

# Markscheme

November 2023

Business management

Standard level

Paper 1

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The markbands and assessment criteria on pages 3–4 should be used where indicated in the markscheme.

Section A			Level descriptor
Q1 (b)	Q2 (b)	Q3 (b)	
Marks			
0			
1–2			<ul style="list-style-type: none"> <li>• Little knowledge and understanding of relevant issues and business management tools (where applicable), techniques and theories.</li> <li>• Little use of business management terminology.</li> <li>• Little reference to the stimulus material.</li> </ul>
3–4			<ul style="list-style-type: none"> <li>• A description or partial analysis of some relevant issues with some use of business management tools (where applicable), techniques and theories.</li> <li>• Some use of appropriate terminology.</li> <li>• Some reference to the stimulus material that goes beyond the name of a person(s) and/or the name of the organization.</li> <li>• At the lower end of the markband, responses are mainly theoretical.</li> </ul>
5–6			<ul style="list-style-type: none"> <li>• An analysis of the relevant issues with good use of business management tools (where applicable), techniques and theories.</li> <li>• Use of appropriate terminology throughout the response.</li> <li>• Effective use of the stimulus material.</li> </ul>

Section B Q4 (d)	Level descriptor
Marks	
0	The work does not reach a standard described by the descriptors below.
1–2	<ul style="list-style-type: none"> <li>• Little understanding of the demands of the question.</li> <li>• Few business management tools (where applicable), techniques and theory are explained or applied and business management terminology is lacking.</li> <li>• Little reference to the stimulus material.</li> </ul>
3–4	<ul style="list-style-type: none"> <li>• Some understanding of the demands of the question.</li> <li>• Some relevant business management tools (where applicable), techniques and theories are explained or applied, and some appropriate terminology is used.</li> <li>• Some reference to the stimulus material but often not going beyond the name of a person(s) and/or the name of the organization.</li> </ul>
5–6	<ul style="list-style-type: none"> <li>• Understanding of most of the demands of the question.</li> <li>• Relevant business management tools (where applicable), techniques and theories are explained and applied, and appropriate terminology is used most of the time.</li> <li>• Some reference to the stimulus material that goes beyond the name of a person(s) and/or the name of the organization.</li> <li>• Some evidence of a balanced response.</li> <li>• Some judgments are relevant but not substantiated.</li> </ul>
7–8	<ul style="list-style-type: none"> <li>• Good understanding of the demands of the question.</li> <li>• Relevant business management tools (where applicable), techniques and theories are explained and applied well, and appropriate terminology is used.</li> <li>• Good reference to the stimulus material.</li> <li>• Good evidence of a balanced response.</li> <li>• The judgments are relevant but not always well substantiated.</li> </ul>
9–10	<ul style="list-style-type: none"> <li>• Good understanding of the demands of the question, including implications, where relevant.</li> <li>• Relevant business management tools (where applicable), techniques and theories are explained clearly and applied purposefully, and appropriate terminology is used throughout the response.</li> <li>• Effective use of the stimulus material in a way that significantly strengthens the response.</li> <li>• Evidence of balance is consistent throughout the response.</li> <li>• The judgments are relevant and well substantiated.</li> </ul>

## Section A

1. (a) Outline **one advantage and one disadvantage** for *BRD* of converting to a public limited company (lines 27–28). **[4]**

**Advantages** include:

- BRD can **raise additional finance, such as the sale of shares**, to achieve the acquisitions of Matchfix PLC and Enam Ltd. and to broaden *BRD*'s product range;
- **higher interest rates** made the sale of **shares more attractive**;
- BRD can **place a market value** on the business;
- it would increase the profile of the **business** leading to it being **better known and possibly leading to increased sales and profits**;
- BRD can **widen the shareholder base**. Public shareholders can buy and sell shares. This may be better for BRD than having a small number of larger shareholders (like Geoff and Arnold);
- **access to other finance opportunities** taking into account that BRD's bank refused to extend its overdraft, which now stood at £8 million.

**Disadvantages** include:

- BRD can face **more regulatory requirements** e.g. they must have an Annual General Meeting;
- BRD's management and operations will require **higher levels of transparency**;
- BRD **could become vulnerable to takeovers**. As they increase the level of acquisitions, they may face a challenge to their ownership. The **situation with 4Change** is an example of this (35% ownership by 4Change). Arnold and Geoff will lose control;
- BRD's **share price may fluctuate** with their fortunes. It can rise and fall quickly leading to a lack of stability (share price fell by more than 50% in 2021);
- changes in board of directors and strategy.

