

Markscheme

May 2023

Business management

Standard 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) State **two** characteristics of an entrepreneur. **[2]**

- A person who starts a business/self-starter.
- A **person** who has raised the finance to start up the business/attracts investment.
- A person that **organizes the new business (planning)**, from hiring and buying inputs like raw materials and workers to producing/providing the finished goods/services for sale.
- A person that has to be a **risk taker** because the business could perform poorly or even fail; hence, can lose money in a business as well as make it.
- It is an individual who demonstrates **enterprise** and **initiative** in order **to make profit**.
- Creative/innovative/relies on innovation.
- Resourceful resilient or determined.
- Self-motivated.

Accept any other relevant characteristic.

N.B. no description is required.

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

(b) Using the information in **Table 1**, prepare a monthly cash-flow forecast for *MU* for the first six months of operation. **[6]**

Method 1

	July	August	September	October	November	December
Cash Sales revenue	\$4000	\$4000	\$3500	\$3500	\$4000	\$4500
Government payment toward rent	\$500	\$500	\$500	\$500	\$500	\$500
Total cash inflows	\$4500	\$4500	\$4000	\$4000	\$4500	\$5000
Rent	\$1000	\$1000	\$1000	\$1000	\$1000	\$1000
Purchases	\$1600	\$1600	\$1400	\$1400	\$1600	\$1800
Salary	\$1200	\$1200	\$1200	\$1200	\$1200	\$1200
Electricity		\$200		\$200		\$200
Cleaning supplies	\$100	\$100	\$100	\$100	\$100	\$100
Total cash outflows	\$3900	\$4100	\$3700	\$3900	\$3900	\$4300
Net cash flow	\$600	\$400	\$300	\$100	\$600	\$700
Opening balance	\$0	\$600	\$1000	\$1300	\$1400	\$2000
Closing balance	\$600	\$1000	\$1300	\$1400	\$2000	\$2700

Method 2 where rent has been reduced by the \$500.

	July	August	September	October	November	December
Cash Sales revenue	\$4000	\$4000	\$3500	\$3500	\$4000	\$4500
Total cash infows	\$4000	\$4000	\$3500	\$3500	\$4000	\$4500
Rent	\$500	\$500	\$500	\$500	\$500	\$500
Purchases	\$1600	\$1600	\$1400	\$1400	\$1600	\$1800
Salary	\$1200	\$1200	\$1200	\$1200	\$1200	\$1200
Electricity		\$200		\$200		\$200
Cleaning supplies	\$100	\$100	\$100	\$100	\$100	\$100
Total cash outflows	\$3400	\$3600	\$3200	\$3400	\$3400	\$3800
Net cash flow	\$600	\$400	\$300	\$100	\$600	\$700
Opening balance	\$0	\$600	\$1000	\$1300	\$1400	\$2000
Closing balance	\$600	\$1000	\$1300	\$1400	\$2000	\$2700

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** and **conceptual** errors (for example, if a candidate has the electricity fee monthly rather than every other month, it is one error) and candidates should only lose **[1]** for that error.

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

[2] for a cash flow that has some problems in layout and wording and which has **more than three** mistakes or omissions in layout/headings/calculations (apply OFR).

[3] for a largely correct cash flow that has some minor problems or omissions in layout/wording and which has three mistakes (apply OFR).

[4] for a largely correct cash flow that has some minor mistakes with layout and /or headings/wording and which has two mistakes (apply OFR) **or** the candidate does not produce a mathematically correct cash flow.

[5] for a mathematically correct cash flow that has some omission of one category **or** one mistake in calculations or headings.

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

N.B. If the candidate writes net profit/net cash profit instead of net cash flow, deduct **[1]**.

If a candidate produces a cashflow that looks something like below, award the marks that follow:

1 B	$\text{July: } -1800 (\text{expenses}) - 1600 (40\% \text{ of sets}) + 4000 (\text{sets revenue}) = +600$ $\text{August: } -2000 (\text{expenses}) - 1600 (\text{purchases}) + 4000 (\text{sets revenue}) = +400$ $\text{September: } -1800 (\text{expenses before purchases}) - 1700 (\text{purchases}) + 3500 (\text{sets revenue}) = +300$ $\text{October: } -2000 - 1400 + 3500 = +100$ $\text{November: } -1800 - 1600 + 4000 = +600$ $\text{December: } -2000 - 1800 + 4500 = +700$ <p>Cash flow formula: (expenses prior to purchases) - (purchases) + (sets revenue per month)</p> <p>* electrical every other month starting in August</p>
	<p>From In that 6 month period MakeUp (MU) is up \$2700.</p>

Award [3] if the response is 100% mathematically correct.

