

Markscheme

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

- Most are unincorporated businesses.
- The business is co-owned by two **or more** partners.
- At least one of the owners has unlimited liability. (Accept unlimited liability)
- In **many countries** the number of partners is capped at 20.
- Partners share the responsibilities of managing the business.
- Financial documents are private.
- They are easy to form and dissolve.
- Operating rules often covered by Partnership deed
- Partners may have different skills enabling specialisation
- Profits, losses and risks are shared
- Major decisions are shared between partners

Accept any other relevant feature.

N.B do not accept

- Made up of two partners
- Profits are shared equally
- Statements that cap ALL partnerships at 20 individuals

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

N.B legal separation and unlimited liability are essentially the same thing so can accept either but NOT BOTH

(b) Using information from **Table 1**, construct a budget for IG for the period ending December 2025. [4]

Budget for IG for the period ended December 2025.

<i>All figures in \$</i>	Budgeted figures	Actual figures	Variance
Revenue			
Sales revenue	1700	1950	250 [F]
Total revenue	1700	1950	250 [F]
Costs			
Salaries and wages	650	800	150 [A]
Advertising	200	150	50 [F]
Electricity	95	105	10 [A]
Rent	200	200	0
Raw materials	250	400	150 [A]
Total costs	1395	1655	260 [A]
Excess of revenue over (under) costs	305	295	10 [A]

Award [1] for some idea of what a budget is.

Award a maximum of [2] if [A] or [F] are not indicated. If a budget is drawn, but either it is not in a generally accepted format or it is untidy, and/or the budget contains two or more errors, which could

include, in addition to number placement problems and mathematical errors, conceptual errors (using the term “net profit”) or omissions, such as not having a line like “Excess of revenue over (under) costs”. Award [3] if the budget is drawn essentially correctly and neatly in a generally accepted format, but there is one error.

Award [4] if the budget is drawn accurately and neatly in a generally accepted format and is error free. If the candidate provides a table with column headings of budget figures, actual figures and variances.

Allow if candidate uses headings such as income, expenses, net income – treat as one error if any or all headings missing.

N.B many responses likely only to reproduce question data. Only reward [1] if variances without labels presented OR labels without variances. Award [2] if correct A/F labels are also presented but exclude EROC

- (c) Calculate the average rate of return (ARR) from IG purchasing a fishing boat (*show all your working*). [2]

$$\text{Average rate of return (ARR)} = \frac{(\text{total returns} - \text{capital cost}) \div \text{years of use}}{\text{capital cost}} \times 100$$

Total increase in profit each year = \$2000 + \$4000 = \$6000

Total increase in profit = \$6000 × 5 years = \$30000

$$(30000 - 25000) / 5 = 1000 / 25000 \times 100 = 4\%$$

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

Award [1] mark for the correct Total increase in Profit i.e. 30,000.

N.B OFR cannot apply

- (d) Explain **one** advantage for IG of operating the restaurant and external events as profit centres. [2]

A profit centre is a division of a business that generates both revenue and costs in the department. Each profit centre has responsibility for the profit made.

Relevant advantages could include:

- Monitoring and control – Able to accurately allocate costs and revenue, such as marketing. For example, the marketing costs can be accurately applied as 80% to the restaurant and 20% to the external events. This enables IG to make better decisions, such as whether the fishing boat should be purchased.
- Motivating – Each partner competes to achieve the highest monthly profit. For example, Naree will want to make the restaurant the best performing area of the business, likewise Mali with the external events.
- Autonomy – Each manager will be able to make the best decisions for their area of the business. For example, Naree might find the advertising budget is too low compared to the revenue.
- Accountability – For example, IG will be able to see if the overbudget of salaries and wages has come from the restaurant or the external events. This makes it easier to solve any potential problem.
- Benchmarking – easier to make comparisons to similar restaurant or external events firms rather than a combined entity which may be rare.
- Faster decision making – the speed of industry changes may be vastly different allowing Naree to make decisions affecting the restaurant that do not affect external events.

Accept any other relevant advantage.

Award [1] for an advantage and [1] for application to IG up to a maximum of [2].

