

Markscheme

November 2021

Business management

Standard level

Paper 2

18 pages

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

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

Section A

1. (a) State **two** features of a sole trader. [2]

Award [1] for each feature identified – no reference to Jill’s gloves is needed:

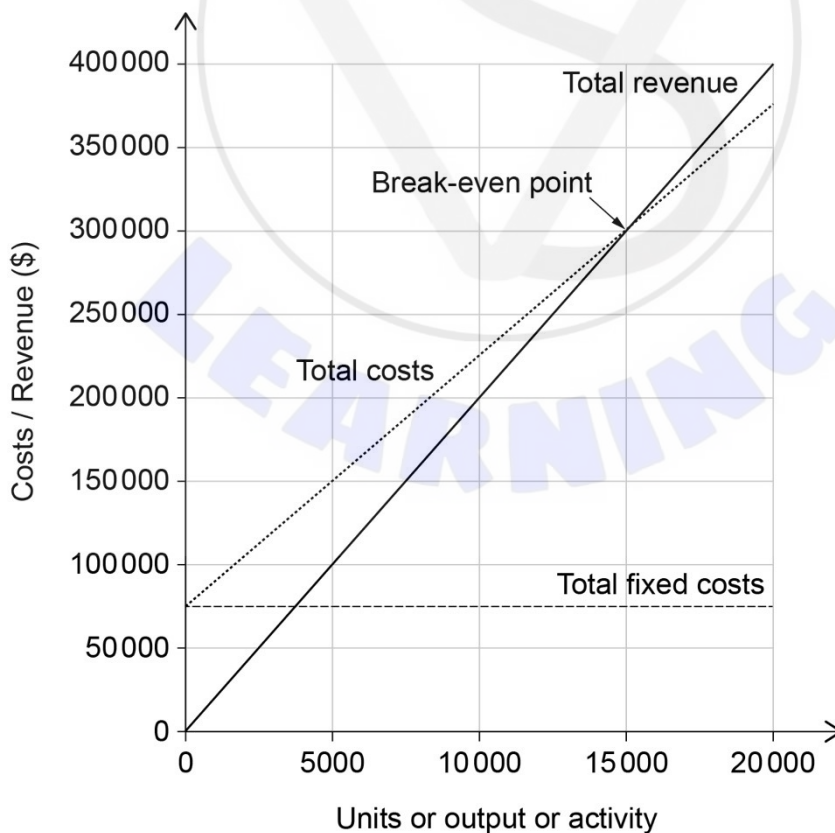
- Unincorporated/unlimited liability
- No legal continuity
- One owner of the business
- Owner has full control
- Sole trader enjoys all profits
- No legal distinction exists between sole trader and the business
- Sole trader has total responsibility for the business

Do not award marks for advantages and disadvantages of operating as a sole trader (for example, a sole trader cannot sell shares to other people or to the public) or for the idea that the sole trader performs all of the business functions on their own, as often sole traders employ other people.

Accept any other relevant feature of a sole trader.

Award [1] for each feature of a sole trader stated up to a maximum of [2].

(b) Construct a fully labelled break-even chart, to scale, for JG for 2022. [4]



Award [1] mark for correctly labelling both axes.

Award [1] for a correct and correctly labeled total sales revenue line. If the candidates writes “revenue” instead of “total revenue”, accept.

Award [1] for a correct and correctly labeled total costs line.

Award [1] for correctly identifying the break-even point.

N.B. If the chart is not drawn to scale is not neat, not drawn with a straight-edge, maximum award: [2].

A candidate producing a chart that is not to scale may still receive marks for a correct and correctly labeled total revenue line and a correct and correctly labeled total cost line provided that

- the two lines' points of intersection with the y-axis are correct (0,0) for the total revenue line and (0, 75 000) for the total cost line)
- the point of intersection of the total cost line is labeled \$75 000.
- And the break-even quantity or revenue is specified.

The maximum award for a break-even chart would still be [2] because the chart is not to scale.

