Diploma Programme
Programme du diplôme
Programa del Diploma

Business management
Higher level
Paper 2

Friday 15 November 2019 (morning)

2 hours 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]**.

8819–5012

ANSWER BOOKLET
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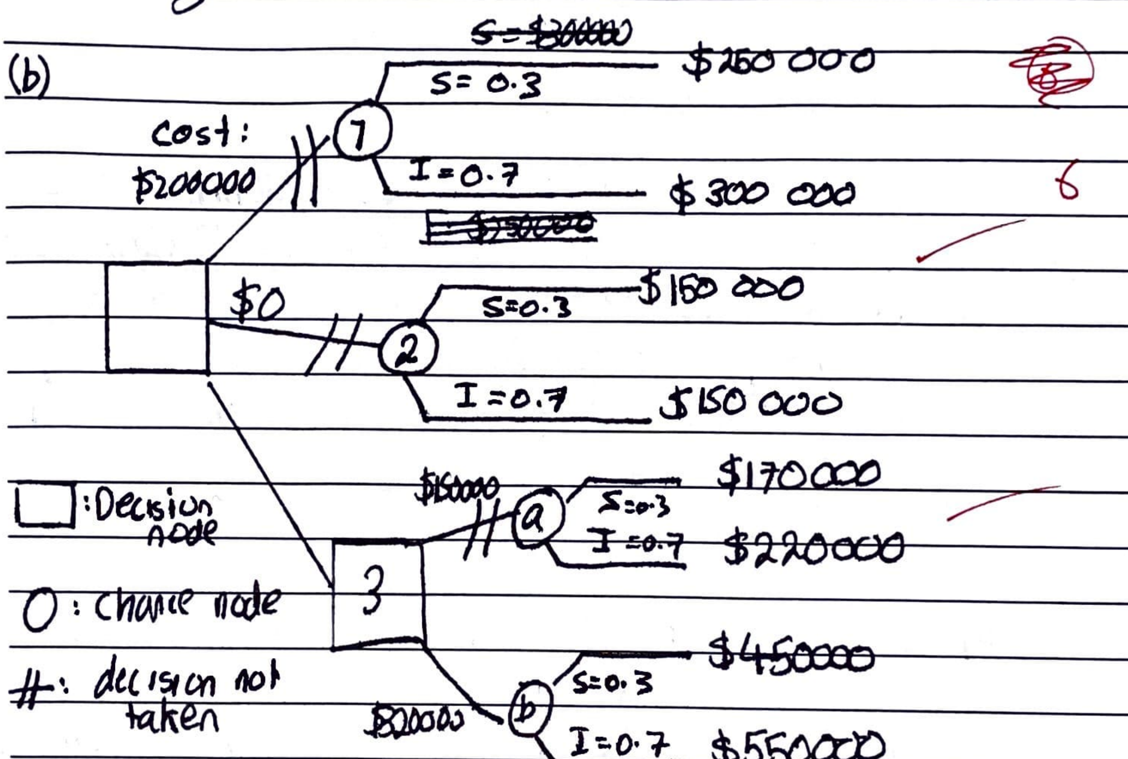
Please write question numbers in the following format: / Veuillez numéroter les questions en utilisant la présentation suivante: / Sírvase escribir los números de las preguntas en el siguiente formato:

1 2 3 4 5 6 7 8 9 10

1

(a) operating at high capacity utilisation may lead to diseconomies of scale as employees, management and the machinery it's self may not be adequately equipped. Hence the average costs of production would likely increase. 2

(b) 6



Expected value:

· option 1 = (0.3×250000 + 0.7×300000) − $200000 = $85 000

· option 2 = (0.3×150000 + 0.7×150000) = $150 000

· option 3a = (0.3×170000 + 0.7×220000) − 150000 = $55 000

· option 3b = (0.3×450000 + 0.7×550000) − 320000 = $200 000

∴ option 3b should be taken

(c) decision trees rely on ~~only~~ accurate forecasts, including chance, costs and expected revenues. ~~Largely~~ For Sassy, ~~the~~ ~~options~~ probability that the economy ~~is~~ will stay the same or improve is important to the expected value, however relies upon accurate financial forecasts.

