

Markscheme

November 2018

Business management

Higher level

Paper 2

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

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) Describe **one** limitation of a break-even analysis. [2]

Some of the limitations may include:

- The break-even model assumes that all units produced are sold, therefore total revenue received if not all of the dolls/quantity is sold can be lower, which will have a negative impact on the break-even point.
- The break-even model assumes a linear relationship between output and total variable cost, whereas in reality the costs per unit can go down due to economies of scale. This will have a negative impact on the break-even point.
- The break-even model assumes that the price stays constant at all levels of output. In reality, price can be reduced or increased with direct impact on the break-even quantity.

Accept any relevant description. There is no need for further explanation of the exact impact on the break-even point.

Application is not expected.

Award [1] for each relevant identification / list of one limitation of the model.

Award [1] for a description up to a maximum of [2].

- (b) Calculate:

- (i) the number of dolls that *DD* needs to sell to reach \$4000 level of profit (*show all your working*); [2]

$$\text{Fixed costs} + \text{target profit} = \underline{10\,000 + 4\,000} = 14\,000 = 700 \text{ dolls}$$

$$\text{Contribution per unit} = 50 - 30 = 20 \text{ [shows that it's part of given formula]}$$

OR

$$\text{Profit} = \text{total revenue} - \text{total cost}$$

$$4000 = 50X - (10\,000 + 30X)$$

$$20X = 14\,000$$

The number of dolls needing to be sold to reach a profit of \$4000 = 700

Award [1] for working and [1] for the correct answer.

Award a maximum of [2].

For a correct response that demonstrates understanding and application of the formula, even if no specific headings are presented, award full marks.

Working must be shown for full marks. Accept a graphical calculation of BE if drawn and stated accurately ie sufficient to extract correct data (do not penalize labeling errors).

- (ii) the capacity utilization rate at break-even quantity for *DD* for the first year of operation (*show all your working*);

[2]

$$\begin{aligned} \text{Break-even quantity} &= \frac{\text{Fixed costs}}{\text{Contribution per unit}} \\ &= \frac{10\,000}{(\$50 - \$30) 20} \\ &= 500 \text{ dolls} \end{aligned}$$

$$\text{Capacity utilization rate} = \frac{500 \text{ dolls}}{900 \text{ dolls}} = 0.55 \times 100 = 55.55 \%$$

Accept 55.5% or 55.56%

An alternative method would be:

Total revenue = total costs, where:

- total revenue = price × quantity sold
- total costs = total fixed cost + total variable costs.

$$\text{Capacity utilization} = \frac{500}{900} \times 100 = 55.55 \%$$

Accept 55.5% or 55.6%

Do not credit for using the formula as it is given. Do not fully credit if the figure is not expressed in %.

Award [1] for correct working, which includes the calculations of the break-even point and [1] for the correct answer in %. Award up to a maximum of [2].

If only the correct breakeven is present, then award [1] only if working is shown.

For a correct response that demonstrates understanding and application of the formula, even if no specific heading are presented, award full marks.

- (iii) The profit or loss in the first year if *DD* sells 400 dolls (*show all your working*). [2]

Margin of safety times contribution per unit
 $400 - 500 = (100) \times 20 = [\$2000]$

Do not credit for the calculation of the break-even point but allow OFR even if correct. It is application of the MOS-BE formula which gets the mark for workings.

Accept any other relevant method:

Total revenue – total costs

Price × quantity – (total fixed costs + total variable costs)

$400 \times \$50 - [\$10\,000 + (400 \times \$30)]$

$\$20\,000 - [\$10\,000 + \$12\,000]$

$\$20\,000 - \$22\,000$

$\$(2000) =$ a loss

Award [1] for correct working and [1] for the correct answer. Award up to a maximum of [2].

For a correct response that demonstrates understanding and application of the formula, even if no specific headings are presented, award full marks.