2. (a) State **two** disadvantages of operating as a sole trader. **[2]**

Disadvantages of operating as a sole trader include:

- lack of continuity
- there is no legal separation between owner and the business
- owner has unlimited liability
- capital is limited and/or costs more compared to other forms of organizations.
- Growth constraints due either to lack of financial or human capital
- Sole decision making (may be stressful)
- Need to be proficient in many business areas (operations, marketing, finance, compliance etc.)
- Often no support system to offer advice
- May be perceived as less professional (larger clients may prefer to deal with a larger entity)

N.B legal separation and unlimited liability are essentially the same thing so can accept either but NOT BOTH

Accept any other relevant disadvantage.

Award **[1]** for each appropriate disadvantage of operating as a sole trader (application not required), up to a maximum of **[2]**.

(b) MF's sales revenue in 2024 was \$126 000 compared to total market sales of \$1 400 000 in the region. National total market sales were \$25 200 000 in 2024.

Calculate MF's market share of the **regional** market for flowers (show all your working). **[2]**

$$\text{Market share percentage} = \frac{\text{MF's sales revenue for flower}}{\text{Total local sales revenue for flowers}} \times 100$$

$$\text{MF's market share percentage} = \frac{126\,000}{1\,400\,000} \times 100 = 9\%$$

Award **[1]** if the candidate demonstrates how to calculate the market share percentage but makes a mathematical error or uses National Sales revenue instead of Local.

Award **[1]** if the candidate correctly calculates the national market share as 0.5%.

Award **[2]** if the candidate demonstrates how to calculate the market share percentage and produces the correct answer with the % sign.

(c) Using **Table 2**, calculate the payback period for **Option A** (show all your working). **[2]**

$$\text{Payback} = 20000 + 23000 + (12000/24000) \times 12 = 2 \text{ years } 6 \text{ months or } 2.5 \text{ years or } 2 \text{ years } 187.5 \text{ days}$$

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

- (d) Complete **Table 4** by calculating the present value for **Option B** for the first four years, using a discount rate of 6 %.

Year	Net cash flow (\$)	Discount rate at 6%	Present value (\$)
0	(60 000)	1.000	(60 000)
1	(5 000)	0.9434	(4717)
2	10 000	0.8900	8900
3	50 000	0.8396	41 980
4	60 000	0.7921	47 526

Using your completed **Table 4**, calculate the net present value (NPV) for **Option B** for the first four years (*show all your working*). **[2]**

$$\text{NPV} = \text{TPV} - \text{Capital cost}$$

$$\text{NPV} = 93\,689 - 60\,000 = \$33\,689$$

Award [1] for correct working and [1] for the correct answer. \$ sign not required.

Award [1] for correct calculation of TPV.

Apply OFR if TPV incorrect and NPV working is otherwise correct.

- (e) Using your answers to parts (c) and (d) and **Table 2** and **Table 3**, explain whether Miley should choose **Option A** or **Option B** to help *MF* grow. **[2]**

Considering NPV investment appraisal criteria, Miley should choose **Option B** because it has higher NPV (\$33 689) than **Option A** (\$23 499). In other words, **Option B** would yield higher expected returns from the investment.

Considering the payback period criteria, Miley should choose **Option A** because it has a quicker return of the initial investment. The payback period for **Option A** is 2.5 years, whereas for **Option B** is 3.1 years.

Award [1] if there is correct reference to NPV OR payback with figures. Award [2] if there is correct reference to both NPV AND payback with figures.

Award [1] if correct references to BOTH NPV AND Payback BUT without figures.

Accept own figure rule (OFR).

N.B Figures can come from c), d), Table 2 or Table 3 to count as application.

3. (a) Define the term *cost-plus pricing*.

[2]

Adding a fixed mark-up for profit to the unit cost of making a product.

Alternative definition: Cost-plus (mark-up) pricing refers to adding a mark-up to the average unit cost of producing a product.

The definition has to be developed as above. Candidates need to refer to unit OR average cost for [2].

Award **[1]** mark for recognising the addition of either a percentage or fixed amount as markup.

Award **[1]** mark for recognising costs consist of indirect and direct OR fixed and variable components.

Beware of circular definitions, which cannot be rewarded.

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 definition that conveys knowledge and understanding similar to the answer above.

