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# Business Management

1<sup>st</sup> Year Examination

**May 2011**

**Paper, Solutions & Examiner's Report**



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**Accounting Technicians Ireland**  
**1<sup>st</sup> Year Examination: Summer 2011**  
**Paper : BUSINESS MANAGEMENT**

Wednesday 18<sup>th</sup> May 2011 – 9.30 a.m. to 12.30 p.m.

**INSTRUCTIONS TO CANDIDATES**

**Answer FOUR questions in total. QUESTION 1 IN SECTION A IS COMPULSORY AND MUST BE ANSWERED. Answer ANY THREE questions in Section B. If more than the required number of questions is answered, then only that number, in the order filed, will be corrected.**

**Candidates should allocate their time carefully.**

**Answers should be illustrated with examples, where appropriate.**

**Question 1 begins on page 2 overleaf.**

**SECTION A****Answer QUESTION 1 (Compulsory) in this Section****QUESTION 1 (Compulsory)**

You are a marketing assistant with a large foreign supermarket chain of retail grocery stores. Your organisation has no presence in any part of Ireland. Your organisation is considering the possibility of moving into the Irish market. Your manager suggested that Porter's Five Forces model may be of assistance in analysing the structure of competition within the industry in Ireland. He has requested that you prepare a short note on the matter for him.

Prepare a short briefing note for your manager on the following matters:

- (a)** Describe each of the five forces identified by Porter for analysing the nature and intensity of competition in an industry.

**10 Marks**

- (b)** Explain how Porter's Five Forces model may be used to analyse the structure of competition among large supermarket chains of retail grocery stores in Ireland.

**10 Marks**

- (c)** Outline two ways in which information technology may be used as a marketing tool in this sector.

**5 Marks**

**Total 25 Marks**

**SECTION B**

**Answer any THREE of the six questions in this Section**

**QUESTION 2**

“Leadership is the process of motivating other people to act in particular ways in order to achieve specific goals”

- (a)** Describe Maslow’s hierarchy of needs theory of motivation. **10 Marks**
- (b)** Explain the merits and the limitations of the model. Comment on its relevance for leadership in the present business climate. **10 Marks**
- (c)** Distinguish between trait theories of leadership and contingency theories of leadership. **5 Marks**

**Total 25 Marks**

**QUESTION 3**

**(a)** You are an assistant manager of a high end city centre restaurant. You are keen to ensure your restaurant provides a high quality service to your customers. At a recent conference you were introduced to the concept of services marketing. Following on from the conference you wish to prepare a briefing note on the concept in which you address the following:

**(i)** Explain what is meant by the extended marketing mix for services.

**10 Marks**

**(ii)** Explain three ways in which you would assess and monitor the quality of service provided by your restaurant.

**10 Marks**

**(b)** "Emotions" play a more important role in consumer buyer behaviour than business buyer behaviour. Do you agree? Give reasons in support of your answer.

**5 Marks**

**Total 25 Marks**

**QUESTION 4**

"To continue to operate effectively within turbulent business environments, organisations should be able to adapt to change".

**(a)** Identify four factors driving organisational change at present, giving reasons in support of each.

**10 Marks**

**(b)** Identify and describe four strategies in Kotter's model for overcoming resistance to change. Explain why each is important.

**10 Marks**

**(c)** Distinguish between "Legitimate Power" and "Expert Power" in the context of the management of organisations.

**5 Marks**

**Total 25 Marks**

**QUESTION 5**

**(a)** Explain what is meant by the term “Market Segmentation” and describe four key market segmentation variables, using examples where appropriate.

**10 Marks**

**(b)** For any two of the following products suggest two segmentation variables from (a) above that may be useful in focusing the market targeting strategies for these products, giving reasons in support of your selection.

1. Deodorants.
2. Prams.
3. Shoes.

**10 Marks**

**(c)** What is meant by the term “Branding” in a marketing context? Why is it important?

**5 Marks**

**Total 25 Marks**

**QUESTION 6**

**(a)** Briefly describe four steps in the Systems Development Life Cycle (SDLC).

**10 Marks**

**(b)** Explain clearly, giving examples in each case, how Physical controls and Access controls can be used to enhance the security of an Information System.

**10 Marks**

**(c)** Explain briefly how decision support systems may be used to assist managers in business organisations.

**5 Marks**

**Total 25 Marks**

**QUESTION 7**

**(a)** "Budgets fulfil a number of important functions in organisations but their use in practice is often problematic".

(i) Describe three major objectives of budgeting.

(ii) Outline two major problems with the use of budgets in practice.

**10 Marks**

**(b)** "Businesses always need funds to operate". Describe two major short term sources of finance available to businesses.

**10 Marks**

**(c)** "Ratios are useful in evaluating the financial performance and position of businesses". Describe one performance / profitability based ratio and one liquidity based ratio.