- (c) Assuming that the quantity of dolls to be sold in the second year is 550 and costs remain unchanged, calculate the price per doll that *DD* would need to charge to make a \$6500 profit. [2]

Target profit = total revenue – total costs

$\$6500 = \$550X - [10\,000 + (\$30 \times 550)]$

$\$6500 = \$550X - [10\,000 + 16\,500]$

$\$6500 = \$550X - \$26\,500$

$\$6500 + \$26\,500 = 550X$

$\$33\,000 = 550X$

$X = \$60$

Price that *DD* has to charge is \$60.

Accept any other method provided that working is shown.

Award [1] for working and [1] for the correct answer.

Award a maximum of [2].

2. (a) Define the term *debtors*. [2]

A debtor is a customer or a firm that has purchased a good or service from a business and has not yet paid. A debtor may be allowed up to one month or more to settle.

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

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. – reference to repayment period is not necessary for full marks.

- (b) Using information from **Table 1**:

- (i) construct a fully labelled balance sheet for *Papel* for the end of October 2018; [5]

Papel balance sheet as at 31 October 2018

	000s	000s
Fixed assets		
Net fixed assets		60
Current assets		
Cash	3	
Debtors	12	
Stock	5	
Total current assets	20	
Current liabilities		
Creditors	20	
Total current liabilities	20	
Net current assets (working capital)		0
Total assets less current liabilities		60
Long-term liabilities	20	
Net assets		40
Financed by:		
Share capital	26	
Accumulated retained profit	14	
Equity		40

N.B.: if the candidate does not follow the IB prescribed format, award a maximum of [3].

N.B.: candidates should not be penalized for writing “retained profit” omitting the word accumulated.

Allow OFR.

[0]

The B/S does not reach a standard described below.

[1–2]

The B/S is not accurately constructed, and/or the calculations within and between the various components are not presented or largely incorrect. However, there is limited evidence of a general understanding of the format

[3–4]

The principal elements of the B/S are constructed, but may not be entirely accurate. The calculations under each heading/component/part are largely correct.

Allow up to two mistakes in calculations **and/or** presentation for **[3]**.

Allow for **either** one error in calculation **or** one error in presentation **[4]**.

For an accurately constructed B/S with incorrect calculations, award up to a maximum of **[3]**.

Allow OFR.

For example, if one irrelevant figure that belongs to the P/L account is added, obviously the rest will not match.

[5]

The B/S is accurately constructed in the expected IBO format. All the relevant headings of each component/ parts are used and correctly classified. Do not penalise for internal order of classification. All and only the relevant figures are presented. No extra irrelevant figures that belong to the P/L are included. The calculations under each part/ component of the B/S are correct and well presented **[5]**.

Deduct **[1]** for one omission including the overall heading provided the B/S is accurately balanced.

N.B.: If the candidate did not follow the IBO format award up to **[2]** marks

- (ii) calculate the current ratio for *Papel* for the end of October 2018.

[1]

$$\text{Current ratio} = \left(\frac{\text{current assets}}{\text{current liabilities}} \right) \frac{20}{20} = 1$$

Award **[1]** for the correct answer. Award no marks merely for writing the formulae. Award **[1]** mark with OFR but working must be shown

- (c) Explain **one** possible strategy, **other than** elimination of credit sales, for *Papel* to improve its liquidity position.

[2]

Liquidity is the ability to pay short-term debts. *Papel*'s liquidity position is delicate. Working capital is zero and *Papel*'s acid test is 0.75, which means that *Papel* has less than \$1 of liquid assets with which to repay every \$1 of its short-term debts.

Papel could improve its liquidity position by keeping a tight credit control with debtors. Many are not paying on time, which means that *Papel* does not keep a check of customers' accounts.

Papel could use a debt factoring service to recoup some of the debt as a way to boost its liquidity.

Papel should monitor debtors and chase them to pay on time and to respect the credit periods established and agreed.

Creditors are increasing even though 80% of accounts are settled in cash. To improve the liquidity position, *Papel* could try to negotiate improved credit terms with its suppliers.

Reward candidates who highlight 'surplus' or 'unused' assets to sell but not a generic response of 'sell assets'. Award maximum [1] as no application is possible.

Accept any other relevant strategy.

Award [1] for a relevant generic strategy identified or described and [1] for any additional explanation in context to DD.

