

Business management
Higher level
Paper 2

Monday 1 May 2017 (morning)

2 hour 15 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- A clean copy of the **business management formulae sheet** is required for this examination paper.
- Section A: answer one question.
- Section B: answer two questions.
- Section C: answer one question.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[70 marks]**.

$$\frac{41}{50} = 82\%$$

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4 PAGES / PÁGINAS

Candidate session number: / Numéro de session du candidat: / Número de convocatoria del alumno:

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At the start of each answer to a question, write the question number in the box using your normal hand writing / Avant de répondre à une question, inscrivez son numéro à la main dans la case appropriée / Al comienzo de cada respuesta, escriba a mano el número de pregunta en la casilla.

Example
Ejemplo

27

27

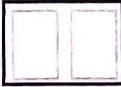
Example
Ejemplo

3

3

1

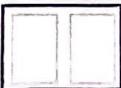
(a) A wholesaler acts as an intermediary between the manufacturer, and usually the retailer. They are able to ~~improve~~ subsequently able to achieve pinching economies of scale, whilst offering additional economies of scale to the manufacturer, who otherwise would likely need to waste resources catering to the many needs of smaller retailers. Be More Concise. (1)



(b)(i)

$$\begin{aligned} ST_{2015} &= \frac{\text{Average Stock}}{\text{coas}} \times 365 \\ &= \frac{4000}{12166} \times 365 \\ &= 120 \text{ days} \end{aligned}$$

(2)



(ii) $CR_{2015} = \frac{CA}{CL}$

$$= \frac{2000 + 1973 + 4000}{1000 + 800}$$

$$= 4.43$$

(2)

$$\begin{aligned} (iii) \quad PD_{2016} &= \frac{\text{debtors}}{\text{sales revenue}} \times 365 = \frac{1973}{24000} \times 365 \\ &= 30 \text{ days} \end{aligned}$$

8134
26000
35

86 days (2)

7



(c) As evidenced by the much higher stock turnover in 2016, (180 vs. 150), it is clear that the stock is additional purchase of stock has merely resulted in stockpiling.

However, BFs liquidity has improved, as the increased

Additionally, the significantly higher debtor days Ratio has resulted in a significant worsening of liquidity, despite the fact that the quick ratio has improved. 2.84 can be considered too high for healthy liquidity as it simply means that the receivables have increased (as cash has also decreased), meaning that the high stock turnover and high debtor days may result in cash flow shortage.

①
⇒ 2-Marker: focus just on factors relating to a liquidity **WORSEASE** (don't need judgments etc.)

3

(a) A public health organization, like most other public organizations, will aim to provide a service (in this case, a health service) to society, which might not be well catered to by private organizations due to the profit incentives being placed above the core objective of the task: to offer a health service, which with government funding, need not necessarily be profitable.



04AX02

2

(b) Given freedom to come up with innovative solutions to problems, which can be funded by and supported by existing infrastructure within the organisation. This way, they are expected to embody the risk-taking, creative and innovative characteristics of an entrepreneur, which is likely why HS is well known for its creativity and for helping customers achieve budgets.

Intrapreneurs at HS are expected to uphold the aforementioned characteristics, however, unlike entrepreneurs, do not need to be great risk takers. As HS offers "encouragement to be intrapreneurs," it is likely that they offer the resources to do so as well. Hence, employees need not take a risk in financial investment, and similarly cannot reap the benefits beyond their current financial remuneration.

④

(c) Advantage: formative appraisal involves a dialogue between managers and their subordinates on a monthly basis in the case of HS. This way, employees can feel heard and respected by their superiors, a key element of Maslow's hierarchy of needs (external self esteem needs). This also translates to the high financial remuneration received by HS' consultants, so that they feel their performance is acknowledged appropriately, hence improving motivation. ⇒ application

4



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Discard vintage: formative appraisal of fee is costly in terms of the time required on both the behalf of the appraiser and the appraisee. For HS, completing this process for all consultants on a monthly basis likely means that managers spend a large amount of their time each month on appraisal, while they should be focusing on day-to-day business tactical objectives.

