

# Markscheme

**May 2023**

**Business management**

**Higher level**

**Paper 2**

26 pages

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

### Assessment criteria for Section C

#### Criterion A: Knowledge and conceptual understanding

This criterion addresses the extent to which the candidate demonstrates knowledge and understanding of the given concepts and relevant business management content (theories, techniques or tools, depending on the requirements of the question).

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Superficial knowledge of the given concepts is demonstrated. Business management content is not selected or the content selected is irrelevant.
2	Satisfactory understanding of one or both of the given concepts is demonstrated. Some business management content selected is relevant. The relevant content is satisfactorily explained.
3	Good understanding of one or both of the given concepts is demonstrated. The business management content selected is relevant, though it may not be sufficient. The relevant content is generally well explained, though the explanation may lack some depth or breadth.
4	Good understanding of both of the given concepts is demonstrated. The business management content selected is relevant, sufficient and well explained.

#### Criterion B: Application

This criterion addresses the extent to which the candidate is able to apply the given concepts and the relevant business management content (theories, techniques or tools, depending on the requirements of the question) to his or her chosen real-world organization(s). **The real-world organization(s) must not be the organization featured in the prescribed case study for paper 1.**

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	The given concepts and/or any relevant business management content are connected to the real-world organization(s), but this connection is inappropriate or superficial.
2	The given concepts and/or relevant business management content are connected appropriately to the real-world organization(s), but this connection is not developed.
3	The given concepts and relevant business management content are generally well applied to explain the situation and issues of the real-world organization(s), though the explanation may lack some depth or breadth. Examples are provided.
4	The given concepts and relevant business management content are well applied to explain the situation and issues of the real-world organization(s). Examples are appropriate and illustrative.

**Criterion C: Reasoned arguments**

This criterion assesses the extent to which the candidate makes reasoned arguments. This includes making relevant and balanced arguments by, for example, exploring different practices, weighing up their strengths and weaknesses, comparing and contrasting them or considering their implications, depending on the requirements of the question. It also includes justifying the arguments by presenting reasonable evidence or other support for the claims made.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Statements are made but these are superficial.
2	Relevant arguments are made but these are mostly unjustified.
3	Relevant arguments are made and these are mostly justified.
4	Relevant, balanced arguments are made and these are well justified.

**Criterion D: Structure**

This criterion assesses the extent to which the candidate organizes his or her ideas with clarity, and presents a structured piece of writing comprised of:

- an introduction
- a body
- a conclusion
- fit-for-purpose paragraphs.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Two or fewer of the structural elements are present, and few ideas are clearly organized.
2	Three of the structural elements are present, or most ideas are clearly organized.
3	Three or four of the structural elements are present, and most ideas are clearly organized.
4	All of the structural elements are present, and ideas are clearly organized.

**Criterion E: Individuals and societies**

This criterion assesses the extent to which the candidate is able to give balanced consideration to the perspectives of a range of relevant stakeholders, including individuals and groups internal and external to the organization.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	One individual or group perspective is considered superficially or inappropriately.
2	One relevant individual or group perspective is considered appropriately, or two relevant individual or group perspectives are considered superficially or inappropriately.
3	At least two relevant individual or group perspectives are considered appropriately.
4	Balanced consideration is given to relevant individual and group perspectives.

**Section A**

1. (a) State **two** disadvantages of operating at high-capacity utilization. **[2]**

- Activity is **rushed**. Quality may be affected.
- Employees may be **overworked**; could also be demotivating if it is continued for long.
- High **stress** from the demanding tempo of operations leading to potential errors.
- New orders or **potential** new **customers** may have to be **turned away**; unable to meet an unexpected increase in demand because they are already working at full capacity.
- There is less time for quality control.
- **Resources** are **strained**.
- **Safety procedures** may be **compromised**.
- Less time for machinery maintenance leading to breakdowns.

Accept any other relevant disadvantage.

**N.B.** no description is required.

Award **[1]** for each appropriate disadvantage stated. Candidates are not expected to give full reasoning for each point above. Award a maximum of **[2]** for any two relevant disadvantages. Do not award **[2]** if the two points are just an elaboration of the same disadvantage.

(b) Calculate:

(i) JT's annual depreciation expense if it uses the straight-line method (*show all your working*); **[2]**

(Purchase price minus residual value)/useful life of asset in years  
 (£120 000 - £20 000)/4 = **£25 000**

Award **[1]** for the correct workings and **[1]** for the correct answer.

Deduct **[1]** if no £ sign (this can appear in the working and/or the final answer).

Allow benefit of the doubt (BOD) if candidate use a \$ sign.

(ii) the residual value of the new truck if JT uses the reducing/declining balance method and chooses a depreciation rate of 35% (*show all your working*). **[4]**

Year	Depreciation allowance	Net book value £
1 (2024)	£120 000 x 0.35 = £42 000	£78 000
2 (2025)	£78 000 x 0.35 = £27 300	£50 700
3 (2026)	£50 700 x 0.35 = £17 745	£32 955
4 (2027)	£32 955 x 0.35 = £11 534	£21 421

The residual value is £21 420.75 or **£21 421** (Allow rounding)

Candidates are expected to produce for each year a clear calculation of the end-of-year net book value. Award **[1]** for the correct net book value at the end of each year up to **[4]**. Candidates do not have to present in a table format (as above) to be awarded **[4]**.

