

The maximum mark for this paper is **90**.

QUALITY OF WRITTEN COMMUNICATION

Quality of written communication is assessed in questions that are indicated accordingly (*). Marks should be awarded for spelling, punctuation and grammar, use of appropriate form and style of writing, and for organising work clearly and coherently.

Section A		
Question Number	Answer	Marks
1(a)	<p>Promotion is one component of the marketing mix. Identify <u>two</u> other components of the marketing mix.</p> <p><i>Any two from Product, Price and Place.</i></p>	[2]
1(b)	<p>State <u>two</u> disadvantages of high labour turnover to an organisation.</p> <p><i>Any two disadvantages, e.g. higher training costs, more recruitment costs, lower quality levels, impact on established workers efficiency, disruption to production levels.</i></p>	[2]
1(c)	<p>What is meant by the term 'decentralisation'?</p> <p><i>More control/decision-making in the organisation is made lower down the chain of command. Fewer decisions are made by the senior managers.</i></p> <p><i>NB: Any reference to the location of where decisions are made should not be rewarded</i></p> <p>Level 1</p> <p><i>A general idea of the term, probably in terms of who makes the decisions (up to 2 marks)</i></p>	[ARA] [2]
1(d)	<p>It costs £1 to download a music track from the Internet. Jenny buys four music tracks a week. However, due to a rise in the minimum wage rate, her income increases from £200 to £220 per week. She now buys five music tracks a week.</p> <p>Calculate Jenny's Income Elasticity of Demand for downloaded music tracks?</p> <p><i>Income Elasticity of Demand = $\frac{\text{Percentage change in Demand}}{\text{Percentage change in Income}}$ [1]</i></p> $= \frac{1/4}{20/200} = \frac{1}{4} \times \frac{200}{20} = \frac{10}{4} \quad [1]$ $= \frac{25\%}{10\%} \quad [1]$ $= 2.5 \quad [1]$	[4]

Section A		
Question Number	Answer	Marks
1(e)	<p>Outline <u>two</u> disadvantages of using the payback method for making investment decisions.</p> <p><i>Payback does not take any account of the profitability of a particular project. It merely identifies when the cost of the project has been recouped from additional revenues.</i></p> <p><i>The behaviour of the project after payback is achieved is ignored. Two projects may have the same payback period, however, one of them returns additional revenues for many years in the future, whereas the other one ceases to exist after the payback period.</i></p> <p><i>The timing of the additional revenues is not taken into account. A project that returns most of its returns is not shown to be a better option than one where all the returns accrue at the end of the payback period.</i></p> <p>Level 2 Some understanding shown of the disadvantage(s) of using the payback method</p> <p>Level 1 One or two disadvantages identified/stated</p>	<p>[3-4]</p> <p>[1-2]</p>
1(f)	<p>Explain <u>two</u> consequences of quality control to a business.</p> <p><i>Quality control can mean that a company's products are of better quality, in greater demand/more competitive, profits may go up, waste levels fall and motivation may improve.</i></p> <p><i>It may also lead to higher costs of production in the short-run due to more labour required for inspection.</i></p> <p>Level 2 Some understanding shown of the consequences of quality control</p> <p>Level 1 One or two relevant consequences of quality control named</p>	<p>[3-4]</p> <p>[1-2]</p>
Section A Total		[18]

