

Business Management

Standard Level

Question Paper

2006 – 2017



IB DIPLOMA PROGRAMME
PROGRAMME DU DIPLÔME DU BI
PROGRAMA DEL DIPLOMA DEL BI

M06/3/BUSMT/SP1/ENG/TZ0/XX



22065013

**BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 1**

Tuesday 16 May 2006 (afternoon)

1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

- Do not turn over this examination paper until instructed to do so.
- Read the case study carefully and then answer all the questions.

1. (a) Outline the purpose of a Mission Statement. [4 marks]
- (b) Explain two advantages **and** two disadvantages for Electrical Solutions plc of owning a subsidiary such as *SunGen Ltd*. [8 marks]
2. (a) Catherine and Greg are suggesting that *SunGen Ltd* should have a flatter organizational structure. Describe two advantages **and** two disadvantages of a flatter organizational structure. [6 marks]
- (b) Using appropriate motivational theories discuss the changes to workers' contracts and the incentives programme proposed by Catherine and Greg. [10 marks]
3. (a) Prepare a SWOT analysis for *SunGen Ltd* explaining each entry. [8 marks]
- (b) Suggest an appropriate marketing mix to target solar panels at individual households, justifying the choices made for each element. [8 marks]
4. *SunGen Ltd* has both long-term and short-term financial problems.
 - (a) Analyse the short-term financial situation of *SunGen Ltd* and make **one** recommendation for improvement. [6 marks]
 - (b) Evaluate the options available to *SunGen Ltd* to fund the proposed expansion of their "production facility" (*line 138*). [10 marks]



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BUSINESS AND MANAGEMENT
CASE STUDY: SUNGEN LTD

For use in May and November 2006

INSTRUCTIONS TO CANDIDATES

- Case study booklet required for Higher Level Paper 1 and Standard Level Paper 1 Business and Management examinations.

SUNGEN LTD

The case study is based on two companies Electrical Solutions plc and its subsidiary, *SunGen Ltd.*

Company profile

In 1985, Derek Gorman opened Electrical Solutions, a small retail outlet selling electrical equipment. As an ambitious entrepreneur Derek set himself the target to be a millionaire before he reached the age of 35. He was constantly looking for new business and market opportunities. There was an

5 increasing international trend for electrical equipment, such as washing machines and televisions, to be sold in large out-of-town retail outlets to take advantage of economies of scale. Derek's market research highlighted that there were no such retail outlets in the suburbs of several large Australian cities. To take advantage of this business opportunity he developed a business plan and obtained a \$1.5 million bank loan (some of which was secured against his house) to open out of town electrical
10 retailing outlets in the suburbs of Melbourne. Sales revenue far exceeded expectations and in 1992 he achieved his ambition and earned his first million dollars in salary and bonuses.

To develop the business further Derek converted Electrical Solutions into a private limited company and by 1995 it had opened 10 further stores in Melbourne, Canberra and Adelaide and had a turnover of over \$22 million. However, by 2000 turnover at *Electrical Solutions Ltd* slumped as large
15 global conglomerates moved into Australia to take advantage of good trading conditions. These conglomerates were able to use their market and buying power to drive down prices making the market increasingly price competitive. *Electrical Solutions Ltd* was finding it increasingly difficult to match these price cuts.

Derek felt that being a private limited company was restricting further growth of the business. In
20 2001 the board of directors decided to float 65 % of the shares of *Electrical Solutions Ltd* on the Australian Stock Exchange. Derek and his family kept 30 % of the shares and the remaining 5 % was reserved for employees under an employee share ownership scheme. Derek became the chief executive officer of Electrical Solutions plc, a role he had fulfilled for the limited company since its start-up. In 2000, Derek's daughter Catherine joined the firm as director with responsibility for
25 purchasing. Catherine had been to university in Sydney and then spent four years working for a large Japanese car company where she pioneered environmentally sensitive manufacturing techniques.

At a board meeting in 2003, the directors agreed that for the company to grow further, it needed to diversify into other areas. With the existing intense competition in the electrical equipment retail market, Electrical Solutions plc looked for alternative expansion opportunities. It commissioned
30 the consultancy firm, Martrend, to conduct market research on its behalf and to investigate potential new markets. Martrend identified that consumers were increasingly concerned about both global warming and rising energy prices and were looking for new solutions to meet their energy requirements. This offered a significant market opportunity for companies manufacturing solar power equipment and so Electrical Solutions plc considered entering this market. Some of the
35 board of directors had reservations about this change of direction, but Catherine's passionate belief in sustainable energy persuaded the majority of the board to support the idea.

With solar power technology still developing, this represented a very new and risky market, but the report from Martrend provided convincing evidence that the market was set to grow rapidly and that there was an opportunity to gain first mover advantage.

- 40 In February 2003, Electrical Solutions plc set up *SunGen Ltd* as a wholly owned subsidiary of Electrical Solutions plc. Start-up capital was partly provided through a \$1 million bank loan. Further capital was contributed by the parent company, using funds released from the sale of the worst performing out of town retail outlets.

- 45 Derek's daughter Catherine was appointed the managing director of *SunGen Ltd*, which is based in Melbourne along with Electrical Solutions plc. It manufactures and sells solar power equipment to generate electricity for households and small firms (see **Appendix 1** for product range). Customers can use this equipment to generate power for their own needs and they can sell any surplus electricity to the national electricity provider for use by other customers.

Production

- 50 The production director of *SunGen Ltd* is Tony McGregor, an old friend of Derek's. He worked for many years as a manager for one of the large electricity companies. Derek persuaded him to move with an offer of a generous financial package including shares and bonuses. Some staff resented this appointment.

- 55 *SunGen Ltd* manufactures the solar power equipment to customer specification. The equipment is assembled from components that *SunGen Ltd* buy from a range of suppliers, as soon as an order is received from a customer. Consequently, *SunGen Ltd* holds minimal levels of stock. However, some suppliers have proved unreliable and long delivery times have resulted in some delays in delivery of the equipment to customers, causing dissatisfaction.

- 60 Significant recent growth means that the assembly area is currently running at an average 98 % capacity. Significant overtime is often required to meet demand and some of the production staff are expressing their concerns about the unpredictable nature of the hours they are expected to work.

- 65 *SunGen Ltd* is also having problems with the quality of the components from one or two suppliers and in the worst case this resulted in an entire system being replaced for a customer. Tony has suggested to the board that *SunGen Ltd* changes suppliers, but many of the components are highly specialized and the only alternative suppliers are located in Asia. The board has asked Tony to look at the possibility of building closer relationships with local suppliers.

- 70 These supplier problems have led Tony to look at quality issues across all their operations. Catherine is a strong advocate of total quality management and is promoting the use of quality circles and continuous improvement. By contrast Tony, who has quite a traditional management style, feels that quality control issues are the responsibility of management. He wants the employment of additional managers, with specific responsibility for quality.

Tony and Catherine are considering the possibility of buying a computer-controlled production management system. Currently, all production information is duplicated in several systems, which makes coordination difficult, leading to delays in production. Catherine argues that a computer-controlled system would enable them to manage production more efficiently. She believes this will
75 reduce unit cost. Tony is not convinced and argues that the costs of the system will outweigh its benefits.

Marketing

The market for solar power equipment is a niche market. The market is small, but is growing at approximately 20 % per year and *SunGen Ltd* estimate they have around 65 % of the market. There
80 is currently only one other major firm, though their products differ from those of *SunGen Ltd* in several important respects. *SunGen Ltd*'s marketing director is Ying Chau and she was appointed in 2004. Their current product range is given in **Appendix 1** with details of the products.

The initial marketing strategy targeted mainly business customers. The key market segment is firms who construct houses. *SunGen Ltd* target these customers by exhibiting at trade shows and through personal selling.

85 *SunGen Ltd* want to persuade the government to accelerate the growth of the solar power equipment market. The company has commissioned a public relations firm to influence the government to implement two main changes:

- modifications to planning regulations to require house builders to fit systems that use renewable and sustainable energy systems in new houses.
- subsidies to households who decide to fit renewable energy systems in existing houses.

In June 2005, the board of directors agreed to an expansion plan proposed jointly by Ying and Catherine to target their products at individual households. This move was partly based on the results of the market research conducted by Martrend in 2003. The results found that 45 % of those questioned would consider fitting some sort of renewable energy generation
95 system. Ying was a little unsure about the value of these results and argued that they should be interpreted carefully and further market research commissioned. Catherine felt there was sufficient evidence from the research of a viable market and has asked Ying to design an appropriate marketing strategy. As the market is geographically dispersed, *SunGen Ltd* will require suitable distribution channels for their products which need to be professionally installed.

Human resource management

100 In 2004, Greg Robinson was transferred to *SunGen Ltd* from Electrical Solutions plc to manage the human resource department. His first priority was to recruit production staff. To speed up the process, he recruited a proportion of the staff internally from Electrical Solutions plc.

105 In 2005, Greg and Catherine decided to review the organizational structure. Greg agrees with Catherine that the company needs a flatter structure with fewer levels of hierarchy. Their aim is to ensure that the company is as flexible and responsive as possible, and able to cope with the

rapid levels of growth they anticipate. Tony is concerned that as a result of the flatter structure there will be problems with lines of communication and management control. He points out that important decisions may not reach all staff resulting in delays in production. Tony is supported by a number of the internally recruited staff, who argue that there is no clear leadership or vision. They feel that too often they are left to make decisions. Although they enjoy the extra responsibility they are unclear how their decisions fit with the company's strategic direction.

Along with the review, Greg and Catherine are considering changes to workers' contracts to make them more flexible. Production workers will be offered a certain number of hours each week according to the level of demand. A proportion of the workers will be placed on temporary contracts.

The workforce is represented by a single trade union. It is threatening strike action if the proposed changes are adopted. Trade union representatives have met with Greg to try to resolve these issues.

Greg and Catherine believe that staff should be given incentives. They are proposing an additional training programme and appraisal system. Production staff will be required to attend a one-week residential training course, which is being organized for *SunGen Ltd* by an external training organization. At the end of the training programme the staff will negotiate performance targets with their line managers for the coming year. Then, at the end of the year, an appraisal system will be introduced to review these targets. High-performing staff will receive significant bonuses and other incentives.

Finance

The finance department of *SunGen Ltd* consists of two staff plus the finance director, Alex Roderey. It is responsible for the preparation of monthly management accounts for the board of directors and the year-end accounts. Payroll, customer invoicing and other day-to-day operations are centralized in the finance department of Electrical Solutions plc. They make an annual charge to *SunGen Ltd* for providing these financial services.

Alex is concerned about the financial situation of *SunGen Ltd*. Although the growth in sales is promising, the company is still making significant losses and remains very short of working capital. Electrical Solutions plc is currently funding *SunGen Ltd* from their cash reserves, but these reserves are running down. *SunGen Ltd*'s forecasts suggest they will become profitable in 2007, but they will need a further cash injection in the near future if they are to avoid problems with meeting their obligations to staff and suppliers. The financial situation is the main item on the agenda of the next meeting of the board of directors and Derek and two other representatives from the board of Electrical Solutions plc have been invited to attend this meeting. Alex will also raise the issue of longer term funding at this meeting as he agrees with Catherine and Tony that they need to expand capacity by building a new production facility within the next 18 months if they are to avoid a significant production backlog.

Key financial figures are given in **Appendix 3**.

Future prospects

SunGen Ltd has made a positive start with strong sales growth and a good response to the product range from customers. Catherine is keen to make further use of their environmental profile and is currently developing a mission statement for the firm and a Corporate Social Responsibility report. This will consider issues relating to their products, staff, the environment, stakeholders and their accountability. The finance director, Alex, has raised concerns about the Australian housing market. Solar power equipment for new houses is a significant proportion of their business and therefore he is worried about reports from some commentators that house prices are set to fall. There is also uncertainty about the state of the economy in general. However, Catherine has dismissed these concerns as she feels that demand for their systems is based more on people's attitudes and environmental issues than on income levels. Forecasts for major Australian macroeconomic indicators (as at November 2005) are given in **Appendix 2**.

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Appendix 1

Current *SunGen Ltd* product range

| Product | Description | Target market |
|----------------------------|--|--|
| Solar roof tiles | These roof tiles are designed to replace existing roof tiles and generate a significant proportion of the power required to run a house. Replacing a whole roof can be expensive, though a proportion of the roof could be replaced. | Builders of new and existing houses |
| Metal solar roofs | These metal roofs are expensive and can only be fitted to new houses. Once fitted they will generate the majority of the power required for the house. | House builders |
| Free standing solar panels | These free standing panels are available in a range of sizes, cheap to buy and fit and can be fitted anywhere – for example, on a roof or in a garden. They offer a good introductory product for customers wanting to generate a small amount of their own power. | Individual households |
| Solar glass | This is a premium product fitted instead of conventional glass that generates power for the building. | Business users and builders of new buildings |

Appendix 2

Australian economy – macro-economic forecasts (as at November 2005)

| Indicator | 2006 | 2007 | 2008 |
|--------------------------------------|------|------|------|
| Inflation (%) | 2.2 | 2.9 | 3.4 |
| Economic growth (% change in GDP) | 3.7 | 2.4 | 0.9 |

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Appendix 3

Key financial information – Electrical Solutions Ltd and *SunGen Ltd*

| Key ratios | | | | | |
|---------------------------------|-----------------------------|-----------------------------|-------------------|-----------------------------|-------------------|
| | Year ended 31 March 2003 | Year ended 31 March 2004 | | Year ended 31 March 2005 | |
| | Electrical Solutions plc | Electrical Solutions plc | <i>SunGen Ltd</i> | Electrical Solutions plc | <i>SunGen Ltd</i> |
| Profitability | | | | | |
| Gross profit margin (%) | 28 | 24 | – 6 | 22 | – 8 |
| Net profit margin (%) | 9 | 8 | – 12 | 8 | – 14 |
| ROCE (%) | 23 | 22 | – 6.3 | 20 | – 16 |
| Liquidity | | | | | |
| Current ratio | 2.3 | 1.8 | 1.2 | 1.6 | 1.1 |
| Acid test ratio | 1.2 | 0.9 | 0.8 | 0.7 | 0.6 |
| Efficiency | | | | | |
| Stock turnover (number of days) | 91 | 102 | 33 | 105 | 28 |
| Debtor days | 15 | 14 | 46 | 14 | 49 |
| Creditor days | 34 | 35 | 41 | 38 | 39 |

| Key balance sheet and profit and loss figures \$ 000 | | | | | |
|--|-----------------------------|-----------------------------|-------------------|-----------------------------|-------------------|
| | Year ended 31 March 2003 | Year ended 31 March 2004 | | Year ended 31 March 2005 | |
| | Electrical Solutions plc | Electrical Solutions plc | <i>SunGen Ltd</i> | Electrical Solutions plc | <i>SunGen Ltd</i> |
| Turnover (\$ 000) | 17 500 | 18 200 | 700 | 19 400 | 1 800 |
| Capital employed (\$000) | 6 850 | 6 590 | 1 320 | 7 750 | 1 570 |
| Fixed assets (\$000) | 3 790 | 4 220 | 950 | 5 050 | 1 275 |
| Loan capital (\$000) | 2 400 | 3 200 | 1 000 | 3 450 | 1 250 |
| Working capital (\$000) | 3 060 | 2 370 | 370 | 2 700 | 295 |
| Net profit before interest and tax \$000 | 1 575 | 1 450 | (84) | 1 550 | (252) |



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**BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 2**

Wednesday 17 May 2006 (morning)

1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Answer three questions.

1. El Burro

In 2004, Danae and Rocio Tefero set up a business, *El Burro*, as a partnership, offering tours on donkeys in Granada, Spain. After seeing elderly tourists struggling to get up the steep hills of the region, they realized that donkeys could easily carry them and provide a unique experience at the same time. The sisters borrowed €4500 to buy six donkeys costing €750 each. Donkeys are a protected species in Granada and only a few people are still breeding them as they are no longer used for farming. Their harnesses are expensive, difficult to obtain and have to be made to order.

Local people have expressed concerns about the donkeys carrying tourists. The sisters argue that donkeys are more environmentally friendly as a form of transport as there is no noise or pollution to damage the area. Danae has also assured them that the animals are strong enough as they are bred to carry heavy loads. Danae and Rocio are committed to supporting the local community to run an educational programme as part of which children are able to ride the donkeys and learn about how they live. The donkeys are particularly safe for children with disabilities. The donkey treks are advertised in the local tourist information offices. The educational programme offers 2 hour rides for €10.

| | Net profit per trek | Maximum number of treks per year |
|-------|----------------------------|---|
| Adult | €30 | 40 |
| Child | €10 | 60 |

- (a) Identify **two** main features of a partnership. [2 marks]
- (b) Calculate the time taken to payback the initial investment of €4500 assuming *El Burro* operates at the maximum number of treks per year. [3 marks]
- (c) Examine **two** ways in which *El Burro* can ensure its survival as a business. [7 marks]
- (d) Discuss how the sisters can minimize potential conflict between themselves and the local community. [8 marks]

2. Teddybears Picnics Ltd

Teddybears Picnics Ltd produces teddy bears. Financial information includes:

| | 2004 (\$) | 2005 (\$) |
|-----------------------|---------------------|---------------------|
| Fixed assets | 10 000 | 10 000 |
| Sales revenue | 22 000 | 24 000 |
| Cash | 1 200 | 1 000 |
| Stock | 4 800 | 5 200 |
| Debtors | 2 900 | 3 200 |
| Cost of sales | 8 400 | 8 900 |
| Creditors | 3 200 | 3 400 |
| Retained profit | 8 700 | 9 900 |
| Overheads | 4 400 | 5 000 |
| Long term liabilities | 7 000 | 6 100 |

(a) Define the following terms:

- (i) *fixed assets*
- (ii) *current assets*
- (iii) *current liabilities*.

[6 marks]

(b) Construct a profit and loss account for *Teddybears Picnics Ltd* for each of the years 2004 and 2005.

[5 marks]

(c) Produce a balance sheet for *Teddybears Picnics Ltd* for each of the years 2004 and 2005.

[6 marks]

(d) Identify **three** ways in which *Teddybears Picnics Ltd* can improve their net profit.

[3 marks]

3. Fairplay

Fairplay is a large clothing company promoting ethical responsibility to protect their corporate image. *Fairplay* is developing an ethical policy and guidelines for safety in their overseas operations. It insists that suppliers meet appropriate guidelines; pay adequate wages; and treat all employees fairly. With faster communication, unethical business behaviour in other countries is quickly exposed globally.

Poverty, high unemployment, and weak, non-existent or unenforced labour laws in many countries make it easy to abuse employees. In the past *Fairplay* has experienced bad publicity from working with suppliers that use child labour, and provide poor working and living conditions. External stakeholders are demanding an ethical response and *Fairplay* must respond to this. *Fairplay* are considering developing a code of practice to protect their reputation and brand names. For example, they provide meals for workers and offer medical care in their factory in Honduras and, as a consequence productivity has doubled.

Fairplay's ethical policies also apply to its suppliers and failure to comply means that *Fairplay* discontinues working with them. *Fairplay* visits factories without notice to check standards.

- (a) Define with an example the term *external stakeholder*. [2 marks]
- (b) Explain the benefits to *Fairplay* of setting ethical objectives. [4 marks]
- (c) Recommend **four** policies that *Fairplay* should include in its code of practice. [4 marks]
- (d) Evaluate the costs and benefits to *Fairplay* of working more closely with its suppliers to ensure it meets the standards set out in its code of practice. [10 marks]

4. The Computer Games Market

Increasingly the \$18.2 billion global market for computer games is dominated by a few publishers. The UK games development market is worth \$300 million and exports outweigh imports. More and more UK games publishers are being taken over by Japanese and US rivals. The computer games market is the fastest growing media industry in the world. The risks involved in creating an original game are significant. There is no guarantee that a game created by a software developer will be bought by a games publisher. New games consoles (hardware) are constantly being developed across the industry and as competitors increase, employee skills need to be upgraded. The number of new games is decreasing and those that are produced are increasingly linked to the film industry.

Another threat to the UK industry is the outsourcing* of development to cheaper sources in Eastern Europe and Vietnam. The shrinking market has forced developers to diversify and take risks. For example they now are making games for mobile phones. The UK is the world leader in the rapidly expanding mobile phone games market.

* outsourcing: to send out work to an outside provider in order to cut costs.

[Source: adapted from *The Sunday Telegraph* 6 September 2004]

- (a) Explain how computer games businesses can ensure their employees' skills meet the needs of a rapidly changing industry. [4 marks]
- (b) Describe the importance of innovation in a rapidly changing computer games market. [4 marks]
- (c) Discuss the problems of financing research and development in the high risk market of computer games development. [7 marks]
- (d) Examine the long-term implications for the UK games industry of outsourcing development to Eastern Europe and Vietnam. [5 marks]

5. Keysnapz

Phil Newman runs a business, *Keysnapz*, providing souvenir photo keyrings for special occasions. He has approached a theme park to provide souvenir photo keyrings for customers as a memory of their day out. The minimum requirement of the contract is 1000 key rings per year.

In order to fulfil the contract Phil will need to rent premises at the theme park costing \$1700 per year but he does not need to purchase any equipment to produce the keyrings. He needs to buy plastic ring parts costing \$0.16 per unit, clips costing \$0.03 per unit and photo paper costing \$0.06 per unit. Phil intends to sell the keyrings at \$3.65 each and estimates that he can produce 2500 keyrings per year.

- (a) Explain, with appropriate examples, the difference between fixed and variable costs. [4 marks]
- (b) Calculate the
- (i) break-even point [4 marks]
 - (ii) margin of safety at 1000 keyrings [1 mark]
 - (iii) profit at 1000 keyrings [2 marks]
 - (iv) profit at 2500 keyrings. [2 marks]
- (Clearly show your working out.)*
- (c) Analyse the limitations of using break-even analysis as a planning tool. [7 marks]
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**BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 1**

Thursday 9 November 2006 (afternoon)

1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

- Do not turn over this examination paper until instructed to do so.
- Read the case study carefully and then answer all the questions.

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1. (a) Identify **two** external sources of finance for *SunGen Ltd.* [2 marks]
(b) Using the profitability, liquidity and efficiency ratios given in Appendix 3, discuss the changes in the financial performance of Electrical Solutions plc between 2003 and 2005. [10 marks]
2. (a) The market for solar power equipment is a niche market (*line 77*). Define the term *niche market*. [2 marks]
(b) Produce a suitable marketing mix for free standing solar panels (*Appendix 1*). Discuss how each element of your marketing mix can support *SunGen Ltd*'s objective to be seen as environmentally and socially responsible. [12 marks]
3. (a) Identify **two** methods of recruitment available to *SunGen Ltd.* [2 marks]
(b) Using appropriate motivational theory, evaluate how Greg and Catherine's suggestions (*lines 103-123*) could affect the workforce. [12 marks]
4. (a) Produce a SWOT analysis to examine the current position of *SunGen Ltd.* [8 marks]
(b) Select **four** weaknesses you have identified from the SWOT analysis produced in part (a) and evaluate a possible strategy to address each of the weaknesses selected. [12 marks]



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**BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 2**

Friday 10 November 2006 (morning)

1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Answer three questions.

1. 3X

3X was founded in 1880 in the United States. Its mission is “to publish the most vital business and financial news and information and to ensure that the 3X name is associated with accuracy, integrity and trust”.

3X publishes over 38 newspapers and produces news and information for television through a global business television alliance. In addition, 3X is the leading global provider of instant electronic business news and information for financial institutions. 3X has achieved this position through a combination of organic growth and mergers and acquisitions. It recently entered the Russian market by setting up a joint venture with an established and successful local publisher “Kalowski”.

3X sets a code of ethical conduct for its employees to follow since it recognizes that it is vital that customers believe that the news and information it provides is the truth. 3X’s ethical code provides guidelines on share trading, accepting gifts, political activities and employee rights.

In recent years 3X has set the trend away from printed newspapers towards digital news and information. 3X recognises that digital news and information is more timely, easier to update and amend, and is cheaper to distribute. However, many customers are more familiar with “paper” news and distrust digital media and prefer the mobility offered by paper. In addition, the unions have resisted moves towards digital news and information.

- (a) Explain how the mission statement can help decision making at 3X. [4 marks]
- (b) Describe **two** potential benefits to 3X of setting ethical objectives. [4 marks]
- (c) Discuss the possible reasons why 3X chose to enter the Russian market via a joint venture rather than setting up there independently or acquiring a local publisher. [6 marks]
- (d) Analyse the role of primary **and** secondary sources of data in helping 3X develop its presence in the digital news and information market. [6 marks]

2. Essemo

Essemo was founded in 1920 and is now a world leader in the production and distribution of a range of ice cream products. The *Essemo* product range (see Table below) includes products targeted at children, restaurants, supermarkets and a “super premium” range for adults. The *Essemo* management believe there are very few further growth opportunities in niche markets.

Facing intense competition from strong rivals in Europe and North America, *Essemo* has decided to base its growth strategy in new markets. In particular, *Essemo* intends to expand in India and China where the large population, growing economies, and potential demand offer huge growth opportunities.

Essemo is also concerned that the move towards low calorie diets will soon harm ice cream sales in mature markets.

| Product | Description |
|-------------|--|
| Dotty | Bright and colourful. Low price aimed at young children. Uses low cost ingredients. Dotty has taken up a great deal of management time, but sales have never achieved their potential. |
| Nutty | Range of flavours with chocolate and peanut topping. Medium price. For teenagers and young adults. Viewed as a cash cow. |
| Get2gether | Two litre tubs aimed at family buyers for freezer storage at an affordable price. Uses medium range ingredients. |
| Royale | Super premium. Aimed at young professionals. High quality, premium price. Viewed as a cash cow. |
| Ben & Berry | Premium quality family ice cream. High price with fun theme. A proportion of sales revenue goes to children’s charities. Viewed as a rising star. |

- (a) Explain the significance and role of “cash cows” for the future of *Essemo*. [4 marks]
- (b) Identify **two** potential benefits and **two** potential costs to the Indian economy if *Essemo* enters the Indian market. [4 marks]
- (c) With reference to the Ansoff Matrix and the product life cycle, discuss *Essemo*’s chosen growth strategy. [6 marks]
- (d) Evaluate the choice of different pricing strategies for *Essemo*’s product range. [6 marks]

3. Overseas School

Overseas School was established in Asia in 1973 and by 2003 had established itself as a prestigious, fee paying international school with a reputation for sending its high school graduates to the best universities.

Teachers were employed on two year contracts, which were renewed if performance was deemed to be satisfactory by the chairman of the board of governors. In 2004 the chairman, Tom Jones, decided that the school needed to introduce radical changes to head off the challenge from new international schools. Tom proposed the following changes:

- the existing head teacher, who had been employed by the school for 15 years would be replaced as soon as possible
- the appointment of a director of administration who would oversee the non-academic operations of the school (e.g. catering, transport, cleaning). The director would have a business (rather than education) background and would receive performance related pay
- existing teachers would take a 30 % pay reduction
- a major building programme would be initiated to distinguish *Overseas School* from its rivals
- members of the union management committee would not have their employment contracts renewed
- a rigorous programme of teacher appraisal would be introduced; under-performing teachers would not have their contracts renewed. Extra money would be given to teachers with a “good” appraisal
- heads of subject departments would be required to report regularly to the director of academic studies. Examination results would be monitored closely.

Tom’s proposals were strongly opposed by the teachers and management, but supported by the parents and students. However, since Tom had complete control over the board of governors the opposition was largely ignored.

- (a) Describe Tom Jones’ leadership style. [2 marks]
- (b) Using Herzberg’s theory of motivation examine the likely effects on teacher motivation of Tom Jones’ proposals. [6 marks]
- (c) Identify the interests of **two** stakeholder groups at *Overseas School* and explain how potential conflict between them could be resolved. [6 marks]
- (d) Evaluate the proposal to reward the director of administration on a performance related pay basis. [6 marks]

4. Aries

The chief executive officer (CEO) of *Aries*, a shoe manufacturer, has proposed that the firm enters the women's fashion clothing market. *Aries* has a reputation for innovative designs, which should provide an edge in a very competitive market. The production manager, who supports the CEO's proposal, suggests that *Aries* should investigate a strategic alliance with Scharp, a manufacturer producing exclusive clothes for the menswear market. Scharp, which has an excellent reputation for the quality of its clothing, has agreed in principle to manufacture clothes for *Aries* using spare production capacity. *Aries* would be responsible for all marketing and distribution of its new clothing range and the *Aries* and Scharp brands would remain distinct and separate. However, the two firms would undertake joint market research and would consider developing new products in the future where the brands complement each other.