**Candidates can be awarded marks even if the terms net book value or depreciation allowance are not explicitly written as long as the calculations are clear.** If a candidate writes the correct end-of-year net book values but does not show working, award a maximum of **[2]**.

If the candidate incorrectly calculates any one year, but carries forward to future year calculations, then deduct **[1]** for that year and allow candidate own figure rule (OFR) for future years.

Deduct **[1]** if no £ sign (unless already deducted in (b)(i)). Allow benefit of the doubt (BOD) if candidate uses a \$ sign.

In the alternative, candidates may choose to answer the question with the following formula:

$$\text{Depreciation rate} = 1 - \sqrt[n]{\text{residual value/cost of fixed assets}}$$

n = number of years.

Thus:

$$0.35 = 1 - \sqrt[4]{\text{residual value}/£120\,000}$$

$$\sqrt[4]{\text{residual value}/£120\,000} = 1 - 0.35$$

$$\sqrt[4]{\text{residual value}/£120\,000} = 0.65$$

$$\text{residual value}/120\,000 = (0.65)^4$$

$$\text{residual value} = 0.1785 \times £120\,000$$

$$\text{Residual Value} = £21\,420.75 = £21\,421 \text{ (same correct answer)}$$

Or the same formula, but presented in the following format:

$$\text{Residual value} = \text{Original value} \times (1 - \text{Depreciation rate})^n$$

n = number of years.

Thus:

$$\text{Residual value} = £120\,000 \times (1 - 0.35)^4$$

$$\text{Residual value} = £120\,000 \times (0.65)^4$$

$$\text{Residual value} = £120\,000 \times 0.1785$$

$$\text{Residual value} = £21\,420.75 = £21\,421 \text{ (same correct answer)}$$

*Award [1] for the correct answer and [3] for correct demonstration of working:*

*an additional [1] for writing  $0.35 = 1 - \sqrt[4]{\text{residual value}/£120\,000}$*

*or writing*

$$\text{Residual value} = £120\,000 \times (1 - 0.35)^4$$

*And an additional [1–2] for showing the remainder of the working. Deduct [1] if no £ sign (unless already deducted in (b)(i)). Allow benefit of the doubt (BOD) if candidate uses a \$ sign.*

- (c) Explain **one** reason why *JT* should use the reducing/reclining balance method. **[2]**

For both financial and non-financial reasons, *JT* should probably use the reducing balance method.

The **financial reason**: *JT* is anticipating higher sales revenue and profits in years 1 and 2. By using the reducing balance method of depreciation, in years 1 and 2, *JT* will have **higher depreciation expense** than if using the straight-line method. As a result, *JT*'s **pre-tax profits will be lower** (than if using the straight-line method), which **will also lower *JT*'s income tax expense in those years**.

The **non-financial reason**: **If *JT* does have higher trading activity in years 1 and 2, the truck will be used more in those first two years than in subsequent years**. Thus, depreciating the asset more in the early years means that the actual loss in value of the truck aligns better with how the asset is being depreciated on the books. It provides a more accurate measure of depreciation compared to the straight-line method, especially in the valuation of assets over the years.

*Award [1] mark for stating either the financial reason or the non-financial reason. Award an additional [1] for a clear and full explanation relating to *JG* on the reason provided.*

*For a purely theoretical answer with no reference to *JT* other than by name award [1].*

2. (a) State **two** features of a private limited company. **[2]**

Features of a **private limited** company include:

- **Sale of shares is restricted to those approved by existing shareholders.**
- No risk of hostile takeover.
- Shareholders have **limited liability**.
- **Less** paperwork, reporting responsibility, and compliance **costs than a publicly traded company.**
- Legal **continuity**.
- No legal obligation to release accounts to the public giving greater privacy.

Accept any other relevant feature.

Award **[1]** for each appropriate feature stated. Award a maximum of **[2]**.

**N.B.** do not accept features e.g. easier to raise finance - if no reference to comparison i.e. sole trader OR faster decisions compared to PLC.

(b) Using the information above, prepare a fully labelled cash-flow forecast for MSC for the first four months of 2024. **[6]**

	Jan.	Feb.	Mar.	April
<b>Inflows</b>				
Cash Sales revenue	\$35 000	\$35 000	\$35 000	\$35 000
Sale of used equipment			<b>\$8000</b>	
Total cash inflows	\$35 000	\$35 000	\$43 000	\$35 000
<b>Outflows</b>				
Heating and lighting	\$3000	\$3000	\$3000	\$3000
Salary	\$6000	\$6000	\$6000	<b>\$7000</b>
Packaging	\$2000	\$2000	\$2000	\$2000
Delivery charges	\$1750	\$1750	\$1750	\$1750
Purchases	\$20 000	\$20 000	\$20 000	\$20 000
Rent	<b>\$4500</b>			<b>\$4500</b>
Total cash outflows	\$37 250	\$32 750	\$32 750	\$38 250
Net cashflow	-\$2250	\$2250	\$10 250	-\$3250
Opening balance	\$14 000	\$11 750	\$14 000	\$24 250
Closing balance	\$11 750	\$14 000	\$24 250	\$21 000

**N.B.** Allow candidate own figure rule (OFR): if a candidate makes an error in one row and carries it through the remainder of the forecast, that is only one error. This provision includes both mathematical errors and conceptual errors (for example, salary as inflows, it is one error). **N.B.** in above example if candidate omits the increase in salary in April this is a second error and candidates should only lose **[1]** for that error. Allow rounding. Some candidates may place "opening balance" at the top of the cash-flow. If candidate includes assets sales as revenue (this is penalized) but the subsequent error in delivery charges is not a separate error as OFR applies.