Section B		
Question Number	Answer	Marks
2(a)	<p>The average weekly sales for Fiction paperbacks is 25. Assume that at the beginning, stock levels are at their maximum. Complete the stock control diagram for five weeks, using the insert provided. Clearly show the reorder level.</p> <p>Maximum stock [1]</p> <p>Reorder level [1]</p> <p>Minimum stock [1]</p>	[4]
2(b)*	<p>Discuss Colm's options for improving stock control at LMB</p> <p><i>It is clear from the storage usage data in Appendix 1 that managing the number of books in stock is of prime importance. Given the problems we are told about over-full shelves and books on the floor it suggests that utilisation of space is at or very close to 100% in all four locations. This may have consequences in terms of the 'atmosphere' of the store. Cluttered shelves and potentially damaged books are not conducive to good customer service.</i></p> <p><i>First, Colm will need to recognise that each store has different selling patterns and characteristics. There are clear differences in the four stores apparent from the brief data available in Appendix 1. For example, the size of the relative stores. Paddington sells much more books than the other three, in fact nearly twice as much as the Victoria store, and so it may be wise to hold more books in stock at Paddington.</i></p> <p><i>There is also the relative importance of the fiction books at each of the stores. The Victoria store, although the smallest in terms of sales, is much more popular for fiction books, especially paperbacks than the other three stores. Whereas the Euston store is more geared up for non-fiction books. It may be dangerous to have such a low minimum stock level at Victoria and pointless having such a high maximum stock level at Euston.</i></p>	

Section B		
Question Number	Answer	Marks
2(b)* cont'd	<p><i>The Paddington store has a much higher turnover of stock than the other stores for fiction books, as shown by the percentage of 'old stock' found in the store. Colm clearly needs to investigate why there is so much old stock of fiction books at the Waterloo store and find ways of dealing with it. This will create much more space on the shelves.</i></p> <p><i>Given the fact that we are told that the lead time on most books is only 3 days it does appear that the current maximum stock levels are a little too high. The assumed lead time in Appendix 1 of one week does seem rather excessive given Jack's earlier statement. By reducing the assumed lead time, as well as maximum and minimum stock levels, the reorder level could be reduced which would reduce pressure on space from over-stocking of most fiction titles. Also, as the four stores are relatively close together, it could be argued that not as many stocks of each book need to be kept at every location. It would be very easy to move some books from store with more stock to one with less stock if stock levels get too low in a particular store.</i></p>	
	<p>Level 4</p> <p>Some evaluation shown by supporting any judgement made about changes that may be suitable particularly for LMB</p> <p>Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p>	[12-16]
	<p>Level 3</p> <p>Some analysis of possible changes that could be made to improve stock control at LMB, with specific reference to the context</p> <p>Relatively straight forward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.</p>	[7-11]
	<p>Level 2</p> <p>Some understanding shown of the problems currently facing LMB with regards to stock without any attempt to make relevant suggestions for change. Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.</p>	[3-6]
	<p>Level 1</p> <p>Some knowledge of stock control or stock issues in general</p> <p>Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may also lack legibility.</p>	[1-2]

Section B		
Question Number	Answer	Marks
3*	<p>Recommend the changes that should be made to the organisational structure of LMB in order to improve performance.</p> <p><i>LMB has grown steadily and now has 33 employees and four sites. However, it would appear that very little about the organisational structure has changed during this time. It is still very flat and has very little in the way of management. The fact that the two managers and the four stores are all at the same level does suggest that Jack is trying to manage all of them at the same time, giving him in essence a rather large span of control.</i></p> <p><i>It would appear that Jack is still trying to do everything himself and because of his wish to be 'hands-on' is trying to do too much. We are told that his staff are keen to work in a successful business, however, they will expect the management structure to keep pace with this change.</i></p> <p><i>Other than Jack, Colm and the recently appointed Nana, there appear to be no other managers. In any other similar retail organisation you would expect a more hierarchical structure with each store have a Store Manager with maybe even a deputy. This would provide a structure so that each store had someone constantly directing, controlling, planning and motivating the other sales assistants in the store. This would also provide a motivational force for the best person in each store to be rewarded both in terms of responsibility and, one would expect, salary. This would be another cost to the business, but any benefits may exceed these costs very quickly.</i></p> <p><i>These store managers would have autonomy to make day-to-day decisions, including employment decisions and sales promotions. It may be possible to then have regular meetings between the store managers and the senior managers- a sort of board meeting. This would be a good way of addressing business-wide issues that it appears Jack is trying to deal with on his own at the moment. This may at first be opposed by Jack, because of his desire to be hands-on. However, it will free up some of his time which he can then spend more informally and formally visiting each of the four stores to fulfil his wish to speak to every employee at least once a month.</i></p> <p><i>It may be that the recent examples of poor communication given in the context were as a direct result of Jack trying to 'spread himself too thin' around the business. He will be more able then to look after long-term strategy and other major issues that appear from time to time.</i></p> <p><i>It may also be an idea for LMB to employ a specialist Marketing manager. This would also free up Jack from another non-specialist area that he currently looks after. It may also allow a better company-wide marketing policy.</i></p>	