**5 Marks**

**Total 25 Marks**

# 1st Year Examination: May 2011

## Business Management

### Suggested Solutions

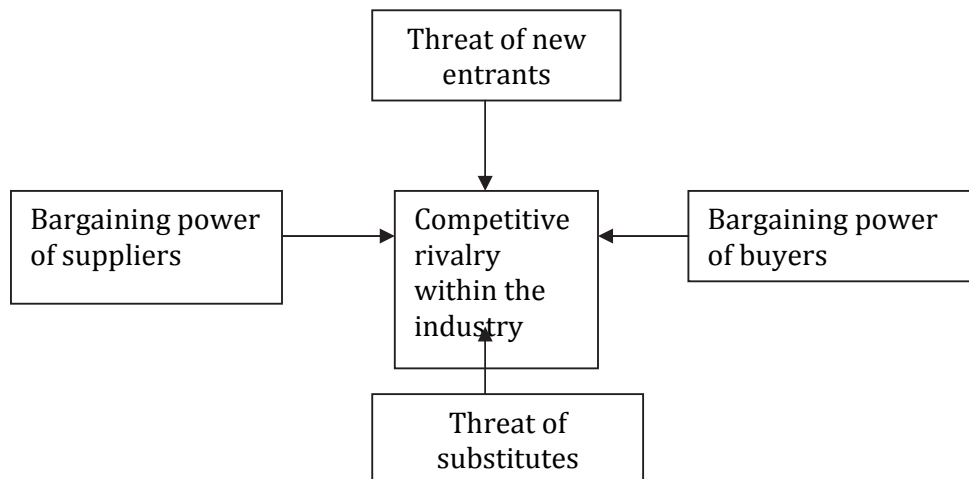
**Students please note:** These are suggested solutions only; alternative answers may also be deemed to be correct and will be marked on their own merits.

#### SOLUTIONS TO QUESTION 1 (COMPULSORY)

##### Part A

Porter identified five forces that assist organisations in analysing the intensity of competition, profitability and attractiveness of an industry.

An understanding of these forces increases a managers insight into the nature and dynamics of the market place thereby facilitating the development of appropriate business and marketing strategies. The five forces are:



##### Threat of new entrants

There a strong relationship between barriers to entry and competition within an industry. The less complicated it is to enter an industry, the more aggressive the competition will

be. Factors that can limit the threat of new entrants are known as barriers to entry. Some examples include:

- Existing loyalty to major brands
- Incentives for using a major brand
- High fixed costs
- Scarcity of resources
- High cost of switching brands / companies
- Government restrictions or legislation

### **Bargaining Power of Suppliers**

This reflects the pressure suppliers can place on a business entity. If one supplier is large enough to affect a company's margins and purchasing volumes, then that supplier is in a position to exert considerable power. The bargaining power of suppliers is likely to increase where:

- Few suppliers of a particular product exist
- No substitute products are available
- Switching to another competitive product is costly
- The product is very important to buyers
- The supplying industry has a higher profitability than the buying industry

### **Bargaining Power of Buyers**

This reflects the pressure customers can place on a business. If a customer is able to make a significant impact on a company's margins and sales volumes, then that customer is in a position to exert considerable power. The bargaining power of customers is likely to increase where:

- A small number of buyers exist
- Buyers purchase large volumes of the product
- Switching to another competing product is simple
- The product is not important to buyers; they can do without the product for a period of time
- Customers are price sensitive

### **Availability of substitutes**

If the cost of switching to competitive products is low, then brand switching or switching to substitutes could be a serious threat. The threat of substitutes is likely to increase where:

- substitutes are perceived to have the same benefits
- substitutes are similar and can be viewed in the same light as a new entrant
- if significant price differentials emerge between substitutes and if products are equally available and accessible

**Competitive rivalry**

This depicts the intensity of competition between existing firms within an industry. Companies that are highly competitive generally earn low returns because the cost of competition is high. A highly competitive market may result from:

- Players within an industry that are similar in size; there is no dominant firm
- Little differentiation between competitor's products and services
- A mature industry with very little growth; companies can only grow by encouraging customers to switch from competitors.

**Part B**

Candidates were expected to explain how the model may be used to analyse the structure of competition in the sector.

**Barriers to entry / Threat of new entrants**

The industry is dominated by a small number of very large players. There are few legislative restrictions to entry and brand loyalty is probably low at the present time. However, any new entrant would require considerable purchasing power to compete with the major players who currently dominate the market. (e.g. to achieve their economies of scale).

It is most unlikely new indigenous competitors will emerge from within the state, given the capital and promotional costs of establishing a presence nation-wide. Accordingly the threat of new entrants is mainly likely to come from overseas retail chains who already have well established low cost supplier networks. Obtaining planning permission may prove challenging for new stores in certain locations. The downturn in the economy would suggest however it is not an opportune time to enter the Irish market, although space in certain retail parks may be obtained at relatively competitive rates.

**Bargaining Power of buyers**

The market is characterized by a very large number of small customers. Customer loyalty is low and switching costs are minimal. The price demand relationship is highly price elastic. The advent of eCommerce has facilitated greater price transparency and responsiveness to special deals etc. further increasing the bargaining power of customers. With the onset of the recession customers have become more discerning, cost conscious and are more likely to shop around before buying. This has greatly increased their buying power as evidenced by (i) the significant increase in the market share secured by low cost supermarkets and (ii) the downward pressure on the prices charged by established mainstream chains.