Award [1] if the candidate has some idea of what a cash-flow forecast is and looks like.

Award [2] for a cash-flow forecast that has some problems in layout and wording and which has more than three errors/mistakes (apply OFR), which could include in addition to number placement problems and mathematical errors, or conceptual errors, or omissions, such as not having a line like "closing balance".

Award [3] for a largely correct cash-flow forecast that has some minor problems with layout, wording and calculations, which has three mistakes (apply OFR).

Award [4] for a largely correct cash-flow forecast that has some minor problems with layout and wording and which has up to two mistakes (apply OFR) or the candidate does not produce a mathematically correct cash flow.

Award [5] for a mathematically correct cash-flow forecast that has up to one calculation error, or some omission of the wording above.

Award [6] for a fully correct cash-flow forecast with a generally accepted format and lines for total inflows/receipts, total outflows/payments (or some other acceptable wording), a line for net cash flow/inflow, etc., and lines for opening and closing balance.

**N.B.** Substituting the term "net profit" in the cash-flow forecast for "net cash-flow" is inaccurate and [1] should be deducted.

- (c) Comment on the predicted cash flow for MSC for the first four months of 2024. [2]

The seemingly solid **cashflow** of MSC is **deceptive**. Though Tony forecasts the **closing cash balance to increase by 50% in the four months of 2024**, a significant portion of that increase is **due to the receipts of funds from the sale of used equipment**. Without those funds from the sale of equipment, the closing cash balance decreased by 7.14%. Two other factors also indicate that MSC's forecasted **cashflow is not as promising** as the first four months of 2024 suggest. First, the **market is increasingly competitive**, which could put pressure on MSC to **lower its prices**, which would **lower sales revenue**, or MSC could even lose sales altogether.

Second, with **Tony's 16.66% pay rise, cash outflows increase by \$1000 starting April 1**. As the situation is currently forecasted, in the first three months of 2024, MSC will have an average monthly positive cash flow from ordinary operations (that is, not including the sale of used equipment) of \$750. A 16.66% pay rise for Tony would mean that, starting in April, **average monthly cashflow from ordinary operations over a 3-month period would be - \$250**.

Award [1] if the candidate comments that the cashflow does appear sound. Award an additional [1] if the candidate comments and explains why the cashflow from ordinary operations (not including the sale of used equipment in March) is weaker than it appears (the candidate elaborates on either the increasingly competitive market and its potential impact on cashflow or on the impact that the intended pay rise will have on the cashflow). Award a maximum of [1] if candidate uses the term profit instead of cashflow.

### Section B

3. (a) Define the term *branding*.

[2]

**Branding** is the **process of distinguishing one firm's product from another** using features such as brand name, logo, design *etc.*. The process establishes an identity that distinguishes it from the competition.

**N.B.** *No application required. Do not credit examples.*

*Award [1] for a basic definition that conveys partial knowledge and understanding similar to the above answer. The first mark would come from the idea that it a process that tries to connect in the consumers mind, a product to a name or logo. The second mark comes from identifying the ability to distinguish the product from the competition. Award [2] for a full, clear definition that conveys knowledge and understanding similar to the answer above.*

*There is no credit for using an example or mentioning DWT.*

- (b) Explain **one advantage and one disadvantage** for *DWT* of expanding into online tuition in Asia. **[4]**

Dean is considering offering online tutoring to countries across the world, especially Asia. He has previously only offered the services of *DWT* locally and face-to-face. This move is therefore a radical change for *DWT*.

**Advantages:**

There is a **good chance of increased revenues** both in terms of value and volume since

- *DTW*'s market will be developed beyond their current customer base, as it seems that there is a large market, particularly in China, for *DWT*'s service.
- Given that Dean simply takes a commission from work carried out by his team of tutors, the online **expansion to Asia might be seen as less risky** than other developments e.g. he is not undertaking the training himself.
- The online expansion may lead to **further growth beyond Asia as the** move embraces changes in technology, and the nature of customer demand, which has led to a worldwide growth of online learning.
- In terms of value, *DWT* has also good chances of increasing their income, as in Asia tuition fees are paid three times more than in country X.

**Disadvantages:**

- Asia is a **new market for *DWT***. They have **no obvious links** (and **experience**) and *DTW* might find it **hard to generate demand**.
- *DTW* would be **very reliant on the quality of the local agents**.
- *DTW* may need to **invest in training and IT equipment**. Dean may become stretched by trying to manage both aspects of the business.
- **Language culture and legal issues** may be significant especially based on the reasonable assumption that *DWT* are not currently based in Asia.

