

# Markscheme

November 2018

Business management

Standard level

Paper 1

12 pages

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

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

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

## Section A

1. (a) Describe **two** elements of a marketing plan (line 21) for AFA. [4]

The main elements of a marketing plan are:

- details of the marketing objectives of the business including target market
- sales forecasts
- marketing budget including financial projections
- marketing strategies (which may include 4Ps at SL, 7Ps at HL)
- detailed action plan

Context:

- Sam has poor understanding of finance, so the budget may not have been done well.
- He may have had problems with forecasts as this is a new business.
- One objective was to only sell coffee.
- Sam had CSR as one of the objectives, which, presumably applied to marketing.

*The two elements can both come from the 4Ps provided they are clearly distinguished.*

*Do not allow elements from a business plan, eg vision statement, unless they are clearly linked to marketing.*

**Mark as 2 + 2.**

*Award [1] for each correct element identified and [1] for a description of how that feature relates to AFA. Award a maximum of [2] per element.*

- (b) With reference to AFA, explain why applying appropriate principles and ethics of accounting practice is important. [6]

Accounting principles and ethics include:

- integrity – being straightforward, honest and truthful
- objectivity – avoiding bias, conflict of interest
- professionalism – accounts produced to relevant professional standards
- confidentiality
- accounts need to comply with legal obligations and be compliant with standards set by professional bodies.

**Context:** in the context of AFA the business is run on ethical and fair trade concepts. Failing in any of the accounting principles and ethics could damage the reputation of the business and AFA could lose sales and customers. Investors will also need reassurance in relation to the ethics of the business. Other stakeholders, such as pressure groups concerned with fair trade, may need to be satisfied.

*Discussion of ethics in a wider sense is allowed but [6] can only be achieved if there is some reference to accounting principles.*

*If ethics are general, and no mention of accounting principles/ethics then maximum award is [3].*

*If accounting principles only with no reference to ethics/accounting ethics then maximum award is [3].*

*Be aware that context is difficult, so the same context can be used for the various different principles/ethics.*

*Accept any other relevant explanation.*

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

*Award a maximum of **[3]** for a theoretical answer.*

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

2. (a) Describe **two** external stakeholders of *AFA*, **other than** customers. **[4]**

External stakeholders include:

- customers (not allowable for this question)
- suppliers – originally nervous about supplying Sam’s new business. Need to conform to fair trade principles. Could include mystery shopper if it is clear that this is not an employee
- government – for taxes, data *etc.* Includes a Companies House role for proper accounts. Could include trading standards for ethics. Could include licensing issues. No evidence as to whether government wants to encourage fair trade or not.
- banks and other creditors – at times *AFA* needs finance for expansion
- special interest groups/pressure groups, *eg* charities, NGOs, pressure groups – there is a fair trade movement (no need to use terms like special interest groups)
- the community – little evidence in case so not a good one to choose to get context mark
- competitors – supermarkets also stock fair trade products.
- possible external sources of finance.

**N.B.:** Shareholders are NOT external.

**Mark as 2 + 2.**

*Award [1] for each correct element identified and [1] for a description of how that feature relates to AFA. Award a maximum of [2] per element.*

- (b) With reference to *AFA*, explain the importance of branding. **[6]**

The importance of branding to *AFA* can be classified in a number of areas:

- competition: branding can be used to differentiate *eg* from supermarkets.
- USP: *AFA* seeks to be the only dedicated fair trade store. Branding can enhance this USP
- pricing: A well-developed brand can help *AFA* set premium prices, helping profits which need improving.

The importance can be developed through:

- the need to attract customers (*eg*, to the new stores)
- the need to encourage repeat purchases, *eg* through brand loyalty.

*Accept any other relevant explanation.*

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

*Award a maximum of [3] for a theoretical answer, often a pre-prepared textbook answer*

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

3. (a) With reference to *AFA*, outline **one** benefit **and one** cost to Sam of opening a new e-commerce website (lines 51–52). [4]

Main context: Sam's vision to operate at a global level. Management issues.  
Need to reduce costs.

Benefits include:

- targeting new customers locally, nationally and even globally, which is Sam's vision
- sales volumes will increase, revenue will grow and – assuming costs are kept under control – *AFA*'s profits will increase
- economies of scale, eg with suppliers.
- possible reduced operating costs eg fewer sales assistants, lower rents without retail outlets.

Costs include:

- designing the website
- managing the website, maintenance costs
- managing orders – paying packers *etc*
- dealing with increased sales (eg, recruiting people, paying additional wages, more warehousing *etc*)
- other setup costs, eg for online payment systems
- diseconomies of scale (Sam and Finn are not managing well).
- opportunity cost – if developed.

**N.B.** Costs do not include general disadvantages

**Mark as 2 (benefits) + 2 (costs)**

*Award [1] for each correct cost or benefit identified and [1] for a description of how that cost or benefit relates to AFA. Award a maximum of [2] per cost or benefit. There can be no more than one of each (cost or benefit).*

- (b) Distinguish between the leadership styles of Sam and Finn. [6]

**N.B.:** Culture is not on the SL guide.

**Sam:**

- Sam clearly wishes to remain in charge of *AFA* as a paternalistic or (soft) autocratic leader.
- Allow *laissez faire* and other leadership styles if explained effectively.
- There is evidence from the stimulus that Sam prefers to be a “big picture” thinker.
- He is mostly involved in the setting of the mission and vision of *AFA*.
- He does not enjoy the day-to-day running of the business and has left this to Finn.
- However, there is also evidence that Sam, given his positive thoughts towards Daniel Pink's theory, is a “soft” autocrat, given that he is willing to delegate and empower some of the managers to run their own individual retail stores.
- Some candidates might mention that, using Handy's classification from the *Gods of Management*, Sam is clearly a Zeus figure. – there is no need to mention these.