Deduct [1] for each mathematical error.

Thus, if the candidate produces a cashflow such as above and has one mathematical error, award [2].

If the candidate produces a cashflow such as above and has two mathematical errors, award [1].

if the candidate produces a cashflow such as above and has three mathematical errors, award [0].

Own figure rule (OFR) applies.

- (c) Comment on the possible impact of the new competitor on MU's cash flow. [2]

If Lana believes that she needs to **react** to the entry of the new competitor by also **lowering her prices**, she needs to be aware that her **cash flow will be diminished** with a tighter profit margin.

Lana needs to decide if, temporarily, tighter but at least protected profit margins because of reduced prices is a wise strategy. So far, her cash flow looks good and is increasing. However, **in the long run**, reducing prices without ensuring that she is increasing profit, **will lead to a decreasing cash flow** (which can become negative) and to giving away her margins.

N.B. If a candidate states that revenue will likely fall but makes no reference to cash flow, award [0].

If a candidate states only that the cash flow will decrease with no logical explanation, award [0].

Accept any other relevant comment.

Award [1] for a partial/generic comment of the impact on MU, such as "the cash flow will decrease."

Award [2] for an explanation of the impact on MU's cash flow, that makes use of the stimulus provided.

2. (a) Define the term unique selling point/proposition (USP). [2]

This is the aspect or feature of the product that may **differentiate** it **from its rivals**. It may help a business to **gain a competitive advantage over competitors**.

***N.B.** no application required. Do not credit examples. Just mentioning competition is not enough. Candidates must get at the idea of competitive advantage for the second mark.*

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

To be awarded [2] candidates must include references to both differentiation and competitive advantage.

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) Using relevant information from **Table 2**, calculate:

- (i) the average rate of return (ARR) for **Option 1** (*show all your working*);

[2]

Investment project	Profit (\$000)	Profit per annum (\$000)	ARR
Option 1: R&D	17600 – 9600 = 8000	8000/6 = 1,333.33	13.89%

ARR option 1 (R&D)

ARR = Net profit per annum/capital (outlay) cost x 100

ARR option 1 = 1,333.33 / 9,600 x 100 = 13.888 = 13.89% (Allow rounding)

If a candidate writes 13%, 13.8%, or 13.88%, award **[1]** because of incorrect rounding. Accept 13.9% or 14%.

Award marks as follows,

[2] if a candidate provides the **correct answer with workings**. A correct answer must include the **percentage sign (%)** in the final answer or in the working.

[1] If a candidate **who has shown workings** provides a correct procedure (thus, demonstrates an understanding of the underlying concepts) **but** has made an error in calculation or the working / answer does not include the **percentage sign (%)**.

[1] If a candidate does not show any working and simply writes the answer.

Award no marks **[0]** merely for writing the formula.

(ii) the average rate of return (ARR) for **Option 2** (show all your working); **[2]**

Investment project	Profit (\$000)	Profit per annum (\$000)	ARR
Option 2: Open a wind farm	16,000 – 9000 = 7000	7000/6 = 1,166.67	12.96%

ARR option 2 (open a wind farm with five windmills)

ARR option 2 = 1,166.67 / 9,000 X 100 = **12.962 = 12.96%** (Allow rounding)

If a candidate writes 12.9%, award **[1]** because of incorrect rounding. Accept 13%. Award marks as follows,

[2] if a candidate provides the **correct answer with workings**. A correct answer must include the **percentage sign (%)** in the final answer or in the working.

Deduct **[1]** if no % sign. If the candidate has already lost **[1]** for no % sign in (b)(i), do not deduct **[1]** in (b)(ii) for the same error.

[1] If a candidate **who has shown workings** provides a correct procedure (thus, demonstrates an understanding of the underlying concepts) **but** has made an error in calculation or the working / answer does not include the **percentage sign (%)**.

[1] If a candidate does not show any working and simply writes the answer. Award no marks **[0]** merely for writing the formula.

