

Markscheme

May 2025

Business management

Higher level

Paper 2

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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. (a) Describe **one** feature of below-the-line promotion. **[2]**

Below-the-line promotion is a **low-cost** promotion **means of communication** compared to above-the-line promotion such as television or newspaper adverts. Features include

- is highly targeted **[1]** as it aims to reach a specific target or niche audience **[1]**;
- could be more budget friendly **[1]** compared to large ATL marketing campaigns **[1]**;
- encourages two-way communication between the business and consumers **[1]** and provides feedback opportunities from customers **[1]**

Do not credit examples

Accept any other relevant feature.

N.B. application not required.

Award **[1]** for a feature stated and award an additional **[1]** for a full description up to a maximum of **[2]**.

- (b) Using information from **Table 1**:

- (i) calculate the debtor days ratio (number of days) for *SP* for 2024 (*show all your working*); **[2]**

$$\begin{aligned} \text{Debtor days} &= \frac{\text{debtors}}{\text{Total sales revenue}} \times 365 \\ &= \frac{\$600\,000}{(90\,000 \times \$20)} \times 365 = 121.67 \text{ days} \end{aligned}$$

Accept 121.67, 121.7, and 122 days. Do not accept 121.6 or 121 days.

Award [1] for the correct debtor days number (days) and [1] for the correct working. If no working are shown, but the final answer is correct, award a maximum of [1]. Sales revenue working (90 000 x \$20) should be shown to award the working mark.

Do not credit full marks if the answer is not in days.

- (ii) construct a statement of profit or loss for *SP* for the year ended 31 December 2024 (*show all your working*). **[4]**

Statement of profit or loss for *SP* for the year ended 31 December 2024

	\$
Sales revenue (from b(i))	1 800 000
Cost of sales	<u>(1 080 000)</u>
Gross profit	720 000
Expenses	
Advertising (4 x \$5000)	(20 000)
Other administrative	(30 000)
Event sponsoring	(20 000)
Rent of premises (12 x \$2000)	<u>(24 000)</u>
	(94 000)
Profit before interest and tax	626 000

Interest (0.05 x 100 000)	<u>(5000)</u>
Profit before tax	621 000
Tax @25% on net profit (0.25 x 621 000)	(155 250)
Profit for period	465 750

Award [1] if there is some understanding of how to construct a statement of profit or loss, but the actual account constructed is not in the IB format and has a number of errors.

Award [2] if there are two or more errors which includes omissions of working, formatting error, mathematical error, presentation e.g. profit before interest and profit before tax are not clearly labelled.

Award a maximum of [3] if the statement of profit or loss is correct and well-presented but there are no full supporting calculations.

Award [3] if there is one error which includes one or more omissions of working, a formatting error, or a mathematical error etc. Incorrect calculation of advertising and rent expenses, count as one error.

Award [4] for a completely correct statement of profit or loss, which conforms to the IB suggested format. Headings are clear, well-presented. Candidates may not term each item under expenses.

Supporting working is expected with the calculation of expenses/interest/tax. If there is no working, it is an omission. Candidates can write total expenses without itemizing each of the 4 expenses but working must be shown. Omissions of working count as one error.

Do not double penalize errors. Allow OFR if an error is made in previous calculations in sales revenue, expenses, interest and tax.

(c) Explain **one** benefit for SP of having a customer loyalty programme. **[2]**

Possible **benefits** for SP of having a customer loyalty programme:

- Creating a long-term bond with their perfume customers may allow SP to **differentiate** further in a market with high competition.
- It is a sustainable strategy for **creating long-term customer bonds and developing brand loyalty**. 75 % of buyers of *Yasmina* are customer loyalty programme members.
- The programme **allows** for **data collection** which resulted in the successful launch of *Yasmina* and could hence assist with future new perfumes
- For businesses with an existing customer base, it has been proven to be **cost effective**. Given that SP has already built a customer base in the perfumes market, higher sales from an effective loyalty programme may **allow SP to provide personalized rewards** of 20% discount to their perfume customers.
- **Below the line promotion can be more effective** as 75% of SP customers are part of their customer loyalty programme.

Do not reward “attracting new customers” or “increasing sales” alone. Some reference to customer retention should be made.