*[2] cannot be awarded for the strategy if the response lacks either explanation **and/or** application.*

*For example: For an identification or a description of the strategy either debtors or creditors **with or without** application [1].*

*For explanation of the strategy with **no** application [1].*

*For explanation of the strategy **and** application [2].*

Section B

3. (a) Define the term *public limited company*. [2]

A public limited company is an incorporated organization listed on a Stock exchange with a legal right to sell shares to the general public.

*Candidates are **not** expected to word their definition **exactly** as above. Eg may omit mention of Stock Exchange if another feature of incorporation is present.*

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

Award [2] for a full, clear definition that conveys knowledge and understanding similar to the answer above.

- (b) With reference to QS, explain **two** features of cradle to cradle manufacturing. [4]

Cradle to cradle is a sustainable form of manufacturing. QS seeks to create manufacturing principles that attempt to use production techniques that are efficient but also sustainable and waste free. Two features of using cradle to cradle with reference to QS are as follows:

As its name suggests, QS will design and produce its air conditioners in such a way that most, if not all, of the materials used are **recyclable**. These materials (like glass, metal, plastic) that form parts of the air conditioners will be recyclable and used again for the production of future models. This will minimise waste.

Cradle to cradle manufacturing will also allow QS to reuse some of the ready components of the old air conditions in the new models instead of disposing of those parts. QS might have to offer some financial incentives for the customers to return their old/outdated air conditioners.

The air conditioners will also be built with biodegradable materials if QS cannot recycle the materials: for example, the carton for packaging of the air conditioners. This aspect will allow QS to reduce the environmental impact of its air conditioners.

Accept any other relevant examples and explanation.

Application here is very difficult – all of the stimulus info is about KA and gives no real links to QS – hence I believe to avoid generic responses, candidates should at least make reference to ‘air-conditioners’ ie if responses just refer to QS and this could be replaced with any other company – then this is generic and only [1].

Mark as 2 + 2.

Award [1] for each relevant feature explained and [1] for appropriate application to the organization/type of products to a maximum of [2].

[2] cannot be awarded for the difference if the response lacks either explanation and / or application.

For example:

- *For an identification or a description of a feature with or without application [1].*
- *For explanation of a feature with no application [1].*
- *For explanation of a feature and application [2].*

- (c) Explain **two** possible human resource strategies that *KA* management could use to reduce employees' resistance to change.

[4]

Two possible change management strategies as part of overall HR strategies that can be used by *KA* management to reduce the impact of employees' resistance to change.

The employees are currently not involved in any decision making, so it can be assumed that there is not much communication between employees and management; as such, open and clear communication with the employees can be seen as one possible change strategy. The management should be honest and fully explain the reasons for the change. The management should emphasize the positive outcome of outsourcing as a way to overcome some of the weaknesses of *KA*, like an opportunity to improve customers' perceptions. The possibility of new opportunities for employees in the marketing department should be emphasized as a new and motivating challenge. The management should not lie about some of the negative outcomes, like job losses of those who are not going to be employed in the marketing department.

Before a final decision is taken, *KA* management should change the non-participative way/culture/lack of involvement in decision making and encourage bottom-up participation and consult with the employees and listen to their suggestions and opinion. Some of the more motivated employees might come up with some alternative strategies and/or express their preferences.

Management should acknowledge the fear of the unknown and the possibility of resistance to change due to fear of inability to cope with new challenges. A promise of training should be provided for those who are going to be employed in the marketing department if option 2 is chosen or for all employees if option 1 is chosen.

Another strategy is to appoint a change champion among the employees to encourage those employees who are reluctant to change to see the benefits of both option 1 and 2. Perhaps inviting the Trade Union to put forward solutions to minimizing the negative effects or in fact making the union the change champion.

Do NOT accept – "raising salaries/wages" unless tied to Option 1. Clearly this strategy is not feasible for those laid off in Option 2.

Accept any other relevant change HR strategy.

Award [1] for a relevant generic HR (change management) strategy identified or described and [1] for any additional explanation in context.

