

## Markscheme

Business management

Standard level

Paper 2

The markbands on page 2 should be used where indicated in the markscheme.

Marks	Level descriptor
0	<ul style="list-style-type: none"> <li>The response does not reach a standard described by the descriptors below.</li> </ul>
1-2	<ul style="list-style-type: none"> <li>Little understanding of the demands of the question.</li> <li>Little use of business management tools and theories; any tools and theories that are used are irrelevant or used inaccurately.</li> <li>Little or no reference to the stimulus material.</li> <li>No arguments are made.</li> </ul>
3-4	<ul style="list-style-type: none"> <li>Some understanding of the demands of the question.</li> <li>Some use of business management tools and theories, but these are mostly lacking in accuracy and relevance.</li> <li>Superficial use of information from the stimulus material, often not going beyond the name of the person(s) or name of the organization.</li> <li>Any arguments made are mostly unsubstantiated.</li> </ul>
5-6	<ul style="list-style-type: none"> <li>The response indicates an understanding of the demands of the question, but these demands are only partially addressed.</li> <li>Some relevant and accurate use of business management tools and theories.</li> <li>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.</li> <li>Arguments are substantiated but are mostly one-sided.</li> </ul>
7-8	<ul style="list-style-type: none"> <li>Mostly addresses the demands of the question.</li> <li>Mostly relevant and accurate use of business management tools and theories.</li> <li>Information from the stimulus material is generally used to support the argument, although there is some lack of clarity or relevance in some places.</li> <li>Arguments are substantiated and have some balance.</li> </ul>
9-10	<ul style="list-style-type: none"> <li>Clear focus on addressing the demands of the question.</li> <li>Relevant and accurate use of business management tools and theories.</li> <li>Relevant information from the stimulus material is integrated effectively to support the argument.</li> <li>Arguments are substantiated and balanced, with an explanation of the limitations of the case study or stimulus material.</li> </ul>

**Section A**

**. 1. Fresh Bites Café**

(a) Define the term *profit*. [2]

Profit is the financial gain that is realized when the revenue generated from business activities exceeds the expenses and costs associated with maintaining the business. It is the difference between total revenue and total costs.

Candidates are not expected to use the **exact** wording above.

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

Award [2] for a full definition that conveys knowledge and understanding e.g. the difference between total revenue and total costs.

(b) Using the information from **Table 1**, construct a complete statement of profit or loss for Fresh Bites Café. [4]

**Statement of profit or loss for the year ended 2023 (in USD):**

Sales Revenue	470,000
Cost of sales	180,000
Gross profit	290,000
Salaries	30,000
Operating expenses	150,000
Marketing expenses	20,000
Profit before interest and tax	90,000
Interest	10,000
Profit before tax	80,000
Tax	20,000
Profit for period	60,000
Dividends	10,000
Retained Profit	50,000

(c) Using information from **Table 1**, calculate:  
 (i) the Gross Profit Margin for Fresh Bites Café (*no working required*); [1]

$$\text{Gross Profit Margin} = \text{Gross Profit} / \text{Sales Revenue} \times 100$$

$$\text{Gross Profit Margin} = 290,000 / 470,000 \times 100 = 61.70\%$$

Award [1] for correct answer.

(ii) Calculate the Profit Margin for Fresh Bites Café (*no working required*). [1]

$$\text{Profit Margin} = \text{Profit} / \text{Sales Revenue} \times 100$$

$$\text{Profit Margin} = 90,000 / 470,000 \times 100 = 19.15\%$$

Award [1] for correct answer.

- (d) Explain **one** advantage of Fresh Bites Café having a high gross profit margin. [2]

A high gross profit margin indicates that a company is effectively managing its production costs relative to its sales revenue. This means that Fresh Bites Café has more funds available to cover other operating expenses, invest in growth opportunities, and provide a cushion against price increases in materials or economic downturns. It shows efficiency in generating profit from core activities.