Section B		
Question Number	Answer	Marks
3* cont'd	<i>Consideration needs to be made of the relative advantages and disadvantages of any suggestions made with specific reference to the context facing LMB. Any answers that are clearly strategic should be awarded at Level 4.</i>	
	<p>Level 4</p> <p>Some evaluation shown by assessing the appropriateness of changes that LMB could make and why they may or may not work in this specific context</p> <p>Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p>	[12-16]
	<p>Level 3</p> <p>Some analysis of change(s) that LMB could make with specific reference to the context available</p> <p>Relatively straight forward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.</p>	[7-11]
	<p>Level 2</p> <p>Some understanding shown of how organisational structure may be changed and/or weaknesses in the current arrangement at LMB</p> <p>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.</p>	[3-6]
	<p>Level 1</p> <p>Some knowledge of organisational structure</p> <p>Some simple ideas have been expressed. There will be some error of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may also lack legibility.</p>	[1-2]

Section B		
Question Number	Answer	Marks
4*	<p>Discuss possible reasons for the differences between the budgeted and actual performance of LMB shown in Table 1</p> <p><i>Possible reasons include:</i></p> <ul style="list-style-type: none"> • <i>Turnover may be difficult to predict given the seasonal nature of the product. Even though the bookshops have been open for many years it may not always be possible to use previous yearly sales figures as a guide. In particular, the increased presence of the internet and the supermarkets may mean sales revenue is unpredictable.</i> • <i>The fact that Jack has been carrying out the finance function, without too much actual experience (although he did work in the 'city'), may be a factor. His budgeting may have been inaccurate, based on incorrect assumptions and lacking in rigour. Nana is certainly very critical of the nature of the budgets and the methods used.</i> • <i>The poor communications levels and weak organisation highlighted in the case study will mean that actual performance may be well below the most efficient levels. As this problem is said to be getting worse then that may be a factor for the large discrepancies between budget and actual figures.</i> • <i>Six months is a long time to have a budget for. It may be easier to budget on a quarterly or monthly basis, especially now they have Nana in control of this.</i> • <i>Clearly, the main problems appear to lie with turnover, books' costs and marketing expenditure. The first half of the year is worse for turnover- actual turnover is 69% of budget compared to an improved 87% in the second half. Did something internal or external have a specific impact in the first half of 2005?</i> • <i>Although the actual books' costs are below the budgeted figure this is not really a plus. The actual cost figure is 75% of budget, compared to a 69% actual v. budget for turnover. In relative terms, the cost of books have exceeded budget. This is even worse in the second half of the year where books' costs are 110% of forecast, compared to turnover that is 87% of forecast. It would appear that the cost of the books from publishers/wholesalers has increased. Is this as a result of LMB's weak buying power compared to the supermarkets and Amazon?</i> • <i>Although the marketing expenses are relatively small the actual v. budget differential accounts for 12% of the 'lost' profit in the first half of the year and 10% in the second half. Therefore, even these small figures are relatively important.</i> <p><i>Candidates need to show which of these or other factors are likely to be the most plausible/significant reason for the observed differences.</i></p> <p><i>NB: No reference to variance is required at any level of response.</i></p>	

