

Markscheme

November 2023

Business management

Standard level

Paper 2

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

Assessment criteria for Section C

Criterion A: Knowledge and conceptual understanding

This criterion addresses the extent to which the candidate demonstrates knowledge and understanding of the given concepts and relevant business management content (theories, techniques or tools, depending on the requirements of the question).

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Superficial knowledge of the given concepts is demonstrated. Business management content is not selected or the content selected is irrelevant.
2	Satisfactory understanding of one or both of the given concepts is demonstrated. Some business management content selected is relevant. The relevant content is satisfactorily explained.
3	Good understanding of one or both of the given concepts is demonstrated. The business management content selected is relevant, though it may not be sufficient. The relevant content is generally well explained, though the explanation may lack some depth or breadth.
4	Good understanding of both of the given concepts is demonstrated. The business management content selected is relevant, sufficient and well explained.

Criterion B: Application

This criterion addresses the extent to which the candidate is able to apply the given concepts and the relevant business management content (theories, techniques or tools, depending on the requirements of the question) to his or her chosen real-world organization(s). **The real-world organization(s) must not be the organization featured in the prescribed case study for paper 1.**

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	The given concepts and/or any relevant business management content are connected to the real-world organization(s), but this connection is inappropriate or superficial.
2	The given concepts and/or relevant business management content are connected appropriately to the real-world organization(s), but this connection is not developed.
3	The given concepts and relevant business management content are generally well applied to explain the situation and issues of the real-world organization(s), though the explanation may lack some depth or breadth. Examples are provided.
4	The given concepts and relevant business management content are well applied to explain the situation and issues of the real-world organization(s). Examples are appropriate and illustrative.

Criterion C: Reasoned arguments

This criterion assesses the extent to which the candidate makes reasoned arguments. This includes making relevant and balanced arguments by, for example, exploring different practices, weighing up their strengths and weaknesses, comparing and contrasting them or considering their implications, depending on the requirements of the question. It also includes justifying the arguments by presenting reasonable evidence or other support for the claims made.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Statements are made but these are superficial.
2	Relevant arguments are made but these are mostly unjustified.
3	Relevant arguments are made and these are mostly justified.
4	Relevant, balanced arguments are made and these are well justified.

Criterion D: Structure

This criterion assesses the extent to which the candidate organizes his or her ideas with clarity, and presents a structured piece of writing comprised of:

- an introduction
- a body
- a conclusion
- fit-for-purpose paragraphs.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	Two or fewer of the structural elements are present, and few ideas are clearly organized.
2	Three of the structural elements are present, or most ideas are clearly organized.
3	Three or four of the structural elements are present, and most ideas are clearly organized.
4	All of the structural elements are present, and ideas are clearly organized.

Criterion E: Individuals and societies

This criterion assesses the extent to which the candidate is able to give balanced consideration to the perspectives of a range of relevant stakeholders, including individuals and groups internal and external to the organization.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptors below.
1	One individual or group perspective is considered superficially or inappropriately.
2	One relevant individual or group perspective is considered appropriately, or two relevant individual or group perspectives are considered superficially or inappropriately.
3	At least two relevant individual or group perspectives are considered appropriately.
4	Balanced consideration is given to relevant individual and group perspectives.

Section A

1. (a) Define the term *secondary sector*.

[2]

This sector **includes** both **construction and manufacturing**. It uses resources from the primary sector to **manufacture finished goods or process raw materials** to be used for other secondary sector business. The secondary sector **supports** both the **primary and tertiary sector**.

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

Providing examples of secondary sector business alone is insufficient to receive marks. However, exemplification can strengthen a definition and be a basis for a second mark (if the definition was not fully complete).

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) Using the information in **Table 1**, calculate *FD*'s:

(i) current ratio at 31 December 2022 (*show all your working*);

[2]

(All figures in \$000s).

Cash + debtors + stock = current assets

$\$17 + \$39 + \$40 = \96

Overdraft + creditors + 90-day loan + 180-day loan = current liabilities

$\$6 + \$32 + \$10 + \$16 = \$64$

Current ratio = Current assets/current liabilities

Current ratio = $\$96/\$64 = 1.5$

Award [2] if a candidate provides the **correct answer with workings**. Award [1] for working and [1] for the correct answer.

Award [1] if a candidate **who has shown workings** provides a correct procedure (thus, demonstrates an understanding of the underlying concepts) **but** has made an error, or omission in calculation.