→ NOTE: important to show specific understanding of formative appraiser. (3)

- (d) In response to peer pressure groups complaining about HS's high fees, two senior executives consultants have attempted to creatively propose two different ideas. The first is the set-up of both an externally and internally funded charity, and the second the development of new software to lower overheads:

FFAs

| Driving | | Restraining |
|---------|-----------|---|
| (2) CSR | - charity | - major culture change at HS (2) (4) |
| | 2 84 | |

| Driving | | Restraining |
|--|-------------------------|--|
| (4) Lower fees - (the prescribed problem) | Software Development | - chance of failure with development costs (2) |
| | 4 2 | |





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Example
Ejemplo

27

27

Example
Ejemplo

3

3

3

The first option, to set-up a charity to create educational services for children would likely do a considerable amount to improve HS's brand image with regard to corporate social responsibility (CSR). This is made particularly important by the fact that their business with ~~the hospital~~ are a likely form of public-private venture, meaning that the general public, as well as government officials will be highly concerned as to how tax-payer funds are being spent, and towards which causes they are going, particularly with regard to society's betterment of society. Here, this would likely improve support within the government to continue using HS's consultancy services, despite their high fees, and somewhat unethical high remuneration.

[The public sector.]

The major disadvantage to this idea is the significant cultural change this would ensue upon HS. They have never ventured into charity work before, and the high-reward organisational culture at HS is unlikely to adapt suitably to this new idea. The expectation to use their time which could otherwise be spent boosting profits, and hence financial



rewards through share-issue schemes and PEP would not be well received. Furthermore, it is unlikely that the employees, as they are also shareholders, would accept the use of profits, hence potential dividends to fund charity work, ~~and~~ meaning that this major stakeholder conflict could dramatically reduce productivity. Having both the employees and shareholders in a position of conflict, with their respective high power and high interest, is the reason why this ~~conflicting force~~ was regarded a "4" on the FFA.

The second idea, to develop a new software, fits is not only more in line with the current organisational culture at HS of creativity and consultancy efficiency (as mentioned in the case study with respect to helping customers achieve their budget targets). Importantly, the development of a new software system is a type of process innovation that can greatly improve efficiency of their services, hence ~~the~~ reduce the costs of treatment for patients. As this product is a process innovation directly addresses the prescribed issue of high fees, the driving force was rewarded a "4" on the FFA.

However, new systems often require acute skills to both develop and implement. Lauren's suggestion that the software would be "untested" in a likely pointer to poor skills within the organisation to adequately develop and implement this system. Henceforth,

there are possible failures which must be addressed during the development and implementation phases. This restraining force is regarded as a "2" on the FFA, so long as HS considers ~~attempting~~ attempting to hire adequate skills for the difficult job of software integration.

To conclude, due to its better applicability to the prescribed problem which was outlined as a restraining force, as well as the overwhelmingly strong cultural / restraining forces described for the first option, it is recommended that HS undertake the software development option, given they consider hiring the additional skills required (as mentioned). This is also represented by the FFA, which shows option 2 winning 4-2.

x 9

4

A niche market refers to a very small and specific form of market segmentation. Businesses who offer highly specialised products and/or services tend to target niche markets rather than the main market, as it tends to build up significantly more customer loyalty. ②



04AX02



04AX03

(b) Advantage: Secondary market research, especially given advances in the internet, is very easy and cheap to access. SU was quickly able to gauge gauge the applicability of their product niche product in other US markets, without needing to participate in timely and expensive primary research. Using the information they now have, SU may more efficiently search research the desired markets with a much higher probability of success.