Award [1] for an explanation of a relevant benefit and an additional [1] for application to SP.

2. (a) State **two** features of premium pricing. **[2]**

Features of premium pricing could include it:

- helps to **increase profit margins**;
- gives a **perceived value**;
- **increases brand image and reputation**;
- gives a **sense of exclusivity** and image;
- **differentiates from the competitors**;
- tends to be a **long-term pricing** method;
- high price that signals superior quality

Accept any other relevant feature.

N.B. no description required.

Award [1] for each correct feature of premium pricing strategy stated up to a maximum [2].

(b) Using **Figure 1**:

(i) determine FC's buffer stock. **[1]**

50 units / jeans

Award [1] for the correct answer.

(ii) calculate the reorder quantity for FC (*show all your working*). **[2]**

From FC's stock control chart:

ROQ= maximum stock-buffer stock

ROQ= 200 - 50= **150 units/jeans**

Award [1] for correct working and [1] for the correct answer with units/jeans, up to a maximum of [2].

N.B. do not penalize more than once for sign/unit omission in any one question part b)(ii), (c), (d).

(c) Calculate RJ's capacity utilization rate (*no working required*). **[1]**

capacity utilization rate = (actual output / productive capacity) x 100% (formulae is given)

capacity utilization rate = (200/250) *100= **80%**

Award [1] for the correct answer.

(d) Calculate RJ's defect rate (*show all your working*). **[2]**

Defect rate = (defect output/total output)*100

(10/200)*100= **5%**

Award [1] for correct working and [1] for a correct answer with % sign.

- (e) Explain **one** disadvantage of *FC*'s decision to have *RJ* as its primary supplier. [OBJ] [2]
- As *RJ* is **operating at 80% capacity**, it won't be able to fulfil unexpected large customer orders as they also supply two other retailers. Any production or delivery issue that *RJ* may experience will leave *FC* with no supply of jeans as demand of jeans is increasing
 - **Having a single provider** means *FC* will have to accept the price charged by *RJ*, which may not be the cheapest. *FC*'s profitability could fall although they charge **premium prices**.
 - ***RJ* has a 5% defect rate which is 3% higher than the industry average, which is 2%, therefore**, *FC* may not receive enough jeans to sell at a premium price

Do not reward customers receiving defective jeans as application, as *RJ* will deliver to *FC*.

Award [1] for an explanation of and appropriate disadvantage and an additional [1] for application to FC up to a maximum of [2]

Accept any other relevant explanation.

Allow candidate own figure rule (OFR) from (d). Allow candidate own figure rule (OFR) for defect rate calculated in (e).

3. (a) State **two** features of batch production. [2]

Batch production: is the production of a **group of identical products** (the word "batch" refers to the fact that the items in each group go together from one stage of production to the next).

Features of batch production could include:

- **produced in groups** from one **stage to the next**;
- **batch production cost per unit is lower than job production unit cost and more expensive than flow production unit cost for products** in each batch are **identical**;
- **group of products are produced at one time**;
- one stage of **operation is carried out on whole batch** and **then the whole group is passed on to the next stage**;
- **same type of machines** arranged at one place;
- the work **involves some repetition**;
- batch production often has **changeover costs** when production shifts from one batch to the next.
- produces smaller quantities of goods compared to mass/flow production
- allows some customization but less than job production