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

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

(ii) acid test (quick) ratio at 31 December 2022 (*no working required*);

[1]

Acid test ratio = (Current assets - stock)/(current liabilities)

Acid test ratio = $(96 - 40)/64 = 0.875$ (allow rounding)

N.B. Accept 0.875 or 0.88. Do not accept 0.87 or 0.9.

Award [1] for the correct answer (*no working required*).

If the candidate shows workings, which is not required for this question, apply **Own Figure Rule** if the candidate incorrectly calculates current liabilities in 1 (b)(i).

(iii) total equity at 31 December 2022 (*no working required*); [1]

Equity = Share capital + Accumulated retained profit = \$10 + \$22 = **\$32**

Accept \$32 000

*Award [1] for the correct answer. A correct answer must include the **sign \$** (no working required)*

(iv) net profit margin for the year ending 31 December 2022 (*show all your working*). [2]

Net profit margin = (net profit before interest and tax) / (sales revenue) x 100

Sale revenue = 22 drones x \$400 x 12 months = \$105 600

Sale revenue - Cost of goods sold – expenses = net profit before interest and tax

\$105 600 - \$33 000 - \$56 000 = \$16 600

Net profit margin = (\$16 600 / \$105 600) x100% = **15.72%** (allow rounding)

N.B. Accept 15.7%. Do not accept 16% or 15.71%.

Award marks as follows,

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

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

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

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

(c) Comment on WF's offer to purchase shares of FD from Gary. [2]

Candidates may answer this question in one of two ways.

They may comment on the fact that, by **selling 60%** of the shares to WF, **Gary will be losing control of the business**. Though he would **stay on as CEO for three years**, he no longer would be completely free to run the business as he sees fit.

Or, candidates may comment on the price of the WF's offer. 60% of the net book value of the business is \$19 200 (Equity x 60% = \$32 000 x 0.6). WF is offering \$35 000 for those shares, which means that Gary would earn a premium of \$15 800, which he may or may not find attractive.

N.B. Candidates are not expected to evaluate WF's offer. Rather, they are expected to comment on potential implications of it.

Award [1] for a basic comment addressing one of the two issues above. Award an additional [1] for application to the stimulus.

If a candidate says something like "If Gary accepts the offer, he would lose control over the business, but he would also earn a capital gain (or profit) on the sale of shares." Award [2]. If a candidate comments on only one of the two issues above, the candidate must have more specific detail, like 60% or \$15 800, for the application mark.

2. (a) State **two** features of a sole trader. **[2]**

A **sole trader** is a person who is the **exclusive owner of a business**, entitled to keep all profits after tax has been paid but liable for all losses; a sole **proprietor**.

Features include:

- full **control**;
- the sole trader **owns and runs the business**;
- not a separate legal entity. **No legal distinction** exists **between the business and the sole trader**;
- **unlimited liability**;
- **finance** is usually **limited**;
- **registering** the business is generally relatively **easy and inexpensive and quick**.

***N.B.** Do not accept risk taker as a feature of a sole trader.*

Accept any other relevant feature.

***N.B.** no description is required.*

*Award **[1]** for each relevant feature identified. Award a maximum of **[2]**.*

(b) Using the information in **Table 2**, prepare a fully labelled cash-flow forecast for *AAP* for the four months from January 2024 to April 2024. **[6]**

	January 2024	February 2024	March 2024	April 2024
Cash inflows:				
Sales (cash sales revenue)	\$2000	\$2000	\$2000	\$2000
Total receipts (inflows)	\$2000	\$2000	\$2000	\$2000
Cash outflows:				
Helicopter rent	\$1000	\$1000		
Loan payment	\$300	\$300	\$300	\$300
Alejandro's salary	\$550	\$550	\$1000	\$1000
Drone maintenance			\$200	\$200
Total cash payments (outflows)	\$1850	\$1850	\$1500	\$1500
Net cash flow	\$150	\$150	\$500	\$500
Opening balance	\$0	\$150	\$300	\$800
Closing balance	\$150	\$300	\$800	\$1300

Accept slightly different headings / format such as opening balance at the top or at the bottom.

Do not penalize if there is no overall title as it is not specified in the subject guide, unlike the profit and loss account / balance sheet where a title is expected.