**Bargaining Power of suppliers**

The sector is characterised by an imbalance in the power relationship between the major retail chains and their suppliers with the possible exception of the relationship with the landlords, although this is changing as well. The dominance of the big players and their sheer purchasing power places many suppliers in an unenviably weak bargaining power position. Many of these stores are in a position to draw on suppliers from overseas if local suppliers fail to meet their requirements.

The bargaining power of suppliers has weakened in the recession as supermarkets strive to achieve further cost reductions. A new supermarket would have to build up relations with local suppliers, particularly for fresh produce. This may prove challenging as some existing local suppliers may be locked into contracts with existing supermarket chains. Increasingly supermarket chains are developing their own branded products, putting further pressure on local suppliers.

**Threat of substitutes**

While product offerings will always be updated and improved, it is unlikely that the "large supermarket" chain is going to be replaced in the near future. While new "Express" stores are becoming popular, these are in most instances subunits of the large stores themselves.

A large proportion of product offerings are perishable foodstuffs and bulky household items etc. which need to be purchased regularly. Unlike books and clothing items they do not lend themselves to international eTrading.

The challenge presented by low cost chains to the established stores is stabilising. It is unlikely in the present climate that many new supermarket chains will enter the market.

As large supermarket stores expand their range of product offerings it is possible they will meet increasing competition for selected items from the likes of eBay etc. (e.g. clothing items, accessories etc.).

**Competitive rivalry**

Competitive rivalry is intense between the major players in the Irish market at present. The no frills marketing strategy of low cost providers such as Lidl and Aldi have contributed to significant reductions in prices. Every effort is being made by all major chains to reduce their transaction and operating costs. The intensity of competition is likely to deepen with the continuation of the global recession.

Customers have also become more discerning, price sensitive and show less brand loyalty. With quality levels largely undifferentiated between stores and brands, price competition has intensified. Today's customers are prepared to travel from store to store for special offers. Further with price comparison websites, localised eShopping business activity, aggressive price advertising and low switching costs, rivalry continues to take on new forms and levels of intensity.

**Part C**

IT may be used as a marketing tool to gain competitive advantage in a number of ways:

- eMarketing – The internet, social networking sites and e-mail systems may be used to target specific consumers with special offers etc.
- Loyalty cards and data mining techniques may be used to study consumer buying behaviour patterns with a view to devising sharply focused marketing strategies
- The internet combined with home deliveries is being developed to reach out to different categories of customers (e.g. older people and busy professionals etc.).

## SOLUTIONS TO QUESTION 2

### Part A

Maslow's Need Hierarchy theory states that human motivation is dependent on the desire to satisfy various levels of needs and that the type of behaviour results from the nature of the particular need to be fulfilled at a given time. According to Maslow, five basic needs exist in a hierarchy from lower level deficiency needs to higher growth level needs. The five basic needs are;

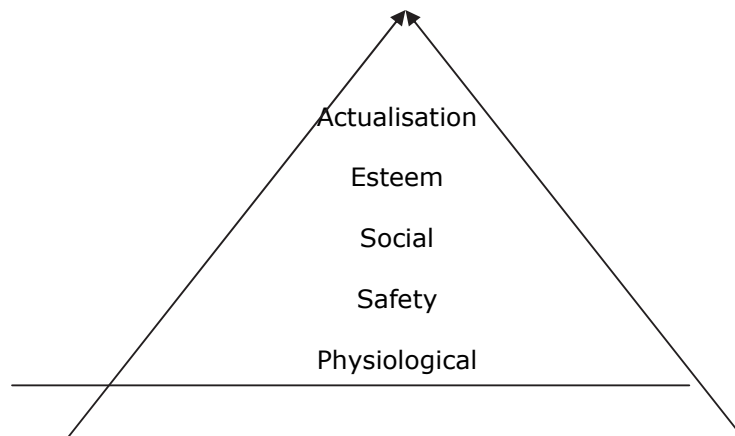
**Physiological needs:** These needs relate to the basic survival needs which allow for continued existence, such as food, water and adequate shelter.

**Safety needs:** These needs relate to physical and psychological safety from external threats to our well being, such as the need for security and protection. These needs take effect when physiological needs have been met.

**Social needs:** This level of need relates to the need for company and companionship, and for a sense of personal belonging. These needs for personal contact and interaction with other people are triggered once physiological and safety needs have been met.

**Esteem needs:** This is the first level of growth needs, which relates to the need for a sense of self-esteem and a feeling of personal self-worth. They become salient once the first three levels of deficiency needs have been satisfied.

**Self-actualisation needs:** The final level in the hierarchy refers to the need for personal growth, and the development of one's full potential and capabilities. This need level is different from others in that such needs can rarely be fully satisfied or fulfilled. The more they are satisfied the stronger the needs become.



**Part B**

Maslow's theory is a general theory not specifically designed for organizations. However it has relevance to understanding people's motives within organizational settings.

The theory is universalistic in nature. It assumes that people move from one level to the next. However in reality people may have a number of unfulfilled needs at a number of levels concurrently.

The theory does not reflect how the motivational process is played out. Different people may construct or perceive their needs differently. It does not reflect how expectancy and equity interact with people's needs and it makes no mention of the impact of people's perceptions of power differentials.

