

Markscheme

May 2025

Business management

Standard 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) State **two** features of an overdraft.

[2]

Features of an overdraft include:

- An **unsecured loan**;
- Will have a **set limit**;
- **Interest** is **payable** / high rate of interest charged;
- Interest only payable **on the amount used**;
- Can be **recalled** at (very) short notice/**immediately**;
- Is flexible / Is **revolving** (loan balance can go up and down during the term);
- External form of finance;
- Short term form of finance.

Accept any other relevant feature.

N.B. no description or application to the stimulus is required.

Do NOT accept:

- Can withdraw more money than is in your current account (description not a feature);
- Put you in debt;
- Is a current liability;
- Must be paid back.

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

(b) Using information in **Table 1**, prepare a cash-flow forecast for *MSC* for June–September 2025.

[6]

All figures in \$	June	July	August	September
Opening balance	5000	8200	12700	15700
Cash inflows				
Cash sales revenue	50000	51000	48000	46000
Total cash inflows	50000	51000	48000	46000
Cash outflows				
Rent	10000	10000	10000	10000
Salary	8000	8000	8000	8000
Electricity	800			800
Advertising	3000	3000	3000	3000
Purchases	25000	25500	24000	23000
Total cash outflows	46800	46500	45000	44800
Net cash flow	3200	4500	3000	1200
Closing balance	8200	12700	15700	16900

Accept slightly different headings / format.

If no other errors this answer is awarded **[5]**.

N.B. Allow candidate own figure rule (OFR): if a candidate makes an error in one row and carries it through the remainder of the forecast that is only one error. This provision includes both mathematical errors and conceptual errors (for example, if a candidate has the electricity payment in the incorrect month, then candidates should only lose **[1]** for that error.

Award [1] if the candidate conveys some understanding of what a cash flow forecast is, but otherwise the forecast is largely inaccurate, or incomplete

Award [2–3] if a cash flow forecast is drawn, but either it is not in a generally accepted format or it is untidy, and/or the forecast contains three or more errors (**errors can be mathematical or formatting errors**.) See additional guidance below for how errors are penalized.

Award [4–5] if the cash flow forecast is drawn essentially correctly and neatly in a generally accepted format, but there is one error for **[5]** or two errors for **[4]** (**errors can be mathematical or formatting errors**.) See additional guidance below for how errors are penalized.

Award [6] if the cash flow forecast is drawn accurately and neatly in a generally accepted format and is error free.

- (c) Since making the forecast in **Table 1**, Migrieve has learned that interest rates are forecasted to rise in July 2025.

Comment on **one** possible impact on MSC's cash flow if interest rates rise, as forecasted, in July 2025. **[2]**

Award [1] for stating that the business cash flow will worsen and **[1]** for application to the case study, up to a maximum of **[2]**.

For **[2]** candidates must correctly use the terms cash flow / cash outflows / cash inflows AND use the stimulus.

Eg

- **Cash flow will worsen / cash outflows** will increase **[1]** because the increase in interest rates raises the cost of the **business' overdraft [1]**
- **Cash flow will worsen / cash inflows** will decrease **[1]** because the rise in interest rates will cause car sales to fall **as the majority of MSC's customers use bank loans to finance the purchase of cars [1]**.

Award a maximum of **[1]** for answers that do not mention cash flow at all. For example:

- sales revenue will fall as less cars will be sold as the majority of MSC's customers use bank loans to finance the purchase of cars **[1]**
- costs will rise as the interest on the overdraft will increase **[1]**

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

Customers:

- **repeat** purchase the brands that they are loyal to;
- often promote the brands they are loyal to by word of mouth;
- often feel a sense of community with others who are loyal to the brand;
- will be prepared to pay more / pay higher prices / less sensitive to price increases;
- will buy / try other products made by the business / try new products released by the business;
- have an emotional connection to a product or service / develop a relationship with the brand.

The business:

- will have reduced need for marketing / lower marketing costs.