2

10

impact on range of stakeholders in society

3 (a) Corporate social responsibility (CSR) is an idea through which organisations act in a way through which they benefit society, acting in a beneficial manner, or at least are not detracting from society.

1

(b) Advantage: cost-plus ~~mark~~ up strategy ensures CM receives a consistent income even if costs from suppliers increases. This would ensure CM could maintain their fair pricing ~~strat~~ strategy with farmers (suppliers), while not detracting from their cash flow and income statement, which has already been identified as an issue.

Disadvantage: cost-plus mark-up strategy means that a margin of the costs are passed on directly to the customer. This ~~would~~ decrease competitiveness in competitive markets. CM has been identified as good value ~~for~~ money, however the economic downturn ~~est~~ might drive up supplier prices. CM may lose competitiveness in what has been identified as a competitive market if they use the cost-plus strategy in the identified fluctuating economy.

4

(c) Advantage: JIT is a strategy through which stock is ordered only when, or close to when, it is needed. This decreases stock turnover, as the amount of storage required at any given time decreases. A major liquidity issue of CM is ~~its~~ it's 40 day stock turnover in 2018, which is likely a contributing factor to Kayleigh's concerns of liquidity. Changing to JIT would likely increase short term liquidity.

Disadvantage: Changing to JIT would ~~likely~~ decrease flexible and high-quantity terms with suppliers. CM has a long-term CSR commitment with ~~s~~ suppliers to uphold these terms, meaning ~~switche~~ switching to JIT could damage their brand.

(d) Kayleigh is currently worried about CM's cash flow position. Moreover, economic downturn is resulting in drastically lower revenues and financial position. Two possible options to ~~to~~ help solve both issues are:

Driving		Restraining
(4) increase cash inflow and liquidity -	Seek better debtor terms	- ~~CSR damage~~ customer & - ~~supplier~~ relationship worsened (2)
	4	2

Driving		Restraining
(4) More revenue -	Change Pricing Strategy	- lose "good value" brand image (3)
	4	3

Debtor days are a ratio used to describe the average number of days it takes for (food retailers) a business to collect ~~money~~ cash from it's customers. The point at which it receives cash on the cash flow statement ~~is~~ will generally be later than it is recorded on the P&L, especially with high debtor days (greater than one month). CM has a ~~ratio of 70~~ debtor days ratio of 70 days, meaning that they receive cash much later after a good is sold. By seeking better debtor terms through enforcing a quicker payment protocol, they could ensure cash inflows happen much sooner than they currently do, especially with a creditor days ratio

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3

as less as 5 days in 2018. food retailers

Customers generally prefer ~~sh~~ more flexible debtor terms, and are likely to move to more competitive firms. CM has a brand image of being good value for money, and are also very socially focused. ~~The~~ Through this, the target market are likely a range of loyal ~~customers~~, who are attracted to their brand value and image. Decreasing their debtor days, therefore, would harm their brand image and hence worsen their customer base, especially due to the identified competitive market.

As well as cash flow, revenue and profitability is also a key indicator of financial performance. Often, new pricing strategies need to be adopted, especially during times of economic downturn. Cost-plus mark-up gives little flexibility to ~~profit~~ change prices at times other than when supplier costs change. It has little to do with fluctuating overhead costs which is likely the reason why the net profit

and low demand

margin has halved from 6% to 3% ~~in~~ from 2017 to 2018 respectively. Especially to ensure short term survival and liquidity, CM could participate in ~~interest~~ increasing their prices in order to recoup ~~costs~~ increasing overheads ~~in~~ when compared to the gross profit.

