2226 – 3017M

Diploma Programme
Programme du diplôme
Programa del Diploma

Markscheme

May 2026

Business management

Higher / Standard level

Paper 1

9 pages

The markbands on page 3 should be used where indicated in the markscheme.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptor.
1–2	• Little understanding of the demands of the question. • Little use of business management tools and theories; any tools and theories that are used are irrelevant or used inaccurately. • Little or no reference to the stimulus material. • No arguments are made.
3–4	• Some understanding of the demands of the question. • Some use of business management tools and theories, but these are mostly lacking in accuracy and relevance. • Superficial use of information from the stimulus material, often not going beyond the name of the person(s) or name of the organization. • Any arguments made are mostly unsubstantiated.
5–6	• The response indicates an understanding of the demands of the question, but these demands are only partially addressed. • Some relevant and accurate use of business management tools and theories. • Some relevant use of information from the stimulus material that goes beyond the name of the person(s) or name of the organization but does not effectively support the argument. • Arguments are substantiated but are mostly one-sided.
7–8	• Mostly addresses the demands of the question. • Mostly relevant and accurate use of business management tools and theories. • Information from the stimulus material is generally used to support the argument, although there is some lack of clarity or relevance in some places. • Arguments are substantiated and have some balance.
9–10	• Clear focus on addressing the demands of the question. • Relevant and accurate use of business management tools and theories. • Relevant information from the stimulus material is integrated effectively to support the argument. • Arguments are substantiated and balanced, with an explanation of the limitations of the case study or stimulus material.

Section A

1. Define the term *job rotation*. **[2]**

When employees are regularly moved into different positions (at the same level) in an organization. This allows the employees to gain experience and acquire new or a range of skills. Job rotation also gives employees a broader perspective about how the various positions fit into the whole organization, reduces boredom and maintains/improves motivation.

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

2. State **two** features of batch production. **[2]**

Features include:

- Production is made in groups / sets
- Items produced are similar / identical sets
- All items go through the same production stages simultaneously before the whole batch moves onto the next stage.
- Some economies of scale are possible / lower average cost in comparison with job production
- Items are produced in set quantities / according to demand
- It is flexible / can produce different product variations, enabling a degree of customization /choice.
- Switching between different product variations may require machine adjustments, increasing time taken / set up costs. Downtime between batches.
- Greater need for stocks, especially raw materials
- More capital intensive than job production

Accept any other feature of batch production

Do NOT accept:

- Produce in batches

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

3. Describe **two** long-term sources of finance used by *ABC*'s Gold division's. **[4]**

ABC's Gold division uses three long-term sources of finance:

- **A bank loan *[1]***, on which *ABC* will be charged interest / may need to provide collateral. *ABC* borrowed $50 million ***[1]*** to finance the new gold reclamation factory.
- **Retained profits *[1]***, which remain in the business and are not distributed (as dividends) to shareholders *ABC* used $35 million ***[1]*** of its retained profits as part of the finance for the new factory
- The **sale of new shares *[1]*** raises shares permanent capital and is not repaid OR which can be sold to existing shareholders (right issue) or to new shareholders***.*** *ABC* sold new shares worth $35 million ***[1]*** to help finance the new factory.

Mark as [2 + 2].

*Award **[1]** for mentioning each long-term source of finance used by ABC up to a maximum of **[2]**.*

*Award **[1]** for a description in context or only for context*

4. Explain **two** benefits for *ABC* of differentiating itself and its concrete products from competitors. **[6]**

Mark as [3] + [3].

Benefits (with explanations and potential application):

Improved brand / customer loyalty / customer retention ***[1]***, which will result in repeat sales ***[1]*** shown by sales increasing by 10% this year / 85% would use *ABC* again ***[1]***.

Improved brand awareness ***[1]*** makes *ABC* more recognizable and more likely to be preferred by customers ***[1]***. 80% regard *ABC* as a leading concrete supplier ***[1]***.

Can lead to word-of-mouth marketing / recommendations ***[1]***, which reduces the need for marketing expenditure ***[1]***, as shown by the fact that 75% of customers surveyed would recommend *ABC* to other businesses ***[1]***.

Creates a unique brand identity/competitive advantage /USP ***[1]*** able to stand out more in the market ***[1]***, which is shown by the fact that *ABC* is seen by 90% of customers surveyed as a business that cares about customers OR is seen by 80% of customers surveyed as a leading concrete supplier ***[1]***.

Example of benefit (with explanation but no application): Can charge higher prices / reduced price sensitivity ***[1],*** which increases profit margins ***[1]***.

Examples of benefits (without explanations and application):

- Reduce price sensitivity / charge higher prices
- Improve brand awareness / brand recognition / attract customers
- Build or improve brand reputation / customer loyalty
- Reduce competition
- Increase profit margin
- Competitive edge / USP / brand identity
- Brand status
- Word of mouth / recommendations

Accept any other relevant benefit

Mark as [3] + [3].