In summary the model has the following merits and limitations

Benefits of the model	Limitations of the model
<ul style="list-style-type: none"> <li>• Allows managers to identify the motivations of employees</li> <li>• Allows for the classification of biogenic versus hedonic needs – i.e. separates physical and emotional needs</li> <li>• Allows the self actualization concept to be applied in workplace scenarios through career and personal placement</li> </ul>	<ul style="list-style-type: none"> <li>• The model is quite simplistic and generalized</li> <li>• The model looks at basic needs but does not consider in great depth how other facets of human experience evolve (i.e. aesthetics)</li> <li>• Model makes no direct reference to cultural issues</li> <li>• Model is overly sequentialised (i.e. one must satisfy one level before progressing to the next).</li> </ul>

Notwithstanding its limitations the model has wide application and most people can identify with its suppositions. It is valuable to managers in that it helps them to gain a deeper understanding of the variables at motivational play with different people in their organizations.

It is likely to have greater relevance in the present climate where the recession has resulted in significant falls in people's income and wealth. As a result basic physiological and safety needs are now likely to have greater prominence in people's lives as they struggle to cope with the impact of the recession.

**Part C**

Trait theory is one way to describe who leaders are. Trait theory suggests that effective leaders possess a similar set of traits or characteristics. Traits are relatively stable characteristics, such as abilities, psychological motives, or consistent patterns of behaviour. Trait theory is also known as the 'great person' theory because early versions of the theory stated that leaders were born not made.

For some time it was thought that trait theory was wrong and that there are no consistent trait differences between leaders and non leaders, or between effective and ineffective leaders. However, more recent evidence shows that 'successful leaders are not like other people, that successful leaders are indeed different from the rest of us.

More specifically leaders are different from non leaders in the following traits; drive, the desire to lead, honesty / integrity, self-confidence, emotional stability, cognitive ability, and knowledge of the business. There is much debate as to whether traits are biologically inherent in some people or whether people develop them over time and situations.

Traits alone however, aren't enough for successful leadership. Leaders who possess these desirable traits (or many of them) must also behave in ways that encourage people to achieve group or organizational goals. Two key leadership behaviours are (i) initiating structure, which improves subordinate performance, and (ii) consideration, which improves subordinate satisfaction. There is no 'best' combination of these behaviors. Contingency theorists argue that the 'best' leadership style depends on the situation.

For example, Fiedler assumes that leaders will be more effective when their leadership styles are matched to the proper situation. More specifically, Fiedler defined situation favourableness as the degree to which a particular situation either permits or denies the leader the chance to influence the behaviour of group members. In highly favourable situations, leaders find that their actions influence followers, but in highly unfavourable situations leaders have little or no success influencing the people they are trying to lead.

In general, the relationship-orientated leaders, are better leaders under moderately favourable conditions, while task-orientated leaders are better leaders in highly favourable and highly unfavourable situations.

Traits alone are not enough for successful leadership but people who have the appropriate traits must strive to ensure they use them productively in encouraging people to strive to achieve overall organizational goals.

### **SOLUTIONS TO QUESTION 3**

#### **Part A (i)**

Services are intangible: Unlike physical products they cannot be seen, tasted, felt, heard or touched before they are bought. Services are difficult to describe, to demonstrate to the buying public, and to illustrate in communications and promotional material. An organisation's reputation and that of its sales people are more essential to service marketing than to goods marketing

Most organisations' define Consumer Benefits Packages within the parameters of the 4P's, of price, product, place and promotion. The Services Revolution has added a further three more elements to the marketing mix, namely, participants, physical evidence and process.

#### **Participants**

This refers to the people who actually deliver the service at the point of customer contact. In essence, the other 6P's only play a support role to participants in a service environment. Whether it be on a one-to-one basis, over the phone, or via the Internet, the professionalism, politeness and credibility of these participants is critical. Participants in general require training in personal selling, human interaction skills and customer problem resolution.

**Physical Evidence**

This relates to how facilities are designed and managed. Take for example, a cinema, a supermarket or a restaurant. The design of the interior and the exterior of these establishments are critical in the eyes of the consumer, as is the appearance and hygiene of the employees, the parking facilities etc.

**Process**

This refers to the efficiency and effectiveness of the service process involved in delivering the product / service mix. Most successful service providers develop detailed standards of performance for the facility, the process, the equipment and the jobs that deliver the consumer benefits package.

**Part A (ii)**

Many factors influence the experience of a service. To reduce uncertainty buyers will look for signs or evidence of service quality. They will draw inferences about quality from matters such as place, equipment, communication material, symbols and the prices they see.

In a top end city centre restaurant these perceptions and judgements are likely to be even more discerning. Buyer provider interaction is a special feature of services marketing. Services cannot be separated from their providers. Customers participate in and affect the transaction. It is a once off experience. The impressions created cannot be inspected like the products at the end of an assembly line.

The quality of the food is likely to be of utmost importance as indeed is the ambience and atmosphere that is created. The depth and breath of the menu, the efficiency of service and friendliness of staff and the perceived value for money (for the sums involved in this case) are likely to be highly influential. The little touches that give a distinctive feel are also vital.

