

Markscheme

May 2024

Business management

Higher / Standard level

Paper 1

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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. Define the term *pressure group* (line 33). [2]

Pressure groups are external stakeholders (groups of people who share a common interest) who try to influence the decisions made by an organization.

N.B. no application required. Do not credit the example of BON/FOTP.

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.

2. Define the term *market share* (line 18). [2]

The percentage (or portion) of total sales that a business has within an industry. It can be calculated using the following formula:

Market share percentage = (Business sales / total market sales) × 100.

N.B. no application required. The formula alone is not enough for [2].

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. Including the correct formula in the answer may help reach [2], although the formula is not necessary for [2].

3. Describe **two** possible implications of rising interest rates for *BON* (line 37). [4]

The case study suggests that they have a bank overdraft on which they will pay interest, as a bank overdraft is comparable to a bank loan. Increases in interest rates will lead to higher expenses and therefore lower profit for BON.

Higher interest rates could result in a lower demand for tickets, as some customers may have less disposable income and therefore may be less likely to buy concert tickets.

Increased cost of borrowing which could make expansion to the music concert market more expensive, as BON would have to pay higher interests on the money they borrow.

Mark as 2 + 2.

Award [1] for each possible implication of rising interest rates identified and an additional [1] for a description of the implication for BON, up to a maximum of [2].

4. Explain **one** advantage **and one** disadvantage for *BON* of converting from a private limited company to a public limited company (lines 5–6). [4]

BON converted from a private limited company to a public limited company in 2016.

One advantage of being a public limited company is that it can sell shares to the general public. The share price is quoted on the national stock exchange. As such, *BON* could have raised a larger balance of capital compared to being a private limited company. Additional funds are needed for expanding into the music concert market.

One disadvantage of being a public limited company is the increased accounting and reporting requirements. Shareholders will expect to receive a dividend and will be more likely to buy shares as an investment to gain money rather than necessarily having a keen interest in *BON*. There is a risk of a hostile takeover by *CFA*.

Accept any other relevant advantage / disadvantage.

Mark as 2 + 2.

Award [1] for a relevant advantage / disadvantage identified and an additional [1] for a relevant explanation of that advantage / disadvantage in the context of BON, up to a maximum of [2].

5. Explain **one** reason why *BON* would have expected Patrice to seek approval to hire the helicopter to collect the new water pump (lines 44–45). [2]

Reasons include:

- Approval would be needed due to the additional costs. Budgeting is a vital part of business planning and decisions to overspend can be difficult for *BON*'s finances. It could send a message that budgets do not need to be followed.
- Even though Patrice's actions had a good outcome this time, she should have respected the authority of the chain of command when getting the new water pump, both to protect *BON* and herself.
- Water is not part of her responsibilities, as she is in charge of "lighting, sound, stage construction, and security" (lines 40-41) but not of water.

Accept any other relevant reason.

Award [1] for explaining why approval needs to be sought such as a reason given above. Award an additional [1] for application to the case study, up to a maximum of [2].

6. Analyse **three** ways in which Patrice's leadership style could affect *BON*'s profitability (lines 38–50). [6]

Profitability is a measure of an organization's profit relative to its expenses; it is calculated by the gross profit margin and the (net) profit margin (profit divided by sales revenue, or put another way: profit as a percentage of the expenses) as well as ROCE (which assesses the returns a firm is making from its capital employed).