Do NOT accept:

- a loyal customer base;
- stable source of income;
- customers trust the brand;
- will prefer / favour your brand over competitor products;
- consistent sales / consistent / loyal customer base.

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

N.B. Responses do not have to be worded exactly as above, and examiners should be aware that candidates may talk about customer action and feelings, as written above or they may frame their response from a business' perspective. Remember: "Customers repeat purchases of the brands that they are loyal to" is really the same thing as "the business gets repeat sales to past customers."

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

- (i) calculate the forecasted payback period for the cost of bringing Yoghurt B to market, **X** (show all your working); **[2]**

Payback Cost is \$7 million.

Revenue forecast is \$5m in Year 1 and \$4m in Year 2

Therefore payback is halfway through Year 2

Payback is 1 year and 6 months, accept 18 months or 1.5 years

Award [1] for working and [1] for the correct answer with units (years and months).

- (ii) calculate the forecasted average rate of return (ARR) for Yoghurt A, Y (show all your working); [2]

$$\text{ARR} = \left[\frac{\text{total returns} - \text{capital cost}}{\text{years of use}} \right] / \text{capital cost} \times 100 =$$

$$\text{Total returns (in millions)} = \$1 + \$2 + \$4 + \$6 = \$13$$

$$\text{ARR} = (\$13 - \$5) / 4$$

$$\text{Average profit} = \$8/4 = \$2 \text{ million per year.}$$

$$\text{ARR is } \$2\text{m}/\$5\text{m} = 0.4 \text{ or } 40\%$$

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

N.B. Award [1] for an answer of 0.4 only.
N.B. Do not accept alternative formulae.

- (iii) calculate the mean value of Yoghurt A's forecasted returns once on market (years 1–4) (show all your working). [2]

$$1+2+4+6 = 13$$

$$13/4 = \$3.25 \text{ millions}$$

N.B. Accept dollars" instead of \$ sign.

Award [1] for correct answer and an additional [1] for correct working. Candidates must have a \$ symbol somewhere in their answer/workings.

- (c) Explain **one** reason why FY should carry out market research into Yoghurt B. [2]

FY do not carry out research and have **relied on brand loyalty**. The **forecast returns for B are confusing** as they start high and then forecast to fall each year despite having the **shorter payback**.

Reasons why **FY** should carry out market research into Yoghurt B.

- to gather valuable information about their target market or the industry;
- to help stay competitive;
- to make informed decisions;
- to improve product B;
- to find out why B's forecasted returns fall in years 2 and 3;
- to find out why it has a much lower ARR than product A.

N.B. Do not award "FY need to know who they are competing against" (as they will already know this).

Application:

The market is also constantly changing.
Competitors regularly introduce new products.
Use of data relating to ARR.
Product B has a higher initial cost.

Award [1] for explaining a reason why FY should carry out market research into Yoghurt B.
Award [1] for application from stimulus.

Section B

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

Offshoring occurs when an organization **sets** up some of its **operations** or services **in a foreign country**. This can involve various functions, including customer support, manufacturing, software development, and back-office task.

Some key features (some of which may be benefits or drawbacks) of offshoring may include:

- cost savings
- access to skilled labour / specialized skills
- access to raw materials
- time zone and language issues
- scalability.
- sets up some of its operations or services in a foreign country
- increased transport costs / longer delivery times
- creates jobs for people in other countries

Do not award:

- *different cultures*
- *different laws and regulations*
- *products are manufactured by another business (outsourcing) – would need to say abroad to get a mark*

Accept any other relevant feature.

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

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

- (b) Using **Figure 1** and **Figure 2**:

- (i) calculate the percentage of shares owned by Alexa and Antonio **combined** in 2023 (*no working required*); **[1]**

$$\text{Total shares} = 500 + 250 + 850 + 400 = 2000$$

$$\text{Percentage of shares owned by Alexa and Antonio Perez combined in 2023} = \frac{850 + 250}{2000} \times 100 = \mathbf{55\%}$$

Award [1] for the correct answer.