*[2] cannot be awarded for the chosen (change management) HR strategy if the response lacks either explanation **and** / **or** application.*

For example:

- *For an identification or a description of an HR strategy **with or without** application [1].*
- *For explanation of an HR strategy with **no** application [1].*
- *For explanation of an HR strategy **and** application [2].*

Do not credit non-HR strategies. Analysis of strategies is not required.

(d) Evaluate the two options that *KA* is considering.

[10]

Given the fact that *KA* redesigned their product, both options will have the same starting point of being more energy efficient.

Some of the possible arguments for **option 1**:

- **Option 1** will **not** result in redundancy and possible negative impact on the motivation of the remaining employees. Moreover, with appropriate training in order to implement the TQM and lean production practices, employees might enjoy the new challenge and motivation might even increase further, resulting in more efficiency and cost saving.
- The implementation of TQM/lean production should result in *KA* becoming considerably more environmentally friendly and by adapting to the market pressure/customers demand. *KA* might be able to capture part of the increase in demand. Moreover, *KA* should further be able to benefit from a growing demand in the market due to increase capacity of 10 %.
- However, the capacity will only increase by 10 %. One may argue that this is a relatively small percentage for a growing market and perhaps suits *KA* well in the short run but it will face a major strategic decision again in the medium term. Still, with increasing competition perhaps a 10 % increase is sufficient.
- The financial return, albeit forecasted, seems reasonable (do not penalise if candidates argue the opposite) although we do not have information on the current interest rate for comparison. Three years of payback also seem reasonable but technology is changing very rapidly and *KA* might have to replace the machine quite soon afterwards.
- The current lack of finance perhaps should be judged as of less significance, as *KA* is a PLC and shares can be issued, especially to ethical and ecologically sustainable minded investors, who may also be encouraged to purchase given the stated market growth.

Some of the possible arguments for **option 2**:

- With outsourcing, *KA* should be able to capture the growing markets and satisfy the growing demand with excellent quality sustainable air conditions and production process. One may judge this argument as highly significant for this option.
- The excellent quality should enable *KA* to differentiate itself in a current undifferentiated market and create a strong USP. The customer service – which is possibly one of the reasons for a fall in demand in a growing market – should also improve significantly. Making the marketing of *KA* its core activity with the money saved should enable *KA* to be successful. *KA* now has the finance to do so.
- However, the shareholders might disagree with such a risky strategic move as *KA* will move away from its current core activity of manufacturing air-conditioners. This move might be perceived as too risky. There might be other ways of improving customer service especially if TQM is to be implemented, as customers are constantly listened to.
- Moreover, closing down the production facility is a significantly risky decision. It will be very difficult to rebuild one. Perhaps *KA* should not rely on *QS* especially given the fact that every 2 years the contract has to be negotiated. Terms and conditions could be changed in favour of *QS* when *KA* lost its bargaining power. *KA*'s management needs to pay attention to a potential loss of control.

Overall, both options can potentially enable *KA* to become a more environmentally and ecologically sustainable organization. The second option will enable *KA* to achieve this in the short term, however the possibility of strike action is real and this will require some significant conflict resolution strategies by *KA*'s management. Some of the good will enjoyed by *KA* will be undermined by this move.

Accept any other relevant argument for each option.

Accept any other substantiated judgment.

It is expected that candidates provide a conclusion with a substantiated judgment.

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

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.

4. (a) Define the term *brand loyalty*. [2]

Consumers' faithfulness to a particular brand, which will allow a business to see repeat purchasing by consumers and/or over the longer term, much more acceptability in raising the price of its products/services.

Accept any other relevant definition.

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

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.

- (b) Explain **two** advantages for *LB* of using on the job training. [4]

- On the job training is cheaper than sending recruits on external training. This is particularly advantageous for *LB*, as there are no hotel training schools nearby. External training will mean travelling and hosting costs that *LB* is unlikely to face due to cash-flow problems. Adding on external training costs could worsen *LB*'s cash-flow position.
- On the job training will enable new recruits to familiarize themselves with the hotel's culture and Felix's way of doing things. A recent survey has revealed that guests are pleased with *LB* due to employees' polite and helpful attitude, which means that Felix's on the job training has been effective. It is unlikely that new recruits will acquire this specific know-how with external training.
- With on the job training, trainees will actually serve guests while they receive training. This could help *LB* with its cash-flow problems, as labour costs could be saved.
- Felix will be able to watch the new recruits closely to follow their training. He will be able to screen closely their potentialities and weaknesses and transmit the hotel's culture to them.

