



Markscheme

Business management
Higher level and standard level
Paper 1

Practice set 2



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Section A

1. Define the term *market orientation* (line 8). [2]

Market orientation is a business approach where a company focuses on understanding and meeting the needs and preferences of its customers. It involves continuously researching and responding to market trends and customer feedback to ensure that products and services align with customer demands.

[1 mark] for defining that market orientation involves focusing on customer needs.

[2 marks] for a complete definition including continuous research and response to customer feedback.

2. Define the term *span of control* (line 51). [2]

Span of control refers to the number of subordinates that a manager or supervisor is directly responsible for overseeing. A narrow span of control means a manager supervises a few subordinates closely, while a wide span of control means managing a larger number of employees with less direct supervision.

[1 mark] for briefly defining span of control.

[2 marks] for a detailed explanation including both narrow and wide spans.

3. Explain one reason for and one reason against outsourcing in *MHS*. [4]

Outsourcing the customer service team to a call centre in India could reduce operational costs for *MHS*. By utilising a specialised centre, *MHS* can benefit from lower labour costs and expertise in handling healthcare technologies, which can lead to improved efficiency and cost savings. However, outsourcing may negatively impact the quality of customer service. Emily is concerned that outsourcing could affect service quality and staff morale. If the outsourced team is less familiar with *MHS*'s products and procedures, it could lead to a decline in customer satisfaction, ultimately switching to a competitor, and negatively impact *MHS*'s reputation.

[1 mark] for explaining the benefit of outsourcing.

[1 mark] for applying it to *MHS*.

[1 mark] for explaining the drawback of outsourcing.

[1 mark] for applying it to *MHS*.

4. Explain two reasons why *MHS* might have collected data using primary market research. [4]

One reason *MHS* might have collected data using primary market research to obtain up-to-date and specific insights into customer satisfaction with telehealth services. By conducting a survey, *MHS* can gather direct feedback from patients, which provides valuable information on how their services are perceived and how they can be improved. A second reason for using primary market research is to validate the effectiveness of their telehealth products and their impact on healthcare costs. The data showing a 19% reduction in healthcare costs helps *MHS* demonstrate the value of their technology to stakeholders and justify their continued investment in product development.



[1 mark] for explaining each reason for using primary market research.

[1 mark] for each application to *MHS*.

[2 marks] maximum for each reason that is applied.

5. Explain one benefit to *MHS* of having a mission statement (line 7).

[2]

One benefit of having a mission statement for *MHS* is that it provides a clear direction and purpose for the company. By articulating their commitment to improving patient outcomes through cutting-edge technology and personalised care solutions, *MHS* ensures that all employees understand and are aligned with the company's objectives, motivating employees to develop advanced medical devices like the wearable health monitoring system for the benefit of patients.

[1 mark] for explaining the benefit of a mission statement.

[1 mark] for effectively applying this to *MHS* and showing how it guides employee actions and innovation.

6. Explain one advantage and one disadvantage of delayering for *MHS*.

[6]

One advantage of delayering for *MHS* is cost reduction, as it can help *MHS* reduce administrative costs by eliminating middle management layers, leading to significant savings (**Knowledge**). This is particularly beneficial for *MHS* because the savings can be reallocated to critical areas like technological development and expansion into new markets like Asia, thereby supporting the company's growth objectives (**Application**). With more funds available for these strategic initiatives, *MHS* can accelerate its growth and strengthen its competitive edge in the healthcare technology sector, enhancing its ability to innovate and improve patient outcomes (**Analysis**).

On the other hand, a disadvantage of delayering for *MHS* is the potential for managerial overload, as removing layers of management can increase the workload for the remaining managers, potentially leading to burnout and reduced effectiveness (**Knowledge**). For *MHS*, which operates with a centralised decision-making structure and a dedicated team of 350 employees, this increased burden could negatively impact the managers' ability to oversee operations, manage teams, and maintain productivity (**Application**). This overload could hinder the company's ability to maintain its high standards of innovation and customer service, ultimately affecting employee morale and overall organisational efficiency (**Analysis**).