(iii) the payback period for **Option 1** (show all your working). **[2]**

Total capital cost (\$000) for option 1 (R&D) = 9600
 Minus cumulative net cash flow until Y4 - 7100
 2500 (amount required)

(Amount required / net cash flow in year) x 12 = No. of months
 2500 / 5000 x 12 = 0.5 x 12 = 6 months

Payback period for option 1 is 4 years and 6 months or 4.5 years or 4 ½ years

Alternative answer:

	Annual net cash flow	Cumulative cash flow
Year 0	(\$9,600)	(\$9,600)
Year 1	-	(\$9,600)
Year 2	-	(\$9,600)
Year 3	\$2,500	(\$7,100)
Year 4	\$4,600	(\$2,500)
Year 5	\$5,000	\$2,500

Year 5:
 if \$5000 12 months
 $\$2500 \times = \$2500 \times 12 / \$ 5000 = 6 \text{ months}$
 Answer: So, payback period for option 1 is **4 years and 6 months or 54 months**

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

- (c) Comment on whether *WO* should choose **Option 1** or **Option 2**. **[2]**

Award [1] for making each valid point up to a maximum of [2]. Examples include:

- **Restating** what they have **calculated**. Basically, the candidate will state that **option 1 has an ARR of 13.89%**, which is almost one point **higher** than option 2, which has an ARR of 12.96%. Accept “Option 1 has a higher rate of return than Option 2” commenting that **if the demand for wind generated electricity and electricity price rise then option 2 would be better in the long run**.
- Commenting on the fact that the **payback for option 2 is quicker (4 years**, versus option 1 being 4.5 years).
- Commenting that under Option 1, *WO* receives no cash inflows in the first two years whereas under Option 2 *WO* starts having cash inflows from year 1.
- Commenting on the fact that Option 1 has more cash inflows.

Accept any other relevant comment.

Award [1] for stating a partial/generic comment. Award [2] for an explanation with application to the stimulus.

Section B

3. (a) State **two** features of e-commerce. **[2]**

Features of ecommerce include:

- e-commerce faces **few geographic constraints**;
- it can be **available/accessible at any time**;
- large potential customer base (**global reach**);
- largely **standardized** (across companies) **platforms**. Thus, to most customers **easy to use**;
- **multiple payment options**;
- **personalization** is increasingly common and practiced;
- websites can be **interactive**;
- websites can contain **lots of information** and allow the combined use of audio, video and text messages to **deliver a marketing message**;
- a quick and easy way for consumers to shop;
- convenient and relatively inexpensive for businesses to set up;
- cheaper than brick-and-mortar stores/no need to have stores.

Accept any other relevant features.

Do not accept that e-commerce is selling online or through the internet.

Award [1] for each relevant feature stated up to a maximum of [2].

N.B. *no description is required.*

- (b) Explain **one** advantage **and one** disadvantage for *EL* of having a unique selling point/proposition (USP). **[4]**

Advantages of a unique selling point/proposition include:

- **customer loyalty**;
- **differentiation** from competition;
- **focused marketing**;
- **revenue increases**;
- **it can create barriers** to entry to deter potential competitors.

In the case of *EL*, the advantage that it had because of its **USP** was that it could differentiate itself from the other packaging companies with its focus on **fulfilling quickly customized orders**. Also because of its USP, *EL* attracted additional customers and, presumably, its revenue increased.

Disadvantages of a unique selling point/proposition include:

- it can **shape customer expectations**, which the company must then meet or disappoint;
- it can **become meaningless because of obsolescence of technology**;
- it can be **too focused, which can result in lost opportunities**;
- the messaging about the USP may not be speaking properly to the intended target market.

In the case of *EL*, a disadvantage of its USP was that the company had effectively **shaped customer expectations. However**, as the company grew and encountered **diseconomies of scale, it began to fail to fulfil orders in a timely fashion**. This situation was problematical for *EL* because its customers chose *EL* as their supplier precisely because the company's USP was fulfilling orders in a timely fashion.

Accept any other relevant advantage/disadvantage.

Mark as [2] + [2].

*Award [1] for **one** appropriate advantage / disadvantage and [1] for a development with respect to *EL*. Award 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 **two** diseconomies of scale that *EL* may have experienced. **[4]**

EL's decision to have **four small factories rather than one large factory** allows the company to be responsive to customers and, when possible, manufacture the product in a factory geographically close to the customer. This operating model, however, **can cause several diseconomies of scale**:

- **managerial diseconomies of scale**, as each factory must have its own plant manager;
- **organizational diseconomies of scale**, as coordination of the four factories consumes time and money;
- communication diseconomies of scale. As *EL* now has multiple factories in two countries where different languages are spoken, communication becomes more challenging and could be more costly by slowing operations down.
- **technical diseconomies of scale**, at times, according to the stimulus, individual factories are working at full capacity, which can lower productivity because of overcrowding;
- **purchasing diseconomies of scale**: too much stock in each factory. Stock can also become spoilt, obsolete or unfashionable.