Accept any other relevant advantage

Do not credit an explanation of general training

Mark as 2 + 2.

*Award [1] for each correct advantage identified or described and [1] for a relevant explanation with application to *LB*. Award up to a maximum of [2].*

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

*For example: For an identification or description of an advantage **with or without** application [1]. For explanation of an advantage with **no** application [1]. For explanation of an advantage **and** application [2].*

- (c) Explain the importance to *LB* of **two** elements of the extended marketing mix. [4]

Physical evidence is referred to as the environment in which the goods or services are delivered. It is a crucial element for hotels like *LB*, as hotel customers make their choices based on the appearance and state of hotel facilities to a great extent. Guests' judgements will be based on *LB*'s physical evidence, including its location at the beach, to decide whether or not to book a room. There is, however, evidence from the stimulus that *LB*'s facilities need upgrading.

People makes reference to the way employees relate to and communicate with customers. This is another crucial element for a hotel. *LB*'s employees are polite and helpful and particularly good with children. This has proved to be very important for *LB*'s brand loyalty and customers' perceptions of it, and also provides a service that is perceived as very good value for money.

Process could be related to the way *LB* provides a unique way of making payment for guests. *LB* provides a mechanism that allows customers the opportunity to pay on departure and avoid paying in advance.

Accept any other relevant explanation.

Mark as 2 + 2.

*Award [1] for each correct element of the extended marketing mix identified and described and [1] for a relevant explanation of the importance with application to *LB*. Award up to a maximum of [2].*

[2] cannot be awarded per element of the extended marketing mix that has been identified if the response lacks either explanation and/or application.

For example: For an identification or a description of an element of the extended marketing mix with or without application [1].

For an explanation of an element of the extended marketing mix with no application [1].

For an explanation of an element of the extended marketing mix and application [2].

(d) Discuss whether *LB* should implement **proposal 1** or **proposal 2**.

[10]

Proposal 1

- *LB* could follow Felix's proposal to solve its cash-flow problems by reducing cash outflows and raising additional finance. It is probably a lower-risk strategy than Rose's.
- Negative cash outflows could be reduced by delaying payment to suppliers in winter, instead of paying cash. However, *LB* could lose the generous discounts they get, which in turn could lead to increasing direct costs. Eventually, some suppliers may not accept delayed payments and may demand cash on delivery.
- *LB* could also delay hotel maintenance and refurbishments. However, *LB* already needs some upgrades. Deteriorated facilities could negatively affect customer perception and brand loyalty. Sales may eventually fall.
- *LB* can cut other overhead spending such as advertising or promotion costs. These costs will reduce payments without affecting the quality of the service provided. However, future demand may fall if *LB* is not promoted effectively.
- Felix could lay-off some hotel staff or ask them to switch to part-time working. He may even close the hotel completely for the winter season. However this risks losing the services and know-how of key staff, who may not return in the high-season.
- Felix has also proposed to raise additional finance. *LB* could ask for a short-term loan or look for a new business partner. Probably, interest rates will be lower than overdraft rates and *LB* could save on some costs by substituting the overdraft for a less expensive source of finance. A new business partner will probably require some form of managerial control but fresh/innovative thinking can be introduced into *LB*.
- Alternative short-term sources of finance, such as the sale of assets and debts factoring, seem unlikely to work for *LB*. It seems that *LB* does not have assets to sell and there is no evidence that *LB* has many debtors.

Proposal 2

- On the other hand, Rose believes that *LB*'s cash flow problems are due to low capacity utilization in winter. She has proposed to attract a new segment of customers.
- If new business customers come in winter, cash inflows will increase. However, to attract these customers, *LB* will need to build new facilities, such as a convention centre or a gymnasium, to cater for the needs of this particular market segment. This would involve a significant amount of finance that *LB* does not have.
- *LB* could try to find external finance, such as a long-term loan, equity finance or a venture capitalist. However, these alternatives seem unlikely for *LB* in the short term. All of them take time to be found. Bank loans are expensive and *LB* may not have enough assets to present as collateral. Floating the company could be quite expensive for a family-owned business.
- Venture capitalists are not easy to find, particularly if the business is not a promise of extraordinary profits.
- *LB* will need to conduct extensive market research around the new market segment and currently this will increase outflows at a time when monthly cash flows are negative.