*Accept any other relevant advantage / disadvantage.*

**Mark as [2] + [2].**

*Award [1] for each correct advantage / disadvantage identified and [1] for a relevant explanation with application to *DWT*. Award up to a maximum of [2].*

*[2] cannot be awarded per advantage / disadvantage if the response lacks either explanation **and / or** application.*

*For example:*

*For an identification or a description of an advantage / disadvantage **with or without** application [1].*

*For explanation of an advantage / disadvantage with **no** application [1].*

*For explanation of an advantage / disadvantage **and** application [2].*

*It is **NOT** application if candidate simply repeats the question, e.g. **online tuition in Asia** is mentioned in the question.*

- (c) Explain **one** advantage **and one** disadvantage for Dean of drawing a Gantt chart to assist his planning for the expansion to online tuition. **[4]**

A Gantt chart is a diagram in which a series of horizontal lines shows the amount of work done or production completed in certain periods of time in relation to the amount planned for those periods. As a planning tool it helps to allocate individual activities in a project and to show how long each should take and the order with which they should be completed. **By drawing up the Gantt chart he could have a clear idea of what he needs to achieve in the time available.**

**Advantages:**

- Gantt chart could help Dean to have a **clear picture of the overall project** and of the **current progress of tasks**. The chart will allow him to **consider each task that needs to be completed**. For example, he will need to contact the agents in Asia and either recruit new tutors, train the existing tutors (or both). He might need to source IT equipment etc.
- A Gantt chart could help Dean to **work out the duration of each task and decide what is needed to be done and in what order**. This should **reduce the wasted time in both planning and execution of the plan**. This is important as with the new school year starting in China, Dean will need to act quickly.
- Helps to **assess any potential problems** and even determine whether the plan of delivering online tuition is ultimately viable in the short timescale to meet the beginning of the new school year in China.

**Disadvantages:**

- The Gantt chart **may become very complex**. Dean is completely new to the venture of online tuition he is embarking on with *DWT*. The chart could be very **difficult to draw up given Dean may not necessarily identify ALL the specific tasks required**.
- Working effectively, a Gantt chart often **needs to be updated**. A key issue for Dean may well be the costs involved in online tuition delivery. Gantt charts **rarely include costs as a variable** (based on mainly qualitative data).
- **Dean is probably not experienced in drawing up Gantt charts**. He may **spend too much time on the chart** rather than getting on with the actual tasks. **Dean must act fast due to the imminent start of the new school year in China**. He needs to have *DWT* ready to access the markets in Asia and there is much to plan.

*Accept any other relevant advantage / disadvantage. The key here is application for full marks.*

*Accept application of advantages/disadvantages in relation to the actual processes carried out by Dean. e.g. identifying the sequence in the recruitment steps, which can or cannot be carried out simultaneously.*

**Mark as [2] + [2].**

*Award [1] for each correct advantage / disadvantage identified and [1] for a relevant explanation with application to *DWT*. Award up to a maximum of [2].*

**[2] cannot be awarded per advantage / disadvantage if the response lacks either explanation and / or application.**

*For example:*

*For an identification or a description of an advantage/disadvantage **with or without** application [1].*

*For explanation of an advantage/disadvantage with **no** application [1].*

*For explanation of an advantage/disadvantage **and** application [2].*

- (d) Recommend whether Dean should choose **Option 1** or **Option 2** to ensure that he has enough tutors for the expansion to online tuition. **[10]**

Dean has two options listed in the question. In practice, he may have others.

#### **Option 1:**

**Offer training and support to the existing tutors.** The **advantages** of going for this approach include the opportunity to make **use of the employees who have worked with Dean up to now**. This staff will be fully **aware of the DWT's "code of conduct"**, Dean's leadership style and will therefore know how Dean likes to operate.

In addition, Dean knows his existing tutors well, having reviewed on a weekly basis their performance and student feedback. He will likely have a good idea which tutors are better suited to the new online environment.

By offering additional training and other support there may be an **improvement in morale**. **Tutors will feel valued** and tutor's motivation may be improved at *DWT*. Dean will additionally be able to continue to exercise some face-to-face control over the tutors. Good responses may refer to **Herzberg** and other motivation theorists even if explicit reference to any motivation theory is not expected.

However,

**Disadvantages** include the **cost of providing the support**, the cost of the **training and the time involved** in making this happen. The **existing tutors**, who are **used to face-to-face teaching, may not be effective in online** teaching situations anyway. This option is also time consuming as training could take months when Dean must act fast. Developing online teaching materials can also be time consuming unless purchased from an outside developer where an additional cost may be problematic.

The online tutoring market in Asia, particularly in China, is large. Training the existing ten tutors who have been working part-time may not be sufficient to meet the demand. These part-time tutors, who are demotivated by regular, weekly feedback may not be motivated by additional workload or change in work practices.

#### **Option 2:**

**Recruit new tutors from anywhere in the world with online teaching experience.** The **advantage** of this approach is that it **will increase the pool of tutors** available within *DWT*. Tutors who apply for this role will clearly be **keener to operate in this way (online)** and may be **more motivated** and/or have more experience. By widening the recruitment search to international staff, Dean should have access to tutors who speak a range of languages and possibly have a **better understanding of local cultures**. The **costs** involved will **only relate to the actual costs of recruitment**. This could be **carried out online**. Recruiting is likely to be **less costly and less time consuming** than the other option. **Tutors** appointed could be recruited **from anywhere in the world**. This may **help with time zone issues** etc.