- (c) Calculate the level of profit if sales are 20 000 units in 2022 (show all your working). [2]

The level of profit if sales are 20 000 units in 2022 is

$$\begin{aligned} \text{TR} &= 20\,000 \times \$20 = \$400\,000 \\ \text{TC} &= \$75\,000 \text{ [fixed costs]} + (\$15 \times 20\,000) \\ &= \$75\,000 + \$300\,000 = \$375\,000 \\ \text{TR} - \text{TC} &= \$25\,000 \end{aligned}$$

Award [1] for correct workings/steps but an incorrect answer from something such as a mathematical error.

If candidates do not show any working and but correctly write \$25 000, award [1].

- (d) Explain how the changes that Jill expects in fixed and variable costs in 2023 would affect the total costs line of the break-even chart from your answer to (b). [2]

A candidate must refer to the total cost line in their response to receive marks.

The increase in fixed costs would cause the TFC line to shift vertically upwards, award [1]. If a candidate writes something to the effect that the total cost line will now intersect the y-axis at \$82 500, accept.

The increase in variable costs would cause the TC line to become steeper (gradient would increase) award [1].

Award a maximum of [1] if no other rewardable points are stated but candidate states that this will increase her break-even point or says something to the effect of "the total cost line goes up."

2. (a) State **two** features of a hierarchical organizational structure. [2]

Features of a hierarchical organization include:

- Pyramidal with many layers (workers>supervisors>managers>senior managers>executives>CEO) or long chain of command or tall structure
- Usually a narrow span of control.
- Decisions flow from top down and information passes from the bottom up.
- Authority/decision making is centralized.
- Delegated authority, if any, is narrowly defined.
- Individuals in a hierarchical organization tend to have specialized skills.
- Decision making typically takes time or is not a quick process.

If a candidate raises the issue of decision making, award [1] if they say that decision making typically takes time.

However, if the candidate appropriately contextualizes their response, they can earn [1] for saying decision making can be faster. For example, if a candidate wrote something to the effect of "In hierarchical organizations where delegation occurs, decision making can be fast."

Accept any other relevant feature.

Award [1] for each feature identified up to a maximum of [2].

(b) Calculating **X** and **Y** in **Table 3**, prepare a profit and loss account for *WC* for 2022 (*show all your working*). [4]

Gross profit (X) = \$16 000 000

Tax (Y) = \$800 000

If, in their workings, the candidate has dropped the 000s, accept X = \$16 000 and Y = \$800.

WC Profit and loss account for the year 2022
Figures in \$000

Sales Revenue	50 000
Cost of goods sold	34 000
Gross Profit	16 000
Expenses	10 000
Net profit before interest and tax	6 000
Interest	2 000
Net profit before tax	4 000
Tax	800
Net profit after interest and tax	3 200

Award **[1]** for correctly calculating gross profit (X), **[1]** for correctly calculating (Y), **[1]** for the correct layout of a profit and loss account, and **[1]** for a correct heading. Maximum award: **[4]**.

N.B. In the heading candidates must say the name of the company (WC), the year, and profit and loss account (they may say income statement). If the candidates does not say “in 000s”, accept.

- (c) Using **Table 4**, calculate WC’s net cash flow for 2022 (show all your working). **[2]**

Total receipts/inflow	\$48 000 000
Total payments/outflows	\$45 400 000
Net cash flow	\$2 600 000

If, in their workings, the candidate has dropped the 000s, accept Z = \$2 600.

An alternate method for calculating net cash flow is to use the following formula:

$$\begin{aligned} \text{Closing balance} &= \text{net cashflow} + \text{opening balance} \\ \$10\,000\,000 &= \text{NCF} + \$7\,400\,000 \\ \$10\,000\,000 - \$7\,400\,000 &= \$2\,600\,000. \end{aligned}$$

Award **[1]** for correct method and **[1]** for correct answer. Maximum award: **[2]**.

- (d) Explain the difference between WC’s profit and its cash flow. **[2]**

A candidate can earn **[1]** by defining profit (revenue minus expenses) and then explain that cash flow is the movement of funds such as external financing (an inflow) or debt service (an outflow) or some other specific examples of inflows or outflows.

