Markscheme

November 2020

Business management

Standard level

Paper 2

The markbands and assessment criteria on pages 3–5 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	• 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	• 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	• 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	• 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	• 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) State **two** features of debt factoring.   **[2]**

Debt factoring:
- is short-term form of finance
- is an external source of finance
- enables a business to receive immediate cash from the factor, instead of waiting for its customers to pay their invoice.

Another feature is that the business selling its invoices does not receive the full value of the invoices as factor makes a charge (buys at a discount).

If a candidate defines debt factoring accurately, award at least [1] for some understanding. Examiners should review the definition to determine if, in defining the term, candidates have included at least two features. If so, award [1] for each feature up to [2]. Maximum award: [2].

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

(b) Using the information in **Table 1**, construct a fully labelled cash flow forecast for *MV* for the first six months of 2021.   **[6]**

Award [1] if the candidate has some idea of a six-month cash-flow forecast but otherwise has numerous errors. Award [2] if the cash flow has four or more errors or has a largely inaccurate format. Award [3] if it is largely formatted correctly and/or has three errors. Award [4] for a correctly formatted forecast with just two errors. Award [5] for a correctly formatted forecast with just one error.

Award [6] for a correctly formatted and mathematically correct forecast.

MiniVS Cash flow forecast 2021

	Jan	Feb	Mar	Apr	May	Jun
Opening balance	20 000	21 500	23 000	24 500	23 500	22 500
Income	75 000	75 000	75 000	70 000	70 000	70 000
Outgoings:						
Cost of sales	37 500	37 500	37 500	35 000	35 000	35 000
Marketing	1000	1000	1000	1000	1000	1000
warehouse Overheads	5000	5000	5000	5000	5000	5000
Office salaries	30 000	30 000	30 000	30 000	30 000	30 000
Total outgoings	73 500	73 500	73 500	71 000	71 000	71 000
Net cash flow	1500	1500	1500	–1000	–1000	–1000
Closing balance	21 500	23 000	24 500	23 500	22 500	21 500

Some possibility exists that candidates will misinterpret one portion of the stimulus and think that marketing, warehouse overheads, and office salaries total 36 000 for the three-month period Jan – Mar. and for the three-month period Apr – Jun. If a candidate

interprets the stimulus in that fashion, accept as accurate provided that the candidate consistently applies the stimulus based upon that interpretation.

(c)   Explain the potential impact on *MV*'s gross profit margin if the prices charged by
       its suppliers increase in the second half of 2021.   **[2]**

       MV's gross profit margin is forecast to be 50 % for the first half of 2021.

       Eg $\dfrac{75\,000 - 37\,500}{75\,000}$ for months 1 to 3 **OR** $\dfrac{70\,000 - 35\,000}{70\,000}$ for months 4 to 6.

       If supplier prices increase in the second half of 2021 and the finance director is
       correct that the online market for light bulbs in the UK will become increasingly
       price competitive, *MV*'s gross profit margin would fall. Under this scenario, *MV*
       would be unable to pass on to its customers the increase in prices that it, *MV*, is
       paying to suppliers. The margin would fall below 50 %.

       *If the candidate says "the margin will decrease" but with no clear explanation and
       application to the stimulus, award [1].*

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

       *Award **[2]** for a full explanation that conveys knowledge and understanding
       similar to the above.*

2. **(a)** Define the term *price discrimination*. **[2]**

Price discrimination is when a firm charges a different price to different groups of consumers for an identical good or service.

*Award **[1]** for a basic definition conveying the idea that it allows a business to sell the same goods/services at different prices. Award an additional **[1]** for stating the differing prices are for different groups of consumers that can be separated in some way.*

A candidate may achieve the second mark through the use of a good exemplar, eg by explaining that a cinema charges higher prices for adults than for children.

(b) Using **Table 2**, calculate:

(i) **X** (*no working required*); **[1]**

X = Gross profit

Gross profit = Sales revenue – costs of goods sold

=$175 000 – £122 000 = $53 000

*Award **[1]** for correct answer with or without working.*

(ii) the current ratio for 2019 (*no working required*). **[1]**

$$\text{Current ratio} = \frac{\text{current assets}}{\text{current liabilites}}$$

$$= \frac{\$8330}{\$6800} = 1.23$$

(c) Using **Table 2**, prepare a balance sheet for the year ending 31 December 2019. **[4]**

Balance sheet as of 31 December 2019			
Net fixed assets			63 000
Total current assets		8330	
Total current liabilities		6800	
Net current assets			1530
Total assets less current liabilities			64 530
Long-term liabilities		2800	
net assets			61 730
financed by:			
share capital		60 000	
retained profit		1730	
Equity			61 730

Award [4] if the candidate constructs an accurate balance sheet (that balances) according to the IB prescribed format.

