

Markscheme

November 2019

Business management

Higher level

Paper 1

16 pages

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The markbands and assessment criteria on pages 3–6 should be used where indicated in the markscheme.

Section A			Level descriptor
Q1 (b)	Q2 (b)	Q3 (b)	
Marks			
0			
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues and business management tools (where applicable), techniques and theories. • Little use of business management terminology. • Little reference to the stimulus material.
3–4			<ul style="list-style-type: none"> • A description or partial analysis of some relevant issues with some use of business management tools (where applicable), techniques and theories. • Some use of appropriate terminology. • Some reference to the stimulus material that goes beyond the name of a person(s) and/or the name of the organization. • At the lower end of the markband, responses are mainly theoretical.
5–6			<ul style="list-style-type: none"> • An analysis of the relevant issues with good use of business management tools (where applicable), techniques and theories. • Use of appropriate terminology throughout the response. • Effective use of the stimulus material.

Section B Q4 (d)	Level descriptor
Marks	
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 theory 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.

Section C, question 5**Criterion A: Knowledge and understanding of tools, techniques and theories**

This criterion addresses the extent to which the candidate demonstrates knowledge and understanding of relevant business management tools, techniques and theories, as stated and/or implied by the question. This includes using appropriate business management terminology.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Superficial knowledge of relevant tools, techniques and theory is demonstrated.
2	Satisfactory knowledge and understanding of relevant tools, techniques and theories is demonstrated.
3	Good knowledge and understanding of relevant tools, techniques and theories is generally demonstrated, though the explanation may lack some depth or breadth.
4	Good knowledge and understanding of relevant tools, techniques and theories is demonstrated.

Criterion B: Application

This criterion addresses the extent to which the candidate is able to apply the relevant business management tools, techniques and theories to the case study organization.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	The relevant business management tools, techniques and theories are connected to the case study organization, but this connection is inappropriate or superficial.
2	The relevant business management tools, techniques and theories are appropriately connected to the case study organization, but this connection is not developed.
3	The relevant business management tools, techniques and theories are generally well applied to explain the situation and issues of the case study organization, though the explanation may lack some depth or breadth. Examples are provided.
4	The relevant business management tools, techniques and theories are well applied to explain the situation and issues of the case study organization. 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 evidence 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: Individual 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) Outline **two** advantages for *Accord* of using job/customized production. **[4]**

Advantages could include:

- Product: adjusting recipes to meet customer needs
- Packaging: producing individually designed packaging for each customer
- Marketing: could reinforce USP, which is not strong as Aran does not have it right.
- Flexibility
- Differentiation

Some candidates may mention 'low stocks'. However stocks are likely to be low for any production system as this is a perishable product with perishable ingredients so at best a generic point.

Accept any other reasonable description.

Award [1] for each advantage up to a total of [2].

Award [1] for putting the advantage into context up to a total of [2].

- (b) Explain how *Accord* can differentiate Enrich from the products of its competitors. **[6]**

Key aspects:

- The product is aimed at the specialist "gym" market rather than the mass market
- Greater emphasis on natural, healthy ingredients
- More intimate relationship with customers as it is small
- Positive features of small versus multinational.

Explanation/analysis should come from discussing these in relation to the situation that *Accord* is in. Context from some comparison with competitors

Marks should be awarded according to the mark bands on page 3.

Award maximum [3] for a theoretical answer or for only analysing one feature.

Award maximum [5] if the analysis of two features or more is mainly descriptive but in context.

2. (a) Describe **two** reasons why secondary market research may not be useful to *Accord*. [4]

- Secondary market research – exploring data that has been already collected for a different purpose.
- Data may not be quite what is required – most likely for the mass market rather than niche market
- Data likely to be dominated by large businesses rather than by small businesses
- Data may be out of date.
- These are new products so maybe no existing data.

Accept any other reasonable reason.

Award [1] for each reason up to a total of [2].

Award [1] for putting the reason into context up to a total of [2].

(b) Explain possible economies of scale that may apply to *ABC Ltd.* but **not** to *Accord*. [6]

Economies of scale: Reduction in the average costs of a business as the scale of production increases. In this context, “scale” means productive capacity (*ie*, the physical size of the business) rather than the actual level of production.

ABC is a large multinational so it can:

- afford the best and most efficient equipment, whereas *Accord* will be very basic
- direct effective marketing based on a whole range of products, whereas *Accord* only has a limited portfolio and little budget
- employ a range of professionals and managers, whereas *Accord* only has the two owners so its skills and time are limited
- access to a wide range of sources of finance, hence cheaper finance than *Accord*, which, as a partnership is limited.

Accept any other reasonable explanation/application of EOS.

Marks should be awarded according to the mark bands on page 3.

*Award a maximum of [4] if the discussion of economies of scale is only about *ABC* or *Accord* but not both.*

Award maximum [3] for a theoretical answer.

Award maximum [5] if the analysis is mainly descriptive but in context.