The quality of service in a high end restaurant may be assessed and monitored in a number of ways:

- by direct supervision – high presence of managers in monitoring service
- testing the quality of food – taking samples from various dishes on a regular basis
- reviewing customers satisfaction levels – this may be done by direct discussion as service is being provided or by follow up discussions, phone calls or surveys
- by using expert panels (or mystery diners) - who observe the experience and report back to management
- by monitoring complaints – close attention should be given to ensuring the underlying reasons for verbal and written complaints are addressed
- by registering with relevant external quality mark agencies and seeking to improve the rating they award to your restaurant.

**Part B**

Whilst emotions play an important part in both forms of buyer behaviour they have a much more prominent and influential impact on consumer buyer behaviour for a number of reasons.

- consumers are more susceptible to the influence of emotions because the decision is a personal matter unlike industrial purchases which are made for business and return on investment (ROI) purposes.
- consumers are more engaged with the decision – it has personal consequences for their friends and family and indeed themselves.
- the consumer purchase decision is likely to be more aesthetic than the business decisions – it is much more subjective, more a matter of taste and could indeed form part of the individuals personal identity
- marketers are very aware of the impulsive nature of many of their consumers and structure their advertising campaigns to infuse their products with images that connect with peoples emotions in some way (e.g. Daz whiteness, Actimel etc).

**SOLUTIONS TO QUESTION 4****Part A**

There are many reasons driving organizational change. Some are more subtle than others and in many cases they are often hard to predict.

Changing economies	Changes in domestic and international markets can inhibit operations greatly. We just have to think of the impact of the property bubble, the credit crunch and oil prices on businesses here at present.
Changes in technology	Changes in innovative ways of doing jobs have a major impact on organizational processes and structures. Just think of the impact of the Internet on interactions with customers in banks and the move to shared services in large organizations.
Changing laws	Changes in Government laws and policies affect businesses in dramatic ways. e.g. European Union directives on workers rights, smoking ban, packaging, procurement etc.
Changing competition	Changes in competition occurs in a number of ways for example via globalisation – the increasing presence of large foreign retail chains in Ireland or through privatization of public services etc.

**Part B**

Resistance to change can take many forms; it may be active and overt, or passive and covert. There may be resistance to change from individuals or groups within the organisation. Individuals may feel their working habits are being disrupted or that they are not being adequately briefed, involved or compensated etc. Likewise sections of the organisation may feel their expertise or power is being undermined or their needs are being ignored and so on. Employees may resist change for a number of reasons ranging from self-interest, fear, group pressure to inertia.

Self interest – employees typically resist a change they believe will take away something of value to them. (e.g. economic issues, status or autonomy).

Fear – uncertainty is one of the outcomes of change. This can lead to a fear of failure associated with learning new ways.

Group pressure – pressure to resist change may come from peers. It may take on a collective dimension when people share a common sense of unease or fate or sense of collective injury.

Inertia – this captures the type of resistance associated with a reluctance to give up traditional ways of doing things. Individuals may feel their working habits are being disrupted or that they are not being adequately compensated etc.

A well managed change process should include a strategic picture of its aims, a coherent set of phases, the maximum involvement of those most closely affected, an emphasis on securing the commitment of everyone involved and perhaps a change in the behaviour of employees and in the culture of the organisation.

Kotter developed a framework which has been embraced by many as an accurate representation of the steps needed to effect major change within an organisation.

Deforst a hardened status quo / Creating a climate for change

1. Establish a sense of urgency
2. Create a guiding coalition
3. Getting the vision and strategy right
4. Communicate the change vision

Introduce new practices / Engaging and enabling the organisation

- 5 Empower a broad base of people to take action
- 6 Generate short term wins
- 7 Consolidate gains and produce ever more change

Ground the changes in the culture, and making them stick

- 8 Institutionalise new approaches in the corporate culture

The steps are not equally important according to Kotter, therefore a leader should not spend equal amounts of time, effort and resources on each.

The first stage is very important as people must understand that there is a problem that needs to be solved, or an opportunity that is important to seize. They should also be encouraged to see that the change will be beneficial to them. This involves creating a climate for change. This means increasing a sense of urgency / realisation of the need for change, a coalition to support it and vision to provide it with direction.

The second stage of the process reveals that it is a highly political process. Management must engage and enable employees and foster commitment to change.

The final stage is what Kotter describes as a process of leading, not managing change. Managerial approaches focuses on clearly defining objectives, making detailed plans, setting timetables, assigning responsibilities, and monitoring progress via supervision. In contrast, leadership approaches focus on energising other people to take action. It involves implementing and sustaining the change, making it stick.

From the foregoing it can be seen that there are many strategies that management may use to overcome resistance to change. It depends on the type of change that is being initiated and the timeline in which it is to be achieved.

**Part C**

Power may be described as the capacity or ability to influence a person. It comes from many sources. In many cases we endorse positions of power collectively – like through an election process.

**Legitimate Power**

In organizational terms legitimate power is based on the structure of the organization. It is taken to follow the organizational chart. (e.g. higher levels of management dictate to lower levels of management).