Award ***[1]*** *for each benefit* for *ABC* of differentiating itself and its concrete products from competitors *up to a maximum of* ***[2]***.

Award ***[1]*** *for an explanation (impact) of each benefit* for *ABC* of differentiating itself and its concrete products from competitors.

Award ***[1]*** *for application from the stimulus of each benefit* for *ABC* of differentiating itself and its concrete products from competitors.

For a maximum of [3] for each benefit, the answer must mention: a benefit [1] + explain it (the impact of this benefit) [1] and apply it to the case study [1]

5. Explain **two** internal economies of scale from which *ABC*'s Concrete division has benefited. **[6]**

Answers with application:

The Concrete division has benefited from purchasing / bulk buying economies of scale, technical (accept technological) economies of scale, and risk-bearing economies of scale.

Purchasing economies of scale / bulk buying ***[1]*** reduced the average costs of materials used by *ABC* ***[1]***. *ABC*'s purchases of limestone and clay aggregates to make concrete more than doubled during these five years ***[1]***.

Technical / technological economies of scale ***[1]*** are cost advantages that arise from using technology in production ***[1]***. *ABC* invested in expensive machinery that improved efficiency in its production of concrete ***[1]***.

Risk-bearing economies of scale ***[1]***, as *ABC* can spread risks by operating across multiple products and markets ***[1]***. *ABC* has launched a new concrete product, Eco-concrete ***[1].***

Answers without application:

Other economies of scale that could be suggested (without application to the case study) are:

Financial ***[1]***, which arise as the business is able to get loans at lower rates of interest ***[1]***.

Marketing ***[1]***, as marketing expenditure is spread across increased output ***[1]***.

Managerial ***[1]***, as specialists can be employed increasing efficiency ***[1]***.

Mark as [3]+[3].

*Award **[1]** for each internal economy stated up to a maximum of **[2]**.*

*Award **[1]** for an explanation of each stated internal economy.*

*Award **[1]** for application from the stimulus to each stated internal economy of scale.*

Section B

6. Discuss whether *ABC* should take over *V3*. **[10]**

Advantages

It is a very fast way of acquiring shops and jewellery makers, which would otherwise take years for *ABC* to grow organically.

Cost does not appear to be an issue, as all the shares can be purchased for $225 million and *ABC* has retained profits of $200 million – the additional $25 million could be financed by a bank loan and would only increase *ABC*'s non-current liabilities to $35 million.

Would result in acquiring 250 shops valued at $305 million, so appears to be a financially excellent deal.

The profit margin that *ABC* makes from its recycled gold is likely to be even greater, as it will receive the mark-up on gold jewellery whereas previously it just sold the gold to other jewellery makers.

V3 jewellery has brand recognition / value / USP – a famous actor proudly wore *V3* jewellery at an award ceremony.

Disadvantages

V3 has non-current liabilities of $125 million, which *ABC* would be responsible for and would have to meet the interest payments on these liabilities.

V3's target market seems at odds with *ABC*'s aims, which include producing a range of expensive jewellery and charging premium prices. Currently, *V3*'s customer base is those who want affordable fashion jewellery.

V3's reputation has clearly been negatively impacted by the ex-chairman's remarks about its jewellery and customers ("cheap and purchased by consumers who didn't know any better").

V3's sales have fallen by 50%. If this is a permanent change, the shops may be unable to make a profit.

Accept any other relevant answer.

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

7. Discuss whether *ABC* should form a joint venture with *FGF*. **[10]**

Advantages

Sales and output would increase, which would reduce the excess plastic stored, meaning *ABC* may not need to pay a recycler to remove it, saving $5 million.

The output of Eco-concrete is 5% below its break-even level, and this joint venture would use 25% of *ABC*’s Eco-concrete output. Therefore, break-even output should be exceeded so that Eco-concrete becomes profitable.

ABC may be able to use the deal to convince other house builders that Eco-concrete is safe to use, which may overcome the negative social media posts.

FGF will promote the use of Eco-concrete in all its marketing, which may improve awareness of Eco-concrete.

Sales of eco-friendly houses are forecast to grow quickly, so this is a potentially very lucrative market.

It is very affordable, as *ABC* has $200 million of retained profits.

ABC will benefit from first-mover advantage.

Disadvantages

Currently, *FGF* builds low-cost houses for low-income groups. It now wants to build eco-friendly houses targeted at high-income groups. *FGF* may struggle to change its image, so the profit forecast may be overly optimistic.

Other construction companies are entering the market, which may force down prices or reduce sales and potential market share.

FGF is a small company and may lack the resources needed for this joint venture. It only made $4 million profit in 2025, and sales revenue was $50 million, yet it wants *ABC* to contribute $40 million to the venture.

Payback is slow. If forecast profits are accurate, only half of *ABC*’s $40 million investment will be returned within 5 years, as profits are forecast to total $100 million with *ABC* receiving 20% ($20 million).

Accept any other relevant answer.

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