For a second mark **[2]**, candidates must apply their response to the stimulus. Application must be more than nominal (just naming WC but otherwise providing a generic answer). Based up the stimulus, two opportunities exist for genuine application:

- The candidate refers to the \$3 200 000 profit and the \$2 600 000 cashflow
- The candidate refers to the product (dryers) when exemplifying how a timing difference can occur between sales and payment received (trade credit).

An alternate way a candidate can earn **[2]** is by explaining that profit is typically calculated on an accrual basis (when revenue or expense actually accrues to the business) but does not reflect the actual movement of funds. On an accrual basis, WC had a net profit of \$3 200 000. Cash flow reflects the actual movement of funds – when a business receives payment or makes a payment. In 2022, WC had receipts in excess of payments in the net amount of \$2 600 000. This difference between profit and cashflow reflects a timing difference between the accrual of a revenue or an expense and the actual receipt or payment of funds.

Award **[1]** for partial understanding and explanation and **[2]** for a complete understanding and explanation. A candidate does not have to use the word accrual, but they must convey some understanding of a timing difference

between the profit and loss account and the cash flow. If the candidate does not apply their response to the stimulus, the maximum award is [1].



Section B

3. (a) Define the term *market segment*. [2]

A market segment is a sub-group or portion of a whole market who share similar characteristics.

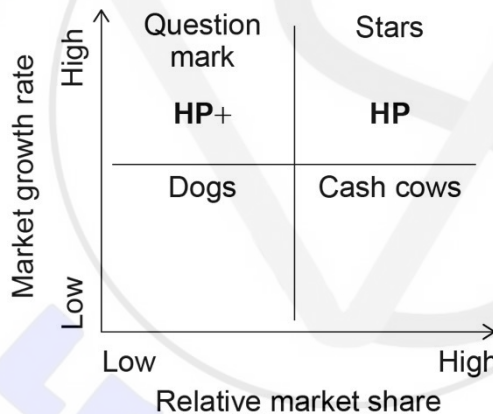
For 2 marks candidates need to demonstrate that a market segment is

- A part / portion of a whole market
- Consumers in this segment share common characteristics

Award [1] for a definition that shows some understanding of a market segment.

N.B. If a candidate writes a response similar to the following, award [1]: A market segment is a group of people who share one or more common characteristics.

(b) Construct a Boston Consulting Group (BCG) matrix for *HP*, identifying the correct segments for *HP*'s standard rooms **and** its *HP+* upgraded rooms if **Option 2** is chosen. [4]



Award [1] for a diagram that has either the correct axis labels OR the 4 correct segments labelled [1].

Award [2] for a diagram that is fully, correctly labelled [2].

Award [1] for either stating that *HP* rooms are a *STAR* or by placing this in the *STAR* segment the diagram drawn.

Award [1] for either stating that *HP +* rooms are a ? or a *Problem Child* or by placing this in the ? / *Problem child* segment in the diagram drawn.

- (c) Explain **one** advantage **and one** disadvantage for *HP* of using secondary market research

[4]

Application Advantage

- Get detailed stats on rival budget hotel chains
- 80 % of budget hotel guests are price sensitive

Application Disadvantage

- some of data not relevant eg data about 5-star hotels
- Hotel market is rapidly growing so may be out of date very quickly.

Award [1] for identifying an advantage to HP from its use of secondary market research.

Award [1] for identifying a disadvantage to HP from its use of secondary market research.

In order to access the 3rd and 4th marks both answers must make use of the stimulus / be contextualised.

Mark as [2+2].

- (d) Discuss whether *HP* should choose **Option 1** or **Option 2**.

[10]

There is no “correct answer”.

Option 1

Pros

This is very simple to implement and can be done very quickly. There will be additional costs as this price change will need to be heavily advertised to create customer awareness. Above and below the line advertising can be used. Advertisements on TV, in the press and on social media will need to be used but *HP* can also use its database of customers to send them direct mail. As most budget hotel customers are price sensitive then this is likely to increase demand. It is likely that they will be able to raise occupancy rates above the 65 % rate and this can be achieved quickly.

