

Markscheme
Business management
Higher level and standard level
Paper 1

The markbands on page 2 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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

Answer **all** questions from this section.

1. Define the term *internal growth*.**[2]**

Internal growth (organic growth) occurs when a business expands using its own resources, such as increasing production capacity, launching new products, or entering new markets. Unlike external growth (mergers and acquisitions), internal growth is typically slower but more sustainable.

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

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.

2. Define the term *supply chain*.**[2]**

The supply chain consists of all activities, resources, and businesses involved in producing and delivering a product to the final consumer. This includes raw material suppliers, manufacturers, distributors, and retailers.

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

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.

3. Describe two possible implications of reduced net cash flow for Myt.**[4]**

A reduction in net cash flow means Myt has less cash available to meet short-term financial obligations like supplier payments and wages. If cash outflows exceed inflows for an extended period, Myt may struggle to maintain liquidity, which refers to its ability to meet immediate expenses. If Myt cannot pay its suppliers on time, it could damage relationships, leading to supply chain disruptions that may delay production.

Furthermore, lower net cash flow may force Myt to delay planned investments, such as its \$500 million manufacturing facility. Without sufficient cash reserves, Myt may have to rely on external financing, increasing interest payments or leading to higher debt burdens. This may cause shareholder dissatisfaction, affecting Myt's market value and strategic flexibility.

Accept any other relevant answer.

Mark as 2 + 2.

Award [1] for each possible implication of reduced net cash flow identified and an additional [1] for a description of the implication for Myt, up to a maximum of [2].

4. Explain one advantage and one disadvantage to Myt of recycling plastic bottles. [4]

One advantage of recycling plastic bottles is that it aligns with corporate social responsibility (CSR), improving brand reputation and consumer trust. Many consumers prefer companies that demonstrate environmental sustainability, and by investing in recycling, Myt can attract ethically conscious customers.

This is particularly important as pressure group Planet First has criticized Myt for its plastic waste, and some European retailers are reducing shelf space for brands that rely on single-use plastics. By implementing recycling programs, Myt can strengthen relationships with retailers and maintain its market presence.

However, a disadvantage of recycling plastic bottles is the high capital investment required. Recycling requires new processing equipment, supply chain adjustments, and employee training, increasing operational costs in the short term.

Myt is already facing liquidity issues and rising raw material costs (+12%), making it difficult to justify additional spending on recycling infrastructure. If consumers are unwilling to pay higher prices for sustainable packaging, Myt may struggle to recover its investment while maintaining profitability.

Alternative answer

One advantage of recycling plastic bottles is that it supports resource recovery models, where waste materials are converted into secondary raw materials, reducing reliance on virgin natural resources. This helps Myt minimize its environmental footprint and aligns with corporate social responsibility (CSR) initiatives.

Since pressure group Planet First has criticized Myt for its use of single-use plastics, shifting to a resource recovery model could improve its brand reputation and prevent retailers from reducing its shelf space in European markets.

However, a disadvantage is that recycled materials can be inconsistent in quality and availability, leading to supply chain bottlenecks. Recycled plastics may vary in durability and purity, making large-scale production more challenging.

Since Myt operates factories on six continents, securing a reliable supply of recycled plastics could increase operational costs or cause production delays, affecting profitability.

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Accept any other relevant advantage / disadvantage.

Mark as 2 + 2.

Award [1] for a relevant advantage / disadvantage identified and an additional [1] for a relevant explanation of that advantage / disadvantage in the context of Myt, up to a maximum of [2].

5. Explain one reason why Myt's directors may be concerned about the performance of Lotssa Coffee (LC). [2]

Myt's directors may be concerned that LC is facing strong competition from both global rivals and local cafés, which could lead to market share loss and declining sales. If LC's market position is weak, it may require significant investment in marketing, operational improvements, or product differentiation to remain competitive.

Additionally, another reason is rising labor costs (+10%) in some regions may further reduce LC's profitability, forcing Myt to invest additional resources into the struggling business. This could be an issue as already Lotssa Coffee's profit margin is estimated to be around 12%, which is lower than the 15% industry average for global coffee shop brands. Myt must decide whether to continue investing in it or consider selling Lotssa Coffee to focus on more profitable ventures.

Accept any other relevant reason.

Award [1] for explaining why directors may be concerned such as a reason given above. Award an additional [1] for application to the case study, up to a maximum of [2].