*Accept any other relevant advantage.*

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

## 2. Lovely Snacks (HSL)

- (a) Define the term *on-the-job training*. [2]

On-the-job training refers to a method of employee training that occurs directly at the workplace while the employee is performing their job tasks. Employees learn through hands-on experience and practice under the guidance of a supervisor or experienced colleague, enabling them to acquire practical skills that are relevant to their role.

*Candidates are not expected to use the **exact** wording above.*

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

*Award [2] for a full definition that conveys knowledge and understanding e.g. the training that takes place at the workplace while the employee is doing the job.*

- (b) Explain **one** advantage of Lovely Snacks operating as a social enterprise. [2]

One advantage of Fresh Bites Café operating as a social enterprise is that it can attract customers and investors who value social responsibility and ethical practices. This can result in enhanced brand loyalty and access to social impact funds or grants, which may not be available to traditional businesses.

Another advantage for Fresh Bites Café operating as a social enterprise is that it can benefit from positive brand image and public relations, as they are seen as contributing to society, which can lead to stronger community support and increased sales.

*Accept any other relevant advantage.*

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

(c) Using information from **Table 2**, calculate:

- (i) the payback period for the new machinery (*show all your working*); [2]

Year	Net Cash Flow (\$)	Cumulative cash flow (\$)
0	(150,000)	(150,000)
1	35,000	(115,000)
2	45,000	(70,000)
3	40,000	(30,000)
4	50,000	20,000

Fraction of Year 4 needed to cover remaining investment =  $\$30,000 / \$50,000 \times 12 = 7.2$  months

Payback period = 3 years and 7.2 months

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

- (ii) the Average Rate of Return (ARR) for the new machinery (*show all your working*). [2]

$$ARR = \frac{\text{Average Annual Cash Flow}}{\text{Initial Investment}} \times 100$$

Average Annual Cash Flow:

$$\text{Average Annual Cash Flow} = \frac{\text{Total Cash Flows}}{\text{Number of Years}} = \frac{170,000}{4} = 42,500$$

ARR Calculation:

$$ARR = \frac{42,500}{150,000} \times 100 = 28.33\%$$

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

(d) Explain **one** disadvantage of Lovely Snacks using the ARR as an investment appraisal technique. [2]

ARR does not consider the time value of money, meaning it treats all future cash flows as having the same value, regardless of when they occur. This can lead to less accurate assessments of an investment's true profitability, especially when cash flows are spread over a long period

ARR does not consider timings of cash flows.

*Accept any other relevant disadvantage.*

*Award [1] for a relevant disadvantage, with an additional [1] for application to Lovely Snacks. Award up to a maximum of [2].*

## Section B

### 3. Smile Bags Ltd.

(a) Define the term *mission statement* [2]

A mission statement is a written declaration of a business's core purpose and focus that will not often change.

*Candidates are not expected to use the **exact** wording above.*

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

*Award [2] for a full definition that conveys knowledge and understanding e.g. declaration of a business's core purpose*

(b) Explain **one** above-the-line and **one** below-the-line promotional strategy SB could use to promote its new line of customizable eco-friendly bags. [4]

- **Above-the-line promotion:**

SB could use social media advertising to reach a wide audience and show samples of their products. SB could use platforms like Instagram and Facebook to increase brand awareness and showcase customizable eco-friendly bags or other packaging solutions they offer such as food packaging or gift wraps, targeting corporate clients globally.

Other above-the-line strategies: Advertisements in specialized for corporate clients magazines / newspapers, online advertising, TV advertising

- **Below-the-line promotion:**

Free samples: SB could participate in trade shows to promote their products. By providing free samples or holding interactive demonstrations at trade shows would allow SB to engage directly with corporate clients, who will have the chance to try the product.

Other below-the-line promotions: direct selling to corporate clients, sponsorships of specific events suitable for the profile of their corporate clients, discounts to already existing customers to try the new customizable bags.

Accept any other relevant response.

**Mark as 2+2.**

Award [1] for a relevant above-the line and [1] for a relevant below-the-line promotional strategy, with an additional [1] for application to SB. Award up to a maximum of [2]

(c) Explain **one** advantage and **one** disadvantage of SB becoming a publicly held company. [4]

- Advantage: Access to greater capital, as becoming a publicly limited company allows SB to sell shares to the public, enabling it to raise significant funds for their new customizable eco-friendly bags and their global expansion.

