

# **MARKSCHEME**

**November 2000**

**BUSINESS AND ORGANISATION**

**Standard Level**

**Paper 1**

1. **Using the information in the text and from Figures I and II, compare the organisation structures of Hunter & Sons and Safeway Supermarket, and discuss how the different structures and management cultures will affect the operation and management of the two stores.**

**[8 marks]**

**Comparison of Structures:**

*Hunter & Sons:* A relatively tall, traditional line structure with narrow spans of control. There are seven levels of hierarchy and channels of command are vertical through functions and departments. Delegation will be functional. The organisation is likely to be relatively inflexible.

Promotion opportunities may be frequent and appear to be based on seniority or experience. This may frustrate newer and/or younger members of staff. Managers are likely to possess considerable control over their subordinates and stress levels may be moderate given the narrow spans of control and the potentially experienced nature of the workforce. Only the lowest level staff are likely to be temporary or part-time. The department heads have considerable power. Additional posts of responsibility are common. Communications is likely to be slow both up and down the organisation and there are many gatekeepers of information. Delegation may be limited.

*Safeway Supermarkets:* A flat, team-based structure with wide spans of control. There are three levels of hierarchy and channels of command are vertical through teams. Delegation will be from team leader to the relevant function. The organisation is likely to be relatively flexible.

Promotion opportunities may be limited. Managers may be under considerable stress given both the targets they operate to, the wide spans of control and the potentially unskilled and young nature of the workforce. Many of the lower level staff will be temporary or part-time. The team leaders are pivotal to the success of the organisation and they must work effectively with the store manager. Communications are likely to be quick both up and down the organisation. The team leaders will have to entrust their staff with considerable responsibility for tasks. This may well be a good training ground for future management, although ironically not within the store. Promotion within Safeways will rely on the firms overall expansion.

**Level 1 [6 - 8 marks]:** candidate makes an accurate comparison and uses appropriate terminology such as spans of control and levels of hierarchy. The nature of the two organisations is described and there is a sound evaluation of the likely day-to-day effects on operations and management.

**Level 2 [3 - 5 marks]:** candidate makes a relevant comparison, although the uses of appropriate terminology may be limited. The nature of the two organisations is described and there is an attempt, probably superficial, to assess the likely day-to-day effects on operations and management.

**Level 3 [1 - 2 marks]:** candidate offers a generalised and limited discussion. For **[1 mark]** the candidate may not address both elements of the question.

2. Prepare Profit and Loss Accounts and Balance Sheets for Hunters & Sons for the years 1998 and 2000.

[8 marks]

**Summary Profit and Loss Account**

|                           | <b>1998</b> | <b>2000</b> |
|---------------------------|-------------|-------------|
|                           | <b>\$m</b>  | <b>\$m</b>  |
| Sales                     | 788         | 706         |
| <i>less</i> cost of sales | 244         | 266         |
| Gross profit              | 544         | 440         |
| <i>less</i> overheads     | 368         | 364         |
| Net profit                | 176         | 76          |

**Summary Balance Sheet**

|                                 | <b>\$m</b>  | <b>\$m</b>  |
|---------------------------------|-------------|-------------|
| Fixed assets                    | 1880        | 2340        |
| <i>plus</i>                     |             |             |
| Current assets                  | 484         | 486         |
| <i>less</i> current liabilities | 276         | 378         |
| Total assets employed           | <u>2088</u> | <u>2448</u> |
| <i>financed by:</i>             |             |             |
| shareholders funds              | 1800        | 1900        |
| <i>plus</i>                     |             |             |
| long term liabilities           | <u>288</u>  | <u>548</u>  |
| Total capital employed          | <u>2088</u> | <u>2448</u> |

**Level 1 [6 - 8 marks]:** candidate prepares mostly accurate accounts, showing both years, and with an appropriate layout. For full marks, the net and gross profits are correctly calculated and the balance sheet balances. For lower in the band, the majority of items are in the correct place and there is a maximum of two errors in placement and one in calculation.

**Level 2 [3 - 5 marks]:** candidate makes a valid attempt to layout the accounts and there may be several errors in calculation, omissions, especially at the lower end of the band.

