2226 – 3022M

Markscheme

May 2026

Business management

Higher level

Paper 2

20 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. (a) Define the term *capacity utilization rate*. **[2]**

A business's capacity utilization rate is the **percentage** of its **potential production capacity** that is **being used during a specific time period**.

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

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

Award ***[1]*** *for a reference to the extent to which a business's resources are being used compared to its potential production capacity.*

Award an additional ***[1]*** *for reference to a percentage (%) OR to a specific time period.*

Do not credit the formula as it is given in the formulae sheet.

(b) (i) Calculate the cost to make the suitcases to meet retailer Y's order of 200 large suitcases (*show all your working*). **[2]**

CTM = fixed costs + (variable cost × quantity)

Variable cost per unit = raw materials + energy + wages

Raw materials $30
Energy $1
Wage costs will increase by 20% from $5 to $6

Variable cost per unit = $30 + $1 + $6 = $37

Total variable costs = 200 units × $37 = $7400
Additional fixed costs (heating and lighting) $100

Cost to make = total variable costs + fixed costs = $7500

Award ***[1]*** *for the correct answer with the $ sign and an additional* ***[1]*** *for correct working.*

Do not penalize the lack of $ sign if it is included in the workings. ***Do not penalize the lack of sign $ more than once per question. Eg: it was already penalized in (b) (i) don't double or triple penalize in (b) (ii) and/or (c).***

(ii) Calculate the cost to purchase the suitcases from another supplier to meet retailer Y's order of 200 large suitcases (*show all your working*). **[2]**

Cost to buy
CTB = 200 × 37 = $7400

Award ***[1]*** *for the correct answer with the $ sign and an additional* ***[1]*** *for correct working. Do not penalize the lack of $ sign if it is included in the workings.*

(c) Calculate the total contribution if *TA* purchases the suitcases from another supplier to meet retailer Y's order of 200 large suitcases (*show all your working*). **[2]**

Method 1
Total contribution = total revenue – total variable cost
TR = 200 × $45 = $9000
TC = 200 × $37 = $7400
Total contribution = $9000 – $7400 = **$1600**

Method 2
Contribution per unit = price per unit – variable costs per unit
Then,
Total contribution = contribution per unit × total number of units sold

Contribution per unit = $45 – $37 = $8

Total contribution = $8 × 200 = **$1600**

*Award **[1]** for working and **[1]** for the correct answer with $ sign. Do not penalize the lack of $ sign if it is included in the workings.*

(d) Explain how *TA* could use absorption costing to allocate costs between the large and small suitcases it manufactures. **[2]**

Absorption costing allocates all direct costs and overheads associated with manufacturing a product to that particular product. In this case:

- 75% of the factory rent would be allocated to the fixed costs of making the large suitcases, as 75% of the factory is used to manufacture the large suitcases.
- 60% of factory employee wage costs would be allocated to the direct costs of making the large suitcases, as large suitcases account for 60% of the factory employee wage bill.

*Award **[1]** for demonstrating an understanding of absorption costing which makes reference to the allocation of all production costs, both direct and indirect costs / direct and overheads / fixed and variable costs.*

*Award an additional **[1]** for an application from the stimulus, such as:*

- 75% of the factory floor space is allocated to making large suitcases.
- 60% of *TA*'s factory employee wage costs are for making large suitcases.

Award ***[0]*** if calculations are presented instead of an explanation.

2. (a) State **two** features of a flat organizational structure. **[2]**

Features include:
- Has **few levels of hierarchy** in its organization chart
- Shorter chain of command
- Has a **wide span of control** for each manager
- Helps **foster creativity and innovation**
- **Empowers workers to make decisions** (decentralized) and act on their own initiative
- Enables faster communication
- Enables fast decision making

Accept any other relevant feature.