- (b) (i) Using the straight-line depreciation method, calculate the book value of the new machinery at the end of **Year 2** (*show all your working*). **[2]**

Annual Depreciation = (Purchase Price – Residual Value)/Estimated Life Span

All figures are in \$

= (200 000 – 30 000)/4 = 42 500 per year

At the end of the second year, the machinery will have a net book value of
200 000 – (2 × 42 500) = 115 000

Award [1] for correct working and [1] for a correct final figure of net book value with \$ sign.

Award [1] mark for correct calculation of annual depreciation 42,500 (no sign required)

- (ii) Using the units of production depreciation method, calculate the depreciation of the new machinery in **Year 1** (*show all your working*). **[2]**

Depreciation during a year = (unit of production during a given year/total lifetime units of production) × (Purchase price – Residual value)

Where total lifetime units of production = 1000 + 1500 + 3000 + 4500 = 10 000 units

Depreciation in the 1st year = (1000/10 000) × (200 000 – 30000) = \$17 000

Award [1] for correct working and [1] for a correct final figure of depreciation with \$ sign.

Award [1] mark for calculating Total Units of Production 10,000 (units not required)

- (iii) Calculate AD's capacity utilization rate in **Year 1** and **Year 4** (*no working required*). **[2]**

Capacity utilization rate = Actual output/Maximum output possible × 100

Capacity utilization rate year 1 = 1000/5000 × 100 = 20%

Capacity utilization rate year 4 = 4500/5000 × 100 = 90%

Award [1] for each correct answer. Sign not required

- (c) Explain **one** advantage for *AD* of using the units of production depreciation method for the new machinery. **[2]**
- As the new machinery is projected to be used less in the early years, the units of production method would result in a lower depreciation expense in Year 1 compared to the straight-line method (\$17 000 versus \$42 500). This would mean lower expenses in the first year, resulting in a higher profit reported. Investors are looking for the business to be profitable as soon as possible, so the units of production depreciation method would aid this.
 - The units of production depreciation method would provide a more accurate calculation of the true value of the asset at the end of each year than the straight-line method. This is because the units of production method is based on the actual number of drones produced and would reflect the loss of value due to wear and tear. Given the fact that the new machinery has varied use over the four years, this would seem more accurate. Additionally, they would be a relatively expensive asset for a new business and, hence, a more accurate value for depreciation would allow investors to have a better understanding of the true profitability of the business.

Award [1] for an advantage of the units of production depreciation method.

Award [1] for appropriate application of this advantage to AD.

Appropriate application does not necessarily need to include figures.

Section B

4. (a) State **two** advantages of market leadership. **[2]**

Advantages of market leadership include:

- Has the majority of the share of a market/industry.
- Uses its power to affect the competitive landscape and direction the market takes.
- Often exercises price leadership enabling the use of a greater range of pricing strategies.
- Influences promotion in the market/industry.
- Has a strong brand presence/reputation (brand recognition).
- Has a loyal customer base.
- Allows for price setting ability.
- May allow growth due to Economies of scale.
- May more easily attract potential high skilled workers.
- May gain preferential treatment from suppliers e.g. bigger discounts for bulk buying.

Accept any other relevant advantage.

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

(b) Using **Table 6**, calculate, GLB's debtor days (number of days) ratio for 2024 (*show all your working*). **[2]**

Debtor days ratio (number of days) = debtors / total sales revenue × 365

Total credit sales = 250m × \$1.2 = \$300m

Debtors = \$40m

Debtor days ratio (number of days) = \$40m/\$300m × 365 = 48.66 days (allow rounding to 48,7 or 49 days)

Do NOT accept 48.6 days

Award **[1]** for correct answer and **[1]** for working, up to a maximum of **[2]**. Units not required.

(c) Comment on GLB's debtor days (number of days) data shown in **Figure 1**. **[2]**

Supermarket debtor days have increased significantly over three years, rising from approximately 28 days in 2021 to 38 days in 2023.

75 % of sales are to supermarkets, and over the three years supermarkets have taken longer to pay for orders from 28 to 38 days.

Small store (shop) debtor days have hardly changed, remaining around the 25 / 24 days mark for all three years.

Award **[1]** for a comment in context. An additional **[1]** if there is some mention of the actual data from the market research in **Figure 1**. Context refers to the retail store environment NOT a theoretical answer

- (d) (i) Explain **one** impact of the strike action on *GLB*. **[2]**

GLB's production of Keela will cease and after three weeks its stock will run out, resulting in lost sales and lost sales revenue.