Award [3] for a largely accurate balance sheet that balances, according to a generally accepted format, such as the vertical format above or the horizontal model typically used in the United States.

Award [2] if the candidate constructs a largely recognizable balance sheet but it does not balance, or it has two major problems of classification.

Award [1] if the candidate conveys some idea of what a balance sheet is.

For full marks, the balance sheet must be dated. Failure to date the balance sheet is an error and, therefore, the maximum award that an undated balance sheet could receive is [3].

(d) Explain the possible changes to *KPJ*'s balance sheet for 2019 if *KPJ* spent $30 000 on a new digital projector. **[2]**

The purchase of a new digital projector will increase net fixed assets by $30 000. Award [1] for recognizing that the net fixed assets will increase. Award [1] if the candidate then addresses the offset, which could be
- a reduction in cash
- an increase in long-term debt (KPJ takes outa long-term loan).

Accept any other reasonable suggestion for financing the projector. Do not accept a short-term loan or expansion of trade credit.

The two potential marks for this question are independent of one another. In other words, a candidate may address the financing (the candidate suggests taking out a bank loan) and receive [1] even if s/he did not mention that net fixed assets will increase. Or, the candidate could state that net fixed assets will increase but not mention the offset, in which case the candidate would receive [1].

Maximum award: [2].

Section B

3. (a) State **two** appropriate sources of finance Ben may have used when he first opened his vegan food stall. **[2]**

Appropriate sources of finance include:
- Personal savings
- Loan from family or friends
- Small business grant
- Loan from a bank secured by some personal asset of value
- Crowd sourcing.

Accept any other appropriate sources of finance.

N.B. *A bank loan without any other qualifying information is not appropriate, as few banks would make such a loan.*

Award [1] for each appropriate source of finance stated up to [2].

(b) Explain **one** positive impact **and one** negative impact on *BTO* as a result of having low labour turnover. **[4]**

Positive impacts of low labour turnover include:
- Lower recruitment, induction, and training costs.
- Better customer service (as employees are experienced and know the culture of the organization).
- Improve the motivation of the work force.

Negative impacts of low labour turnover:
- Lack of new ideas.
- Higher labour costs (because of the bonus scheme).

Accept any other relevant positive negative impact.

Mark as [2 + 2].

Award [1] for identification of a positive impact and an additional [1] for explanation and application to the stimulus.

Award [1] for identification of a negative impact and an additional [1] for explanation and application to the stimulus.

Maximum award: [4].

(c) Explain **one** advantage **and one** disadvantage for *BTO* as a result of its use of social media. **[4]**

Advantages of using social media include:
- It is relatively low cost (compared to many other forms of promotion).
- Through social media, BTO was able to build a community, which reinforced customer loyalty.

Disadvantages of using social media include:
- As a platform, social media forums are relatively closed and do not reach out to people other than existing customers of *BTO*.
- Negative information about *BTO* has an immediate widespread diffusion among *BTO*'s previously loyal customer base.
- Competitors can post false information.

Award [1] for identification of an advantage and an additional [1] for explanation and application to the stimulus.

Award [1] for identification of a disadvantage and an additional [1] for explanation and application to the stimulus.

Mark as [2 + 2].

(d) Discuss Ben's decision to enlarge the scale of *BTO* from one restaurant to three restaurants. **[10]**

Advantages of expansion include:
- Leveraging its brand and USP to reach a larger market.
- Potential economies of scale.
- Potentially increased revenue and profits.

Accept any other relevant advantage.

Disadvantages of expansion include:
- Loss of control, especially with respect to quality.
- Potential diseconomies of scale.
- BT loses its "small community feel."
- Increased costs for recruitment, induction, and training.
- New employees may not have the same attention to quality as long-time employees.

Accept any other relevant disadvantage.

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

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

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].

If a candidate addresses only advantages of expansion, award a maximum of [4].

