8825 – 5016M

Diploma Programme
Programme du diplôme
Programa del Diploma

Markscheme

November 2025

Business management

Higher / Standard level

Paper 1

10 pages

International Baccalaureate®
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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	• 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	• 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	• 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	• 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	• 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. State **two** features of loan capital.* ***[2]***

Features include:
- Fixed repayment schedule.
- Interest is charged on the loan amount, increasing the cost of borrowing. Accept high interest.
- Loan capital does not dilute ownership.
- Loans may be flexible in terms of the repayment schedule. *ie*: Loans can be short or long term.
- It is a source of finance.

Accept any other feature of loan capital.

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

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

2. Define the term *laissez-faire leadership style*. ***[2]***

Laissez-faire leadership style is a management style in which leaders provide minimal supervision and direction. This allows employees to take full responsibility for their work and make decisions independently.

*Award **[1]** for some understanding of laissez-faire leadership style such as employees are given freedom/Autonomy to make decisions. Award an additional **[1]** if the candidate conveys some understanding that there is no (accept little) supervision. Ie a leader "let's go" or "allows employees to". Up to a maximum of **[2]**.*

***N.B.** No application is required. Do not credit examples on their own.*

3. Describe **two** non-financial rewards that *WW* offers its employees. . ***[4]***

Non-financial rewards are benefits or incentives provided to employees that do not involve direct monetary payment.

Examples from the stimulus include:
- Job enrichment – Nkita delegated important tasks to the management team. This extra degree of challenge and responsibility will help motivate the management team. Each manager decides on weekly targets and has a wide span of control of employees, who work in teams.
- Job rotation – Nkita encourages the management team to rotate tasks, which involves workers switching between jobs for a period of time. They have a variety of activities. This could help factory employees avoid boredom from always doing the same tasks to make the Telec.
- Teamwork – The managers at *WW* have a wide span of control, which implies that workers will be working in teams to complete tasks. *Laissez-faire* leadership style would also encourage workers to be in teams, which can help with the social element of Maslow's hierarchy of needs.
- Empowerment could also be mentioned with the same reasons as job enrichment.

Accept any other relevant non-financial reward.

*Mark as **[2+2]**.*

*Award **[1]** for identification of a non-financial reward that WW offers and an additional **[1]** for a description with application to WW, up to a maximum of **[2]**.*

***N.B**. Do not award any marks if a candidate states or describes a non-financial reward not mentioned in the case study.*

4. Explain **one** reason why Nkita would want to grow *WW* (lines 23–24). ***[2]***

There are many reasons why Nkita would want *WW* to grow, these could include:

- Access to more sources of finance – *WW* found it difficult to find a loan at a competitive rate, being a larger business can help.
- Economies of scale – if *WW* is making more Telec tiles then its cost per unit should decrease. This could be due to being able to afford better machinery, hiring more efficient managers or paying lower interest rates for loans. To be able to reduce prices and be more competitive.
- Brand awareness/publicity/target a wider market/new market segments – the larger *WW* becomes, the more businesses will become aware of it. *WW* could become more known throughout the world and not just in Country Y. There are now other companies selling similar tiles.

*Award **[1]** for a reason explained and an additional **[1]** for a development with application to WW. Award a maximum of **[2]**.*

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

5. Explain **two** barriers to communication between *WW* and *DVC* that caused their relationship to deteriorate (line 39). ***[4]***

Barriers to communication refer to obstacles that can hinder the effective exchange of information within a business. Some examples of barriers to communication between *WW* and *DVC* are:

- Language barriers – The Operations Manager and her business contact at *DVC* do not have a common language they both speak well. This problem is worsened when discussing technical specifications.
- Cultural barriers (**HL only**) – Country Y and Country K could have different cultures, and this could lead to misunderstandings.
- Physical barriers – The significant time difference/ geographical location between the two companies (time zones) make it difficult/struggle to arrange times to discuss the Telec tile. This could be a source of frustration for both parties and lead to delays in solving problems. Njeri struggled to arrange a time to call the operations manager at DVC due to significant differences in time zones.