6. Analyse two advantages and one disadvantage for Myt of using flow production in its new manufacturing facility. [6]

One advantage of using flow production in Myt's new manufacturing facility is that it allows for economies of scale, reducing the average cost per unit as production volume increases. Because fixed costs are spread over a larger output, Myt can lower production costs while maintaining profit margins.

This is particularly important for Myt, as its profit margin (18%) is lower than the industry average (20%). By adopting flow production, Myt could improve its cost efficiency, making its biodegradable packaging more competitive in price while still generating profits.

Another advantage is that flow production ensures high product consistency and quality control, as machines perform repetitive tasks with minimal variation. This is important for Myt's sustainable branding, as consumers expect high-quality, eco-friendly packaging.

Since pressure group Planet First has already criticized Myt for its environmental impact, using flow production to maintain consistent biodegradable packaging quality could help improve its CSR reputation and maintain shelf space in European supermarkets, especially for HW.

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However, a major disadvantage is that flow production requires high initial capital investment in machinery and infrastructure, making it financially risky for a company with liquidity issues. Myt is already struggling with rising raw material costs (+12%) and Lotssa Coffee's weaker-than-expected profitability (12% margin vs. 15% industry average).

If Myt commits to the \$500 million investment in automation, it could worsen its financial position, making it harder to fund other strategic priorities, such as entering the healthy snacks market. Additionally, if market demand shifts, flow production is inflexible, making it difficult for Myt to adapt without costly modifications.

Accept any other relevant advantage / disadvantage.

Mark as 2 + 2 + 2.

Award [1] for a relevant advantage / disadvantage identified and an additional [1] for a relevant explanation of that advantage / disadvantage in the context of Myt, up to a maximum of [2].

Section B

Answer **one** question from this section.

7. Discuss whether Myt should open the new manufacturing facility. [10]

Myt plans to invest \$500 million in a new manufacturing facility to increase production capacity and support its sustainability goals. However, Myt is experiencing liquidity issues, and there are concerns from the Operations and HR Directors about supply chain impact and workforce management.

One key advantage of opening the new facility is production economies of scale, which would allow Myt to increase production efficiency and reduce average unit costs. Flow production in the new facility could lower average costs per unit, improving profit margins, which currently stand at 18%, below the 20% industry average. This investment in efficiency could make Myt's products more price competitive while increasing long-term profitability.

Another benefit is the improvement of Myt's corporate social responsibility (CSR) and brand image. The new facility would eliminate the use of single-use plastics and allow Myt to shift to biodegradable materials, aligning with growing consumer demand for sustainable products.

Pressure group Planet First has been vocal about Myt's environmental impact. By investing in a sustainable facility, Myt could reduce negative publicity and improve relationships with environmentally conscious consumers and retailers, especially as some European retailers are reducing shelf space for brands that rely on plastic packaging.

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Furthermore, this investment could provide a long-term competitive advantage. If Myt moves ahead with this investment now, it may gain first-mover advantage in sustainable production, setting it apart from competitors who may still rely on outdated, non-eco-friendly processes.

Despite these advantages, there are several risks associated with this investment. The most pressing concern is liquidity and financial risk. Myt is already experiencing reduced net cash flow due to rising raw material costs (+12%) and weaker-than-expected sales at Lotssa Coffee (LC). A \$500 million investment would require substantial capital, potentially worsening Myt's liquidity position. If Myt proceeds, it may need to find sources of finance, which could increase financial risk, possible debt and/or dilute shareholder value.

The Operations Director has raised concerns about where the facility should be located, as an unsuitable location could lead to higher supply chain costs or logistical disruptions. The HR Director warns that employees may need retraining or relocation, which could increase resistance to change and higher labour costs.

Employees may feel insecure about their jobs due to increased automation in the new facility, which could lower their motivation by affecting their sense of job security (Maslow's safety needs). If workers fear being replaced or struggle to adapt to new processes, productivity may decrease, slowing down the expected efficiency gains from the new facility.

Another issue is uncertainty in demand for biodegradable packaging. While sustainability is a growing trend, it remains unclear whether consumers would be willing to pay higher prices for biodegradable-packaged drinks. If demand does not grow as expected, Myt may struggle to generate a return on investment.

Overall, while the new facility would bring long-term cost savings, operational efficiency, and sustainability benefits, the short-term financial risks are significant. Given Myt's liquidity issues and uncertain market conditions, it may be more prudent to delay the investment until 2028, when the company is in a stronger financial position.

Note: students need to discuss the limitations of the case study in order to get above 8 marks. See below example

While the case study provides useful insights into Myt's financial situation, sustainability goals, and operational challenges, it lacks specific details on external factors that could influence this investment decision. For example, the economic climate, government incentives for green manufacturing, or competitor strategies could significantly impact the feasibility of opening a new facility. Without this information, it is difficult to fully assess the financial risk and potential return on investment.