N.B. *no description is required.*

Award ***[1]*** *for each feature of a flat organizational structure stated up to a maximum of* ***[2]****.*

(b) Using information from **Table 1**, construct a statement of financial position (balance sheet) for *RT* as at 31 December 2025 (*show all your working*). **[4]**

Statement of financial position (balance sheet) for *RT* for the year ending 31 December 2025 (all figures in $000)

Non-current assets		
Property, plant and equipment (30 000 + 13 000)	43 000	
Accumulated depreciation	(6000)	
(Total)non-current assets (13 000 + 30 000 – 6000)		37 000
Current assets (5000 + 30 000 + 28 000)		
Cash	5000	
Debtors	30 000	
Stock	28 000	
Current assets		63 000
Total assets (37 000 + 63 000)		100 000
Current liabilities		
Bank overdraft	5000	
Trade creditors	20 000	
Short-term loans	15 000	
Current liabilities (5000 + 20 000 + 15 000)		40 000
Non-current liabilities		
Borrowings – long-term	30 000	
Non-current liabilities		30 000
Total liabilities (40 000 + 30 000)		70 000
Net assets (100 000 – 70 000)		30 000
Equity		
Share capital	22 000	

Retained earnings	8000	
Total equity (22 000 + 8000)		30 000

*Award **[0]** if the statement of financial position (balance sheet) does not reach a standard described below.*

*Award **[1]** if there is some understanding of how to construct a statement of financial position (balance sheet), but the actual account constructed is not in the IB format and has a number of errors, and/or the calculations within and between the various components are not presented or largely incorrect. However, there is limited evidence of a general understanding of the format. If more than four mistakes/omissions are evident, award a maximum of **[1]**. If the student does not follow the prescribed IB format, award a maximum of **[2]**.*

*Deduct **[1]** for each irrelevant addition of figures / irrelevant heading / omission including the overall heading provided the balance sheet is accurately constructed.*

*Award **[2-3]** if the principal elements of the balance sheet are constructed but may not be entirely accurate. The calculations under each heading/component/part are largely correct. Allow up to two mistakes in calculations and/or presentation for **[2]**. Allow for either one error in calculation or one error in presentation for **[3]**.*

Allow OFR. For example, if one irrelevant figure that belongs to the P/L account is added, obviously the rest will not match. Do not double penalize if student makes an error in one row of the balance sheet and carries it through another row of the statement that is related to said figure, provided that correct calculations follow.

*Award a maximum of **[3]** if the balance sheet is correct and well-presented but there are no supporting calculations. Award **[4]** if the balance sheet is accurately constructed in the expected IB format. All the relevant headings of each component/parts are used and correctly classified. Do not penalise for internal order of classification. All and only the relevant figures are presented. No extra irrelevant figures that belong to the P/L are included. The calculations under each part/component of the balance sheet are correct and well-presented. **[4]**.*

Students should not be penalized for writing "retained profit" or omitting the word "accumulated".
Students should not be penalized for a one column format if categories follow the IB format.
If one presentation error is repeated, such as omitting the label for "Total categories" it should count as one error.
Students should not be penalized for breaking down non-current assets into "Property, plant and equipment" and "Machinery", provided that correct figures for each category are used and correctly classified.

*Supporting working is expected with the calculation of current and non-current assets/liabilities, total assets/liabilities, net assets, equity. If there is no working, it is one omission, deduct **[1]**. Do not penalize the lack of working **if one or more** supporting calculations are present.*

(c) In 2026, RT will purchase four new machines at $100 000 each, and each machine will have a residual value of $20 000. *RT* will depreciate the machines over a five-year period.

Using straight-line depreciation, calculate *RT*'s total annual depreciation expense for the four new machines (*show all your working*). **[2]**

Depreciation = (historic value – residual value) / number of years of useful life
($100 000 – $20 000) / 5 years = **$16 000 for each new machine**
Total annual depreciation = $16 000 × 4 = **$64 000 for the four new machines**

Alternative method:

Purchase price for the four machines = $400 000
Residual value for the four machines = $80 000
Total annual depreciation = ($400 000 – $80 000)/5 = $64 000 for the four new machines

*Award **[1]** for working and an additional **[1]** for the correct answer with $ sign, up to a maximum of **[2]**.*

Allow BOD if other signs, e.g., £ or €, are used in error.