*Mark as **[2+2]**.*

*Award **[1]** for each barrier of communication explained and an additional **[1]** for a development with application to WW and DVC. Award a maximum of **[2]**.*

***[2]** cannot be awarded if the response lacks application to WW **and** DVC.*

6. Explain **two** ways in which *WW* could modify its marketing mix. ***[6]***

Price – *WW* currently uses a premium pricing strategy for the Telec, however, they have lost orders due to this. Recently, WW failed to win two contracts for large shopping malls. Premium pricing may have been suitable for *WW* as the Telec was groundbreaking, however, this was five years ago so the strategy may not be suitable anymore. For the explanation, a clear pricing strategy change needs to be included. I.e.: *WW* could change to a different pricing strategy, such as cost-plus pricing. This method would ensure a profit could made on every tile and could be adapted for different situations.

WW could change to competitive pricing as competition in the market for electricity-producing tiles is increasing, and other companies can now provide similar tiles at a lower price than WW.

Promotion – *WW* currently uses below-the-line promotion to reach customers in Europe and the Middle East. *WW* could switch to through-the-line promotion, which could help *WW* to raise awareness of its business. This could improve brand awareness more than exhibitions and trade fairs, as these are targeted towards specific industries. WW could add social media promotion.

Product – *WW* have lost orders due to only selling one size of tile. *WW* could try to increase its product portfolio to include various different sizes of the Telec tile.

Place- WW is considering refocusing promotional activities in the Middle East. This could potentially allow for a new distribution channel.

Accept any other relevant explanation and application to WW.

*Mark as **[3+3]**.*

*Award **[1]** for naming an element of the marketing mix.*

*Award **[1]** for explaining the way in which WW can modify its marketing mix.*

*Award **[1]** for application to WW.*

Section B

7. Recommend whether *WW* should continue outsourcing to *DVC* or reshore production to Country Y. ***[10]***

Continue Outsourcing to DVC

Arguments in Favor

- Lower Initial Costs: Outsourcing continues to avoid the $9 million capital investment required to build a new factory. This allows WW to preserve cash and avoid taking on more high-interest debt.
- Production Capacity and Experience: DVC already has the technical expertise and infrastructure to produce the tiles at scale. Maintaining the partnership helps avoid the delays and risks associated with recruiting and training new skilled workers in Country Y.
- Flexibility and Risk Reduction: Outsourcing maintains WW's operational flexibility. Production can be scaled up or down based on demand. It also limits WW's fixed costs, since DVC bears the burden of equipment maintenance and staffing.

Arguments Against

- Quality Control Issues: WW has experienced quality problems with DVC's tiles, damaging the brand reputation and customer satisfaction. Communication barriers and time zone differences worsen these issues.
- Dependence on a Foreign Supplier: Relying on DVC exposes WW to supply chain risks, currency fluctuations, and potential political or logistical disruptions in Country K.
- Limited Innovation and Control: Outsourcing limits WW's ability to innovate and refine production processes internally. As competition increases, maintaining control over manufacturing may be critical to improving quality and efficiency.

Reshore Production to Country Y

Arguments in Favor

- Improved Quality and Oversight: With production in-house, Njeri and WW can directly supervise quality, ensuring tiles meet standards and brand expectations. Better communication and faster feedback would likely lead to continuous improvement.
- Cost Efficiency and Profit Margins: The estimated production cost per tile would decrease from $350 (DVC) to $300 (reshored), thereby increasing profit margins and long-term competitiveness.
- Government Incentives and Local Development: Country Y's government is offering incentives for factory construction, reducing net costs. Reshoring also supports local employment and enhances WW's sustainability image. This is valuable for branding and awards.

Arguments Against

- High Initial Capital Investment: Building a new factory costs $9 million, a significant financial strain on a small company with limited reserves and existing debt. It could threaten liquidity if demand fluctuates.

- Skill Shortages and Training Needs: Country Y lacks local manufacturing expertise for such advanced tiles. WW would need to recruit and train a new workforce, causing delays and raising start-up costs.