Candidates may state financial or capital diseconomies of scale, with some explanation. However, given the stimulus, there is no opportunity for application. Thus, the maximum a candidate could get for either financial or capital diseconomy of scale is [1].

Accept any other relevant diseconomy of scale.

Mark as [2] + [2].

*Award [1] for each diseconomy of scale identified and an additional of [1] for a development with respect to *EL*. Award a maximum of [2].*

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

For example:

*For explanation of a diseconomy of scale with **no** application [1].*

*For explanation of a diseconomy of scale **and** application [2].*

- (d) Discuss whether *EL* should enter into the contract with *WM* if they have the winning bid. **[10]**

EL has many compelling reasons to enter the five-year contract with *WszytkoMart* (*WM*):

- *WM* is a major retailer and in terms of growth for *EL* this opportunity is special. *EL* would benefit from *WM*'s experience and from synergies;
- *EL* could quickly become one of the largest eco-friendly packaging companies;
- the prestige of getting a contract with *WM* would also presumably enhance *EL*'s reputation;
- the five-year contract would virtually guarantee profits in the first five years;
- it will be able to reduce diseconomies of scale.

EL also has many compelling reasons not to enter the five-year contract with *WM*:

- Getting in large-scale manufacturing competing on price ("focusing on keeping costs low") would be inconsistent with the USP *EL* had built;
- The contract would require building a huge factory (huge investment) and neither method of financing the new factory is altogether satisfactory;
 - With the debt option, *EL* would have to take out a 30-year loan but gets only a five-year contract.
 - with the equity option, Marek and his father would no longer have a controlling interest (will lose control and power) in the company.

Accept other relevant judgments, if justified.

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

N.B. The marks listed in the far right column are maximum awards.

	Maximum award
Minimal attempt. Does not really understand the demands of the question. No application, theoretical answer	[1-2]
One argument for entering the contract, very limited application. Lacks balance	[3]
Either two arguments for or against entering the contract, but no balance OR One argument for, one argument against entering into the contract.	[4]
Two arguments for a position and one argument against.	[5]
At least two arguments for and two arguments against. No real conclusion.	[6]
At least two arguments for and two arguments against. A conclusion with judgments.	[7-8]
At least two arguments for and two arguments against. A conclusion with judgments. Rich use of business language. Response shows depth of understanding and nuance.	[9-10]

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. 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.

N.B. The marks listed in the far right column are maximum awards.

	Maximum award
Minimal attempt. Does not really understand the demands of the question. No application, theoretical answer	[1-2]
One argument for closing all its physical shops and selling online, very limited application. Lacks balance	[3]
Either two arguments for or against closing all its physical shops and selling online, but no balance OR One argument for, one argument against closing all its physical shops and selling online	[4]
Two arguments for a position and one argument against.	[5]
At least two arguments for and two arguments against. No real conclusion.	[6]
At least two arguments for and two arguments against. A conclusion with judgments.	[7-8]
At least two arguments for and two arguments against. A conclusion with judgments. Rich use of business language. Response shows depth of understanding and nuance.	[9-10]

5. (a) State **two** features of loan capital.

Features of loan capital include:

- it is medium or long-term borrowed money (rather than shares).
- it must be repaid.
- the borrower must pay interest.
- the borrower might be required to put up security to obtain a loan.
- it is an external source of finance.

If a candidate just says “borrowed money” or something to that effect with no time modifier, do not accept.

If a candidate exemplifies with overdraft or says short-term loan, do not accept unless they say “short-term” and/or medium- or long-term loan. In that case, accept on the basis of positive marking.

If the candidate says something to the effect of “over time” when referring to the payback period or time modifier, do not accept. Such a descriptor is too vague. Over time could be six months or thirty years.

Accept any other relevant or accurate feature.

Award [1] for each feature stated up to a maximum [2].

N.B. *no description is required.*

- (b) With reference to *JP*, explain the differences between job/customized production and batch production. **[4]**

Job production occurs when a business **manufactures each item one at a time** and **typically to unique specifications**. Currently, all clothes produced by *JP* are unique, and each item must be made individually, which means that a tailor will begin each single item one at a time and complete it before moving on to the next item. The **emphasis is on quality and originality**, and the **producer can charge premium prices**. **Production is market-oriented**. The order is made for a specific customer.

