

Markscheme

May 2026

Business management

Standard level

Paper 2

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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) State **two** internal economies of scale. [2]

Internal economies of scale include:

- **Financial** economies of scale
- **Managerial** economies of scale
- **Marketing** economies of scale
- **Purchasing / bulk buying** economies of scale
- **Risk-bearing** economies of scale
- **Technical** economies of scale

***N.B.** No description is required.*

***N.B.** Accept equivalent wording such as specialization / specialization of labour / specialist management / administrative economies, but do not reward overlapping responses as separate additional categories where the same underlying internal efficiency is being repeated.*

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

(b) For **Location B**:

(i) calculate the payback period (*show all your working*); [2]

Initial investment for location B: \$3.5 million

Total annual returns:

Year 1: \$800 000
 Year 2: \$900 000
 Year 3: \$1 000 000
 Year 4: \$1 100 000

Cumulative returns:

Year 1: \$800 000
 Year 2: \$800 000 + \$900 000 = \$1 700 000
 Year 3: \$1 700 000 + \$1 000 000 = \$2 700 000
 Year 4: \$2 700 000 + \$1 100 000 = \$3 800 000

At the end of Year 3, \$2.7 million has been recouped. The remaining amount to be recovered in Year 4 is:

\$3.5 million – \$2.7 million = \$0.8 million

Since Year 4's return is \$1.1 million:

Fraction of year 4 required to pay back the additional investment:

$\frac{\$0.8 \text{ million}}{\$1.1 \text{ million}} = 0.73 \text{ of year 4}$

So **payback period** = 3 years + 0.73 = **3.73 years**

Since: $0.73 \times 12 = 8.76$ months

the payback period is approximately **3 years and 9 months**

Alternative answer:

Year	Inflows (\$)	Outflows (\$)	Net cash flow (\$)	Cumulative cash flow (\$)
0		(\$3 500 000)	(\$3 500 000)	(\$3 500 000)
1	\$800 000	-	\$800 000	(\$2 700 000)
2	\$900 000	-	\$900 000	(\$1 800 000)
3	\$1 000 000	-	\$1 000 000	(\$800 000)
4	\$1 100 000	-	\$1 100 000	\$300 000

The payback period is between year 3 and year 4.

So if (in year 4) \$1 100 000 in 12 months, then $\$800\,000 = (\$800\,000 / \$1\,100\,000) \times 12 = 8.73$ months, therefore, the payback period is approximately **3 years and 9 months**

N.B.

- Accept 3.73 years or approximately 3 years and 9 months.
- Do not accept rounding down of the interpolated period to 3 years and 8 months, as the investment would not yet be fully recovered.
- Apply own figure rule (OFR) where appropriate.
- Responses with correct method but inaccurate final interpolation/conversion may be awarded **[1]** for method.

*Award **[1]** for correct working/method, and an additional **[1]** for the correct answer with units (years and/or months) up to a maximum of **[2]**.*

(ii) calculate the average rate of return (ARR) (*show all your working*). **[2]**

Initial investment (capital cost) for Location B = \$3 500 000

Total returns over 4 years:

Year 1: \$800 000

Year 2: \$900 000

Year 3: \$1 000 000

Year 4: \$1 100 000

Total returns = \$800 000 + \$900 000 + \$1 000 000 + \$1 100 000
= \$3 800 000

Total profit (net return) = total returns – capital cost
= \$3 800 000 – \$3 500 000
= \$300 000

Average annual profit = \$300 000 ÷ 4 = \$75 000

Average rate of return (ARR) = $\frac{(\text{total returns} - \text{capital cost}) \div \text{years of use}}{\text{capital cost}} \times 100\%$

ARR = $\frac{75\,000}{3\,500\,000} \times 100$

ARR = **2.14%** (Accept 2.14% or 2.1%)

N.B. This uses the formula given on the formulae sheet on page 65 of the subject guide.

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

N.B. Do not apply own figure rule OFR to alternative ARR methods that omit deduction of capital cost, as this constitutes use of an incorrect formula rather than student own figure rule.

(c) Using the payback period you calculated in (b)(i), comment on how the predicted increase in interest rates may affect the choice between **Location A** or **Location B**. **[2]**

Location A has a payback period of **3 years**, compared with Location B's **3.73 years** (approximately **3 years and 9 months**). As interest rates are predicted to increase, *PF* may have to borrow for longer if it chooses Location B, increasing interest costs and financial risk. Therefore, *PF* may prefer Location A, as it recovers the initial investment faster and reduces exposure to rising borrowing costs.