Accept if sign is present in either the working or final answer.

*If a student only calculates annual depreciation **for one machine,** with working similar to the above, award a maximum of **[1]**.*

(d) Explain **one** disadvantage for *RT* of using the straight-line depreciation method. **[2]**

Possible disadvantages for *RT* from using the straight-line depreciation method:

- The straight-line depreciation method does not recognize the rapid pace of technology advances which may make existing assets redundant or obsolete. ***RT* produces watches and accessories for sports (wearable technology) and develops modern technology**. *RT*'s machinery and equipment may require replacing regularly. Using a straight-line depreciation method may lead *RT* to report an **unrealistic inaccurate value of the assets.**

- Unrealistic for many assets. The straight-line depreciation method requires estimates on life expectancy and residual value of the assets **(in this case, five years with a residual value of $20 000 each machine)**. For a technology company like *RT*, this may be particularly challenging, as **continuous innovation in technology may reduce life expectancy** and therefore lead **to inaccurate calculation of depreciation.**

- Assets value may not be reported accurately. ***RT's* machinery and equipment tend to lose value more rapidly in the first few years** and in connection with the rate at which the assets are used. Given that *RT* uses the straight-line depreciation method, the same annual depreciation expense is considered each year through the life of the assets, which may **not accurately reflect the asset value.**

Without application:

- Ignores usage. The straight-line depreciation method does not consider if a machine is heavily used or not, therefore does not reflect **the accurate/actual value of the machinery**

- Can overstate profits. If an asset like technology loses value at the beginning, the straight-line depreciation method may understate early expenses and **make profits look higher than actual profits.**

Do not credit an explanation of the straight-line depreciation method unless a clear disadvantage for RT is considered.
Students may refer to their calculation in ***(c) ($16 000)*** *for application. Allow OFR.*

Accept any other relevant disadvantage.

Award ***[1]*** *for an explanation of a relevant disadvantage and an additional* ***[1]*** *for application to RT.*

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

For example: For an explanation of a relevant disadvantage with no application ***[1]****.*

For an explanation of a relevant disadvantage and application to RT ***[2]****.*

Award up to a maximum of ***[2]****.*

3. (a) State **two** features of an autocratic leadership style. **[2]**

Features include:

- **Makes all decisions without consultation** (centralized decision making)
- **Prefers not to delegate** (holds on to as much power, control and decision-making authority as they possibly can)
- Allows **little or no input from subordinates**
- **Decisive and structured personality**
- **Enables fast decision making**
- **One way communication with employees**

Accept any other relevant feature stated.

N.B. *no description is required.*

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

(b) Using information in **Table 2**:

(i) calculate the budgeted expense for the Marketing department for January, **X** (*show all your working*); **[2]**

Budgeted expenses = Actual figures – variance (all in $000s)
500 + X + 20 = 450 + 200 + 15 – 55
X= 450 + 200 + 15 – 55 – 500 – 20

X = $90 in (000') = budgeted **marketing expense for January**

Accept possible alternative working.

N.B. *Do not penalize the lack of $ or (000') as they are given in the table.*

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

(ii) calculate the total variance for the Marketing department for the period January–April **and** state whether it is adverse or favourable *(show all your working*). ***[2]***

Actual expenses = 200 + 180 + 190 + 200 = 770
Budgeted expenses = 90 + 100 + 100 + 150 = 440
Total variance = 770 – 440 = $330 in 000s (adverse) = total variance for the Marketing department
Do not accept –330 or (330) as a correct answer.

*Award **[1]** for working and **[1]** for the correct answer and adverse or favourable, up to a maximum of **[2]**.*
N.B. *Do not penalize the lack of $ or (000') as they are included in the table.*
*If "adverse" is not stated the answer is not complete, deduct **[1].***

Allow OFR for budgeted expenses calculated in (b)(i).