- Operational Risks and Time Delays: Setting up a new factory takes time and may disrupt current operations or delay deliveries. During setup, WW risks losing additional contracts to competitors with faster turnaround times.

Information lacking from the stimulus – Will *WW* have access to a source of finance to pay the $9 million cost of the factory up-front? How are *WW*'s current finances in terms of available funds? How big are the incentives being offered by Country Y's government?

Accept any relevant recommendation.

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

*If the candidate makes no reference to the stimulus provided, then the maximum mark to be awarded is **[4]** even if there is some balance.*

*Award a maximum of **[8]** if the answer is of a standard that shows balanced analysis and understanding throughout the response with reference to the stimulus material.*

***N.B.** candidates cannot reach the top marks if there is no relevant reference/application to the stimulus and an explanation/awareness of the limitations of the stimulus material.*

8. Discuss whether *WW* should accept the offer of a strategic alliance from *Ecobeats* or from *EI*. ***[10]***

The offer from *EcoBeats* would be considered market development in the Ansoff matrix. *WW* is not altering the product but is attempting to sell in a different market segment. This has a moderate risk but a high potential for expansion.

Advantages of the *EcoBeats* offer:

- Increased visibility – The growing nightclub chain could help *WW* increase brand awareness, especially in the environmentally conscious market segment.
- Product testing – *WW* would be able to gain insights into the performance of the Telec. This could help *WW* to improve the tile.
- Increased marketing – *WW* could potentially reduce its marketing expenses, as *EcoBeats* will promote it on their social media.

Disadvantages of the *EcoBeats* offer:

- Lower price received – *EcoBeats* will get a 25% discount on the sale price. This means the profit margin will be lower for *WW*. It could also affect the premium price *WW* utilizes, as other companies may also ask for a discount.
- Marketing risk – *EcoBeats* is known for having controversial media campaigns. These promotional activities could be risky for *WW*'s brand reputation.
- Has a moderate risk but is a lower risk than other strategies, such as diversification (the proposal from *EI*).

The offer from *EI* would be considered diversification in the Ansoff matrix. *WW* would enter an entirely new industry (video gaming) with an updated product. This is the riskiest strategy in the Ansoff matrix.

Advantages of *EI*'s offer:

- Market potential – The video game industry is worth $500 billion, which represents huge market potential for *WW* if the partnership is successful.
- Innovation – *WW*'s skilled engineers would be able to collaborate with *EI*'s employees. This could lead to technological improvements, and potentially more innovative products.
- New revenue streams – As competition in the tile market is increasing, *WW* could open up new revenue streams in the gaming industry.

Disadvantages of *EI*'s offer:

- High investment cost – *WW* will need a $3 million capital investment. This poses a significant financial risk to *WW*, especially if the venture fails to generate the expected profits.
- Diversification risk – Moving into a completely different industry might mean that *WW* loses focus on its core industry. Will this proposal mean *WW*'s resources and focus are lost from the Telec tile?
- Technology issues – Will the technology from the Telec tile actually work in the gaming industry? This is untested, and if it does not work as well as hoped then there is the risk of a significant loss to *WW*.

Information lacking from the stimulus

The stimulus does not say:
- how many nightclubs *EcoBeats* owns
- how successful its social marketing has been.

With regard to *EI*:

- Are they a successful video game developer?
- Has *EI* made games which have been commercially successful?
- The case study also does not say what the potential terms of the strategic alliance would be.

Conclusion could be that either offer would be most suitable for *WW*. *EcoBeats* is the safer option, however *EI*'s offer has the potential to make *WW* significant profits and entry to the lucrative video gaming industry.

For highest marks, candidate need to conclude, and justify, which offer is the most suitable, but either offer can be chosen and discuss limitations of the information provided in the case study.

Accept any relevant discussion.

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*Award a maximum of **[8]** if the answer is of a standard that shows balanced analysis and understanding throughout the response with reference to the stimulus material.*

***N.B.** candidates cannot reach the top marks if there is no relevant reference/application to the stimulus and an explanation/awareness of the limitations of the stimulus material.*