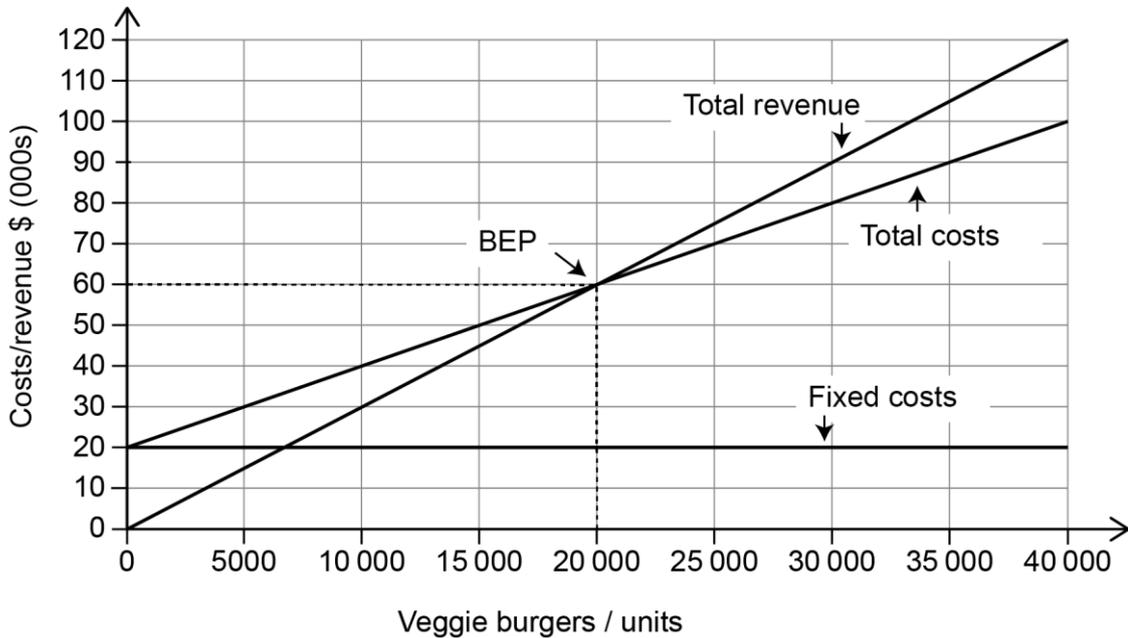
Accept any other relevant feature.

N.B. *no description required.*

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

- (b) Using information from **Table 2**, construct a fully labelled break-even chart, to scale, for **Option A**;

[4]



	OPTION A (\$)	OPTION B (\$)
Total revenue	120 000	105 000
Variable costs	80 000	
Fixed costs	20 000	
Total costs	100 000	67 500
Maximum profit	20 000	37 500

Contribution per unit = Price-unit variable cost

Unit variable cost = Total variable costs /maximum output = \$80000 / 40000 = \$2

Price = contribution per unit + unit variable cost = \$1 + \$2 = \$3

Total revenue= \$3 x 40000= \$120000

BEP= fixed costs/contribution per unit

BEP = \$20000 / (\$1 per unit) = 20 000 units

Alternative calculation:

BEP = Total revenue = Total costs

Total costs = Fixed costs + Variable costs

(\$3 x Units) = \$20 000 + (\$2 x Units)

(\$3 x Units) - (\$2 x Units) = \$20 000

\$1 x Units = \$20 000

Units = \$20 000 / \$1

BEP = 20 000 units

Award marks as follows:

[1] for both appropriately labelled axes – y-axis must include both costs and revenue. The x-axis can be any suggestion of quantity: units / veggie burgers/ output.

[1] for accurately drawn and labelled total cost line.

[1] for accurately drawn and labelled total revenue line.

[1] for indication of break-even point as the intersection of total revenue and total costs. OFR applies.

Award a maximum of **[2]** if the chart is not neat, not drawn with a straight edge, or is not to scale.

If a candidate produces a table rather than a chart, award **[0]**. Similarly, calculations even if correct should not be rewarded.

- (c) Using information from **Table 3**, calculate VB's profit at 35 000 units for **Option B** (show all your working). **[2]**

Profit = Total revenue - total costs

Total revenue = selling price X output

Selling price = Unit contribution+ variable cost per unit = \$52 500/35 000 + \$1.5= \$3

Total revenue = \$3 x 35 000=\$105 000

Profit= \$105 000 - \$67 500= \$37 500

Alternative method

Profit = Total contribution-fixed costs

Profit= 52 500-(67 500-(35 000x1.5)) =\$37 500

Award **[1]** for correct working and **[1]** for the correct answer with a \$ sign.

If selling price is calculated correctly award **[1]**

Accept if sign is present in either the working or final answer.

- (d) Explain **one** challenge for VB of operating at 90 % capacity utilization rate. **[2]**

No room for unexpected orders so they will be unable to fulfil the order to Circus.