**Disadvantages** include the **uncertainty of trying to appoint staff** when you are unsure about exactly what might be required. **Tutors** appointed **will have to accept the flexibility of giving up a commission payment to Dean** which they **may not be happy with**. Knowing **where to advertise these positions** to maximize the quality of the candidates might also be an issue. Tutors **will have to quickly understand** and follow the **DWT code of conduct** and Dean's leadership style. There is no guarantee that newly appointed tutors will adhere to this. If the online tutors are paid more, it could generate clashes with the current tutors.

Dean may have problems in monitoring tutors who are based in different time zones.

New online tutors may come with a range of online materials and activities giving rise to a problem of standardizing the quality of the learning experiences for students.

Dean must weigh up what the best option will be. Both ideas have merit, but the question specifically focusses on '...Dean should choose to **best ensure**...'. The "best ensure" allows discussion highlighting the advantages and disadvantages of both options.

When making a judgment, **strong answers** may focus on the need to **balance getting the best tutors available, with the costs**. Dean is on something of a tight schedule to ensure that he has enough staff to cope with the possible demands of the new term. He has to avoid the possibility of not having enough tutors available.

The training option will be good for the existing tutors but may not help to ensure that the tutor team is large enough if the business expands. The question also **allows the consideration of using either option or a combination of both**. Dean could train his existing tutors and assess whether they would be interested in the new online working. Additional new tutors could be used to cope with the likely increased demand in addition to this.

*Accept any relevant and applicable argument for and against each option.*

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

*Accept any substantiated evaluation/judgment/recommendation.*

*Marks should be allocated according to the markbands on page 3 with further guidance below.*

*Use of tools such as FFA should not be rewarded as they are inappropriate – there is no way to judge the weightings applied to each driving and restraining force.*

*For one relevant issue that is one-sided, award up to [3].*

*For more than one relevant issue that is one-sided, award up to a maximum of [4].*

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

*A balanced response is one that provides 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 their answer.*

4. (a) Define the term *target market*. [2]

**Target market** refers to the **group** of potential **customers** with **common needs or wants to whom a company wants to sell** its products and services. The target market helps to define a company's marketing strategy, particularly promotion, to this target group

*N.B. no application required. Do not credit examples.*

*Candidates are **not** expected to word their definition **exactly** as above.*

*Award [1] for a basic definition that conveys partial knowledge and understanding.*

*Award [2] for a full definition that conveys knowledge and understanding similar to the answer above. I.e. the group of customers that a company wants to sell to. The second mark could come from the specification that customers have common needs and wants or that it helps to define the business' marketing strategy such as promotion.*

- (b) Explain **one** advantage **and one** disadvantage for *LA* of paying commission to sales staff working in its shops. **[4]**

**Commission** makes reference to the **payment to employees after finishing a particular task** such as selling a number of products or services (employees are paid **by results**). However, in addition to their sales commissions employees are usually paid a (sometimes low) basic salary. Paying commission has advantages and disadvantages to *LA*:

It is important that responses focus on the affects to *LA*. **Do not reward** responses that focus on the advantages/disadvantages to staff.

**Advantages:**

- **motivates employees** to work harder. *LA* pays commission to sales staff working in physical shops. Employees, driven by income, can make an extra effort to sell more **clothes**. This is particularly important to **boost *LA*'s sales** in physical shops that have fallen after *LA*'s online shop was launched;
- **commissions are tied to sales** so, **if there are no sales there are no commission costs**. As *LA* only pays commissions to workers in physical shops where sales have fallen, cost reductions can be substantial.

**Disadvantages:**

- **customers can be driven away by pressure from sales people**. Customer service quality could be undermined. *LA* could lose customers that value a good personalized sales service;
- **employees may be tempted to sell products that are not in the best interests of the customer or business**; this could in turn affect the developed brand awareness and customer value for *LA*'s personalized service.
- **as sales in physical shops are falling**, sales staff would receive less commission leading to **demotivation** and perhaps **increased labour turnover** at *LA* that so far has been low.

*Accept any other relevant advantage / disadvantage.*

*Do not accept as a disadvantage - **less profits for *LA***, since if commission payment was NOT used then presumably fixed salaries would have to be increased.*

*Similarly, do not accept something to the effect of "increased costs", since with a correctly structured commission system, the increase in revenue generated from the commission system is greater than the cost of the commissions.*

**Mark as [2] + [2].**

*Award [1] for each correct advantage / disadvantage identified and [1] for a relevant explanation with application to *LA*. Award up to a maximum of [2].*

*[2] cannot be awarded per advantage / disadvantage if the response lacks either explanation **and / or** application.*

*For example:*

*For an identification or a description of an advantage/disadvantage **with or without** application [1].*

*For explanation of an advantage/disadvantage with **no** application [1].*

*For explanation of an advantage/disadvantage **and** application [2].*

- (c) Explain **one advantage and one disadvantage** for LA of Marie's democratic leadership style. **[4]**

**Democratic leadership** style is such that **promotes an active participation of employees in decision making** and informs them about issues that affect them.