Cons

How successful this option depends on how its main rival reacts. Kampfort may react by matching the price cuts that *HP* makes – if this happens then occupancy rates may only rise minimally – the price cuts may grow the market slightly. It could also lead to a price war – Kampfort Inns may even cut its prices below those of *HP* in which case *HP* occupancy rates may fall. However, it may have some impact on its profitability – occupancy rates must rise by more than 10 % if sales revenue is not to fall.

Option 2

Pros

The upgraded rooms are more likely to appeal to business guests and they account for 15 % of its target market. Secondary market research data shows that 20 % of budget hotel customers are not price sensitive and therefore the upgraded rooms may appeal to this market segment.

The upgraded rooms bring in more revenue per room per night as they are \$20 per night more expensive than standard rooms – if they hit the target of 80 % occupancy then revenue per night would increase $(80 \times \$20 \times 600) = \$960\,000$ per night.

The change differentiates *HP* from a major rival. This may allow *HP* to raise its status as it now offers a better “product” at all of its hotels compared to the offer of its rival.

Cons

This will have higher initial costs. Each upgraded room costs \$1500, that is \$150 000 per hotel. It has 600 hotels so the total cost would be \$90 million. This is likely to be far greater than the promotion costs of option A.

There will also be lost revenue at each hotel whilst the 100 rooms are upgraded. This will impact both profits and occupancy rates. Occupancy rates will fall initially and as it will take 2 years for all the upgrades to be undertaken.

There is also the danger of brand cannibalisation – *HP* may find that occupancy rates stay the same, with more customers staying in the *HP+* rooms rather than standard rooms – they would not achieve their target of 80 % occupancy rates BUT sales revenue would increase.

Maximum Mark award	Should HP OPT FOR 1 OR 2	Judgments/conclusion
3	One argument for or one argument against one option	n/a
4	One argument for and one argument against for one option Or, two or more arguments for one side of argument and none for the other	n/a
5	A balance argument for one option (at least one argument for and one against) and an unbalanced argument for the other option (at least one argument for or against)	n/a
6	Balance arguments (at least one argument for and one against) for both options.	No judgments/conclusions
7–8	Balance arguments (at least one argument for and one against) for both options <i>plus</i> a conclusion that is more than nominal – actually flows out of the analysis. Largely effective use of business language and the stimulus	Judgments/conclusions based upon analysis and explanation in the body of the response
9–10	Balance arguments (at least one argument for and one against) for	Two arguments for, two

	both options <i>plus</i> a conclusion that is more than nominal – actually flows out of the analysis. Rich use of business language, business theory and the stimulus	arguments against plus a conclusion that is more than nominal – actually flows out of the analysis.
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It is expected that candidates provide a conclusion with a substantiated judgment.