**Level 3 [1 - 2 marks]:** candidate attempts to prepare accounts, but many items are either in the wrong place or omitted. There may be significant errors in calculation.

3. Comment on the performance of Hunter & Sons over the three years 1998 to 2000 and its present financial position. Assess the profitability, liquidity and efficiency of Hunter & Sons over the three years 1998 to 2000, using appropriate ratios to support your analysis.

[8 marks]

| Ratios   | <u>1998</u>                              | <u>2000</u>                             |
|--|--|---|
| <b>ROCE</b>  |  |   |
| $\frac{\text{Net Profit}}{\text{Capital Employed}} \times 100$ | $\frac{176}{2088} \times 100 = 8.43\%$   | $\frac{66}{2448} \times 100 = 2.7\%$    |
| <b>Capital Turnover</b>  |  |   |
| $\frac{\text{Net Sales}}{\text{Capital Employed}}$             | $\frac{176}{2088} = 0.084 \text{ times}$ | $\frac{66}{2448} = 0.027 \text{ times}$ |
| <b>Gross Profit Margin</b>                                     |  |   |
| $\frac{\text{Gross Profit}}{\text{Sales}} \times 100$          | $\frac{544}{788} \times 100 = 69\%$      | $\frac{440}{706} \times 100 = 62.3\%$   |
| <b>Net Profit Margin</b>                                       |  |   |
| $\frac{\text{Net Profit}}{\text{Sales}} \times 100$            | $\frac{176}{788} \times 100 = 22\%$      | $\frac{76}{706} \times 100 = 10.76\%$   |
| <b>Current Ratio</b>   |  |   |
| $\frac{\text{Current Assets}}{\text{Current Liabilities}}$     | $\frac{484}{276} = 1.75 \text{ times}$   | $\frac{486}{378} = 1.29 \text{ times}$  |

*Commentary:*

It is clear that sales, gross profit and net profit have fallen over the three year period at a time when cost of sales and overheads have been rising. The ROCE and Capital turnover ratios show the fall in efficiency and the Gross Profit and Net Profit Margins show the deterioration in profit and rise in costs. At the same Hunter & Sons are less able to pay their liabilities with the current ratio showing that the firm is less liquid, the rule of thumb being that the ratio should be between 2 and 1.5 to 1. In 2000, the ratio was 1.29 to 1, a ratio below 1.5 to 1 rule of thumb. The firm may experience problems paying its bills especially if some of the liabilities are tied up in stock.

*N.B. if the candidate has produced inaccurate results in the part (a), which they have then used for their analysis in part (b), they must not be double penalised if their interpretation is otherwise appropriate given those figures.*

**Level 1 [7 - 8 marks]:** candidate recognises the trends in profitability, sales, cost control and liquidity. For **[8 marks]** the candidate must have calculated at least two ratios to support the commentary.

**Level 2 [3 - 6 marks]:** candidate recognises some of the trends in profitability, sales, cost control and liquidity. They may not calculate ratios, but for **[6 marks]** must employ figures from the text.

**Level 3 [1 - 2 marks]:** candidate presents ideas which lack focus and are often rather generalised. There is no attempt to calculate ratios or if there is, the ratios are inaccurate or incorrect.

**4. (a) Explain two purposes of branding products. [4 marks]**

Purposes to:

- create brand loyalty and brand identity
- differentiate products, especially in markets where products are similar
- allow premium pricing
- help recognition, especially when there is self-service
- express quality attributes
- provide a sense of security, familiarity and reassurance about attributes
- adds value to the product
- gaining greater market share

*(Award [1 mark] for each point and an additional [1 mark] for developing the idea or providing an example or illustration, up to a maximum of [4 marks].)*

**(b) Why is Tom Spielberg planning to sell cheaper, more fashionable clothes under the Botticelli brand rather than use the existing Hunters brand name? [2 marks]**

Tom wishes to target alternative market segments with a cheaper lower quality, but more fashionable range of clothes without degrading the quality image of the existing brand. Often firms wishing to reposition some of their product range will do so under another brand name. In addition, the Hunter brand name possesses an older, less fashionable image which is not appropriate for the desired target audience.

