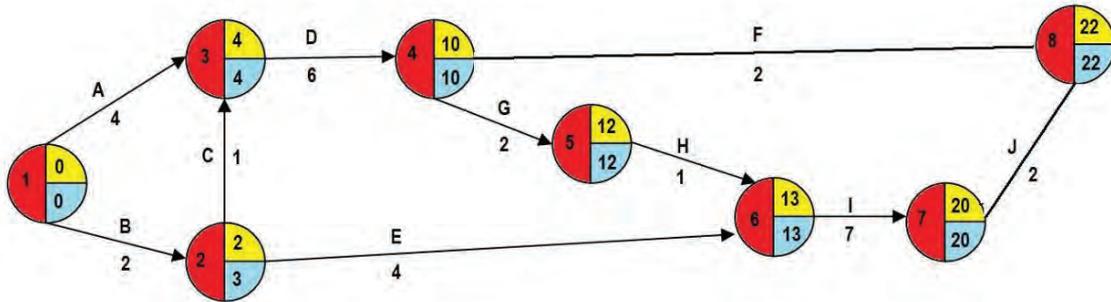


Figure 3 ↑ Table 5 ↓

	Task	Duration (weeks)		Task	Duration (weeks)
A	Delivery of 1st ½ components	4	F	Outfit new 1st ½ as required	2
B	Dismantle original 1st ½	2	G	Dismantle original 2nd ½	2
C	Level 1st ½ foundations	1	H	Level 2nd ½ foundations	1
D	Construct new 1st ½	6	I	Construct new 2nd ½ and kitchen	7
E	Delivery of 2nd ½ components	4	J	Outfit new 2nd ½ as required	2

The above CPA diagram would be useful to follow, as cash flow can be better controlled by only ordering the second batch in week 9, and it creates a plan to ensure capacity is only reduced for the period demand is low. However, the existence of the CPA does not guarantee the project will be completed smoothly. A hold-up on the critical path due to incorrect estimates could mean cancelling bookings of those who had booked in advance, if the project was delayed into the Easter holiday period. This could have a grave effect on customer loyalty.

**People in Organisations**

There are not many important Human Resources considerations with this project. Currently, in terms of motivation, X employees receive fringe benefits of free boarding of animals residing in their household, subject to availability. Currently, there are more cat owners than dog owners on the payroll and consequently they are likely to be slightly more motivated by the opportunity to board their animals in a better environment for no extra cost. Additionally, employees may be motivated by the non-monetary factors surrounding the building of a new cattery. For example, as the new cattery should provide a warmer, easier-to-clean environment, the number of hours spent in the cattery could be more evenly distributed between employees, adding an element of job-rotation.

### Conclusions

The most beneficial long-term solution for X is probably to rebuild. A building by Pedigree Pens will depreciate slower than the current building, so could remain a valuable asset to X ; for more than 20 years. The building will also continue to make returns higher than the current construction, simply due to lower average costs. After the loan is paid off, a rebuild would allow X to remain price-competitive in the long term, an aspect the research suggests is most important. The determining factor in the eventual success of a rebuild is how it affects demand. The marketing analysis suggested that demand will improve with the economic climate, and exceeding industry standards and keeping prices low are also likely to help demand.

The rewards are high if demand does increase; however there are many drawbacks. Should demand be any lower than predicted in the long term, this could place X in severe cash flow problems if loan repayments were to exceed gross profit from the project. With unlimited liability, this would place the owner in an unsatisfactory position. Another problem is that the necessary loan of £100,000 (the remaining £5,000 covered with retained profit) may be difficult to secure, as the business would then have a gearing of over 100%.

The solution to these issues may be simply to wait. After a year, X will be in a better position to judge how the recession has affected demand, assuming economic conditions improve. Also on that assumption, banks should become less risk-averse, making securing a loan easier.

A lower risk solution to the problem would be to renovate the existing cattery. Replacing old materials and removing pen dividers to create 2-cat pens could be done to a budget of up to £5,000. The resulting loss of capacity could be countered with an 'overflow room', bringing additional costs of £2,000, which could be constructed in time for August 2011. This would require only the use of retained profit. However, the risk would be in whether customers would be put-off by the temporary building. Research suggests that consumers find cost and convenience most important, and the case evidence from Radev (2009) confirms this. The main drawback compared to a rebuild is that it extends the working life of the cattery by up to 10 years, and also may be less attractive to customers.