N.B. Allow candidate own figure rule (OFR): if a candidate makes an error in one row and carries it through the remainder of the forecast it is only one error. This provision includes both mathematical errors and conceptual errors (for example, if a candidate has the maintenance in the incorrect month).

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

[2] for a cash flow that has some problems in layout and wording and which has three mistakes (apply OFR).

[3] for a largely correct cash flow that has some minor problems layout and wording with layout and which has two mistakes (apply OFR).

Errors could include in addition to number placement problems and mathematical errors, conceptual errors (using the term “net profit” rather than “net cash flow”) or omissions, such as not having a line like “closing balance” or “totals”.

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

[5] for a mathematically correct cash flow that has some omission of the wording above.

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

Full working is not expected.

(c) Explain **one** suitable external source of finance, **other than** loan capital, that Alejandro could use to purchase the drone. **[2]**

Leasing: A lease is a **contract** outlining the terms under which one party agrees to **rent an asset**—in this case, a drone—**owned by another party**.

The purchase of new **technology** like **drones** can be **risky** because of how rapidly it **can become obsolete** (albeit the competitive advantage it can give). Alejandro might want to **upgrade** to a new model according to the business needs. **Leasing is one way of mitigating the risk.**

Drones can be **expensive** to pay for in its totality. Unlike larger machinery, it is often *possible* to purchase a drone in a lump sum, but usually a bad idea. Why? It **can** seriously **constrain cashflow**, leaving the business unable to pay for day-to-day expenses. In this particular case, it looks like the business will allow **Alejandro to increase his salary**. Leases consist of a deposit followed by a series of monthly payments (plus interest), **allowing for the spreading of the cost** without compromising working capital.

Third party finance through shared ownership schemes such as **partnership:** This type of business is **formed by two or more people**. Often they are friends, associates or people with similar or related skills. Partnerships are popular with professional people with related qualifications. In this case, **Alejandro could ask another photographer** with the skills for aerial photography to invest in the purchase of the drone. Operated as a partnership, they could seek at **specializing in aerial photography**.

N.B. Do not accept trade credit or overdraft.

Accept any other appropriate external source of finance.

Award **[1]** for a relevant generic identification or description of an adequate external source of finance and a further **[1]** for any additional explanation in context.

[2] cannot be awarded for the external source of finance if the response lacks either explanation and / or application to Alejandro’s Aerial Photography as a sole trader.

Section B

3. (a) Define the term *variable costs*. [2]

Variable costs are recurring costs that **change with output or activity**. When sales or production increases, variable costs increase as well.

N.B. No application required. Do not credit examples.

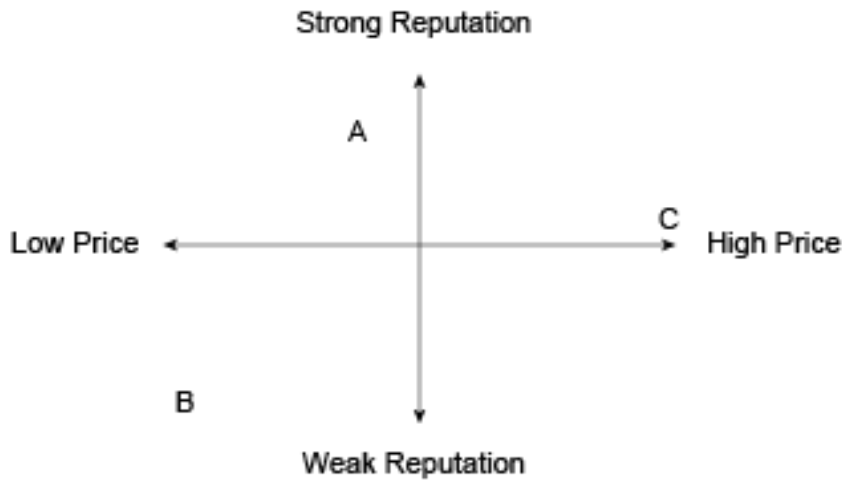
Candidates are **not** expected to word their definition **exactly** as above.

If a candidate says "variable costs are costs that vary," award [0]

Award [1] for a basic definition that conveys partial knowledge and understanding.

Award [2] for a definition that conveys full understanding. To receive [2], the candidate must specify that variable costs change with output or activity.

(b) Using **Table 3**, construct a product position map/perception map of the three existing pet salons. [4]



N.B. if a candidate uses the word "quality," rather than "reputation," accept.