(iii) calculate the total variance for March, **Y**, **and** state whether it is adverse or favourable (*show all your working*); **[2]**

Variance expenses = Actual expenses – Budgeted expenses
Y= (460 + 190 +15) – (500 + 100 + 20) = 45
Y = $45 (Adverse) in (000s) = Total expenses variance for March
Do not accept –45 (adverse) as a correct answer

*Award **[1]** for working and **[1]** for the correct answer and adverse or favourable, up to a maximum of **[2]**.*
***N.B.** Do not penalize the lack of $ or (000') as they are included in the table.*
*If "adverse" is not stated the answer is not complete, deduct **[1].***

(c) Explain the importance of budgets and variances for *HRC*'s Marketing department in decision-making. **[2]**

- Helps control and monitor expenses. The **Marketing department has an adverse total variance of $330 000**, which shows that **actual expenses ($770 000) are above their budgeted expenses ($440 000) due to overspending on advertising**. *HRC* may need to look for a cheaper alternative advertising or reduce the amount spent in this area.
- The use of budget and variances could motivate the marketing department to identify areas of improvement **to receive a performance-related bonus**.
- Allows for planning and for the reallocation of resources from departments with favourable variances such as the Sports department, to cover the **Marketing department's $330 000 deficit.**

Allow OFR if the student mentions their calculation to (b)(ii).

*Award **[1]** for identifying or describing the importance of budget and variances for the marketing department and a further **[1]** for a suitable application with respect to HRC. Award a maximum of **[2]**.*

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

Section B

4. (a) State **two** features of a publicly held company. **[2]**

Features include:

- **Limited liability**. The liability of the shareholders is limited to the extent of the shares owned by them.
- It is a **separate legal identity**.
- Can raise capital by selling shares in the stock market (offers shares to general public).
- Needs to make available to the public and all shareholders certain information governed by listing rules.
- Can be subject to takeover if third party buys majority of shares.
- easier to raise finance than other forms of legal entity.
- operates in the private sector.
- continuity of existence.
- shareholders receive dividends in return for investment.
- usually very large organisations.
- has a Board of Directors.

Accept any other relevant feature.

N.B. *No description is required.*

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

(b) Explain **two** advantages for *RJ* of using competitive pricing for Rey. **[4]**

Competitive pricing method sets product or service prices based on competitors' prices.

Advantages include:

- **Increases sales volume**. If *RJ* sets **Rey's prices lower (slightly below) than competitors' prices**, a competitive pricing method can lead to higher sales volume and increased market share.
- **Strengthens *RJ*'s customer loyalty**. **Rey has been in the market for 25 years**. Consistently **offering lower prices** than competitors **for a high-quality detergent** can boost brand loyalty and enhance Rey's market position.
- *RJ*'s cost of production **is low due to economies of scale.** A competitive pricing method can allow *RJ* to maintain profitability even with low prices.
- **Discourages price wars** that could lead to lower profits. As the **market leader, *RJ*** has the resources to lower prices and sustain a price battle. On the other hand, **competing brands are struggling to keep prices low**, so competitors will be discouraged to lower their prices to battle with Rey.

*Award **[1]** for a relevant advantage, with an additional **[1]** for application to RJ. Award up to a maximum of **[2]**.*

(c) Using data from **Figure 1**, comment on the estimated market growth for organic **and** non-organic laundry detergents in Country Y for 2027–2029. **[2]**

The estimated growth of the organic **laundry detergent** market is greater than that of non-organic.

The estimated market growth for organic laundry detergents is increasing from 5.5% in 2027 to 9% in 2029. The non-organic laundry detergent market is estimated to stay the same in 2027 and 2028 at 6% and fall to 5.5% in 2029. Market growth for organic detergents increases by 3.5 percentage points and for inorganic falls by 0.5 percentage points. Relative increases are 63.6% for organic and –8.3% for non-organic detergents.

Accept if students comment that growth for organic increases 3.5% and non-organic falls by 0.5%.