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

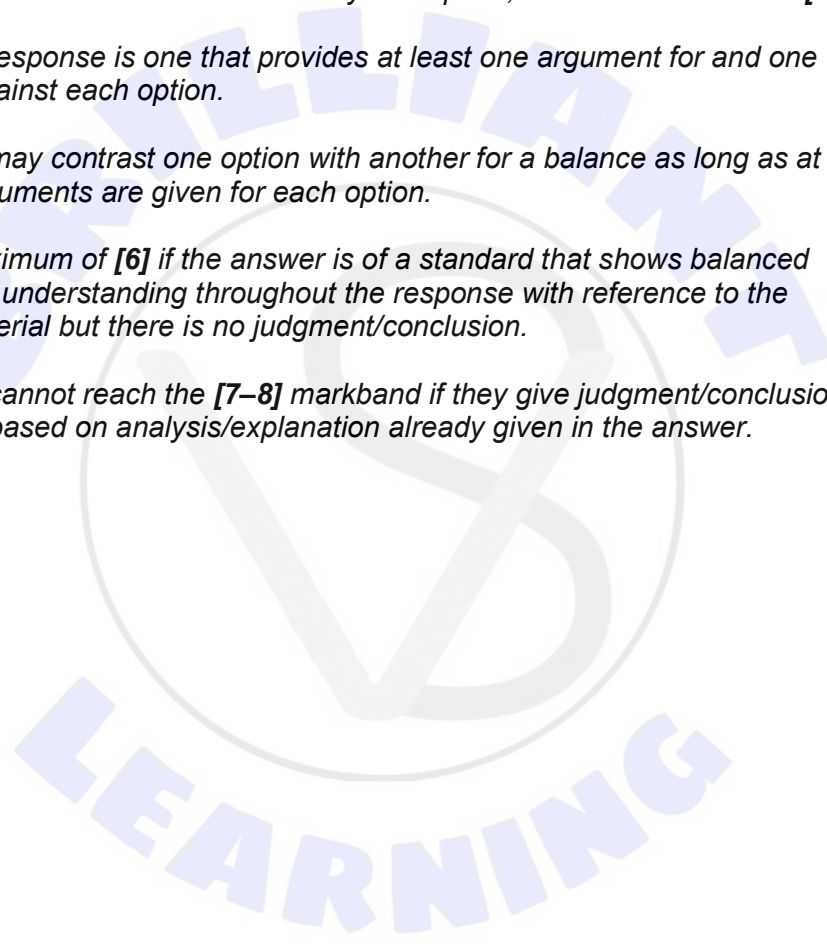
If a candidate evaluates / addresses only one option, award a maximum of [5].

A balanced response is one that provides at least one argument for and one argument against each option.

Candidates may contrast one option with another for a balance as long as at least two arguments are given for each option.

Award a maximum of [6] if the answer is of a standard that shows balanced analysis and understanding throughout the response with reference to the stimulus material but there is no judgment/conclusion.

Candidates cannot reach the [7–8] markband if they give judgment/conclusions that are not based on analysis/explanation already given in the answer.



4. (a) Define the term *secondary sector*. [2]

This sector includes both construction and manufacturing. It uses resources from the primary sector to manufacture finished goods or process raw materials to be used for other secondary sector business. The secondary sector supports both the primary and tertiary sector.

Award [1] for some understanding.

Award [2] for a clear definition.

Providing examples of secondary sector business alone is insufficient to receive marks. However, exemplification can strengthen a definition and be a basis for a second mark (if the definition was not fully complete).

- (b) Explain **two** factors that might prevent TZ from increasing its gross profit margin. [4]

TZ will find it very difficult to reduce its cost of sales as raw material prices are dependent on the world price of coffee beans and TZ has no control over these prices (it is a price taker).

TZ will find it very difficult to raise prices as TZ operates in a “very competitive market”

To increase its gross profit margin TZ would need to either

- raise its price OR
- reduce its costs of sales.

Mark as [2+2].

Award [1] for stating a reason why TZ might not be able to increase its gross profit margin and an additional [1] for its explanation with reference to TZ. Award a maximum of [2].

- (c) Explain, using the Ansoff Matrix, TZ’s proposed takeover of GG. [4]

Candidates can be awarded up to 2 marks for demonstrating a knowledge of the Ansoff Matrix and a further 2 marks for applying it the stimulus

Candidates do NOT need to draw the Ansoff Matrix, but marks can be awarded if they do and place the takeover of GG in an appropriate sector. However, such an answer without any commentary is restricted to a maximum of 2 marks

There is no single correct answer

Candidates can be rewarded application marks if they suggest the takeover is either:

- product development as coffee retailers look at their existing market and seek to gain their customers’ loyalty with new and more exciting products, **or**
- market development as they take their existing product, coffee, and aim to extend to new niche markets (of their own creation) by educating their consumers to seek a new experience – **or**
- market penetration- It is a good example of a product extension strategy, adding value to a product for the consumer.

- Diversification – From a certain perspective, TZ's proposed takeover of GC is a form of diversification, related diversification (though candidates are not required to use the word related).

Award [1] if the answer demonstrates a weak grasp of the Ansoff Matrix.