**Advantages:**

- **employees feel more committed** to the potential changes and decisions if they are involved in the business decision-making process. LA will have to decide whether to sell online only or not. If LA **employees are involved in this decision** there are higher chances that they will embrace the resulting solution whichever it is and **lower chances of conflict**;
- **motivation** levels are enhanced leading to **commitment**. This is **evident** in LA as there is low **labour turnover**;
- **better final decisions** could be made as the staff has much to say and could give very valuable **experience**. For example, Marie consulted the e-commerce department who have suggested investing in software that could help online customers to find their correct clothing size (reducing cost of returns) and thus help decide whether to go online only or not;
- **lack of conflict** between LA's managers and employee representatives is possibly due to Marie's democratic leadership style and her regular meetings with staff.

**Disadvantages:**

A democratic leadership style can be **time consuming**. Attending meetings and consulting employees, can **slow down the decision-making processes** at LA.

**Some decisions such as closing down shops could be very difficult for a democratic leader like Marie to make.** It is unlikely that Marie will decide in a democratic way whether to close the LA physical shops or not, **because there is a conflict of interests** unlikely to be resolved. Marie would not be able to decide this in a meeting with her managers. There is a potential conflict between Marie and LA employees that would be difficult to resolve. If LA closes all her shops many employees will be made redundant. This could erode LA's organizational culture used to democratic leadership style. Seems not to be good for LA? (never had conflict before).

Marie's democratic style may see her wish to avoid conflict at all cost (**there has never been any conflict**) resulting in her making decisions which may not be in the best interest of LA.

A democratic style is unlikely to hear arguments with equal weight, especially when a PLC like LA is likely to give greater stakeholder weight to that of shareholders.

*Accept any other relevant advantage / disadvantage.*

**Mark as [2] + [2].**

*Award [1] for each correct advantage / disadvantage identified and [1] for a relevant explanation with application to LA. Award up to a maximum of [2].*

*[2] cannot be awarded per advantage / disadvantage if the response lacks either explanation **and** / or application.*

*For example:*

*For an identification or a description of an advantage/disadvantage **with or without** application [1].*

*For explanation of an advantage/disadvantage with **no** application [1].*

*For explanation of an advantage/disadvantage **and** application [2].*

- (d) Discuss whether *LA* should close all its physical shops and sell only online. **[10]**

*Candidates can structure their answers in two different ways. They can view “close retail + sell online” as one issue and provide two arguments for and two against. Alternatively, candidates can talk about advantage and disadvantage of “closing”, then advantage and disadvantage of “all online”. Either approach is acceptable.*

Possible advantages of *LA* closing all its physical shops and sell only online:

- if *LA* closes all physical shops, **important cost reductions could be made**. For instance, *LA* will make savings in sale commission paid to sales staff in physical shops and in the cost of wages that are above the industry average;
- *LA* will also gain in **other costs reductions** such as leasing costs from physical shops. It will also gain in flexibility, as online selling has lower fixed costs;
- another advantage of having an online business is that you **break the physical barriers** and do not depend on the number of people passing by your street or the number of brochures you have delivered to mailboxes;
- low costs involved in marketing products abroad;
- from the internet (online) you can **sell to a global market** (global reach);
- *LA* could **sell its physical shops to raise finance** as well.

However,

- Selling online only can be a dangerous move as **it lowers visibility**. Physical shops **allow clients to see the products**, which facilitates purchasing decisions. Further, a **physical store offers a sense of security to the clients**. Hence, clients will trust you more when they are aware you operate from a physical place they can access. If you have an online presence, a physical store will complement your marketing efforts;
- **customers at *LA* are used to personalized assistance**. Buying online is a totally different experience; this is evidenced by the increasing number of returns experienced by *LA*;
- **physical shops assist customers that like personalized customer service**. Online selling does not quite match the target market of customers that value personalized customer service even if online sales are increasing;
- **return costs from online sales are increasing**. *LA* will have to invest in new software to cope with sizing problems;
- the **buying experience of clothes is different online than in physical shops**;
- **employee redundancies can damage *LA*'s working environment** (and *LA* corporate image) and clash with the CEO's democratic leadership style and *LA*'s organizational culture. Potential conflicts with employees and employee representatives;
- *LA* may be left **paying leases on shops it closes**;
- online selling is not without investment costs – technology equipment, warehousing, hiring staff with online experience, online marketing, scheduling and delivery systems *etc.*.

All in all, it seems that closing all shops is too drastic. *LA* already has incurred setting up costs of an important number of shops, they could take the advantages of online selling but still keep some physical shops, or phasing out those underperforming stores on a more gradual basis.

*Candidates are expected to provide a conclusion with a substantiated judgement.*

*Accept any substantiated evaluation/judgment/recommendation.*

*Marks should be allocated according to the markbands on page 3 with further guidance below.*

*For one relevant issue that is one-sided, award up to [3].*

*For more than one relevant issue that is one-sided, award up to a maximum of [4].*

*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 their answer.*

5. (a) Define the term *process innovation*.