**Expert Power**

This is based on specialized knowledge of a subject area and is increased to the extent others need or depend on the knowledge of the individual. Examples here include personnel that have very specific technical competencies that most other staff do not possess.

**SOLUTIONS TO QUESTION 5****Part A**

Market segmentation involves analysing the total market into segments that share common properties, such as consumers stage-of-life needs, purchasing power, geographical spread, buyer behaviour, attitudes to environmental issues etc. The ultimate in terms of market segmentation is "customised marketing" where sellers design a separate product for individual buyers. However for smaller businesses it is not profitable to customise products at the individual level, so manufacturers identify classes of buyers who differ in their broad requirements or marketing responses. Typical segmentation variables include;

Age range – 18 to 30

Gender – male or female

Location – urban, rural, national or international

Family life cycle – single, married no children, married young children, etc.

Socio- economic status – professional, managerial, skilled workers, unskilled etc.

**Part B**

Market segmentation would be important to each of these markets. A number of possibilities exist. Indeed the markets could be analysed in multiple ways.

Deodorants

Segmentation variables such as age and gender would be important – young males and females would be offered different types of deodorant. Quite distinctive forms of marketing and advertising are likely to be applied to each social grouping.

Sporting lifestyle is also likely to be another important segmentation variable – with different types of campaigns being used when targeting certain categories of high intensity sports activities etc.

Prams

Segmentation variables here are most certainly likely to be gender and lifestyle based with young mothers being targeted in different ways. Certain types of magazines would be used for advertising the features of prams.

Socioeconomic status and disposable income would also be a feature in the design of the products and their advertising. (e.g. No frills offering versus deluxe models). Various features may be factored into the design to cater for peoples needs – three in one versions, ease of folding for transport purposes etc.

**Part C**

A brand is defined as a name, symbol or design that identifies the goods or services of one seller and distinguishes them from those of competitors. Think of the strength and importance to the firm of brand names such as Ballygowan, Heinz, Coke-Cola, Guinness and Microsoft.

It can be a letter, a word, a group of words or a symbol. (e.g. Nike). A product manager co-ordinates all the efforts for a particular product (or product line) or brand. An important part of the brand image of a product is the packaging that is utilised.

## Branding

- Makes goods easily identifiable and gives them a distinctive appearance
- If the quality of goods is maintained, it gives the consumer reassurance that they know what they are buying
- It facilitates advertising and promotion and new product development

## SOLUTIONS TO QUESTION 6

### Part A

Systems are generally developed following a 'life-cycle' known as the SDLC (Systems Development Life Cycle). The main stages of the lifecycle are:

1. Feasibility Study
2. Requirements Analysis (or systems analysis)
3. Systems Design
4. System Build
5. Implementation
6. Maintenance

#### Feasibility Study

A feasibility study is conducted to determine whether a project is fundamentally worthwhile. There are many areas to consider when assessing the feasibility of a project, these include its economic feasibility, its technical feasibility, and its organizational and operational feasibility. The feasibility analysis provides a high level snap shot of the potential costs and benefits of the proposed system and the technical / organisational feasibility of the project. If the results of the analysis are favourable an explicit decision is made to proceed.

#### Requirement Analysis

Requirements analysis involves assessing what is needed from the new system. This involves identifying the problems with the current system and identifying requirements to solve these problems. Several requirement gathering techniques are used here, including interviews, questionnaires, and direct observation.

#### Systems Design

Systems design results in a technical design of the system to be produced, including outputs, inputs, screen layouts and hardware requirements. It is generally broken down into a logical design (what the system will do) and a physical design (how the system is to do it).

#### System Build

Systems build involves programming the new system to the specifications produced at the design stage and then testing the completed system thoroughly. Best practice is to test during programming rather than waiting until everything is done, as errors are almost certainly going to occur. With large complex systems it is almost impossible to locate all the errors (known as 'bugs'), so very often the completed system will still have problems after it is released to the user. Hence the need for ongoing maintenance.

#### Implementation

Implementation involves extensive User-IT co-ordination as the transition is made from the predominantly technical, IT-driven task of construction to the user-driven management of the completed system. Whether the system is bought or made, the implementation phase is very much a joint effort. Extensive testing, which disrupts

normal business operations, must be performed; training is required, work procedures and communication patterns likewise are affected.

#### Maintenance

Maintenance refers to any upgrading or 'fixes' made to the system after it is up-and-running on-site. Maintenance is usually either corrective (i.e. fix a problem that was not spotted before), adaptive (i.e. add a feature or modify the system slightly to improve it), or perfective (i.e. make the system faster, or able to cope with more users).

This model is used to demonstrate the stages that need to be included to produce the system required. It should be noted that at each stage there are decision points to ensure that the outcomes of work produced from each stage are correct before moving forward to the next phase in the lifecycle. In reality there is some iteration, where some work in a previous stage maybe revisited to ensure it reflects and meets the actual requirements before moving onto the next stages.

### **Part B**

A control is a method or procedure aimed at ensuring that the company's assets are secure, including data and other such intangible assets.

