

# Markscheme

**May 2025**

**Business management**

**Higher level**

**Paper 2**

© International Baccalaureate Organization 2025

All rights reserved. No part of this product may be reproduced in any form or by any electronic or mechanical means, including information storage and retrieval systems, without the prior written permission from the IB. Additionally, the license tied with this product prohibits use of any selected files or extracts from this product. Use by third parties, including but not limited to publishers, private teachers, tutoring or study services, preparatory schools, vendors operating curriculum mapping services or teacher resource digital platforms and app developers, whether fee-covered or not, is prohibited and is a criminal offense.

More information on how to request written permission in the form of a license can be obtained from <https://ibo.org/become-an-ib-school/ib-publishing/licensing/applying-for-a-license/>.

© Organisation du Baccalauréat International 2025

Tous droits réservés. Aucune partie de ce produit ne peut être reproduite sous quelque forme ni par quelque moyen que ce soit, électronique ou mécanique, y compris des systèmes de stockage et de récupération d'informations, sans l'autorisation écrite préalable de l'IB. De plus, la licence associée à ce produit interdit toute utilisation de tout fichier ou extrait sélectionné dans ce produit. L'utilisation par des tiers, y compris, sans toutefois s'y limiter, des éditeurs, des professeurs particuliers, des services de tutorat ou d'aide aux études, des établissements de préparation à l'enseignement supérieur, des fournisseurs de services de planification des programmes d'études, des gestionnaires de plateformes pédagogiques en ligne, et des développeurs d'applications, moyennant paiement ou non, est interdite et constitue une infraction pénale.

Pour plus d'informations sur la procédure à suivre pour obtenir une autorisation écrite sous la forme d'une licence, rendez-vous à l'adresse <https://ibo.org/become-an-ib-school/ib-publishing/licensing/applying-for-a-license/>.

© Organización del Bachillerato Internacional, 2025

Todos los derechos reservados. No se podrá reproducir ninguna parte de este producto de ninguna forma ni por ningún medio electrónico o mecánico, incluidos los sistemas de almacenamiento y recuperación de información, sin la previa autorización por escrito del IB. Además, la licencia vinculada a este producto prohíbe el uso de todo archivo o fragmento seleccionado de este producto. El uso por parte de terceros —lo que incluye, a título enunciativo, editoriales, profesores particulares, servicios de apoyo académico o ayuda para el estudio, colegios preparatorios, desarrolladores de aplicaciones y entidades que presten servicios de planificación curricular u ofrezcan recursos para docentes mediante plataformas digitales—, ya sea incluido en tasas o no, está prohibido y constituye un delito.

En este enlace encontrará más información sobre cómo solicitar una autorización por escrito en forma de licencia: <https://ibo.org/become-an-ib-school/ib-publishing/licensing/applying-for-a-license/>.

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"> <li>• Little understanding of the demands of the question.</li> <li>• Little use of business management tools and theories; any tools and theories that are used are irrelevant or used inaccurately.</li> <li>• Little or no reference to the stimulus material.</li> <li>• No arguments are made.</li> </ul>
3–4	<ul style="list-style-type: none"> <li>• Some understanding of the demands of the question.</li> <li>• Some use of business management tools and theories, but these are mostly lacking in accuracy and relevance.</li> <li>• Superficial use of information from the stimulus material, often not going beyond the name of the person(s) or name of the organization.</li> <li>• Any arguments made are mostly unsubstantiated.</li> </ul>
5–6	<ul style="list-style-type: none"> <li>• The response indicates an understanding of the demands of the question, but these demands are only partially addressed.</li> <li>• Some relevant and accurate use of business management tools and theories.</li> <li>• 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.</li> <li>• Arguments are substantiated but are mostly one-sided.</li> </ul>
7–8	<ul style="list-style-type: none"> <li>• Mostly addresses the demands of the question.</li> <li>• Mostly relevant and accurate use of business management tools and theories.</li> <li>• Information from the stimulus material is generally used to support the argument, although there is some lack of clarity or relevance in some places.</li> <li>• Arguments are substantiated and have some balance.</li> </ul>
9–10	<ul style="list-style-type: none"> <li>• Clear focus on addressing the demands of the question.</li> <li>• Relevant and accurate use of business management tools and theories.</li> <li>• Relevant information from the stimulus material is integrated effectively to support the argument.</li> <li>• Arguments are substantiated and balanced, with an explanation of the limitations of the case study or stimulus material.</li> </ul>

**Section A**

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

Features could include:

- market-driven;
- **competitors' prices are used as a benchmark;**
- **it considers profit margin;**
- pricing **flexibility**;
- customer centric;
- uses promotions and discounts.

