

# Markscheme

November 2019

Business management

Standard level

Paper 1

10 pages

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The markbands and assessment criteria on pages 3–4 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"> <li>• Little knowledge and understanding of relevant issues and business management tools (where applicable), techniques and theories.</li> <li>• Little use of business management terminology.</li> <li>• Little reference to the stimulus material.</li> </ul>
3–4			<ul style="list-style-type: none"> <li>• A description or partial analysis of some relevant issues with some use of business management tools (where applicable), techniques and theories.</li> <li>• Some use of appropriate terminology.</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>• At the lower end of the markband, responses are mainly theoretical.</li> </ul>
5–6			<ul style="list-style-type: none"> <li>• An analysis of the relevant issues with good use of business management tools (where applicable), techniques and theories.</li> <li>• Use of appropriate terminology throughout the response.</li> <li>• Effective use of the stimulus material.</li> </ul>

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"> <li>• Little understanding of the demands of the question.</li> <li>• Few business management tools (where applicable), techniques and theory 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>

## Section A

1. (a) Outline **two** advantages to *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.

*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.

*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.
- Data likely to be dominated by large businesses rather than by small businesses.
- Data likely to be for mass market rather than niche market.
- Data may be out of date.

*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* 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 [2] if the discussion 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 textbooks 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.*

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

It is a partnership, so needs to incorporate:

- 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.

*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.
- 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.

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

### Section B

4. (a) Define the term *batch production*. [2]

Producing a defined number of identical products – each item in the batch passes through one stage of production before passing on to the next stage. An example, which is not necessary, is the commercial manufacture of biscuits.

*Award [2] for a complete definition.*

*Award [1] for some understanding.*

- (b) For the first year of the production of Detox calculate:

- (i) the gross profit generated by Detox; [2]

$$\begin{aligned} \text{Gross profit} &= \text{revenue} - \text{cost of goods sold} \\ &= \$160\,000 \times \$2.50 - \$160\,000 = \$240\,000 \end{aligned}$$

*Award [2] if correct answer and working shown.*

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

- (ii) the net profit margin of Detox. [2]

$$\begin{aligned} \text{Net profit before tax, interest} &= \text{Gross profit} - \text{operating costs before tax and interest} \\ &= \$240\,000 - \$20\,000 = \$220\,000 \end{aligned}$$

so

$$\begin{aligned} \text{NPM} &= \frac{\text{Net Profit before tax and interest}}{\text{sales revenue}} \times 100\% \\ &= \frac{220}{400} \times 100 = 55\% \end{aligned}$$

*Award [2] if correct answer and working shown.*

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



- (c) With reference to *Accord*, explain **one** advantage **and one** disadvantage of an organizational structure based on product.

[4]

**Advantages:**

- Simple.
- Can have different strategies for each product.
- Markets different, so works well.

**Disadvantages:**

- May duplicate functions.
- Small business, so does not want too many departments.

*Any other reasonable explanation*

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

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

(d) Discuss Kayla's plan to produce a range of snack bars.

[10]

**Arguments for:**

- There are problems with *Enrich*, so maybe diversify.
- Good profits.
- Massive growth (34 %).
- Returns seem good (candidates may do payback, ARR).
- Small businesses have successfully entered the market.

**Arguments against:**

- Aran does not like idea.
- Very competitive.
- Dominated by large companies.
- May not match large advertising spending.
- Would be better to spend money advertising *Enrich*?

Recommendation not needed, but rewardable if supported by analysis.

*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.*

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