Award [2] if the answer demonstrates a sound grasp of the Ansoff Matrix.

Award [3] if the answer demonstrates a sound grasp of the Ansoff Matrix and the candidate explains why it might be considered to be either PD, MD or MP using the stimulus.

Award [4] if the answer demonstrates a sound grasp of the Ansoff Matrix and the candidate explains why it might be considered to be more than just one classification ie either PD or MD or PD or MP, MD or MP using the stimulus.

- (d) Recommend whether TZ's directors should choose **Option 1** or **Option 2**. **[10]**

Option 1 Advantages

- Speed – once the deal is struck TZ will have expanded quickly
- Proven profitability GG made a profit of \$120m in 2021 – is therefore less risky than Option 2
- This business has a well organised distribution channel and strong brand awareness in the USA and therefore is already well established.

Option 1 Disadvantages

- TZ only has \$400m in cash and the takeover price is \$600m and therefore TZ will need external finance the purchase
- TZ will have to raise external finance, which means that its debt (and interest expense) will increase or some dilution of ownership will occur. .
- This option is only based in US – will the concept transfer to other countries and how much cost will be incurred to establish its brand overseas?

Option 2 Advantages

- This can be seen as diversification, reducing risks as the market of jars of coffee has stagnated in many richer countries
- It already has experience of purchasing coffee beans on a large scale and can use the same suppliers for its new chain of cafes
- It has great potential as demand is growing in eastern Europe. Demand is also growing in emerging markets so the prospects for sales may be good.

Option 2 Disadvantages

- TZ has no experience of running cafes selling coffee
- It will have to go head on with established brands (students are likely to name them eg Starbucks, Dunkin Donuts etc) and may find it hard to compete with the brand loyalties already established.
- Will not have the economies of scale that existing chains have
- Will take much longer – is only trialling this in 3 countries in EU
- If successful in these countries will it work worldwide? – cannot be certain as consumers in these countries may have different tastes or attitudes to rest of the world.

*In order to reach the top bands of the markscheme candidates must have a balanced view, made a judgement AND also used the data in **Table 3** effectively*

Accept any other relevant evaluation.

The table below should be followed (along with the markbands on page 3).

These mark awards in the table below should be viewed as maximums. That is, just because a candidate has one argument for option 1 and one argument against does not mean that they will automatically get a 4. One strong argument for one side and merely a weak or nominal argument for the other side might result in a 3.

Maximum Mark award	Should HP OPT FOR 1 OR 2	Judgments/conclusion
3	One argument for or one argument against one option	n/a
4	One argument for and one argument against for one option Or, two or more arguments for one side of argument and none for the other	n/a
5	A balance argument for one option (at least one argument for and one against) and an unbalanced argument for the other option (at least one argument for or against)	n/a
6	Balance arguments (at least one argument for and one against) for both options.	No judgments/conclusions
7-8	Balance arguments (at least one argument for and one against) for both options <i>plus</i> a conclusion that is more than nominal – actually flows out of the analysis. Largely effective use of business language and the stimulus	Judgments/conclusions based upon analysis and explanation in the body of the response
9-10	Balance arguments (at least one argument for and one against) for both options <i>plus</i> a conclusion that is more than nominal – actually flows out of the analysis. Rich use of business language, business theory and the stimulus	Two arguments for, two arguments against plus a conclusion that is more than nominal – actually flows out of the analysis.

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

5. (a) State **two** marketing objectives that a company might have. [2]

Marketing objectives include

- attract new customers
- enter new market
- improve brand loyalty
- increase awareness
- increase market share
- increase profit
- increase revenue
- increase sales
- retain existing customers

Accept any other valid marketing objective.

Award [1] for each objective identified up to a maximum award of [2].

- (b) With reference to OS, explain **one** advantage **and one** disadvantage of operating as a private limited company. [4]

Advantages of operating as a private limited company include:

- Compared to sole traders and partnerships, private limited companies typically can raise more capital.
- Control of the company cannot be lost to outsiders.
- Members of the board of directors, many/most of whom are major shareholders in the company, can make decisions with fewer concerns about shareholder and/or market reaction.
- Owners have limited liability.
- Private limited companies do not have to disclose fully their financial information.
- The business continues if one of the owners dies.