An even cheaper option would be to phase out the use of the cattery. This would allow resources to be allocated elsewhere. However, this option still has risks. The removal of the services provided could damage demand in other sections of the business, such as dog boarding, as currently a large number of customers overlap between sections of the business, and a generally lower number of customers would lower brand awareness.

## **Recommendations**

### **1. Complete Rebuild**

If demand picks up by late 2011, X should look at securing a fixed-rate business loan of £100,000 from Lloyds TSB at approximately 7% APR. They can then begin the rebuild project using Pedigree Pens in December 2011, finishing at or before Easter 2012.

### **2. Renovate Existing Construction and Construct Overflow**

If unable to secure the business loan, or the risk is simply deemed too high, X could renovate the current cattery after September 2010 or 2011, and build an overflow facility, at a total cost of £7,000 in retained profits.

### **3. Repair and Replace Current Parts**

If unable to secure the business loan, and unable to find excess space for overflow, X could use retained profits to renovate the current cattery for up to £5,000.

### **4. Decommission Cattery**

After the coming summer, X could slowly reduce expenditure on the cattery before winter 2011, when average variable costs are higher due to heating, eventually phasing out the cattery service.

**Appendix****Pilot Questionnaire Original Questions**

3. Are you likely to require care for your pets by any of the above means in the next 6 months?
- a) Yes
- b) No
5. What factor, above or otherwise, would you consider most important in your decision?

**Results of Research****Interview 1 – Business Owner**

**DP (Interviewer):** What would be the main aspects of a rebuild you would find useful?

**M (Interviewee):** There are a couple of ways I think we could change the layout to decrease the hours staff spend working in the cattery each day, and replacing the current surfaces with easier to clean materials would help with this, as well as with overall cleanliness. We could also bring the cattery up to the new legal size requirements for 2 or more cats, and make the cattery more appealing to customers with more modern pens, much like those at smaller, competing local catteries.

**DP:** If the cattery was rebuilt with larger pens, this would lead to a drop in capacity. What would be the issues surrounding this?

**M :** I'd prefer to keep the number of pens as high as possible. For much of the year, it wouldn't matter. At the moment, for example, we've only got 12 cat pens in use. However, in summer we get so busy we are turning cats away left right and centre as it is.

**DP:** So do you feel that a drop in capacity in summer could have consequences for the whole business?

**M :** Oh, definitely! We get a lot of customers who bring their cats *and* other pets too. If we couldn't board their cat, I don't see people being keen to put their dog in one kennels and their cat somewhere else. And so we risk losing those customers for good.

**DP:** If you weren't to rebuild, what would be the consequences in the long term?

**M :** I think we could carry on for a few years. However, people are going to keep wanting to board 2 cats together, and our competitors currently offer that service but we will have to stop. We could 'knock through' several pens, as a relatively cheap fix. The building may be reaching the end of its lifetime, it is 20 years old now, the roof leaks, the floor is eroding and some of the pipes and heaters don't work anymore. It also gets really cold in winter, even in the heated pens.

Interviews 2/3 – Staff Members

**DP:** Do you feel that a rebuild would improve your ability to do the job quickly and effectively?

**T:** I suppose extra storage in each pen would make it a lot quicker to serve customers, at the moment it takes ages to find the cat carriers in the kitchen. That would help us cope at busy times during the day far better. It would also give us far more room in the kitchen.

**R:** The wooden shelves the cats have at the moment have to be scrubbed, so yes, if we had APEX ones we could just quickly wipe them clean.