Accept if students calculate average growth.

*Award **[1]** for a relevant comment on the market growth of **both** organic and non-organic laundry detergents and **[1]** for use of actual figures from Figure 1.*

*If a student makes a relevant comment on the market growth with the use of actual figures from Figure 1 on **only** organic detergents **OR** non-organic detergents, award a maximum of **[1].***

*If a student makes a comment on only one of organic or non-organic detergents with no use of actual figures award **[0].***

(d) Complete the Boston Consulting Group (BCG) matrix (**Figure 2**) for *RJ*'s four brands. **[2]**

		Market share	
		High	Low
Market growth	High	CocoX EcoX	
	Low	Rey	Sol

*Award **[2]** for a complete matrix with all four brands placed accurately.*
*Award **[1]** for one error.*
*Award **[0]** for more than one error.*

(e) Using **Table 3, Figure 3** and other information in the stimulus, discuss how *Unixi*'s entry into the laundry detergent market might affect *RJ*'s position as a market leader. **[10]**

Arguments could include:

- As a market leader, *RJ* benefits from the **largest market share** in the industry, with **55% of the market share**. A large market share and low production cost, fuelled by **economies of scale**, may have led *RJ* to benefit from **high profitability**. **However, after *Unixi*'s entry** into the market, ***RJ* has lost customers and reduced its market share by 5 % (to 50% according to Figure 3)**. *Unixi*, on the other hand, is growing and already has a 22% market share. *Unixi* threatens to become the next market leader.
- As a market leader, *RJ* sets **innovation leadership** and benefits from **first-mover advantage**. Innovation enables the production of **unique products** that **can be charged premium prices. *RJ* launched a new line of organic detergents, being the sole company in the market to offer these products. However, *Unixi***, as **a multinational company** that **makes high investments in research and development, is already offering a high-technology product, detergent tablets (which it claims are three times more efficient than liquid and powder detergents)**, that *RJ* cannot offer yet. ***RJ* will probably lose its first-mover's advantage and innovation leadership**. This is underlined by the BCG matrix which shows *RJ* not having any products in the High growth/Low market share sector (Problem Child).
- **As a market leader, *RJ* has the power to set prices** according to its strategic needs. ***RJ* charges premium prices for its organic products, leading to higher profits**. *RJ* also undercuts competitors to increase market share, as this is the case with Rey's competitive pricing method. **However**, ***Unixi* offers high-technology, unique products such as detergent tablets**. *Unixi* also offers organic detergents. ***RJ* will no longer be able to set all prices. As a multinational company *Unixi* will be able to achieve economies of scale and sustain lower prices to compete with RJ**.

- Using the results of *RJ's* loyalty survey 80% (**Table 3**) of customers are either neutral or very likely to continue buying *RJ*s products, meaning *Unixi* is appealing to a relatively small number of *RJ's* customers to switch brands. This could erode *RJ*'s market leadership. However, the factors listed that might cause customers to change *i.e* lower price, better quality and special offers are all areas that Unix can exploit. However, ranked against this is the fact that only 10% of customers are dissatisfied with *RJ's* product again making it difficult for *Unixi* to **increase its market share.**
- **Figure 3** suggests *RJ's* market leadership (50%) with very strong brand loyalty and customer satisfaction over a sustained period of time (**Table 3**). The new organic products (CocoX and EcoX) are even higher market share (80%). However, Sol is low growth/low market share despite reduced prices and new packaging and may need to be divested to meet the challenges from *Unixi* if it cannot be repositioned.
- Also, as indicated previously, price wars between *RJ* and *Unixi* may occur especially given the resources of *Unixi* which may require review of growth strategies to maintain market leadership. Maybe mergers and acquisitions for the other 28% of competitors in the laundry detergent market is an option if permitted by government competition regulations/laws.

Possible limitations explicitly linked to the stimulus that require further **explanation** for the top markband:

- What is the size/financial strength of *Unixi*?
- What other countries do they operate in?
- What products do they produce?
- What are customer preferences?