Disadvantage: Secondary market research is very general, as it has been completed by an individual or organization that does not have the direct interests of SU in mind. While census data, for example, might enable SU to position their premium products in more affluent locations, the secondary research will offer little to do with how customers may perceive the brand, and how successful such an expansion might be.
→ outdated
→ biased.

ct

they're

(c) Predatory pricing: given their already established within their niche markets, SU may choose to adopt the predatory pricing strategy in order to set barriers to entry too high for other local producers. It should be noted that this may negatively impact brand perception, as it is likely to do much to prevent overseas multinationals from entering the market.





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Example
Ejemplo

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Example
Ejemplo

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4

(c- contd.)

In niche markets in which they still have control over, a price leadership strategy may allow SV from maintaining their brand image, and due to the less more affluent nature of the niche market, also retain a majority of their niche market segment. While this would not stop competitors from entering, it may restrict their access to what is already a loyal and small market. → NOT really relevant

(1)

→ consider cost-plus, price disc., penetration.

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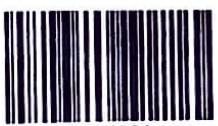
(d) In light of increasing competition and falling sales, SV is considering two options to boost revenues:

(B2C)

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|--|

The first option is to open a business-to-consumer e-commerce store. FFA:

| Driving | B2C | Restraining |
|------------------------------------|------------|---|
| (4) Broader market - across the US | E-commerce | - lose physical evidence (1) promotion & brand value (2) |
| | 84 2 | |



04AX01



Adopting the B2C e-commerce option would enable SU to sell their greater premium products nationally, after giving themselves access to a much broader target market. Intuitively, access to a larger target market, albeit the fact that it remains rich in the "premium" sense, will offset the decrease in sales revenue that SU is experiencing due to local and multi-national competition. Classified as Market development on the AASOFF matrix therefore, this idea would reduce SU's dependence on their single market niche market, here letting them not only increase sales' revenue, but also also diversify revenue streams and reduce their risk exposure, thereby creating a "4" on the FFA.

However, the development of an e-commerce platform would likely detract from the promotional mix currently being used by SU, hence meaning that without physical evidence being the centrepiece of their national operations, they are unlikely to be able to justify their current premium prices. Customer perceptions are unlikely to be able to develop as properly if they do not have access to the physical evidence component of the marketing mix that pertains to the wine-tasting events. The stimulus mentions the importance of this physical evidence, however so long as the website is developed as to provide a customer with the premium experience, SU may be able to circumvent this restraining force, making it a new

"1" on the FFA.

The second option would involve adding wholesalers to the "place" element of the marketing mix, elongating the distribution channel.

| Driving | Wholesaler(s) | Restraining |
|------------------------|---------------|-------------------------------|
| (2) Economies of scale | 2 4 | - lose control over image (4) |

Using wholesalers in the distribution channel would enable SU to take advantage of various selling economies of scale. Moreover, they would no longer need to incur all their current marketing overheads which could be required to sufficiently operate B2C. So long as SU wholesaler is experienced within the niche premium market, SU will be able to nearly purely focus on producing premium wine, likely leading to improved profit margins, as well as improved sales through the wider reach and economies of scale of the wholesaler.

A major restraining force manifests its self in the form of loss of control over brand image. Ever since SU's subbranding to the premium market in 1977, they have placed a great reliance on building brand value through an intricate set of choices within the marketing mix's 7 Ps, particularly within *PH* with physical evidence. The use of a wholesaler means that



04AX02



04AX03

SU will likely not be able to attract loyal customers and will need to rely merely on product and price, ~~as well~~, to improve sales - leaving all other elements of the 7-Ps to the Wholesaler. Considering the rising competition and nature of the premium market, the wholesaler strategy is unlikely to succeed \rightarrow hence the restraining force of "4".

In conclusion, the e-commerce site will let SU maintain control over their brand to an extent while extending their market. While the wholesaler strategy also gives SU an opportunity to reach new customers through network economies of scale, the risks associated with brand are too great. Hence, it is recommended SU go with option 1.

⑨) + mentioned

⑩) \Rightarrow I feel like this was a strong response.