[1 mark] for each advantage and disadvantage of delayering that is described.

[1 mark] for each application of cost-plus pricing to *MHS*.

[1 mark] for each explanation of the advantage and disadvantage that is analysed.

A maximum of [2 marks] for each skill.



Section B

7. Evaluate two sources of finance for *MHS*' proposed expansion into Asia.

[10]

MHS is considering expanding into Asia and needs to evaluate different sources of finance to support this venture. Two viable options are business angel investment and a bank loan, each with its own advantages and disadvantages.

One advantage of using business angel investment is the expertise and guidance that business angels like Laura bring. Business angels offer not only funding but also valuable expertise in product development and financial management (**Knowledge**). This support can guide *MHS* through the expansion process, leveraging their experience and networks to increase the likelihood of successful market entry in Asia (**Application**). For instance, Laura's background in product development can help tailor *MHS*'s offerings to the Asian market, while Robert's financial acumen can assist in managing the expansion's financial aspects (**Application/Analysis**). However, the acceptance of this investment would require agreement from other shareholders. There is no information about whether the other business angels would support this proposal or Emily's thoughts on the matter (**Evaluation**).

On the other hand, accepting investment from business angels comes with the drawback of equity dilution (**Knowledge**). For example, Laura's proposal to buy 5% of shares means that Emily will own a smaller portion of the company, which might be a concern if she wants to maintain her 35% control over company decisions (**Application**). This dilution of ownership could lead to potential conflicts over the strategic direction of the company, particularly if the angels, especially Laura, demand a more significant say in business operations (**Analysis**). This risk might hinder the cohesive strategic direction needed for a successful expansion into the competitive Asian market (**Analysis**). Additionally, it is unclear what percentage of ownership Laura or the other investors might hold, which could influence the impact of the dilution on decision-making and control (**Evaluation**).

An alternative source of finance is a bank loan. Unlike business angel investments, a bank loan does not require giving up any ownership of the company, which is a significant advantage, as well as providing *MHS* with a clear repayment schedule and fixed interest rates (**Knowledge**). The 6% interest rate over five years offers a structured way to manage debt and plan for future financial obligations, ensuring that *MHS* can allocate resources efficiently without the uncertainty of variable costs (**Application**). This financial predictability can help *MHS* focus on its expansion strategies without worrying about fluctuating repayment terms (**Analysis**). Maintaining full control ensures that *MHS* can implement its expansion plans without external parties influencing critical decisions (**Evaluation**).

However, a drawback of a bank loan is the potential for high financial costs if *MHS* struggles to achieve projected revenues. The 6% interest rate could lead to substantial cumulative costs, straining financial resources and affecting profitability (**Knowledge/Application**). If the expansion fails to deliver quick returns, *MHS* might find it difficult to meet its repayment obligations, potentially impacting financial stability (**Analysis**). The company will need to carefully assess its ability to manage the loan while achieving its growth targets and ensure that this debt does not compromise its other strategic priorities (**Evaluation**). Additionally, the case does not provide detailed financial projections or the impact of this loan on financial ratios, which would be critical in evaluating the feasibility of this option (**Evaluation**).



In conclusion, while business angel investment offers expertise and flexible terms, it comes with equity dilution and potential conflicts among investors. Conversely, a bank loan avoids equity dilution but imposes fixed repayment terms and high interest costs. MHS must weigh these factors carefully, considering its current financial position, long-term growth potential, and the impact of each option on control and financial stability. A balanced approach might involve using a combination of funding sources to mitigate risks and support sustainable expansion. For example, MHS could secure a smaller bank loan to cover initial costs while leveraging business angel investments for strategic guidance and additional capital, ensuring both financial stability and access to expert advice during the Asia expansion (**Evaluation**).

Teacher Nugget

What stands out about this answer is how it recognises the importance of not just identifying the sources of finance but evaluating the implications of each option on both control and financial stability. The detailed examination of the trade-offs between equity dilution and the costs of debt, paired with a balanced recommendation for using a combination of funding sources, demonstrates a deep understanding of the complexity of business decision-making. This approach not only reflects sound financial knowledge but also shows an awareness of the potential risks and benefits, making the response highly nuanced and sophisticated.