*Accept any other relevant feature.*

**N.B.** application not required.

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

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

- (i) construct a fully labelled statement of financial position (balance sheet) for *PC* for the year ending 31 December 2025; **[4]**

Parta Ltd (PC)

Statement of financial position (balance sheet) for the year ending 31 December 2025

	\$000	\$000
<b>Non-current assets</b>		
Property, plant, and equipment	7977	
Accumulated depreciation	(1860)	
Non-current assets		<u>6117</u>
<b>Current assets</b>		
Cash	1000	
Debtors	1075	
Stock	1500	
Current assets		<u>3575</u>
<b>Total assets</b>		<u>9692</u>
<b>Current liabilities</b>		
Bank overdraft	2000	
Trade creditors	1500	
Other short-term loans	1220	
Current liabilities		<u>4720</u>
<b>Non-current liabilities</b>		
Borrowings - long term	1041	
Non-current liabilities		<u>1041</u>
<b>Total liabilities</b>		<u>5761</u>
<b>Net assets</b>		<u>3931</u>
<b>Equity</b>		
Share capital	1000	
Retained earnings	2931	
Total equity		<u>3931</u>

**N.B.** If the candidate does not follow the IB prescribed format award a maximum of [3].  
**However, this assumes that the format used balances.**

**N.B.** Do not penalize if double column format is not used as long as subtotals are clearly shown. Do not penalize missing heading if format also incorrect.

**N.B.** Candidates should not be penalized for writing retained profits.

Award [1] if the candidate constructs a largely recognizable statement of financial position/balance sheet, but it **does not balance** or it has three or more **major problems of classification yet demonstrates some understanding**.

Award [2] for a largely accurate statement of financial position **that balances**. There could be two misclassifications.

Award [3] if the candidate constructs an accurate statement of financial position that balances according to the IB prescribe format, and there is **one** misclassification.

Award [4] if the candidate constructs an accurate statement of financial position that **balances** according to the IB prescribed format, **with a heading and it is dated**.

**N.B.** Misclassification(s) can be any numerical error, missing heading (including sub-totals), missing numbers, headings or numbers that do not belong in a statement of financial position/balance sheet.

- (ii) calculate PC's gearing ratio for 2025 (show all your working). [2]

Gearing ratio = (non-current liabilities/capital employed) x 100  
capital employed = non-current liabilities + equity

the non-current liabilities are **\$1 041 000** (borrowings-long term)

The equity = share capital + retained profit, so, according to Table 1:

Equity = \$1 000 000 + \$2 931 000 = \$3 931 000

Capital employed = \$1 041 000 + \$3 931 000 = **\$4 972 000**

Gearing ratio = (\$1 041 000 / \$4 972 000) x 100

**Gearing ratio = 20.94% (allow rounding) accept 20.9%, 20.93% or 21%. Do not accept 20%.**

Allow candidate own figure rule (OFR) from part (b). Award [1] for the correct answer with % sign and [1] for correct working, up to a maximum of [2].

- (c) With reference to **Table 1**, distinguish between creditors and debtors. [2]

**Creditors** are organizations such as suppliers, to which **the business owes money**. PC owes **\$1.5m to its trade creditors**. **Debtors**, in a way, are the opposite – they are people or **organizations that owe money to PC**. In this case, **PC is owed \$1.075m**.

A common mistake among candidates is that they confuse creditors and debtors.

Award [1] for correct distinction between creditors and debtors, as shown above, and an additional [1] for application to the stimulus by using figures from Table 1. However, if the distinction between creditors and debtors is not made or only one of either debtors/creditors is understood then award [0].

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

Features of a partnership could include:

- It has more than one owner;
- **Partners can specialize** and carry out the tasks they are best at and **which can improve the running of the business**;
- Since there is more than one owner **more finance can be raised** (than a sole trader);
- Each individual partner has **unlimited liability** and is **liable for the business debts**;
- No legal distinction exists between the business and the partners;
- A partnership is an **unincorporated business, so it ends when a partner dies**;
- **Partners share profits**;
- **Decisions are made jointly by the partners**;
- Partners are held liable for the actions of other partners (including debts).
- Partnership rules set out in Deed of Partnership

*Accept any other relevant feature.*

**N.B.** application not required. Accept “one partner to have unlimited liability” only if the feature specifically refers to a “Limited Partnership”.