The finance director of *Aries*, however, is concerned about the financial implications of the expansion. He believes there is inadequate working capital to fund this venture as recent expensive development of new shoe designs has resulted in poor liquidity. Nevertheless, following a request from the CEO, he has produced the following estimates of cash flows for the first six months of manufacture, to be presented to the next meeting of the board of directors. He recommends that \$300 000 be deposited in the bank in January as an opening bank balance to fund the new venture. This sum will need to be taken as a loan on which interest will be payable.

| | |
|-------------------|--|
| Start up costs | \$150 000 one-off payment payable in January |
| Monthly overheads | \$15 000 per month starting in January |
| Monthly interest | \$3000 per month starting in January |
| Stock purchases | \$18 000 in January rising by 5 % in each of the following months |
| Predicted sales | First sales of 100 garments in March, with sales growing by 5 % per month. Each garment will sell for \$400. |

- (a) Explain the need for working capital. [3 marks]
- (b) (i) Identify **three** reasons for drawing up a cash flow forecast. [3 marks]
- (ii) Prepare a cash flow forecast for the proposed new clothing venture covering the first six months of operations (January to June), using the financial data provided by the financial director. [8 marks]
- (c) Evaluate the proposal that *Aries* forms a strategic alliance with Scharp. [6 marks]

5. Seifert Sawmill

The *Seifert Sawmill* has operated in Sweden for 80 years. Daniel Seifert, the managing director, provided the following data on a proposal to set up a Sawmill in Latin America.

Table 1

| | |
|----------------|-----------------------|
| Fixed costs | \$800 000 per annum |
| Variable costs | \$1000 per batch |
| Selling price | \$4000 per batch |
| Forecast sales | 500 batches per annum |

Table 2

| The fixed costs per annum: \$ | | The variable costs: \$ | |
|--------------------------------------|---------|-------------------------------|---------------|
| Directors fees | 200 000 | Direct labour | 300 per batch |
| Rent | 250 000 | Machine hire | 100 per batch |
| Annual logging licence | 100 000 | Electricity | 100 per batch |
| Depreciation | 70 000 | Vehicle running costs | 100 per batch |
| Interest | 150 000 | Materials | 400 per batch |
| Other expenses | 30 000 | | |

Seifert Sawmills has hired a management consultancy firm, Business Dynamics, to assess the business environment in Latin America. The following is a summary of their findings:

- the local and regional construction industry is showing strong signs of recovery from recession
- the recent national elections resulted in the PBP political party being re-elected with policies favouring the business community
- the local currency has been pegged to the US dollar in an attempt to improve business confidence and contain inflation
- the trade union movement in Latin America is getting stronger. There is a widespread belief among employees that trade unions offer the only real hope of improving living standards
- global and local environmental groups are gaining in popularity and political influence
- there is a growing use of synthetic materials in the construction industry rather than timber.

- (a) Use the data in Table 1 to prepare a break-even chart for *Seifert Sawmill*. [6 marks]
- (b) Identify on your chart the margin of safety and profit if 500 batches are sold. [2 marks]
- (c) Assuming 500 batches are sold, construct a forecast profit and loss account using the data provided in Table 2. [6 marks]
- (d) Use a PEST/STEP framework to evaluate **two** external factors which might influence *Seifert Sawmill*'s decision to set up a sawmill in Latin America. [6 marks]



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22075013

**BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 1**

Thursday 17 May 2007 (afternoon)

1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

- Do not turn over this examination paper until instructed to do so.
- Read the case study carefully and then answer all the questions.

– 2 –

M07/3/BUSMT/SP1/ENG/TZ0/XX

1. (a) Draw an organizational chart for *Gladrags Ltd*, clearly identifying each person's functional responsibility. [6 marks]
(b) With reference to the organizational chart define the terms
(i) *chain of command* [2 marks]
(ii) *span of control*. [2 marks]
(c) Anjay wants to change the organization to a flatter structure. Discuss the reason for the change using relevant motivation theory to argue the case. [10 marks]
2. (a) Analyse the differences between marketing clothes under the family brand *Gladrags* and marketing the individual brand "Sassy". [8 marks]
(b) Using the Ansoff Matrix, propose a future marketing strategy for *Gladrags Ltd*. [8 marks]
3. With the help of four ratios, discuss how the financial situation of *Gladrags Ltd* has changed between 2004 and 2006. [12 marks]
4. After the board meeting (*line 149*) the following decisions were taken:
 - to target the European market
 - to produce the *Gladrags* brand in Vietnam and produce the "Sassy" brand in Britain.Justify both decisions to the shareholders. Use the PEST analysis provided in the case study to support your answer. [12 marks]



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22075014

**BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 2**

Friday 18 May 2007 (morning)

1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Answer three questions.

2207-5014

6 pages

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1. Eye-Spy

Eye-Spy sells sunglasses in a range of colours and designs targeted at teenagers. They are sold as a fashion accessory by several department stores. Each pair of sunglasses costs \$6 to manufacture and is supplied with a neck chain and protective case. *Eye-Spy* purchases each chain at \$1 and pays \$60 for 100 protective cases. The annual fixed costs of the business are \$240 000.

The sunglasses are sold to retailers in batches of 50. Each batch sells for \$600. The distribution cost per batch is \$20. Annual sales for 2006 were 96 000 sunglasses, a sales level 25% above 2005. The factory is working at full capacity. As a result the management of *Eye-Spy* are considering expanding potential output by renting a new factory unit, which would increase annual fixed costs by \$40 000. Wage incentives for the proposed higher output will increase manufacturing costs by \$1 per pair of sunglasses, but this will be passed onto the department stores by increasing the batch price of 50 sunglasses to \$650. The increase in capacity will allow *Eye-Spy* to produce a further 24 000 sunglasses per year.

(a) Calculate

(i) the present variable cost of producing and distributing a batch of 50 sunglasses, including chains and cases. [3 marks]

(ii) the contribution made on the sale of each pair of sunglasses. [2 marks]

(b) Construct a fully labelled break-even chart for 2006 to show the following:

(i) the annual unit sales of sunglasses that *Eye-Spy* require to break-even.

(ii) the annual margin of safety.

(iii) the profit for 2006 at full capacity. [8 marks]

(c) Using financial and non-financial information from the text, evaluate the proposal to expand production of *Eye-Spy* sunglasses. [7 marks]

2. Crucible database

Crucible, a subsidiary of the supermarket chain *Tesco*, is collecting detailed information to construct a database on every household in the UK. This contains data on every consumer across a range of demographic, socio-economic and lifestyle characteristics. *Crucible* is then selling consumer profiles to other big companies such as *BMW*, *Coca-Cola*, *Sky* and *Orange*.

These profiles show how an individual works, thinks and, most importantly, shops. Consumers are classified across ten categories: wealth, promotions, travel, charitable giving, environmental awareness, leisure time, credit status, living style, creatures of habit and adventurous. The database includes both primary and secondary data. Much of the data comes from *Tesco*'s store and loyalty cards, but other data is purchased from private market research companies and government agencies. Other personal information comes from questionnaires and surveys. The profiles can be used to target customers with particular products and services and to support decisions on where to locate new retail stores.

[Source: adapted from: *The Guardian*, 20 September 2005]

- (a) Explain what is meant when *Crucible* is described as a subsidiary of *Tesco*. [2 marks]
- (b) (i) From the text identify **two** examples of primary research and **two** examples of secondary research. [4 marks]
(ii) Analyse the advantages **and** disadvantages of primary and secondary research to *Crucible*. [6 marks]
- (c) Discuss, with practical examples, how the *Crucible* customer database can help companies, such as *BMW*, *Coca-Cola*, *Sky* and *Orange*, make successful business decisions. [8 marks]

3. Dell Personal Computers

Dell accounts for 18% of the global market in personal computers (PCs) with a 34% market share in America. It assembles its computers from parts sourced around the world. *Dell* uses a direct-selling business model. Orders are placed direct over the phone and the Internet, bypassing retailers and therefore cutting costs. This allows *Dell* to undercut competitors on price, provide better service and still have higher profit margins.

In 2005, Michael Dell targeted sales growth of \$80 billion over four years, mostly in Asia and Europe. However, despite the best market in PCs for five years, *Dell's* revenue growth was less than expected. The arrival of low cost Asian competition, such as China's *Lenovo* and *Acer* of Taiwan, threatens *Dell's* market dominance. *Dell* is a victim of its own success, becoming increasingly hard to manage because of its size, broadening product line and its international expansion.

Online sales of all products are growing rapidly worldwide with e-commerce sales in the American market growing by 56% during 2005. The growth of faster broadband networks means “on-line window shopping” is quicker and easier. *Dell* is forecasting 400 million broadband subscribers worldwide by 2009.

[Source: adapted from: *The Sunday Times*, 24 April 2005 and 11 September 2005]

- (a) Explain what is meant by the term “*profit margin*”. [2 marks]
- (b) Examine **two** reasons why increasing size makes *Dell* harder to manage. [4 marks]
- (c) Analyse the advantages **and** disadvantages of *Dell* targeting overseas markets for future sales growth. [6 marks]
- (d) Evaluate the use of Internet sales used by *Dell* to distribute its PCs. [8 marks]

4. Corporate Social Responsibility (CSR)

Companies are increasingly required by governments to be responsible to act for the benefit of their stakeholders and society in general. The law requires companies to report on their external impacts, such as effects on the environment. Company websites emphasize their good citizenship, including their values, philosophies and social and environmental reports. Financial institutions are also demanding that the companies they invest in behave responsibly.

Supermarkets, for instance, realised about five years ago that customers wanted a broader range of ethical and fair trade products on the shelves. These guarantee above market prices to farmers and require factories to meet strict health and safety and environmental standards.

A recent survey showed that 80% of employees would prefer to work for a company that has ethical guidelines. It is surprising, therefore, that there is little relevant training for staff about the effective implementation of a company's ethical policies. The Institute of Business Ethics (IBE) found that less than half of companies (45%) provide ethics training to their staff. Indeed, only a quarter of chief executives consider themselves directly responsible for the ethical conduct of their companies.

[Source: adapted from: <http://observer.guardian.co.uk>, 21 March 2004 and www.guardian.co.uk, 10 March 2005]

- (a) (i) Identify **four** stakeholders of the companies referred to in the passage. [4 marks]
- (ii) Explain how the introduction of ethical policies can cause conflicts between **two** stakeholder groups identified in (a)(i). [4 marks]
- (b) Analyse the advantages **and** disadvantages to a company of implementing socially responsible and ethical objectives. [6 marks]
- (c) Discuss how ethical approaches can be integrated into a company's marketing strategy to provide competitive advantage. [6 marks]

5. Leadership

① “Effective leaders are those with sufficient self-confidence to gather round them people who are better than they are and then let them get on with their job without interfering.”

Niall Fitzgerald, Chairman Reuters

② “When a boss tells you to pick up a pig and walk, you pick it up and walk, and when he tells you to sit down and rest, you sit down. You do that right the way through the day. And what's more, no back talk.”

F W Taylor, Scientific Manager

③ “The leadership style common in many family businesses tends to create employees of marginal ability. Owners acting as “parents” tend to do things and make decisions for employees rather than forcing them to take the initiative.”

Quentin Fleming, Keep the family baggage out of the family business

④ “Leadership is the activity of influencing people to cooperate towards goals and objectives which they come to find desirable.”

Ordway Tead, Educator

⑤ “A leader has got to have an ability to switch 360 degrees from strategic thinking to narrow operational focus when required.”

Tony Tahar, CEO, Anglo-American

(a) Identify and explain the **three** leadership styles referred to in quotations

①, **②** and **③**.

[6 marks]

(b) (i) With reference to quotation **④** explain the importance of objectives in managing an organization.

[3 marks]

(ii) With reference to quotation **⑤** distinguish between objectives, strategies and tactics.

[3 marks]

(c) Evaluate the effect of different leadership styles within organizations.

[8 marks]



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**BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 1**

Monday 19 November 2007 (afternoon)

1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Read the case study carefully and then answer all the questions.

– 2 –

N07/3/BUSMT/SP1/ENG/TZ0/XX

1. (a) Explain **two** advantages for *Gladrags Ltd* of changing from a partnership to a private limited company in 1992 (*lines 34 to 35*). [4 marks]
(b) (i) Identify **two** internal stakeholders of *Gladrags Ltd*. [2 marks]
(ii) Select **one** of the stakeholder groups identified in (b)(i) and examine whether they are likely to be in favour of the takeover bid from the Indian multinational corporation (*lines 145 to 146*). [6 marks]
2. (a) (i) Define the term *labour turnover*. [2 marks]
(ii) Explain **two** possible reasons why labour turnover is starting to rise at *Gladrags Ltd* (*lines 105 to 106*). [4 marks]
(b) With the use of appropriate motivation theory, evaluate **two** strategies to improve motivation at *Gladrags Ltd*. [10 marks]
3. (a) Identify the **two** main channels of distribution used by *Gladrags Ltd*. [2 marks]
(b) Analyse whether *Gladrags Ltd* should make changes to the four elements of the marketing mix to increase sales in the factory shop. [12 marks]

4. The finance manager, Colin Buckley, has drawn up draft accounts for the year ended 31 May 2007. The main figures from these accounts are given below.

| | \$000 |
|----------------------|-------|
| Gross profit | 525 |
| Net profit | 190 |
| Interest | 35 |
| Tax | 25 |
| Dividends | 100 |
| Turnover | 2750 |
| Fixed assets | 1250 |
| Creditors | 450 |
| Debtors | 350 |
| Cash | 50 |
| Short-term borrowing | 135 |
| Net assets | 1570 |
| Share capital | 350 |
| Loan capital | 550 |

- (a) (i) Calculate the gross profit margin and the net profit margin for the years ended 31 May 2006 (*see Appendix 1 in the case study*) and 31 May 2007. [4 marks]
- (ii) Explain **two** possible reasons for the change in the net profit margin between 31 May 2006 and 31 May 2007. [4 marks]
- (b) Use the figures above to construct a full profit and loss account **and** balance sheet for the year ended 31 May 2007 (*N.B. Use the same layout for the accounts as in Appendix 1*). [10 marks]



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**BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 2**

Tuesday 20 November 2007 (morning)

1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Answer three questions.

1. Creative Technology

Founded in Singapore in 1981, *Creative Technology* is the worldwide leader in digital entertainment products for various market segments in the personal computer industry. *Creative Technology* is particularly involved in the personal digital entertainment market, which is one of these market segments. In recent years *Creative Technology* has expanded in this market by offering a product range, which includes portable media centers (offering music and video), multimedia speakers and digital and web cameras.

Creative Technology is most famous for its Zen and MuVo lines of portable MP3 digital audio players. The Zen stores thousands of music tracks and, although portable, is quite bulky. The MuVo weighs one ounce, can be used as a portable computer hard drive, and stores around 130 music tracks. The target markets for the MuVo include teenagers, commuters and joggers. *Creative Technology*'s Zen faces significant competition in this market from companies like *Apple* who produce the iPod. The iPod is the market leader in MP3 players and is perceived by consumers as being cool and trendy. Compared to the iPod, the Zen has received favourable reports from independent industry journals. They have reported that the Zen is better than the iPod for sound quality and battery life.

- (a) (i) Describe what is meant by a *target market*. [2 marks]
- (ii) Explain **two** primary market research methods that *Creative Technology* could use to help them identify additional target markets for the MuVo. [4 marks]
- (b) Explain how market segmentation could help *Creative Technology* achieve a greater market share in the personal digital entertainment market. [6 marks]
- (c) Discuss the importance of product branding in determining the success of the Zen. [8 marks]

2. Hopwoods

Tony Hopwood started his business in 1990. The business grew steadily from a team of 20 to over 5000 employees. Tony is proud of his close and informal relationships with his management team, whom he treats like a family. His door is always open. However, over the last few years he has spent an increasing amount of time out of the office. Tony appointed his daughter Leila, a recent graduate, to manage the business in preparation for his retirement.

Leila felt that the relatively informal structure was no longer appropriate. She therefore split the business up into a number of new departments with new staff appointed from outside to be in charge of the day-to-day running of the departments. Leila rarely discusses issues with staff, preferring to make decisions herself and communicating them through e-mails.

The original staff resent this formal communication, the new structure, and the new department heads whom they believe know little about the business and its traditions. They are angry at being overlooked for promotion and feel excluded from decision-making. The staff continue to use informal communication rather than official department channels. Their loyalty to Tony Hopwood and the relatively high wages prevent them from leaving.

- (a) (i) Describe **two** factors that influence the style of leadership adopted by a manager. [4 marks]
- (ii) Explain the difference between Tony's and Leila's leadership styles. [4 marks]
- (b) Explain why using e-mail as the only source of communication could lead to communication problems. [4 marks]
- (c) Using relevant motivational theory, discuss **two** practical measures Leila could implement to reduce staff dissatisfaction. [8 marks]

3. Clean Living

Clean Living was founded in the United Kingdom by Sue Campbell in 1974 and rapidly evolved from one small shop to a worldwide network of shops. Sue wanted her business to be recognized as the most socially responsible business on the planet. Franchising allowed for rapid growth and international expansion as hundreds of entrepreneurs worldwide bought into Sue's vision. Sue also ensured that she constantly reviewed and modified the product range and the campaigns that they supported, so that it catered to consumer tastes.

The company's campaigns against human rights abuses, its commitment to animal and environmental protection and its determination to challenge the stereotypes of beauty perpetuated by the cosmetics industry, won the support of generations of consumers. The company continues to lead the way for businesses to use their voice for social and environmental change.

- (a) (i) Describe what is meant by a *franchise*. [2 marks]
- (ii) Explain **one** advantage and **one** disadvantage of expanding through franchising. [4 marks]
- (b) Using appropriate examples from the case study distinguish between *objectives, strategies* and *tactics*. [6 marks]
- (c) Analyse the advantages **and** disadvantages for *Clean Living* of setting ethical objectives. [8 marks]

4. Rodda plc

Rodda plc requires funds for a new investment project. The company is considering various sources of finance, but the board of directors believe that the funds need to be external because they are concerned that issuing more shares would make them vulnerable to a takeover. The financial director has advised the board that the company is already highly geared and that it is likely that interest rates will rise considerably over the next two years as the government intends to slow down the rapid growth in house prices and address an overvalued stock market. He has advised the board that the company has several valuable properties that could be sold to fund the project.

The financial details for the project, which costs \$4 000 000, are shown below.

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|--------------------|---------|---------|-----------|-----------|-----------|
| Net cash flow (\$) | 500 000 | 500 000 | 2 400 000 | 2 000 000 | 2 000 000 |

The expected monthly receipts and payments (in \$) for the first four months of Year 1 are shown below. The opening cash balance in January is expected to be 3 500 000.

| | January | February | March | April |
|------------------------------------|-----------|-----------|-----------|-----------|
| Cash sales | 3 000 000 | 3 200 000 | 3 450 000 | 3 550 000 |
| Stock | 4 000 000 | 1 000 000 | 1 000 000 | 1 000 000 |
| Wages | 1 000 000 | 1 000 000 | 1 000 000 | 1 000 000 |
| Electricity | 200 000 | 200 000 | 200 000 | 200 000 |
| Rent | 100 000 | 100 000 | 100 000 | 100 000 |
| Other expenses | 150 000 | 150 000 | 150 000 | 150 000 |
| Purchase of new investment project | | | 4 000 000 | |

- (a) Construct a cash flow forecast for the period January to April. [6 marks]
- (b) Calculate the payback period for the project. [2 marks]
- (c) Explain how *Rodda plc* can be profitable but still experience cash flow difficulties. [4 marks]
- (d) Discuss whether *Rodda plc* should take out a bank loan to fund the new project. [8 marks]

5. Stir Fry

Stir Fry operates a small stall in a popular market, selling chicken and rice to a variety of regular and loyal customers. It is renowned for the quality of its meals, and some customers are prepared to travel long distances to enjoy the food.

Mr Tong, the owner, would like to expand the business. He is considering two options; market development and new product development. He wants to sell more of his chicken and rice, but he thinks this would mean either cutting price, or opening new outlets in other markets since sales growth has been very slow in recent months. Alternatively, he believes he can expand the business by offering new dishes such as pork noodles and beef burgers at the same stall, or by renting another stall in the same market. No other stall offers the new dishes, and Mr Tong thinks they will be popular.

Monthly costs are shown below.

| | | \$ |
|-----------------------|--------------|------|
| Fixed costs | Rent | 5000 |
| | Van | 1000 |
| | Staff | 6000 |
| Variable costs | Chicken | 1.00 |
| | Rice | 0.20 |
| | Paper plates | 0.10 |
| | Electricity | 0.10 |
| | Other | 0.10 |

Mr Tong currently sells 6000 dishes of chicken and rice per month for \$4.00 per dish.

- (a) With reference to *Stir Fry*, explain the difference between *fixed costs* and *variable costs*. *[4 marks]*
- (b) Construct a break-even chart for *Stir Fry* and show the break-even level of output per month. *[6 marks]*
- (c) Calculate the margin of safety if 6000 dishes of chicken and rice are sold per month. (*Show your working*) *[2 marks]*
- (d) Based on the information provided, recommend which strategy Mr Tong should adopt to expand the business. *[8 marks]*

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BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 1

Monday 5 May 2008 (afternoon)

1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

- Do not turn over this examination paper until instructed to do so.
- Read the case study carefully and then answer all the questions.

1. (a) Describe **two** advantages and **two** disadvantages to *Organix* of “converting from a partnership to a limited company” (*line 155*). [8 marks]

- (b) Evaluate **one** possible source of finance available to *Organix* to fund the construction of the holiday cottages and **one** source of finance for their day-to-day operations. [8 marks]

2. (a) Define the term *high staff turnover*. [2 marks]

- (b) Explain **two** consequences of a high staff turnover at *Organix*. [6 marks]

- (c) Analyse possible non-monetary approaches available to Alison Moldano, Human Resource Manager, to reduce the high staff turnover in the restaurant. [8 marks]

3. (a) (i) Define the term *branding*. [2 marks]

- (ii) Explain **one** advantage and **one** disadvantage for *Organix* of marketing all its products under a single brand. [4 marks]

- (b) Analyse primary **and** secondary sources of market research that *Organix* can use to gather additional information on people’s attitudes toward organic produce. [8 marks]

4. (a) Prepare a SWOT analysis for *Organix*. [6 marks]

- (b) Using your SWOT analysis, discuss the options available to Max and Terry as they consider the farm’s future. [8 marks]

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BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 2

Tuesday 6 May 2008 (morning)

1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Answer three questions.

1. Cochabamba Academy

Silvia and Daniel are planning to open a school in Bolivia called the *Cochabamba Academy*. They are currently analysing the figures to consider whether, with their initial capital investment of \$63 000, the Academy will be profitable. They are worried about potential cash flow problems that the school might face and have collected the following financial information:

Planned Inflows

- a monthly school fee paid from February until November of \$200 per student
- an annual registration fee of \$300 in October

Planned Outflows

- a total of 11 teachers will be employed at \$500 per month, per teacher
- Silvia and Daniel will manage the school and pay themselves salaries of \$2000 each per month
- the average monthly expenses are \$20 000

They plan to open 8 classes. Each class will have an average of 20 children. Below is an excerpt from a cash flow forecast that they have prepared:

| | September | October | November | December |
|------------------|-----------|---------|----------|----------|
| Inflows | | | | |
| Fees | 32 000 | 32 000 | 32 000 | 0 |
| Registration fee | | 48 000 | | |
| Total Inflows | 32 000 | 80 000 | 32 000 | 0 |
| Outflows | | | | |
| Salaries | 9 500 | 9 500 | 9 500 | 9 500 |
| Expenses | 20 000 | 20 000 | 20 000 | 20 000 |
| Total Outflows | 29 500 | 29 500 | 29 500 | 29 500 |
| Net cash flow | 2 500 | | | |
| Opening balance | 15 000 | | | |
| Closing balance | 17 500 | | | |

(This question continues on the following page)

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(Question 1 continued)

- (a) (i) State on the lined paper provided for your answers the values for:
- net cash flow in October
 - closing balance in October
 - closing balance in November
 - net cash flow in December.
- [4 marks]
- (ii) Comment on the cash flow position of the *Cochabamba Academy*. [4 marks]
- (b) (i) Given the information opposite, calculate the annual profit or loss of the *Cochabamba Academy*. (*Show all your working*) [4 marks]
- (ii) Calculate the payback period on the initial investment of \$63 000. (*Show all your working*) [2 marks]
- (c) Based on financial **and** non-financial factors, evaluate whether Silvia and Daniel should open the *Cochabamba Academy*. [6 marks]

2. The Biodegradable Bottle

It is the bottle that could launch a revolution. The first biodegradable bottle has been developed, raising hopes that we may one day stop adding to the mountain of plastic packaging accumulating in landfill sites. People in Britain throw away the equivalent of their body weight in rubbish every seven weeks. A growing consumer backlash against the growth in packaging has prompted businesses to explore “greener” alternatives.

The biodegradable water bottle has been developed by a new company, *Belu* who are committed to environmental protection. The bottle is made of corn and decomposes in home compost in months. However the unit cost of the bottles is considerably higher than for conventional plastic bottles.

A famous French water bottling firm is considering using the new biodegradable bottle. Their market research has shown that their customers consider themselves environmentally friendly and respond favourably to the idea of the new biodegradable bottle. However, test marketing has shown that this environmental aspect has little influence at the point of sale, where price remains the most important factor in their purchasing decision.

[Source: adapted from *The Independent*, 29 May 2006]

- (a) Identify **two** stakeholders of *Belu*. [2 marks]
- (b) Explain how the French water bottling firm might be able to identify the target market for water sold in biodegradable bottles. [4 marks]
- (c) Explain how the higher unit cost might affect the price and promotion elements of the marketing mix for water sold in biodegradable bottles. [6 marks]
- (d) Evaluate whether the French water bottling firm should use the biodegradable bottle. [8 marks]

3. Fish Packaging in Reykjavik

The firm *Fish Packaging Ltd* owns a fish packaging plant in Reykjavik, Iceland, and sells frozen fish to the domestic market. Workers in the plant are paid \$10 per hour to pack fish into boxes. They are expected to pack approximately 13 kg per hour. When local fishing boats do not go out fishing, there is nothing to pack. When this happens the workers stay at home and are still paid \$4 per hour.

The workers are concerned about a number of issues including:

- poor weather has led to local fishing boats fishing less, so workers are staying home more often
- an autocratic leadership style
- a lack of involvement in day-to-day decision making
- a shortage of protective clothing
- insufficient rest breaks during the working day.

Management complains that workers seldom exceed the target of 13 kg per hour and are also concerned about the possible imposition of fishing quotas by governments. Furthermore, the fish packaging industry has been badly hit by the competition of Russian factory ships. Management feels it has to make some changes and is considering the introduction of a piece rate payment system.

- (a) (i) Describe the difference between time rate and piece rate payment systems. [2 marks]
- (ii) Explain **two** disadvantages and **one** advantage of introducing a piece rate payment system at *Fish Packaging Ltd*. [6 marks]
- (b) Explain **two** external factors that could influence *Fish Packaging Ltd*. [4 marks]
- (c) Using appropriate motivation theory, evaluate possible changes the management of *Fish Packaging Ltd* could introduce to improve the motivation of the work force. [8 marks]

4. Chilean Wine

The winery *Vino Tinto plc*, a Chilean firm established in 1920, has grown to become the largest and most successful winery in its country. They have a very high market share in Chile and are considering international expansion. To finance this international expansion *Vino Tinto plc* needs an investment of \$500 000 to build further production facilities. They could borrow from a large commercial bank but the owners are concerned about the current gearing ratio of the firm.

The owners are considering one of two possible options. The first option is to grow by exporting the additional production to other countries in Latin America. This would enable them to benefit from Chile's associate membership of the regional economic bloc Mercosur. The second option is to enter the Chinese market, with its enormous growth potential. The local board of commerce has advised them that they must form a joint venture if they want to pursue the idea of exporting to China.

- (a) (i) Define the term *gearing ratio*. [2 marks]
- (ii) Describe **two** finance options that *Vino Tinto plc* can use to finance the investment other than a bank loan. [4 marks]
- (b) Explain **three** possible difficulties of international marketing for *Vino Tinto plc*. [6 marks]
- (c) Evaluate the **two** options being considered by *Vino Tinto plc*. [8 marks]

5. Tommy the Baker

Tommy the Baker has developed a range of specialty breads. His turnover is growing fast and customers are coming from further away to purchase his products. In order to sustain long-term growth Tommy wants to expand the business by franchising. He has already received enquiries from a number of potential franchisees and needs to show them clear financial figures.

The bakery makes and sells 400kg of bread per day. The raw materials for the bread are flour, yeast and spices. The bakery works every day of the month (assume 30 days) and employs 4 workers who earn an average of \$1000 each. Tommy does not pay himself a salary. Each kg of bread sells for \$3. His initial investment to buy the three machines he uses, the oven and the counters and other fittings was \$80 000.