*Accept any other relevant advantage and disadvantage.*

**Mark as 2 + 2**

*Award [1] for each appropriate advantage/disadvantage identified and an additional [1] for a description of how it impacts on BRD.*

*Award a maximum of [2] per advantage/disadvantage.*

*Award a maximum of [4] in total.*

(b) Explain the leadership styles used by Arnold with the different departments in *BRD's* Liverpool factory (lines 58–62 and lines 73–75). **[6]**

**Several leadership styles could be employed by Arnold.** These include autocratic; paternalistic; democratic; laissez-faire and situational.

It could be argued that the **style used by Arnold is mixed**. In the **factory** he is keen to learn what he can about each of his production employees. The definition of **paternalistic** leadership suggests that a dominant authority figure treats employees as if they are members of a large extended family.

In the **design department**, the allowance of the 'Design Team Freedom Month' suggests that designers are trusted to develop products and ideas with **minimal supervision**. This would assume a sort of **laissez-faire** or at least **democratic approach** to leadership. From the employees' perspective, it is likely that the employees in different departments will feel differently about the effectiveness of Arnold as a leader.

*Accept any other relevant style and explanation.*

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

*Award a maximum of **[3]** for a theoretical answer or for limiting answer to only one style.*

*For **[5-6]** at least two leadership styles are named and developed correctly in context.*

*Award a maximum of **[5]** if the explanation is mainly descriptive, but in context.*

*Award a maximum of **[6]** for a developed answer in context.*

2. (a) Outline **one** advantage **and one** disadvantage for *BRD* of having low labour turnover (lines 63–64). **[4]**

**Advantages** include:

- good quality staff remain. The staff at BRD's Liverpool factory work effectively and want to stay. Employees in the Liverpool factory have worked there for over 20 years;
- BRD **do not have to continually recruit and train** new staff;
- long serving members of staff are often **easier to motivate**. BRD's management have built **strong relations** with employees. Arnold Brondy, is proud of his relationship with the Liverpool factory employees. He speaks at least once every two weeks to each of the 107 production employees, knows them all by name and prides himself on knowing their family situations. He also keeps a record in his office of staff birthdays and makes a point of giving a card and small gift on an employee's birthday. This is likely to lead to them offering greater commitment in times of need.

**Disadvantages** include:

- **salary costs are high** for longer serving employees who **receive an automatic 3% salary increase** every three years;
- with low labour turnover there are **fewer opportunities for staff development and promotion**;
- employees could **lack drive and ambition**. BRD staff work well but the lack of desire can lead to lower quality output;
- **managers** can get **lazy** with a staff who have stagnated;
- less recruitment means **fewer outside influences**. A **lack of new ideas** can be an issue. Designers may lack inspiration after long periods in the same role. Outside recruitment can import new ideas and approaches. A change of culture may be good for BRD.

*Accept any other relevant advantage and disadvantage.*

**Mark as 2 + 2.**

*Award [1] for each appropriate advantage/disadvantage identified and an additional [1] for a description of how it impacts on BRD.*

*Award a maximum of [2] per advantage/disadvantage.*

*Award a maximum of [4] in total.*

(b) Using the Ansoff matrix, explain what alternatives to diversification *BRD* could have considered (lines 24–25). **[6]**

Ansoff matrix is a strategic planning tool to assist with future growth option planning.

**Diversification**, in Ansoff matrix terms **refers to the selling of new products in new markets**.

Alternative strategies include:

- **Market penetration** refers to a business selling more of its existing products to its existing customers (**selling more of its existing products in the same market**). Arnold felt that BRD could have focused on one product but realized the need to change if the business was to prosper. *BRD* has a loyal customer base, but this base is getting progressively older, and sales fell year after year from 2010;
- **market development** refers to a business trying to **enter new markets** (or new market segments in the existing market) **with its existing product range**. BRD was already selling in several countries worldwide like UK, Australia, New Zealand, USA and Canada. However, sales in the USA and Canada were very low. Was there an opportunity to expand this still further?;
- **product development** refers to a business trying to sell **new products to your existing customer base (market)**. Consumers now wanted more sophisticated toys. BRD could have widened their product base utilizing new design ideas (plastic models, new train, slot car designs, 2-rail system), etc. to target their current customers. Every year, each member of the design department is given responsibility for the design of one new model train, slot car or plastic model kit (This is known within the company as “Design Team Freedom Month”).