- **Diseconomies of scale** due to the overcrowding in the factory. VB has become inefficient Do not accept overcrowding as application without reference to inefficiencies or diseconomies of scale. Appropriate challenges without application include
- Employees and machinery may be pushed close to their limits, increasing the risk of fatigue, errors, or breakdowns. **[1]**

May cause the business to rush production, which can lead to quality problems or higher defect rate **[1]**.

Award **[1]** for an explanation of an appropriate challenge and an additional **[1]** for application to VB.

Award a maximum of **[2]**.

Section B

4. (a) State **two** benefits from having a strong organizational culture. **[2]**

Possible benefits include it:

- creates a **sense of belonging and security** for employees;
- **improves motivation**;
- **promotes** worker **cohesiveness** and teamwork;
- **reduces mistakes** and or misunderstandings as employees will be familiar with the way things are done.
- Increases efficiency/productivity
- Reduces labour turnover
- Facilitates communication as values and beliefs are shared

Accept any other relevant benefit.

*Award **[1]** for each relevant benefit up to a maximum of **[2]**.*

N.B. application not required.

(b) Explain **two** advantages for CA of recruiting videographic designers externally. **[4]**

Advantage to CA include:

- design and quality product may improve as externally recruited videographic designers are experienced and can use AI
- CA costs can be reduced as externally recruited videographic designers are experienced and use AI
- Access to specialised workers able to use AI to design a new mobile phone application.
- Reducing training costs of training employees internally which could improve CA's profitability as sales dropped to pre-pandemic levels. Externally recruited videographic designers can bring in new ideas creative ways of working and new products such as the new mobile phone video app. CA's sales dropped to pre-pandemic levels in 2023, suggesting a need for new strategies to boost growth.

Advantages without application include:

- CA can choose videographic designers from a larger pool of talent
By hiring externally CA can avoid creating gaps when transferring internal employees, hence no disruption if internal operations.

Accept any other relevant advantage.

*Award **[1]** for an explanation of an advantage and an additional **[1]** for a relevant application to CA, up to a maximum of **[2]**.*

(c) (i) Using **Table 4**, calculate the mean value for CA's sales over the period 2019 to 2024 (show all your working). **[2]**

$$\begin{aligned}
 &(\$600 + \$1100 + \$1000 + \$800 + \$600 + \$550) / 6 \\
 &= \$775 \text{ (in 000's)}
 \end{aligned}$$

*Award **[1]** for working and **[1]** for the correct answer.*

- (ii) Using **Table 4** and your answer to part (c) (i), comment on CA’s sales data **and** standard deviation. **[2]**

For [1] candidates must make a comment such as the following:

- CA **sales** increased from 2019 to 2021 and then they fell steadily from 2022 to 2024;
- CA sales have **peaked in 2020**;
- The sales general trend is downward after 2021;
- **\$600** is the **mode value** for CA sales data;
- most annual sales will fall within a range from \$775 +/- \$232 (standard deviation). This is a way to measure how much annual sales can vary from the average.
- A **standard deviation** of 232 **indicates** that, on average, **annual sales tend to deviate from the mean (\$775) by \$232.**

*For [2], candidates must have a comment on sales **and** the standard deviation, with reference to data (years, sales, SD, or mean value) from Table 4 or (c)(i). for either sales **or** the SD.*

If one or two valid comments are made with no reference to data award [1]. OFR applies for the mean value calculated in (c)(i).

- (d) With reference to Deci and Ryan’s self-determination theory, information from the stimulus, and **Table 5**, discuss the impact of Ruby’s measures on employee motivation at CA. **[10]**

N.B. Deci and Ryan’s self-determination theory SDT, suggests that human beings have three **basic psychological needs**: **Autonomy**, which refers to the needs for self-determination and the ability to make decisions; **competence** that refers to needs of feeling competent and capable of achieving goals, and **relatedness**, which refers to the needs of belonging to a community. **When** these three basic psychological **needs** are **met**, **individuals** are more likely to **experience intrinsic motivation** by which, employees will engage in activities and work because they find it inherently satisfying and enjoyable.