Fixed costs per month:

Rent, gas bill, electricity, cleaning and maintenance of machines and shop: \$8000
Salaries: \$4000

Variable costs per kg of bread:

Flour/kg = \$0.50
Yeast/kg = \$0.20
Spices/kg = \$0.25

- (a) Describe **one** advantage and **one** disadvantage of growth by franchise to *Tommy the Baker*. [4 marks]
- (b) Assuming that the bakery is currently producing 12 000 kg of bread per month:
- (i) calculate the monthly break-even level of output, the level of profit and the margin of safety. (*Show all your working*) [4 marks]
- (ii) prepare a break-even chart showing clearly the monthly break-even level of output, the level of profit and the margin of safety calculated in (b)(i). [4 marks]
- (c) Discuss the limitations of a potential franchisee using break-even analysis as the only source of information when considering whether to adopt a *Tommy the Baker* franchise. [8 marks]

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BUSINESS AND MANAGEMENT
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PAPER 1

Thursday 6 November 2008 (afternoon)

1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

- Do not turn over this examination paper until instructed to do so.
- Read the case study carefully and then answer all the questions.

– 2 –

N08/3/BUSMT/SP1/ENG/TZ0/XX

1. (a) (i) Define the term *gearing*. [2 marks]
- (ii) Explain **two** reasons why *Organix* produces accounts. [4 marks]
- (b) Discuss financial **and** non-financial implications for *Organix* of borrowing \$500 000 to finance the restaurant and the farm shop. Your answer should consider the implications for the balance sheet, profit and loss account and gearing. [10 marks]
2. (a) Define the term *social responsibility* (line 72). [2 marks]
- (b) Describe **two** objectives of socially responsible organizations like *Organix*. [4 marks]
- (c) Examine **one** advantage and **one** disadvantage to *Organix* of making a full commitment to operating as a socially responsible organization. [8 marks]
3. (a) (i) Define the term *stakeholder*. [2 marks]
- (ii) Identify **two** internal and **two** external stakeholder groups of *Organix*. [4 marks]
- (b) Explain the implications for **two** of *Organix*'s stakeholder groups if the government reduces "organic standards to make it easier for farms to convert to organic status" (lines 149-150). [8 marks]
4. (a) Compare and contrast the leadership styles of Terry and Max. [6 marks]
- (b) Advise Terry and Max of an appropriate organizational structure for the farm in the future. Your answer should consider differing leadership styles, the changing external environment and *Organix*'s expansion plans. [10 marks]

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BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 2

Friday 7 November 2008 (morning)

1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Answer three questions.

1. Temasek Holdings

Established in 1974, *Temasek Holdings* is an investment company with headquarters in Singapore. Its mission statement is:

"To create and maximize long-term shareholder value as an active investor and shareholder of successful enterprises."

To support this mission statement, *Temasek Holdings*:

- creates and maximizes value for shareholders
- manages a global portfolio of shares mostly in Singapore and South East Asia
- buys and sells shares on a daily basis.

Temasek Holdings invests in many industries it considers to be attractive, including telecommunications and media, financial services, property, transportation, energy and resources, infrastructure, engineering and technology, as well as pharmaceuticals and biosciences. It invests in companies with high regional or global potential and builds them into successful enterprises that seek to grow beyond their existing markets.

As part of its stakeholder relations programme, *Temasek Holdings* gives financial support to communities in South East Asia in times of need. For example, in May 2006, *Temasek Holdings* worked with Indonesian Banks to support a Singapore hospital to deliver medical care to Indonesians affected by an earthquake.

[Source: adapted from www.temasekholdings.com.sg]

- (a) Define the term *mission statement*. [2 marks]
- (b) Explain **two** human resource benefits for *Temasek Holdings* of ethical and socially responsible conduct. [4 marks]
- (c) With reference to *Temasek Holdings*, explain how objectives, strategies **and** tactics interrelate. [6 marks]
- (d) Discuss how *Temasek Holdings* could maximize shareholder value through the management of its portfolio. Your answer should consider how *Temasek Holdings* identifies attractive industries and successful enterprises. [8 marks]

2. Burger Bar

Burger Bar is submitting a business proposal to its bank manager to obtain a bank loan in order to set up a new fast food business. The owners know that they must break even within the first year or the bank will not approve the application for a loan.

The details of their proposal are summarized below:

- the variable unit cost for making one burger is \$1.00
- the fixed cost of making burgers for 12 months will be a total of \$100 000
- the partners have forecast sales of 150 000 burgers in the first 12 months
- the price the partners are projecting for the burger is \$2.00.

The owners have already carried out extensive primary and secondary market research to support their business proposal.

- (a) Identify **two** types of primary market research. [2 marks]
- (b) Explain the role of market research when setting up a new fast food business. [4 marks]
- (c) Construct a break-even chart based on the above information. Your chart should show:
 - the break-even output
 - the margin of safety if 150 000 burgers are sold.[6 marks]
- (d) To what extent can this break-even analysis **alone** be used to support the application for a bank loan? [8 marks]

3. Dr Martens

Dr Martens is a footwear brand established in Germany in 1947. Known as “Doc Martens”, “Docs”, or “DMs”, the brand is distinct for being comfortable and durable with an air-cushioned sole developed by Dr Klaus Maertens of Germany.

Dr Martens boots have appealed to diverse market segments. Originally a big hit with housewives (80% of sales were to women over the age of 40), they were then also bought by authors and a range of youth subcultures*.

Dr Martens sales grew steadily and by 1959, the company had grown large enough to market the footwear internationally. A British shoe manufacturer bought patent rights to manufacture the shoes in the UK and added its distinctive yellow stitching. The first *Dr Martens* in the UK were sold in 1960 and were popular among postmen, policemen and factory workers.

By the late 1960s, sales were increasing rapidly. Street gangs made the cherry-red boots a distinctive style. By the mid 1970s, *Dr Martens* boots were popular among some British rock stars and their fans. The boots and shoes then became popular among some other youth subcultures. At this point, *Dr Martens* had a huge share of the teenage footwear market. However, in the 1980s and 1990s *Dr Martens* faced intense competition as consumers started to wear sports footwear brands such as *Adidas* and *Nike*. Sales for *Dr Martens* went into a rapid decline, which has continued.

Dr Martens are now sold in many different styles, including conventional black shoes, sandals and steel-toed boots. Nevertheless, many of their target markets have turned to competing manufacturers' boots.

[Source: adapted from <http://www.businesspme.com/uk/articles/advertising/108/Dr--Martens.html>, 26 March 2007]

* subculture: a group of people with a culture different from the larger culture to which they belong.

- (a) Define the term *market segment*. [2 marks]
- (b) Construct a fully labelled product life cycle diagram for *Dr Martens* from 1947 to the present day. [4 marks]
- (c) With reference to *Dr Martens*, comment on the value of market segmentation. [6 marks]
- (d) With reference to the product life cycle, evaluate **two** alternative extension strategies that *Dr Martens* could introduce. [8 marks]

4. Globalization and Tata Group

Tata Group, an Indian multinational, operates in 54 countries on 6 continents. It spent \$1500 million on foreign acquisitions last year and now generates 30 per cent of its revenue outside India. International sales of goods and services are forecast to double every two years.

As new multinationals like *Tata Group* emerge from the developing world, their leaders think and act in very different ways. For example, *Tata Group* focusses on designing products for low-income consumers whom traditional multinationals have tended to overlook. The group's holding company, *Tata Sons*, is owned by charities, with two-thirds of its profit going to charitable organizations.

Tata Group's automotive business is developing an affordable "people's car" that it will sell in kits. These will be assembled by the car dealer to save costs. *Tata Group*'s low-cost focus has proved successful in the truck market. It acquired the truck operations of *Daewoo* of South Korea and within the first three years of its operations it captured one-fifth of the South African truck market.

Tata Group has a reputation as an organization that wants to learn rather than teach and that wants to help build a nation, as it did in India, rather than merely seize market share. This is particularly important when entering emerging markets. For example, in Bangladesh, the group has proposed a \$2500 million investment in the country to build a steel plant, a coal mine and a power plant. This investment includes plans to build two new hospitals and two new schools to improve the local infrastructure.

[Source: adapted from Out of India, A "Third Wave of Globalization" Emerges, Anand Giridharadas and Saritha Rai, *The International Herald Tribune* and *The New York Times*, 19 October 2006]

- (a) Define the term *globalization*. [2 marks]
- (b) Explain **two** consequences of globalization for *Tata Group*. [4 marks]
- (c) Comment on **two** consequences for the Bangladesh economy as a result of *Tata Group*'s "\$2500 million investment in the country". [6 marks]
- (d) Evaluate **two** strategies available to *Tata Group* to enter international markets. [8 marks]

5. Rizzo Fashions

Antonio Rizzo sells fashionable clothes in various retail outlets that focus on teenage fashions. *Rizzo Fashions'* product range includes eight brands that cater to various teenage market segments. Aware of the importance of product branding, Antonio is planning to launch a new product range called "Speranza".

Antonio has produced forecasted sales revenue and costs for January to June 2009 if the "Speranza" range is launched. He expects to receive a monthly revenue of \$100 000. 60% of this will be paid in cash with the remaining 40% received one month later. He also expects sales to grow by 10% per month.

| | |
|---------------------------------------|--|
| Electricity bill | \$10 000 per month |
| Telephone bill | \$45 000 annual charge to be paid in equal instalments in February and April |
| Advertising | \$15 000 per month |
| Office rent | \$30 000 to be paid in March |
| Finance charge | \$5000 per month |
| Opening cash balance for January 2009 | \$50 000 |

Antonio is concerned that debtors have been slower in making their payments and this has increased *Rizzo Fashions'* working capital requirements. He also recognizes the need to raise additional long-term funds if he is to launch this product range. Therefore, he is considering taking out a bank loan, which would be secured against the family home. Alternatively he could issue new shares. At the moment, all shares are owned by family members.

- (a) Define the term *product branding*. [2 marks]
- (b) Explain why *Rizzo Fashions* needs working capital. [4 marks]
- (c) Use the data above to construct a cash flow forecast from January to June 2009. [6 marks]
- (d) Discuss the advantages **and** disadvantages of the alternative forms of financing the new product range that Antonio is considering. [8 marks]

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PAPER 1

Thursday 21 May 2009 (afternoon)

1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Read the case study carefully.
- Section A: answer two questions.
- Section B: answer the compulsory question.

SECTION A

Answer **two** questions from this section.

1. (a) Define the terms *sole trader* and *tertiary sector*. [4 marks]
- (b) Explain why the setting of strategic objectives is important in managing *Les Maisonnettes*. [4 marks]
- (c) Examine **two** advantages and **two** disadvantages of *Les Maisonnettes* restructuring as a private limited company (*line 24*). [7 marks]
2. (a) (i) Identify **two** appropriate sources of finance for *Les Maisonnettes* to fund the development of the barns (**Option 2 or 3**) (*lines 162-177*). [2 marks]
- (ii) Define the term *gearing* (*line 177*). [2 marks]
- (b) Using data from appendices 3 and 4, calculate the gearing ratio and return on capital employed (ROCE) of Sophie's business in the financial years 2005 and 2008. [4 marks]
- (c) Analyse the reasons for the changes in gearing ratio and return on capital employed (ROCE) you have identified in part (b). [7 marks]
3. (a) (i) Define the term *market share* (*line 155*). [2 marks]
- (ii) Identify **two** methods of secondary research available to Sophie. [2 marks]
- (b) Explain **two** ways in which *Les Maisonnettes* can differentiate themselves from *Sanctuary*. [4 marks]
- (c) Examine the importance to *Les Maisonnettes* of adopting a total quality management (TQM) approach. [7 marks]

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SECTION B

Answer **the compulsory question from this section.**

4. (a) Comment on the appropriateness of Sophie's leadership style. [4 marks]
- (b) Explain the impact of the external environment on *Les Maisonnettes'* workforce planning. [8 marks]
- (c) With reference to the external environment, to what extent will the proposed rewards package of *Les Maisonnettes* ensure successful recruitment and motivation of employees? [8 marks]

Additional information

There is no additional information in this paper for Sections A and B.

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PAPER 2

Friday 22 May 2009 (morning)

1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer two questions.

SECTION A

Answer **one** question in this section.

1. Nails by Joomin

Joomin Kim runs a beauty shop called *Nails by Joomin* specializing in manicures and pedicures. The business operates as a sole trader. Joomin wants to take advantage of the growth of the business and its good reputation by opening a second store in a shopping centre about 10 kilometers from the original location.

A friend suggested to her that she could develop the business by franchising and increasing her economies of scale, but Joomin wants to own the new store and maintain control. She is considering restructuring as a private limited company. Joomin will finance the new store using \$25 000 from her savings and \$50 000 from a bank loan.

She anticipates revenues and expenses for the first 6 months of the new store (January to June 2010) as follows:

- initial balance: \$75 000 (savings and bank loan)
- initial start-up expenses: \$15 000
- monthly rent: \$2000
- store manager monthly salary: \$2000 (increasing by 6 % in month 3)
- monthly loan payment: \$1000
- monthly expenses for additional labour: \$1000 for the first month, increasing by 20 % per month
- initial revenue: \$2000 a month, increasing by 20 % each month.

She was able to obtain this loan because of the strength of her personal financial position (she owns her own house and has no mortgage).

(a) Define the following terms:

- (i) *franchise* [2 marks]
(ii) *economies of scale*. [2 marks]

(b) (i) Prepare a monthly cash flow forecast for the first 6 months of operation of the new store. [6 marks]

(ii) Comment on the projected cash flow forecast of the new store. [4 marks]

(c) Examine **two** difficulties that small businesses like *Nails by Joomin* face in obtaining sources of finance for expansion. [6 marks]

2. Duranjaya Packaging

For 20 years, Nirav Duranjaya has operated a cardboard manufacturing facility on the outskirts of Mumbai specializing in selling mass-produced, low-cost cardboard boxes for industrial users. Price is the most important factor in determining the demand for the boxes. Gross profit and net profit margins in the business are low, and the workers are unskilled and low paid. *Duranjaya Packaging* advertises in specialized publications for the industries in which it sells.

In recent years, with the economy rapidly growing, the market for higher-margin, distinctive and creative packaging solutions has boomed in India. To enter this lucrative higher-margin market and satisfy growing demand, *Duranjaya Packaging* would have to hire three highly qualified packaging designers and create a more flexible workforce. The decision to move into this new market may require a restructuring of the business and a new more democratic management style, with employees taking more responsibility for their work. *Duranjaya Packaging* is currently organized as a tall hierarchical structure with a low span of control. Nirav supervises his employees closely and all decisions have to be passed through him.

Nirav estimates that fixed costs for producing the new creative packaging solutions would be as follows:

- rent: \$36 000
- utilities: \$6000
- packaging designer's salary: \$30 000
- Nirav's salary: \$16 000.

Variable costs for the new creative packaging solutions will be \$0.12 per box and the sales price will be \$1 per box. In the first year Nirav estimates that *Duranjaya Packaging* will produce 140 000 boxes.

(a) Define the following terms:

(i) *fixed costs* [2 marks]

(ii) *variable costs.* [2 marks]

(b) Prepare a fully labelled break-even chart for *Duranjaya Packaging*. [6 marks]

(c) Comment on **two** factors that will determine whether Nirav adopts a new management style. [4 marks]

(d) Examine **two** elements in the marketing mix, **other than price**, that *Duranjaya Packaging* will need to adapt in order to move into the creative packaging solutions market. [6 marks]

SECTION B

Answer **two** questions in this section.

3. PA

PA makes pre-assembled parts of vehicles, called modules, for major car companies. For example, *PA* assembles cooling systems, which are then shipped to the car manufacturer for installation. Modules are produced in batches at *PA* and are transported frequently to arrive just-in-time for installation by the car manufacturers.

Major car manufacturers increasingly prefer to buy modules from other firms rather than make them themselves. Doing so allows the major car manufacturers to lower costs and be more flexible.

PA has formed joint ventures with other firms to supply major car manufacturers. One such joint venture, called *Piston Modules LLC*, is between *PA* and *Continental Teves* to assemble brake modules for several car manufacturers. The joint venture will lease land at *PA*'s Michigan Avenue factory, located in Detroit, creating 100 new manufacturing jobs.

The joint venture will require specialized equipment costing \$10 million. With a bank loan to be repaid over 5 years, *PA* will acquire the equipment, which the joint venture will lease. The lease term will be 5 years.

Piston Modules LLC will be 51% owned by *PA* and 49% owned by *Continental Teves*.

[Source: adapted from *Inc. 500* and <http://www.pistongroup.com/>, November 2007]

- (a) With reference to stock control, define the term *just-in-time*. [2 marks]
- (b) (i) Distinguish between batch production and flow production. [2 marks]
- (ii) Explain **two** economies of scale *Piston Modules LLC* could benefit from. [4 marks]
- (c) Examine **two** human resource issues *Piston Modules LLC* may face as a result of creating 100 new manufacturing jobs. [5 marks]
- (d) Discuss the appropriateness of the bank loan to *PA* as a source of finance for the \$10 million in equipment. [7 marks]

4. Coolibar®

Coolibar® designs and manufactures clothing that protects wearers from the sun. The firm was founded in 2001 by John Barrow of Australia, who wanted to bring some of Australia's advanced approaches to sun protection to the American market.

The name *Coolibar®* and the company logo are derived from the Australian eucalyptus tree. All *Coolibar®* brand products block 98% of ultraviolet rays, giving them an Ultraviolet Protective Factor (UPF) of 50. After extensive initial market research, the company designed clothing for fashion and health conscious Americans aged between 18 and 30. Focus groups indicated that many American consumers disliked designs popular in Australia. Surveys indicated that certain Americans would pay a premium price for sun protective clothing.

Coolibar® knew of rising skin cancer rates in the United States and of growing concern among aging Baby Boomers* about skin cancer. Over the last 25 years, melanoma (skin cancer) rates have almost tripled in America. According to the *National Cancer Institute*, American males have a 1 in 82 chance of developing skin cancer.

In 2007, *Coolibar®* was one of the 500 fastest growing privately-held companies in the United States. However, the market for sun protective clothing is growing and many new competitors are entering the market. *Coolibar®*, aware that it must constantly respond to market needs, is planning a new phase of market research in order to write a new 5-year marketing plan.

[Source: adapted from *Inc. 500* and <http://www.coolibar.com/>, November 2007]

* Baby Boomer: a person who was born during the so-called “baby boom” between 1946 and 1964

- (a) Define the term *market research*. [2 marks]
- (b) Distinguish between **three** different market segments for *Coolibar®*'s products. [6 marks]
- (c) Analyse the role that primary market research played in *Coolibar®*'s redesign of their clothing for the American market. [5 marks]
- (d) Discuss the importance and role of branding for *Coolibar®* when launching their clothing in the American market. [7 marks]

5. NetShops

NetShops began as a business to customers (B2C) e-commerce company in 2002. Founded by Doug Nielson, it began with a single online “store” and now owns and operates over 200 online stores selling a wide range of products targeted at various niche markets.

One of the reasons that the firm has grown so quickly is its “*NetShops* Affiliate Program”, which allows other businesses to place links on their own web sites to the *NetShops*’ website. When a customer purchases a product from *NetShops* as a result of following one of these affiliate links, the affiliate company earns a commission on this sale.

NetShops is able to quickly launch additional online stores in niche markets for which traditional channels of distribution do not exist. No single online store accounts for more than 5% of the total sales of *NetShops*.

NetShops maintains an online database of all purchasers. The company uses software to obtain select personal data (e-mail and regular post addresses, for example) and to record purchases in their shops. *NetShops* also knows which of its sites and products customers have viewed. The firm can identify customers’ interests and purchasing trends, from which it can develop consumer profiles.

[Source: adapted from *Inc. 500* and <http://www.netshopsinc.com/>, November 2007]

- (a) Define the term *e-commerce*. [2 marks]
 - (b) (i) Explain the difference between internal and external growth. [2 marks]
 - (ii) Comment on the nature of *NetShops*’ growth. [4 marks]
 - (c) Examine the usefulness of consumer profiles to *NetShops*. [5 marks]
 - (d) Discuss the costs **and** benefits to consumers of *NetShops*’ e-commerce approach. [7 marks]
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BUSINESS AND MANAGEMENT
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PAPER 1

Friday 13 November 2009 (afternoon)

1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Read the case study carefully.
- Section A: answer two questions.
- Section B: answer the compulsory question.

SECTION A

Answer **two** questions from this section.

1. (a) Identify **two** fixed costs and **two** variable costs for *Les Maisonnettes*. [4 marks]
(b) Using data from appendix 4, calculate the current ratio and the acid test ratio of *Les Maisonnettes* in the financial years 2005 and 2008. [4 marks]
(c) With reference to the figures calculated in part (b), analyse the reasons for the changes in the liquidity position of *Les Maisonnettes*. [7 marks]

2. (a) Describe **two** non-financial incentives that are being considered by Sophie. [4 marks]
(b) With reference to Sophie, explain **two** features of a “paternalistic leadership style” (*lines 96–97*). [4 marks]
(c) Analyse how Sophie’s leadership style may need to change as *Les Maisonnettes* grows over time. [7 marks]

3. (a) Outline how writing a business plan (*line 92*) could help *Les Maisonnettes* achieve its growth objectives. [4 marks]
(b) Explain **one** cost and **one** benefit to *Les Maisonnettes* of being a small organization. [4 marks]
(c) Analyse the effects of the introduction of e-commerce to future marketing strategies for *Les Maisonnettes*. [7 marks]

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SECTION B

Answer **the compulsory question** from this section.

4. (a) Describe **two** differences between the marketing of goods and the marketing of services (*lines 65–66*). [4 marks]
- (b) (i) Explain **two** disadvantages for *Les Maisonettes* of operating in a niche market (*line 40*). [4 marks]
- (ii) Explain how Sophie could develop her human resource requirements to cope with variations in demand for accommodation. [4 marks]
- (c) Recommend changes to **two** elements of the existing marketing mix to help Sophie minimize the effects of fluctuations in demand for accommodation at *Les Maisonettes*. [8 marks]

Additional information

There is no additional information in this paper for Sections A and B.

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BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 2

Monday 16 November 2009 (morning)

1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer two questions.

SECTION A

Answer one question from this section.

1. Mitsubishi Motors

During the 1970s and 1980s, the multinational car manufacturer *Mitsubishi Motors* built much of its customer base in South-East Asia. When in the late 1990s the South-East Asian economy had a major downturn, *Mitsubishi Motors*' sales fell. Other Japanese car manufacturers, like *Toyota* and *Honda*, offset their falling Asian sales by increased sales in the United States, but *Mitsubishi Motors* had only a small market share in the United States. Thus, the turmoil in the South-East Asian economy had a greater effect on *Mitsubishi Motors* than on other car manufacturers and multinational companies. The company's losses in 1997 were the worst in its history.

In 2005, *Mitsubishi Motors* announced a vision statement, "We are committed to providing the upmost driving pleasure and safety for our valued customers and our community. On these commitments, we will never compromise".

In 2006, after years of limited investment and frequent losses, the company introduced the award-winning *Mitsubishi Motors* Kei car, its first new model in 29 months. The sports utility vehicle (SUV) Outlander model was revised and launched worldwide.

Selected items from *Mitsubishi Motors*' profit and loss account and balance sheet:

| | Year ended 31 May 2004 (millions of Yen) | Year ended 31 May 2007 (millions of Yen) |
|--------------------------------------|--|--|
| Cost of goods sold | 2160 | 1789 |
| Current assets | 869 | 1061 |
| Current liabilities | 1567 | 1111 |
| Expenses | 574 | 405 |
| Fixed assets | 1160 | 719 |
| Loan capital | 432 | 360 |
| Non-operating income | 0 | 0 |
| Retained profit (from balance sheet) | 17 | 156 |
| Sales revenue | 2519 | 2203 |
| Share capital | 13 | 153 |

[Source: adapted from *Times of Oman*, 14 November 2007]

(This question continues on the following page)

(*Question 1 continued*)

- (a) Define the following terms:
- (i) *market share* [2 marks]
- (ii) *multinational company.* [2 marks]
- (b) Explain the value to *Mitsubishi Motors* of a vision statement. [4 marks]
- (c) Calculate for 2004 **and** 2007 *Mitsubishi Motors'*:
- (i) gearing ratio [2 marks]
- (ii) gross profit margin [2 marks]
- (iii) net profit margin. [2 marks]
- (d) Using ratio analysis and other relevant financial information, analyse the changes in the financial situation of *Mitsubishi Motors* between 2004 and 2007. [6 marks]

2. Niekerk Manufacturing

Niekerk Manufacturing, a private limited company located on the outskirts of Montevideo, Uruguay, manufactures small aluminium pipes for companies in a range of industries. The pipes are designed following customers' specifications. The good reputation of *Niekerk Manufacturing* has led to increased sales in the last several years and the firm is now operating at 100% capacity. Jan Niekerk, the owner of the company, even has to decline orders when too many come in at once. He fears that this is giving his competitors opportunities to increase their sales and is considering expanding his factory.

In 2005, the sales revenue was \$4 500 000.

| | Current factory (\$) | Expanded factory (\$) |
|------------------------|----------------------|-----------------------|
| Fixed cost per year | 350 000 | 570 000 |
| Variable cost per pipe | 4.5 | 4.25 |
| Sales price per pipe | 5 | 5 |

To fund the proposed expansion and increase economies of scale, *Niekerk Manufacturing* will need to raise a significant amount of finance. The capacity of the expanded factory with any additional equipment will be 1 600 000 pipes per year. Jan Niekerk does not anticipate operating at full capacity in the expanded facility for some time, but he believes it is better to expand now rather than build a small second factory then a third in a few years.

- (a) Define the following terms:
 - (i) *private limited company* [2 marks]
 - (ii) *economies of scale*. [2 marks]
- (b) Construct a fully labelled break-even chart for *Niekerk Manufacturing* at the current capacity prior to the expansion. [6 marks]
- (c) Assuming *Niekerk Manufacturing* sells 1 200 000 pipes in the first year in the expanded factory, calculate:
 - (i) the net profit [2 marks]
 - (ii) the margin of safety. [2 marks]
- (d) Analyse **two** appropriate sources of finance to fund the expansion of the factory and any additional equipment. [6 marks]

SECTION B

Answer **two** questions from this section.

3. Road Trip Wizard

LeisureLogix is an independent technology company. It recently introduced an online travel software product called “Road Trip Wizard” that prepares a personalized itinerary (travel plan) for those travelling by car based on their interests and trip preferences, such as romantic trips, business journeys or family holidays. The itinerary includes maps, driving directions, tourist attractions and hotels. Discounts are offered if booked using Road Trip Wizard.

Road Trip Wizard software was developed because market research indicated that:

- 88 % of leisure travel in the United States (US) is done on the road
- the online marketplace is mainly focused on air travel
- online booking for tourism products is becoming less popular: last year, 9 % fewer Americans booked travel online compared to the previous years because they are tired of spending two or three hours trying to find the airline, hotel or vacation package that meets their needs
- travellers who drive are a less profitable market segment than those who fly
- 85 % of road travellers in the US book mid-range or expensive hotels.

Road Trip Wizard will be promoted to US consumers to capture new market segments and to fill a major gap in the online travel business market, which is experiencing growing revenue but with fewer customers.

[Source: adapted from *The New York Times*, 29 October 2007 and <http://www.eyetravel.com/>, 26 October 2007]

- (a) Define the term *market segment*. [2 marks]
- (b) (i) Explain how the online travel business can have “growing revenue but with fewer customers”. [2 marks]
- (ii) Explain **two** primary market research techniques that could have been used by *LeisureLogix* to obtain its market research results. [4 marks]
- (c) With reference to Road Trip Wizard, analyse the usefulness of market segmentation. [5 marks]
- (d) Discuss promotional strategies that *LeisureLogix* could implement to increase the use of Road Trip Wizard by American (US) consumers. [7 marks]

4. Mattel and Chinese manufacturing

More than two-thirds of the 800 million toys produced every year by *Mattel* are made in China, which specializes in low-cost manufacturing. Many Western companies like *Mattel* do business in China to keep costs down. In 2007, however, *Mattel* had to recall many toys made in China because they were faulty and dangerous. A survey found that almost 40% of British consumers are now less likely to buy Chinese-made toys because of these product recalls.

Although *Mattel* expects the Chinese manufacturers to comply with its safety and quality assurance standards, the Chinese government plays only a limited role in supervising factories. As a result, *Mattel* itself must be responsible for checking safety and quality standards in factories it does not own.

Some Western firms doing business in China believe they have a social responsibility to ensure they sell toys which meet safety and quality standards. However, many Western managers working in China say top management in Europe or America often do not want to hear about the problems but just want to source cheap products.

Many business analysts believe that the Chinese focus on high-volume, low-cost manufacturing worked well in the initial phase of the country's economic expansion. They argue that Chinese firms should now focus on quality, otherwise China's economic growth will suffer. This trend has begun with the emergence of Chinese companies, competing at higher levels of technology and taking advantage of economies of scale. These companies may have branches and factories overseas.