Award [1] for some understanding of a product position/perception map.

Award [2] for a correctly drawn product position/perception map with axes properly labelled.

Award [3] for a correctly drawn product position/perception map with axes properly labelled and has placed two of the three businesses in the correct place on the map.

Award [4] for a correctly drawn product position/perception map with axes properly labelled and has placed the three businesses in the correct place on the map.

N.B. The axes can be reversed (the Y axis could be price and the X axis could be reputation).

Accept salon A if placed on or near to the reputation axis as this represents midway between high and low on the price axis.

Accept abbreviations for labels so long as clear.

(c) Explain **two** problems that Anna may encounter when starting a new business. **[4]**

Common problems that new business encounters include:

- **Difficulty recruiting** suitable employees as hers is new with no track record;
- **lack of finance** - again new with no track record;
- **lack** of identity or **reputation** in the marketplace - Anna has limited resources for promotion;
- **limited** initial **customer base** (the market is very competitive);
- **owners** have many **demands** on their **time** - Anna is possibly a sole trader;
- **lack of experience** of those opening the business - Anna has no managerial experience;
- **poor market research** - Anna's lack of financial resources may suggest this is true.

Accept any other relevant problem that a new business may encounter.

N.B. if Anna opens as an independent business, she will **have to establish an identity in the marketplace** (which would be less of an issue if she opens as a PB franchise).

Award marks as follows:

*Mark as **2+2**.*

*Award **[1]** for identification of a common problem that a business may encounter and an additional **[1]** for an explanation and application to the stimulus. Award a maximum of **[2]**.*

***[2]** can not be awarded per problem if the response lacks either explanation **and** / **or** application.*

For example:

*For an identification or a description of a problem **with or without** application **[1]**.*

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

*For explanation of a problem **and** application **[2]**.*

*Maximum award overall: **[4]**.*

(d) Recommend whether Anna should open her pet salon as an independent business (**Option 1**) or as a PB franchise (**Option 2**). **[10]**

Both options have advantages and disadvantages.

Option 1: advantages

- **Anna** is fully her **own boss**, which appeals to her;
- Anna has **full decision control** over what she does;
- she **retains all revenue**;
- **forecasts** are **favourable**. Anna does not “need” to be a franchise.

Option 1: disadvantages

- many **new businesses** face a range of **problems**. She will have no support from a franchiser. She will be all on her own;
- she is entering a **competitive market**;
- Anna has no managerial experience.

Option 2: advantages

- Anna will be able to **get equipment and supplies cheaper**, presumably because the **franchiser** enjoys purchasing **economies of scale**;
- as a **national chain**, the PB brand is **well known**;
- **PB** will **pay** for **national** and **regional promotion**;
- **franchisor** offers **support** and guidance.

Option 2: disadvantages

- Anna **wants to be her own boss**. Operating a PB franchise, she **will lose some control** over her business;
- she has to pay a one-time fee to **buy a franchise** fee and, ongoing, **5% of her revenue**;
- the **extant pet salon** franchise in the market has a **better reputation than PB**, even though its prices are comparable;
- Anna will need to pay for local promotion – although not as much as Option 1.

Accept any substantiated evaluation/judgment/recommendation.

It is expected that candidates provide a conclusion with a substantiated judgment.

Maximum Mark award	Should Anna OPT FOR 1 OR 2	Judgments/conclusion
1-2	Minimal attempt. Does not really understand the demands of the question. No application, theoretical answer	
3	One argument for or one argument against one option. Limited use of stimulus.	n/a
4	One argument for and one argument against for one option Or, two or more arguments for one side of argument and none for the other. Some use of stimulus.	n/a
5	A balanced argument for one option (at least one argument for and one against) and an unbalanced argument for the other option (at least one argument for or against) Some use of stimulus.	n/a
6	Balanced arguments (at least one argument for and one against) for both options. Good use of stimulus.	No judgments/conclusions
7-8	Balanced arguments (at least one argument for and one against) for both options <i>plus</i> a conclusion that is more than nominal – actually flows out of the analysis. Largely effective use of business language and the stimulus	Judgments/conclusions based upon analysis and explanation in the body of the response
9-10	Balanced arguments (at least one argument for and one against) for both options <i>plus</i> a conclusion that is more than nominal – actually flows out of the analysis. Rich use of business language, business theory and the stimulus	Two arguments for, two arguments against plus a conclusion that is more than nominal – actually flows out of the analysis.