**N.B. do not accept** references to the number of allowed partners as this varies by country and therefore is not a general feature.

**N.B. do not accept** 50/50 in the distribution of debts, profit, etc. as partnership are not limited to two partners.

Award **[1]** for each relevant feature of a partnership stated up to a maximum of **[2]**.

- (b) Using **Table 2**:

- (i) calculate LBS's **budgeted** excess of revenues over costs (net income), **X** (no working required); **[1]**

$$X = \$500\,000 - \$235\,000 = \$265\,000$$

*Award **[1]** for the correct answer X. \$ sign not needed as given in heading of table. No working required. The final answer is not required to be expressed in 000's.*

- (ii) calculate LBS's **actual** total costs, **Y** (no working required); **[1]**

$$Y = \$70\,000 + \$60\,000 + \$170\,000 = \$300\,000$$

$$\text{Alternative calculations for } Y = \text{sales revenues} - \text{excess of revenues over costs} \\ = \$550\,000 - \$250\,000 = \$300\,000$$

*Award **[1]** for the correct answer for Y.*

- (iii) calculate *LBS's actual* gross profit margin (*show all your working*). **[2]**

GPM= (gross profit/sales revenue) x 100  
Gross profit = \$550 000 – \$170 000 - \$70 000 = \$310 000

GPM would be:

$(\$310\,000 / \$550\,000) \times 100 = 56.36\%$  (allow rounding) accept 56.4% or 56%

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

- (c) (i) Calculate *LBS's* variance of excess of revenues over costs (net income) (*no working required*). **[1]**

Variance = Budgeted net income - actual net income = \$265 000 – \$250 000 = **\$15 000**

*[1] for the correct answer. Apply OFR based on value of X calculated in 2(b)(i).*

***N.B ignore any negative signs presented in answer***

- (ii) Determine whether your answer to (c)(i) is favourable or adverse (*no working required*). **[1]**

It's **Adverse**.

*[1] for the correct answer. No working required. Allow OFR based on answer for 2(c)(i).*

- (d) Linda estimated that *LBS's* gross profit margin would be 65 %.

Using **Table 2**, explain **one** possible reason why *LBS's* actual gross profit margin, calculated in (b)(iii), is lower than Linda's estimation. **[2]**

The table shows that the cost of the **beauty products and the wages increased more than Linda budgeted. This** in turn **affected** the **gross profit margin. [1]**

*Award an additional [1] if candidates state that the:*

- sales revenue increased (10%) proportionally less than the costs rose (41%); or
- strengthens their response using information from the table.
- sales revenue and costs need to be linked
- also allow calculations introduced eg individual variances based on Table 2.

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

Features of a database include:

- is **secure**. Requires a password to access;
- stored on online server;
- **reduces repetition** of the same data;
- **stores, organizes, and retrieves large quantities of data making more efficient use of information**;
- the **data** and the **computer programme are independent** from one another;
- can be monetized by allowing paid access;
- accessible by multiple users simultaneously;
- it helps to manage information more efficiently.

*Accept any other relevant feature.*

**N.B.** application not required.

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

- (b) Using **Table 3**:

- (i) calculate the payback period for the new apartment complex  
(no working required); **[1]**

Seven years and almost 20 days.

Cumulative cash flows in year 7 is -\$35, and in year 8 the annual net cash flow is \$635, so:

$$(\$35 / \$635) \times 12 \text{ months} = 0.66 \text{ months} = 19.84 \text{ days}$$

Accept 19.9 or 20 days or 0.7 months or 7.055 years (rounding down to 7.05 is not permitted)

*Award [1] for the correct answer.*

- (ii) calculate the average rate of return (ARR) for the new apartment complex  
(show all your working). **[2]**

$$\begin{aligned} & \$4\,600\,000 \text{ [sum of net rental incomes]} - \$4\,000\,000 \text{ [project cost]} / 8 = \$75\,000 \\ & \$75\,000 / \$4\,000\,000 \times 100 = \mathbf{1.875\%} \end{aligned}$$

Accept also 1.87 or 1.88% Accept rounding to 1.9%

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

- (c) Complete **Table 4** by calculating the net cash flows and present value for the new apartment complex for the first eight years, using a discount rate of 4%.