[Source: adapted from "Plenty of blame to go around", *The Economist*, 27 September 2007]

- (a) Define the term *quality assurance*. [2 marks]
- (b) Distinguish between **two** different views that firms, such as *Mattel*, may take of their social responsibility in an international context. [6 marks]
- (c) Examine **one** opportunity and **one** threat for *Mattel* in doing business in China. [5 marks]
- (d) Discuss **two** possible areas of conflict between *Mattel's* stakeholders that may arise from doing business in China. [7 marks]

5. Casas Carreras

Paolo Carreras, founder of *Casas Carreras* in 1950, had a vision to become the largest retailer in Brazil. He ran his business in a very autocratic fashion. *Casas Carreras* always had a tall organizational structure. Managers were always expected to consult Paolo on major decisions. Consequently, decision-making was slow and salespeople complained that their ideas were rarely communicated to senior management.

By 2001, *Casas Carreras* had become the largest retail chain store in Brazil. As many of the items *Casas Carreras* sells are large household items (such as stoves, refrigerators and washing machines) a key driver of this growth was credit cards being made available to most Brazilians. However, sales growth at *Casas Carreras* has slowed in recent years.

Paolo died in 2006 and ownership of the business was passed to his daughter Suzanna. Suzanna believes that the business is too bureaucratic: she is planning to make it more flexible and more responsive to market needs. She believes the managers do not have sufficient incentives and is proposing to offer them greater freedom by creating a flatter organizational structure. They will have greater independence as long as they meet revenue and profit targets. Suzanna proposes that a store manager would have the right to cut prices by as much as 10%, and a regional manager by up to 25%, without consulting executive management.

At present, salespeople are paid a monthly salary of \$350. Suzanna wants to reduce the monthly salary to \$200 (the minimum wage as required by law) but salespeople will be able to improve their income by earning 5% commission on sales. As a result, the average salesperson could earn \$500 per month.

- (a) Define the term *commission*. [2 marks]
- (b) (i) Explain how the greater availability of credit cards enabled *Casas Carreras* to increase its sales. [2 marks]
(ii) Comment on **two** causes of the communication problems that resulted from Paolo's autocratic leadership style. [4 marks]
- (c) Analyse **one** advantage and **one** disadvantage of changing the organization of *Casas Carreras* from a tall to a flatter structure. [5 marks]
- (d) Evaluate the impact of the proposed payment scheme for salespeople on their job satisfaction, motivation and productivity. [7 marks]



BUSINESS AND MANAGEMENT
CASE STUDY: N-PHARMA

For use in May and November 2010

INSTRUCTIONS TO CANDIDATES

- Case study booklet required for Higher Level Paper 1 and Standard Level Paper 1 Business and Management examinations.

N-PHARMA

N-Pharma is one of the biggest multinational companies (MNC) operating in the pharmaceutical industry. It employs over 30 000 people globally. The corporate headquarters are in Tsukuba Science City near Tokyo in Japan.

History

- 5 *N-Pharma* was founded in 1973 by Yukio Nakamura, a Japanese chemist. It began as a small laboratory in a suburb of Tokyo employing nine members of staff. It was set up as a private limited company. In common with most other start-ups, poor cash flow meant that the early years were financially challenging. Costs were high as Yukio was developing a new type of painkiller, Pharmax, which was launched in 1977 to widespread acclaim. From this point, sales rose rapidly and high profits enabled Yukio to expand his business. Within three years, 10 the number of people employed by *N-Pharma* grew from 9 to 200 employees. Throughout this period of expansion, a key feature of Yukio's management philosophy was to maintain close relationships with suppliers.

Since 1980, the business has continued to grow. A combination of strong demand in the mid 1980s and a period of economic boom in Japan enabled *N-Pharma* to expand within the Pacific Rim. 15 In 1986 a subsidiary was established in Seattle, United States (USA), followed by another in Canberra (Australia) two years later. *N-Pharma* has also opened smaller subsidiaries in other countries such as Canada, Mexico, Chile, Vietnam, South Korea and New Zealand. Subsidiaries are responsible for both production and distribution of *N-Pharma* drugs in their national markets, as well as research and development (R&D).

Product development

- 20 In the pharmaceutical industry, R&D departments have a critical role in ensuring successful innovation. New product development can lead to competitive advantage, business growth, higher profits and therefore shareholder satisfaction. However, R&D is a long and expensive process: it could take more than 17 years from the discovery of a new drug to its launch onto the market (Appendix 1). The process of approval involves significant testing to 25 ensure the safety of the drugs. This takes longer than in other industries, which is why all new drugs, once commercialized, tend to be expensive. Once production begins, quality assurance and quality control are vital to ensure the continuing safety of the drugs.

Marketing

When *N-Pharma* sets the prices of its drugs, it must cover not only the costs of production and distribution, but also the costs of past R&D. Pricing is usually cost-based, although some other factors may be taken into account, for example the price of competitors' drugs. Pharmaceutical companies do not normally use market-based pricing strategies of penetration or skimming.

N-Pharma has a portfolio of drugs at different stages of their product life cycle, for example:

- Pharmax is still very important for the company. It has a share of around one-third of the market for painkillers in Japan and the USA. That figure has been stable for the last 10 years.
- 35 • Although the market is saturated and growing very slowly, this painkiller is a well-established product. Following the expiry of the original patent, competitors are now starting to produce cheaper substitutes.
- A range of drugs was launched in the early 2000s. One of them, Pharmaflo, is designed to prevent heart attacks; it already has a high 15% share in a market that is still growing rapidly.
- 40 • On the other hand, some other *N-Pharma* drugs are performing quite poorly; such as the Pharmaslim line of products for weight control. The market for anti-obesity drugs is growing rapidly. It is very competitive and gaining market share is proving more difficult than anticipated.
- In 2009, *N-Pharma* launched a new anti-aging drug called Pharmatics. Thanks to significant introductory marketing efforts, with both above the line and below the line promotion, the first sales results were satisfactory. It is, however, too early to tell whether present sales will be maintained.

50 Although launching a new drug is a complex marketing activity, *N-Pharma* has a key strength: its well-established brand name has been maintained by aggressive advertising in specialist magazines. *N-Pharma*'s logo is present on all its products; its family branding has attracted considerable brand loyalty. Market research shows that most adults across East Asia recognize *N-Pharma* labels and regard them as a mark of quality and safety.

55 *N-Pharma* drugs are trusted but are expensive. In periods of economic difficulties, many people prefer to buy generic drugs*, which are cheaper. Yukio has calculated that the demand for some of *N-Pharma*'s products is income elastic.

* generic drugs: as opposed to branded drugs, generic drugs are produced and sold without patent protection

Managing human resources in a multinational company

N-Pharma has attempted to introduce the same tall organizational structure in all its subsidiaries. However, this uniform approach to hierarchical organization has not proved appropriate as it ignores cultural differences between some of the countries where *N-Pharma* operates.

- In Canada for instance, employees have repeatedly stated that they want more delegation
60 and a wider span of control. The Canadian subsidiary has recently suffered lower levels of productivity compared to other *N-Pharma* subsidiaries. In this current financial year, it has even traded at a loss. Several managers have been unable to improve productivity, so Yukio has appointed Susan James as chief executive officer (CEO) in Canada to return the subsidiary to profitability in the coming financial year. Susan has dismissed requests for greater empowerment.
65 Although morale has deteriorated and strike action has been threatened by the union, she refuses to change her leadership style. She has the support of the rest of her management team. The problems have been exacerbated by her inability to communicate and by the tall hierarchical structure. With negotiations and collective bargaining now in process, Susan understands that employees may be left demotivated and that productivity might suffer.
70 She knows that Canadian employees respond well to financial motivation, so her solution to the problems is to redirect some of her R&D budget to her human resources (HR) department in order to implement performance-related pay (PRP).

In Australia the *N-Pharma* CEO, Laura Davies, is facing different issues. Unlike Canada, employees in Australia do not have problems with long chains of command. Instead they want
75 changes in employment patterns and practices in order to suit their lifestyle and to have a better work/life balance. Many have questioned the appropriateness of traditional working hours; they have been arguing for flexitime and teleworking. Absenteeism has become a key issue for Laura and has impacted on workforce planning. *N-Pharma* employees in Australia are not motivated by financial incentives as they already have a high standard of living. Laura Davies
80 anticipates, therefore, that the Australian employees of *N-Pharma* will respond positively to non-financial rewards and these will improve employees' job satisfaction, motivation and productivity.

Current issues: *N-Pharma* in the media

- Since 1980, *N-Pharma* has been a public limited company with its shares traded on the Tokyo Stock Exchange. Shareholders have traditionally been happy to invest in *N-Pharma*,
85 regarding the shares as a relatively risk-free, safe investment. However, many have recently expressed concerns about the way *N-Pharma*'s public image has been tarnished by some events and problems.

- In 2008, one of *N-Pharma*'s laboratories found itself at the centre of a controversy reported by the world's media. Its scientists were conducting research on the effects of a new drug and as part of the testing, they carried out experiments on animals. Many of these animals suffered a painful death. A "whistleblower"^{*} alerted the authorities because the standard regulations and benchmarks that were supposed to ensure the care of animals were not followed. Unannounced, veterinary inspectors visited the premises and wrote a damaging report. The document was leaked to journalists and this started a "media frenzy" with headlines such as "Animals tortured at *N-Pharma* lab" and "*N-Pharma* lab of shame". Animal rights activists vandalised several laboratories as well as the Tsukuba headquarters; Yukio Nakamura himself received letters threatening him and his family. The weight of public opinion worldwide was against *N-Pharma*, even though a costly public relations exercise reduced the impact to a certain extent.
- Following the negative publicity, *N-Pharma* tightened its procedures and created a new post of "director of corporate social responsibility". The person appointed to the position was Tadashi Agi, a professor of business ethics at the National University of Tsukuba. Tadashi is now writing a "Charter of Ethics", setting ethical objectives for the company. He intends to use a Kaizen approach to change the corporate culture and encourage ethical practices in all departments. He is making extensive use of information and communication technology (ICT) to communicate his ethical vision to internal and external stakeholders. He also plans to carry out social and environmental audits.

Accounts and finance

Although *N-Pharma* has large financial reserves and could theoretically withstand any financial instability including an economic recession, the board of directors is aware that financial markets are volatile.

The USA subsidiary of *N-Pharma* recently had a liquidity problem and as a form of crisis management the Tsukuba headquarters had to intervene to provide some extra short-term capital. The board of directors of *N-Pharma* sent Suzuko Tanaka, one of the Japanese financial auditors, to Seattle to enquire about the problem. Although Suzuko found that the financial information was not up-to-date she managed to collect some data (Appendix 2).

* whistleblower: an employee who reveals wrongdoing within an organization

The future: external growth and strategic options

In October 2008, in one week alone, the value of *N-Pharma* shares dropped by 25 %. Although the market recovered, *N-Pharma* remains vulnerable to takeover.

120 The board of directors of *N-Pharma* is considering several strategic options for the future growth of *N-Pharma*. As part of this consideration Yukio has provided the board with a range of economic data and forecasts (Appendix 3).

Option 1: Market development in Europe

N-Pharma does not commercialize any of its drugs in Europe yet; it has three possible routes into the European market:

- (a) Through direct entry. If *N-Pharma* wants to get its branded drugs known across Europe, where customers have strong brand loyalty towards products they already know, this strategy would require an investment of 75 000 million yen in communication, promotion and advertising.
- (b) Through the acquisition of several small pharmaceutical companies based in Europe. The takeovers would require an investment of 100 000 million yen but would ensure access to national markets as well as economies of scale. However, if another recession hits Europe, those smaller companies could be cheaper to buy.
- (c) Through a joint venture with *R-Taylor*, the European market leader in drugs distribution. *N-Pharma* would gain access to new customers, whilst *R-Taylor* would benefit from successful R&D activities. The cost of the joint venture is estimated at 75 000 million yen. Such a large scale joint venture would need prior approval from the European Union Commission. The legislation is too strict at the moment although this might change in the next couple of years.

Option 2: Market penetration within China

140 *N-Pharma* already sells some of its drugs in China, especially through business-to-business (B2B) operations with private clinics and it could take advantage of the rapid economic development and increasing life expectancy in China. *N-Pharma* could set up a major centre in Beijing; this would cost 50 000 million yen and give access to the largest market in the world. Some members of the board of directors have a number of concerns, such as:

- the patent legislation is not enforced so strictly in China (some Chinese competitors could rapidly copy some of *N-Pharma*'s drugs and sell them at a lower price)
- the quality control procedures are not as tight in China (*N-Pharma* drugs manufactured in China may not be of the same quality as the ones produced in other countries)
- the historic disagreements between the two countries (political changes in China could have a negative impact on the *N-Pharma* subsidiary).

Option 3: Diversification

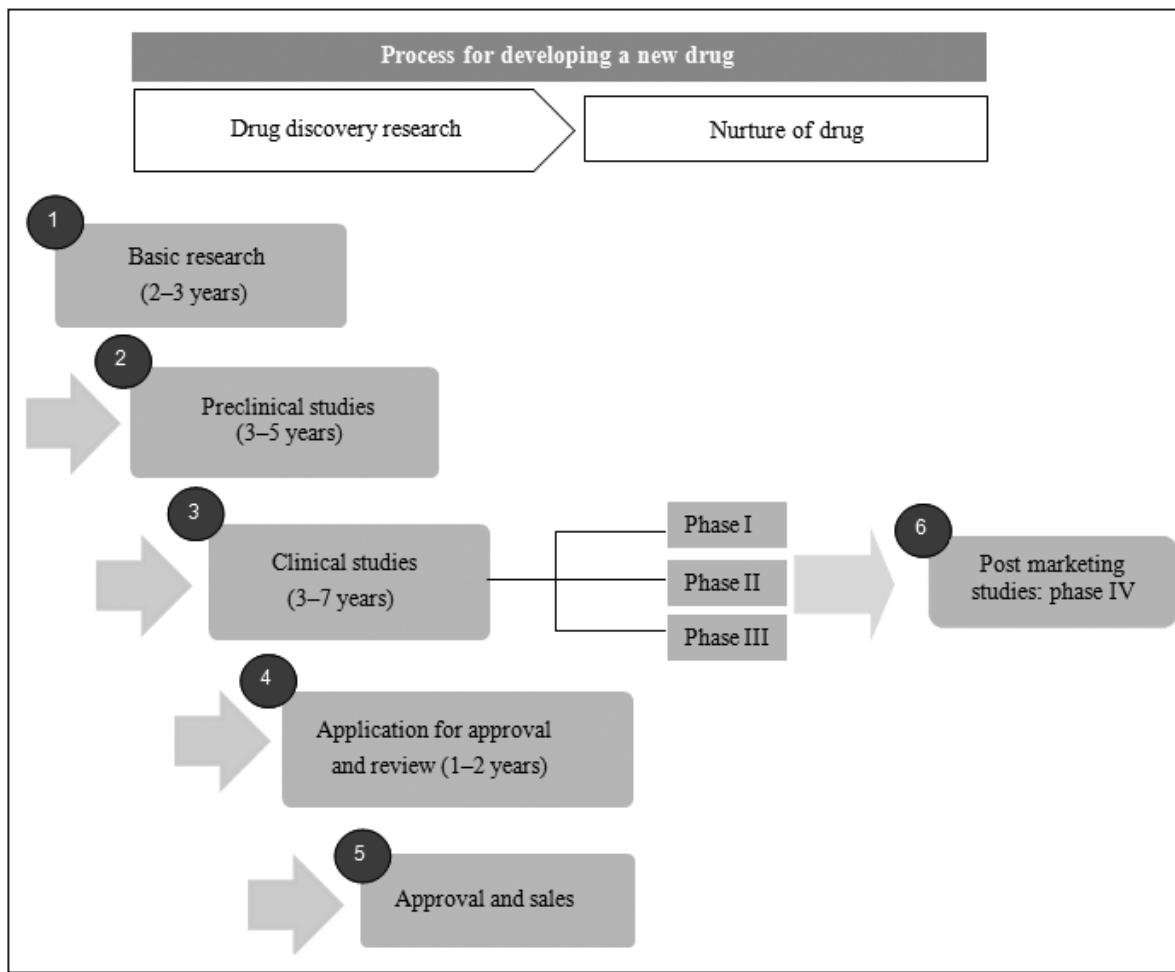
Some members of the board of directors believe that as part of their new ethical stance 150 *N-Pharma* ought to widen its portfolio of products to include animal welfare. At the moment, *N-Pharma* only offers drugs for humans, but the veterinary market is booming. The market for animal drugs could represent the future of *N-Pharma*. As there is a strong element of risk, a strategic approach could be a merger with *Anigam*, one of the world specialists in animal drugs. *Anigam* is well established in the USA and Europe, but not in Asia.

Additional terms not in the Guide

Direct entry

Diversification

Appendix 1: Research and development in the pharmaceutical industry



[Source: <http://www.eisai.co.jp/eir/eindividual/eknowledge.html>, March 2009]

Appendix 2: Data collected by Suzuko Tanaka at the USA subsidiary of *N-Pharma*

| (US\$m) | 2008 | 2009 |
|----------------------|------|------|
| Cash | 190 | 60 |
| Creditors | 620 | 630 |
| Debtors | 310 | 350 |
| Short-term borrowing | 115 | 230 |
| Stock | 250 | 356 |

Appendix 3: Economic data as at January 2010

| | 2007 | 2008 | 2009 | 2010 (forecast) | 2011 (forecast) |
|---|--------|--------|--------|--------------------|--------------------|
| Global conditions | | | | | |
| World trade volume (% change from previous year) | 7.5 | 6.2 | -2.1 | 4.0 | 6.0 |
| Interest rates (%) | 5.2 | 3.2 | 1.7 | 2.0 | 3.5 |
| | | | | | |
| Real GDP growth (% change from previous year) | | | | | |
| World | 3.7 | 2.5 | -0.9 | 2.0 | 3.0 |
| Japan | 2.1 | 0.5 | -0.1 | 0.5 | 0.6 |
| China | 11.9 | 9.4 | 7.5 | 7.5 | 9.5 |
| Europe | 2.6 | 1.1 | -0.6 | 1.0 | 1.3 |
| | | | | | |
| Consumer price inflation (% change from previous year) | | | | | |
| Japan | -0.6 | -0.5 | -1.4 | -1.8 | -1.2 |
| China | 5.2 | 8.7 | -1.6 | -0.5 | 0.1 |
| Europe | 3.2 | 4.1 | 1.1 | 1.7 | 2.4 |
| | | | | | |
| Population (million) | | | | | |
| Japan | 127.6 | 127.7 | 127.8 | 127.8 | 128.1 |
| China | 1311.8 | 1319.9 | 1325.4 | 1330.6 | 1380.8 |
| Euro area | 318.7 | 325.6 | 335.7 | 345.6 | 354.2 |

[Source: adapted from *World Bank Global Prospects 2009*, March 2009]

Companies, products, or individuals named in this case study are fictitious and any similarities with actual entities are purely coincidental.

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BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 1

Tuesday 4 May 2010 (afternoon)

1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Read the case study carefully.
- Section A: answer two questions.
- Section B: answer the compulsory question.

SECTION A

Answer **two** questions from this section.

1. (a) Define the following terms:
 - (i) *product life cycle* (line 32) [2 marks]
 - (ii) *brand loyalty* (line 51). [2 marks]
 - (b) With reference to *N-Pharma* and its new drug Pharmatics, distinguish between “above the line and below the line promotion” (line 45). [4 marks]
 - (c) Apply The Boston Consulting Group (BCG) matrix to *N-Pharma*’s product portfolio. [7 marks]
-
2. (a) “Since 1980, *N-Pharma* has been a public limited company with its shares traded on the Tokyo Stock Exchange” (lines 83–84). Outline **two** key aspects of this form of ownership. [4 marks]
 - (b) Prepare a SWOT analysis showing **only** the opportunities and threats for *N-Pharma*. [4 marks]
 - (c) Analyse *N-Pharma*’s position using the information in the SWOT analysis (additional information, page 3) and your answer to part (b). [7 marks]
-
3. (a) Define the following terms:
 - (i) *profitability* (line 64) [2 marks]
 - (ii) *liquidity* (line 111). [2 marks]
 - (b) Using data from Appendix 2, calculate the liquidity ratios for the USA subsidiary of *N-Pharma* in the financial years 2008 **and** 2009. [4 marks]
 - (c) Analyse the liquidity ratios calculated in part (b) from the perspective of **two** stakeholders of *N-Pharma*. [7 marks]

SECTION B

Answer the compulsory question from this section.

4. (a) Define the following terms:

(i) *delegation* (line 59) [2 marks]

(ii) *performance-related pay (PRP)* (line 72). [2 marks]

(b) *N-Pharma* is considering several strategic options for its future growth, including a takeover (**Option 1(b)**) and a merger (**Option 3**). Distinguish between a merger and a takeover. [4 marks]

(c) Laura Davies anticipates “that the Australian employees of *N-Pharma* will respond positively to non-financial rewards” (lines 80–81). Explain how non-financial rewards might affect job satisfaction and productivity. [4 marks]

(d) To what extent would a change in Susan James’ leadership style improve productivity and morale at the Canadian subsidiary of *N-Pharma*? [8 marks]

Additional information**Strengths and weaknesses from a SWOT analysis for *N-Pharma*****Strengths**

- *N-Pharma* is a well-established multinational company (MNC) with subsidiaries in several countries within the Pacific Rim.
- *N-Pharma* is a well known brand name, attracting customer loyalty.
- *N-Pharma* has a portfolio of drugs at different stages of their product life cycle (e.g. Pharmax, Pharmaflo, Pharmaslim, Pharmatics).
- *N-Pharma* has large financial reserves and its shares are regarded by investors as safe and relatively risk free.

Weaknesses

- *N-Pharma* has experienced problems in some of its subsidiaries (e.g. human resources (HR) problems in Canada and Australia, liquidity problems in the USA).
- *N-Pharma* has suffered a negative public image because of unethical practices.
- *N-Pharma* operates in a very competitive business environment (generic drugs from competitors are cheaper than *N-Pharma* branded products).

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BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 2

Wednesday 5 May 2010 (morning)

1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer two questions.

SECTION A

Answer one question from this section.

1. Natura Cosméticos

Natura Cosméticos is a Brazilian company that manufactures and sells a range of cosmetic products including shampoo, soap, make-up and creams that protect against the sun. *Natura Cosméticos* has ethical objectives and has built its success on the high quality of its products and on the company's commitment to sustainable development¹. *Natura Cosméticos*' mission statement states that it is:

"committed to building a better world through sustainable development".

Natura Cosméticos uses natural ingredients from the Amazon rainforest. The company supports local villagers in planting their crops using traditional sustainable techniques.

Excerpt from the profit and loss accounts for *Natura Cosméticos* for the years ended 31 May 2006 and 2007

| | 2006 | 2007 |
|------------------------------------|-------------|-------------|
| Sales revenue | 2800 | 3123 |
| Cost of goods sold | 891 | X |
| Gross profit | X | 2131 |
| Expenses | X | 1453 |
| Net profit before interest and tax | 644 | X |
| Interest | 34 | 90 |
| Tax | 149 | 156 |

Natura Cosméticos sells its products in recyclable packaging through a direct sales distribution network of more than 60 000 self-employed² "partners" in Brazil. These "partners" are mostly women working part-time on profit-related pay. This approach works well because employment opportunities in Brazil are limited, wages are low, and it allows flexible working. Consumers also like direct distribution because of the personal service and close interaction with the "partners".

Natura Cosméticos has experienced an average annual growth in revenue of 25% between 1995 and 2003. In 2006, the company built a new manufacturing plant to accommodate future growth. This was financed by a new long-term loan.

¹ sustainable development: a pattern of resource use that aims to meet human needs while preserving the environment so that these needs can not only be met in the present, but also for future generations

² self-employed: earning one's livelihood directly from one's own trade or business rather than as an employee of another

[Source: adapted from *Globality: Competing With Everyone From Everywhere For Everything*
New York and Boston: Business Plus, 2008, and *The 2007 Natura Annual Report*]

(This question continues on the following page)

(Question 1 continued)

- (a) Outline the purpose of the mission statement of *Natura Cosméticos*. [4 marks]
- (b) From the profit and loss accounts provided:
- (i) calculate the missing values X for 2006 **and** 2007. [2 marks]
- (ii) calculate the gross profit margin **and** the net profit margin for 2006 **and** 2007. [4 marks]
- (iii) comment on the change in interest between 2006 and 2007. [2 marks]
- (c) Distinguish between the purpose of accounts for **one** internal stakeholder group of *Natura Cosméticos* and the purpose of accounts for **one** external stakeholder group. [3 marks]
- (d) Examine **two** reasons why organizations such as *Natura Cosméticos* set ethical objectives. [5 marks]

2. Aravind Eye Care

Aravind Eye Care is the world's largest provider of eye surgery. Founded in 1976 in India by Dr Govindappa Venkataswamy, the non-profit organization can perform 250 000 operations per year. At *Aravind Eye Care*, only 40% of the patients pay for the operation, which costs them US\$60. The other 60% of the patients, who would otherwise not be able to afford the operation, do not pay.

Aravind Eye Care has transformed the process of eye surgery in developing economies. Expensive medical equipment has been purchased but is used 24 hours a day in order to lower the average cost for each operation. In *Aravind Eye Care* hospitals, surgeons perform only the eye operation itself whereas in other hospitals, doctors also provide care before and after the operation. At the *Aravind Eye Care* hospitals, each doctor can perform 4000 eye operations per year, whereas other eye surgeons in India average 400.

With these economies of scale, in 2007 *Aravind Eye Care* performed 100 000 operations for fee-paying patients. For these patients:

- the price charged per operation was US\$60
- the variable cost per operation was US\$20
- fixed costs including overheads were US\$3 000 000.

In recognition of their extraordinary efforts to improve health in developing countries, *Aravind Eye Care* received the *Bill & Melinda Gates Foundation* award in 2007.

[Source: adapted from *Globality: Competing With Everyone From Everywhere For Everything*, New York and Boston: Business Plus, 2008, and http://papers.ssrn.com/sol3/papers.cfm?abstract_id=991824, 17 June 2008]

(a) Define the following terms:

(i) *non-profit organization* [2 marks]

(ii) *overheads*. [2 marks]

(b) Calculate for fee-paying patients in 2007 at *Aravind Eye Care* (*Show all your working*):

(i) the contribution to fixed costs of each fee-paying patient [2 marks]

(ii) the break-even quantity [2 marks]

(iii) the margin of safety. [2 marks]

(c) Prepare a fully labelled break-even chart for *Aravind Eye Care* in 2007. [5 marks]

(d) With reference to appropriate content theory, examine **two** factors that could influence the motivation of doctors at *Aravind Eye Care*. [5 marks]

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SECTION B

Answer two questions from this section.

3. Ecosoluciones

Ecosoluciones is a non-profit research organization located in Madrid, Spain. One of their objectives is to try to introduce non-polluting sources of electricity in developing countries. One successful application of their research was the Alumbre Project. This provided electricity created by wind generators to the remote village of Alumbre, Peru, which previously had none.



[Source: <http://www.publicdomainpictures.net/view-image.php?picture=wind-turbines&image=452>, 17 December 2009]

In Alumbre, wind generators were installed by *Ecosoluciones* to supply, for the first time, electricity to a textile factory, one of the few firms in the area operating in the secondary sector. *Ecosoluciones* also agreed to maintain and repair the generators. There was a complete transformation in the production process. The factory was able to buy new machinery. Productivity increased dramatically. New jobs were created.

Ecosoluciones also promised, in partnership with *Peru Telecom* and the Peruvian government, to help fund the improvements in communication between Alumbre and the rest of Peru. This also allowed regional trade to develop. The entire community experienced significant improvements in their quality of life. The Peruvian government saw this as a practical solution to develop other depressed areas* of the country.

Unfortunately in 2008 a severe financial crisis hit Europe and the Spanish government suspended part of its funding for research organizations such as *Ecosoluciones*. As a direct result, the management of *Ecosoluciones* felt it may no longer be able to maintain Alumbre's wind generators.

* depressed area: a region or locality where business, employment, and stock-market values have declined severely or are at a very low level of activity

[Source: adapted from <http://ecoworldly.com/2008/06/17/wind-power-blows-into-peru-and-brightens-future/>, 17 June 2008]

(This question continues on the following page)

(Question 3 continued)

- (a) Define the term *secondary sector*. [2 marks]
- (b) Prepare a PEST analysis for the textile factory in Alumbre. [6 marks]
- (c) Contrast the objectives of non-profit organizations such as *Ecosoluciones* to those of profit-based organizations. [5 marks]
- (d) Discuss **two** possible areas of conflict between stakeholders in the Alumbre Project. [7 marks]

4. Coca-Cola in Tajikistan

Coca-Cola uses two types of distribution channels globally:

- a short channel of delivering small orders to thousands of retail outlets directly
- a long channel through intermediaries such as distribution centres.