Award [1] for a relevant impact on GLB with an additional [1] for application to the stimulus. N.B the question does not make clear whether the 3 weeks of stock referred to is finished goods ready for sale or simply raw materials. The answer above assumes finished goods, hence loss of sales for 5 weeks, but if candidate assumes "raw materials" then loss of sales for 8 weeks is acceptable

- (ii) Explain **one** impact of the strike action on *GLB's* employees. **[2]**

GLB employees will not get paid. They will be on strike for eight weeks, and the loss of earnings will hit them hard as the majority are from low-income groups with no savings – they may get into debt / will be unable to afford basic necessities. The eventual pay increase may not be enough to compensate for lost wages during the strike

Award [1] for a relevant impact on GLB's employees, with an additional [1] for application to the stimulus.

Award [1] for gaining an increase in wages

- (e) Using the information in the stimulus, discuss the benefits **and** limitations of sales forecasting for *GLB* when expanding production of Keela. **[10]**

Benefits

Enables the business to plan effectively in terms of:

Capacity. The Keela production line was at 94% capacity. If the forecasts are correct and the past sales trend is maintained, full capacity will be reached very quickly and therefore the plan to expand the factory is a sensible move. If there is no expansion, *GLB* may lose customers to its main competitor.

Staffing. If the forecasts are correct, *GLB* can plan to recruit additional employees to work on the expanded production line. Unemployment has been very low since 2019, so it may take time to recruit new employees, particularly as there are shortages of skilled labour, which is the type of labour *GLB* needs.

Equipment. If the sales forecast is correct, additional equipment will need to be purchased for the new factory.

Finance. Finance will be needed for the new factory, costing \$5 million. *GLB* can decide if it wants to use internal or external financing.

Stock. *GLB* has limited storage. This was highlighted by the strike in 2023. If the sales forecasts are correct, *GLB* may need to expand its storage facility. Increased stocks could also act as a buffer stock in case of repeated strike action.

The forecasts are based on previous data, so the data will be accurate.

Limitations

Sales forecasts cannot take into account the unknowns, such as a change in Country X's economic performance and a change in government policy.

For example, the forecast is based on past sales performance and an economy that has experienced rising living standards since 2020. The latest figures suggest that this may be coming to an end and therefore the sales forecasts may be overly optimistic – if the economy slows down and unemployment increases, sales of Keela may not grow or could even fall.

Furthermore, if the government does go ahead with plans to tax high-sugar drinks, *GLB* will either have to increase prices or accept lower profit margins. An increase in price is likely to cause sales to fall. Sales Data. *GLB* only used data for five years on which to base its forecast, so any extrapolation may be inaccurate. The impact of the competitor to Keela did not form part of these forecasts and therefore the sales forecasts may be overly optimistic.

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

A conclusion is NOT required. To access the top bands some discussion of the limitations of the data available is required NOT the limitations of sales forecasting which is required for the lower bands.

Do NOT reward discussion of the merits of the expansion plan, although it can form a background to the main issue of sales forecasting.

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

Features of a publicly held company include:

- shareholders have limited liability
- separate legal personality
- able to raise capital from the sale of shares
- shares can be bought and sold on the stock exchange.
- Easier to raise finance than other forms of legal entity
- Operates in the private sector
- Financial information must be publicly available
- Maintains continuity
- Shareholders receive dividends in return for investment

Accept any other relevant features.

Limited liability and legal personality are essentially the same. Hence, able to accept either, but NOT both.

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

(b) Explain **one** advantage **and one** disadvantage for *PP* of benchmarking its production processes against *GP*.

[4]

Advantages:

Increased efficiency at *PP*. *GP* has been recognized for its efficient and innovative practices. If *PP* finds the right information to emulate *GP*'s production processes, *PP* could increase efficiency.

Identify areas of improvement. By comparing its own production processes to *GP*'s practices, *PP* can identify problems to reduce waste and costs.

PP may need to look externally to improve its production processes, as 20% of its most experienced managers have resigned. Benchmarking to *GP* could provide valuable information.

Disadvantages:

Benchmarking can be expensive and time consuming. Gathering and interpreting information sometimes requires specialized staff that the company may not have. This seems to be the case at *PP*, as they have hired a consultant to gather information about *GP*.