- Patrice leadership is autocratic as she makes all decisions without consultation. She is decisive and did not seek approval when arranging for the helicopter collection of a new water pump. As a result, the festival opened on time, avoiding ticket refunds which would have negatively affected *BON*'s profit and profitability (losing out on the sales revenue)
- Patrice's leadership style could be described as authoritarian, staff are more likely to work in a way that avoids upsetting her. Keen to keep her happy, the workforce execute her direction efficiently and effectively. She gets things done, without the need for further expenses that would negatively affect *BON*'s profitability.
- Patrice's leadership style could be deemed as abusive she is known to bully, shout at and threaten workers if tasks are not completed on time, etc. This could lead to worker dissatisfaction and demotivation. Working in a climate of fear can reduce the desire for the workforce to do a good job. Given the nature of the work it is important to develop a good teamwork-based approach. The negative publicity surrounding the media reports might make future recruitment tricky and could reflect poorly on *BON*, leading to lower sales, which would negatively affect profitability as it would mean less sales revenue.
- The nature of Patrice's leadership style could lead to litigation by workers which would increase *BON*'s legal costs and potentially result in compensatory and punitive damages, and these extra expenses would, reduce *BON*'s profitability.
- There could be high employee turnover as workers do not wish to work with Patrice. This increases labour costs, it creates more expenses that reduce *BON*'s profitability.

Accept any other relevant answer that refers explicitly to profitability.

Mark as 2 + 2 + 2.

*Award [1] for analysing each way in which Patrice's leadership style could affect *BON*'s profitability. Award an additional [1] for an analysis of the link to profitability, up to a maximum of [2].*

Section B

7. Discuss whether *BON* should accept the city mayor's offer to setup and run its community festival. [10]

Reasons **for** accepting the city mayor's offer:

- *BON* receives a fee of \$5 million plus 50% of the revenue from ticket sales.
- The mayor's office will organize the ticket sales and the outsourcing of food and drink outlets.
- Revenue from ticket sales is expected to be $150\,000 \times \$50 = \$7\,500\,000$. *BON* would therefore get a total revenue of \$3 750 000 plus the \$5 000 000 fee. Profit would therefore be \$8.75 million minus \$8 million running costs = \$750 000 profit.
- Successful events may lead to other events and offers from other city mayors.
- *BON* is keen to expand.
- *BON* has spare capacity as its final festival ends in August.

Reasons **for not** accepting the city mayor's offer:

- The financial return is dependent on ticket sales. If sales do not reach 50 000 per day, the anticipated maximum revenue will fall. Break even for ticket sales for *BON* is 40 000 per day. Below 40 000, *BON* will lose money.
- The festival might reflect negatively on *BON* because of the closure of the community park for four weeks.
- The festival has been negatively publicized by *FOTP* on social media.
- Share price may fall if the festival is not a success. A lower share price would make *BON* vulnerable to a hostile takeover by *CFA*.

Accept any other relevant reason for and against *BON* accepting the city mayor's offer. Marks should be allocated according to the markbands on page 3.

8. Discuss whether *BON* should expand into the music concert market. [10]

Reasons **for** expanding into the music concert market:

- It would expand the number of events that *BON* could stage.
- It could have a positive impact on revenues and profits.
- It may allow *BON* to employ more permanent staff due to the all-year-round operation.
- It would reduce the need to rely on a seasonal overdraft (**this reason can also be negative**) At \$6 million in January 2024, this could be a huge drain on resources if interest rates are rising.
- Diversification of risk (credit references to Ansoff matrix)
- Potentially very profitable if the financial director's forecasts are correct, as by 2027 there may be a revenue of \$4 billion from this market and therefore revenue of \$17.5–20 million.

Reasons **for not** expanding into the music concert market:

- It may be difficult to establish contracts with world-famous music artists. They may not wish to be associated with *BON* who are unknown in this market (no established brand name and reputation)
- Many of the best venues are already contracted to *CFA*.
- The market is dominated by a competitor, *CFA*. *CFA* may launch a hostile takeover of *BON* if *BON* threatens its market share. *CFA* has a history of hostile takeovers. *BON* may find it too become a target.
- *BON* lacks experience in the music concert market. From an Ansoff matrix perspective, this could be viewed/argued as either product or market development.
- The financial director's forecasts may be overly optimistic.
- Setting lower prices to gain market share may invite retaliation, which will reduce profit margins.

Accept any other relevant reason for and against *BON* expanding into the music concert market.

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