**Finn:**

- Finn clearly aligns his leadership to a more structured or bureaucratic style.
- He seemingly enjoys monitoring the details, which Sam finds boring.
- Finn enjoys centralization and control, which is tied to the way in which he communicates.
- Finn clearly believes in formal organization and his leadership style typifies this.
- His decision to employ a mystery shopper to effectively spy on his managers indicates that he is slightly paranoid and wishes to know about everything occurring in the business.
- Some candidates might mention that, using Handy's classification from the Gods of Management, Finn is typically showing the leadership style inherent in an Apollo figure. There is no need to mention these.

Candidate can be rewarded if they argue that the styles are both the same (usually autocratic) provided, they support their argument.

*Accept any other relevant explanation.*

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

*Award a maximum of [3] for a theoretical answer.*

*Award a maximum of [3] if only Sam or Finn.*

*Award a maximum of [5] if the explanation is mainly descriptive, but in context.  
Eg if both are explained but not distinguished.*

## Section B

4. (a) Define the term *intangible asset*. [2]

An intangible asset is an asset that lacks physical substance and usually is very hard to evaluate, but it can add value to the business. It includes patents, copyrights, franchises, goodwill, trademarks and brand names with links to product positioning of a good or service that a business may offer.

*The definition does not need to be worded 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.*

**NOTE:** *Some candidates may write their definition in the context of AFA; in such cases, the main examples of intangible assets would be brand image (due to ethical behaviour and CSR leading to competitive advantage, customer loyalty, positive word-of-mouth) and goodwill.*

- (b) (i) Calculate the gross profit margin of AFA for 2016 **and** 2017. [2]

$$\text{GPM 2016} = \frac{142\,888}{2\,164\,486} \times \frac{100}{1} = 6.6\%$$

$$\text{GPM 2017} = \frac{124\,211}{2\,400\,625} \times \frac{100}{1} = 5.17\%$$

*Award [1] for each correct answer which includes the % (percentage) sign.*

**NOTE:** *candidates are not asked to show their working. Candidates may round up the results of their calculations for example, 5.1% or 5.2% instead of 5.17%.*

- (ii) Explain **one** possible reason for this trend in gross profit margin for AFA between 2016 and 2017. [2]

Given that sales revenues have increased, the likely cause of the decrease in gross profit margin is that direct costs have risen faster. There is evidence of diseconomies of scale being experienced by AFA and this calculation backs this up.

Another possible reason is fluctuation/increase of foreign currency exchange rates (as AFA works with “wholesalers that import products from many parts of the globe”, line 46).

Another possible reason is the increase of the cost of goods sold, which could be linked to the fact that price of fair trade goods may fluctuate/increase.

*Award [1] for a possible reason for the trend in gross profit margin, with an additional mark for application to AFA.*

- (c) Explain **one benefit and one cost** to *AFA* of using fringe payments (perks) as a way to financially reward staff.

**[4]**

Example of explanation of a benefit:

- For *AFA*, given the low wages, it is likely that fringe payments will act as an incentive to existing and new staff. Private health care, for example, would allow Sam and *AFA* to demonstrate a commitment to the well-being of its employees in the same spirit that the fair trade movement does for its suppliers. Motivation could improve and address some of the issues raised by the mystery shopper that Finn employed.

Example of explanation of a cost:

- The cost to *AFA* is that even with considerable revenue growth, fringe payments will increase direct costs, which will put further pressure on gross margins. Sam and Finn would also need to draw up new contracts of work, clearly stating how the new fringe benefits would be calculated and distributed. There are additional managers who may be attracted to this rewards scheme and this may create some jealousy if they are not fairly applied. One key question is whether the fringe payments will apply to all staff.

*Award [1] for each benefit and cost identified, with an additional [1] per cost/benefit with direct application to AFA.*

- (d) Discuss whether Sam should accept the offer of a takeover.

[10]

There is considerable evidence from the stimulus that Sam and Finn's relationship is on the verge of breaking down. The mystery shopper incident has fuelled suspicion on both sides and a lack of trust and cooperation is evident. It would appear that Sam does not wish to involve himself in the day-to-day running of the business and instead focus on "big picture" thinking. This offer from the international retailer coming at this time would be very tempting. Entrepreneurs such as Sam sometimes do sell a business looking for new opportunities as they may have achieved their own personal goals in setting up a new sustainable business. The goodwill offered by the purchaser would easily allow Sam to put his entrepreneurial qualities to good use in new markets. There is considerable evidence from research that some serial entrepreneurs enjoy setting up new enterprises as an exciting challenge and when the final goal is achieved move on. Sam does seem to be restless and bored easily and the current tensions/conflicts may force his hand.

However, whilst the positive publicity from the reality television show has lifted Sam, it could be easily taken away if the takeover occurs. "Temperton sells out" headlines would not help Sam or AFA and could impact on the brand value of the business. There is also the hypocrisy from Sam (given that he wanted to help internal and external stakeholders in the best way that he could) that the sale of AFA would create. Can he afford to tarnish his image?

Finn and Kip provide the conscientious voice against the sale. AFA is doing well and its position in the market is established. There is, however, still much to do. Why quit now when the actual goal has not been fully achieved?

There is conflict at AFA and this is to be expected. It would be a great shame for all the hard work carried out if Sam were to accept the offer. However, Sam and Finn appear to be drifting apart. Perhaps a change at the top is needed to bring fresh thinking to AFA at a time of expansion as long as Kim and Finn remain loyal to AFA.

*Mark according to the markbands on page 4.*