For OS, one advantage to operating as a private limited company is that OS could make changes in dividend policy without affecting perceptions of the company in the marketplace. When OS realized that it needed to preserve cash, it suspended dividend payments for one year and said it possibly would for a second year. When a publicly traded company lowers or eliminates dividend payments to preserve cash, the share price typically falls, sometimes significantly, which can make capital sufficiency issues even worse.

Disadvantages of operating as a privately limited company often include

- If a shareholder wants to sell their shares, finding a suitable buyer may take time.
- Often (though not always) private limited companies are relatively small organizations which possess lesser expertise than large, publicly traded companies.
- Opening a private limited company takes time and has some legal expenses.
- Private limited companies cannot sell shares to the public, thus limiting the amount of capital that can be raised.
- Profits have to be shared with more people/owners compared to a sole trader or most partnerships.

OS is currently facing a difficult moment, as its industry is changing, a situation that has led to a decline in sales and a contraction of margins. As a private limited company, OS may not have the expertise to face this situation. Currently,

the company has no real marketing strategy and may not have the marketing expertise to make appropriate adjustments.

Additionally, many potential adjustments OS may make will require capital, which, as a private limited company, OS has lesser access to than if it were public.

Mark as [2 + 2].

Award [1] for identification of an advantage and an additional [1] for an explanation thereof with application to the stimulus.

Award [1] for identification of a disadvantage and an additional [1] for an explanation thereof with application to the stimulus.

Maximum award: [4].

- (c) With reference to OS, explain the difference between capital expenditure and revenue expenditure. [4]

Capital expenditure refers to any expenditure for assets with a life of more than one year. The stimulus refers to three instances of capital expenditure in the company's history: each time OS purchased a building location.

Revenue expenditure refers to those expenses that will be accounted for fully in the year in which the expense occurs. In the case of OS, revenue expenditures mention in the case are expenditures for inventory.

Mark as [2 + 2].

Award [1] for an explanation of capital expenditure and an additional [1] for an explanation with application to the stimulus.

Award [1] for an explanation of revenue expenditure and an additional [1] for an explanation with application to the stimulus.

- (d) Discuss possible changes to any **two** elements of OS's marketing mix. [10]

Ways that OS could modify its marketing mix to match and compete with the new competitors.

- Product: Changing its product range (either contracting or expanding its product range).
- Price: Adopting a different pricing strategy.
- Place: Modifying its distribution strategy to include e-commerce.
- Promotion: Initiate a more aggressive promotion strategy.

For each of the four Ps, OS could make modifications. Modifying each has advantages and disadvantages. For example, contracting its product range could give the organization more focus and require lesser investment in stock. On the other hand, assuming that OS process its products properly, each inventory item makes some contribution to fixed costs. Further, any termination of a product line means that customers for that product, however few, will have to go to a competitor for that product.

OS could modify its prices, particularly try being more aggressive with its pricing. Whereas that may attract more customers (advantage), margins will be thinner.

An ecommerce shift with a door-to-door aspect will change OS' supply chain considerably. Time and resources will need to be devoted to this task

There is a sense that OS is a traditional business and new aggressive forms of pricing and promotion will be required. Will they know how to do the latter? Do they need to introduce a social media campaign backed up with a membership or loyalty programme?

Candidates are expected to provide a conclusion with a substantiated judgment.

Grade according to the mark bands found on page 3.

For one relevant modification to the marketing mix that is one-sided, award a maximum of [3].

For two relevant modifications, but the discussion of both is one-sided, award a maximum of [4].

For two relevant modifications, one treated in a balanced way and another in an unbalanced way, award a maximum of [5].

For two relevant modifications, both treated in balanced ways, but no real conclusion, award a maximum of [6]. Conclusions must be more than nominal (for example, when a candidate opens a final paragraph with "In conclusion . . ." but then has no real conclusion), award a maximum of [6].