- **CA’s new package of rewards relies mostly on external rewards.** CA employees will receive PRP bonuses and shared ownership, plus a good package of fringe payments such as health care, life insurance and paid parental leave. **According to SDT, although rewarding, all these benefits are external and will motivate employees in the short term. Intrinsic motivation of employees** could be overshadowed by the new package.
- If CA **limits remote work** to a maximum of five days a month, employees will **no longer be able to decide on some of their working practices.** Employees’ **autonomy** will be undermined and therefore **intrinsic motivation could also be undermined.**
- **Restoring inflexible work schedules** that do not consider employees’ work-life balance could **hinder autonomy and relatedness.** CA employees may feel that their personal lives are not valued **and demotivate employees.**
- If CA **reduces expenses on celebrations**, team building and interpersonal relationships, thus the sense of **belonging** or **relatedness and motivation could be undermined.**

On the other hand,

Additional parental leave, although a financial reward, can impact employees' work- life balance, thereby improving relatedness and motivation.

- CA has a **positive organizational culture** and a **matrix structure** working in **teams**. Team work fosters a **collaborative culture** and spreads a **sense of belonging**, improving **relatedness and motivation**.
- CA teams will be able to **set their own goals and objectives**. Employees' and teams' **autonomy will be enhanced** and therefore **intrinsic motivation** could **improve**.
- Videographic designers and software developers will be **given paid time to explore new ideas** to develop new products. **Competence and autonomy** needs could be fulfilled and motivation improved.
- If CA increases **expenditure on professional development** of employees it could **improve intrinsic motivation - competence and relatedness needs**.

N.B: a balanced discussion includes potential impacts, both positive and negative on employee motivation, not on CA

Accept any other relevant discussion.

If the candidate discusses only one positive or one negative impact on employee motivation, then award a maximum of [4]. If two positive impacts and only one negative impact are discussed or vice versa, award a maximum of [5-6] depending on the level of substantiation.

A balanced discussion includes two positive and two negative impacts on employee motivation.

Candidates should make explicit reference to the needs of Deci and Ryan's self-determination theory: autonomy, competence and relatedness or to intrinsic/extrinsic motivation. Award a maximum of [5] if there is no reference to Deci and Ryan's self-determination theory.

For [10], there must be effective integration of the stimulus material to support arguments, and an explanation of the limitations of the stimulus.

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

5. (a) Define the term *outsourcing*. [2]

Outsourcing occurs when a business has an **internal function performed by an external organization**. [1] Companies use outsourcing **to cut labour costs**, including salaries for their personnel, overhead, equipment, and technology [1], or to **focus** on the business’s core activities [1]

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

Candidates are **not** expected to word their definition **exactly** as above.

Award a maximum of [2].

- (b) Explain **two** benefits for *BD* of following cradle-to-cradle design and manufacturing principles. [4]

Benefits include:

- **Reducing long-term operational costs.** Relying on 100 % renewable energy sources could reduce costs in the long run and protect BD from the volatility of energy prices.
- **Improving efficiency by reducing waste.** If BD manages water usage and local waste disposal efficiently, water bills and transportation costs for waste could be minimized.
- **Fair wages can improve employee morale, retention, and productivity**, which could potentially reduce consumers’ negative perception on BD
- **Increasing sales revenue by attracting** eco- conscious consumers who value products with less toxic chemicals and environmentally sustainable practices.
- **Differentiating from competitors**, as cradle-to-cradle manufacturing can set BD apart from competitors that use non sustainable manufacturing practices.
- **Reducing environmental impact (environmental footprint)** which would help BD to be perceived as a socially responsible company.
- **Improving brand image that** could reduce the pressure from stakeholder groups on BD.

Mark as 2+2.

Award [1] for an explanation of a benefit and an additional [1] for a relevant application to BD, up to a maximum of [2].

- (c) Comment on the data in **Table 6**. [2]

Denim jacket **prices** went **up** and **sales** revenue went **down**. [1]
The demand for BD’s denim jackets is price elastic [1]

Award an additional [1] for referring to the data in the table Such as, as the price increased from \$72 to \$79 (almost 10 %), and BD’s sales revenue for denim jackets decreased (3 %). Award a maximum of [2].

- (d) Explain **one** way in which stakeholders applied pressure on *BD*. [2]

According to the stimulus, **consumers** applied pressure to *BD* by **buying fewer products**. Thus, **sales fell by 3% as consumers might be unwilling to pay extra**.

