

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]**.

6 pages

2222–5012
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22/10/22



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22 M TZO P2 - BMHL

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Example
Ejemplo

27

2	7
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Example
Ejemplo

3

3	
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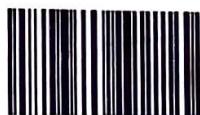
2

- (a) • cooperatives are run by the various stakeholders they aim to serve, including employees and potential customers.
⇒ managing committee voted in by stakeholders.
• cooperatives usually aim to operate with the best interests of all stakeholders.

(b) → see following page.

second feature

①



04AX01



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

	Jan	Feb	Mar	Apr
Opening balance	500	(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 = $600 - 5000 + \text{credit from Apr.}$
 $= -4400 + 8000$
 $= \$3600$

②

Note: always safest to literally write out the meaning of each figure!



04AX03



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Example
Ejemplo 27

Example
Ejemplo 3

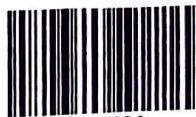
3

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

(2)

(b) Advantage: Using job production gives organizations
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 the
can ~~be~~ engage in a personalized designing
and communications process. This way, CD's
passion for design is carried through, and
customers are satisfied.

However, ~~the~~ job production is usually very
~~an~~ inefficient, as there are little opportunities
to benefit from economies of scale. It is the
likely reason why CD has been receiving



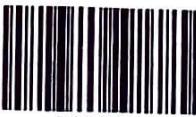
a variety of complaints regarding delivery times, hence a missing job production may destroy brand image.

(+)

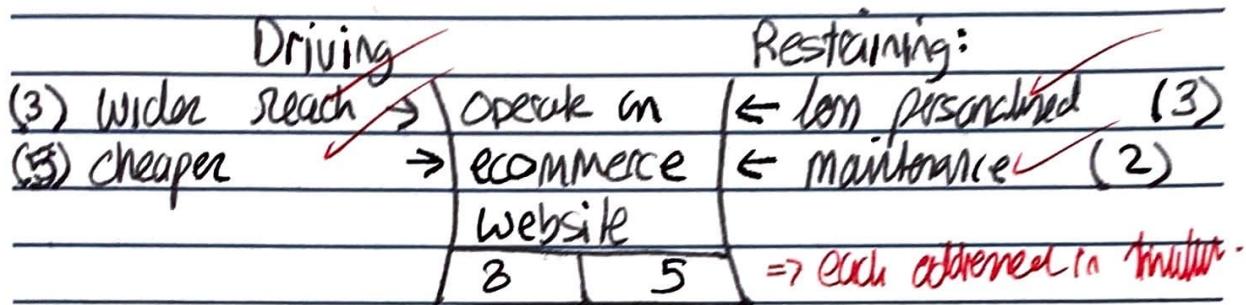
(C) Advantage: Partners can offer provide valuable new insight into organizations ✓ Juan Pérez, for example, ~~wanted to~~ already has experience in engineering and likely has contributed in other business ventures as he is a business angel. His suggestions regarding CDs production could help CD fix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

Disadvantage: bringing in 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 Camel car 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, which is a critical component of her business strategy. Accompanying this are a variety of driving and restraining forces as shown below.



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 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 notion that she is "short of cash" would be a much more prominent and threatening issue.

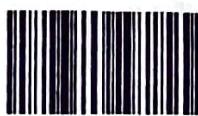
However, e-commerce does require special skills and maintenance to run. For Carol, this would include the costs of hosting a site, developing and maintaining it. To maintain their B2C approach, CD must regularly update the website which can quickly harm cash flow within the organization.



This, again, is seen in CDs need to hire a specialized social media Marketing Manager which, while not ~~not~~ directly linked to websites' website operations, is a ~~not~~ restricting 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 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 alone ~~for~~ relatively cheap when Carol makes sales through her website, which would be more difficult with traditional commerce methods.

Finally, the last driving restraining force detailed on the FFA concerns the less personalized nature of e-commerce: This is particularly experienced with negative online backlash which can have lasting impact 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 through which customers may ~~not~~ perceive the brand, meaning the less personalized 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's 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 personal touch to their e-commerce strategy.

To conclude, e-commerce is very beneficial and its relative low cost can wider reach offset the maintenance and less personal 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 their investment.

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



06AX01

(b) (i) When teleworking, it is more difficult to feel a part of a ~~the~~ 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 social aspect of Maslow's feeling for employees at the office would be ruined. \Rightarrow two in one: unnecessary.

(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 difficult if 60% of the workforce only attends the head office one day per month. The synergies that a company would get from having employees ~~work~~ all work together are subsequently destroyed.

(2)



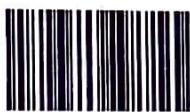
(c) • 360-degree feedback, which involves collecting feedback from a variety of stakeholders who work with a particular individual, is notoriously time consuming and expensive, and requires managers to devote much time to collecting, processing, information and then appraising the employee. For FR, these 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 are~~ there are not particularly many aspects for managers 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...

→ focus on particular application such as increased manager workload.

(2)



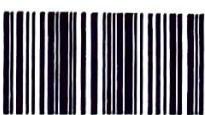
04AX03

(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 free-field analyses (FFA) below:

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

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

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





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will have better lending cash flow regarding the project than they would cut a \$13 000 per year lease over the 5 year term. For example, the 5 year term would total \$13 000 $\times 5 = \$65 000$, whereas FR can be expecting to pay a mere few thousand dollars of interest over the lifespan of a single vehicle. This reverse cash flow benefit constitutes a "14" on the FFA.

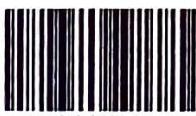
However, interest payments and debt obligations may harm yearly cash flow, especially initially when 3Y. on $\$34000 \times 500$ is over \$500 000; a major restraining force. This interest obligation, combined with an increase in gearing, despite their already current 50 million from July could place short-to-medium term strains 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



mentioned prior, FR could simply use their current \$50 million cash to lease the van for \$13400 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 24-month commitment period, FR can easily back out of the strategy after 2 years having only spent \$26000 on each vehicle as opposed to the huge upfront interest repayment investment that would be required for the first option. They could let FR capitalise from short term gains in the delivery market; while reducing their exposure to risk that it may not last.

However, the major restraining force for this option is the potential medium term 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 recuperate 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, option "2" has been identified as being unsuitable for FR's 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 gains, however is much more financially viable over a 5 year span, not to mention that FR would own the vehicles outright, or was identified earlier. This reasoning can also clearly be seen on the FFA's, where option "1" wins by "2" points, and vice versa for option "2". For these reasons, it is recommended that FR undertakes option 1.