**Table 4**

Year	Net cash flows in \$000s	Discount rate at 4 %		Present Value (in \$000s)
1	300	0.9615	times	288.45
2	400	0.9246	times	369.84
3	500	0.8890	times	444.50
4	700	0.8548	times	598.36
5	700	0.8219	times	575.33
6	700	0.7903	times	553.21
7	665	0.7599	times	505.33
8	635	0.7307	times	463.99
			Total	3799.01

Accept if candidate writes 3 799 010. **N.B. do not penalize for rounding errors.**

Using your completed **Table 4**, calculate the net present value (NPV) for the new apartment complex for the first eight years (*show all your working*). **[3]**

The Total present value = \$3 799 010, so the NPV would be:

$$\text{NPV} = \$3\,799\,010 - \$4\,000\,000 =$$

$$\text{NPV} = (\$200\,990)$$

*Award [1] for a correctly completed table.*

*Award [1] for NPV working of the project (is \$3 799 010 minus \$4 000 000) and [1] for the correct answer (\$ not required as given in the answer box).*

*OFR applies to TPV figure from table for NPV.*

- (d) Explain how *ME* used a simple linear regression analysis to forecast rental income for the apartments in the new apartment complex. **[2]**

*ME* used the **size** of neighbouring apartments as the **independent variable**, and **rental charges** for each apartment for the **dependent variable**.

*Award [1] for some understanding of a regression analysis.*

*Award [1] for application. e.g *ME* used the **size** of neighbouring apartments as the **independent variable** or **rents** as the **dependent variable**.*

*For full marks the term “**independent variable**” and “**dependent variable**” must be used and linked to apartment size and rental charges.*

**Section B**

4. (a) State **two** features of a customer loyalty programme. **[2]**

Features could include:

- **members receive discounts / offers / benefits – free shipping/delivery;**
- offers are **personalized** often via emails and direct promotions;
- members **collect points** through purchases;
- data is **collected on every purchase;**
- accessible from multiple platforms – website, mobile apps etc.

*Accept any other relevant feature. Do not reward responses that:*

- *state advantages/disadvantages of loyalty programmes **OR***
- *state that they promote loyalty or customer retention (this is dependent on the benefits offered [actual features] versus the cost of membership).*

**N.B.** application not required.

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

- (b) Explain **one** advantage **and one** disadvantage for *GD* of using convenience sampling. **[4]**

**Advantages:**

- **Cheap / simple / efficient** to organize / **cost effective / readily available** sample. As *GD* only has to have **interviewers** placed in **each of 20 of its 120 supermarkets** and is **using its own employees** (an assistant manager will have to interview 40 customers in each supermarket);
- **Does not depend on chance (probability) as those interviewed will be GD customers** as they are in *GD* supermarkets when interviewed.

**Disadvantages:**

- **Sample may not be representative** – shoppers that shop late at night may not be interviewed as the interviews are in the morning (starting at 9am) – so results may be biased, or incorrect;
- **Interviewer bias** as *GD*'s own assistant managers perform the interviews and they may have their own preferences as to whether the change should happen.

*Accept any other relevant response.*

**Mark as 2+2.**

*Award **[1]** for an explanation of relevant advantage/disadvantage, with an additional **[1]** for application to *GD*. Award up to a maximum of **[2]**.*

**N.B.** do not reward answers referring only to sample size as this is not a feature of the method simply the way *GD* choose to employ convenience sampling.

- (c) Comment on the data in **Table 5**.

[2]

GD's **profit margins** were **quite stable until 2023** – the margins **fell from 7.4% in 2023 to 6.1%** (fell 18%) and this can be **attributed to the fall** in GD's **gas price** which fell **from (\$0.82) 82 cents in 2023 to (\$0.72) 72 cents in 2024** (fell 12%).

*Award [1] for identifying that GD's profit margin fell in 2024 and an additional [1] for linking this to the fall in GD's gas price. N.B. for full marks some of the actual figures must be used OR figures derived from those in the table e.g % changes from year to year.*

- (d) Explain the impact of *SF's* entrance into the market on the price elasticity of demand for *GD* gas.

[2]

The **entrance** of *SF* into the market **increases** competition and the **number of close substitutes** for *GD's* gas. As a **result**, the **price elasticity** of demand is **likely to increase / to become more elastic**. That means that the quantity demanded will be more sensitive to a change in the price.

