Diploma Programme
Programme du diplôme
Programa del Diploma

Business management
Higher level
Paper 2

Friday 29 April 2022 (morning)

1 hour 45 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.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[50 marks]**.

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ANSWER BOOKLET ①
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Example / Ejemplo 27 [2|7]   Example / Ejemplo 3 [|3]

[2] (a) • cooperatives are run by the various stakeholders they aim to serve, including employees and potential customers. ×

=> Managing comittee voted in by stakeholders.

• ~~cooperatives usually aim to operate with the best interests of all stakeholders.~~

second feature

~~(b) → see following page.~~

• cooperatives are for-profit social enterprises, meaning they aim to make a profit ~~but~~ ~~whit~~ while operating in the best interests of stakeholders and society. ✓

1

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(b) Cash flow forecast for LLC, Jan → Apr.

	Jan	Feb	Mar	Apr
Opening balance	5000	(1900)	(2400)	(900)
Inflows				
· cash	6000	8000	8000	8000
· credit		6000	8000	8000
Total cash inflow	6000	14000	16000	16000
Outflows:				
· rent	4500	4500	4500	4500
· labour	2500	2500	2500	2500
· COGS	4800	6400	6400	6400
· overheads.	1100	1100	1100	1100
Total cash outflow	12900	14500	14500	14500
Net cash inflow	(6900)	(500)	1500	1500
Closing balance	(1900)	(2400)	(900)	600

6

(c) Net profit = 600 - 5000 + credit from Apr.
= -4400 + 8000
= \$3600

2

note: always safest to literally write out the meaning of each figure?

2

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Example Ejemplo 27 | 27

Example Ejemplo 3 | 3

3

(a) A fixed cost is ~~one~~ an expense that generally remain constant despite a changing level of output of an organisation. These costs such as rent, represent a constant expense on the profit and loss, however unlike costs, for example, ~~are not dire~~ do not fluctuate with the number of sales.

2

(b) Advantage: using job production gives organisations a unique selling point as it allows for a very flexible production line. In the case of CD, job production plays a major role in attracting loyal customers, as they "provide their style preferences," and then Carol ~~is~~ engages in a personalised designing and communications process. This way, Carol's passion for design is carried through, and customers are satisfied.

However, ~~it~~ job production is usually very ~~use~~ inefficient, as there are little opportunities to benefit from economies of scale. It is the likely reason why CD has been receiving a variety of complaints regarding ~~delivery~~ times, hence ~~At~~ revising job production may destroy brand image.

4

(C) Advantage: Partners can often provide valuable new insight into organisations. Juan Pérez, for example, ~~would~~ ~~has~~ already has experience in engineering and likely has contributed in other business ventures as he is a business angel. His suggestions regarding CDs production could help CD fix its production and cash flow issues.

Disadvantage: bringing on Pérez for a 50% ownership agreement represents a significant loss in control. In order to satisfy the requirements of this new stakeholder, business theory suggests that decision making time and business strategy will need to change. ~~To~~ Juan's focus on operations might therefore mean that Carol can no longer focus on her "passion for design," the reason why she started this business.

4

(d) Carol runs her business, CD, principally through an ecommerce website, ~~other~~ which is a critical component of her business strategy. Accompanying this are a variety of driving and restraining forces as shown below.

Driving:		Restraining:
(3) wider reach →	operate on	← less personalised (3)
(5) cheaper →	ecommerce	← maintenance (2)
	website	
	8 | 5	

=> each addressed in matter.

One of the biggest driving forces for the use of e-commerce is its reduced cost. Businesses that operate partially, or fully online, do not need to ~~encu~~ incur the often dramatic costs of operating a brick and mortar store, including land, utilities and retail staff. This reduction in costs was a ~~motivating~~ driving factor for Carol, who "could not afford the fixed costs of an expensive physical location". For Carol, this would significantly improve cash flow, and without it, the mention that she is "short of cash" would be a much more prominent and threatening issue.

However, e-commerce does ~~not~~ require special skills and maintenance to run. For Carol, this would include the costs of hosting a site, developing and maintaining it. To maintain their B2C approach, CD must regularly update the website, which can quickly harm cash flow within the organisation.

This, again, is seen in CDs need to hire a specialised social media Marketing Manager which while not ~~so~~ directly linked to ~~websites~~ website operations, is a restraining force to CDs entire online presence, including e-commerce. This was regarded a "2" as a restraining force on the FFA.

In contrast, a second important driving force ~~the~~ is the improved reach that e-commerce offers. The stimulus states that e-commerce sales have steadily increased worldwide and, indeed, Carol recognises that this has also been reflected in her own orders. Not only that, but the wider reach also enables CD to gain more detailed primary data about trends in the fast-moving fashion industry, which is done for relatively cheap when Carol makes sales through her website, which would be more difficult with traditional ~~sett~~ commerce methods.

Finally, the last ~~driving~~ restraining force detailed on the FFA concerns the ~~t~~ less personalised nature of e-commerce. This is particularly experienced with negative online backlash which can have lasting impacts on brand image and reputation. The recent negative comments about CD's manufacturing issues places CD in a bad light, as e-commerce is the only platform ~~the~~ through which customers may ~~pace~~ perceive the brand, meaning the ~~t~~ less personalised nature of not owning a physical store means that

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Example / Ejemplo 27 [27] Example / Ejemplo 3 [3]

3 (d) cont'd.

complaints can quickly spiral out of control, which would harm CDS reputation. This is further emphasised by their current lack of ability to respond to complaints in the hope that they can save their public perception through adding a more ~~personative~~ personalised presence to their e-commerce strategy.