*Accept any other relevant alternative strategy and explanation.*

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

*Award **[1]** if a strategy or strategies is/are named but the explanation is incorrect or omitted.*

*Award a maximum of **[3]** for a theoretical answer or for limiting answer to only one alternative.*

*Award a maximum of **[4]** if one strategy is named and correctly developed but the second strategy is named correctly but developed incorrectly.*

*For **[5-6]** at least two strategies are named and developed correctly in context.*

*Award a maximum of **[5]** if the explanation is mainly descriptive, but in context.*

*Award a maximum of **[6]** for a developed answer in context.*



3. (a) Outline **one** advantage **and one** disadvantage that could arise from *BRD*'s decision to make its model train sets from plastic rather than metal from 2024 (lines 108–110). **[4]**

**Advantages** include:

- the trains will be more **price-competitive**. In recent times BRD has seen quite a price difference between their products and the competition. "*Prices charged for BRD's train sets were uncompetitive*";
- **new technology** (3D printers etc) allows for a **very similar product** in terms of detail to be produced;
- **production is faster** than using metal further improving costs. "*This took less time than it would have taken to produce just one in metal, and it was less expensive*";
- plastic is cheaper so BRD could lower prices which may result in an increase in sales;
- plastic is cheaper than metal resulting in increased profits.

**Disadvantages** include:

- customers may **view the changed product in a negative way**. Customers have valued the trains being made with metal (accurately made and well-designed models). This might impact on BRD's sales;
- it can have a **negative impact** on the whole **BRD brand**;
- **plastic cannot be recycled** so BRD could get a poor reputation on sustainability. Some directors had misgivings as the plastic used is not yet recyclable.

***N.B. do not accept only "changing from metal to plastic" without further expansion on how this affects BRD.***

*Accept any other relevant advantage and disadvantage.*

**Mark as 2 + 2**

*Award [1] for each appropriate advantage/disadvantage identified and an additional [1] for a description of how it impacts on BRD.*

*Award a maximum of [2] per advantage/disadvantage.*

*Award a maximum of [4] in total.*

(b) Explain strategies, **other than** the issuing of additional shares to the existing shareholders, that *BRD* could have used to improve its liquidity in 2022 (lines 124–138). **[6]**

Strategies include:

- **controlling the overheads** (this could include: finding less expensive ways to produce like 3D printing, reducing fringe benefits, etc);
- **selling off unnecessary assets** (older machinery or factories) considering that sales fell year after year from 2010. *BRD*'s share of the UK market had fallen from a peak of 60% in 2001 to 20%, while sales to consumer in New Zealand and Australia followed similar pattern. *BRD* is likely to have idle production capacity
- **increase sales** by reassessing pricing strategies. Prices are uncompetitive for the train sets (line 112). *BRD* could shift to increase production of slot cars;
- **improve the quality** of the Matchfix PLC plastic model kits to improve sales and customer satisfaction, taking into account that customer complaints about quality issues with Matchfix PLC plastic model kits have increased;
- **increase payment times for suppliers**. This may only help short term. Suppliers were beginning to panic. One key supplier had already cancelled *BRD*'s 30-day trade credit period. Will *BRD* be able to renegotiate?
- **reduce** its level of unsold **stock** in its Liverpool factory valued at £6 million, by offering discounts or promotions to its customers;
- **reduce production** of train sets to lower expenses;
- **replace overdrafts by a medium/long term debt** taking into account that *BRD*'s bank refused to extend its overdraft, which now stood at £8 million. *BRD* may renegotiate new terms with the bank;
- **debt factoring**, *BRD* can maintain the same credit period, but the factoring will advance the receivables for a fee (no context);
- **decrease payment times for customers** (no context).

*Accept any other relevant strategy and explanation.*

**N.B.** *do not accept business angels, grants as BRD has liquidity issues and these are long-term strategies. Accept any other relevant strategy and explanation.*

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

*Award a maximum of [3] for a theoretical answer for limiting answer to only one strategy.*

*For [5-6] at least two strategies are named and developed correctly in context.*

*Award a maximum of [5] if the explanation is mainly descriptive, but in context.*

*Award a maximum of [6] for a developed answer in context.*

## Section B

4. (a) Define the term *market segment*. [2]

It is the division of consumers into distinct groups who share common characteristics, tastes and requirements.