#### Physical Controls

This category of control refers to any control that limits physical access to the system or physically monitors the system, such as:

- Security guards
- CCTV
- Keypads / swipe card to open doors
- Isolating computers from the network

#### Access Controls

These are any means of restricting access to authorized users only (and not only through physical means). The most common means are usernames and passwords; ID cards, and biometrics (e.g. fingerprints, facial recognition), although the latter is still expensive and not commonly used in business.

Good password practice requires a minimum password length (the longer the better) and regular changes. Also, passwords should not be easy to 'guess' or determine (i.e. don't use your dog's name, or something else anyone could easily find out).

Many companies apply strict password policies that force employees to use letters, numbers and other special characters (like \$ or &). Also some companies will require employees to change their passwords periodically. This can pose its own problems, and often leads to employees writing down their own passwords and increasing the risk that it will be discovered.

Firewalls are an access control used to prevent unauthorized users from accessing networks, usually through a combination of hardware and software. Any message entering your system would pass through the firewall, allowing it to be filtered (to check for possible threats). For example, some firewalls block / trap any email containing an attachment as these are often a means of spreading viruses.

**Part C**

## Decision Support Systems

Decision Support systems are complex systems used to help managers make non routine decisions. They generally consist of a 'model' designed from past experience. Users can then use expected data (e.g. projected sales for next year), to generate estimates for other factors (projected profits).

DSS use various types of analysis, like "What if" (i.e. change one element in the model and see what happens to the result), and "sensitivity" (i.e. make small changes to one element and see what happens to another element).

A spreadsheet model (such as you can create using MS Excel, for example) can be used as a simple but effective DSS system.

**SOLUTIONS TO QUESTION 7****Part A (i)**

A budget is a financial or quantitative plan of operations prepared, negotiated and approved prior to a defined period of time. Budgets fulfill a number of objectives:

**Planning:** Budgets allow managers to anticipate problems before they arise thus giving sufficient time to find a remedy for those problems

**Control:** through the use of regular feedback, actual results are compared to budget and attention is directed to possible problem areas

**Motivation:** Budgets if properly developed can provide incentives to employees and managers at all levels

**Performance Evaluation:** from a control and motivation perspective budgets provide an important yardstick against which to compare actual performance on a regular basis

**Communication and Co-ordination:** the final agreed budget provides an unequivocal record of expected performance by all units in the organization. In this way misunderstandings can be minimized.

**Part A (ii)**

Common problems with the use of Budgets in practice include the following:

- **Insufficient Detail:** It is vitally important that the budgeting system is detailed enough to suit the size and nature of the organisation
- **Lack of Realism:** If the budget is not prepared in a realistic manner, it can have a negative effect on the attitudes and performance of managers and staff
- **Building in Slack:** The problems of slack and padding can be difficult to eliminate. This occurs when managers overstate their expected expenses, so that having a larger than necessary budget, they will be unlikely to overspend their budget allowance
- **Short-term Focus:** Because the detailed budget focuses on the short term, there is a temptation to make decisions which will benefit the company in the short term but result in lost profits in the medium/ long term
- **Poor Estimation:** Budgets are often completed using estimates and opinions. There is therefore a degree of uncertainty involved e.g. rate of inflation, interest rates. Methods of dealing with these uncertainties must be employed particularly with the regard to the identification of the principal budget factor.

**PART B****Bank Borrowings**

Commercial banks extend short-term facilities mainly in the form of overdraft arrangements. Generally commercial banks reserve the right to cancel overdraft facilities at short notice. In practice it is probably not to the banks advantage to pursue this policy to the letter, as they might needlessly force the borrower into financial difficulties.

Utilising bank facilities in a proper manner will ensure the maintenance of a flexible and comparatively cheap source of finance. Bank borrowings are flexible in that interest is only payable on the amount outstanding and not on a fixed advanced sum as is the case with the borrowings from other financial institutions. Bank borrowings are also comparatively cheaper than long-term loans due to the fact that the risk involved is smaller given that the lending period is shorter.

The security required by banks differs depending on the risks involved. They might require personal guarantees in the case of a private company or, alternatively, floating or fixed charges on the assets of the company, or indeed, both.

Bank lending rates are normally set one to two percent above the bank rate. Bank lending rates can therefore fluctuate upwards or downwards during the period in which the monies are advanced. This can be an advantage or a disadvantage depending on the direction of the change when compared to other forms of advances made by financial institutions at fixed interest rates.

#### Trade Credit Taken

Those companies experiencing difficulties in acquiring bank-borrowing facilities will, if possible, take greater credit by delaying payments to the suppliers of their goods and services. However, this is not to say that companies can use this form of finance recklessly. There are certain costs involved. Normally companies supplying goods will offer a discount for prompt settlement of invoices, e.g. 1% if settlement is made within one month of the date of the invoice of the goods. 1% per month is equal to a cost of 13.7% p.a. In periods of low interest rates this form of finance is the most expensive. In times of low interest rates there is more incentive to settle accounts with creditors within the credit period allotted.

A company can only use this source of finance to a certain degree as misuse of credit facilities offered, in the long run, may result in suppliers refusing to supply the goods or services required. This can be a critical factor with companies that rely heavily on a limited number of suppliers.