Use the above table and mark according to the markbands found on page 3.

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

A **niche market** is a **specific unique market**, typically a **subset of a larger market**, with **specific wants and needs**. Niche markets are typically **small** and often **products sold** in niche markets are **more expensive** than those outside the niche are. Customers in niche markets are typically passionate about the products and are thus willing to pay a premium.

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 why *WJ* regularly needs more working capital. [4]

According to the stimulus, **WJ has a long working capital cycle**. The working capital cycle refers to the **process, involving time and funds**, whereby a business **purchases supplies, converts** them **into finished goods** inventory, **sells** the inventory, and **receives payment** for them. As a manufacturer, **WJ purchases raw materials on credit, converts** the raw materials **into finished goods**, and then **sells to wholesalers on credit**. This process **ties cash up**. Though the **credit WJ receives provides them with resources**, those resources are presumably **tied up in non-cash assets** (inventory and debtors' accounts) for a period of time **longer than the credit terms WJ receives**. **One supplier's shortening of credit terms** (from 60 to 30 days) has made the issue of **working capital worse**. **WJ's sales are increasing**, which means that it **needs more** and more **capital invested in current assets**.

With every dollar of sales growth, *WJ* needs more working capital. For many companies, and especially those like *WJ* with rapidly increasing sales, **profits are not enough to finance this ever-expanding need for working capital**.

Award [1] for only a partial/unclear understanding of the working capital.

Award [2] for a clear explanation of the working capital and for linking it to the concept of working capital cycle.

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

Award a maximum of [4] in total.

For [4], a candidate must indicate some understanding that the working capital cycle consists of inventory turnover, debtor turnover, minus creditor turnover.

(c) With reference to WJ’s new competitors, explain the terms “penetration pricing” and “loss leader”.

[4]

Penetration pricing occurs when one company, trying to **gain market share**, enters a market with lower prices than its competitors to lure customers away from those competitors. For years, WJ, an established business in the eco-friendly camping gear market, was able to charge a premium for its camping gear. Now, however (“the market is changing”), new entrants into the eco-friendly market are trying to “buy” market share by offering their equipment at prices lower than WJ’s.

A **loss leader** strategy occurs when a company sells one of its products at a price well below market – typically at a loss – to attract customers to buy other typically related, complementary, profitable products. One of WJ’s competitors was selling a tent at a price that, Cameron suspected, was below what it cost them to make it. However, this approach makes customers aware that the competitor is now in the eco-friendly camping equipment market, and customers might buy other, profitable camping products from the competitor.

Mark as 2 + 2.

Award **[1]** for providing a basic definition of **penetration pricing** and a further **[1]** for a development with respect to WJ and/or its competitors. Award a maximum of **[2]**. **[2]** cannot be awarded if the response lacks either explanation **and / or** application.

Award **[1]** for providing a basic definition of the **loss leader** and a further **[1]** for a development with respect to WJ and/or its competitors. Award a maximum of **[2]**. **[2]** cannot be awarded if the response lacks either explanation **and / or** application.

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

(d) Recommend whether Cameron should choose **Option 1** or **Option 2**. [10]

Option 1 has several **advantages**. First, **going public would raise WJ’s profile**, something it may **need as more companies move into the eco-friendly camping equipment market**. With the **new modern sustainable factory**, WJ can continue to make sufficient eco-friendly camping equipment to meet market demand. The new factory, built with new sustainable features, can further enhance WJ’s brand-focused **environmental friendliness**. By **manufacturing its products** themselves, WJ can **ensure product quality** and control all of its practices.

Disadvantages: However, going public is expensive. Cameron would **no longer** be the **majority shareholder** and would have to answer to his shareholders in a way he had not previously had to do. As a publicly traded company, WJ would **lose some** its **cachet** to its **niche-market** following. Further, the **capital raised** would be **insufficient** to cover all of WJ’s capital requirements, and so it **would have to take on additional bank debt**, which would come with interest expense and have to be repaid.

Option 2 has several **advantages**. Cameron would **not have to take WJ public** and would thus **retain his 70% (controlling)** interest in the company. The pressure of rising working capital requirements would be reduced substantially, as WJ’s **inventory turnover time** would be **reduced** considerably: it would receive goods from its overseas manufacturers, buy them on credit, and immediately sell the inventory to wholesalers. WJ would be **lowering its fixed costs** substantially.