N.B. *Some candidates may refer to average costs going down when production goes up (because of fixed costs being spread out more). Technically this is incorrect, as this is about production efficiency rather than scale so should not be allowed. However, candidates may still be able to explain types of EOS in context.*

3. (a) With reference to *Accord*, outline **two** possible steps for Aran and Kayla in starting the business. [4]

Steps could be:

- finding finance – needed for premise, equipment
- identifying/researching the market – it seems Aran has already done some of this but flawed
- building a customer base – gyms, etc
- creating a business plan
- setting up a partnership agreement

Context likely to come from *Accord* being a small business, partnership, what has already been done

Accept any other reasonable step.

Award [1] for each step up to a total of [2].

Award [1] for putting the step into context up to a total of [2].

- (b) **Other than** a business angel (line 108), explain methods of external finance that *Accord* could use to increase production capacity (line 108). [6]

- New partner. Realistic? Anyone suitable? May upset existing partnership.
- Bank loan. Difficult for small businesses, does not have much of a track record. Assets for security?
- Working capital sources (debt factors, reducing stocks, creditors/debtors) likely to be insufficient for the expansion because the business only deals in goods with a short shelf life.
- Grants/subsidies. Unlikely to be available.
- Lease rather than buy: often used for premises, so promising.
- Do not accept share capital – it is a partnership.

Candidates may mention converting to a limited company which provides possible extra finance. This can be rewarded and could be contextualized. Candidates may also mention conversion to a public limited company. This is unrealistic for *Accord* so can only be a non-contextual answer.

Explanation should come from how relevant the sources are.

Marks should be awarded according to the mark bands on page 3.

Award a maximum of [2] if the source chosen is internal.

Award maximum [3] for a theoretical answer.

Award a maximum [4] for only one method

Award maximum [5] if the answer is mainly descriptive but in context

To achieve [6] the candidate must consider at least two methods.

Section B

4. (a) Define the term *labour turnover*. [2]

Measure the rate at which employees are leaving a business, calculated as:

$$\frac{\text{Employees leaving in a fixed period}}{\text{Average number employed in that period}} \times 100$$

No need for formula if put into suitable words such as ideas of proportions, time periods, employees leaving, employee numbers.

Award [2] for a complete definition.

Award [1] for some understanding of labour turnover, eg it mentions “leaving” but not “employees” or time periods.

- (b) For Kayla’s proposal calculate:

- (i) the payback period; [2]

Payback measures the time taken to pay back the original investment.

Original investment = \$100k.

Paid back at a net \$80k per year.

After 1 year paid back \$80k so \$20k more needed.

\$20k takes $\frac{1}{4}$ year = 3 months.

So payback = 1 year 3 months. Allow 1 $\frac{1}{4}$ years, 1.25 years, 15 months

Award [2] if correct answer with units.

Award [1] if correct answer but no units, or a reasonable attempt with errors.

- (ii) the net present value (NPV) using a discount rate of 6 %.

Year	Cash flow	Discount factor	Present value (\$000)
0	-100	1.0000	-100
1	+80	0.9434	75.472
2	+80	0.8900	71.200
3	+80	0.8396	67.168
4	+80	0.7921	63.368
NPV			177.208

Allow rounding.

Award [2] if correct answer.

Award [1] if correct answer but no units, or a reasonable attempt with errors.

- (c) With reference to *Accord*, explain **one** advantage **and one** disadvantage of using total quality management (TQM).

[4]

Advantages:

- There are quality issues that could be addressed – batches are being rejected.
- There are supply chain issues as confirmed by Elsie that could be reduced with TQM.
- It could increase efficiency and therefore profits, which are essential to a small business.
- Could influence Aran’s impatience with supply chain.

Disadvantages:

- *Accord* is a small business and may not have resources.
- It employs part-time staff who may not take on TQM ideas.
- TQM is designed for larger, more complex operations.

Beware of answers that are only about general quality issues which should not be rewarded unless linked to TQM.

Accept any other relevant advantage/disadvantage.

Context comes from issues identified in the case and the nature of the business.

Award [1] for each advantage/disadvantage of TQM up to a total of [2].

Award [1] for putting each advantage/disadvantage into context up to a total of [2].

- (d) Discuss whether Aran and Kayla should change the organizational culture of *Accord* to overcome the problems with Enrich drinks.

[10]

Problems with Enrich related to culture:

- Sales not strong
- Aran getting frustrated
- Workforce do not share vision
- Mainly part-time interests outside of work
- Aran’s autocratic style has increased labour turnover
- Quality problems (may overlap with (c))
- Problems with suppliers (may overlap with (c))
- Some disagreement as to who is to be blamed.

Potential culture issues:

- Autocratic leadership
- Lack of sharing of vision
- Signs of disagreements and different styles.

However, some problems seem down to Aran's personality (person culture?): impatient, driven, wants to succeed, task-oriented. Is this culture, can it be changed?