Section B		
Question Number	Answer	Marks
4* cont'd	<p>Level 4 Some evaluation shown of the most likely explanation(s) for LMB's failure to achieve budgeted figures Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar</p>	[12-16]
	<p>Level 3 Some analysis of <u>reasons specific to LMB</u> why they have not achieved the budgeted figures Relatively straight forward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning</p>	[7-11]
	<p>Level 2 Some understanding shown of general reasons why LMB might have failed to reach their budgeted figures Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive</p>	[3-6]
	<p>Level 1 Some knowledge of issues related to budgets and/or budgeting Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may also lack legibility</p>	[1-2]
5*	<p>Evaluate suitable promotional methods that LMB could use to increase sales</p> <p><i>We are told that LMB has nobody with particular responsibility for marketing other than Jack and it appears that very little is done, with most emphasis being on word-of-mouth. This may well have been successful in establishing LMB and its 'cult-like following among London's middle class literary fans'. This is a relatively small market segment and so word-of-mouth works. It is however, quite a slow method which partly explains LMB's slow growth over the last 25 years.</i></p> <p><i>Maybe it is now time for radical change. It could be argued that with the appointment of a specialised Finance Manager it is now also the right time to formalise the marketing side of the business and appoint someone with specific marketing skills and the remit to focus on this important core function of any business. It is surprising to find that LMB has no business-wide marketing. This is very uneconomic and means that each store could be doing their own thing or the same</i></p>	

Section B		
Question Number	Answer	Marks
5* cont'd	<p><i>thing without gaining from economies of scale, such as bulk-buying of adverts or flyers. It could also mean that the four stores end up with conflicting messages.</i></p> <p><i>It may be argued that the additional cost of a specialist marketing manager would be problematic at the moment with Nina's recent appointment and her apparent concern for the future. However, the benefits need to be weighed up against the costs.</i></p> <p><i>Maybe it is also time to questions Jack's avoidance of 'special offers'. As more and more of LMB's competitors take part in this activity it will seem more and more unusual that LMB still sell all books at recommended prices. Even with a loyal customer base, it is difficult to maintain sales when all competitors are offering discounts, especially as the industry is becoming more and more dominated by bigger firms, e.g. Tesco, Amazon, Waterstones/Ottaker merger. Maybe LMB need to consider loyalty schemes (e.g. a £5 token for every fifth book bought), improved point of sale displays or more high profile events such as the author signings mentioned in the context or a discussion/talk with authors.</i></p> <p><i>Given the size of LMB candidates may use suggestions appropriate to niche marketing.</i></p> <p><i>If LMB can no longer compete 'on price' then they must look at other promotional methods. This could include advertising. This should be appropriate to a company the size of LMB and with its target market. Maybe an advert in 'Metro' or other local newspapers? What about local radio, or is this out of LMB's price range? Posters and handouts in and around the railway stations that LMB are located would see a large number of potential new customers.</i></p> <p>Ultimately, any suggestions should be appropriate for LMB, a relatively small business, with limited finance and at the moment a limited target market.</p> <p>Level 4 Some evaluation shown by concentrating on the extent to which promotional methods may work for LMB Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar</p>	[15-20]

Section B		
Question Number	Answer	Marks
5* cont'd	<p>Level 3 Some analysis of promotional methods with specific reference to the context of LMB Relatively straight forward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning</p>	[9-14]
	<p>Level 2 Some understanding shown of how methods of promotion may be put into place Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive</p>	[4-8]
	<p>Level 1 Some knowledge of methods of promotion Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may also lack legibility</p>	[1-3]
Section B Total		[72]
Paper Total		[90]

Assessment Objectives Grid (includes QWC)

Question	AO1	AO2	AO3	AO4	Total
1(a)	2				2
(b)	2				2
(c)	2				2
(d)	2	2			4
(e)	2	2			4
(f)	2	2			4
2(a)	2	1	1		4
(b)*	2	4	5	5	16
3*	2	4	5	5	16
4*	2	4	5	5	16
5*	3	5	6	6	20
Totals	23	24	22	21	90