- (ii) comment on the implication of the changes to share ownership in AA between 2023 and 2024; **[2]**

The pie charts show that **control of AA changed between 2023 and 2024**. In **2023, Alexa and Antonio** had the **largest shareholding** and controlled the company. However, in **2024**, Mr. Rogelio **Jimenez owned 50%** of the **shares**. Though he did **not** have **majority** control, he became the **dominant shareholder**.

*Award **[1]** if the candidate states that Rogelio **Jimenez is now the dominant shareholder OR** that the Perez's (Alexa and Antonio) no longer have overall control / have less power.*

*Award an additional **[1]** if the candidate provides some reasonable interpretation, using some figures such as the Perez's % decreased from 55% to 37% or that Rogelio now has the largest % of shares in the business / owns 50% of the shares.*

***N.B.** If a candidate describes the changes in share ownership without reference to control / power then award **[0]**.*

- (iii) Explain how many more shares Rogelio would need to have majority control of AA in 2024. **[1]**

Rogelio would need one more share

***N.B.** no explanation required.*

Do not award an extra 1% as this is inaccurate as this would imply needing three extra shares.

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

(c) Using **Table 3**:

- (i) calculate the break-even quantity for AA in 2024 (*show all your working*); **[2]**

$$\begin{aligned} \text{BEQ} &= \text{fixed cost} / \text{contribution per unit} \\ \text{BEQ} &= \$6000 / (\$325 - \$85) \\ \text{BEQ} &= \$6000 / \$240 \\ \mathbf{\text{BEQ} &= 25 \text{ dresses}} \end{aligned}$$

Award [1] for correct working and an additional mark for the correct answer up to a maximum of [2]. A correct answer must include the word dresses/units.

- (ii) calculate the profit or loss for AA in 2024 if 150 dresses were sold (*show all your working*). **[2]**

$$\text{TR} = 150 \times \$325 = \$48750$$

$$\text{Total costs} = \text{TFC} + \text{TVC}$$

$$= \$6000 + 150 \times \$85 = \$18750$$

$$\begin{aligned} \text{Profit} &= \text{TR} - \text{TC} \\ &= \$48750 - \$18750 = \$30000 \end{aligned}$$

Award [1] for correct working and an additional mark for correct answer up to a maximum of [2]. The correct answer must have a \$ sign.

- (d) Using the information in the stimulus, evaluate Rogelio’s idea to switch from job production to batch production. **[10]**

Strengths of batch production:

- Compared to job production hand-tailoring techniques, pre-cutting sizes from a range of extra-small through extra-large **would reduce manufacturing time to 2 days per finished dress (instead of 10 days)**. The dresses would now be **ready to sell online**, or **immediately** at designer markets;
- With the **change in fixed and variable costs**, the **profit** for 2026 would be \$182,700 versus \$144,000 (**27% increase from 2025**, using job production), if the 660 dresses (10% more) forecasted are sold.
- Offers scalability - Rogelio would like to grow AA beyond Arizona by selling online which would increase AA’s sales.

Limitations of batch production:

- AA will now **require storage and workspace**. Currently, Alexa is not worried about this. However, since batch production involves producing quantities according to the sizes and models. AA needs to be **careful to avoid overstocking or understocking**;
- AA’s **current designs cater to a niche market** of women who are willing to **pay premium prices**. **Will AA’s demand continue to grow** at the expected 10% **if some of the unique qualities that set them apart from batch-produced items**, such as unique designs, ensuring perfect fit and shape for the wearer, are lost? Can AA afford to continue charging premium prices of \$340 per dress?;
- AA **loses unique selling point and artisanal value**, since it would reduce the support in local Mexican communities created by the job-produced dresses;
- **Artisans may resent the loss in autonomy**

Strengths of job production

- Job production in **handcrafting clothes** allows for the highest level of craftsmanship and attention to detail. AA currently **custom-makes** each dress to **fit specific** measurements and preferences of the **customer**, hand-cut, hand-sewn and hand-embroidered dresses;
- AA's handcrafted dresses **are unique and exclusive**, with artisanal value that allows for **premium pricing**. AA's designs are tailored for women in a niche market willing to pay such prices;
- AA's **success is partly because of the jobs created for women in local Mexican communities**. AA's customers value and support job-produced dresses. Alexa will need to increase the number of artisans. According to the stimulus, candidates can estimate that for **150 dresses in 2024**, approximately **seven people were required** to meet demand. With sales forecast of **600 dresses in 2025**, the number of people **required** to make the dresses would **increase to 25**. By **2030**, and following a 10% increase in sales per year, that number would increase to **40**.