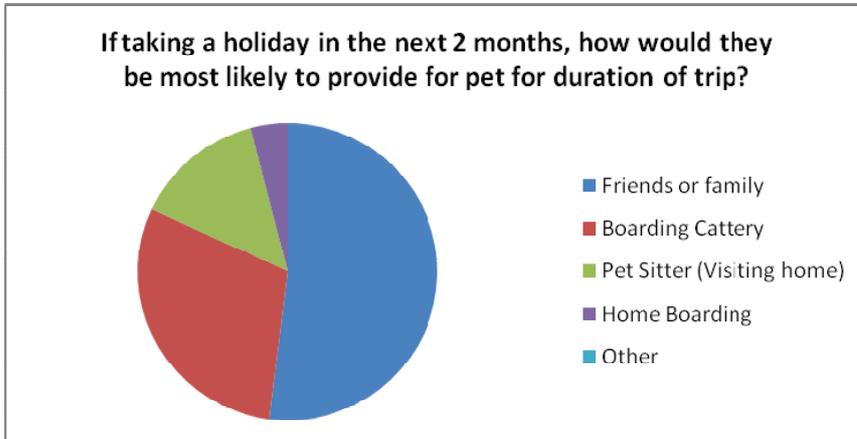
**DP:** From the reactions of customers you show round, would you say larger, better quality pens would make a big difference?

**T:** I don't know. Some seem to think everything is a bit basic, but at the end of the day they seem more impressed by our enthusiasm, and we are probably the most convenient place to come, everywhere else is so far out, or so small they are constantly full.

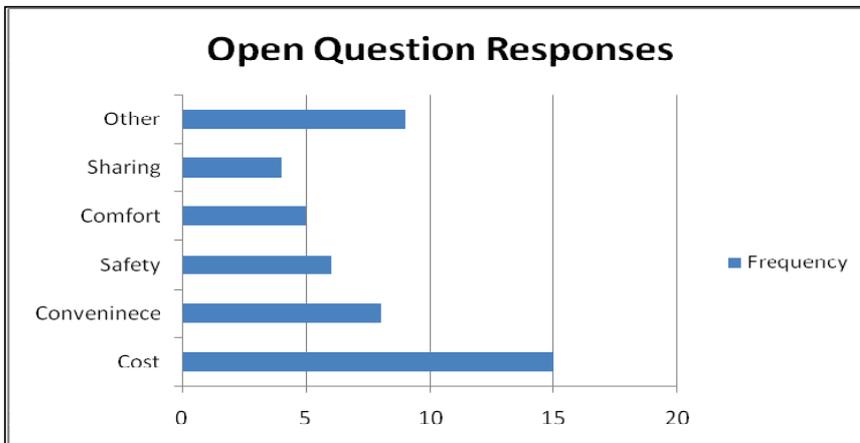
**R:** I think it would make a big difference. We get a lot of 'fussy' cat owners, far more than with dogs. I'm sure if people aren't impressed, they will just look harder to find a friend or neighbour to look after their cat while they are away.

Questionnaire**Appendix Table 1**

Question	Response	Frequency	Percentage
Have used a cattery in the past 5 years		27	54%
If taking a holiday in the next 2 months, how would they be most likely to provide for pet for duration of trip?	Pet Sitter (Visiting home)	7	14%
	Boarding Cattery	15	30%
	Home Boarding	2	4%
	Friends or family	26	52%
	Other	0	0%
When next likely to require care for pets by above means?	In the next 2 months	12	24%
	3-6 Months	22	44%
	6 - 12 Months	13	26%
	12 Months or Later	3	6%
In making pet care decisions, to what extent do the following factors affect decisions? (1=Most Important to 5=Irrelevant)		<b>Average Score</b>	
	Cost	2.26	
	Comfort of Pet	2.66	
	Convenience	2	
	Safety of Pet	3.16	



**Appendix Chart 1**



Open Question: "If you had to pay for pet care services while you were away, what factor, above or otherwise, would you consider most important in your decision?" Responses were grouped into 5 similar responses (e.g. Price as Cost, Security as Safety). '2 or more cats being able to share' was the most common of the unexpected responses, and is shown separately above as 'Sharing'.

**Appendix Chart 2**

**Research**

**Explanatory Notes**

The 'Average Score' quoted for the last 4 values in Appendix Table 1 are the total scores from all respondents divided by 50, the total number of respondents.

1 = Crucial.

2 = Very Important.

3 = of some importance.

4 = Less Important

5 = Irrelevant

So a value of 2.66 suggests that on the whole, those questioned considered comfort 'important'.