Option 2, however, also has **disadvantages**. Managing an extended supply chain is **outside** of Cameron’s **area of expertise**. Turning over manufacturing to manufacturing suppliers in developing countries could **tarnish WJ’s brand** if those **companies did not** themselves **follow sustainable practices** or other practices that developed countries generally want (no child labour, for example). WJ would also have **less control over quality**.

Accept any other relevant advantages and disadvantages to either option.

Maximum Mark award	Option 1	Option 2	Judgments/conclusion
1-2	Minimal attempt. Does not really understand the demands of the question. No application, theoretical answer		
3	Unbalanced	N/A	N/A
4	Unbalanced	Unbalanced	N/A
5	One balanced (one argument for and one argument against) and the other option in an unbalanced fashion		N/A
6	Both balanced		No judgments/conclusions
7-8	Balanced Largely effective use of business language and the stimulus		Judgments/conclusions based upon analysis and explanation in the body of the response
9-10	Balanced Rich use of business language, business theory, and the stimulus		Judgments/conclusions based upon analysis and explanation in the body of the response

Use the above table and mark according to the markbands found on page 3.

5. (a) Define the term *social marketing*. [2]

Any activity that seeks to influence social behaviour to benefit the target audience and society overall, using concepts from commercial marketing.

*Alternative definition: a marketing **approach** aimed at **influencing a positive change in individual behaviour** and improvements in **societal well-being**.*

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, clear definition that conveys knowledge and understanding similar to the answer above.

(b) Using the Ansoff matrix, explain **two** of ME's growth strategies. [4]

	Existing Products	New Products
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

The strategies could be:

- **Product development:** ME continuously **developed new products** sold to **existing markets** like the **traditional burger, roasted potatoes**, etc.
- **Market development:** ME **opened outlets** in **different geographical locations/** towns near by using the current/ **same products**
- **Market penetration:** Selling the **same products/the same markets/customers**, ME spend money on ATL promotion **to attract more customers** into their current outlets.
- **Related diversification:** **new plant based/healthy drink** or even the movement to **vegan burgers**, assuming **new segments** were targeted with **new product** provided full explanation that ME's **target health-conscious drinkers/active drinker**.

N.B. Do not penalize if the matrix is not drawn but candidates are expected to show understanding of the model and refer to the types of products/types of markets using the terminology above.

Mark as 2 + 2

Award **[1]** for each appropriate strategy and an additional **[1]** for a development with respect to ME.

Award a maximum of **[2]**

[2] can not be awarded per strategy if the response lacks either explanation **and / or** application.

For example:

*For an identification or a description of a strategy **with or without** application [1].*

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

*For explanation of a strategy **and** application [2].*

Maximum award overall: [4].

(c) Explain **one** advantage **and one** disadvantage for *ME* of using a loss leader pricing strategy for the new product that will be launched in 2024. **[4]**

Possible advantages:

Given the increased competition in a mature saturated market and the concern about the future, a **loss leader strategy may attract more people to the outlet**. A **low price** is likely to **encourage customers to try the new product** and hopefully brand loyalty can be developed.

While purchasing the drink at a very attractive and competitive price, they are likely to **purchase some complementary products** available in the outlet that are currently facing competition.

Possible disadvantages:

Given the **current fall in profit**, *ME* may quickly **descend** into a **loss-making position** overall. The **new drink may not attract** the expected customers as it is said that the market for plant base burgers is also reaching maturity/saturation.

This strategy **may be suitable for a short term** only and **may be unsustainable in the medium/long term**. If *ME* will **increase** the **price** after a certain period, **customers may** resent the price increase and **stop purchasing** the product **and search** for an **alternative** among the competitors.

Accept any other relevant advantage/disadvantage with appropriate application to the type of product and to the nature of the strategy itself.

Mark as 2 + 2.