Another way **stakeholders** applied pressure was resorting to **social media** where they **complained** that *BD*'s **efforts to go green were only half-hearted**.

Increasingly **stakeholder** groups rely on social media **to put pressure on publicly traded companies to make change**.

*Award [1] for an explanation of how stakeholders might apply pressure and an additional [1] for a relevant application to *BD*, up to a maximum of [2].*

- (e) Using information in the stimulus, discuss whether *BD* should focus more on promoting its new factory's sustainable processes or focus on becoming 100 % environmentally sustainable in both factories, to differentiate themselves from competitors. [10]

BD faces both advantages and disadvantages of both potential strategies.

One option is to **focus on promotion**, that is, promoting the fact that it follows very environmentally sustainable practices already. **Advantages** to this approach are:

- Re-branding through promotion alone, though costly, is **less expensive than actually becoming a fully environmentally sustainable company**;
- The **long-term future** seems almost certain to be that **companies must be environmentally sustainable**. Promotion now **will help *BD* change its image** (rebrand) and thus have some type of **first-mover advantage**; COO argued that promotion was the *“most cost-effective way to overcome consumers’ negative perceptions and improve brand image”*;
- Social media promotion is a powerful tool. Particularly if endorsed by a famous singer and environmentalist;
- To change operational practices to be environmentally sustainable, *BD* imposes **unequal costs** on itself compared to its competitors that claim to being environmentally sustainable but in fact they are not and thus have lower costs than *BD*. *BD* **avoids** this problem **through a promotional campaign strategy**.

Disadvantages of a promotional campaign strategy are:

- A promotional campaign strategy, to be effective, **must be a serious attempt to change the company’s image**. Such a strategy, though less expensive than actually becoming a 100 % environmentally sustainable company, nonetheless is expensive and does not guarantee that the promotional campaign will be successful;
- Promotion **is not real change**. Governments are passing increasingly stringent laws and implementing regulations raising the standards for being environmentally sustainable. Real change by companies is really the only way to forestall these new laws and regulations; *BD* still produces jackets in its old factory without environmentally sustainable practices.
- **Consumers** often have a **backlash against companies who claim to be environmentally sustainable when they are not**. With a promotion strategy, even if it is low, *BD* **risks being accused of greenwashing** (candidates do not have to use the word greenwashing, as it is not in the guide).

Another option is for *BD* to **become a 100 % environmentally sustainable company**.

Disadvantages of a new operations strategy are:

- Becoming genuinely environmentally sustainable will be time consuming and will require significant investment. “*Only through expensive changes in operations to cradle-to-cradle design and manufacturing principles, in both factories, could BD become 100 % environmentally sustainable*”; which may prove difficult for BD due to their falling sales revenue.
- BD would be rising to a **standard that is not yet a legal requirement** and, thus, would be **imposing costs** on itself not borne by at least some of its competitors. Though some regulations do exist;
- An **operations strategy is risky**. BD would **incur considerable costs**. What if the gap between consumers stated intentions and their actions persists? (“*consumers say that they want sustainable products but are often unwilling to pay extra*”)

Advantages of the operations strategy are:

- BD **avoids any accusation of greenwashing** (again, candidates do not have to use the term greenwashing), even if this did not happen, focus groups results show that consumers are well aware of companies that do greenwashing;
- The **more companies** like BD **go genuinely** 100% environmentally sustainable, the **less likely governments** are to **impose costly regulations**;
- Being environmentally sustainable would **enhance** BD’s **reputation**;
- **Consumers are increasingly demanding environmentally sustainable practices** by companies (the intentions-action gap is slowly closing), and BD would be properly positioning itself and differentiating itself from competitors.

Accept other relevant advantages and disadvantages.

If the candidate discusses only one potential strategy with no balance, then award a maximum of [4], for one strategy discussed with balance, award a maximum of [5].

If the two potential strategies are discussed, and only one is balanced then award a maximum of [5-6] depending on the level of substantiation.

*A balanced discussion includes one argument for and one argument against **for each potential strategy**.*

For [10], there must be effective integration of the stimulus material to support arguments, and an explanation of the limitations of the stimulus.

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