In 2009, Elena Rudaki started up her *Coca-Cola* distribution centre in a town in Tajikistan where the mountainous roads are in very poor condition. As a sole trader and franchisee she employs five people, who use carts pulled by horses to distribute bottles of *Coca-Cola* to nearby villages. Before she opened her distribution centre, *Coca-Cola* checked that she had access to appropriate sources of finance as well as a business plan. As part of the franchise contract, Elena and the other distribution centre owners do not pay a fee to *Coca-Cola*. However, in return *Coca-Cola* must be the only drink they buy and sell. Elena knows it is very restrictive.

Coca-Cola believes that distribution centres are successful because they are owned and operated by local entrepreneurs who understand the local culture. For *Coca-Cola*, the distribution centre model has led to increased consumption of their products as well as improving local economies by encouraging business start-ups and creating jobs. Many distribution centre owners are women, like Elena, who used her profits to buy a new house and pay for her daughter's education.

Before entering the Tajikistan market, *Coca-Cola* had considered using a short distribution channel, from a central storage facility (depot) in the capital city, Dushanbe, direct to the retailers. However, they decided to implement a system of distribution centres for their distribution.

[Source: adapted from *afrol News*, 26 September 2008 and <http://www.beverageworld.com/content/view/34798/92/company,17-June-2009/>]

- Identify **two** features of a sole trader. [2 marks]
- Comment on **two** appropriate sources of finance which Elena Rudaki might have used to set up her distribution centre. [6 marks]
- Examine **two** problems that other entrepreneurs in Elena Rudaki's town may face if they start up a new business. [5 marks]
- Discuss the effectiveness of the different types of distribution channels for *Coca-Cola* in Tajikistan. [7 marks]

5. Bajaj

In India, the market leader in motorbike manufacturing is *Bajaj*, with a 34% market share. There are many market segments for motorbikes. For some target markets, price is the most important factor. Other target markets are willing to pay more for extra features, such as better styling*. *Bajaj* is market orientated and offers 12 different models to satisfy the needs of various consumer profiles.

Bajaj has an extensive distribution network even in remote areas. Twice a year, *Bajaj* carries out primary market research through surveys, focus groups and interviews with their customers about the quality, reliability and safety of the *Bajaj* motorbikes. This is particularly important in remote areas where there are few garages to either service or repair them.

In the last 10 years the company has also gained a significant share of other markets, including the Philippines, Colombia and Tajikistan. This was done through strategic alliances. One of the company's long-term objectives is this continued expansion in international markets.

For its international markets as in India, *Bajaj* is determined to make sure that each model of motorbike satisfies local needs and preferences. One proposal is to use franchising to enter international markets.

* styling: the various features of style or design that consumers may prefer

[Source: adapted from *Globality: Competing With Everyone From Everywhere For Everything*
New York and Boston: Business Plus, 2008]

- (a) Outline briefly the difference between market orientation and product orientation. [2 marks]
 - (b) Comment on the appropriateness of “surveys, focus groups and interviews” as methods of primary market research for *Bajaj*. [6 marks]
 - (c) Analyse the usefulness of market segmentation and consumer profiles for *Bajaj*. [5 marks]
 - (d) Evaluate the use of franchising as a growth strategy for *Bajaj*. [7 marks]
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BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 1

Thursday 18 November 2010 (afternoon)

1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Read the case study carefully.
- Section A: answer two questions.
- Section B: answer the compulsory question.

SECTION A

Answer **two** questions from this section.

1. (a) *N-Pharma* is now a successful business, but it initially struggled: “poor cash flow meant that the early years were financially challenging” (*lines 6–7*). Outline **two** problems that Yukio Nakamura’s business start-up may have faced. [4 marks]
(b) Construct a fully labelled Ansoff matrix to show *N-Pharma*’s possible growth strategies. [4 marks]
(c) Analyse the value of “social and environmental audits” (*line 107*) to *N-Pharma*. [7 marks]
2. (a) Define the following terms:
 - (i) *span of control* (*line 60*) [2 marks]
 - (ii) *empowerment* (*line 64*). [2 marks]
(b) Comment on the effectiveness of Susan James’ leadership style in the Canadian subsidiary of *N-Pharma*. [4 marks]
(c) Analyse the appropriateness of a cost-based pricing strategy (*line 29*) for *N-Pharma*’s drugs. [7 marks]
3. (a) Tadashi Agi has been appointed to the new post of “director of corporate social responsibility” (*line 101*). Outline **two** methods of recruitment that could have been used in this appointment. [4 marks]
(b) Explain how Tadashi Agi could use new technologies within *N-Pharma* to communicate his ethical vision effectively with stakeholders (*lines 105–106*). [4 marks]
(c) Tadashi Agi is now writing a “Charter of Ethics”, setting ethical objectives for *N-Pharma* (*lines 102–103*). Examine the reasons why organizations consider setting ethical objectives. [7 marks]

SECTION B

Answer **the compulsory question** from this section.

4. (a) Outline **two** alternative strategies that could have been used to deal with the liquidity problem at the USA subsidiary of *N-Pharma* (*line 111*). [4 marks]
- (b) Explain the importance of quality assurance and quality control (*lines 26–27*) for *N-Pharma*. [4 marks]
- (c) “*N-Pharma* already sells some of its drugs in China, especially through business-to-business (B2B) operations with private clinics” (*lines 137–138*). Explain the benefits for *N-Pharma* of using B2B operations compared to business-to-customers (B2C). [4 marks]
- (d) *N-Pharma* subsidiaries have a double role: they “are responsible for both production and distribution of *N-Pharma* drugs in their national markets” (*lines 18–19*). Discuss the advantages **and** disadvantages of such a double role. [8 marks]

Additional information

There is no additional information in this paper for Sections A and B.

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BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 2

Friday 19 November 2010 (morning)

1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer two questions.

SECTION A

Answer one question from this section.

1. La Carnicería Sanitaria (LCS)

Alejandra Morales manages a meat wholesale* business in the southern side of Panama City, Panama. The business was set up by her father. When he retired, he changed the legal status from a sole trader to a private limited company. Every year Alejandra uses her personal savings to purchase an additional 5% of her father's shares. The firm is profitable, has an average monthly positive cash flow of US\$1200 (after paying Alejandra's monthly salary), no debts, and presently has a US\$14 000 cash balance. The present policy of the firm is to pay dividends of US\$12 000 each year.

Alejandra wants to open a new wholesale facility in the northern side of the city in January 2011. According to her business plan she would need to rent a building and purchase new equipment.

- To finance the new equipment, she will obtain a US\$60 000 bank loan which must be repaid in five years.
- Alejandra forecasts sales of US\$10 000 in January 2011 and she expects sales to grow by 2% per month for the following six months.
- Sales will be on credit with customers required to pay in 30 days.

Forecasted cash outflows of *La Carnicería Sanitaria (LCS)* at the new wholesale facility for the first six months (January to June 2011) will include:

| | US\$ |
|---|--|
| Monthly purchase from meat suppliers | the purchase price (paid in cash) is equivalent to 30% of forecasted sales |
| Monthly wage of: | |
| • Senior butcher | 1200 |
| • Junior butcher | 1000 |
| • Van driver | 800 |
| Total monthly wages | 3000 |
| Monthly charges: | |
| • Telephone | 150 |
| • Rent | 1200 |
| • Debt repayment (principal and interest) | 1200 |
| • Insurance | 200 |
| • Miscellaneous | 400 |
| Total monthly charges | 3150 |
| Electricity expenses to be paid every two months (starting in January 2011) | 400 |

* wholesale: the sale of goods in large quantities for resale by a retailer

(This question continues on the following page)

(Question 1 continued)

When Alejandra makes the proposal to open the new wholesale facility, her father still has 60% ownership of *LCS*. He is concerned that Alejandra is too optimistic with her sales forecasts.

To encourage effective leadership and strong performance by the senior butcher at the new wholesale facility, Alejandra is considering a range of financial rewards.

- (a) Outline **two** advantages for Alejandra's father of changing the legal status of *LCS* from a sole trader to a private limited company. [4 marks]
- (b) (i) Prepare a monthly cash-flow forecast for the first six months of operation of the **new** wholesale facility of *LCS*. [6 marks]
(ii) Comment on the impact that the **new** wholesale facility will have on the current cash position and cash flow of *LCS*. [5 marks]
- (c) Examine **two** financial rewards *LCS* could use to “encourage effective leadership and strong performance by the senior butcher”. [5 marks]

2. ThaiModa

ThaiModa is a Thailand-based manufacturing company that produces:

- office furniture
- residential furniture
- furniture specifically designed for elderly people selling under the brand name of “*ThaiModa* Health and Care” (“TMHC”).

Selected items from *ThaiModa*’s profit and loss account for the year ended 31 May 2009 (in millions of Thai baht)

| | |
|------------------------------------|------|
| Sales revenue | 2628 |
| Cost of goods sold | 1537 |
| Gross profit | 1091 |
| Expenses | 695 |
| Net profit before interest and tax | 396 |
| Interest | 6 |
| Tax | 87 |
| Net profit after interest and tax | 303 |

Selected items from *ThaiModa*’s balance sheet as at 31 May 2009 (in millions of Thai baht)

| | |
|---------------------------|------|
| Capital employed | 2458 |
| Cash | 243 |
| Creditors | X |
| Debtors | 479 |
| Fixed assets | 1555 |
| Net assets | Y |
| Retained profit | 1308 |
| Share capital | 1150 |
| Short-term borrowing | 351 |
| Stock | 781 |
| Total current liabilities | 600 |
| Total current assets | Z |

ThaiModa has 4 production sites and 10 distribution centres in Thailand. Its products are sold in both domestic and overseas markets. *ThaiModa* also sells furniture imported from Italy under the brand name “Casaperfetta”.

In 2002 *ThaiModa* established a strategic alliance with *Sleek Textiles*, a manufacturer of luxury fabrics. Both companies agreed to sell each other’s products in their showrooms and share their design resources in Thailand. *ThaiModa* also uses *Sleek Textiles*’ extensive international sales network, primarily in Austria, Australia, Germany and Malaysia.

(This question continues on the following page)

(Question 2 continued)

In addition to the existing strategic alliance, *ThaiModa* is now considering a joint venture with *Sleek Textiles* focusing on the development of new antibacterial fabrics. “TMHC” is particularly interested in using these new antibacterial fabrics in their furniture for elderly people.

In 2010, *ThaiModa* reported a revenue of 30 million Thai baht from “TMHC”. Future sales revenue is forecasted to grow rapidly. Sales are mainly to hospitals and hospices. In an aging society, there is potential for growth in the market for furniture for elderly people.

- (a) With reference to *ThaiModa* and *Sleek Textiles*, outline **two** differences between a strategic alliance and a joint venture. [4 marks]
- (b) Calculate the missing figures X, Y, Z **and** with those figures and from the financial information provided, construct a complete balance sheet for *ThaiModa* for 2009. [7 marks]
- (c) (i) Calculate the acid test (quick) ratio of *ThaiModa*. [1 mark]
(ii) Calculate the current ratio of *ThaiModa*. [1 mark]
(iii) Using these ratios, briefly comment on the liquidity position of *ThaiModa*. [2 marks]
- (d) Examine **one** possible advantage and **one** possible disadvantage for *ThaiModa* of the joint venture with *Sleek Textiles*. [5 marks]

SECTION B

Answer **two** questions from this section.

3. Cyprus Tours

Cyprus Tours, owned and operated by Nikolas Georgiadis, is a travel agency. It arranges sightseeing tours for groups of tourists, as well as accommodation and restaurant bookings. Tourism is one of the most important industries in Cyprus. Presently, *Cyprus Tours* hires cars from local taxi companies to transport groups of tourists on the island of Cyprus. The hiring of the cars is a major expense for *Cyprus Tours*.

Nikolas is considering purchasing 10 cars so that *Cyprus Tours* can transport customers itself. The cost of the 10 cars that run on petrol (gasoline) only is €400 000, and the firm forecasts that the net profit will increase by €85 000 per annum from the investment. The vehicles will have a useful life of 6 years.

Pressure groups in Cyprus have demanded that all new vehicles be hybrid* in order to reduce pollution. At low speed, hybrid cars pollute less. Taxi companies, however, object to the demand from the pressure groups. A hybrid car costs 25% more than a petrol-only car to purchase, and the cost difference cannot be passed on to consumers.

If Nikolas acts immediately, *Cyprus Tours* can purchase the petrol-only cars before any changes in the law. However, his son Dimitri, a university student, objects to purchasing petrol-only cars. He argues that businesses have a social responsibility to protect the environment, which also ensures the long-term viability of tourism in Cyprus. Nikolas fears that purchasing hybrid cars would put a financial burden on the company. *Cyprus Tours* would have to cut expenses by making several booking agents and administrative staff redundant. *Cyprus Tours* would also have to reduce year-end bonuses.

* hybrid: hybrid vehicles combine the use of electric and petrol power

(This question continues on the following page)

(*Question 3 continued*)

- (a) Describe **one** marketing advantage for *Cyprus Tours* of owning its own cars. [2 marks]
- (b) Calculate, *showing all your working*:
- (i) the payback period **and** the average rate of return (ARR) for the petrol-only cars. [3 marks]
- (ii) the payback period **and** the average rate of return (ARR) for the hybrid cars. [3 marks]
- (c) Analyse the usefulness for *Cyprus Tours* of using the payback period **and** the average rate of return (ARR) methods for investment appraisal. [5 marks]
- (d) Discuss whether *Cyprus Tours* should purchase the hybrid cars. [7 marks]

4. Michelle Kaufmann Designs (MKD)

Michelle Kaufmann Designs (MKD) in San Francisco, USA, is a leader in designing and manufacturing modular* houses that are both beautiful and environmentally friendly. Customers choose one of six basic *MKD* models and then further customize the number of bedrooms, bathrooms, and the final details. Customers can also decide whether to have solar panels.



[Source: <http://www.mkd-arc.com/homes/mksolaire/>, 18 February 2009]

The modules are built in four to six weeks using job production methods in the firm's factory. To be more environmentally friendly, the factory is located near suppliers of the building materials. Michelle Kaufmann, owner and founder of *MKD*, insists that all suppliers operate in an environmentally friendly manner. Lorries deliver the modules to the location where the house will be built. It then takes another six weeks for the work to be completed.

The main benefits of buying a *MKD* house compared to an identical traditionally built house are:

- it takes a third less time to construct
- it is of better quality
- it requires less petrol (gasoline) to transport labour and materials to and from a construction site.

These benefits fit *MKD*'s vision statement: "Making green architecture affordable to everyone".

The firm's mission statement includes the firm's five eco-principles: smart design, eco-materials, energy efficiency, water conservation and healthy environment. Michelle hopes to build a brand around environmental friendliness and elegant design. She is strengthening her brand by also selling books, T-shirts, bags and furniture, all bearing the *MKD* logo.

MKD faces several challenges:

- Americans have negative perceptions of modular houses
- environmentally friendly houses are more expensive than other houses
- there is a severe economic downturn and the demand for new houses is falling rapidly
- price sensitive customers are requesting the use of non-environmentally friendly materials to keep prices down
- it has numerous competitors in the market for environmentally friendly houses.

* modular: designed with standardized units or dimensions

(This question continues on the following page)

(Question 4 continued)

Although Michelle differentiates her business by being the only one in San Francisco offering modular houses, she has higher fixed costs to maintain the factory.

[Source: adapted from <http://www.prweb.com/releases/prefabgreen/mkd-arc/prweb2102184.htm>, 18 February 2009]

- (a) Define the term *job production*. [2 marks]
- (b) (i) With reference to *MKD*, distinguish between fixed costs and variable costs. [4 marks]
(ii) Explain **one** reason why it is important for *MKD* to strengthen its brand. [2 marks]
- (c) With reference to *MKD*, analyse the role of a mission statement and a vision statement. [5 marks]
- (d) Discuss whether Michelle should start using “non-environmentally friendly materials to keep prices down”. [7 marks]

5. Café Paradise

In 2002, four years after the first Internet café opened in Morocco, Imran Kwashane transformed his traditional café, *Café Paradise*, located in a suburb of Rabat into an Internet café. Revenue and profits grew rapidly. Within a year he had hired three part-time employees to help customers use the café's computers.

Many entrepreneurs were opening Internet cafés in Morocco. Soon there were 2500 Internet cafés. Facing strong competition, in 2005, Imran lowered his price of Internet access from six to four dirhams per hour. Revenue fell, and, despite cutting costs by making one employee redundant, profits were lower than before. Moreover, in late 2008, following a decade of economic growth, Morocco's economy went into recession.

When *Café Paradise* first opened, there were no government restrictions on Internet cafés in Morocco. The national government was actually encouraging computer use by upgrading the country's information communication technology (ICT) infrastructure and providing free wireless access (Wi-Fi) services in major cities like Rabat. As a result, sales of computers, especially laptops, increased by 10% per year between 2000 and 2007. However, a provincial government official has recently instructed local Internet cafés not to serve customers belonging to a banned pressure group. Many Moroccans also believe that there should be more control over access to inappropriate web sites.

Internet café customers, increasingly knowledgeable about innovations in information technologies, have begun to demand newer, faster computers. As *Café Paradise*'s computers are seven years old, Imran is considering purchasing 15 new computers at a cost of 150 000 dirhams. His wife Akila, however, thinks that the first generation Internet café sector will soon not be financially viable. Rather than buying new computers, she recommends modernizing the décor* (at a cost of 60 000 dirhams), laying-off the two remaining part-time employees, and providing extra services such as scanning and printing photos for customers with laptops or memory sticks.

* décor: a decorative style or scheme, as of a room

[Source: adapted from <http://www.openarab.net/en/node/364> and http://outreach.lib.uic.edu/www/issues/issue9_1/ibahrine/,
9 February 2009]

- (a) Outline the importance of innovation for *Café Paradise*. [2 marks]
- (b) Explain the effect of **one** political, **one** economic and **one** social factor on *Café Paradise*. [6 marks]
- (c) Analyse the relationship between investment, profit and cash flow at *Café Paradise*. [5 marks]
- (d) Evaluate Akila's recommendation for the future direction of *Café Paradise*. [7 marks]



BUSINESS AND MANAGEMENT
CASE STUDY: REACH OUT

For use in May and November 2011

INSTRUCTIONS TO CANDIDATES

- Case study booklet required for Higher Level Paper 1 and Standard Level Paper 1 Business and Management examinations.

Reach Out**Laura Chan**

Laura Chan's life changed dramatically in December 2009 when her three-year-old son, Toby, was diagnosed with autism. Autism affects how a person communicates and interacts with others, and one child in a hundred is affected by the condition. Laura was therefore surprised to find out that, in her country, the government provided very little help to families of children with autism.

- 5 There was no system of free medical support; private therapists could charge up to \$100 per hour for a visit to a newly diagnosed child. Laura was very worried. She knew that she could not afford these charges because of her low income. She felt it was unethical that private sector companies were taking advantage of some families. This could result in some children with autism being excluded from early treatment.
- 10 Through the use of new technology social networking sites such as *Facebook* and *Twitter*, Laura created an informal network of families in the same situation. She created an online support forum where parents could share experiences and exchange information. She started writing a blog, describing her daily successes and difficulties with Toby. By March 2010, her blog received thousands of visits every day. Many families e-mailed Laura to thank her for 15 raising awareness of autism or to ask her for advice. Her blog had become a medium for social marketing. Moderating the forum and replying to e-mails was becoming very time-consuming. Laura was not sure how she could keep up with her online activities whilst looking after Toby and working part-time as a supermarket cashier in a nearby town. Then she received a phone call from Neil Johnson.

Neil Johnson

- 20 Neil Johnson previously worked in both the public sector and the private sector as an educational consultant. He was now retired and still acted as an advisor for several public-private partnerships, such as schools and universities. He read Laura's blog and was moved by her story. Neil wanted to help. He could also see the business potential of Laura's blog. Neil and Laura met and realized quickly that they could complement each other. 25 They discussed how Laura could become self-employed, work from home on a flexible schedule and use her knowledge and first-hand experience of the needs of families affected by autism. She was passionate and had many ideas, such as involving trainee teachers working with children with autism. Neil had the skills and expertise to set up and manage a business.

Setting up the charity

Despite the many problems Neil and Laura faced as a start-up, they decided to create a charity for children with autism called *Reach Out*. Neil insisted *Reach Out* be organized to a professional standard. He prepared a STEEPLE analysis, a SWOT analysis, a business plan, a budget and a simple system for their final accounts. He calculated that the start-up costs would amount to \$10 000 in order to convert a bedroom in Laura's home into an office and to equip it with better computer facilities. Having considered possible sources of finance such as a short-term loan from a bank or a community grant from the local public authorities, Neil eventually decided to donate the \$10 000 himself. Laura and Neil would both be employed part-time by *Reach Out* as joint directors with equal responsibility, Laura as "Director – Communication and Networking", Neil as "Director – Finance and Strategy". Whereas Laura's salary would be fixed (\$2000 per month), Neil's rewards package would be based on a performance-related pay (PRP) basis (a commission of 10% of the total cash receipts). Laura would have the security of a steady income, and Neil liked the financial motivation to make *Reach Out* successful. Both were determined that *Reach Out* would remain a non-profit organization with the primary ethical objective of helping children with autism.

Reach Out was formally launched on 1 May 2010 with the vision statement: "no child with autism will be left behind". Laura also wrote a mission statement for *Reach Out*: "to provide online support for families of children with autism and to offer them communication resources at a greatly reduced price". The first part of the mission statement referred to the popularity of her blog, which she wanted to develop further by adding podcasts and video clips and having a professional-looking web site. The second part of the mission statement referred to a project close to her heart. Communication resources for families of children with autism are very expensive; few companies produce PECS¹ cards and they all charge very high prices. Laura's goal was to produce and sell PECS cards with the unique selling point (USP) being a much lower price. The use of surplus² to subsidize the PECS cards would make them more affordable to all families. First though, she had to establish the charity and to make it financially sustainable.

Raising revenue

Reach Out was based on a simple business model that covered costs and allowed the organization to create a surplus. This money would eventually be used to offer communication resources (PECS cards) at a reduced price. A monthly average of \$200 was received from donations by the readers of Laura's blog, which she donated to *Reach Out*. This was only a small portion of *Reach Out*'s income. Laura had read on a web site that many students training to become school teachers needed experience working with children with autism as part of their qualification. She contacted the local university and created a database of interested students who had studied how to support children with autism. Although they were not qualified therapists, they would be able to help the children and their families. Laura matched the students with local families who had e-mailed Laura asking if she knew of any affordable therapists, qualified or not. Neil was hesitant about the risks of using unqualified staff: he thought it might be unethical.

¹ PECS: Picture Exchange Communication System; a method of using cards with pictures and symbols to communicate with children with autism

² surplus: retained profit (in the case of a charity)

Neil also expressed doubts about legal issues of health and safety, as well as child protection. However, Laura was impatient and pursued her ideas. She insisted that everybody would benefit: the children, the families, the trainee teachers and the charity itself. By the end of May 2010 she had organized for 20 families to receive support from the trainee teachers, 70 so-called “*Reach Out* therapists”. Families were asked to pay \$25 per hour of one-to-one therapy sessions: \$20 was for the salary of the therapist and \$5 was for *Reach Out*. On the basis of 20 hours a month per family, this meant that each family contributed \$100 a month to *Reach Out*. The revenue model worked very well initially with little liaising, mentoring and monitoring of 75 the therapists. *Reach Out*’s six month statement of financial activities (SOFA*) was healthy, with a small surplus.

Andrew Grandin

The initial success of *Reach Out* had surpassed Neil’s and Laura’s expectations. More families were contacting *Reach Out* to ask about their therapist scheme. The number of families asking for support was doubling each month for the first six months. Laura and Neil were delighted with the success as this ensured a revenue of several thousand dollars (Appendix 1) 80 but it was becoming too time-consuming for Laura and Neil to supervise the therapists. They decided to hire a part-time manager who would be responsible for overseeing the scheme and managing the therapists. The scheme manager would start on 1 August 2010 and would be managed by both of them. Though Neil would have to train the new part-time manager in workforce planning, the appointment would allow Neil more time to concentrate on finance 85 and strategy. Laura could focus her energy on promoting the vision of *Reach Out*.

After a number of interviews, Laura and Neil recruited Andrew Grandin at a salary of \$1000 per month. Andrew was quite a character. At the age of ten, he was diagnosed with Asperger’s Syndrome, a well-known form of autism. He was fascinated with trampolines and had gone on to become an Olympic silver medalist. His empathy with the vision of *Reach Out* and his 90 celebrity status had been key factors in his appointment. Neil, however, was concerned that Andrew did not have much experience in working with adults. Due to his condition, Andrew experiences difficulty with some social situations. Even so, Laura was delighted: she was confident that Andrew’s appointment would generate public relations opportunities and goodwill towards *Reach Out*. Most communication between Laura, Neil and Andrew was informal.

95 After a few weeks with Andrew in the role of part-time manager, a number of complaints were e-mailed to *Reach Out*’s central office. Laura was away on vacation at the time, so Neil had to investigate. He prepared a fishbone diagram to analyse the problem (Appendix 2).

* SOFA: a charity’s equivalent of a profit and loss account

100 The complaints ranged from the punctuality of some therapists, with some not turning up at all, to Andrew failing to confirm appointments and to reply to messages. Neil was worried that these complaints would lead to families withdrawing from the scheme, which would mean a drop in revenue. He confronted Andrew but there were barriers to effective communication. Neil felt that Andrew was not listening, but just giving excuses. Andrew made the following points. Firstly, he argued that although the students were willing to work for \$20 per hour, they needed more flexible working patterns in order to attend lectures at their university.

105 Secondly, many of them had to pay for public transport to go to the therapy sessions. Andrew felt this was unfair. During the confrontation, Neil discovered that Andrew had lied in saying he knew how to use a computer. After a lengthy argument, Neil was left with no option but to walk away and wait for Laura to return.

110 On her return, Neil told Laura about the problems. He wanted to dismiss Andrew and to outsource the therapist scheme management role to an independent freelancer*. Laura, however, did not regard these problems as either serious indicators of students' demotivation or poor performance by Andrew. With regard to Andrew she argued that he could overcome these difficulties with further training and support.

115 Neil had always been impressed by Laura's determination, but was now seeing it as a weakness for *Reach Out*. He was also becoming increasingly irritated by her laissez-faire leadership style. The more he worked with Laura, the more critical he became. He particularly disliked her decision-making methods, which were solely based on her intuition and limited experience. Neil preferred to be more analytical and scientific.

Neil's options to generate further revenue

120 When Laura was away on vacation, Neil identified three options to generate further revenue for *Reach Out*.

Option 1: Modify the pricing structure of the therapist scheme

Reach Out could ask families to pay slightly higher fees (\$30 instead of \$25). This could help remotivate the students, but more importantly this modification would instantly double *Reach Out*'s revenue: for each hour of therapy, *Reach Out* would earn \$10 instead of \$5 previously.

* freelancer (or freelance worker): a self-employed person who may work for several employers. Freelancing is very common in fields such as journalism, graphic design, consulting and translating.

Option 2: Develop a family brand for *Reach Out*

125 As the name “*Reach Out*” was already well known regionally, Neil believed that they should take advantage of this reputation and develop a family brand. The brand could cover not only the existing therapist scheme, but also a new portfolio of products including clothes and accessories (such as T-shirts, mugs and computer mouse mats) with the *Reach Out* name and logo. Combining brand development and product development, this option would be expensive, 130 around \$100 000 in total. Neil used a break-even model to determine that it would be a worthwhile investment. They could use their surplus to finance this option. Of course, this meant that the subsidized PECS cards would have to wait.

Option 3: Obtain sponsorship

135 Sponsorship is a promotional tool very common in sports, leisure and entertainment: sponsors provide funding and, in turn, expect to see their name and logo on the team or at the event they support. Sponsorship is increasingly used in other sectors too, including the world of charities. Neil contacted a well-known multinational pharmaceutical company called *N-Pharma*, which was currently undertaking research into the causes of autism. After seeing *Reach Out*’s business plan, 140 *N-Pharma*, as part of its corporate social responsibility programme, offered to sponsor *Reach Out*, adding to its support for deserving community-based projects. *N-Pharma* would pay a monthly sponsorship fee of \$10 000. In return, *N-Pharma* would place a link from each page of Laura’s blog to its company web site and Laura would promote *N-Pharma*’s research on autism.

Laura’s doubts

When Neil explained to Laura the three options to generate further income for *Reach Out*, she listened attentively. However, none of them appealed to her.

- The first option conflicted with her ethical principle of charging families as little as possible. Laura argued that this 20% increase would be too much for some families, especially in a time of economic recession, and that it would give a poor image of the charity.
- The second option was based on a marketing approach that Laura found inappropriate for the charity. She did not see how marketing objectives could help *Reach Out* achieve its goals. She wanted to sell subsidized PECS cards to help children with autism learn to live independently, and was not interested in brand development and product development to include T-shirts, mugs and computer mouse mats.
- Finally, Laura did not want to be linked to a multinational company whose commitment to corporate social responsibility and the vision of *Reach Out* would be little more than a public relations exercise.

