

Markscheme

May 2025

Business management

Higher / Standard level

Paper 1

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The markbands 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 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

1. Define the term *levels of hierarchy*. **[2]**

Levels of hierarchy are the layers on the organizational chart and show where authority and responsibility are attached. The higher layers have greater authority and decision-making power. Higher layers monitoring and coordinating the work of lower layers. In other words, the hierarchy shows how the chain of command flows, from the chief executive at the top, executive managers below them, middle managers below the executive managers and down.

Award [1] for some understanding of the notion of levels or layers.

Award an additional [1] if the candidate conveys some understanding of the idea of chain of command, or levels of authority.

Up to a maximum of [2].

N.B. *no application is required.*

2. State **two** ways in which market share can be measured. **[2]**

Market share can be measured by volume **[1]** (the percentage of units of product that a company sells in its respective market) or by value **[1]** (the percentage of sales revenue that a company generates within its respective market).

Candidates do not have to say value and volume to get [2], as long as they provide a correct answer.

Accept “number of customers”.

Candidates can be rewarded for answering by using formulae. If the candidate refers to a formula, award [1] for value and [1] if they write a second formula.

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

3. With reference to *Myt* and *LC*, explain the difference between the secondary sector and the tertiary sector (lines 21–23). **[4]**

Myt manufactures soft drinks and is, therefore, in the secondary sector, which is how manufacturing is classified. *LC*, on the other hand, is in the service sector (they operate coffee shops) and it, therefore, is in the tertiary sector.

Mark as [2] + [2]

Award [1] for explaining that Myt manufactures a product and [1] for linking this to the secondary sector. Award [1] for explaining that LC provides a service and [1] for linking this to the tertiary sector. Award a maximum of [2].

[2] *cannot be awarded if the response lacks application to the case study.*

4. With reference to *Myt*, distinguish between internal and external growth. **[4]**

Internal growth occurs when a business grows through expansion of existing operations (opening more stores, hiring more salespeople, increasing production, *etc.*). External growth occurs when a business expands by, typically, acquiring other businesses or through affiliation of some sort with another organization. *Myt* grew externally by taking over new businesses such as *LC* and *HW*. *Myt* is also considering a takeover of *TD* who owns tea shops.

Mark as [2] + [2]

Award [1] for correctly showing understanding of internal growth and an additional [1] for application to Myt showing the differences from external growth. Award [1] for correctly showing understanding of external growth and an additional [1] for application to Myt showing the differences from internal growth. Award a maximum of [4].

[2] cannot be awarded if the response lacks application to the case study.

5. Explain **one** action that *Myt* is taking towards improving its corporate social responsibility (CSR). **[2]**

In the stimulus, *Myt* is:

- paying for employees to take university classes;
- spending more money than necessary to have its drinks in recycled biodegradable bottles.
- taking over a company that sells bottled water
- making its factories green
- reducing caffeine and sugar levels in its products to make society healthier

All of these actions are forms of corporate social responsibility, the idea that the company is actually contributing to society and sustainability.

Award [1] for linking one of the bullet points above to CSR and an additional [1] for an explanation. Award a maximum of [2].

6. Explain **two** possible barriers to communication at *Myt* and *LC* (line 27).

[6]

Barriers to communication include:

- Demographic differences
- Cultural differences
- Language differences
- Mistrust or lack of trust
- Non-alignment of communication technology
- Organizational structure
- Unclear communication channels

Accept any other barrier to communication relevant in the context of Myt and LC.

The stimulus includes ideas that may be used in the response, for example the fact that *LC* is present in 35 countries (line 13), or the fact that the companies have different leadership styles (lines 24-25), or that they operate in different sectors of the economy (lines 22-23).

Accept any other reasonable application to the stimulus.

Mark as [3] + [3]

Award [1] for stating a relevant barrier to communication and depending on the depth and clarity of the explanation with application to Myt and LC, an additional [2–3]. Up to a maximum of [6].

Section B

7. Discuss whether *Myt* should take over *TD*.

[10]

Arguments for taking over *TD* include:

- *Myt* already operates in and, thus, knows, the hot drinks market well;
- *Myt*'s market share and market dominance would increase in the hot drinks beverage market;
- knows market geographically.
- opportunities for cross selling with limited risk of cannibalization;
- sales by *TD* are growing, suggesting that it is a growing market or *TD* has a winning formula for success, or both;
- small takeover compared to many potential takeovers, made better by the fact that *TS* does not invest heavily in fixed assets and inventory
- as *TD* only uses broadcast media there is potential for marketing cost savings by increased use of social media marketing - this would fit in well with their target market (*TD*'s brand is popular with people aged under 30) and as well as reducing promotion costs it would potentially increase brand awareness / customer reach.

Arguments against taking over *TD* include:

- the two companies appeal to different market segments, which suggests that the combined organization will have limited opportunities for marketing economies of scale;
- *TD*, *LC* and *HW* are in growing markets, which could stress *Myt*. Buying *TD* could aggravate this situation;
- margins of *TD* are contracting;
- *TD*'s sales growth may be deceptive, as it is at least partly due to its use of special offers, which may be a factor for its declining GPMs;
- *Myt* is already leveraged;
- *Myt* would have to take on more debt. *Myt* has already expanded externally through takeovers, which has resulted in a weakened liquidity position. Further, *Myt* will have either to increase its debt to make the takeover, perhaps leading to too high leverage or it will have to issue additional shares, which will dilute current ownership;
- potential exists, as with any takeover, of a culture clash and different management styles;
- *TD* has used questionable HR practices and has been accused of exploiting employees.
- Tea does represent a separate market and customer base.

Accept any other relevant arguments for or against.

To receive marks at the highest level [9-10] reference is needed to the limitations of the case study.

Award marks according to the markbands on page 3.

8. Using the Ansoff matrix, recommend to *Myt* a growth strategy **other** than market development. **[10]**

According to the Ansoff Matrix, other than market development, *Myt* could consider:

- market penetration
- diversification
- product development.

All three options are available to *Myt*. Each option has positives and negatives.

Market penetration could be achieved through more effective promotion or opening more coffee shops. The former (promotion) is not too risky but probably has lesser probability of success than the latter (opening new stores). Opening new stores is a great way to penetrate a market (think Starbucks), but does come with concrete risks, such as leasing commercial space which never winds up paying for itself.

Going into the tea business is a form of diversification. While *Myt* is almost certain to gain the benefit of a new income/cashflow stream, less clear is whether they can leverage the takeover to exponential, rather than arithmetic, growth. If all that occurs is arithmetic growth, the issue of purchase price of TD is crucial, and *Myt* may suffer from opportunity cost.

A third option is product development. This strategy seems the least risky but probably also has the lowest potential reward. A new coffee product would probably have a short product life cycle. So, for *Myt*, it might get a boost, short-term, in sales, but once the novelty of the new product wore off, sales would go back to where they were before.

Numerous ways exist for candidates to apply the above theoretical concepts to the stimulus. *Accept any other relevant course of action.*

Candidates have to use the Ansoff matrix, to receive marks at the highest level [9-10] and refer to the limitations to the case study.

Award marks according to the markbands on page 3.