**Accounts****Appendix Table 2**

Balance Sheet	2009	
31st October 2009	£	£
<b>FIXED ASSETS</b>		<b>272,446</b>
<b>CURRENT ASSETS</b>		
Stocks	2,500	
Sundry debtors and prepayments	5,335	
Cash at bank-deposit account	33,253	
Cash at bank-current account	2,907	
Cash in hand	4,095	
	<u>48,090</u>	
<b>CURRENT LIABILITIES</b>		
Sundry creditors and accrued charges	16,328	
Capital Outstanding under HP obligation	3,667	
	<u>19,995</u>	
<b>NET CURRENT ASSETS</b>		<u>28,095</u>
<b>NET ASSETS</b>		<u><u>300,541</u></u>
<b>FINANCED BY:</b>		
<b>Capital Accounts</b>		
Mrs J Smith	94,167	
Mrs M Jones	<u>-5,813</u>	
	<b>88,354</b>	
<b>LONG TERM LIABILITY</b>		
Mortgage	<u>212,187</u>	
	<u><u>300,541</u></u>	

### **Bibliography**

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## Examiner Comment

The context of this Investigation was the problems faced by an animal boarding kennels due to the deterioration over time of boarding facilities and falling sales due to the recession. Added to this is the seasonal nature of the business and changing Government regulations relating to pen sizes.

**Section 1 – Knowledge. The Problem in Context**

Band 3 – 4/4

This report included a detailed account of the business problem, who is affected and implications if it is not solved. Especially relevant to this specific problem was the difficulty of no longer being able to board 2 cats in an existing pen and the over capacity utilisation that this will cause at busy times, not to mention the dissatisfied customers who like their cats to share pens. The obvious potential implications of rising costs, prices and falling business is clearly set out.

**Section 2 – Application. Methodology – Quality and Relevance of the Research**

Band 3 – 4/4

This report contained clear relevant primary and secondary research, which had been carefully selected and commented on critically. Especially detailed and relevant to this specific research was the account of the judgment or purposeful sample of cat owners at local surgeries, although the comment was made that this may not avoid bias as vaccination is a condition of boarding so these pet owners may be more likely to use kennels. Secondary research was also specific, such as the use of KCM Magazine, although the comment was made that this contains national data.

**Section 3 – Analysis. Analysis of Research Findings and Use of Business Theory**

Band 4 – 19/24

The analysis in this report was based around income elasticity of demand and alternative solutions to re-furbishing the cattery, as well as capacity utilisation and critical path analysis for the project. A wide range of techniques were used accurately and commented on in context. A good example of this would be the use of the critical path analysis to plan the project during a quiet time such as early December, but the observation that project delay could cause major problems for customers with Christmas bookings. Business theory was used effectively and accurately throughout.

To reach Band 5 'depth' of analysis is the key. The candidate could use a more selective range of techniques, finely focused on one area, for example investment appraisal using ARR, NPV and payback, comparing two of the options. Key to this investigation must be the ability to predict future revenue flows and as such the reasons for falling demand could have been analysed in more detail, as well as likely future trends. A prediction of future revenue flows with and without the proposed alterations would also add depth.

**Section 4 – Evaluation. Conclusions, Recommendations and Evaluation**

Band 4 – 23/28

The conclusion section in this report is fully based on the evidence from research, but also introduces some other options such as renovation or waiting for a year and re-assessing the situation. Recommendations also suggest a range of options, depending on the ability to access a business loan.

To reach Band 5 and above, full justification of conclusions and evaluation of strengths and limitations of the investigation is the key. The candidate could have focused more finely on one way forward for the business, rather than suggesting a range of options without coming down on a final decision. Also there could have been more emphasis on the strengths and limitations of the Investigation. In this case the strengths might be access to first hand information from the kennels and customers. Limitations might be the difficulties in isolating a single most important factor causing falling demand and therefore predicting future revenue flows.

**Section 5 – Communication. Presentation of Report**

Band 6 – 30/40

The report has a clear structure which is easy to follow including an index, page numbering and references throughout plus a concluding bibliography. Objectives are also clearly stated at the beginning and conclusions are realistic, given the evidence.

To reach Band 7 and above, the evaluation section should include strengths and limitations of the investigation. In this case, conclusions and recommendations could also have been clearer and more closely linked with the analysis, for instance the need to carry out refurbishment at a time when fewest customers will be negatively affected. Referencing throughout the report and in the bibliography could also have conformed fully with the Harvard referencing system.

Total mark = 80/100







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