Accept any other relevant argument.

N.B. the question is focused on the effects of Unixi's entry into the laundry detergents market on RJ's market leadership.

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

*If there is no balance, then for a one-sided response where only one effect is considered then award a maximum of **[3]**.*

*If the student makes no reference to **Table 3** and **Figure 3** then this only partially addresses the demands of the question, then the maximum mark to be awarded is **[6]** even if there is some balance.*

*If the student discusses one effect only (with balanced and substantiated arguments) then award a maximum of **[5]**.*

A balanced response is one that provides at least one argument for and one argument against two effects.

A conclusion is expected in this response as the command term is discuss.

***N.B.** Students cannot reach the top marks if there is no relevant reference/application to the stimulus. They must also show awareness/explain the limitations of the stimulus material.*

5. (a) State **two** features of premium pricing. **[2]**

Features include:

- **Price** is set significantly **higher than similar** competing products
- Usually applied to a product of **higher quality**
- Usually applied to **unique or luxurious** products enough to justify higher prices
- **Demand** for premium priced products **is generally inelastic**
- Related to a **unique selling point** over rival products.

Accept any other relevant feature.

N.B. *No description is required.*

Award ***[1]*** *for each feature of premium pricing stated up to a maximum of* ***[2].***

(b) Explain **one** reason why *LB*'s R&D department develops new products like Soft Lullaby. **[2]**

- Soft Lullaby is an innovative, sustainable fabric for use in the production of toys, that may **create a USP** for *LB* and provide a competitive advantage **to differentiate from competitors and increase sales** while **addressing the unmet needs of customers**.
- It will allow *LB* **to meet customer demands for long-lasting, sustainable toys**. Soft Lullaby is an innovative, sustainable fabric, which may help target the market of long-lasting sustainable toys.
- **To provide a wider range of products** for their customers. *LB* has a loyal customer base, and Soft Lullaby presents an opportunity to increase customer loyalty by providing innovative products. Currently in the marketplace **no one is producing a fabric like Soft Lullaby,** which is a soft, plant-based, tear-resistant fabric. The development of Soft Lullaby allows *LB* to **continue charging premium pricing**, as its toys will be made of an innovative, sustainable fabric.
- **To reinforce its commitment to quality**. Quality is very important for *LB* and for Laura. The new fabric will enable *LB* to **reduce waste and** improve its production processes while **addressing the unmet needs of customers for soft, sustainable toys for children.**
- To diversify revenue streams and spread risks.

Accept any other relevant explanation.

Award ***[1]*** *for showing understanding of the importance of R&D in developing goods and services and an additional* ***[1]*** *for application to LB.*

[2] *cannot be awarded if a response lacks either explanation and / or application.*
Award up to a maximum of ***[2]****.*

(c) Explain **one** way in which total quality management (TQM) could improve *LB*'s operations. **[2]**

Ways in which TQM could improve *LB*'s operations include:

- TQM could result in **zero defects**, **helping *LB* to reduce customers' returns of faulty toys** and therefore improving *LB's* brand image. TQM could help to **eliminate waste,** which could **lower *LB's* costs of production**. As TQM reduces waste, it may help *LB* become even **more sustainable.** As ***LB* charges premium prices,** a cost reduction through waste reduction may lead to increased profitability.

Students could refer to (but are not expected to) the following, which are mentioned in the first part of the stimulus:

- TQM may require employee training. Employee motivation is likely to improve, since workers are empowered and involved in the decision-making process. *LB* has **low labour turnover and creative staff**, and the participation model of TQM would continue increasing *LB*'s employee motivation.

No application:

- In TQM, customers' needs and preferences are a central focus of the production process. TQM could help *LB* maintain its competitive advantage.

Accept any other relevant way TQM could improve LB's operations.