*(Award [1 mark] for a very generalised comment on image. Award an additional [1 mark] if the candidate is able to expand their answer through illustration or the development of ideas.)*

5. (a) **Produce a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis for Hunters & Sons.** [8 marks]

*Hunter & Sons:*

**Strengths:** Quality and value reputation, excellent human resource management record, talented CEO, wealthy target segment

**Weaknesses:** Unfavourable reaction to recent fashion clothing, lack of experience retail business by brothers and poor leadership, rigid and traditional organisation structure

**Opportunities:** mergers to gain economies of scale, economic growth and desire for higher quality brands, new Botticelli stores, e-commerce

**Threats:** falling sales and increasing costs, possible liquidity problems, loss of younger and even some core customers, loss of CEO

**Level 1 [7 - 8 marks]:** candidate produces a SWOT analysis with at least one relevant point in every segment and often two points. For full marks the candidate should include a minimum of two points in every segment and should use illustrations from the case.

**Level 2 [3 - 6 marks]:** candidate produces a SWOT analysis with an attempt to include one point in every segment, although several of these may be generalised or even inaccurate at the lower end. For [5 - 6 marks], there must be one relevant point in each segment.

**Level 3 [1 - 2 marks]:** candidate produces a limited analysis both in scope and accuracy.

- (b) **Using your SWOT analysis, write a report from Tom Spielberg to the Hunter brothers analysing possible advantages and potential problems of the proposed merger with Safeway Supermarkets. The report must be in a format suitable for presentation to the board of directors.**

*[8 marks]*

*Advantages:*

- economies of scale in purchasing and marketing, including e-commerce
- a wider range of products enabling them to compete more effectively with firms such as INCA Brands
- natural synergy of the two firms as they operate in similar market segments
- appealing to a wider range of customers
- deeper management expertise
- more flexible organisation structures

*Problems:*

- different corporate culture
- the potential downgrading of the Hunter's image by linking with Safeway Supermarkets
- problems of integrating staff of both stores and devising appropriate organisational structures for the two firms
- Hunter's liquidity problem may affect Superbuys

*(Award up to [2 marks] for an appropriate report format. e.g. title, to, from, date, introduction, main body, recommendations and conclusions. The report need not be structured with these headings in full, but must be a professional document suitable for presentation to the board.)*

**Level 1 [5 - 6 marks]:** candidate intelligently identifies a range of possible advantages and potential problems which may result from the merger and analyses their relative importance. Relevant and sensible illustration is applied from the case to support the discussion.

**Level 2 [3 - 4 marks]:** candidate identifies a range of possible advantages and potential problems which may result from the merger, although direct reference to the case may be limited and there may be little development of ideas.

**Level 3 [1 - 2 marks]:** candidate presents a simplistic and general response. The report may have no development of ideas or relevant illustration.

**6. Examine the benefits and limitations for both customers and retailers of on-line Internet shopping.**

**[4 marks]**

***Customer benefits:***

- convenience - speed of purchase, time saving and longer hours of availability
- wide choice and easier comparison of prices and features
- greater control of purchase decision
- greater flexibility - the customer chooses the depth of information required

***Customer limitations:***

- impersonal and lack of advice
- possible impulse buying and addiction
- fear of non-delivery of goods
- fear of security lapses and fraud
- may receive unwanted marketing approaches by firms or others to which the retailer has sold information
- expensive equipment required, which may need regular updating
- customer may require knowledge and training to utilise the facilities appropriately

***Retailer benefits:***

- huge potential new market
- rapid growth
- may provide the customer with greater detail, including technical details and specifications
- the collection of data about the customer which may be sold or used later for additional marketing purposes
- cheaper to sell to the customer as less overheads and assets required

***Retailer limitations:***

- limited to those customers with access to the Internet
- technical problems may discourage customer
- consumer is less likely to impulse buy
- lack of interaction with the customer
- not all products may be sold effectively over the Internet *e.g.* where sight, touch *etc.* is important

***Level 1 [3 - 4 marks]:*** candidate presents benefits and limitations of the Internet for both customers and retailers, outlining relevant points for each category. For full marks the candidate illustrates and expands on some of the points.

***Level 2 [1 - 2 marks]:*** candidate produces a limited and generalised examination.

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