*Note:* As SB is already a privately held company, limited liability and continuity are not an advantage of becoming a publicly held company.

- Disadvantage: Possible loss of control for Michael Harris. As a publicly held company, Michael Harris may need to share decision-making authority with shareholders, potentially leading to conflicts about strategic direction, as for example the countries to be selected for expanding in international markets.

Other disadvantages: Legal formalities involved in setup and high costs may increase SB's need in capital, Share prices can be subject to fluctuation, Final accounts must be shared with public, Risk of takeover

Accept any other relevant response.

**Mark as 2+2.**

Award [1] for a relevant advantage/disadvantage, with an additional [1] for application to SB. Award up to a maximum of [2]

(d) Evaluate which distribution channel option SB should choose

[10]

### Option A: E-commerce Expansion

#### Advantages:

- With an estimated reach of 500,000 potential customers in the first year, this option allows SB to access a global audience. This aligns with growing demand for sustainable products online.
- Strong alignment with company values a 70% employee prefer this option, 65% perceive it as a long term potential and 75% show excitement about this strategy. This means that they will be more motivated and engaged in this option.
- High brand control and customer data access, aiding personalized marketing. By operating its own platform ensures SB retains control over the marketing mix.
- High access to customer data facilitates personalized marketing strategies, enhancing customer loyalty and repeat sales.
- E-commerce platforms can be scaled to accommodate increasing demand for SB's products with minimal additional investment compared to physical retail expansion.
- The rise of digital shopping, especially in the eco-conscious demographic, supports the feasibility of this option.
- Higher profit margin than Option B

#### Disadvantages:

- Higher initial investment (\$200,000), which is \$50,000 more than option B and could strain SB's financial resources.
- Customers cannot look and feel the bags and the rest packaging solutions.
- Dependence on technology, increasing risks such as cyberattacks and data breaches. This may lead to increased costs for cyber security.
- Highly competitive with established players already dominating the market. This will result to increased expenses in marketing.

### Option B: Retail Partnership

#### Advantages:

- Lower investment (\$150,000) than Option A
- Established network of eco-friendly stores ensures immediate market access.
- Potential for co-branded campaigns to enhance brand image, this can lead to marketing economies of scale.
- Physical presence in the stores can allow customers to interact with products directly, fostering trust and boosting sales, which can be reinforced after the training of the employees.
- Less competition in comparison to global competition



**Disadvantages:**

- Estimated reach is only 300,000 potential customers, significantly lower than Option A.
- Retail partners will have a significant influence over the marketing mix, which could affect SB's brand identity
- Lower profit margin by 5 percentage points (20% instead of 25%)
- Any issues with the partner's operations or reputation could negatively impact SB's sales and brand image.

SB's eco-conscious branding aligns more with Option A, as it offers direct engagement with environmentally conscious consumers and maintains high brand control. However, Option B could be a safer approach due to its lower initial cost.

While Option A has higher revenue potential, its high investment may delay profitability. Option B provides quicker returns, though with a cap on growth due to limited market reach.

Table 4 indicates stronger employee preference for Option A, which could improve internal morale and engagement.

*Marks should be allocated according to the markbands on page 2.*

If there is no balance, then for a one-sided response where only one approach is considered then award a maximum of **[4]**.

**N.B.** The nature of the question requires that candidates make a judgment. If balanced arguments are presented but there is no judgment, then the candidate is only partly addressing the demands of the question. Hence award a maximum **[7-8]**.

For **[10]**, there is some awareness of the limitations of the stimulus material. Such limitations might include: information about competition in both options, market survey results from potential customers.

**4. Health Glow Ltd.**

(a) Define the term target market [2]

A target market is a specific group of customers a business focuses on, characterized by shared needs, demographics, or preferences. For example, Health Glow targets health-conscious consumers seeking natural wellness products.