Furthermore, the case study does not clarify consumer willingness to pay for biodegradable packaging. If demand for eco-friendly packaging is not as strong as anticipated, Myt may

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struggle to justify the \$500 million investment. Given these uncertainties, Myt's directors should conduct further market research and assess external risks before committing to this expansion.

Accept any other relevant reason for and against Myt whether they should open the new manufacturing facility.

Accept any other limitations

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

- *It is expected that candidates provide a conclusion with a substantiated judgement.*
- *Accept any substantiated judgement.*
- *For one relevant issue that is one-sided, award up to [3].*
- *For more than one relevant issue that is one-sided, award up to a maximum of [4].*
- *A balanced response is one that provides at least one argument for and one argument against the new manufacturing facility.*
- *Award a maximum of [6] if the answer is of a standard that shows balanced analysis and understanding throughout the response with reference to the stimulus material but there is no judgement/conclusion.*
- *Candidates cannot reach the [7–8] markband if they give judgement/conclusions that are not based on analysis/explanation already given in their response.*

8. Discuss whether Myt should launch the healthy snacks range. [10]

Diversification is a key growth strategy under Ansoff's Matrix, where a company introduces new products to new markets. Myt is considering entering the healthy snacks market to capitalize on growing demand for nutritious and natural snacks, particularly among health-conscious consumers. However, this market is already highly competitive, with a dominant multinational competitor holding 70% market share. Additionally, Myt's existing factories are only designed for drink production, raising operational concerns.

One key reason for launching the healthy snacks range is market demand and consumer trends. Market research indicates a rising demand for nutritious and natural snack products, particularly among younger consumers who are concerned about health and wellness. This aligns with Myt's social media influencer marketing strategy, which targets younger demographics. If Myt effectively uses influencers and avatar-based advertising, it could build strong brand recognition and increase product awareness.

Another major benefit is revenue diversification. Currently, Myt's business is heavily reliant on non-alcoholic beverages, a market that is facing pressure due to concerns about sugar and caffeine consumption. If Myt expands into healthy snacks, it would reduce its dependence on soft drink sales, which could decline in the future due to health regulations.

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Myt could use its existing distribution channels to gain a competitive advantage. The company can move its snacks through the supply chain more efficiently, reducing logistics costs and ensuring wider market reach without needing to develop new retail partnerships. Despite the potential benefits, there are significant risks to consider. The dominance of a competitor with 70% market share poses a major barrier to entry. The healthy snacks market is already saturated with established brands, making it difficult for Myt to gain a foothold without heavy marketing expenditure. If Myt fails to differentiate its product, it risks losing money on the launch.

The Operations Director has expressed concerns that Myt's factories are only designed for drinks production. To manufacture snacks, Myt would need new equipment and possibly new production facilities, leading to high capital expenditure. Additionally, the HR Director warns that off-the-job training would be needed for Myt's operations and production teams, increasing labour costs and training expenses.

Myt is already facing liquidity issues, and launching a new product line requires significant investment in R&D, production, and marketing. If the launch is unsuccessful, Myt could face further financial strain at a time when it is already struggling to maintain cash flow and investor confidence.

Given Myt's liquidity issues and lack of existing production capabilities, it may be more strategic to delay the launch until a later year or to partner with an existing snacks company to reduce entry costs and risk. This would allow Myt to test the market with lower financial exposure before committing to full-scale production.

Other drawbacks:

- Myt is known for high sugar and caffeine drinks which could be contradictory to the healthy snacks and create brand confusion
- Opportunity cost from other investments

Note: students need to discuss the limitations of the case study in order to get above 8 marks. See below example

The case study outlines the competitive landscape, financial constraints, and marketing strategies, it lacks crucial details on consumer demand and production feasibility. For example, there is no information on pricing strategies, expected production costs, or potential synergies with Myt's existing operations. Without these details, it is difficult to determine whether Myt can successfully enter the healthy snacks market in a cost-effective and competitive way.

Additionally, the case study does not specify whether Myt has conducted consumer testing or market research on its potential snack products. If consumer preferences do not align with Myt's proposed offerings, the company could face low demand and wasted investment. Therefore, before launching the healthy snacks range, Myt should undertake comprehensive market research and evaluate its production capacity and supply chain readiness.

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Accept any other relevant reason for and against Myt launching the healthy snacks range.

Accept any other limitations

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