*Award [1] for **one** appropriate advantage and an additional of [1] for a development with respect to *ME*. Award a maximum of [2].*

*Award [1] for **one** appropriate disadvantage identified and an additional [1] for a development with respect to *ME*. Award a maximum of [2].*

[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].*

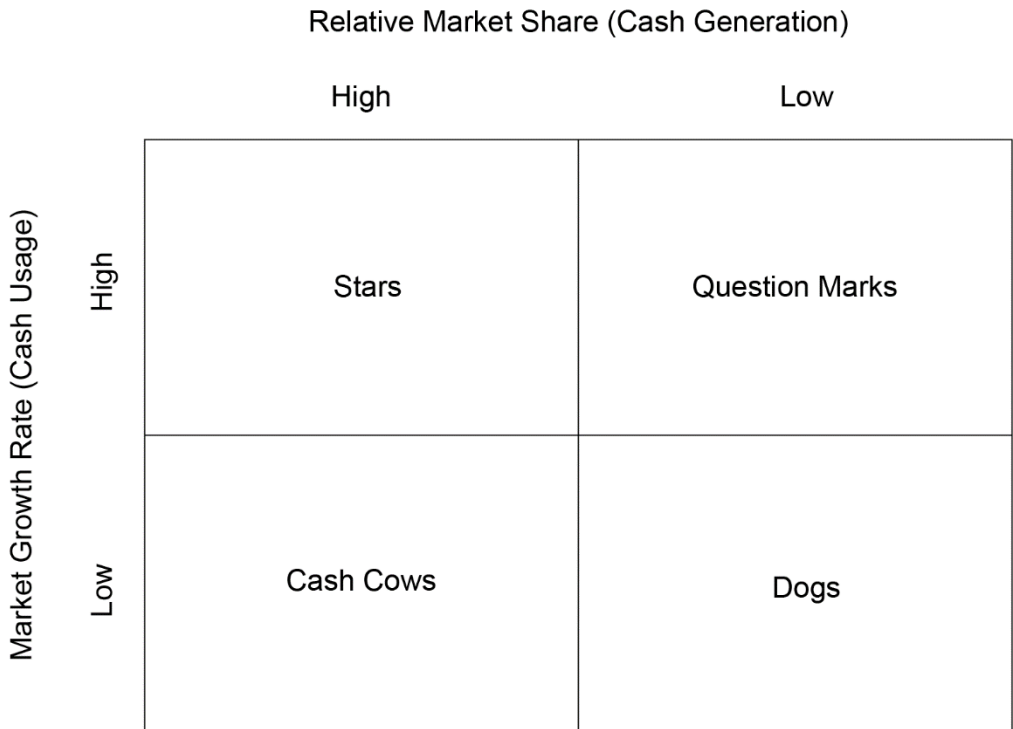
*For a partial answer which may lack application to *ME* [1].*

*For explanation of an advantage/disadvantage with **no** application [1].*

*For explanation of an advantage/disadvantage **and** application [2].*

Maximum award overall: [4].

(d) Using the Boston Consulting Group (BCG) matrix, evaluate ME's core product range. [10]



An overall evaluation of the management of the product portfolio/range should be provided.

- **Traditional beef burger** is a **dog** that moved to this position after being a **cash cow**. The product is no longer profitable and the market is not growing (loss-making product);
- **Roasted organic potatoes** is a **cash cow**;
- **Organic, low-fat burgers** is a **saturated/mature cash cow** that is **moving** quickly towards the **dog position**. It does not make profit; it **only breaks even**;
- **Vegan, plant-based burgers** is also a mature **cash cow**. More profitable than the organic burger but profit is levelling off;
- **Vegan pancake** is a **dog**. A loss-making product. Probably went straight from a question marks position to being a dog.

A **new plant-based drink** product is still being developed and therefore is a **cash drainer**. Its **future is unknown**.

On the **positive side**, ME **introduced new products in short intervals**. ME's managers clearly displayed awareness that **new products** should be introduced **to ensure a balance range**. ME **captured the new social trends** and moved into **organic** and **vegan** products. Some were successful and clearly while being cash cows provided ME with the **required cash** to further **develop new products** as well as cash to **support the new product** along the product life cycle to reach maturity. All but **one product** did **reach maturity/saturation**.

ME **management**, being **worried** about the **fall in profit** as of 2020 and the future financial position of ME, decided to **introduce a new plant-based product** to possibly **fill** a current **gap** in the **product range**.

Disadvantages: However, now the **product portfolio** is largely **unbalanced**. ME has not got any **questions marks or stars**, products in the introductory and growth stages. The dogs are cash drainers and the cash cows, apart from the **potatoes**, **are not very profitable** or just break even. It does not come as a surprise that the management in 2020 is worried about ME's financial future. It said in the stimulus that the **profit is falling significantly**. The most **recent product** introduced was a **failure**.