*Candidates are not expected to use the **exact** wording above.*

*Award **[1]** for a basic definition that conveys a partial understanding*

*Award **[2]** for a full definition that conveys knowledge and understanding e.g. specific group the company aims at.*

(b) Explain **one** advantage and **one** disadvantage of using a business angel [4]

**Advantage:** Expertise and networking as a business angel could provide Health Glow with experience, strategic advice and industry contacts, helping it navigate challenges of opening physical stores.

Other advantage: Invested capital does not have to be paid back in the event of business failure.

**Disadvantage:** Possible dilution of ownership. Accepting funding from a business angel means Jennifer Lee would lose partial control, potentially leading to conflicts over business strategy.

Other disadvantages: Sharing of profits

*Accept any other relevant response.*

**Mark as 2+2.**

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

(c) Explain **one** advantage and **one** disadvantage of rebranding [4]

**Advantage:** Broader market appeal. Health Glow by rebranding to emphasize vegan protein powders could attract mainstream consumers, resulting in an increase in sales and market share.

Other advantages: New brand image may attract attention, increased sales from existing customers

**Disadvantage:** Redesigning logos and packaging has a cost, which might strain Health Glow's finances, reducing short-term profitability

Other disadvantages: confusion among existing customers with the re-branding resulting in customer dissatisfaction.

*Accept any other relevant response.*

**Mark as 2+2.**

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

(d) Using the data provided in **Table 6** and other information in the stimulus, evaluate the effectiveness of Jennifer Lee's autocratic leadership style on employee morale and performance at Health Glow. [10]

Jennifer Lee's autocratic leadership style has supported Health Glow's rapid growth by centralizing decision-making and ensuring control over operations. However, employee survey data indicates dissatisfaction with her approach, raising questions about its long-term impact on morale and performance.

**Advantages:**

- Quick decision-making facilitated rapid growth. Jennifer Lee's direct involvement ensures quick and decisive actions, critical during the company's expansion phase.

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- Tight control ensures quality standards in wellness products.
- Jennifer Lee's leadership style provides a clear direction to employees. Employees are given specific instructions, reducing ambiguity and enhancing operational consistency.
- Tight monitoring helps maintain high standards in Health Glow's wellness products, essential for brand reputation.

#### Disadvantages:

- Employee dissatisfaction (45% involvement in decisions, 55% leadership satisfaction). Survey results show only 45% of employees feel involved in decision-making, indicating dissatisfaction with the lack of empowerment.
- Limited delegation may stifle innovation and reduce morale. Limited delegation may lead to employee disengagement and turnover.
- An autocratic approach may discourage creativity and initiative, as employees are not consulted or encouraged to contribute ideas.
- Tight control may foster resentment among employees, as reflected in the 55% satisfaction rate with leadership and 60% motivation level.

Overall, Jennifer's approach has been effective in driving Health Glow's initial success, particularly in maintaining operational efficiency and quality standards during rapid growth. Over-reliance on autocratic leadership could undermine employee morale and limit the company's ability to attract and retain talent.

While Jennifer Lee's autocratic style has been instrumental in scaling operations, a gradual shift toward a more democratic or participative leadership approach is necessary to enhance employee morale and engagement. This transition should be accompanied by structural changes, such as providing opportunities for professional development, to ensure Health Glow's continued success.

Marks should be allocated according to the markbands on page 2.

If there is no balance, then for a one-sided response where only one approach is considered then award a maximum of **[4]**.

**N.B.** The main focus must be on the joint venture from AV perspective and not FL. Not doing this, results in at varying levels, not meeting the demands of the question.

**N.B.** The nature of the question requires that candidates make a judgment – either they accept the joint venture, or they do not. If balanced arguments are presented but there is no judgment, then the candidate is only partly addressing the demands of the question. Hence award a maximum **[7-8]**.

For **[10]**, there is some awareness of the limitations of the stimulus material. Such limitations might include: financial information on competitor airlines (would another airline make a better joint venture partner, profitability of long haul versus short haul, the profitability of individual routes (would FL want to scrap the least profitable routes etc.).