If a candidate addresses either two advantages of expansion and only one disadvantage, or only one advantage of expansion and two disadvantages, award a maximum of [5].

A balanced response is one that provides at least two advantages of expansion and two disadvantages of expansion. However, if the candidate does not provide substantiated judgments, maximum award of [6].

4.   (a)   State **two** types of business, **other than** grocery stores, that operate in the tertiary sector. **[2]**

The tertiary sector is the service sector of an economy, including retail outlets. Candidates may name any type of service sector business. Do not give credit for "online grocery stores" but award a mark for convenience store (or some other small shop where some grocery items might be sold).

Award [1] for each type of business in the service sector identified up to [2].

(b)   Explain **two** elements of *U-Foods*' marketing mix **other than** price.   **[4]**

The four Ps of the marketing mix that candidates may write about are place, promotion, and product. In the stimulus, place and product can be identified:
- Place: retail stores.
- Product: According to the stimulus, *U-Foods* sells all-organic foods. High-quality, all-organic products are its USP.

Award [1] for identification of one of the three Ps and an additional [1] for application to the stimulus and explanation.

Mark as [2 + 2].

N.B. *If the candidate mentions promotion, award a maximum of [1], as nothing in the stimulus would allow for application. Thus, if a candidate explained promotion with some theoretical types and, then correctly explained and applied product, the total mark would be [3]: [1] for promotion and [2] for product.*

(c)   Calculate for 2019:

(i)   *NS 507*'s gross profit margin (*no working required*);   **[1]**

$\dfrac{\$5\,300\,000}{20\,000\,000}$ x 100 = 26.5 %   Gross profit margin is 26.5 %

Award [1] for the correct answer.

(ii)   *NS 507*'s net profit before interest and tax (*no working required*).   **[1]**

Net profit before interest and tax = 3 % x 20 000 000 = $600 000.

Award [1] for the correct answer.

(d)   Explain **one** economy of scale, **other than** purchasing economies of scale, from which *NS* might benefit.   **[2]**

Other economies of scale from which NS might benefit include:
- Marketing economies of scale
- Financial Economies of scale
- Managerial economies of scale
- Human resources economies of scale
- Network economies of scale

Accept any other relevant economy of scale.

Award [1] for identification of an appropriate economy of scale and an additional [1] for appropriate application to and explanation of the stimulus. Maximum award: [2].

(e) Discuss **two** possible methods that *NS 507* could use to regain lost market share. **[10]**

The stimulus provides some guidance to the students on ways to recover lost market share. The fact that sales revenue is down 12 % suggests that *NS 507* has lost some sales to *U-Foods*. Given that the number of transactions has remained the same suggests that some customers continue to shop at NS but also go to *U-Foods* for certain items. One way that *NS* could attempt to recover those lost sales is to determine which specific items have seen their sales go down. It is likely that, for these items, shoppers are going to *U-Foods*. Once *NS* has identified which items customers are going to *U-Foods* for, *NS* can make modifications: improve the product, alter the price, or have better promotions. A disadvantage to this strategy is that it may not work or may be too expensive to work. For example, some customers are probably going to *U-Foods* for locally produced organic meats. However, probably few opportunities exist for economies of scale when *U-Foods* (or *NS*) purchase this type of meat. For *U-Foods*, passing on high costs to customers is probably not a problem. *U-Foods* is more expensive than *NS* and customers expect that. For *NS* customers, however, prices lower than *U-Foods* is the expectation. Were *NS* to start charging more, many customers may resist.

Another strategy is to use more aggressive pricing. *NS* is a huge firm, and it could lower its prices to try to gain more customers. Predatory pricing is probably illegal, but *NS 507* could, with the backing of the whole organization, be very aggressive in its pricing – just short of predatory – to win back customers or the specific purchases that are going to *U-Foods*. The problem with this strategy is that *NS* already has thin margins – typical of the grocery store industry – and lowering prices even further may be a problem.

A third option is to start allowing customers to order online and have home delivery. This option would be expensive to set up and operate, and *NS* would lose impulse sales.

Accept any other relevant way that *NS 507* can recover lost market share.