It can be concluded that Rose's alternative seems to be more risky and expensive than Felix's. What if business customers are not attracted? *LB* will be indebted with facilities that would remain obsolete for its current market segment. Felix's proposal, on the other hand, seems more plausible and conservative. Some of the alternatives, such as delaying payments, could work without much risk involved. However, *LB* should also find a way to increase inflows by tackling its capacity utilization problem. Diversifying into another market segment (such as elderly tourism?) that may not involve a great investment could help to increase inflows in winter.

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

A balanced response is one that covers at least one argument for and one against each proposal.

For one relevant argument that is one-sided, award up to [3]. For more than one relevant argument that is one-sided, award up to a maximum of [4].

If a candidate evaluates/addresses only one proposal, award a maximum of [5]. 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 *innovation*. [2]

Innovation is about putting a new idea or approach into action. It can be described as the process of translating an idea/invention into a service/good that creates value. Innovation can be achieved by improving existing goods, processes or services

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

N.B.: *no application required. Do not credit examples on their own. It is not necessary to highlight different types of innovation although credit where present. Do not credit vague description of ‘change’*

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

Award [2] for a full definition.

- (b) Explain **two** roles of *Benno*'s mission statement. [4]

The roles of a mission statement include:

- communicating the purpose of the organization to stakeholders
- informing decision making and strategy development
- developing the measurable goals and objectives by which to gauge the success of the organization's strategy.
- Inspiring and motivating both internal and external stakeholders

N.B.: *for full marks roles should be linked to some mention of stakeholders*

For *Benno*, the mission statement has provided a way for the business to differentiate itself from its competitors, especially at a time when competition in the healthy soft drinks market is intense.

The mission statement is also a way to attract new investors who may have empathy with the direction of *Benno*. This is an important role given the need for *Benno* to be committed to innovation and CSR.

Award [1] for a basic answer that identifies a role of a mission statement.

Award [1] for a basic answer that identifies/explains a role of a mission statement

Award [2] for an answer that identifies/explains the roles of a mission statement with application.

Do not reward marks for describing/defining a mission statement.

Mark as 2 + 2

- (c) Explain **one** advantage **and one** disadvantage for *Benno* of using a focus group of loyal customers.

[4]

Advantages of a focus group of loyal customers:

- Can obtain detailed information about your own customers about their feelings, perceptions and opinions.
- Are cheaper than performing individual interviews
- Less time-consuming than individual interviews
- Provide an opportunity to clarify any issues or problems.

Disadvantages of a focus group of loyal customers:

- They can be hard to control and manage.
- You are only getting the views of loyal customers – it tells you nothing about consumers who prefer rival brands and why they prefer them to your soft drink.
- The results are difficult to analyse, especially if the focus group provides qualitative feedback.
- Members may not reveal their own feelings but are swayed by the majority view.
- May not be representative of the target market as a whole.

Possible application:

For *Benno*, an advantage of using a regular focus group is that they will be aware of the company's products and mission. This will reduce the amount of statistical noise and save time in the discussions when looking at new product ideas, such as biodegradable rings. Can help to support or otherwise, secondary research regarding the importance of 'green' credentials and of price in the soft drinks market.

However, having a regular group for *Benno* increases bias and reduces objectivity of the data researched. It might be a useful exercise for *Benno* to ask customers who are not overly familiar with their products to achieve a more balanced qualitative view. Difficult to organize particularly in the target group of 12-18 year olds since they are minors and need consent to participate.

Accept any other relevant advantage / disadvantage.

Accept any other relevant explanation.

Mark as 2 + 2.

Award [1] for a basic answer that identifies an advantage or disadvantage of using a focus group.