- 155 After discussions with Laura, Neil realized that she did not support any of the options, although she could see some long-term advantages in branding. Laura, however, felt that her control over the charity's future was in jeopardy and she was unsure about the future growth of *Reach Out*. She was concerned that spending the charity's surplus on marketing could damage the credibility of *Reach Out*'s vision.
- 160 Although Laura was content with the current therapist scheme and wished to start producing subsidized PECS cards, Neil wanted to pursue the options he suggested. However, rather than increase tension with Laura, Neil decided to agree to her wishes and began conducting market research into the prices of three publishing companies, A, B and C, that were currently selling PECS cards (Appendix 3).

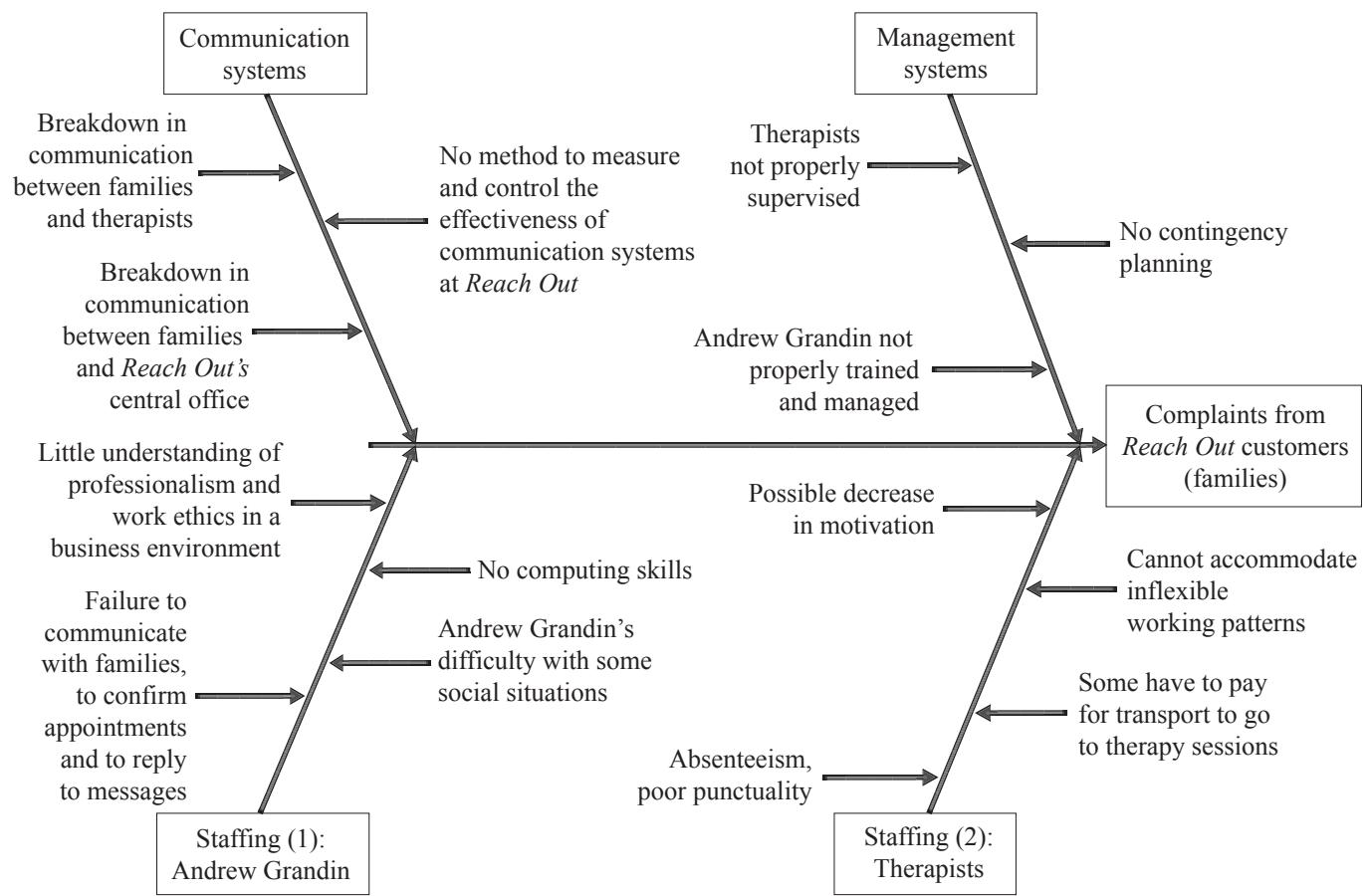
Additional terms not in the Guide

Sponsorship
Surplus
Statement of financial activities (SOFA)

Appendix 1: Extract from *Reach Out's* monthly cash flow (all figures in \$)

| | Pre start-up | May 2010 | June 2010 | July 2010 | August 2010 |
|--|-------------------------|---------------------|----------------------|----------------------|------------------------|
| Opening balance (start of month) | 0 | 200 | -320 | 960 | 5840 |
| Cash receipts | | | | | |
| Commission from therapist scheme | 0 | 2000 | 4000 | 8000 | 16000 |
| Sales of subsidized PECS cards | 0 | 0 | 0 | 0 | 0 |
| Charity contributions (donations) | 200 | 200 | 200 | 200 | 200 |
| Start-up funding (Neil's donation) | 10 000 | 0 | 0 | 0 | 0 |
| Total cash receipts | 10 200 | 2200 | 4200 | 8200 | 16 200 |
| Cash paid out (expenses) | | | | | |
| Neil's salary (10 % of cash receipts) | 0 | 220 | 420 | 820 | 1620 |
| Laura's salary | 0 | 2000 | 2000 | 2000 | 2000 |
| Andrew's salary | 0 | 0 | 0 | 0 | 1000 |
| Direct costs | 0 | 350 | 350 | 350 | 350 |
| Indirect costs | 0 | 150 | 150 | 150 | 150 |
| Production of subsidized PECS cards | 0 | 0 | 0 | 0 | 0 |
| Start-up cost (bedroom conversion, office and computer facilities) | 10 000 | 0 | 0 | 0 | 0 |
| Total cash paid out | 10 000 | 2720 | 2920 | 3320 | 5120 |
| Net cash flow | 200 | -520 | 1280 | 4880 | 11 080 |
| Closing balance (end of month) | 200 | -320 | 960 | 5840 | 16 920 |

Appendix 2: Neil's fishbone diagram



Appendix 3: Results from Neil's market research into the PECS cards market

| Sales price of a pack of 50 PECS cards | |
|--|-------|
| Company A | \$120 |
| Company B | \$130 |
| Company C | \$115 |

Companies, products, or individuals named in this case study are fictitious and any similarities with actual entities are purely coincidental.

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BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 1

Thursday 19 May 2011 (afternoon)

1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Read the case study carefully.
- Section A: answer two questions.
- Section B: answer the compulsory question.

SECTION A

Answer **two** questions from this section.

1. (a) (i) Identify **two** external stakeholders of *Reach Out*. [2 marks]
(ii) Outline a possible interest of **one** of *Reach Out's* external stakeholders identified in part (i). [2 marks]
- (b) Construct a fully labelled organizational chart of *Reach Out* after the appointment of Andrew Grandin. [4 marks]
- (c) Analyse the advantages **and** disadvantages for *Reach Out* of accepting the sponsorship offer from *N-Pharma (Option 3)*. [7 marks]

2. (a) Neil Johnson has prepared a business plan for *Reach Out* (*line 31*). Identify **four** elements of a business plan. [4 marks]
- (b) With reference to *Reach Out*, distinguish between a vision statement and a mission statement (*lines 44–47*). [4 marks]
- (c) Analyse the importance of information and communication technology (ICT) in the creation **and** operations of *Reach Out*. [7 marks]

3. (a) Define the term *corporate social responsibility* (*line 138*). [2 marks]
- (b) Identify **two** possible indirect costs of *Reach Out*. [2 marks]
- (c) Using information from Appendix 1,
 - (i) calculate the total cash receipts **and** the closing balance at the end of September 2010 if all figures follow the same pattern as in the previous months. [2 marks]
 - (ii) calculate the total cash receipts **and** the closing balance at the end of September 2010 if Neil Johnson's proposal to ask families to pay higher fees (*lines 121–124*) is implemented that month. [2 marks]
- (d) Examine the success of **two** elements of the marketing mix used by *Reach Out*. [7 marks]

SECTION B

Answer **the compulsory question from this section.**

4. (a) Identify **four** elements of the process of setting up a business. [4 marks]
- (b) Explain the purpose of *Reach Out's* final accounts (*line 32*). [4 marks]
- (c) Explain **two** reasons why Neil Johnson wishes to brand the products offered by *Reach Out* (**Option 2**). [4 marks]
- (d) Laura Chan is unsure about the future growth of *Reach Out* (*lines 156–158*). Recommend an appropriate scale of operation for *Reach Out*, justifying your answer. [8 marks]

Additional information

There is no additional information in this paper for Sections A and B.

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BUSINESS AND MANAGEMENT
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PAPER 2

Friday 20 May 2011 (morning)

1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer two questions.

- 2 -

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SECTION A

Answer **one** question from this section.

1. Informatic

Informatic manufactures computers and is based in Sri Lanka. *Informatic* uses a method of batch production and manufactures batches of computers according to customer specifications such as computer speed and screen size. Production workers are paid by the hour but receive a lower than average wage for Sri Lanka. To compensate they are offered long-term job security and other non-financial rewards.

Informatic exports 4000 computers a year to Pakistan using local independent distributors who have knowledge of the local market as well as experience in delivering and installing computers. 90% of *Informatic*'s sales are organized through such distribution channels. Because using local independent distributors increases the final price of the computer to the customer, senior managers have decided to offer customers in Pakistan the opportunity to purchase computers directly from *Informatic*. Customers have to telephone orders to *Informatic* in Sri Lanka from Pakistan because e-commerce sales are not available.

The following are *Informatic*'s expense and sales price figures:

- fixed costs of \$100 000 per year
- variable costs of 80 % of the sales price
- sales price of \$1000 per computer.

- (a) (i) Define the term *batch production*. [2 marks]
- (ii) Identify **two** fixed costs for *Informatic*. [2 marks]
- (b) For *Informatic*:
- (i) calculate the break-even quantity in units (*show all your working*). [2 marks]
- (ii) calculate the margin of safety in units (*show all your working*). [2 marks]
- (iii) calculate the net profit if 4000 computers are sold (*show all your working*). [2 marks]
- (iv) prepare a fully labelled break-even chart. [5 marks]
- (c) Examine the effectiveness of the new distribution channel for *Informatic*. [5 marks]

2. British Airways (BA)

British Airways (BA) went from a record profit in 2008 to its biggest ever loss in 2009. Sales revenue dropped by 8% from US\$9863 million. The company identified three factors for this change:

- firstly, there was a fall in demand for its most important market segment: the business traveller
- secondly, the global banking crisis resulted in a dramatic increase in *BA*'s cost of borrowing
- finally, the aviation fuel bills, which make up the largest percentage of variable costs for *BA*, rose by 13%.

To address its financial problems, *BA* executives decided on several cost reduction methods. They will not award any pay increases. Managers will not receive any fringe payments. Furthermore, the airline imposed a retrenchment of 2500 jobs, resulting in a monthly labour cost saving of US\$180 million. Unions* have already complained about these cost reduction measures, and several workers and managers have also expressed their dissatisfaction. *BA* announced that it would be reducing the number of flights, and orders for five new planes have been cancelled.

There is, however, one piece of good news for *BA* passengers; the company announced that there will be no ticket price increases. “Demand has become so fragile that any increase in ticket prices would damage our sales revenue.” The airline is now being forced into offering special deals; a position that was unthinkable only two years ago.

[Source: adapted from <http://www.guardian.co.uk/>, Guardian News and Media Limited 2009, 22 May 2009]

Table 1: selected items from *BA*'s profit and loss account for the year ended 30 April 2009 (US\$ millions)

| | |
|------------------------------------|------|
| Aviation fuel costs | 3000 |
| Cost of goods sold | X |
| Direct labour costs | 2160 |
| Dividends | 0 |
| Expenses | 100 |
| Gross profit | -120 |
| Interest | 180 |
| Net profit after interest and tax | -400 |
| Net profit before interest and tax | -220 |
| Other operating costs | 4034 |
| Retained profit | -400 |
| Sales revenue | 9074 |
| Tax | 0 |

* unions: organizations of workers (“labour unions”) that defend or safeguard workers’ interests

(This question continues on the following page)

(Question 2 continued)

Table 2: selected items from BA's balance sheet as at 30 April 2009 (US\$ millions)

| | |
|---------------------|--------|
| Fixed assets | 8142 |
| Current assets | 4508 |
| Current liabilities | 11 204 |
| Loan capital | 800 |
| Retained profit | –400 |
| Share capital | 1046 |

(a) Define the following terms:

(i) *variable costs* [2 marks]

(ii) *retrenchment.* [2 marks]

(b) (i) Using the information in Table 1, calculate the cost of goods sold (figure X) and construct a profit and loss account for BA for 2009. [4 marks]

(ii) Using the information in Table 1 and Table 2, calculate the return on capital employed (ROCE) **and** net profit margin (NPM) for BA (*show all your working*). [4 marks]

(iii) Comment on your results from part (ii), using information from the stimulus material. [3 marks]

(c) Examine the impact of not awarding pay increases and managerial fringe payments for BA. [5 marks]

SECTION B

Answer two questions from this section.

3. Barreiro Leisure Complex (BLC)

Barreiro Leisure Complex (BLC) owns many cinemas and ticket sales to the cinemas have historically been *BLC*'s main source of revenue. However, the current economic recession has affected demand patterns for many leisure activities, including cinema attendances. *BLC*'s management decided to broaden its product range by creating the ultimate community gaming experience. At a cost of US\$280 000, *BLC* converted one of its small movie theatres into a large Wi-Fi (wireless) gaming area with 50 computer screens to allow *BLC* to offer "Cinegames". Cinegames transforms individual game play into group play. The area also includes special effects such as fog, black light, flashing green lasers, high-definition digital projectors and vibrating seats.

BLC produced the following figures:

Cost of investment to convert one theatre to a Cinegames experience: US\$280 000.

| End of year | Estimated revenue (US\$000s) |
|-------------|------------------------------|
| 1 | 64 |
| 2 | 88 |
| 3 | 142 |
| 4 | 124 |
| 5 | 88 |

Market research revealed that a key market segment for the Cinegames experience was the male 18–30 year-old age group. The research also showed that leisure companies will need to offer a more varied product mix, not only to include different movies but also a range of products to cater for families. It was predicted that parents could go to watch a traditional movie while sons go to Cinegames and daughters go to other attractions.

Initial results of the launch of Cinegames were beyond *BLC*'s expectations. On the weekends crowding and traffic congestion was building up around the complex, putting pressure on local infrastructure. Despite increasing prices, *BLC* found that the Cinegames experience was starting to increase the attendances at some of its screenings for traditional movies watched by families. *BLC* started to consider the possibilities of transforming a second theatre into an additional Cinegames experience. However, a local community pressure group argued that *BLC*'s decision to convert one of its theatres was starting to impact considerably on the local environment.

[Source: adapted from <http://www.joystiq.com/2007/02/27/movies-theaters-to-become-arcades-of-the-future/>, 21 September 2009]

(This question continues on the following page)

(*Question 3 continued*)

- (a) Define the term *pressure group*. [2 marks]
- (b) (i) Calculate the payback period of Cinegames. [2 marks]
- (ii) Calculate the average rate of return (ARR) of Cinegames in the first five years of its operation. [2 marks]
- (iii) Comment briefly on your results from parts (i) and (ii). [2 marks]
- (c) Analyse the usefulness of market segmentation to *BLC*. [5 marks]
- (d) Discuss whether *BLC* should open a second Cinegames experience. [7 marks]

4. Dome Hospital in Ghana

Today, 13 000 nurses who were trained in sub-Saharan African countries such as Ghana work in Australia, the United Kingdom (UK), Canada and the United States (US). Recently, the UK has saved millions of US\$ in the cost of training UK nurses by recruiting Ghanaian ones. The government of Ghana, however, had spent a similar amount in training the same nurses who now work in the UK.

The migration of nurses is driven by workforce shortages in countries such as the US and the UK. Given these demographic changes, *Dome Hospital* in Ghana is experiencing severe difficulty in recruiting locally trained nurses.

Recruitment agencies in Ghana have tried a number of different methods to encourage Ghanaian nurses to come back home. They have used recruitment events and have set up a web site to attract nurses to fill vacancies. They also offer improved pay and working conditions, a free flight home and payment of moving expenses. *Dome Hospital* is considering the introduction of job enrichment schemes to increase non-financial motivation.

Dome Hospital has conducted primary research with Ghanaian nurses working in the UK and has discovered that they have encountered a lack of opportunities for experience and promotion.

Dome Hospital has been approached by *Afua*, a non-governmental organization (NGO), which is concerned about Ghanaian hospitals' ability to retain nurses. *Afua* is determined to help and is calling for changes in international law to reduce the mobility of nurses from developing to developed countries. *Afua* will probably offer *Dome Hospital* advice and guidance on recruitment and retention, but not direct funding. *Afua*, however, has considerable knowledge of other NGOs with financial resources.

[Source: adapted from <http://www.medicalnewstoday.com/articles/98545.php>, 21 September 2009]

- (a) Define the term *primary research*. [2 marks]
- (b) Explain **two** non-financial rewards that *Dome Hospital* could use to encourage Ghanaian nurses to stay in Ghana. [6 marks]
- (c) Analyse the likely benefits for *Dome Hospital* of *Afua*'s support. [5 marks]
- (d) Discuss the advantages **and** disadvantages of *Dome Hospital*'s recruitment strategy. [7 marks]

5. CMP

CMP offers financial accounting services to over 300 small businesses and is managed by Carl Mason. *CMP* employs three full-time accountants. The span of control is narrow; Carl has an autocratic leadership style. *CMP* has a productive working environment and a good reputation for its accurate accounting service.

In the current recession, 10 of *CMP*'s small business customers are closing down each month. *CMP* is losing revenue. Following a marketing audit and to replace this lost revenue, Carl is considering expanding *CMP*'s services to include accounting software installation and support (Option 1). As work patterns of an accounting business such as *CMP* fit poorly with the new services, *CMP* would have to change to more flexible working practices. Also, to make the market aware that *CMP* will offer these new services, Carl believes that *CMP* must consider use of above the line promotional methods, such as advertising in the business section of a daily national newspaper or having a billboard and a radio commercial. These promotional methods are expensive. An effective promotional strategy would probably cost at least US\$10 000 every six months. However, Carl knows that above the line promotional campaigns are not always successful.

Another idea to replace lost revenue is to merge *CMP* with *Accounting Solutions (AS)*, a company already operating in accounting software installation and support (Option 2). *AS* is a private limited company wholly owned by Matt Auth. If the merger went ahead, *AS* would operate out of *CMP*'s current office space, reducing overheads of the combined businesses. Also, the new (combined) business could sell traditional accounting services to *AS*'s existing customers and accounting software installation and support services to *CMP*'s existing customers. *AS* already follows flexible work practices. Matt has a laissez-faire leadership style, to which his employees respond well. Carl and Matt are discussing combining the two businesses. Carl would own 55% and Matt 45% of the new business.

- (a) Outline what a marketing audit is. [2 marks]
- (b) Explain **two** flexible working practices that would allow an accounting business, such as *CMP*, to offer an increased range of accounting services (Option 1). [6 marks]
- (c) Analyse the appropriateness of an autocratic leadership style for *CMP*. [5 marks]
- (d) Discuss the two options (Option 1 and Option 2) put forward by Carl to replace lost revenue. [7 marks]

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BUSINESS AND MANAGEMENT
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PAPER 1

Thursday 17 November 2011 (afternoon)

1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Read the case study carefully.
- Section A: answer two questions.
- Section B: answer the compulsory question.

SECTION A

Answer **two** questions from this section.

1. (a) Describe Andrew Grandin's:
 - (i) chain of command at *Reach Out* [2 marks]
 - (ii) span of control at *Reach Out*. [2 marks]
 - (b) Using the case study, comment on **two** sources of income (current or potential) for *Reach Out* **other than** the therapist scheme. [4 marks]
 - (c) Analyse the social **and** economic impacts of the actions of the non-profit organization *Reach Out*. [7 marks]
-
2. (a) Describe Laura Chan's desired pricing strategy for *Reach Out*'s PECS cards. [4 marks]
 - (b) Explain **two** reasons why Neil Johnson prepared a STEEPLE analysis for *Reach Out* (*line 31*). [4 marks]
 - (c) Laura Chan "did not see how marketing objectives could help *Reach Out* achieve its goals" (*lines 148–149*). Examine how appropriate it is for *Reach Out* to have marketing objectives. [7 marks]
-
3. (a) Define the following terms:
 - (i) *commission* (*line 40*) [2 marks]
 - (ii) *dismissal* (*line 109*). [2 marks]
 - (b) Using the additional information on page 3 about publishing company B, calculate (*show all your working*):
 - (i) the payback period (to the nearest month) [2 marks]
 - (ii) the average rate of return (ARR). [2 marks]
 - (c) Neil Johnson "eventually decided to donate the \$10 000 himself" (*line 36*). Analyse the consequences for *Reach Out* of Neil's decision. [7 marks]

SECTION B

Answer **the compulsory question from this section.**

4. (a) Neil Johnson tried to convince Laura Chan that **(Option 2)** would be a worthwhile investment by using a break-even model (*lines 130–131*). Use a fully-labelled diagram to illustrate the break-even analysis model (*no figures are required*). [4 marks]
- (b) Explain the difference between internal and external sources of finance for *Reach Out*. [4 marks]
- (c) With reference to *Reach Out* and to **one** organization of your choice, explain **two** reasons for setting up a business. [4 marks]
- (d) Laura Chan has a laissez-faire leadership style (*line 115*). Evaluate the effectiveness **and** implications of her leadership style for *Reach Out*. [8 marks]

Additional information for question 3(b)**Financial data for publishing company B**

PECS cards setup cost: \$100 000.

Estimated return from selling PECS cards over 4 years:

| | |
|--------|----------|
| Year 1 | \$20 000 |
| Year 2 | \$30 000 |
| Year 3 | \$40 000 |
| Year 4 | \$60 000 |

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BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 2

Friday 18 November 2011 (morning)

1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer two questions.

SECTION A

Answer one question from this section.

1. Fang Kwong and XIAN Technology

Fang Kwong lives in a village in the mountains of western China. A major problem for the residents of that region is that they must transport large amounts of firewood for their kitchen ovens. Fang was told of a solution by *XIAN Technology*, which created a new type of kitchen oven that burns straw and other farm waste products instead of firewood.

Both *XIAN Technology* and the Chinese government wish to help small entrepreneurs* set up franchises to provide distribution channels for these new kitchen ovens. Fang is very keen to take advantage of this opportunity. She has identified a small local warehouse with sufficient storage space. In order to receive a US\$10 000 small-business loan from the government at the start of September 2012, she must complete a cash-flow forecast. She has estimated the following figures for the first six months of operation, to begin in September 2012:

(Assume one month is 30 days)

| | |
|--|--|
| Sales | 20 kitchen ovens per month at US\$50 for the first three months. From the fourth month Fang forecasts an increase in sales of two kitchen ovens each month. |
| Monthly rent | US\$400 |
| Monthly salary | US\$200 |
| Monthly supplies (e.g. stationery) | US\$50 |
| Monthly interest on government loan to set up business | US\$42 |
| Overhead costs | US\$200, payable every other month, starting in October 2012. |
| Fang's purchases from <i>XIAN Technology</i> | <ul style="list-style-type: none"> • First month purchase of 60 kitchen ovens at US\$25 each and payable at the end of the second month. • From the second month purchase of 20 kitchen ovens per month, at US\$25 each and payable at the end of the following month. |

Fang will need to purchase a lorry to deliver the *XIAN Technology* kitchen ovens to customers who live in remote villages. She will charge a delivery fee, but it will be insufficient to cover the cost of the purchase. Fang will need an additional source of finance for the lorry.

* entrepreneur: a person who starts up and runs a new business, which typically requires creative thinking on the part of the entrepreneur and considerable risk in the business environment (because it is a new venture, often a new idea)

(This question continues on the following page)

(Question 1 continued)

As a franchisee, she will be the only distributor of these new kitchen ovens in a 500 square kilometre area. However, Fang must submit financial accounts to *XIAN Technology* every three months. Despite the agreement, Fang fears that other distributors will soon start supplying similar products, resulting in increased competition and lower gross profit margins.

- (a) (i) Identify **two** appropriate sources of finance for Fang to purchase a lorry. [2 marks]
- (ii) Define the term *overhead costs*. [2 marks]
- (b) Prepare a monthly cash-flow forecast for the first six months of operation of Fang's business. [6 marks]
- (c) Explain *XIAN Technology*'s requirement that Fang present them with financial accounts every three months. [5 marks]
- (d) Analyse the impact on Fang's business if new competition leads to a decrease in her gross profit margin. [5 marks]

2. Ashrafuzzman Manufacturing (AM)

Aaliyah Ashrafuzzman owns *Ashrafuzzman Manufacturing (AM)*, which produces wheelchairs in an industrial park in Dhaka, Bangladesh. One-third of the company's revenue comes from sales in Bangladesh, and two-thirds of its revenue comes from sales in two southern European countries, where national medical insurance pays for wheelchairs for patients. In these southern European countries, *AM* is on the “approved” list of manufacturers.

Because *AM*'s factory is small and the complexities of producing and marketing two or more models of wheelchairs would be significant, the company produces only one model of wheelchair. The company uses a competition-based pricing strategy in the two markets in which it sells. Because of differences in the two markets, an *AM* wheelchair is considered high-priced and high-quality in Bangladesh and low-priced and low-quality in Europe.

In 2010, fixed costs at the company were US\$1 500 000. In its current facility, *AM* can produce no more than 44 000 wheelchairs per year.

| Market | Total sales (US\$) | Sales (units) | Sales price per wheelchair (US\$) | Variable cost per wheelchair (US\$) |
|---------------------------------|--------------------|---------------|-----------------------------------|-------------------------------------|
| Two southern European countries | 2 040 000 | 10 200 | 200 | 60 |
| Bangladesh | 1 050 000 | 10 500 | 100 | 60 |
| Both markets | 3 090 000 | 20 700 | — | — |

Recently, the European Union (EU) altered regulations regarding the minimum quality standards for wheelchairs paid for by national medical insurance. To meet the new standards, *AM* must:

- use higher quality materials costing 20% more per wheelchair
- hire four quality experts on a salary of US\$22 000 per year each
- lease new equipment at US\$132 000 per year.

With the higher quality, *AM* can increase the sales price of its wheelchairs in Europe from US\$200 to US\$212. In Bangladesh the sales price will remain the same.

Aaliyah has two growth options:

Option 1 To improve the quality of all *AM*'s wheelchairs (whether for sale in Europe or elsewhere), accept the lower profitability, and continue to sell in Europe.

or

Option 2 Not to improve the quality of the wheelchairs, stop selling in Europe, and enter the market in India, where *AM* can sell wheelchairs for US\$125.

(This question continues on the following page)

(*Question 2 continued*)

- (a) (i) Define the term *competition-based pricing*. [2 marks]
- (ii) Identify **two** increases in fixed costs that *AM* would incur to meet the new EU quality standards. [2 marks]
- (b) Calculate for 2010 (*show all your working*):
- (i) the contribution to *AM's* fixed costs of a wheelchair sold in Europe [1 mark]
- (ii) *AM's* overall net profit for both markets. [3 marks]
- (c) Using an appropriate layout, prepare a report showing the increase in costs and the impacts on profitability for *AM* if Aaliyah decides to proceed with **Option 1**. [7 marks]
- (d) Analyse the two growth options facing *AM* by applying the Ansoff matrix. [5 marks]

SECTION B

Answer **two** questions from this section.

3. Bauli's panettone¹

The large Italian company *Bauli* produces a variety of baked products such as croissants and biscuits, but it is most famous for its *panettone*, a specialty at Christmas. The original producers of *panettoni* were small luxury bakeries, which could bake a few expensive *panettoni* relatively easily. Michele Bauli claims that the quality of his product is what explains the company's success: "High investment in research and technology allows us to guarantee a uniform quality that small luxury bakeries find hard to achieve". It could be argued, however, that *Bauli's* success is mainly based on its low price. A *panettone* produced by a luxury bakery typically costs €30. A *Bauli panettone* costs €8.