### **Part C**

Gross margin – is the relationship of gross profit to sales. It calculated by

$\text{Gross Margin} / \text{Sales} * 100.$

It is a measure of the profitability earned on each €/£ of sales.

#### Acid test ratio

Compares the current assets with the current liabilities but it excludes stocks from current assets.

$\text{Current Assets less Stock} : \text{Current Liabilities}$

It reflects the company's capacity to pay its liabilities as they arise.

# 1st Year Examination: May 2011

## Business Management

### Examiner's Report

#### GENERAL COMMENT

The overall performance of candidates in this sitting was satisfactory.

	Summer 2011	Summer 2010	Summer 2009
Number of candidates	1,009	1,244	1,405
% Obtaining 50 or more	71%	60%	72%
Average marks	54	50	55.61

Question	1	2	3	4	5	6	7
No. Attempting	987	780	393	242	677	474	383
Marks available	25	25	25	25	25	25	25
Average marks	14.48	14.06	12.63	15.71	13.87	14.26	12.04

#### Question 1

- (a) The vast majority of candidates were comfortable identifying the components of Porters five forces model. A small number had clearly not studied the area and resorted to descriptions of the PESTLE model or the marketing mix. Most were able to illustrate the model graphically but some mislabeled the various components. Some candidates failed to provide full descriptions of the elements of the model, thinking instead that the mere identification of the label was a complete answer. A number of candidates descriptions suggested they did not fully understand how the forces impacted upon the nature, structure and intensity of competition. Overall however this part was well answered.
- (b) Most candidates were able to demonstrate how the model could be used to identify major influences on the structure of competition among large supermarket chains of retail stores in Ireland. It was important that candidates showed how the model may be used to identify these influences. Whilst drawing on personal experience is of assistance it is important that candidates address how issues impact the industry as a whole and the potential impact for the entity presented in the scenario. A number of candidates showed great confidence and skill in analyzing the structure and nature of the competition the entity is likely to face in this industry.
- (c) Answers to this part of the question were good.

**Question 2**

On average, 78% of candidates attempted this question

- (a) Answers to this part were of a high standard. Almost every candidate could correctly name and explain each of the levels and the essential point of progressively satisfying each higher level. The vast majority of answers were accompanied by correct diagrammatic representation of the levels
- (b) Once again a very high standard with very good descriptions of the merits and deficiencies of the theory. Many answers focussed well on its relevance in the current economic climate.
- (c) A sudden drop was encountered in the standard of answers to this part. The typical answer could identify the "great man" theory but some were grasping at theoretical straws after that point. (e.g. confused "contingency" with "contingency planning" etc.)

**Question 3**

- (a)(i) Generally well answered. Quite a few students gave long and detailed descriptions of the full marketing mix for all businesses, including services. A good number gave detailed answers on intangibility, inseparability, etc. but did not mention Participants, Process or Physical Evidence.
- (a)(ii) A wide variety of approaches were taken to this topic, some of which indicated a basic misunderstanding of the question.
- (b) Generally handled well, with some excellent, detailed answers, but a significant minority of candidates only described consumer behaviour.

**Question 4**

- (a) Most people did well in this part, with some giving good common-sense examples.
- (b) There was the usual confusion between Kotter's and Lewin's theory but only amongst a small minority. Generally this part was very well answered, with many excellent answers.
- (c) Good answers for the most part if a little brief.

**Question 5**

- (a) Most people did very well in this part with many demonstrating a good understanding of the concept.
- (b) It seemed difficult for students to deal with the "specifics" of the products chosen but the vast majority displayed an understanding of the general concept and gave good examples.

- (c) Almost all students answered this part well. In general, there was a high standard of answer and students seemed to have grasped the concept behind the question.

**Question 6**

- (a) Again, most people did very well in this part and gave very full answers.
- (b) This year students had a better knowledge of the difference between Access and Physical Controls. Most students passed this question and those that didn't failed to differentiate between the two types.
- (c) Students either knew DSS or not and most did well.

**Question 7**

- (a) The reasons for creating budgets were very well explained with a tiny minority confusing the issue with the national budget!. A lower standard of answer was provided to the second section on the problems typically encountered with budgeting in practice.
- (b) The standard rose again in this part with most students obtaining 50% of the marks for describing one source of short-term finance correctly. Dealing with the second source of finance proved a challenge with many imaginative but incorrect solutions proposed
- (c) As commented last year, answers to this part were disappointing.

**General**

There are still candidates who are not indicating on the front cover the questions they have attempted. A small number of candidates exam numbers were difficult to decipher. The examination number on the front cover is a critical piece of information.

Also some candidates incorrectly numbered their questions. (e.g. indicated they were answering Q3 but actually answering Q4). There is still a few chaotic answer books, with answers all over the place. (e.g. Q1(a) followed by Q4(c), Q6(a) then back to Q1(b) etc.).

A surprising number of students write on the wrong side of the answer sheet, although the issue has improved on the previous year. (e.g. the side reserved for numerical work only). Some write on both sides of the sheet.

Levels of handwriting and presentation improved overall but could still be better. Candidates should give attention to the use of headings, spacing and indenting. Candidates should also be careful not to slip into the use of "texting" notation and remember to provide full and complete answers as much as possible.