Batch production occurs when a **business produces items with common characteristics in groups (or batches)**. The **items move from one stage of production to the next as a group, with different processes occurring at every stage**. Under *JP*'s possible switch to batch production, whole groups of items (shirts of a certain design and size) would be made in stages (cutting from the pattern>sewing>putting on buttons, etc.>until the shirts are completed).

Mark as [2] + [2].

Award [1] for only stating the basics of how each production process works.

*Award an **additional [2]** for sound and thorough application to the stimulus.*

Award a maximum of [4].

- (c) With reference to *JP*, explain Justin’s leadership style. **[2]**

Based upon the stimulus, Justin has a **democratic leadership style**. With a democratic leadership style, a leader **consults with subordinates** and **gets their input before deciding** or, as with *JP*, the leader actually **empowers people to make decisions**. Justin asked his management team to determine which of the two options to choose.

Award [1] if the candidate accurately explains Justin’s leadership style with reference to the stimulus.

*Award an **additional [1]** if the candidate uses the term “**democratic**” in their explanation.*

Award a maximum of [2].

- (d) With reference to *JP*, explain the term *brand loyalty*. **[2]**

Brand loyalty refers to **when** particular **customers** will always, or almost always, **choose one brand over another**. It is when consumers become **committed to a firm’s brand** and are **willing to make repeat purchases over time**. In the case of *JP*, though not many people are aware of the *JP* brand, those who are and who have purchased from them tend to keep going back to *JP* for repeat purchases. In fact, 84% of *JP*’s customers have purchased from *JP* more than five times.

Award [1] for indicating that brand loyalty means that consumers are loyal and choose one brand over another.

*Award an **additional [1]** for a clear development and application to the stimulus.*

Award a maximum of [2].

(e) Discuss the two options that Justin has suggested.

[10]

Option 1, switching to batch production, would mean that one important feature of *JP*'s **business model would weaken: clothing would no longer be unique to each customer** (“*consultants would recommend from a series of pre-made options*”; “*clothing will no longer be custom-made*”). A second **disadvantage** would be that the company **would have to increase its investment in stock**. Right now, clothing is made one at a time, with stock delivered after the customer has approved the designs. With this option, *JP* **would have large amounts of stock**, both before production, during work-in-progress, and finished goods. This would **require an increase in working capital**. Will the price be the same?

The **advantages** of switching to batch production are: that **costs will be lowered**, as batch production is generally **cheaper than job production**. Further, *JP* should be **able to deliver items to the customer faster** (since design options will come from **ready-made items**). A further advantage is that **if *JP*'s sales grow**, and all indications are that is what *JP* wants, the **business can scale up operations more easily**.

However, it seems **unclear how this change will improve *JP*'s brand awareness**, one of its aims.

Option 2, building retail stores, would probably **increase *JP*'s brand awareness and, therefore, its customer base**. Brick-and-mortar stores, if properly located, **would increase visibility**. Curious potential customers could walk into the stores, where they would probably see mannequins attired in *JP* clothing. Further, the process of being measured in a store by *JP*'s own trained salespeople and/or tailors **will lead to more accuracy in measurements**, which should **strengthen brand loyalty further**. Finally, the **service** would be even **more personalized** than before. **Salespeople will be able to see customers in person** and have a **sharper sense of their fashion desires and requirements**.

The **disadvantages** of this approach are that *JP* will **have to make an investment in the brick-and-mortar stores**. Already the **business has loan capital and not strong liquidity**. Increasing debt and increasing debt service might well strain *JP*'s liquidity even further. While the business is profitable, its **profitability declined for two years in a row**, and **increased expenses of the new stores and the interest expense may weaken profitability further**.

Accept other relevant judgments, if justified.

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

N.B. *The marks listed are maximum awards.*

Maximum mark award	Option 1	Option 2	Judgments/conclusion
3	One option unbalanced		N/A
4	One option balanced (one argument for and one argument against; or Both options in an unbalanced fashion		N/A
5	One balanced and one unbalanced		N/A
6	Both balanced		No judgments/conclusions
7–8	Balanced Largely effective use of business language and the stimulus		Judgments/conclusions based upon analysis and explanation in the body of the response
9–10	Balanced Rich use of business language, business theory, and the stimulus		Judgments/conclusions based upon analysis and explanation in the body of the response

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.