8. Discuss the proposal to use franchising to expand to the U.S.

[10]

MedHealth Solutions (MHS) is considering using franchising as a strategy to expand into the U.S. market. This approach presents several potential advantages and challenges, which need careful analysis to determine its feasibility and effectiveness.

One significant advantage of franchising is the reduction in financial risk associated with expansion. By selling franchise licenses, MHS can enter the U.S. market without bearing the full costs of establishing new locations (**Knowledge**). For instance, the proposed \$5 million per franchise license would generate substantial revenue upfront, easing the financial burden on MHS (**Application**). Given MHS's current financial constraints, including a low current ratio of 0.8:1, this approach helps manage cash flow more effectively and aligns with its strategy to reduce financial strain (**Analysis**).

Another benefit of franchising is the access to local market expertise. Franchisees in the U.S. will bring valuable insights into regional customer preferences and regulatory requirements, enhancing MHS's market penetration and operational effectiveness (**Knowledge**). Their local knowledge can aid in tailoring MHS's products to meet U.S. market needs and navigate complex regulatory environments more efficiently (**Application/Analysis**). This is particularly advantageous given the competitive nature of the U.S. telehealth market, which mirrors the rapid growth seen in Europe (**Application**). However, the effectiveness of this advantage relies on the franchisees' experience and understanding of the market, which is not explicitly outlined in the case (**Evaluation**).

On the downside, franchising may lead to challenges in maintaining control over operations and quality. MHS might face difficulties ensuring that all franchise locations adhere to its service standards and brand guidelines (**Knowledge**). This lack of direct control could potentially impact MHS's brand reputation if franchisees do not meet the company's operational expectations (**Application**). Ensuring consistent quality across multiple locations requires robust oversight and support systems, which could strain MHS's resources (**Analysis**).



Additionally, while franchising reduces some financial risks, the initial setup costs can be considerable. The investment required to establish franchise agreements, develop training programs, and provide ongoing support systems can be substantial (**Knowledge**). The \$5 million per franchise license represents a significant expenditure, which might affect MHS's budget and resource allocation (**Application**). Although this cost is partly covered by franchisee contributions, the overall financial commitment and resource allocation required to support new franchises could strain MHS's operational efficiency (**Analysis**). The case lacks detailed information on the ongoing costs of supporting franchisees, which is critical for assessing the long-term financial impact of the franchising strategy (**Evaluation**).

In conclusion, franchising offers a promising expansion strategy for MHS into the U.S. market by providing financial leverage and local expertise. However, the potential challenges related to maintaining control over franchise operations and managing substantial initial setup costs must be carefully evaluated. To maximize the benefits, MHS should develop comprehensive franchise agreements, invest in effective training programs, and establish robust support systems to ensure consistency and quality. The success of franchising will depend on careful planning, effective management, and addressing potential challenges related to control and financial investment. Additionally, MHS should obtain more specific data on franchisee selection and support costs to make a fully informed decision. Therefore, while franchising can be an effective strategy for growth, it requires detailed consideration of these factors to ensure successful implementation and sustainable expansion (**Evaluation**).

Teacher Nugget

This answer excels in how it highlights the strategic balance required between the benefits and challenges of franchising as an expansion strategy. The response doesn't just list the pros and cons but digs deeper into the implications for MHS's brand control and financial commitments. The nuanced discussion about the potential difficulties in maintaining quality across franchises and the financial strain of initial setup costs shows a sophisticated understanding of the operational complexities involved. By suggesting comprehensive franchise agreements and robust support systems, the answer not only addresses the immediate question but also considers the long-term sustainability of the strategy, demonstrating a mature and strategic approach to business expansion.

Marks Level	Descriptor
0	<ul style="list-style-type: none"> 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 organisation. Any arguments made are mostly unsubstantiated.



Marks Level	Descriptor
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 organisation 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.