Application may include:

*"Since 2024, GD has matched the prices charged in SF's gas stations",* maybe, to avoid a possible decrease in its sales.

*"SFs success has been built on a low-price strategy."*

**N.B.** do not accept the word *"Gas"* as application.

*Award [1] for explaining that GD's price elasticity of demand will become more elastic and an additional [1] for application to GD.*

- (e) Using information from the stimulus and **Table 5**, discuss *GD's* directors' plan to improve profitability.

[10]

- **change the stock control system** in its meat processing factory from just in case (JIC) to just in time (JIT). This **will improve margins** as **less employees** are **needed** and the increasing costs of electricity (since 2023) will be reduced as **less stocks** are held (the warehouse enabled *GD* to hold a 4-month buffer stock). **However**, it has its **dangers** – another **outbreak** of avian (bird) flu **could affect negatively** if its meat suppliers have to shut down. **JIT will mean stock shortages** in its meat processing factory and lack of own label products in its supermarkets. This **undermines one of GD's strengths** – its **ability to ensure availability** of all products in **all** of its **supermarkets**;
- **reduce the number of person-operated checkout stations by 50%** in each *GD* supermarket and introduce **self-service checkout stations** in all supermarkets. *GD* will **have an initial cost to purchase self-service tills**. **However**, in the **long run** this will **reduce GD's operating costs** as **less employees will be needed on checkout stations**. There **may be redundancy costs** to be met so in the **short-term profitability might fall** but in the long run it should increase. **However**, this may **affect GD sales** as one of its strengths is **high customer satisfaction scores** for customer service. It is possible that **some customers may dislike self-service** and shop elsewhere, reducing *GD* sales revenue, despite improving profitability;
- **Freeze employee wages** (for 3 years) - this will **help GD control wage costs** and contribute to a return to profitability. **However**, it has downsides as may **negatively impact staff motivation, retention, attendance and recruitment**. *GD* has a reputation for good customer service which may suffer if employees feel the wage freeze is unfair;

- **discontinue matching SF gas prices** - this will allow GD to **charge higher prices**. **Table 5** shows that **price matching SF** in 2024 saw **profit margins** in GD gas stations fall from **7.4** (in 2023) % to **6.1%** (in 2024). SF will now have a price advantage, but GD's **customer loyalty programme may reduce the chances of GD's customers buying gas from SF** as GD customers **would lose "points" from gas purchases**.

*If the candidate discusses only one of GD's plans (with balanced and substantiated arguments) then award a maximum of [4]. If there is no balance, then for a one-sided response then award a maximum of [3].*

*If the candidate discusses two of GD's plans but one of the plans lacks balance, then award a maximum of [5].*

*If the candidate attempts to answer ALL GD's plans but superficially and unsubstantiated, or with no balance award [3-4] depending on degree of substantiation.*

*To be awarded [8] or more the candidate must discuss at least two of GD's plans in depth with detailed use of the stimulus material. Analysis should be integrated and show a consideration of the assumptions underpinning the arguments and implications.*

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

**N.B.** *if there is no reference to actual figures from **Table 5** award a maximum mark of [6].*

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

5. (a) State **two** features of a privately held company. [2]

Features could include:

- shareholders have **limited liability**;
- the business **has a separate legal identity from its owners**
- control and ownership cannot be lost as **shares are only sold to new members if all shareholders agree**;
- it **will continue if one owner dies**, as **shares will be transferred**;
- **not allowed to sell shares in the stock market**;
- **profits are shared by** a larger number of **shareholders** compared to sole traders, partnerships?
- not required to **publicly** disclose financial data;
- they are usually family companies;
- the ownership of the company is concentrated in a few individuals compared to publicly traded companies.

*Accept any other relevant feature.*

**N.B.** *application not required.*

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

- (b) With reference to Charles Handy’s theory as outlined in *Gods of management*, explain **one** advantage **and one** disadvantage for *LG* of being a power-cultured organization. [4]

**Advantages** could include:

- In a power-cultured organization some **costs can be reduced** as most **decision making is done by the leader** or leaders in power. At *LG* there are **no middle managers**, *LG* can make substantial saving on salaries and wages;
- **Decision making is fast** and the organization can respond quickly to problematic situations. Luis rapidly responded to the social media incident by **deleting negative comments within minutes**.
- Adhere more closely to the mission and vision statement established by the Pérez family.

