

Business management
Higher level
Paper 2

Monday 29 May 2023 (morning)

1 hours 45 minutes

Instructions to candidates

- y Do not open this examination paper until instructed to do so.
- y A clean copy of the **business management formulae sheet** is required for this examination paper.
- y Section A: answer three questions.
- y Section B: answer one question.
- y
- y A calculator is required for this examination paper.
- y The maximum mark for this examination paper is **[50 marks]**.

Section A

1. Sassy

Sassy, a partnership between fashion designers, produces clothes for teenagers. Capacity utilization is very high.

The partners are considering some strategic changes. After conducting research, they presented three options and outlined the costs and expected revenue. They also predicted that the economy would either improve or stay the same. The probability of the economy staying the same is 0.3.

The options, costs and expected revenue are given below:

Table 1: Information relating to the three strategic options for change

Options	Costs	Expected revenue
Option 1: Increase production capacity	\$200 000	\$300 000 (economy improves) \$250 000 (economy stays the same)
Option 2: Dissolve the partnership and sell Sassy's brand name to a competitor	Not applicable	\$150 000
Option 3: Become a private limited company and: (a) Stay with the current product range and production level OR (b) Develop a new product range of children's clothes.	\$150 000 (legal costs) No additional costs \$170 000 additional cost	Not applicable \$220 000 (economy improves) \$170 000 (economy stays the same) \$550 000 (economy improves) \$450 000 (economy stays the same)

- (a) Describe **one** disadvantage for an organization of operating at high capacity utilization. [2]
- (b) Construct a fully labelled decision tree and identify the best option for Sassy (*show all your working*). [6]
- (c) Explain **one** limitation for Sassy of using a decision tree as a planning tool. [2]

2. Mutombo Window Fans (MWF)

Mutombo Window Fans (MWF) manufactures and sells window fans to wholesalers across eastern Africa. Although the business began small, it experienced rapid internal growth through aggressive, commission-based sales.

Currently, *MWF* sells 300 window fans per month. Each fan sells at an average price of \$100.

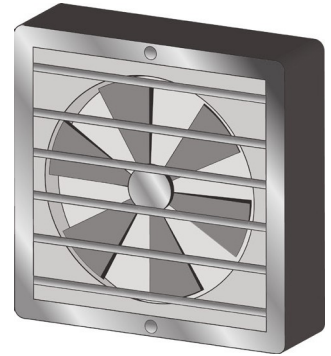


Table 1: Forecasted fixed costs for 2020 (all figures in \$)

Rent	36 000
Insurance	9 000
Salaries	19 000
Lease on equipment	48 000
Cleaning service	18 000

Table 2: Variable costs per fan for 2020 (all figures in \$)

Materials	55
Delivery	5

- (a) Define the term *internal growth*. [2]
- (b) (i) Calculate, for *MWF*, the break-even level of output for 2020. [2]
- (ii) Construct a fully labelled, to scale, break-even chart for *MWF* for 2020. [4]
- (iii) Calculate the profit if *MWF* sells 3600 window fans in 2020. [2]

Section A

1. Las Migas

Carolina plans to set up a bakery, *Las Migas*, in a small town. Competition from established bakeries is strong. Carolina has asked for a bank loan because her personal savings are insufficient. The bank manager requested the following information:

- y a business plan
- y a cash flow forecast for the first four months of operations.

Carolina has no experience with financial forecasts but she estimated the figures for *Las Migas* for the first four months of operations. These figures are shown in **Table 1**.

Table 1: Estimated figures for *Las Migas* for the first four months of operations

Estimated sales per month	For the first two months of operations: \$1500 From the third month of operations onwards: \$3500
Monthly rent	\$1000
Interest	\$45 to be paid every two months starting the first month of operation
Opening balance	\$100
Ingredients and supplies	30 % of sales
Electricity per month	1 % of sales
Carolina's monthly salary	\$390

[Source: © International Baccalaureate Organization 2019]

- (a) State **two** elements, **other than** a cash flow forecast, of a business plan. [2]
- (b) Prepare a cash flow forecast for *Las Migas* for the first four months of operations. [6]
- (c) Explain **one** problem that *Las Migas* may experience as a new business. [2]

4. Top Star (TS)

Top Star (TS) manufactures sports footwear. Its products are sold through retail outlets and online. Sales of *TS*' footwear in retail outlets are falling. However, because e-commerce is growing rapidly, online sales are increasing. In 2018, *TS*' total domestic sales were \$5 000 000 and total domestic market sales for the same time period were \$50 000 000.

TS must consider several challenges:

- y Some businesses in the sports footwear industry are finding that selling online leads to many problems and higher costs
- y *TS*' website is not user friendly. Customer complaints about the website and ordering problems are increasing
- y *TS*' presence in international markets is weak and its product range is limited. The directors of *TS* want to develop a new line of running shoes but the company has insufficient finance for research, development and creating brand awareness.

The directors think that *TS* should follow an external growth strategy. Two options are being considered:

- y **Option 1:** Some directors propose a merger with a footwear manufacturer, the multinational company *All Champion*, which would allow *TS* to be more competitive
- y **Option 2:** Other directors propose a merger with a footwear retailer that has a strong presence in domestic and international markets.

The finance manager believes that merging with *All Champion* could hurt *TS*' reputation. *TS*' factories may have to close, which the local population may resent.

- (a) Describe **one** feature of a multinational company (MNC). [2]
- (b) Calculate *TS*' market share in 2018 (*show all your working*). [2]
- (c) Explain **two** disadvantages **and one** advantage to *TS* of selling its products online. [6]
- (d) With reference to *TS*, evaluate the two merger options. [10]