Accept any other relevant commentary.

N.B. Allow student own figure rule (OFR).

Award **[1]** for a valid comment that recognizes that rising interest rates increase borrowing costs / financial risk, or that a shorter payback period reduces financial risk.

Award an additional **[1]** for explicit application using payback data (eg Location A = 3 years vs Location B = 3.73 years / approximately 3 years and 9 months) to support the comment, up to a maximum of **[2]**.

(d) Explain **one** reason, **other than** enabling an increase in production, for *PF* to relocate its factory. **[2]**

Award **[1]** for one valid reason for relocation, other than increasing production, explained through a relevant cause/effect chain.

Award an additional **[1]** only where the explanation is explicitly contextualised to *PF* and the stimulus (e.g. skilled labour relevant to *PF*'s manufacturing needs, supplier proximity improving communication/transport networks linked to *PF*'s operations). Generic or transferable business logic, even if valid, award a maximum of **[1]** overall.

Possible valid reasons include:

- access to skilled labour
- improved transport / communication networks
- proximity to suppliers or related businesses
- lower fixed / operating costs
- access to external economies of scale

Award **[1]** for:

A valid reason that is explained, even if application is limited or generic.

Examples:

- *PF* may relocate to access a larger pool of skilled labour, which could improve productivity and reduce training costs.
- *PF* may relocate to benefit from lower land or operating costs, which could reduce costs and improve profit margins.
- *PF* may relocate to improve communication or transport links, which could improve coordination and efficiency.

Award **[2]** for:

A valid explained reason that is explicitly contextualised to *PF* and the stimulus.

Application must go beyond naming *PF* or repeating the scenario.

To access **[2]**, the response must link the reason to *PF*'s specific operational context (eg aviation components / technology manufacturing, skilled labour needs, suppliers, logistics, or infrastructure in the proposed locations).

Examples:

- *PF* may relocate to access skilled labour relevant to precision / technology manufacturing, which could improve productivity and reduce training costs.
- *PF* may relocate closer to suppliers or related technology firms, which could reduce delivery and production times and improve operational efficiency.
- *PF* may benefit from stronger transport or communication infrastructure in the proposed location, improving coordination across its operations and distribution.

N.B. Do not award **[2]** for:

*Generic or transferable business logic that is not clearly contextualised to *PF*.*

Responses such as:

- *lower costs increase profit*
- *better communication improves efficiency*
- *skilled labour improves productivity*

Award a maximum of **[1]** unless explicitly linked to *PF* and the stimulus.

Accept any other relevant reason.

2. (a) State the purpose of accounts for **two** different stakeholders or stakeholder groups. **[2]**

Students may state any relevant stakeholder. The more obvious ones include:

- **Shareholders / investors** – to assess performance, profitability, and returns
- **Banks / lenders** – to assess creditworthiness and ability to repay loans
- **Employees** – to assess financial stability / job security / wage prospects
- **Government** / tax authorities – to assess tax liability
- **Competitors** – to compare performance
- **Suppliers / trade creditors** – to assess whether *TS* is creditworthy and whether to offer / extend trade credit

***N.B.** No description or explanation is required.*

*Award **[1]** for each appropriate stakeholder / stakeholder group **identified with a valid purpose of accounts**, up to a maximum of **[2]**.*

(b) Using **Table 1**:

- (i) prepare a statement of financial position (balance sheet) for *TS* as at 31 December 2025;

[4]

Teezle Shirts

Statement of financial position as at 31 December 2025

	\$m	\$m
Non-current assets		<u>10</u>
Current assets		
Cash	7	
Debtors	20	
Stock	<u>8</u>	
Current assets		<u>35</u>
Total assets		<u>45</u>
Current liabilities		
Bank overdraft	5	
Trade creditors	<u>7</u>	
Current liabilities		<u>12</u>
Non-current liabilities		
Borrowings – long-term	8	
Non-current liabilities		<u>8</u>
Total liabilities		<u>20</u>
Net assets		<u>25</u>
Equity		
Share capital	20	
Retained earnings/profit	5	
Total equity		<u>25</u>

Award [0] if the response does not demonstrate any understanding of a statement of financial position (balance sheet), or if the response is not recognizable as a statement of financial position (balance sheet). This may include responses that consist primarily of elements from other financial statements (eg statement of profit or loss, or cash flow forecast).