**Disadvantages** could include:

- Employees can find **difficult working with leaders with strong personalities, such as Paco** (a charismatic leader), who make all decisions together with Hugo and Luis (can refer to collectively as “the brothers” for application). Normally, skilled or creative employees prefer some autonomy and decision-making authority. Labour **turnover at LG is high among skilled employees** is no coincidence;
- The quality of **decisions depend** as well **on the infallibility of the leader**. Luis’ decision was fast but not assertive to respond to the social media crisis. Quite the contrary, **deleting comments on LG’s social media pages increased negativity and consumer criticism**.
- Without the existence of middle management, *LG* will not have the generation of new ideas and limited innovation.

*Accept any other advantage or disadvantage.*

**Mark as 2+2.**

*Award [1] for a relevant explanation of advantage/disadvantage, with an additional [1] for application to *LG*. Award up to a maximum of [2].*

(c) With reference to **Figure 1**, comment on *LG*'s organizational structure. **[2]**

- *LG* has a **flat organizational structure** with only **two layers** or levels of hierarchy suggesting a wide span of control;
- *LG* is **organized by functional departments**: production, finance, marketing, IT and HR;
- **Decision making is centralized** in three **senior directors (Hugo, Paco and Luis Perez)**;
- *LG* **does not have one overall person in charge**.

*Accept any other relevant comment.*

*Award [1] for a relevant comment and an additional [1] for application to LG.*

**N.B.** *each of the first three bullet points has an in-built application (here the names of the directors does count as application).*

(d) Explain **one** disadvantage for *LG* of Hugo using verbal (oral) communication with employees. **[2]**

Oral or verbal communication makes reference to communication that is done through spoken words.

**Disadvantages** could include:

- There is **no written record** that could be used as a backup for later references. Hugo **told the workers to wear work equipment (which was mandatory at LG) but there is no “proof” of that conversation**;
- Oral communication could lead to **misunderstanding**, may be workers understood that by **work equipment meant other pieces** such as boots and overalls and that disposable masks were not part of it. Even the **Trade Union** believed this.

*Accept any other relevant disadvantage.*

*Award [1] for a relevant disadvantage and an additional [1] for application to LG.*

- (e) Using information from the stimulus, **Table 6**, and **Table 7**, discuss the advantages and disadvantages for *LG* of marketing its yerba mate to international markets. **[10]**

**Advantages** could include:

- *LG* could **increase its customer base and profits**. If *LG* decides to export yerba mate to country X or Y (or both) it will have estimated sales of 59.5 million kilos per year. Which in turn will lead to higher profitability;
- Exporting overseas will lead to **economies of scale**. As shown in **Table 7**, if *LG* exports to countries X and Y, potential sales will reach 59.5 million kilos a year, at which variable cost per kilogram will fall from \$5 to \$4.5, or 10%;
- **Spread risks** as it seems highly unlikely for *LG* to grow in a **negative economic environment and political instability**;
- **Cultural barriers seem to be low in country X** (both uses Spanish language) and **consumer habits** seem to be **similar** to *LG*'s country base. *LG* will be able to **market its product easily in country X**, using the same language, with cultural similarities. Mate is also the most popular drink in country X.

**Disadvantages** could include:

- *LG* does **not have an organizational structure** that could accompany *LG*'s market growth in international markets. **Decision making is concentrated in only three people**, and there are no middle managers. *LG* **should** consider **recruiting skilled employees** to backup this decision;
- **Economies of scale will only be reached if *LG* exports to both countries**. If *LG* only sells to country X or country Y, the unit variable cost will remain the same;
- **Administrative regulations** in both countries such as taxes on imported agricultural goods and import regulations could be a barrier to *LG*'s exporting plans.

*Accept any other relevant advantage/disadvantage.*

*If the candidate discusses only one advantage or only one disadvantage) then award a maximum of [3]. If there are two advantages and only one disadvantage or vice versa, then award a maximum of [5].*

*To be awarded [8] or more the candidate must discuss at least two advantages and two disadvantages in depth with detailed use of the stimulus material (with balanced and substantiated arguments). Analysis should be integrated and show a consideration of the assumptions underpinning the arguments and implications.*

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

**N.B.** *if there is no reference to actual figures from either **Table 6**, **Table 7** results award a maximum of [6].*

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

---