To conclude, e-commerce is very beneficial and it's relative low ~~costs~~ cost and wider reach offset the maintenance and less personalised feel, allowing Carol to effectively run her design business. pretty good...

5 (a) · public limited companies operate under limited liability, meaning owners cannot lose more than they put in.

· investors can publicly buy ~~shares on~~ shares on ~~the~~ a public stock market. This works, too, for selling and trading. 2

(b) (i) When teleworking, it is more difficult to feel a part of a ~~cult~~ company culture, which would satisfy Maslow's social needs, and to an extent, esteem needs, as managers can not as easily provide feedback on subordinates. For FR, if 60% of their already small 280 people worked from home, even the ~~g~~ social aspect of Maslow's feeling for employees at the ~~o~~ office would be ruined. ⇒ two in one: unecessary.

2

(b)(ii) Teleworking may destroy productivity, as employees can not as easily share ideas and information. Simple tasks like business meetings are made more dificult if 60% of the workforce only attends the head ofice one day per month. The synergies that a company would get from having employees ~~work~~ all work together are subsequently destroyed.

2

(c) • 360-degree feedback, which involves collecting feedback from a variety of stakeholders who work with a particular individuals, is notoriously time consuming and expensive, and requires managers to devote much time to collecting, processing information and then appraising the employee. For FR, these costs would demand significantly more resources than it is worth for the 6000 supermarket employees, and the further 1000 part-time workers, if they decided to do so.

• While 360-degree feedback is said to work well for retention and motivation of the 250 head office workers, the supermarket employees already feel overworked due to the "large span of control" (managers) and the likely increased working hours. These employees are unlikely to be motivated the same way as the head office workers; supermarket employees perhaps appreciate a more industrial, Taylor approach as ~~they the~~ there are not particularly many aspects for mastery through in-depth appraisal that can be afforded to supermarket workers. This would mean that the strategy is likely a waste of time and resources, with little-to-no return.

↳ too speculative... 2

→ focus on particular application such as increased manager workload.

(d) FR has decided to launch a new home delivery service, but must now decide how to finance it. They have two options, as described in the two force-field analyses (FFA) below:

Driving		Restraining
~~(3)~~ (2) full ownership →	Outright purchase	← 5 year interest obligations (2)
~~(2)~~ (4) relatively low interest →	w/ bank loan @ 3%	← Medium term cash flow harm (2)
Total: 6	vs.	4

Driving		Restraining
(2) flexibility →	24 month (min) lease @ $13000 p.a.	← long term cash flow harm ~~(3)~~ (5)
(2) no increase to gearing →		← do not own outright ~~(2)~~ (1)
Total 4	vs.	6

The option to pursue a bank loan ~~will~~ offers a variety of driving forces. Largely, once the five year loan has been paid off, they will have complete ownership and control over the fixed assets. The vans would likely then be sold, meaning they could potentially purchase new vehicles with their assets, or seek a ~~dif~~ new loan. The 5 year loan also offers a relatively low interest rate at 3%, meaning that over the course of the 5 years, the ~~comp~~ FR

(4)

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Example / Ejemplo 27 [27] Example / Ejemplo 3 [3]

will have better looking cash flow regarding the project than they would at a $13000 per year lease over the 5 year term. For example, the 5 year lease would total $13000 × 5 = $65000, whereas FR can be expecting to pay a mere few thousand dollars of interest over the lifespan of a single vehicle. This severe cash flow benefit constitutes a "4" on the FFA.

However, interest plans and debt obligation may harm yearly cash flow, especially initially when 3% on $34000 ×500 is over $500 000: a major restraining force. This interest obligation, combined with an increase in gearing, despite their already current $50 million from July could place short-to-medium term harm on FR's liquidity and cash flow. Both the interest and the impact of gearing constitute "2"s on the FFA.

The second option, to lease the van at $13 000 per year offers predominantly short term benefits. In opposition to the increased gearing

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mentioned price, FR could simply use their current $50 million loan to lease the van for $13000 per year. More importantly, however, is the flexibility that this option offers. Industry experts are not confident whether demand for home delivery will remain over extended periods of time. With a relatively short ~~2~~ 24-month commitment ~~p~~ period, FR~~E~~ can easily back out of the strategy after 2 years having only spent $26 000 on each vehicle, as opposed to the large upfront interest repayment investment that would be required for the first option. This could let FR capitalise from short term booms in the delivery market, while reducing their exposure to risk that it may not last.

However the major restraining force for this ~~opti~~ option is the potential medium term ~~negative~~ investment. In the likely chance that FR does maintain its 5 year proposal, the lease would total $65000 per vehicle, nearly double the purchase price of option 1, constituting a "5" as a restraining force on the FFA. Not only that, but this would mean that after the five years, they cannot even own the vehicles outright, hence cannot recouperate the massive costs through the sale of fixed assets. In general, this strategy is unlikely to be fruitful over the medium term, which is what FR is considering.

In conclusion, ~~it~~ option "2" has been identified as being unsuitable for FRs medium term requirements. While it gives them flexibility, the harm to their cash flow is terrible over 5 years of leasing if they were to do so. Option 1 would increase gearing, however is much more financially ~~viable~~ viable over a 5 year span, not to mention that FR would own the vehicles outright, as was identified earlier. This reasoning can also clearly be seen on the FFAs, where option "1" wins by "2" points, and vice versa for option "2". For these reasons, it is recommended that FR undertakes option 1.