Award [1] if the student conveys some understanding of what a statement of financial position (balance sheet) is, but the response contains major omissions or errors in classification/structure that prevent it from being a largely recognizable statement of financial position.

Award **[2]** if the student constructs a largely recognizable statement of financial position (balance sheet), but:

- it does not balance, or
- contains up to two major errors in classification or structure.

Award **[3]** for an accurate statement of financial position (balance sheet) that correctly balances, but with minor presentational omissions that do not affect classification or overall structure (eg missing \$m, minor formatting omissions). If the student does not fully follow the IB prescribed format, award a maximum of **[3]**.

Award **[4]** if the student constructs an accurate statement of financial position (balance sheet) that balances according to the IB prescribed format and is appropriately headed and dated.

Students should not be penalized for a one column format if categories follow the IB format.

N.B. Accept retained earnings or retained profit.

(ii) calculate TS's profit for period, **X**, for 2025 (show all your working). **[2]**

Profit for period = sales revenue – cost of sales – expenses – interest – tax
 = 25 – 14 – 8 – 1.2 – 0.6
 = \$1.2 million

Profit for period = \$1 200 000

Accept \$1.2

Alternative answer:	\$m
Sales revenue	25
Cost of sales	(14)
Gross profit	11
Expenses	(8)
Profit before interest and tax	3
Interest	(1.2)
Profit before tax	1.8
Tax	(0.6)
Profit for period	1.2

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

N.B. Do not penalize omission of \$ sign or “million / m”, as units are given in the question.

(c) Using your calculation in (b)(ii), comment on the effect on *TS*'s profits of using a bank loan to finance a second factory in 2026. **[2]**

Students may comment in one of two valid ways:

- **Short term:** using a bank loan to finance a second factory is likely to increase interest expense, which may reduce profit in the short term.
- **Long term:** financing a second factory may allow *TS* to expand production and sales, which may increase profit in the long term.

*Award **[1]** for a valid comment on the likely effect of the bank loan on *TS*'s profits (short term and/or long term).*

*Award an additional **[1]** for explicit application using relevant numerical evidence from (b)(ii) and/or the stimulus (eg profit fell from **\$2 million in 2024** to **\$1.2 million in 2025**, interest expense is already **\$1.2 million**), up to a maximum of **[2]**.*

N.B. Do not award **[2]** for generic comments about loans, interest, or profits without explicit use of figures / stimulus. Apply own figure rule (OFR) from (b)(ii).

Section B

3. (a) State **two** features of a partnership. [2]

Features of a partnership include:

- **A minimum of 2** and the maximum number of **partners** varies from country to country
- Usually set up by the deed of partnership document
- **Unlimited liability**
- **Lacks continuity of existence**
- Does **not have a separate legal identity** from its partners
- **Profit and liabilities are shared between partners**

Accept any other relevant feature. No description is required.

N.B. Do not award marks for vague or generic advantages/disadvantages of partnerships unless they are clearly expressed as features or direct implications of this form of ownership.

N.B. Do not award separate marks for responses that repeat the same underlying feature of a partnership using different wording (eg shared responsibility / shared decision-making / joint control).

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

(b) Using **Figure 1**, comment on UC's sales revenue. [2]

Award **[1]** for a relevant comment on UC's sales revenue. Award an additional **[1]** for explicit interpretation, trend identification, or comparison of numerical data from **Figure 1** to support the comment, rather than merely restating isolated figures or describing the chart, up to a maximum of **[2]**.

Examples of responses worthy of **[2]** include:

- "Revenue from car repairs showed an overall upward trend, nearly doubling between 2021 and 2025."
- "UC appears to rely more heavily on car repairs, as revenue from car repairs remained consistently higher than revenue from spare parts throughout the period."
- "Revenue from spare parts was more volatile, falling between some years before recovering again by 2025."

(c) Using **Table 2**:

(i) calculate UC's gross profit margin (*show all your working*); [2]

Gross profit margin = (Gross profit / sales revenue) x100

Gross profit = sales revenue – cost of sales

Gross profit = \$350 000 – \$175 000 = \$175 000

Gross profit margin = \$175 000 / \$350 000 = 50%

Award **[1]** for correct working and **[1]** for the correct answer (accept 50%, 0.50 or 0.5)

- (ii) calculate *UC*'s current ratio (*show all your working*). [2]

$$\begin{aligned}
 \text{current ratio} &= \text{current assets} / \text{current liabilities} \\
 &= (\text{cash} + \text{debtors} + \text{stock}) / \text{current liabilities} \\
 &= (5 + 3 + 25) / 30 \\
 &= 33 / 30 \\
 &= 1.1
 \end{aligned}$$

N.B. Accept 1.1 or 1.10. Do not accept rounding down to 1.0.