Other problems are due to marketing issues, which may not be due to culture.

Can culture be changed?

- TQM can change culture. Is it really suitable? It would certainly examine all the processes and business relationships.
- Clearer vision and training staff may help.
- Maybe task culture is not helping. Could this become more one of roles or some other culture?
- Is Aran's style part of the culture? Maybe a different leadership style.
- Might it be better to employ full-time workers? Is this realistic?

Culture seems to be power based, could change to role based or task based.

If there are clear benefits from changing then it should be done, however, difficult to make a case?

Accept reasonable alternative answers.

Marks should be allocated according to the mark bands on page 4.

Award a maximum of [4] for a purely theoretical answer or with no effective use of case (eg, only repeating case material without development).

Award a maximum of [6] if culture change is considered but there is limited use of data, or if there is good analysis of data with limited consideration of culture change. (eg if main focus is on leadership with little link to culture).

Award a maximum of [8] if culture changes are considered and there is good use of data but there are no significant judgements.

Section C

5. Using the case study and the additional information on pages 3 and 4, recommend whether *Accord* should start making and selling snack bars or whether Kayla and Aran should sell *Accord* to *SF*. A force field analysis of the options could help you in your answer.

[20]

Making and selling snack bars:

Forces for the change to snack bars:

- Kayla is certain there is a market
- Fits in with existing product portfolio
- Payback and ARR are OK
- Business is in a good position to grow
- The Mintel report is very positive
- Snack bars are better than drinks because of competition.

Forces restraining the change:

- Aran thinks it better to target the mass drinks market
- There are still quality issues to overcome first
- Detox does not fit in with his ideas for the product/market.

Selling *Accord* to *SF*:

Forces for the selling *SF*:

- Offer is for 5 years' worth of earnings
- Detox remains
- Aran is frustrated with the current business and would accept the offer
- There are threats to *Accord*'s survival
- Certainty
- Kayla would buy Detox, which she likes.

Forces restraining the change:

- It would end the partnership
- Would Aran later regret it?

Do not penalize candidates who do not consider the "do nothing" option.

Criterion A: Is about the choice of theories/tools made by the candidate to try and solve the problem. Possible theories, planning tools and techniques include: FFA, Investment appraisal, SWOT, Risk (candidates need not refer to Ansoff but it might be useful), takeovers, product portfolios, market data, ownership and control issues, eg partnership, market research the importance of assumptions.

In this instance, as compared with previous sessions, the emphasis is likely to be on choosing relevant theories and ideas and not so much on business tools.

No understanding of FFA max [3]. FFA could be presents as a table or a discussion of driving/restraining forces

For [4]: FFA plus at least one other tool, technique or theory understood and developed well with some relevance to the additional stimulus material.

For [2]: some understanding of at least two tools, techniques or theories, but not developed.

Criterion B: Is about the use of the stimulus, tools, techniques, theories in solving the problem. Application will be judged by the use of the stimulus material, in particular the extra material, especially Table 1, Appendix 1.

For [4]: relevant tools, techniques and theories are applied well to the case study (including OFR) context and additional stimulus material, the application is convincing and relevant.

If only one option considered max [3].

Limited use of Table 1 or Appendix 1 max [3].

For [2]: some limited context/application but not developed. Use of tools limits candidate's ability to make reasoned arguments.

Criterion C: Is about the process of making a decision and the strength of the recommendation. Options **discussed** in balanced way, **conclusions drawn** as to whether they work. Remember, "do nothing" can be a recommendation.

It is always worth reflecting on the piece of work as a whole (the entirety of the answer) when deciding on the mark for this criterion.

There can be some flexibility about the chose option: Option A, Option B, both options, neither option

For [4]: There needs to be a comparison between the two options using Section C and other material and a recommendation (Option 1, option 2 or do nothing) made and supported.

For [2]: Only one option considered or some limited arguments but not justified. No comparison, limited analysis, but candidate arrives/draws a reasoned conclusion.

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

- an introductory paragraph
- logical structure
- a concluding paragraph
- fit-for-purpose paragraphs. This means: not too long, focused on distinct issues, sequenced well, guides the reader.

Beware of under-rewarding weak scripts that, nonetheless, have some or all of the elements. The candidate will lose marks in the other criteria so they should not be doubly penalized.

For [4]: all four elements present, clearly organized and there is clarity in the student's answer.

For [2]: No logical structure, but other elements present or logical structure with other elements missing.

Criterion E: Is about the extent to which stakeholders (both groups and individuals) are considered.

- *Individuals: Aran and Kayla (these hold different views so can be considered as different individuals).*
- *Groups: Managers, employees, customers, communities, governments, stakeholders at SF.*

*For [4]: two or more individuals **and** groups are considered in a balanced way.*

*For [2]: one group or individual considered appropriately, or several individuals **or** groups considered superficially.*

[1] could be awarded if there is mention of stakeholders but with little development.

[3] could be awarded if there is a range of stakeholders but little balance.