Award [1] for an answer that identifies/explains an advantage or disadvantage of using a focus group.

Award [2] for an answer that identifies/explains an advantage or disadvantage of using a focus group and which is suitably applied to Benno

Mark as 2 + 2.

- (d) Recommend whether *Benno* should replace its plastic drink rings with the new biodegradable drink rings.

[10]

For:

- It fits in well with its mission statement “to produce healthy drinks without damaging the environment” and this may be important in maintaining customer loyalty.
- It fits into its belief in corporate social responsibility, as the current drink rings damage the environment and harm creatures in the seas, such fish.
- Competition in this drinks market is very intense – this could act as a strengthening of its USP for *Benno* and retain loyal customers and attract customers from rivals. It will strengthen its image as a business that has “green” credentials.
- Sales of *Benno*’s drinks have fallen significantly over the last five years– so it is important that *Benno* does something to stem this tide.
- Accept any other reasoned arguments.

Against:

- It will cost \$5m to buy the machinery to produce the new rings and the business has no accumulated retained profits – therefore the funds will need to be raised, probably externally via a bank loan, which will lead to interest charges and an increase in operating costs. It may take time to find a suitable angel investor to help finance this project. Will the angel investor wish to exert some control over *Benno*’s operations?
- The unit cost increase is 50 %, a rise from 10 cents to 15 cents per ring, and the business only has a net profit margin of 10 %. As the market is competitive and reports suggest that consumers are price sensitive, a price rise – passing on the cost of the new rings – is probably not going to be possible. The result is that *Benno*’s net profit margin will fall.
- Sales are falling, particularly to the 12–18 age group – are they going to be energized into buying a product that is more environmentally friendly, particularly when reports suggest purchases of green products are not increasing?
- In terms of a new way forward for *Benno*, the introduction of the new rings has a great deal of merit. There are a large number of marketing opportunities available in a competitive market and this idea will strengthen *Benno*’s brand. However, the forecasted financial implications of this idea are not ideal and if sales volumes do not increase significantly then *Benno* may find itself financially worse off if profits do not increase. One solution may be to wait until some more objective market research via a new untested focus group have given their thoughts on the new ring.
- Accept any other reasoned arguments.

Marks should be allocated according to the mark bands on page 3 with further guidance below.

A balanced response is one that provides at least two arguments for and two arguments against the option.

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].

*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 judgement/conclusion.*

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

Section C

Marks should be allocated using the assessment criteria on pages 4 to 5 with further guidance below.

N.B.: examiners should include a breakdown of each mark awarded per criterion and a brief note explaining the mark awarded at the end of each candidate's response.

The main aim of paper 2 (SL or HL) section C is to assess candidates' understanding of the six major concepts (change, culture, ethics, globalization, innovation, strategy) within a business context. Candidates are to demonstrate their understanding through an organization of their choice. The expectation of the use of an organization is to allow assessment of the depth of candidates' understanding through their ability to apply the concepts and their knowledge.

Assessment of candidates' knowledge of the organization itself is not an aim of the assessment. If a candidate makes minor factual errors and these minor errors have no genuine bearing on whether the candidate understands the concepts, examiners should not penalize. For example, a minor error of historical fact (the year when a company was founded, or the year in which a change was implemented) which has no genuine bearing on candidates' understanding of the concepts does not warrant penalty.

- | | | |
|----|---|------|
| 6. | With reference to an organization of your choice, examine the impact of innovation on promotional strategy . | [20] |
| 7. | With reference to an organization of your choice, examine the impact of globalization on change in operations management. | [20] |
| 8. | With reference to an organization of your choice, examine the impact of ethics and culture on human resource management. | [20] |

It is expected that the candidate explains the chosen theoretical direction / content of their response.

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.

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

0 marks – 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.

Criterion B

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

Criterion C

- *Questions 6 to 8 require consideration of the impact of one concept on a second concept – therefore accept 2 + 2 arguments for a balanced response.*
- *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 is 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 occur. 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 could not be considered with a “group” of consumers or a management team.*
 - *For [4], a balanced response: need to 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.*
 - *Candidates need not explicitly say “stakeholders”.*
-