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

- (d) Explain how *UC* benefits from **one** external economy of scale. [2]

External economies of scale are cost advantages gained by companies within an industry due to factors outside the control of individual businesses.

In this case, two new local businesses now offer car-lift maintenance services at lower prices. Increased competition between suppliers may reduce *UC*'s maintenance costs, lowering operating costs and improving profitability.

Award [1] for a relevant explanation of how an external economy of scale could benefit a business (cause → effect). Award an additional [1] for explicit application to *UC* / the stimulus (eg increased local availability of car-lift maintenance providers and/or increased competition among providers reducing *UC*'s maintenance costs).

- (e) Using **Figure 3** and other information in the stimulus, discuss the limitations of a break-even analysis as a tool to support *UC*'s decision to purchase *Dovy's*. [10]

The limitations of break-even analysis in this context may include:

- Break-even analysis assumes fixed costs, variable costs and selling price remain constant. This may be unrealistic for *Dovy's* because gasoline input prices fluctuated significantly between 2020 and 2024, as shown in **Figure 3**.
- Break-even analysis assumes a predictable relationship between sales volume, costs and profit. However, *Dovy's* operates in a competitive market with four other gasoline stations, including larger competitors that may reduce prices.
- The forecasted margin of safety of 200 000 litres may be unreliable if gasoline prices change, competitors discount prices, or demand falls.
- Break-even analysis is less useful when a business sells multiple products. *UC* plans to build an on-site store selling groceries and snacks, which would involve different costs, prices and profit margins.
- Break-even analysis does not assess whether the purchase price of \$400 000, plus the cost of building the on-site store, represents a good investment or produces an acceptable return.
- External factors, such as low electricity prices and the government incentive for electric vehicles from 2027, may reduce future demand for gasoline.

On balance, break-even analysis would provide *UC* with a useful starting point because it identifies the sales volume needed for *Dovy's* to cover its costs. However, it should not be used as the main tool to support the purchase decision. The forecast is based on assumptions about gasoline prices, sales volume and costs that may not hold in a volatile and competitive market. *UC* would need further information about competitor pricing, *Dovy's* actual costs, profit margins and the return on the \$400 000 investment before making a final decision.

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

- Generic theoretical discussion of break-even analysis without meaningful application to *Dovy's* and/or **Figure 3** will not reach the top markbands.
- Award a maximum of **[4]** for responses consisting primarily of lists of limitations with limited development or application.
- Students are not required to address all of the above limitations of break-even analysis to access the higher markbands.

Limitations of the stimulus

Other information that would have been useful but is not included in the stimulus:

- Prices charged by all four competitors compared with *Dovy's* in 2025, including details of competitor pricing strategies.
- *Dovy's* fixed and variable costs used to calculate the break-even level of sales.
- Profit margins and estimated operating costs for the proposed on-site store.
- Expected future demand for gasoline following the 2027 electric vehicle incentive.
- Investment appraisal data, such as payback period, ARR, or return on investment for purchasing *Dovy's*.

4. (a) State **two** roles of operations management. [2]

Roles of operations management include:

- **Forecasting**
- **Operational planning**
- **Product design**
- **Quality control**
- **Operations strategy**
- **Supply chain management**

N.B. No description is required.

Accept any other appropriate role of operations management.

Award [1] for each appropriate role of operations management up to a maximum of [2].

(b) Explain **two** ways, **other than** price, in which *TF* differentiates itself from its closest competitors. [4]

Ways *TF* differentiates itself from its closest competitors may include:

- **Product differentiation:** Phabcel is softer, more durable and more environmentally sustainable than competing cloths such as cotton, wool and polyester, allowing *TF* to offer a differentiated product rather than compete primarily on price. **Phabcel is identified in Figure 4 as more environmentally sustainable than the other fabrics and is described in the stimulus as soft, silky and long-lasting.**
- **Superior customer service:** *TF*'s salespeople frequently visit customers and take them to expensive restaurants, helping *TF* provide customer service superior to that of its competitors and strengthen customer loyalty. **The stimulus states that *TF*'s customer service is superior to that of its closest competitors and that salespeople visit clothing manufacturers' places of business.**
- **Strong customer relationships:** Through its excellent customer service and direct contact with customers, *TF* has developed strong customer relationships, which is unusual in the cloth manufacturing industry and may help *TF* retain customers and generate repeat sales. **The stimulus states that *TF* has built strong relationships with customers, which is uncommon in the cloth manufacturing industry.**

Mark as [2+2].