While increasing prices will likely increase short term profitability, customers exposed to increased prices are likely to move to different competitors, especially during times of economic downturn, where expendable income is reduced. Hence, the long term ~~gross profit~~ revenue figure is likely to reduce, hindering CM's long term survival. This could be further accentuated by the fact that CM relies on the loyalty of their customers due to their CSR with suppliers and ~~prod~~ selling organic products. Food retailers, however, will likely be more stringent in their acceptance to increasing costs, meaning CM could quickly see their brand value plummet.

To conclude, CM can consider both freeing up short term liquidity and profitability through decreasing debtor days and ~~a~~ adopting a ~~P~~ different pricing strategy, respectively. While the judgement is made that both options should be undertaken the identified damage to their brand reputation and value must be managed accurately in the long term.

4 (a) An MNC is an organisation that operates in more than one ~~countr~~ country. → note host and home countries

1

(b) Market share = (sales)/(market sales)

= 5/50

= 10%

2

(c) Disadvantage: websites often require significant maintenance ~~to~~ to develop, maintain and upgrade, detracting from net profitability through increased overheads. This investment could potentially lead to higher costs like has been identified by other businesses in the sports footwear business.

Disadvantage: less control over service delivery is a prominent issue with e-commerce, especially when technology ~~does~~ is too old and/or unreliable. In the case of TS, their non-user-friendly website leads to customer complaints which are detracting from their brand image, especially if these complaints are made public.

NO APPLICATION

·Advantage: e-commerce is an ever-increasing and growing platform due to ~~the~~ the uptake of technology in most countries. It is, therefore, a relatively easy way to reach ~~a~~ entire new markets through e-commerce platforms, avoiding the costs of setting up brick-and-mortar stores in all target market locations.

5

(d) In response to a variety of issues including lack of finance to expand, TS is considering a horizontal and vertical merger as two options to expand.

Driving		Restraining
(2) reduction of competition -	OPTION 1 2 | 2	- bad reputation (2)

Driving		Restraining
(4) access to new markets (including international) -	OPTION 2 4 | 2	- ~~access new mar~~ - ~~less contro~~ - less choice of retailer (2)

~~A merger with the multinational between manufacturer~~

Option 1 proposes a horizontal merger. The theory of this dictates that one organisation merges with another operating in direct competition competition with it. This increases market share whilst subsequently decreasing competition. In the case of TS, no information has been given surrounding the state of the market's saturation, however the MNC merger ~~would~~ could perhaps increase TS's market share by some significant amount, meaning they become much more powerful in the domestic market as well as the ~~MNE~~ international market of the MNE.

However, as is often the case with MNCs,

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bad reputation could follow the merger. This is often due to the fact that MNCs exploit the resources of host countries. On top of this, TS would need to close their own factories, which could negatively ~~imp~~ impact the brand image and reputation of TS, as was ~~see~~ recognised by the finance manager. While this is a ~~bit~~ significant restraining force, it is not as significant for manufacturers like TS, as they do not directly sell to the end consumer.

The second option concerns a vertical merger, which involves merging with organisations at different points on the supply chain. Importantly, ~~mer~~ ~~ve~~ vertical mergers will give organisations access to markets which they are not already situated within. For TS, this strategy would enable them to establish their brand within the footwear retailer's strong domestic and international markets. As is often common with mergers, this is an example of an opportunity for rapid and relatively low investment (low capital) growth, ~~and power~~.

Vertical integration within a merger ~~to~~ does, however, propose various disadvantages in that ~~businesses need~~ the manufacturer must become solely dependent on the merged entity ~~as a~~ within the distribution channel. This would likely reduce diversification within the "place" on the marketing mix, and could be seen as a risky strategy for growth. The lack of diversification could also result in less diversified revenue streams, hence limiting the production capacity and ~~pot~~ potential sales revenue of TS.

In conclusion, the horizontal merger has been identified as an option to achieve growth, however the identified reduction of competition is not as much an ~~advantage~~ driving force as the ~~adv~~ driving force ~~as~~ of ~~new~~ accessing new markets through the vertical merger. This, which is also evidenced by the force field analysis ~~is~~ clearly shows option 2 to be the better one to take.