Benchmarking can erode creativity and employee motivation. Employees at *PP* have developed successful new products, and some processes, such as faster delivery, have been improved internally at *PP*. Copying *GP*'s production processes could demotivate *PP*'s employees and stop them from being creative and innovative.

Mark as **2+2**.

Award **[1]** for an advantage/disadvantage and **[1]** for application to *PP* and *GP* up to a maximum of **[2]**.

(c) Using **Table 7**, calculate the missing values **X** and **Y** (no working required).
[2]

$$X = 30 - 30 = 0$$

$$Y = 4 + (5) = (1)$$

Award **[1]** for each correct answer. Units not required as they are given in the table.

- (d) Explain **one** method that *PP* could use to solve its cash-flow problem.
[2]

PP should avoid cash payments for raw food ingredients and should negotiate with suppliers for trade credit. It seems a possible solution, as *PP* has developed a good relationship with its suppliers. Trade credit would allow *PP* to reduce short-term outflows and thus improve its cash-flow problem.

PP could arrange a bank overdraft for any months where there is a negative cash flow. For example, Month 2 and Month 3 as shown in the cash flow forecast.

PP could reduce the pizza sizes to reduce ingredient costs (flour and cheese costs are currently high).

Buy in bulk to get purchasing economies of scale.

PP could raise the price of its pizzas. However, whether this would prove successful in increasing cashflow would depend on how competitive the new prices would be versus rivals such as GP.

Accept any other relevant method. However, the first three are the ones that could earn the application mark.

N.B. Do NOT accept simply adding the word “pizza “ as application.

Do NOT accept “changing suppliers” without reference to cheaper prices.

Award [1] for a relevant method and [1] for application to PP up to a maximum of [2].

- (e) Using **Table 8** and other information in the stimulus, evaluate the impact of Joey’s strategy to improve *PP*’s quality of service. **[10]**

Quality assurance and a “less waste” policy

According to Table 8, 50% of *PP*’s customers are unsatisfied with the order delivery speed. By adopting quality assurance and a “less waste” policy, *PP* should reduce waste and prevent quality problems. The speed of order deliveries should be reduced and therefore customers satisfaction should be improved. However, quality assurance and a “less waste” policy require a great deal of staff involvement. Even if *PP* has already introduced continuous improvement (kaizen), current managers have an autocratic leadership style. Employees may feel stressed if less waste is not achieved, and managers may not feel comfortable with autonomous and empowered employees. It seems that *PP* is still far away from a full and comprehensive TQM culture. In addition, the union has argued that employees have not been trained for quality assurance. Joey has not thought of training, but even if he did, it is questionable that *PP* could afford all-staff training in such short notice due to *PP*’s liquidity issues. Quality assurance and less waste will also reduce *PP*’s production inefficiencies, which could increase job redundancies even more as inefficient processes and unnecessary production steps could be identified. However, chances are that *PP* will have a conflict with the union, as redundancies increased by 25% with the introduction of kaizen.

Just-in-time (JIT) stock control.

According to Table 8, 45% of customers are unsatisfied with *PP*’s food freshness. A JIT stock control could help *PP* reduce stocks, which could improve freshness and the quality of ingredients and products. However, JIT requires trustworthy suppliers that deliver on time. *PP*’s current suppliers don’t deliver on time. *PP* will have to find new suppliers to support a successful JIT stock control. In addition, JIT could entail a reduction in bulk discounts as orders will be smaller. *PP*’s production costs could increase.

Monthly surveys to monitor customer and employee satisfaction

Monitoring customer satisfaction is essential to improve quality of service, however, a monthly customer survey is expensive and difficult to maintain. As for employee satisfaction surveys, Joey is thinking of *PP*'s employees as internal clients, which is a key to TQM and quality improvement. However, a monthly survey can prove to be expensive and time-consuming.

All in all, Joey's plans to improve *PP*'s quality service seem quite ambitious given the short period of time considered (4 months). Quality assurance and quality management long term will require a longer-term view and will have significant impacts on *PP*'s business culture.

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

If Table 8 is not used award a maximum mark of [6].

To attain the top band candidates must address the 3 strategies. If only 2 considered the max mark [6].

If only 1 strategy considered max mark [4].