Bauli produces on an industrial scale. Baking 12 million *panettoni* per year for sales across Italy and in European and American markets is a major challenge of workforce planning. *Bauli* meets the seasonal demand² for *panettoni* by hiring 1200 temporary workers for four months each year (from August to November). The company has also made significant technological innovations. According to Michele, "Attention to ingredients and the use of new technologies in production give the *panettone* a shelf-life of five months". *Bauli* has also developed a broader product mix, including the Colombo cake, which is popular at a different time of the year. The broader product mix reduces the need for temporary workers.

Bauli has not relied only on internal growth. In 2009, the company purchased two subsidiaries of the multinational food group *Nestlé*. As both subsidiaries produce *panettoni*, these acquisitions have increased *Bauli's* market share. They will also help *Bauli* meet the growing demand for *panettoni* in American markets.

[Source: adapted from <http://www.economist.com/>, 10 December 2009]

¹ *panettone*: in Italian *panettone* is singular, *panettoni* is plural

² seasonal demand: demand that varies at different times of the year

(This question continues on the following page)

(*Question 3 continued*)

- (a) Describe **one** reason why technological innovation has been important for *Bauli*. [2 marks]
- (b) (i) Explain **one** advantage and **one** disadvantage for *Bauli* of hiring temporary workers. [4 marks]
- (ii) Explain **one** difference between internal and external growth. [2 marks]
- (c) Analyse the benefits for *Bauli* of developing a broader product mix. [5 marks]
- (d) With reference to *Bauli*, evaluate the benefits of small versus large organizations. [7 marks]

4. Liturgi

Liturgi is an agricultural partnership that owns six farms located in Jaen in the south of Spain. The company produces good-quality olive oil, which is sold directly to consumers. The olive oil is distributed in 1 litre plastic bottles and larger orders are delivered in 5 litre containers. Sale of the olive oil is currently only in Spain. Most sales occur at the partnership's farm shop, with the remaining sales via telephone and Internet orders. Current promotion is mainly by "word of mouth" and a web page.

In addition to the current production of good-quality olive oil, some partners want to produce a second type of olive oil: a high-quality, organic olive oil produced in small batches. This would have a retail price of €15 per litre with a gross profit margin of 60% compared to €3 per litre for the current olive oil with a gross profit margin of 40%. However, two farm managers think that their olive trees are not of the quality required to produce the organic olive oil.

The partners realize that finding a new market for this organic olive oil will involve significant changes to current marketing practices and strategies, including new forms of distribution. The new organic olive oil will be targeted at expensive restaurants throughout Europe. *Liturgi* will need to hire a salesperson, who will be paid a salary plus commission.

- (a) Define the term *partnership*. [2 marks]
- (b) (i) Explain why quality control may become more important for *Liturgi*. [4 marks]
- (ii) Calculate the gross profit per litre for the two types of olive oil. [2 marks]
- (c) Using **two** elements of the marketing mix **other than** place, analyse *Liturgi*'s challenge to produce the new organic olive oil. [5 marks]
- (d) Discuss the effectiveness of the two types of distribution channels for *Liturgi*. [7 marks]

5. Four-day working week in Utah

In 2008, in an effort to reduce costs, the government of the state of Utah in the United States (US) considered adopting several contemporary workforce practices. Some of these, however, seemed impractical for offices in the public sector. After further investigation, the government realized that energy costs were among the fastest rising of its costs. As a result, in 2009 the government imposed a four-day working week for most state employees; most public sector offices are now closed on Fridays. Monday to Thursday, offices are open for 10 hours.

A social and environmental audit revealed the following advantages as a result of the shorter working week:

- There is a 13 % reduction in energy use in public sector buildings; Utah's greenhouse gas emissions are reduced.
- With three-day weekends, employees have reported improved quality of life.
- Commuting costs for employees are reduced; there is less traffic congestion.
- Longer working days by state employees mean that their offices are more accessible to the public in the evening (Monday to Thursday).

However, the audit also revealed the following disadvantages:

- The working day is longer (10 hours versus 8 hours per day). As a consequence, some employees with young children have found it difficult to organize child care.
- The Friday closures have inconvenienced some members of the public.

After 12 months, Utah's experience with the four-day working week is considered a success. 82 % of state employees prefer the new schedule. In experiments with the four-day working week in other American states, approval rates have not been as high as in Utah. Some experts claim that the high approval rate of the new working week is because employees like change to their routine, rather than actually preferring the new working week itself.

Public sector and private sector managers from around the world have contacted Utah officials to learn more about their new working week. Some managers in the private sector question whether the four-day working week would be appropriate for their companies.

[Source: adapted from <http://www.time.com/>, 7 September 2009]

- (a) Identify **two** examples of contemporary changes in work patterns and practices **other than** the adoption of the four-day working week. [2 marks]
- (b) (i) Explain **one** impact that the four-day working week in the public sector may have on the private sector in Utah. [2 marks]
- (ii) Distinguish between the public sector and the private sector. [4 marks]
- (c) Analyse the value of the social and environmental audit to **two** different stakeholders of the government of the state of Utah. [5 marks]
- (d) Discuss **two** possible areas of conflict between **two** stakeholders when the government of the state of Utah imposed a four-day working week for most state employees. [7 marks]



BUSINESS AND MANAGEMENT

CASE STUDY: UNITED WORLD PEACE MISSION TO LOYKA

For use in May and November 2012

INSTRUCTIONS TO CANDIDATES

- Case study booklet required for Higher Level Paper 1 and Standard Level Paper 1 Business and Management examinations.

United World Peace Mission to Loyka

The first years

Loyka is a small country with an economy that is 45% primary sector, 15% secondary sector, and 40% tertiary sector. From 2006 to 2008, Loyka was torn by civil war. When the fighting ceased, a new coalition government was established, but its hold on the situation was fragile.

- 5 In 2009, to prevent the eruption of further violence, the *United World Peace (UWP)* sent 4000 peacekeepers to Loyka. The *UWP* Mission to Loyka had ethical objectives: its troops (nicknamed “the Olive Hats” because of their olive coloured helmets) were expected to create stability, fulfilling the *UWP* Mission’s aim to maintain order, peace and security.

The *UWP* Mission to Loyka was based in Beral, the capital of the country. The autocratic General Ron Meiri was appointed by the *UWP* as Commander. The organizational structure of

- 10 the *UWP* Mission was tall and centralized, with several levels of hierarchy and a narrow span of control (Appendix 1). This structure fitted well with the organizational culture of the military. This organization was not flexible, but it ensured that orders were clearly understood and always followed. As a consequence the security of the *UWP* troops was maintained.

In the first years, the *UWP* Mission to Loyka experienced some successes but also some failures.

- 15 The presence of “the Olive Hats” gave a sense of stability and international support. It also benefited the local business community: the provisions for the troops were purchased locally, the soldiers spent a significant proportion of their pay in the local economy and also helped repair roads and bridges that had been damaged during the civil war. As a result of these improvements in infrastructure, local businesses in Beral were able to resume their trade activities to the
20 same levels as before the civil war. However, the *UWP* presence also caused some problems. There was some resentment at the presence of “the Olive Hats” – some Loykese just did not want these foreign soldiers in their country. Local community leaders had also accused the troops of inappropriate behaviour and the local governor often had disagreements with General Meiri about the frequency of *UWP* patrols in the Beral area.

- 25 The reputation of the *UWP* troops gradually deteriorated and General Meiri did not seem able to control the situation. Originally, when the troops first arrived, the local population was largely supportive. However, opposition to the *UWP* presence grew as did violence against the troops. Moreover, “the Olive Hats” in Loyka started to resent being there and motivation was beginning to deteriorate. They felt unappreciated by the local population, whom they believed they were
30 assisting by maintaining order, peace and security. Due to these changes in the external and internal environment, the *UWP* headquarters in Geneva prepared a force field analysis to evaluate whether the *UWP* Mission to Loyka should change its strategy in 2011 (Appendix 2).

General Diane Pierce

In late 2011 the *UWP* replaced General Meiri with General Diane Pierce as Commander, in the hope that her situational leadership style and experience of social marketing in previous
35 *UWP* missions would help reduce the problems. She was given two specific objectives:

- Firstly, she had the strategic objective to improve the image of “the Olive Hats” in Loyka in order to improve public relations. This would reduce the number of conflicts with the Loykese, thereby improving the safety of the *UWP* troops.
- Secondly, she had the operational objective to remotivate her troops. As salaries were set by
40 the *UWP*, she could not use financial rewards so she would have to use non-financial motivational methods.

General Pierce decided to undertake a major improvement of social infrastructure in Loyka by using the resources of the *UWP* to build either a new hospital or a new university campus.
45 She received permission from the *UWP* headquarters, provided that the new hospital or university be operated as a non-profit organization. The *UWP* believed that this would allow the Loykese to see an important benefit of the presence of “the Olive Hats”. It would also reinforce the *UWP* Mission’s corporate social responsibility. This humanitarian project would remotivate the troops by providing a change of routine, by giving them a sense of achievement, and by building positive relationships with the local population. The construction of a new hospital or university
50 would allow General Pierce to fulfill the two objectives given to her.

General Pierce delegated the responsibility for investigating the feasibility of the two projects down the chain of command to Colonel Michael Donovan, Head of the *Civil Engineering Group*.
Colonel Donovan identified a suitable piece of land for the construction site: Beral’s only botanical
55 gardens, ideally located and owned by the local government. He calculated that both projects would cost the same (Appendix 3). As a result, the decision about whether to build a university or a hospital would not be based upon cost, but upon other factors.

A university or a hospital?

To gain a general sense of which option would be better for the local population, Colonel Donovan decided to ask Kos Palouk, someone he had come to know quite well. Kos worked as a part-time food server in the officers’ dining hall for the *UWP* Mission. He also ran his own small produce distribution business that he had set up thanks to his contacts from his job in the dining hall.
60 Twice a week, operating as a sole trader, he drove his car to several local farms, where he bought vegetables and other produce such as eggs and poultry for resale to the officers’ dining hall. Colonel Donovan asked Kos which option he thought would better meet the needs of the local Loykese. According to Kos, both options had advantages and disadvantages.

- 65 A non-profit hospital would increase access to medical care, especially for poorer people. When the civil war broke out, most of the Loykese doctors who could speak English left for countries such as Canada, the United Kingdom, and the United States, where foreign doctors could easily obtain work visas and employment opportunities. As a result, there was a significant decrease in the number of doctors in Loyka. Secondly, complications from the lack of prenatal
70 care had increased significantly. Many young children had a variety of health issues. However, Kos was very concerned about who the staff at the hospital would be. Given the shortage of doctors in the country, would doctors from abroad be employed? Also would those providing obstetrics and gynecology be female doctors? Conservatives in the country, Kos warned, would be strongly opposed to Loykese women receiving care from foreign male doctors.
- 75 The construction of a university campus presented its own set of issues. On the one hand, a new university campus would be welcomed, as the existing one was small, old and in need of extensive repair. Moreover, because of the civil war, the country desperately needed engineers, school teachers, nurses and many other highly skilled professionals to help rebuild the social infrastructure. However, although instruction would be in the local language, Kos feared
80 that a university built by the *UWP* would become a symbol of foreign intervention in Loyka and would make it a target for critics of the government and of the *UWP* presence in the country. Although a hospital might offend some conservatives, it is unlikely that it would be the target of physical attack. A university, on the other hand, with more open access, would be less secure than a hospital. In addition, as a place where free speech is exercised, a university could potentially
85 cause unrest in a country recently torn by civil war.

- In further discussions with local officials, Colonel Donovan found that Kos' concerns were shared by others. After completing a critical path analysis, he reported to General Pierce that constructing either a university campus or a hospital was feasible within 25 to 30 weeks. He added that the officers in the *Civil Engineering Group* were excited by the opportunity to lead the project.
90 The project also had the support of the troops, who would feel empowered and would welcome working in new flexible matrix structures. It would, however, require careful workforce planning and training: some peacekeeping troops would need extra training in construction skills and safety procedures. Colonel Donovan concluded that both types of facilities were greatly needed in Loyka and would offer important benefits. The issue was which one to choose.
- 95 Given her experience of previous *UWP* Missions, General Pierce ordered Colonel Donovan to conduct a formal social and environmental audit of the construction of both facilities and to carry out additional primary research. She asked him to prepare and distribute a survey to 2000 local residents for a more valid and reliable indication of the local community's opinion of which was needed more, a university or a hospital. She also wanted focus groups to discuss
100 the two options. Some of the focus groups were to consist of men only, some of women only, and some of both men and women.

Unfortunately, the results of the survey did not give General Pierce the clear indication that she had hoped for (Appendix 4). A slight majority preferred the hospital to the university, but it was by such a small margin that she could not be confident of which direction to take. In addition, a far larger percentage of those surveyed were strongly opposed to the hospital than to the university.
105

After spending weeks gathering data, Colonel Donovan had few doubts. He recommended that the hospital should be built as soon as possible. He still needed to decide what method of production to use. He was considering cell production, where each cell would be responsible for the construction of a separate section of the hospital. On completion, the hospital would provide
110 immediate important benefits to the local population. If the main objection of the local population was the concern that most of the doctors would be male, the *UWP*, he argued, should do everything it could to recruit female doctors, even if only for the short term. However, the local governor who agreed to contribute the piece of land for the construction site preferred the new university campus rather than a hospital. A new university would be prestigious and contribute to the
115 long-term development of Loyka by training future professionals. It could also attract private capital for future public-private partnerships in research and development (R&D).

Kos Palouk's own business

It was clear that the construction of a new facility would create a number of opportunities for local entrepreneurs in a range of different markets. Kos had already started to think about the future of his own small produce distribution business. Should he expand it?

120 He knew that he could increase the scale of his business operations with the *UWP* Mission without any additional marketing. This would also allow for significant economies of scale, but the logistics would be more complex. He would have to drive and collect produce using dangerous remote unpaved roads outside the protection of the *UWP* Mission. These remote communities might perceive Kos as collaborating with the *UWP* troops. He would also have to dedicate
125 all his time to his business and would no longer be able to work in the officers' dining hall. Although that job did not pay particularly well, it was in a safe environment and provided a regular source of income.

To collect larger quantities of produce in remote areas, Kos would need to purchase a large lorry (truck). He discussed potential sources of finance with his bank. The bank manager
130 indicated as a condition for the granting of a loan that the bank would require the lorry as collateral. Secondly, the poor quality of the roads meant that the lorry would lose value quickly.

The bank manager warned Kos that many other local entrepreneurs were likely to take advantage of the business opportunities resulting from the construction and operation of the new hospital or university. If Kos could utilize his contacts within the *UWP* Mission, he would have a
135 "first-mover advantage".

Kos' deliveries to the *UWP* Mission were just-in-time in order to ensure fresh produce. However, increasing the scale of operation of his business would lead to some complications. He would need to manage stock levels on a just-in-case basis. One of Kos' business contacts offered to rent him a large storage facility equipped with a refrigerated room for \$200 per month
140 to keep the produce fresh. The use of just-in-case stock control would raise the possibility of waste, but Kos thought spoilage would be minimal.

145 Kos prepared a business plan and compiled information comparing his current income to his forecast income if he increased his scale of operation (Appendix 5). The income comparison showed that the expansion of his business would be very profitable – as long as the *UWP* Mission remained in Loyka. However, even after a number of conversations with Colonel Donovan, Kos was still unsure how long the *UWP* Mission would remain in Loyka.

Consequently Kos drew up three possible options for his produce distribution business:

- **Option 1:** No change. Keep the same scale of operation and stay working at the *UWP* Mission.
- 150 • **Option 2:** Increase the scale of operation of his business. Sell more produce to the *UWP* Mission and to the university or hospital. Kos would need to leave his job at the officers' dining hall and lose his regular source of income.
- **Option 3:** Maximize the scale of operation. Supply produce not only to the *UWP* Mission and to the university or hospital, but also to retailers in Beral. In Beral there is no city-wide wholesaler for the produce that Kos distributes. Becoming a wholesaler would require setting up and managing supply chains, employing staff, increasing working capital and adopting a new business structure.

160 At 54 years old, Kos was nervous about the risks of increasing the scale of operation of his business. He enjoyed the job security at the officers' dining hall. His salary and the profits from selling produce to the *UWP* Mission were sufficient to provide for himself and his family. However, Kos realized that he was entirely dependent on the *UWP* Mission for his income. What would happen if the *UWP* Mission withdrew from Loyka when he was 60 or 62, when it would be more difficult for him to start over again?

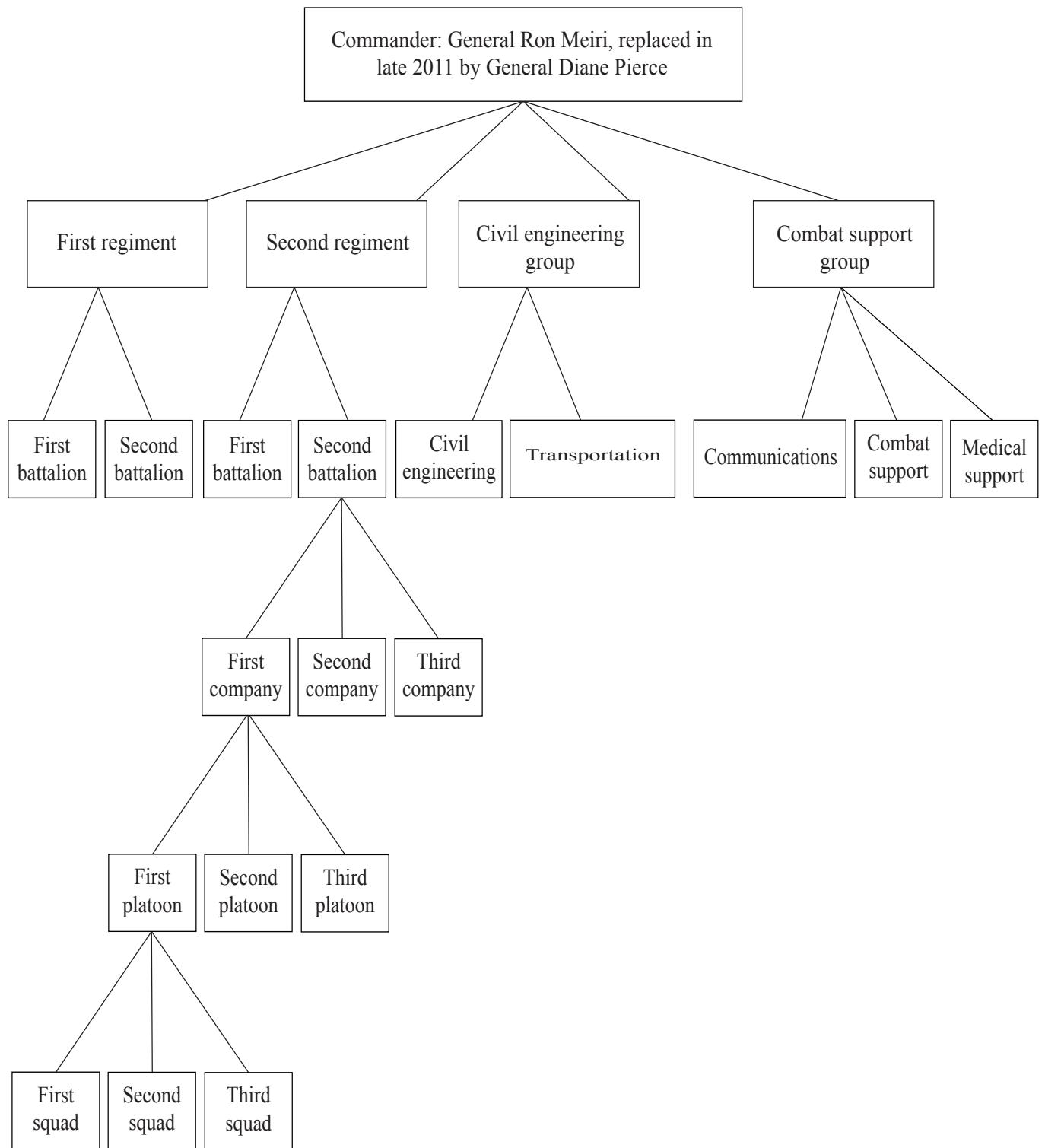
165 Kos hoped that the *UWP* Mission would stay for many years. However, he knew that the aim of General Pierce was to stabilize the situation in Loyka as rapidly as possible so that the *UWP* Mission could withdraw their presence.

170 Having been satisfied with Colonel Donovan's research, General Pierce believed that the construction project would achieve the strategic and operational objectives she was given as commander. However, she wished that the results from the primary research would give a clearer indication of the preferred option, the university or the hospital. General Pierce was yet to decide.

Additional terms not in the Guide

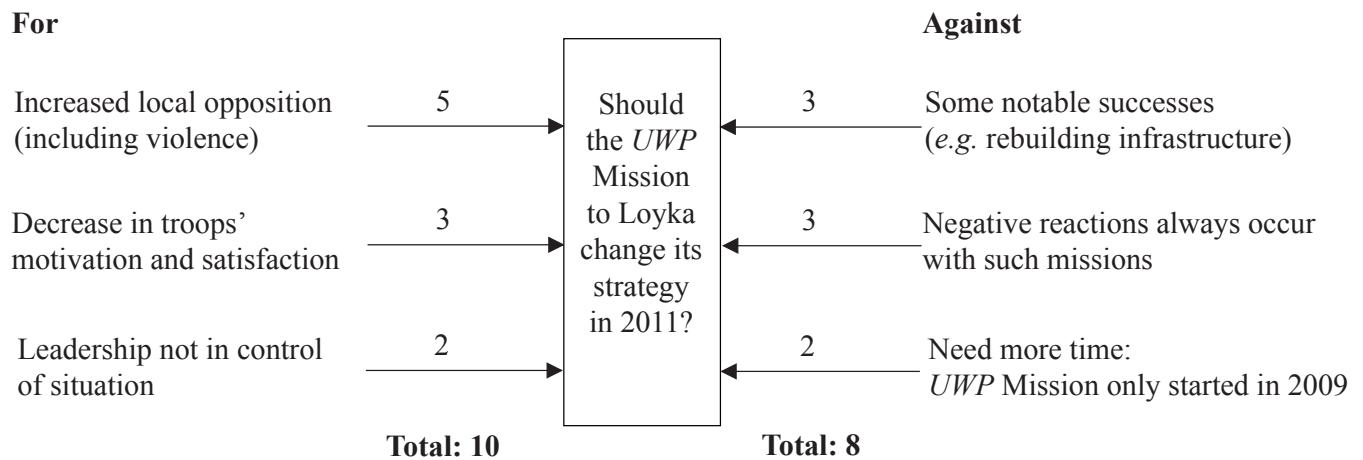
Collateral
Entrepreneur
First-mover advantage

Appendix 1: UWP Mission organizational chart



N.B. Battalions are divided into companies, companies into platoons, and platoons into squads (as is demonstrated with the second battalion). These subdivisions would apply to all other battalions in the organizational chart.

Appendix 2: UWP headquarter's force field analysis



Appendix 3: Comparison of the two construction projects

| | Hospital | University |
|-------------------------|-------------|-------------|
| Land | Free | Free |
| Building | \$2 000 000 | \$3 000 000 |
| Furniture and equipment | \$1 100 000 | \$100 000 |
| Construction time | 30 weeks | 25 weeks |

Appendix 4: Results from the survey

| | Hospital | University |
|-------------------|----------|------------|
| Strongly support | 28 % | 24 % |
| Support | 24 % | 25 % |
| Neutral/undecided | 11 % | 21 % |
| Oppose | 20 % | 20 % |
| Strongly oppose | 17 % | 10 % |
| Total | 100 % | 100 % |

Appendix 5: Comparison of Kos' current income: Option 1 (no change) and Option 2 forecast income (if he increases the scale of operation of his business)

Appendix 5a: Selected financial information from produce distribution business (all figures in \$ per month)

| | Option 1 | Option 2 |
|--|-----------------|-----------------|
| Sales revenue | 400 | 4000 |
| Cost of goods sold | 200 | 1800 |
| Gross profit | 200 | 2200 |
| Gas and vehicle maintenance | 50 | 400 |
| Rent of storage facility | 0 | 200 |
| Interest | 0 | 100 |
| Net profit after interest and before tax | 150 | 1500 |

Appendix 5b: Income from (i) produce distribution business and (ii) salary from job at the officers' dining hall (all figures in \$ per month)

| Source of income | Option 1 | Option 2 |
|---|-----------------|-----------------|
| (i) Produce distribution business (from Appendix 5a above) | 150 | 1500 |
| (ii) Salary from job at the officers' dining hall | 500 | 0 |
| Total income from all sources | 650 | 1500 |

To support himself and his family, Kos needs an income of \$550 per month.

Companies, products, or individuals named in this case study are fictitious and any similarities with actual entities are purely coincidental.

M12/3/BUSMT/SP1/ENG/TZ0/XX



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BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 1

Friday 18 May 2012 (afternoon)

1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- A clean copy of the ***Business and Management*** case study is required for this examination paper.
- Read the case study carefully.
- Section A: answer two questions.
- Section B: answer the compulsory question.
- A calculator is required for this examination paper.
- A clean copy of the ***Business and Management*** formulae sheet is required for this examination paper.
- The maximum mark for this examination paper is [50 marks].

SECTION A

Answer **two** questions from this section.

1. (a) General Ron Meiri was autocratic (*lines 8–9*). Identify **four** key features of an autocratic leadership style. [4 marks]
- (b) “The organizational structure of the *UWP* Mission was tall” (*lines 9–10*). Explain **one** advantage and **one** disadvantage of this type of structure. [4 marks]
- (c) Analyse the appropriateness of a bank loan as a source of finance for Kos Palouk’s new lorry (*lines 129–130*). [7 marks]
2. (a) Loyka’s economy is mainly in the primary sector (*line 1*). Briefly describe the nature of business activity in this sector. [2 marks]
- (b) Outline **one** reason why Kos Palouk does not need to do any additional marketing at the *UWP* Mission. [2 marks]
- (c) Using information from Appendix 5a,
 - (i) calculate the net profit margin **and** the gross profit margin for Kos Palouk from his current operation (**Option 1**). [2 marks]
 - (ii) calculate the net profit margin **and** the gross profit margin for Kos Palouk from his forecast operation (**Option 2**). [2 marks]
- (d) Interpret your results from part (c) and the data from Appendix 5a **and** 5b. [7 marks]
3. (a) Kos Palouk prepared a business plan (*line 142*). Identify **four** elements of a business plan. [4 marks]
- (b) With reference to Kos Palouk’s business, distinguish between just-in-time and just-in-case stock control (*lines 136–138*). [4 marks]
- (c) Analyse the value of the social and environmental audit (*line 96*) for both General Diane Pierce **and** the local community. [7 marks]

SECTION B

Answer **the compulsory question from this section.**

4. (a) Define the following terms:
- (i) *span of control (lines 10–11)* [2 marks]
- (ii) *primary research (line 97).* [2 marks]
- (b) Prepare a SWOT analysis of Kos Palouk's current produce distribution business (with no changes) showing **only** the strengths **and** weaknesses. [4 marks]
- (c) Explain **two** social factors that could influence General Diane Pierce's decision regarding the construction project. [4 marks]
- (d) With reference to the *UWP* Mission to Loyka when General Diane Pierce arrived, discuss the relationship between aims, strategic objectives and operational objectives. [8 marks]

Additional information

There is no additional information in this paper for Sections A and B.

M12/3/BUSMT/SP2/ENG/TZ0/XX



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BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 2

Monday 21 May 2012 (morning)

1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer two questions.
- A calculator is required for this examination paper.
- A clean copy of the ***Business and Management formulae sheet*** is required for this examination paper.
- The maximum mark for this examination paper is [60 marks].

– 2 –

M12/3/BUSMT/SP2/ENG/TZ0/XX

SECTION A

*Answer **one** question from this section.*

1. Asado Heaven (AH)

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– 3 –

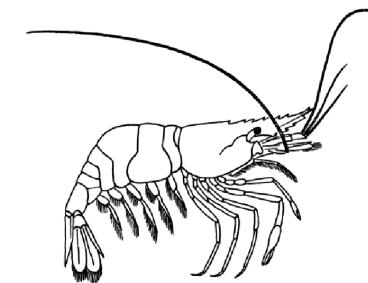
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(Question 1 continued)

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2. Bangkok Shrimp (BS)

In 2011, an environmental catastrophe contaminated the waters off the coast of South America, one of the main fishing areas of the world. As a result of the catastrophe (and the resulting lower supply of shrimp), the price of shrimp worldwide increased by 30%. Aroon Bhuvanadh, owner of *Bangkok Shrimp (BS)* located in Thailand, saw this as an excellent opportunity to expand his business. He decided to increase the number of his shrimp boats from two to three in order to benefit from the higher prices and profits.



