

Paper 2 - Mark Scheme

Clear Plastic Solutions

Q		Total	Content	Application	Analysis	Evaluation
a	Complete the missing data in the 2010 budget statement and state one benefit of using budgeting at CPS	5	3	2	0	0
b	Analyse the benefits of CPS's emphasis on employee training	8	2	2	4	0
c	Evaluate the importance of achieving high manufacturing quality to the competitiveness of CPS	12	3	2	3	4
d	Discuss the main marketing issues that CPS will face if it decides to invest in new product development	15	3	3	4	5
		40	11	9	11	9

Moonpig

Q		Total	Content	Application	Analysis	Evaluation
a	Explain two reasons Moonpig needed additional finance as it grew	6	3	3	0	0
b	Analyse two important operational benefits that Moonpig enjoys by trading as an online business rather than as a retail operation	8	2	2	4	0
c	To what extent is it inevitable that the methods of promotion used by Moonpig will change as the business grows?	12	2	2	4	4
d	Nick Jenkins decided to recruit managers with specialist skills. To what extent do you believe that this was a sensible decision?	14	3	3	4	4
		40	10	10	12	8

Total marks

Q		Total	Content	Application	Analysis	Evaluation
1	Clear Plastic Solutions	40	11	9	11	9
2	Moonpig	40	10	10	12	8
Tot		80	21	19	23	17

Outline Answers

Clear Plastic Solutions

a	Complete the missing data in the 2010 budget statement and state one benefit of using budgeting at CPS	<table border="1"> <thead> <tr> <th><i>All data in £'m</i></th> <th>Budget</th> <th>Actual</th> <th>Variance</th> <th>F or A</th> </tr> </thead> <tbody> <tr> <td>Sales</td> <td>25,000</td> <td>24,000</td> <td>-1,000</td> <td>A</td> </tr> <tr> <td>Raw materials</td> <td>13,000</td> <td>11,500</td> <td>-1,500</td> <td>F</td> </tr> <tr> <td>Production overheads</td> <td>5,500</td> <td>5,700</td> <td>200</td> <td>A</td> </tr> <tr> <td>Marketing</td> <td>1,600</td> <td>2,100</td> <td>500</td> <td>A</td> </tr> <tr> <td>Other overheads</td> <td>2,900</td> <td>3,300</td> <td>400</td> <td>A</td> </tr> <tr> <td>Net profit</td> <td>2,000</td> <td>1,400</td> <td>-600</td> <td>A</td> </tr> </tbody> </table>	<i>All data in £'m</i>	Budget	Actual	Variance	F or A	Sales	25,000	24,000	-1,000	A	Raw materials	13,000	11,500	-1,500	F	Production overheads	5,500	5,700	200	A	Marketing	1,600	2,100	500	A	Other overheads	2,900	3,300	400	A	Net profit	2,000	1,400	-600	A
<i>All data in £'m</i>	Budget	Actual	Variance	F or A																																	
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b	Analyse the benefits of CPS's emphasis on employee training	<p>Positives from investment in training:</p> <ul style="list-style-type: none"> - High quality – the most important benefit; essential given the specialised nature of manufacturing and the demanding requirements of customers - Business develops skills that enable it to add value during production process; long-term route to higher net profit margin - Greater staff motivation – potential for job enrichment, job rotation <p>Worth the cost?</p> <ul style="list-style-type: none"> - On-the-job training may disrupt production - Apprentice scheme is costly + risk of losing trained apprentices before they add substantial value to production 																																			
c	Evaluate the importance of achieving high manufacturing quality to the competitiveness of CPS	<p>Define competitiveness</p> <ul style="list-style-type: none"> - Meeting the needs of customers - Adding value - Providing a better service or product than the competition - Whilst still making a profit <p>The case for quality:</p> <ul style="list-style-type: none"> - Blue-chip customers (Nokia) with demanding quality standards - Precision manufacturing is a USP of CPS (one of the few in the world who can produce to the required specifications) - In theory (though not borne out by net profit margin), CPS should be able to command a 																																			