Limitations of job production

- The **time, the skill, and labour involved** when handmaking dresses through job production results in **higher costs**, as noted by Rogelio (through batch production variable costs can be reduced from \$90 to \$45). The **profit in 2025 will be \$144 000 versus \$182 700** if it changes to batch production;
- Handmaking dresses through job production **takes more time**. Currently, it can take up to **ten days** to make a dress **versus two days** with batch production;
- The number of **customers** who value and are **willing to pay for these artisanal dresses is very small**. This definitely limits the potential market reach.

Accept any other relevant evaluation.

Marks should be allocated according to markbands on page 3.

4. (a) Define the term *target market*. [2]

A **target market** is:

- a specific **group** of **potential customers**
- the **customer profiles**
- **the intended buyers**
- **the specific section of the market**

a **business aims to reach** with its products or services.

This group may **share common characteristics** such as age, gender, income level, education, interests, or geographic location that make them **more likely to be interested in and purchase** from a business.

For [2] there needs to be reference to **both** potential customers and to some characteristics.

Do not award a second mark for using an example from the stimulus eg people who want gluten-free cakes.

Do not award “a market a business targets” as this is just rearranging the words from the question.

Do not award “the market it wants to sell to”.

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

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

Award [1] for a basic definition that conveys partial knowledge and understanding,

Award [2] for a full, clear definition that conveys knowledge and understanding similar to the answer above.

- (b) Using **Table 4**, determine the mode value of *HSM*'s production of cakes (no working required). [1]

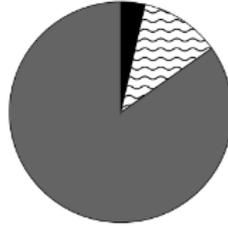
The **mode value** is the value that appears most often in a set of data. In this case the mode value **is 1.6** (millions) as it occurs three times.

N.B. No working required. No \$ sign required.

Award [1] for a correct answer. Candidates are not expected to word their description exactly as above.

(c) Using **Figure 3** and **Figure 4**, comment on the change in *HSM's* sales revenue from 2023 to 2024. **[2]**

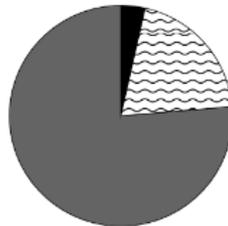
Figure 3: *HSM's* sales revenue from bread, cakes, and cookies for 2023 (in \$ millions)



Key:

Cookies
 Cakes
 Bread

Figure 4: *HSM's* sales revenue from bread, cakes, and cookies for 2024 (in \$ millions)



Key:

Cookies
 Cakes
 Bread

- The sales / sales revenue (or percentage/proportion) of bread has fallen;
- The sales / sales revenue (or percentage/proportion) of cakes has increased;
- The sales / sales revenue (percentage/proportion) of cookies remain roughly the same.

Award [1] for each comment on a change in one of HSM's products, up to a maximum of [2].

N.B. Do not award comments that seek to explain a reason for the change.

(d) Using **Table 5**:

(i) calculate *HSM's* gross profit margin for 2024 (*show all your working*); **[2]**

Gross profit = sales revenue – cost of sales
 = \$625 – \$340 = \$285 **[1]**

Gross profit margin = gross profit/sales revenue x 100
 = (\$285 / \$625) X 100 = **45.6%** **[1]**

Accept 46% due to rounding up.
Award **[0]** for an answer of 45%

Award [1] for correct answer including a % sign and an additional [1] for correct working.

Award marks as indicated above.