*Beware of circular definitions which cannot be rewarded.*

**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.

(b) Explain **one** advantage **and one** disadvantage for *BRD* of using a cost-plus (mark-up) pricing strategy for its *Matchfix* plastic model kits. [4]

**Cost-plus (mark-up) pricing** refers to adding a mark-up to the average cost of producing a product.

**Advantages** could include:

- Should ensure **costs are covered** (and makes profit) **even** with the **cost** of plastic **increase** of **20%**, with a further increase in 2022 of 25%;
- **simple, easy and quick to administer**;
- prices are increasingly important to consumers. **Cost plus may be cheaper** than market prices in a cost/price rising market.

**Disadvantages:**

- **Costs are increasing**, likely to be behind the trend as the cost of plastic increased by 20%, with a further increase in 2022 of 25%;
- competitive market, **market prices might be more appropriate** as Matchfix kit **sales fell** in 2021 and further in 2022. Possibly due to raising prices as costs increased;
- needs **regular review**, better to respond more quickly to the market.

*Accept any other relevant advantage/disadvantage.*

**Mark as 2+2**

Award [1] for each advantage and additional [1] for an explanation of how it relates to *BRD*.

Award [1] for each disadvantage and additional [1] for an explanation of how it relates to *BRD*.

[2] can not 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].*

*Maximum award overall: [4].*

(c) Calculate:

- (i) the number of paying café visitors needed for the café to make a profit of £200 000 (show all your working); [2]

Let  $x$  = number of paying café users

Contribution per adult is £15 – £10 = £5. So, the total contribution is £5

Profit = contribution – fixed costs

So £200 000 = £5 $x$  - £25 000

£225 000 = £5 $x$

$X = £225\ 000 / £5 = 45\ 000$  paying café users

There are alternative ways of calculating this

£200 000 = (£15 – £10) $x$  - £25 000

£225 000 = £5 $x$

**$X = £225\ 000 / £5 = 45\ 000$  paying café users**

*Award [2] for the correct answer that shows the working and includes the unit.*

*Award [1] for an attempt to apply the formula.*

- (ii) the profit that *BRD* would make in year 3 from operating the café (*show all your working*). **[2]**

BRD has forecasted 55,000 visitors for year 3,

Simpson predicts that 80% of visitors will visit the café

So, 55 000 x 0.8 go to the café = 44 000

Contribution = 44 000 x £5 = £220 000

Fixed costs of £25 000

**Profit** = total contribution – total fixed costs = £220 000 – £25 000 = **£195 000**

**N.B.** allow BOD for the use of the \$ or € sign instead of £.

*Award [2] for the correct answer which shows the working and includes the unit (£).*

*Award [1] for an attempt to apply the formula.*

- (d) Recommend whether *BRD* should choose **Option 1** (the science and imagination centre) or **Option 2** (the railway museum). **[10]**

### Option 1

**Arguments for** could include:

- **Setup £500k** rather than £800k;
- businesses often have **visitor centres**;
- sort of **attraction** liked by parents;
- **higher visitor numbers in long term** (see Table 2);
- unusual if not **unique experience?**

**Arguments against** could include:

- **Higher running costs** especially for trained employees. Higher annual total fixed costs (£360k);
- **recruiting** a problem?;
- **no experience**;
- **lower** estimated growth of **visitor numbers in the beginning**. Is this data reliable?.

### Option 2

**Arguments for** could include:

- **Higher visitor numbers at the beginning**;
- **fewer employees**, lower skills required;
- production of trains is what BRD is about. So, maybe Synergy?.

**Arguments against** could include:

- **Lower visitor numbers in long term**;
- **high capital costs**.

Evaluation of the options may consider their view of what is important to BRD—profit, short-term vs long-term issues; aspects of risk. Candidates may make reference to business tools, such as Ansoff; FFA etc.

*Accept any other relevant argument and evaluation.*

***N.B.*** *Candidates can recommend either. Marks come from the strengths of the arguments.*

*Marks should be allocated according to the mark bands on page 4 with further guidance below.*

*Theoretical answer or context limited to naming the business or lack of development max [4].*

*Discussion of only one option marks limited to [5].*

*Discussion but no clear balance [6].*

*Options considered, good use of evidence, particularly from section B, but no effective conclusion award a maximum of [8].*

*For [10] the answer needs to be a fully supported conclusion/evaluation, clearly relevant to BRD with good use of context.*

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