		<p>premium price for the high quality plastic components it makes</p> <p>The case for other factors that impact competitiveness:</p> <ul style="list-style-type: none"> - Productivity is essential to competitiveness. CPS needs to ensure that it minimises unit costs - Overheads look high for a business of this kind, suggesting that the business may be over-manned - Danger that over-reliance on small number of customers will mean CPS does not develop the broader product range needed to earn required returns
d	Discuss the main marketing issues that CPS will face if it decides to invest in new product development	<p>New products? Need to make some assumptions</p> <ul style="list-style-type: none"> - Likely to be making other kinds of plastic components; probably clear plastic too - Still plastic injection moulding – so production process is understood - Likely to be selling to other manufacturers <p>Which ever market CPS targets, various marketing issues will arise:</p> <ul style="list-style-type: none"> - Existing competitors (can CPS break into a market to gain share?) - Pricing – hard to get right in a new market; needs to be high enough to generate profits, but low enough to attract new customers - Place – do new markets have different distribution channels – e.g. specialist distributors? - Promotion – B2B promotion typically requires experienced & trained sales force; will take time to develop this capability - Impact on existing business – does new product development create any conflicts of interest? <p>Other issues</p> <ul style="list-style-type: none"> - Does CPS have manufacturing capacity to meet new product demand? - Implications for people (training) & finance (e.g. cash flow for production tooling [line 18-19])

Moonpig

a	Explain two reasons Moonpig needed additional finance as it grew	<p>Substantial investment in printing machinery and computer systems</p> <p>Promotional campaigns to build customer awareness and transactions</p>
b	Analyse two important operational benefits that Moonpig enjoys by trading as an online business rather than as a retail operation	<p>Direct distribution:</p> <ul style="list-style-type: none"> - Selling direct to consumers rather than via intermediaries - Better able to understand customer needs/wants and respond to changing customer

		<p>requirements</p> <ul style="list-style-type: none"> - Keeps more of the profit margin in the business (rather than given away margin to other parts of the distribution channel) <p>Impact of technology (key benefit on both operations <u>and</u> marketing)</p> <ul style="list-style-type: none"> - Personalisation is a USP of Moonpig – significant competitive advantage over competition - Product is defined by the consumer - Production only takes place when the customer orders - Rapid production turnaround
c	To what extent is it inevitable that the methods of promotion used by Moonpig will change as the business grows?	<p>Moonpig initially targeting a niche segment – personalised greetings cards, designed and sold online</p> <p>Limited finance at the start-up or early growth stage would have meant that promotion needed to be focused on most cost-effective methods of promotion (e.g. pay-per-click advertising + public relations) and those that generated strong word-of-mouth recommendation</p> <p>Once customer base starts to build, promotional mix can begin to exploit opportunities for:</p> <ol style="list-style-type: none"> (1) Repeat business (role for email marketing) (2) Sales promotional offers (product suggestions based on previous orders with Moonpig) <p>Relatively easy to achieve sales growth from a small base or start-up; but growth becomes harder once business is better established and known</p> <p>TV advertising – a major step-up in terms of customer reach + cost; only really possible once the business is capable of handling much larger volumes of orders (capacity) and with the finance available</p> <p>Is it inevitable that methods of promotion change?</p> <p>Not necessarily. Moonpig might have found that the initial methods were successful and could be replicated for a long time</p>
d	Nick Jenkins decided to recruit managers with specialist skills. To what extent do you believe that this was a sensible decision?	<p>Why recruit managers?</p> <ul style="list-style-type: none"> - As business grows, impossible for the entrepreneur to maintain detailed hand-on role across the functional areas; workloads become too demanding and the entrepreneur becomes a bottleneck to growth - Provides a way of motivating and rewarding employees who can demonstrate leadership/managerial talent; greater responsibility - Strong signal of commitment to the business - Helps plan for business succession – easier to raise finance and ultimately sell the business if

		<p>a strong team is in place</p> <ul style="list-style-type: none">- Each functional area becomes sufficiently demanding to require dedicated management- Enables system of budgetary responsibility to be introduced- Business benefits from specialist skills <p>Arguments against?</p> <ul style="list-style-type: none">- Adds substantially to the overheads of the business = higher breakeven output- Additional layers in the hierarchy – may impact on effectiveness of communication- Leadership style of the entrepreneur may need to change
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