- (ii) calculate *HSM's* current ratio for 2024 (*show all your working*); [2]

Current assets = (cash + debtors + stock)

Current ratio = current assets / current liabilities

Current ratio = $(\$12 + \$4 + \$16) / \$8 = 4$ or **4:1** [2]

N.B. 1:4 is an incorrect answer.

Award [2] if the candidate has the correct answer and shows working.

Award [1] if the candidate makes a mathematical error in calculating the ratio but has the correct figures $(\$12 + \$4 + \$16) / \8 OR if the candidate has the correct answer but does not show working.

If the candidate puts a percentage sign after the ratio, the answer is incorrect (the candidate may have calculated the ratio correctly and, thus, would get [1] for correct working, but they would not get [1] for a correct answer.

Award no marks for writing the formula.

- (iii) calculate *HSM's* return on capital employed (ROCE) for 2024 (*no working required*). [1]

Return on capital employed (ROCE) = profit before interest and tax

capital employed $\times 100$

where *capital employed* = non-current liabilities + equity

ROCE = 20%

Award [1] for a correct answer – no working required.

Award [1] for an answer of 0.2.

- (e) With reference to the stimulus and Herzberg's motivation–hygiene theory, discuss whether *HSM* should implement **Option 1** or **Option 2**. **[10]**

Davina's plan (Option 1) includes:

- a wage increase for all factory employees
- replacement of the heating and air conditioning systems in the factory
- a weekly 2 % performance-related pay (bonus) for attendance for all factory employees.

Davina's plan will only **deal with one of the issues raised by employees, the extreme temperatures**. Whilst the replacement of the heating and air conditioning systems **is a positive move**, it will **resolve an issue that is causing demotivation** amongst factory employees as **Herzberg** sees **working conditions as a hygiene factor** – if such **factors** are **not met** then **employees are demotivated** but **meeting these does not motivate employees**.

A **pay increase** for factory employees is also **unlikely to have much impact** as HSM employees **are already paid above the industry average** and **Herzberg** again **believes** that **wages/salaries are a hygiene factor rather than a motivator**. However, the pay increase **might help attract applicants** for the 12 **unfilled vacancies**.

The idea of a **weekly attendance bonus** has some merit in that HSM is **facing a growing** problem with **absenteeism**, which has **increased in the last 18 months**. However, set at **2%** it may be **too low** to have any impact. Again, **Herzberg believes** that this is a **hygiene factor** and will **not motivate** employees.

Lesli's plan (Option 2) is to:

- increase internal promotion opportunities for all factory employees
- introduce an Employee of the Month award
- have monthly meetings between the factory manager and employees to discuss problems.

Lesli's plan has **more merit** in terms of **motivating** employees **according to Herzberg**.

Promotion opportunities are seen by Herzberg as **motivators**. Her suggestion to have an **employee of the month** would also be seen as **motivators** in Herzberg's two factor theory. The proposal for **monthly meetings** looks good on paper as it may **enable employees to raise issues**. However, unless **Davina changes their leadership style** then these **meetings** are **unlikely to be productive** and may well become a source of demotivation. **Lesli's plan fails**, though, to deal with an important potential demotivation issue - the **need for new heating and air conditioning systems**.

Overall, Lesli's plan is more likely to motivate employees, and **Davina's** is more likely to **solve some** of the **problems** that lead to demotivation. **Lesli's plan** would be **stronger if it included the idea of a new heating / air conditioning system**.

Additional data that would have been useful:

- % of faulty cakes (some customers have complained about the quality of some batches of cakes)
- what level of pay increase is being proposed by Davina
- how many employees actually left HSM last year

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

*If a candidate shows an accurate understanding of just one factor (eg hygiene factors) from the two factor theory award a maximum of **[5]**.*

*If a candidate shows an understanding of both factors, but makes errors (eg classifies pay rises as a motivating factor, or the employee of the month award as a hygiene factor) then award a maximum of **[5]**.*

Vague references to hygiene on their own cannot be credited.

Do not credit references to other theorists eg Taylor, Maslow.