*Award **[1]** for an explanation of a relevant way and an additional **[1]** for application to LB.*

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

*For example: For an explanation of a relevant way with no application **[1]**.*

*For an explanation of a relevant way and application to LB **[2]**.*

*Award up to a maximum of **[2]**.*

(d) Using **Table 4**, explain **one** disadvantage for *LB* of introducing Digital Taylorism. **[2]**

Disadvantages include:
The introduction of Digital Taylorism may demotivate employees, as continuous monitoring may be perceived as intrusive, potentially reducing *LB's* productivity, efficiency and labour turnover. **Table 4** shows that *LB's* employees have low levels **of absenteeism and frequency of breaks, and high levels of punctuality, productivity and efficiency,** suggesting that employees are already performing as expected. The introduction of Digital Taylorism may demotivate employees as they might perceive it as unnecessary. **Rumours of the monitoring equipment spread quickly among the factory employees.**

Do not credit demotivation unless linked to an impact on *LB* (*eg.* productivity, efficiency, labour turnover).

Accept any other relevant disadvantage of introducing Digital Taylorism.

*Award **[1]** for an explanation of a relevant disadvantage **for LB** and an additional **[1]** for application to LB.*

(e) Using data from **Table 5**, comment on *LB*'s **and** *ST*'s gearing ratios. **[2]**

According to the data in **Table 5** and compared to the industry average, *LB* has a gearing ratio of 6.1 in 2025, which is significantly higher than the industry average gearing ratio of 1.8, while *ST* has a gearing ratio of 2.2 for the same period which is closer to the industry average gearing ratio of 1.8.

*Award **[1]** for a relevant comment on **both** LB's and ST's gearing ratio and **[1]** for use of actual figures from **Table 5**.*
*Award **[1]** for a relevant comment on both LB **and** ST without use of actual figures in **Table 5** such as the following:*

- *LB's gearing ratio is higher than ST's, and significantly higher than the industry average gearing ratio.*
- Neither *LB* nor *ST* have high gearing ratios.

*Award **[1]** for a relevant comment on either LB or ST with use of actual figures in **Table 5.***
*Award **[0]** for a relevant comment on either LB **or** ST without use of actual figures in **Table 5.***

***N.B.** When comparing the absolute difference between two percentages, accept "percentage (%)" even though this difference should be expressed as "percentage points".*

(f) Using **Table 4, Table 5** and other information in the stimulus, discuss whether *LB* should accept the offer to buy *ST.* ***[10]***

There are several arguments that may support the idea of *LB* accepting the sales offer from *ST,* yet some of the indicators provided by *ST* may raise concerns.

***ST* produces and sells wooden toys**. These are products **that *LB* does not currently produce or sell**. The sales offer from *ST* **may allow *LB* to enlarge its product portfolio and customer base.**

***ST* distributes** its products **in supermarkets**, while ***LB* owns 10 stores in Country S**. The sales offer from *ST* **may allow *LB* to incorporate a new channel of distribution** for its products.

LB's R&D department has completed the testing of Soft Lullaby to be used in *LB*'s toys., Accepting the sales offer from *ST* may allow *LB* to increase the opportunities of new products for which Soft Lullaby could be used, leading to growth **opportunities for *LB*.**

***ST* has a large R&D department** that is **highly valued by Laura**, as *LB* focuses on providing innovative products. Laura wants to enlarge *LB*'s R&D department. If *LB* decides to pursue the sales offer from *ST*, **synergies can arise between both departments at a cheaper cost.**

***ST* is located in Country A, while *LB* is located in Country S**. Through the sales offer from *ST, LB* **may** expand into international markets.

Neither *LB* nor *ST* have high gearing ratios, according to the data in **Table 5** *LB* has a gearing ratio of 6.1 in 2025, which is significantly higher than the industry average gearing ratio of 1.8. *ST* has a gearing ratio of 2.2 for the same period, which is closer to the industry average gearing ratio of 1.8. If additional financing is needed after acquiring *ST*, its current long-term debt should not hinder funding and may help lower combined gearing.