Maximum mark award	One way	A second way	Judgments/conclusion
3	Unbalanced	N/A	N/A
4	Unbalanced	Unbalanced	N/A
5	One balanced and one unbalanced		N/A
6	Both balanced		No judgments/conclusions
7–8	Balanced		Judgments/conclusions based upon analysis and explanation in the body of the response
9–10	Balanced		Judgments/conclusions based upon analysis and explanation in the body of the response

5. (a) State **two** characteristics of a business angel. **[2]**

Features of angel investors include:
- Angel investors provide relatively small amounts of finance to early-stage / start-up companies (new ventures),
- Is an external source of finance,
- The finance is usually in exchange for equity
- Angel investors typically invest in high risk ventures, ones banks are unlikely to lend to.
- Angel investors typically participate in the management/decision-making of the company

Accept any other relevant feature.

Award [1] for a relevant feature with appropriate description up to a maximum of [2].

(b) Explain **two** reasons why Pablo conducted primary market research. **[4]**

Reasons include:
- To reduce the risk associated with launching a new product (*garrapiñada*) to the Latin American markets in Miami Florida.
- To predict future demand for *garrapiñada*, which appears very important as the market was overwhelmed with positive response.
- Pablo needs up-to-date and relevant data.
- Pablo can further define his target market. Is it only Argentine and Uruguayan consumers?
- Some types of primary market research are inexpensive to conduct, which is important for a start-up.

Award [1] for each relevant reason explained and [1] for appropriate application to PP to a maximum of [2].

(c) Explain **one** advantage **and one** disadvantage of using a break-even analysis for *PP*. **[4]**

Break-even analysis is a forecasting tool. Advantages of BE include:
- Charts are relatively easy to construct and interpret and Pablo was able to make business decisions based on the results such as the doubling of profits.
- It provides a useful guideline to Pablo and allowed him to make decisions such as expanding the business to include a second truck.
- It provided guidance to the local Miami bank that helped them with their decision to make a loan.

Accept any other relevant advantage.

Disadvantages include:
- Break-even analysis/chart assumes that costs and revenues are always straight lines, which is unrealistic with costs such as the fuel for the truck.
- The break-even analysis/chart assumes that all peanuts produced are sold, which in reality may not be the case. I.e.: Demand at the different markets is unlikely to be constant.
- Break-even analysis/chart depends on accuracy of data and assumptions.

Accept any other relevant disadvantage.

Award [1] for an advantage and [1] for appropriate application to PP to a maximum of [2].

Award [1] for a disadvantage and [1] for appropriate application to PP to a maximum of [2].

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

Option 1, the bank loan:
Advantages:
- Pablo gets to maintain 100 % ownership of PP. This also means Pablo maintains full decision-making power and PP.
- Pablo does not have to share his profits.
- The 10 % interest on the loan is tax deductible.

Disadvantages:
- There is a risk associated with the loan increasing the gearing ratio to 50 %
- Loan repayments ($10 000 per year) and the burden of the loan can be problematic for PP if the BE data is incorrect.
- Pablo and 1 other employee are the sole vendors of the *garrapiñada*. If something were to happen to them or the trucks, paying the loan could be difficult.
- Because of the loan repayment, Pablo can only take $10 000 in dividends.

Option 2, finance from an angel investor:
Advantages:
- Pablo gets much needed advice from Ana, who has an extensive experience in the Latin American food market.
- Pablo can share some of the management roles and responsibilities, which would allow him to focus on his truck and selling his products at the market.
- Pablo and PP do not have as much risk. 0 % gearing. Also, he would have no loan repayments and any costs associated with borrowing.
- Pablo can take a greater percentage of his profits in the form of dividends ($13 000)

Disadvantages
- Pablo must share his profits.
- Pablo is no longer the sole decision maker, which means decision-making will be slower and potential exists for disagreement with Ana.

It is expected that candidates provide a conclusion with a substantiated judgment.
Candidates can provide any conclusion and judgment as long as it is substantiated. Accept any other substantiated judgment.

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

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 each option.

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 judgment/conclusion.

Candidates cannot reach the [7–8] markband if they give judgment/conclusions that are not based on analysis/explanation already given in their answer.

Section C

6. With reference to an organization of your choice, examine the impact of **culture** on organizational **ethics**. **[20]**

7. With reference to an organization of your choice, discuss the ways in which **innovation** can influence organizational **change**. **[20]**

8. With reference to an organization of your choice, examine the impact of **globalization** 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.
- Questions 6 to 8 require 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.

Candidates need not explicitly say "stakeholder".