There is **no guarantee that the new drink be a success**. There are **many competitors in the market**. Even if the product will be different and exciting for the customers, the likelihood is that the other **competitors will follow soon**. ME is **unlikely** to be able **to patent a plant-based drink**. Moreover, the **new drink will need financial support** during the **introductory and growth phase**. The use of a loss leader strategy is likely to make ME's financial future in danger despite raising revenue due to the low price. This **pricing policy** can **only** be sustainable **in the short run**. Overall, in the short term the management of ME is right to be concerned. The **product ranges are currently not well managed**.

Perhaps, **more than one product should be developed every year** or at shorter interval **to reduce the financial risk**. Perhaps **more products should be introduced** imminently rather than relying on a drink only.

Accept any other ***substantiated/justified*** judgment.

N.B. Ideally, candidates should place the products in the appropriate places on the BCG. However, candidates may only describe/explain the positioning of each product on the model/matrix in terms of market growth and market share.

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

Section C

Questions 6–8. Please mark the candidate response using the assessment criteria on pages 4–5.

- | | | |
|----|--|-------------|
| 6. | With reference to an organization of your choice, discuss the impact of ethics and globalization on human resource management. | [20] |
| 7. | With reference to an organization of your choice, discuss the impact of culture and innovation on operations management. | [20] |
| 8. | With reference to an organization of your choice, discuss the impact of change on marketing strategy . | [20] |

N.B. Although the question asks for the application of one concept on another, it is still expected that Business Management content will be aligned with the concepts especially the second concept (the one being acted on).

Please note that candidates can conclude that there was a minimal impact, however it has to be based on balanced arguments and evaluation.

Additional guidance in relation to the assessment criteria

For each criterion, the aim is to find the descriptor that conveys most accurately the level attained by the candidate, using the best-fit model. It is not necessary for every single aspect of a level descriptor to be met for that mark to be awarded.

- The highest level descriptors do not imply faultless performance and should be achievable by a candidate.
- A candidate who attains a high level of achievement for one criterion will not necessarily reach high levels of achievement for the other criteria and vice versa.

If only **one** concept is addressed:

- Criteria A, B, C and E: award up to a maximum **[3]**.
- Criterion D: full marks can be awarded.

Where the question asks for impacts of **two concepts on content**, examiners must allow for unbalanced treatment of the two concepts throughout a candidate's response. One concept may be more significant than the other.

Criterion B

For **[2]**: "...connection is not developed" should be treated the same as superficial.

Criterion C

1 + 1 arguments are expected per concepts.

- Question 8 requires consideration of the impact of one concept **on** a second concept – therefore accept 2 + 2 arguments for a balanced response.
- Justification is through logic or data.
- For **[2]** there is no balance as there are no counter arguments at all, or the arguments are all one-sided then this would be unjustified.
- For **[3]** there are some balanced arguments – some of which are justified.

Criterion D

- Introductions need to be concise and related to the question.
- The candidate's response does not to have explicit headings for each structural element.
- A body is the area in which the substance of arguments occurs. It is usually located between the introduction and the conclusion.
- Fit-for-purpose paragraph means that ideas are presented in a clear academic way. For example, one idea per paragraph.

Criterion E

- One example of an “individual” could be an individual consumer or an individual manager. However, this cannot be considered with a “group” of consumers or a management team.
- For [4], a balanced response: look at the perspectives of both individual and group(s).
- The chosen individual, group needs to be applicable and relevant to the question with specific explanation.
- Candidates need to go beyond stating the stakeholder.
- Please do not use the adjective ‘inappropriate’ in the descriptor for [2]. If inappropriate award [1].

Candidates need not explicitly say “stakeholder”.

In section C, the question rubric explicitly states that “organizations featured in sections A and B and in the paper 1 case study may not be used as a basis” to candidate’s answers to questions 6, 7 and 8. When this happens please award marks as follows:

Criterion A: award a maximum of [1]. The business management content cannot be relevant if the organization is fictitious.

Criterion B: 0 marks – there is no connection to a “real-world organization”

Criterion C: award a maximum of [1]. The arguments cannot be relevant if the organization is fictitious.

Criterion D: mark as normal.

Criterion E: award up to a maximum of [1]. The individual and/or group perspective(s) cannot be relevant if the organization is fictitious.