*Award [1] for each relevant explanation of how *TF* differentiates itself from competitors (cause-effect) and an additional [1] for explicit application to the stimulus, up to a maximum of [4].*

N.B. Application marks should be awarded only where the response is clearly contextualized to *TF* and/or Phabcel using relevant information from the stimulus material.

(c) Using **Table 3**:

- (i) calculate the mean for *TF*'s production figures for 2025 (*show all your working*);
[2]

To calculate the mean, the student must add up the twelve data points and divide by 12 (the number of data points):

$$410 + 460 + 520 + 540 + 540 + 530 + 580 + 560 + 540 + 560 + 420 + 380 = 6040$$

Mean = $6040/12 = 503.33$. The mean is 503.33. **Accept 503.3 or 503.**

Award [1] for correct working/method and [1] for the correct answer.

N.B. Please note, since students will be using calculators, some may merely write $6040/12$. Accept.

- (ii) calculate the median for *TF*'s production figures for 2025 (*show all your working*);
[2]

To calculate the median, students must rank order the 12 data points. Correct working includes identifying the two middle values and dividing their total by 2 (as there is an even number of data points).

$(530+540)/2 = 535$. **The median for *TF*'s production figures is 535.**

380
410
420
460
520
530
540
540
540
560
560
580

$= (530 + 540) / 2 = 535$

Award [1] for correct working/method and [1] for the correct answer.

N.B. If a student merely writes $(530+540)/2$, accept as sufficient working.

- (d) Using the information in the stimulus, discuss *TF*'s current marketing mix and the CMO's proposed changes to it. [10]

The stimulus contains information on each of the seven Ps:

- **Product (actual):** Phabcel is positioned as a differentiated premium cloth product that is softer, more durable and more environmentally sustainable than competing fabrics such as cotton, wool and polyester.
- **Price (actual):** *TF* charges relatively high prices compared with some competitors (eg polyester), reflecting Phabcel's differentiated positioning and higher production costs.
- **Place (actual/proposed):** *TF* currently sells through direct visits by salespeople and direct delivery to clothing manufacturers. Proposed changes include expanding *TF*'s online presence and opening showrooms to generate additional sales opportunities.
- **Promotion (actual/proposed):** *TF* currently promotes Phabcel through salespeople and advertisements in industry journals. Proposed cloth sample booklets and expanded online presence may strengthen promotion and brand awareness.
- **People (actual/proposed):** *TF* employs high-performing salespeople who have helped build strong customer relationships. However, some current salespeople may resist the proposed showroom strategy despite potentially higher commissions.
- **Processes (actual):** *TF* uses elaborate product development and manufacturing processes together with relationship-focused selling and superior customer service to support its differentiated positioning.
- **Physical evidence (proposed):** Proposed showrooms and cloth sample booklets would provide customers with a more tangible physical experience of Phabcel, although these changes may increase costs.

On balance, *TF*'s proposed changes to the marketing mix could strengthen Phabcel's market position and increase sales by improving promotion, place and physical evidence. However, these changes are likely to increase costs and may create resistance among current salespeople. *TF* may therefore need to prioritise the most effective marketing mix changes rather than implement all proposals at the same time.

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

N.B. Explicit and accurate use of marketing-mix terminology may help distinguish stronger responses within and across adjacent markbands. Students may address elements explicitly or implicitly; however, vague or unclear links to the marketing mix should not be over-rewarded.

Limitations of the stimulus

Other information that would have been useful but is not included in the stimulus:

- Estimated costs of opening and operating a showroom.
 - Financial impact of increasing commissions and hiring/training additional salespeople.
 - Market research or customer demand data supporting the proposed showroom strategy.
 - Competitor responses to *TF*'s proposed marketing changes.
 - Quantitative evidence regarding the likely impact of the proposed changes on sales, market share, or profitability.
-