ST's stock turnover (95 days in 2025) is lower than *LB*'s (116 days) and closer to the 90-day industry average, suggesting that *ST*'s supermarket distribution is effective and may improve *LB's* liquidity if acquired. This may indicate that *ST* manages inventory more effectively than *LB*.

However:
***ST*'s wooden toys are distributed in supermarkets**, suggesting that *ST* aims to a **mass market**. **Conversely**, ***LB* aims** to create **innovative sustainable** toys with a **premium pricing method**. These two target markets are clearly different. Adding wooden toys to *LB*'s product portfolio may negatively impact *LB*'s brand image and erode its loyal customer base.

ST's operations may raise some concerns. ***ST's* defect rate is much higher than *LB's*** defect rate (16.0% versus 5.0% in 2025). *ST*'s defect rate is significantly over the industry average of 3%. In addition, the defect rate of *ST* increased by 4.0% from 2024 to 2025. ***ST* would be required,** if the sales offer is pursued for *ST,* **to meet *LB*'s standards of quality**.

***ST* had a toy safety issue in 2024. Table 5** shows that **customer complaints in 2025 are significantly higher for *ST* (800 customer complaints) than for *LB* (100 customer complaints) in 2025**. If *LB* proceeds with *ST*'s sales offer, ***LB*'s loyal customer base may be negatively** affected. *LB* **has excellent customer service**, and customer complaints would have to be addressed properly. On the other hand, ***LB*'s mission statement is,** "**To provide young children with safe, innovative high-quality toys**." Having **safety issues** with any of their products would **conflict with the overall mission** of the organization.

LB has a **strong focus on quality.** Laura is currently considering **implementing a TQM approach**, On the other hand, *ST*'s factory **uses quality control methods** which are likely to be less thorough (high defect rate and high number of customer complaints), ***LB's* approach to quality is different**.

LB's approach to quality could be adopted by *ST* following the sales agreement, integrating quality practices would require both time and financial investment. Data from **Table 4** suggests *LB's* factory employees are performing as expected, with positive indicators for punctuality, productivity, and efficiency. However, if *ST* is acquired, cultural differences such as the approach to quality could demotivate employees and negatively affect performance.

ST is* located in Country A. *LB* owns two factories and 10 stores located in Country S**. In this regard, ***LB* does not have experience in overseas operations.** Managing **operations in a different country may be challenging for *LB. Although expertise may be gained from *ST*, the success of such integration is uncertain.

In conclusion, **if *LB* wishes to maintain its current brand image, product positioning and high-quality methods, it seems inadvisable to proceed with *ST's* sales offer Although, adding new products to *LB*'s portfolio, the possibility of including *ST*'s R&D department to enlarge its existing department, and gaining overseas operations and a new distribution channel may seem attractive.** The deal may also bring significant uncertainties for *LB*. *LB* already has low labour turnover and a creative R&D department, which helps the business gain a competitive advantage, has a loyal customer base, and is able to charge premium prices for its products. It has also completed testing on its new product, Soft Lullaby, which presents interesting opportunities for growth. *ST*'s operations management indicators raise serious concerns on quality, turnover and product safety. The risks involved in the sales offer may be too high for *LB* to move forward.

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

*Students will not be able to proceed to the highest markbands without using the quantitative data in **Table 4** and **Table 5**, award a maximum of **[6]**.*

*Arguments should be substantiated to move beyond **[5–6]**.*

Balanced analysis will imply a minimum of two arguments in favour with two against.

*The nature of the question requires that students make a judgement -either they accept the acquisition, or they do not. If balanced arguments are presented but there is no judgement, then the student is only partially addressing the demands of the question. Hence award a maximum of **[7–8]**.*

To reach the top markband requires that the student provides fully substantiated balanced arguments and conclusion.

*For **[10]**, there is some awareness of the limitations of the stimulus material. Some limitations might include additional financial information for ST and LB (profitability, liquidity, efficiency ratios) to compare both companies, competitor businesses in Country A, product life cycle of ST's and LB's products, ST's organizational culture, among others.*