[2]

A ***process innovation*** is the implementation of a new or significantly improved or modified production or delivery methods. This includes significant changes in production techniques, equipment and/or software and delivery that bring benefits from the innovation.

***N.B.*** No application required. Do not credit examples.

Candidates are ***not*** expected to word their definition ***exactly*** as above.

Award [1] for a basic definition that conveys partial knowledge and understanding, like including improved production or delivery method. Award [2] for a full definition that conveys knowledge and understanding similar to the answer above, which would include that some benefit accrues from the innovation e.g. time, cost, quality, efficiency etc. benefits do not need to be listed.

Do NOT reward candidates that simply define “innovation” or “product innovation”. Also do not reward responses such as “Process innovation is changing or improving a process in a business” - this is too vague. There must be some reference to either production or delivery.

- (b) Explain **one advantage and one disadvantage** for *RC* of using a price-skimming strategy for the coffee sold in booths served by robots. **[4]**

**Price skimming** is the **strategy of charging a relatively high price during the launch of a new product** and then lowering the price over time as demand declines and/or new competition enters the market. Skimming is a useful pricing strategy **for businesses in innovative spaces where demand is extremely high for early-adoption.**

**Advantages include:**

- One **advantage** for *RC* of using price-skimming strategy is that it **will have a higher return on investment** for the barista robots. *RC* will **benefit from short-term profits during the introduction**, and the initial **higher prices are justified by the technological innovation.**
- Another advantage is that **consumers associate the high price with a high-value or high-quality product** (e.g., premium fair trade organic coffee) and enhanced brand image. It would help *RC* to maintain its image and reputation.
- The higher profits from using price-skimming may help appease shareholders if it shortens the time during which they continue to receive **no dividends**

**Disadvantages include:**

- One possible **disadvantage** is that the price skimming strategy will only work if the change in **price does not have a greater effect on *RC*'s demand for coffee.** If it does, then high prices could hurt *RC*'s sales. Right now, *RC*'s **sales are already declining and competitors are being drawn to the market.** If *RC*'s customers are not ready to pay more for a robotized service, then sales will drop.
- If a price-skimming strategy is to be used first and only in robotized booths, one could argue that *RC* will have to increase prices in their human managed booths as well. Higher prices may discourage some customers from buying the product.
- In times of economic downturn, it could be a risky move to increase or skim the price of a product such as coffee, that can be easily substituted by similar brands. Customers could buy similar and cheaper coffee in other shops/booths even if they are not served by robot baristas.

*Accept any other relevant advantage / disadvantage.*

**Mark as [2] + [2].**

*Award [1] for each correct advantage / disadvantage identified and [1] for a relevant explanation with application to *RC*. Award up to a maximum of [2].*

*[2] cannot be awarded per advantage / disadvantage if the response lacks either explanation **and** / **or** application.*

*For example:*

*For an identification or a description of an advantage/disadvantage **with or without** application [1].*

*For explanation of an advantage/disadvantage with **no** application [1].*

*For explanation of an advantage/disadvantage **and** application [2].*

- (c) Explain **one** advantage **and one** disadvantage for *RC* of setting ethical objectives. **[4]**

One **advantage** for *RC* of setting ethical objectives is to **create a positive image**. Right now, the **protests against businesses like *RC* have damaged their (corporate image) and sales**. Setting ethical objectives might be a good way to turn things around. Buying large quantities of **Fair Trade “Organic” coffee** is an example of both being fair in their business dealings and investing in a perceived eco-friendlier version of coffee.

A second advantage is that having ethical objectives may help to **differentiate from competitors such as *Coffee Extra (CE)*** who have a reputation for poor working conditions and low salaries.

An ethical image may **enable premium prices** to be more readily accepted by customers leading to better profits and hence eventual dividends to shareholders.

It can create employee motivation and improve morale (for **[1]** there is no application in the stimulus to support).

One **disadvantage** for *RC* of setting ethical objectives could be that, although in the long run it may be beneficial, **in the short term there are costs that will rise** when implementing the payment for the grants towards future training of employees and enhanced redundancy payments.

Secondly the additional costs from an ethical stance depends to what extent its target market are price sensitive. Customers may not care for the ethical stance if it makes their coffee too expensive.

There may be some customer backlash if *RC*'s ethical objectives are seen at odds with their policy of **replacing staff with robots**.

*Accept any other relevant advantage / disadvantage.*

**Mark as [2] + [2].**

*Award [1] for each correct advantage / disadvantage identified and [1] for a relevant explanation with application to *RC*. Award up to a maximum of [2].*

*[2] cannot be awarded per advantage / disadvantage if the response lacks either explanation **and** / or application.*

*For example:*

*For an identification or a description of an advantage/disadvantage **with or without** application [1].*

*For explanation of an advantage/disadvantage with **no** application [1].*

*For explanation of an advantage/disadvantage **and** application [2].*

- (d) Recommend whether *RC* should accept *CE*'s offer. [10]

The **board of directors is not sure whether to accept** *CE*'s offer to acquire *RC*. *RC* has definitely gotten into an **area** (robots) **where speed of growth is a priority**, which could be an **argument in favour** of the takeover by the coffee chain. The **coffee chain** *CE* clearly **has expertise** since they are already known for using drones for delivering coffee (workplace automation). *CE* is **offering to pay them twice the value**. They **can cash-in and start another company**, given that within the market, although expected to grow, **competition is increasing**. If customers are discouraged to pay for more expensive coffee for the robotized novelty, *RC* may not be able to keep the skimming pricing strategy which could in turn jeopardize *RC*'s profits and dividends. Then *CE* could become a financial alternative.

Some shareholders may not be happy with the reduction in their dividends for the last two years. This policy is likely to continue into the future, representing an incentive to sell.

Furthermore, the novelty factor and high prices are easier for customers to accept during a buoyant economy, but less acceptable when faced with recessionary forces.

By the same token, ***RC* is known for excellent quality and consistency** in coffee, and customers could be attracted by the novelty of the process and they could tap into that value. The **market is expected to grow**, they **have a high-profit margin and currently enjoy first-mover advantage**. A **price-skimming strategy** will help *RC* recover the cost of the innovative process with the robots, the implementation of which may become cheaper over time as they become more experienced. Alternatively, they **could evaluate how to grow rather than to sell**. Contrary to *CE*'s bad reputation with their employees, ***RC*'s current CSR** (purchasing fair trade) and **strong ethical objectives** (enhanced redundancy payments and funding for training) could work in their favour. **Selling to *CE* may collide with *RC*'s ethical values** because *CE* pays low salaries to employees and provides poor working conditions.

*Accept any other relevant arguments for and against accepting *CE*'s offer.*

*To sum up: candidates can recommend whether *RC* should accept *CE*'s offer or not provided it is well substantiated.*

*Candidates are expected to provide a conclusion with a substantiated judgement.*

*Marks should be allocated according to the markbands on page 3 with further guidance below.*

*For one relevant issue that is one-sided, award up to [3].*

*For more than one relevant issue that is one-sided, award up to a maximum of [4].*

*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 their answer.*

*It is expected that the candidate goes beyond just providing some relevant arguments for or against any suggested strategy and finish off with some conclusions and judgment.*

## Section C

Questions 6–8. Please mark the candidate response using the assessment criteria on pages 4–5.

6. With reference to an organization of your choice, discuss the ways in which **change** can influence marketing **strategy**. **[20]**
7. With reference to an organization of your choice, examine the impact of **innovation** on business **ethics**. **[20]**
8. With reference to an organization of your choice, examine the impact of **globalization** and **culture** on human resource management. **[20]**

**N.B.** Although the question asks for the application of one concept on another, it is still expected that Business Management content will be aligned with the concepts especially the second concept (the one being acted on).

Please note that candidates can conclude that there was a minimal impact, however it has to be based on balanced arguments and evaluation.

### **Additional guidance in relation to the assessment criteria**

For each criterion, the aim is to find the descriptor that conveys most accurately the level attained by the candidate, using the best-fit model. It is not necessary for every single aspect of a level descriptor to be met for that mark to be awarded.

- The highest level descriptors do not imply faultless performance and should be achievable by a candidate.
- A candidate who attains a high level of achievement for one criterion will not necessarily reach high levels of achievement for the other criteria and vice versa.

If only **one** concept is addressed:

- Criteria A, B, C and E: award up to a maximum **[3]**.
- Criterion D: full marks can be awarded.

Where the question asks for impacts of **two concepts on content**, examiners must allow for unbalanced treatment of the two concepts throughout a candidate's response. One concept may be more significant than the other.

**Criterion B**

For [2]: "...connection is not developed" should be treated the same as superficial.

**Criterion C**

**1 + 1 arguments are expected per concept.**

- Justification is through logic or data.
- For [2] there is no balance as there are no counter arguments at all, or the arguments are all one-sided then this would be unjustified.
- For [3] there are some balanced arguments – some of which are justified.

**Criterion D**

- Introductions need to be concise and related to the question.
- The candidate's response does not to have explicit headings for each structural element.
- A body is the area in which the substance of arguments occurs. It is usually located between the introduction and the conclusion.
- Fit-for-purpose paragraph means that ideas are presented in a clear academic way. For example, one idea per paragraph.

**Criterion E**

- One example of an "individual" could be an individual consumer or an individual manager. However, this cannot be considered with a "group" of consumers or a management team.
- For [4], a balanced response: look at the perspectives of both individual and group(s).
- The chosen individual, group needs to be applicable and relevant to the question with specific explanation.
- Candidates need to go beyond stating the stakeholder.
- Please do not use the adjective 'inappropriate' in the descriptor for [2]. If inappropriate award [1].

Candidates need not explicitly say "stakeholder".

*In section C, the question rubric explicitly states that “organizations featured in sections A and B and in the paper 1 case study may not be used as a basis” to candidate’s answers to questions 6, 7 and 8. When this happens, please award marks as follows:*

*Criterion A: award a maximum of [1]. The business management content cannot be relevant if the organization is fictitious.*

*Criterion B: award [0] – there is no connection to a “real-world organization”*

*Criterion C: award a maximum of [1]. The arguments cannot be relevant if the organization is fictitious.*

*Criterion D: mark as normal.*

*Criterion E: award up to a maximum of [1]. The individual and/or group perspective(s) cannot be relevant if the organization is fictitious.*