[image: http://commons.wikimedia.org/wiki/File:Prawn_%28PSF%29.png; Pearson Scott Foresman]

The price of the new shrimp boat is \$175 000. If the selling price of shrimp remains at the current high levels, anticipated profits per boat after all expenses would be \$35 000 per year. If prices fall to pre-2011 levels, the profit would decrease to \$10 000. Aroon's bank will provide finance for the new boat. If the new boat is properly maintained, it will last longer than the proposed seven-year term of the bank loan.

Aroon captains one of the existing boats. He currently employs an experienced captain for the second boat, and he will have to recruit an additional experienced captain for the third boat.

Aroon's wife Kanya is worried that the price of shrimp may return to pre-2011 levels before the bank loan is repaid. For this reason, she wants to change the legal structure of the business from a sole trader to a private limited company.

Aroon has a vision: by taking advantage of the opportunity of the current high shrimp prices, he will own three shrimp boats and, later, can leave one boat to each of his three sons when he and Kanya retire in 2017.

(This question continues on the following page)

(Question 2 continued)

- (a) Identify **two** advantages and **two** disadvantages of changing the legal structure of *BS* to a private limited company. [4 marks]
- (b) Assuming shrimp prices remain at current high levels, calculate for the new shrimp boat (*show all your working*):
- (i) the payback period (without depreciation). [2 marks]
 - (ii) the average rate of return (ARR) over a seven-year period. [2 marks]
- (c) Assuming shrimp prices return to their pre-2011 levels **two years after BS** acquires the new shrimp boat, calculate (*show all your working*):
- (i) the payback period (without depreciation). [2 marks]
 - (ii) the average rate of return (ARR) over a seven-year period. [2 marks]
- (d) Comment on the results of your investment appraisal calculations in parts (b) and (c). [3 marks]
- (e) Using Maslow's hierarchy of needs theory, analyse Aroon's motivation to acquire the additional shrimp boat. [5 marks]

SECTION B

Answer **two** questions from this section.

3. Hands

Hands, a partnership set up in 1968 in southern Argentina, manufactures hand-knitted items such as sweaters, scarves, bags, carpets and blankets produced under job production methods. It employs around 300 craftswomen from the rural areas of Patagonia. Workers are paid on a piece rate basis.

The business has faced several challenges over the years such as a lack of finance and economic recessions. Elizabeth Sosa, managing partner, said that *Hands* survival depended not only on the product, but also on the craftswomen's loyalty to the business and the partners' democratic leadership style. She said "our workers have developed a strong sense of belonging to *Hands*. We are a team, everyone's opinion is heard".

The partners wanted *Hands* to enter into international markets. They consulted with the craftswomen several times over this idea. Reaching a consensus on the decision took a long time. For *Hands* to compete effectively in international markets, some craftswomen would have to be given managerial authority. Many craftswomen expressed concern over these proposed organizational changes.

Despite fierce competition from hand-knitting companies in India, New Zealand and Uruguay, within two years *Hands* had entered both the American and European markets by using high quality raw material and quality control methods. It now supplies its products to well-known companies and designers such as Marc Jacobs, Donna Karan, and Polo Ralph Lauren. These new customers are outside the regional trading bloc Mercosur, where *Hands* is located, requiring new distribution channels. Consequently, *Hands*' working capital needs have increased.

[Used with permission.]

- (a) Identify **two** features of quality control. [2 marks]
- (b) Explain **one** advantage and **two** disadvantages to *Hands* of using a piece rate rewards package for its workers. [6 marks]
- (c) Analyse **two** challenges that *Hands* may have faced entering into international markets. [5 marks]
- (d) Evaluate the effectiveness of the democratic leadership style of the partners at *Hands*. [7 marks]

4. Peace Frogs (PF)

Peace Frogs (PF) is an American company selling clothes and accessories that are branded by a frog making the “peace sign”. *PF* specializes in teenage and young-adult clothing.

Content removed for copyright reasons.

The company started operations in 1985 with the sale of multi-coloured shorts designed after various national flags from around the world. Founder Catesby Jones chose the name *Peace Frogs* because the frog is a Native American (American Indian) symbol for peace and, in some cultures, a symbol for good luck. As the shorts reached maturity in the product life cycle, the company shifted to selling other items, always branded with the image of the “Peace Frog”.

PF products include T-shirts, sweatshirts, hats, swimsuits, stickers and other items. In 2007 the company introduced organic cotton T-shirts to its branded product line. The cotton meets rigorous organic certification standards. The T-shirts are made without using chemicals harmful to the environment. The company refuses to purchase clothing from manufacturers that employ children or who do not maintain rigorous safety standards.

PF uses e-commerce and has its own retail stores in eleven American states. Since 1998 the company has had multi-coloured vans that drive to shopping centres, concerts and theme parks around the country. Drivers then sell *PF* branded products, using the van as a retail store.

A concern among environmentalists is the decline in the number of species of frogs worldwide. At present, several species of frogs face extinction. The destruction of their natural habitat is the main threat for them. *PF* makes financial contributions to several organizations committed to environmental protection, which strengthens *PF*’s brand.

[Text: adapted from <http://www.peacefrogs.com/> (please access this URL to view the logo)
and

http://en.wikipedia.org/wiki/Peace_Frogs – the latter accessed 3 September 2010]

- (a) Identify **two** features of e-commerce. [2 marks]
- (b) Explain **two** ways *PF* practices corporate social responsibility. [6 marks]
- (c) Analyse the benefits of **two** methods of distribution of *PF*’s products. [5 marks]
- (d) Discuss the importance and role of branding for *PF*. [7 marks]

5. Maquinaria de la Oficina de Santiago, Ltda. (MOS)

Maquinaria de la Oficina de Santiago, Ltda. (Office Machinery of Santiago Ltd., MOS) is a private limited company run by Maria Salazar, who in 2009 became Chief Executive Officer (CEO) of the company after her father, Martino, retired. When Martino opened the business in 1959, he mainly sold typewriters*. Now MOS sells the following for personal and small business use:

- modern mobile telephones (for example *Apple* iPhones)
- portable DVD players
- personal computers
- typewriters.



[Image: <http://commons.wikimedia.org/wiki/File:Underwoodfive.jpg>]

Because of liquidity problems when she became CEO, Maria conducted a detailed analysis of sales and stock (inventory). She discovered the following:

| | % of sales, 2009 | % of sales, 2011 | Sales, 2011 in \$ | % of stock, 2011 | Average stock, 2011 in \$ |
|--------------------------|------------------|------------------|-------------------|------------------|---------------------------|
| Modern mobile telephones | 12 | 15 | 1 800 000 | 12 | 73 000 |
| Portable DVD players | 30 | 34 | 4 080 000 | 31 | 188 000 |
| Personal computers | 55 | 50 | 6 000 000 | 50 | 304 000 |
| Typewriters | 3 | 1 | 120 000 | 7 | 43 000 |
| Total | 100 | 100 | 12 000 000 | 100 | 608 000 |

Maria concluded that MOS should stop selling typewriters, as they are at the end of their product life cycle. Reducing the stock of these items would release funds to help with the liquidity problem.

The gross profit margin for the company on all products is 50 %, whereas for typewriters it is 60 %.

Maria wants to modernize the image of MOS. She would like to change the name of the company to *Electrónica Moderna de Santiago, Ltda.* (Modern Electronics of Santiago Ltd.). Her father, a major shareholder in the company, dislikes the idea. He argues that too many loyal customers still use typewriters and that the company's name is well-known in the Santiago business community. The legal and other costs of changing the name would use up all the funds released by the reduction in typewriter stock.

* typewriters: machines for writing in letters and characters. Typewriters operate mechanically. Since the 1980s, the typewriter has become largely, though not entirely, obsolete because of the word processing function of computers

(This question continues on the following page)

(*Question 5 continued*)

- (a) Define the term *product life cycle*. [2 marks]
- (b) Calculate:
- (i) the 2011 stock turnover in days at *MOS*. [1 mark]
- (ii) the 2011 stock turnover in days for **typewriters**. [2 marks]
- (c) Explain how the slow turnover of typewriters contributes to the liquidity problem of *MOS*. [3 marks]
- (d) Analyse *MOS*' product portfolio by applying the Boston Consulting Group (BCG) matrix. [5 marks]
- (e) Discuss Maria's plans to stop selling typewriters and to change the name of *MOS*. [7 marks]
-

N12/3/BUSMT/SP1/ENG/TZ0/XX



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International Baccalaureate®
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BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 1

Thursday 8 November 2012 (afternoon)

1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- A clean copy of the ***Business and Management*** case study is required for this examination paper.
- Read the case study carefully.
- Section A: answer two questions.
- Section B: answer the compulsory question.
- A calculator is required for this examination paper.
- A clean copy of the ***Business and Management*** formulae sheet is required for this examination paper.
- The maximum mark for this examination paper is [50 marks].

SECTION A

Answer **two** questions from this section.

1. (a) General Diane Pierce uses a situational leadership style (*lines 33–34*). Identify **four** key features of a situational leadership style. [4 marks]
- (b) Explain why General Diane Pierce decided to order Colonel Michael Donovan to carry out surveys **and** also to organize focus groups (*lines 97–101*). [4 marks]
- (c) General Diane Pierce decided to use *UWP* resources to build either a new hospital or a new university campus. Using Maslow's motivation theory, analyse the impact of this decision on **both** the local population **and** "the Olive Hats". [7 marks]
2. (a) Define the following terms:
 - (i) *economies of scale* (*line 121*) [2 marks]
 - (ii) *just-in-case stock control* (*line 140*). [2 marks]
- (b) Explain how Kos Palouk's fixed and variable costs would be affected by pursuing **Option 2** (*lines 150–152*). [4 marks]
- (c) Analyse the advantages and disadvantages for Kos Palouk of pursuing **Option 2** (*lines 150–152*). [7 marks]
3. (a) General Diane Pierce needs to remotivate her troops but cannot offer any financial rewards (*lines 39–41*). Describe **two** non-financial rewards that she could use. [4 marks]
- (b) With reference to **Option 3** (*lines 153–157*), distinguish between a wholesaler and a retailer. [4 marks]
- (c) The *UWP* Mission has ethical objectives (*lines 5–7*). Examine whether the setting of ethical objectives by the *UWP* will be beneficial. [7 marks]

SECTION B

Answer **the compulsory question from this section.**

4. (a) Define the following terms:

(i) *tertiary sector (line 2)* [2 marks]

(ii) *workforce planning (line 9I).* [2 marks]

- (b) Using relevant information from below:

(i) calculate the payback period (without depreciation) for Kos Palouk's purchase of a new lorry (*show all your working*). [2 marks]

(ii) calculate the average rate of return (ARR) for Kos Palouk's purchase of a new lorry (*show all your working*). [2 marks]

(iii) comment on the results to your calculations from parts (i) and (ii). [4 marks]

- (c) Advise General Diane Pierce whether the hospital or the university should be built. Justify your recommendation. [8 marks]

Additional information for question 4(b)

Estimated net annual return: \$17 400

Purchase price of lorry: \$43 500

Useful life of lorry: 7 years

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BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 2

Friday 9 November 2012 (morning)

1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer two questions.
- A calculator is required for this examination paper.
- A clean copy of the ***Business and Management formulae sheet*** is required for this examination paper.
- The maximum mark for this examination paper is [60 marks].

SECTION A

Answer one question from this section.

1. Wavin' Surfboards (WS)

Wavin' Surfboards (WS) manufactures surfboards. The business was founded in 1978 by Brent Bass who operated it as a sole trader. In 1991, after years of sales growth and employing many employees, Brent changed *WS* into a private limited company. The growth in scale of operation was a challenge for Brent, who had a laissez-faire leadership style. He loved surfing and as a young person he started producing and selling surfboards at his home. He had not received any business training. As the business grew Brent struggled to develop the business and management skills necessary to operate the business.

Due to the high quality and popularity of the surfboards, sales continued to increase. Brent's accountant believes that the company will need a new larger building in two years. The span of control within the company is currently wide, and increasing the number of units (surfboards) produced would require employing more managers. For Brent, this would mean spending more time supervising managers and less time producing and promoting surfboards. Brent would also have to decide whether to recruit the new managers internally or externally.

Brent's accountant prepared a comparison of the current and proposed new scale of operation.



[Source: <http://www.grainsurfboards.com/>,
20 July 2012. Used with permission]

| | Current building | Proposed new building | |
|----------------------------------|--------------------------------|--|--|
| | Actual units produced per year | Maximum capacity units produced per year | Initial forecasted units produced per year |
| Sales in units | 2400 | 3000 | 3300 |
| Variable costs per unit (\$) | 800 | 800 | 750 |
| Fixed costs per year (\$) | 590 000 | 590 000 | 1 050 000 |
| Managers' salaries per year (\$) | 450 000 | 450 000 | 600 000 |

The current sales price per surfboard will remain at \$1400 no matter the scale of operation.

[Used with permission]

(This question continues on the following page)

(Question 1 continued)

- (a) (i) Identify **one** advantage and **one** disadvantage of internal recruitment. [2 marks]
- (ii) Describe **one** method of external recruitment. [2 marks]
- (b) Prepare a fully labelled break-even chart for *WS* at its current actual sales of 2400 units in the **current** building. [5 marks]
- (c) (i) Calculate the contribution of **one** surfboard in the proposed **new** building. [1 mark]
- (ii) Calculate the initial forecast profit for *WS* for its first year of operation in the proposed **new** building (*show all your working*). [3 marks]
- (iii) Explain why Brent's accountant forecasted lower variable costs per unit in the proposed **new** building. [2 marks]
- (d) Using appropriate calculations for the actual units produced (2400) in the **current** building **and** initial forecasted units produced (3300) in the proposed **new** building, analyse the impact of the proposed new expanded scale of operation on profits and profitability. [5 marks]

2. Woolman Windows (WW)

Woolman Windows (WW) manufactures windows for houses. The windows are sold to suppliers of building materials in Canada. *WW*'s windows have two pieces of glass sealed in a wooden frame with a special glue that prevents any air from passing through. The windows are energy-efficient. In addition, moisture never appears between the two pieces of glass, a problem common to many other energy-efficient windows. The *WW* brand is widely recognized in the residential construction industry in Canada.

Because of the housing crisis in North America, *WW* has seen its sales fall and its financial position deteriorate.

Table 1: selected items from *WW*'s balance sheet as at 31 May 2009 (all figures in \$ thousands).

| | |
|--------------------------|------|
| Cash | 150 |
| Creditors | 515 |
| Debtors | 850 |
| Loan capital | X |
| Short-term borrowing | 285 |
| Retained profit | 1300 |
| Share capital | 300 |
| Stock | 400 |
| Total (net fixed assets) | 1800 |

[© International Baccalaureate Organization, 2013]

Table 2: selected items from *WW*'s profit and loss account for the year ended 31 May 2009 (all figures in \$ thousands).

| | |
|--------------------|------|
| Cost of goods sold | 4700 |
| Expenses | 2150 |
| Gross profit | 2195 |
| Sales revenue | 6895 |

[© International Baccalaureate Organization, 2013]

WW manufactures only standard-sized windows using flow production. *WW* offers trade credit* with payment in 30 days. However, *WW* is considering taking “special orders”, that is, to manufacture windows that are not standard-sized. Doing so might be profitable if the number of windows per special order were a minimum of 100 windows (break-even point). *WW* would manufacture special orders using batch production. For special orders, the buyer would pay 50% upon placing the order and the remainder upon delivery. The disadvantage is that an additional employee would have to be employed to plan the production process for each special order. *WW* is uncertain if special-order sales will be sufficient to cover the cost of the recruitment and training of the new employee.

* trade credit: credit extended to a business from its suppliers. Trade credit is usually listed on the balance sheet of a business as “creditors” or, in some countries, “accounts payable”.

[© International Baccalaureate Organization, 2013]

(This question continues on the following page)

(Question 2 continued)

- (a) Define the following terms:
- (i) *share capital* [2 marks]
- (ii) *batch production.* [2 marks]
- (b) (i) Using the information in **Table 1**, construct a balance sheet for *WW* as at 31 May 2009 and calculate the loan capital (figure X). [5 marks]
- (ii) Using relevant information from **Table 1**, calculate the acid test (quick) ratio (*show all your working*). [2 marks]
- (iii) Using relevant information from **Table 1**, calculate the gearing ratio. [1 mark]
- (iv) Using the information in **Table 2**, calculate the net profit before interest and tax (*show all your working*). [2 marks]
- (v) Using relevant information from **Table 2**, calculate the gross profit margin. [1 mark]
- (c) Using financial and non-financial information, examine *WW*'s decision to start producing special-order windows. [5 marks]

SECTION B

Answer two questions from this section.

3. Sokol restaurant

Sokol is a well-established traditional restaurant in a village in Slovenia. *Sokol* has a new owner, Andrej Marinić. Andrej conducted some market research in order to analyse *Sokol*'s business environment and reached the following conclusions:

- *Sokol* has a good market share: last year, it served 12 000 out of the 60 000 meals served in total by all the restaurants in the village
- *Sokol* has two target markets: (i) young locals who want to eat out with friends, (ii) tourists who want traditional Slovenian dishes.

Andrej has constructed a position map* using the two axes of price (cheap or expensive) and styles of food (traditional or modern). The research showed that *Sokol* is perceived as cheap and traditional. *Sokol*'s three main competitors have the following characteristics:

- Restaurant A: very expensive and very modern
- Restaurant B: cheap and traditional
- Restaurant C: cheap and modern.

The position map helps Andrej identify a new business opportunity: keeping the same traditional style but changing to a more expensive, exclusive, up-market image. *Sokol* would target two new market segments: (i) locals for special occasions such as family celebrations, (ii) tourists who are prepared to pay higher-than-average prices.

Andrej has three options:

1. To set up a joint venture with a five-star hotel that is to open in the nearby village.
2. To set up a strategic alliance with Restaurant A. The manager of Restaurant A is keen to collaborate in events such as the annual village festival.
3. To merge with Restaurant B, as they are the only two restaurants serving traditional Slovenian dishes. This merger, however, would result in redundancy (lay-off) for some employees, which would create negative publicity in the village.

* position map: sometimes called “perception map” or “perceptual map”

[© International Baccalaureate Organization, 2013]

(This question continues on the following page)

(Question 3 continued)

- (a) Define the term *redundancy* (*lay-off*). [2 marks]
- (b) Calculate *Sokol*'s market share for the last year. [1 mark]
- (c) Construct the position map of *Sokol* before Andrej made any changes to his restaurant. [5 marks]
- (d) Analyse the usefulness of market segmentation and targeting specific markets for *Sokol*. [5 marks]
- (e) Advise Andrej about the most suitable option for *Sokol*. [7 marks]

4. Procter & Gamble (P&G) and the dry cleaning* industry

Procter & Gamble (P&G) is a multinational company that manufactures a wide range of products and has global sales of US\$80 billion. In the United States (US), *P&G* has now entered the dry cleaning industry, which is dominated by small independent, locally-owned businesses. “*Tide Dry Cleaners®*” is named after its best-selling soap (detergent) for washing clothes, Tide. *P&G* hopes to attract customers into its franchise stores with its well-known soap brand and then retain them with superior service.

According to research conducted by market analysts, consumers think that independent dry cleaners:

- are inconsistent in the service they provide
- have inconvenient opening hours
- rarely display prices
- are dirty, hot and smell of chemicals.

Tide Dry Cleaners® aims to promote a different image. The franchises are larger than most independent dry cleaners and have longer opening hours. They are painted in the same bright orange colour as Tide’s soap packaging. The dry cleaning is done onsite, so service is quicker. Tide soap with its well-known long-lasting fresh scent is always used to dry-clean the clothes. The premises are kept clean, well-ventilated, cool and smelling of Tide soap.

Because competition is fierce, all *Tide Dry Cleaners®* offer discounts and below the line promotion. Already, many independent dry cleaners are concerned about the competition from the new *Tide Dry Cleaners®* franchises. One independent dry cleaner recently experienced a 50% decrease in sales after a new *Tide Dry Cleaners®* franchise opened nearby. In the past, dry cleaning chains have had difficulty competing with independent stores, due to diseconomies of scale.

[Source: Adapted from <http://www.nytimes.com/2010/12/09/business/09tide.html?pagewanted=all>]

* dry cleaning: a cleaning process for clothing and textiles that differs from traditional soap-and-water cleaning, which, with delicate fabrics, can be very time-consuming and can sometimes damage the cloth or fabric

- (a) Define the term *below the line promotion*. [2 marks]
- (b) Explain **one** possible type of diseconomy of scale that *P&G* may experience in the dry cleaning industry. [2 marks]
- (c) Explain **two** types of primary research that the market analysts may have used. [4 marks]
- (d) Using the Ansoff matrix, analyse *P&G*’s entry into the dry cleaning industry. [5 marks]
- (e) Discuss franchising as a way for *P&G* to enter the dry cleaning industry. [7 marks]

5. Starbucks® and Tata Coffee

Starbucks® is a multinational coffee shop chain based in the United States (US). *Starbucks*® is in discussions with *Tata Coffee*, an Indian company, about opening *Starbucks*® coffee shops in the fast-growing Indian market. The Indian government limits the entry of foreign-owned retail chains into India.

Tata Coffee grows and sells its own coffee. It is owned by *Tata Group*, the largest Indian business conglomerate*. *Starbucks*® and *Tata Coffee* are considering forming a strategic alliance or a joint venture. For the past seven years, the two companies have done business with each other. *Starbucks*® has purchased coffee from various suppliers in India (for its coffee shops in Europe and the US), including from *Tata Coffee*.

Forming a strategic alliance or a joint venture with *Tata Coffee* will allow *Starbucks*® to enter the Indian market. Additional advantages for *Starbucks*® include:

- *Starbucks*® could open coffee shops inside hotels of the *Tata Group*'s nationwide hotel chain
- *Tata Group* would consider allowing *Starbucks*® to open coffee shops in the numerous retail chains that it owns.

Coffee has long been popular in southern India but not in the north. Over the past decade, however, consumption of coffee in the north has increased significantly, as new coffee shop chains with more choice, appeal to young Indians with disposable income. India (with its population of over 1 billion) is developing fast (with a growth rate of 8% of its GDP this year). *Starbucks*® has carried out research and found that the global brand name “*Starbucks*®” is already well-known in India, although there are no *Starbucks*® coffee shops there yet.

The competition in India is intense. *Café Coffee Day*®, an Indian company, dominates the market. An Italian company owns the other big coffee shop chain, *Barista*™.

[Source: adapted from “Starbucks to broaden dealings in India”. *International Herald Tribune*, 14 January 2011.]

* conglomerate: a company that is made up of a number of different companies and business that is typically in diversified fields and, often, different sectors of the economy

- (a) Define the term *multinational company*. [2 marks]
 - (b) Explain the importance of branding for the decision of *Starbucks*® to enter the Indian market. [4 marks]
 - (c) Explain **one** PEST factor that may influence the decision of *Starbucks*® to enter the Indian market. [2 marks]
 - (d) Analyse **one** advantage and **one** disadvantage for *Tata Group* (owner of *Tata Coffee*) of forming a strategic alliance with *Starbucks*®. [5 marks]
 - (e) Discuss the decision of *Starbucks*® to enter the Indian market. [7 marks]
-



BUSINESS AND MANAGEMENT
CASE STUDY: ROYAL DANISH BEARINGS

For use in May and November 2013

INSTRUCTIONS TO CANDIDATES

- Case study booklet required for Higher Level Paper 1 and Standard Level Paper 1 Business and Management examinations.

Royal Danish Bearings

Royal Danish Bearings (RDB) is a successful multinational company operating in the ball bearing industry. *RDB* was set up in 1915, in Denmark, by a Danish machinist called Henrik Holstein. Henrik was a visionary. He foresaw the expansion of the ball bearing industry in the twentieth century, which was largely due to the growth of the automotive sector.

- 5 Ball bearing technology contributed to engineering progress throughout the twentieth century, especially in the secondary sector of the economy. Today, the outlook of the ball bearing industry is still promising: its market size is predicted to further expand over the next decades. “High-tech industries” such as computer software and artificial intelligence attract considerable attention and capital; however, most global industrial output continues to be mechanical devices. For example, ball bearings are found in
- 10 all types of vehicles, such as in gearboxes and wheel suspension; there are even ball bearings in fighter jets and space shuttles.

RDB has always operated in the business-to-business (B2B) market. Throughout the twentieth century, it expanded by internal/organic growth. Consistent with business thinking of that era, the company concentrated its manufacturing in three megafactories (very large factories) located 15 in Denmark, northern Germany and Sweden, where the workforce had become highly skilled in operating machinery for industrial production. Benefiting from several economies of scale, *RDB* created thousands of jobs, supporting the “company towns” where they were the main employer, held in high esteem both locally and regionally.

20 In the 1930s, *RDB*’s market position was determined by the high quality and high price of its ball bearings. *RDB*’s two main competitors were *UAB* and *FIB*; *UAB*’s ball bearings were medium quality and medium price, and *FIB*’s ball bearings were low quality and low price.

Immediately after the second world war, *RDB* began to face competition from new Japanese companies, which used their low labour costs to gain entry into the ball bearing market. Thanks to its well-established reputation for high quality, *RDB* maintained its market share.

- 25 By the 1970s, the competitive environment changed again. As Japan’s economy developed, wages rose substantially. To remain competitive, Japanese companies moved to just-in-time production. Using this method, they could respond faster to specific customer needs. Their flexibility became their unique selling point (USP); it represented an important competitive advantage against other companies such as *RDB*. They also met international quality standards, making it easier to export 30 to different regional trading blocs.

Valdemar Holstein’s efficient leadership

Valdemar Holstein (the son of *RDB* founder Henrik Holstein) started working at the company in 1951, when he was only twenty-one. He spent his entire career at *RDB*, including several years as a machinist. In 1965, he replaced Henrik as Chief Executive Officer (CEO). Under his leadership, *RDB* kept thriving, as he successfully implemented several changes. Although the 35 company maintained a tall organizational structure, Valdemar empowered his middle managers. He also adopted management techniques that were fashionable at the time, such as total quality management (TQM), benchmarking and Kaizen.

40 *RDB* remained profitable and maintained brand loyalty. However, financially, gross and net profit margins were lower than previously, which Valdemar thought was unavoidable. Internally, some maintenance and technological upgrades were being delayed – but Valdemar did not pay attention to this. Externally, some environmental campaigners started to put pressure on *RDB* because of the high pollution levels in the vicinity of *RDB* factories – but Valdemar ignored their claims.

45 Valdemar was proud of the company's traditions. It remained privately owned by members of the Holstein family. Valdemar, like his father, had a paternalistic leadership style – though he could occasionally be autocratic, especially when the workers' collective bargaining agreements were being renegotiated. Although there were few opportunities for promotion, the employees liked *RDB*'s corporate culture. They too were proud of working for a well-known, well-established and well-respected company. They were well paid, enjoyed working in a culturally homogeneous 50 environment, and felt that their jobs were secure. Many of the workers' fathers and, in some cases, their grandfathers, had worked for *RDB*. Work patterns and practices followed the northern European Christian calendar and local traditions. Getting a job at *RDB* was like "joining a family". The employees all appreciated their job security, their high standard of living and their working environment.

55 A cautious manager, Valdemar always tried to manage risks. He regularly consulted economists and other specialists in order to minimize the impacts of changes in the external environment. Over the years, these efforts proved worthwhile. For example, *RDB* remained largely unaffected by the 1970s energy crisis. Every year, Valdemar reviewed *RDB*'s contingency plans; this helped him avoid a possible technological disaster in 2000 with the so-called "millennium bug". A crisis that 60 Valdemar had not foreseen was the sudden collapse of Icelandic banks Kaupthing and Landsbanki in 2008; *RDB* had funds in saving accounts in those two banks. However, it later managed to recover most of these funds.

65 In terms of operations, *RDB* manufactured standard-sized ball bearings in a flow production process. It sometimes used batch production for deliveries to established customers who used non-standard-sized ball bearings, and sometimes job production for one-off special orders, such as large ball bearing systems for power stations or mines. In all respects, from human resource management to operations, Valdemar felt that *RDB* was ready for the twenty-first century.

Anna Holstein and "RDB 2020"

70 It was long anticipated that, when Valdemar retired, his daughter Anna would replace him as CEO of the company. Unlike her father, she had no experience as a machinist; she did not "work her way up" from the factory floor and had less empathy for the factory workers. After earning her IB Diploma in Copenhagen, followed by a degree in "green" engineering at university, she completed an MBA postgraduate degree and worked for an investment bank in New York. In 2005, shortly after her thirtieth birthday, she took her first position at *RDB*, in the Engineering Department, where she immediately began to implement "green" approaches to manufacturing.

75 Anna had big ideas for *RDB*. A scientific and analytical thinker, she had carefully studied the external environment in which *RDB* operates. She knew that demand for ball bearings was slowing down in Europe, whereas it was growing substantially in countries such as Brazil, China and India that were going through a phase of strong industrialization. From her research, she also concluded that manufacturing in the twenty-first century would be accomplished in smaller, 80 more flexible factories, instead of the huge modernist structures typical of the late nineteenth and twentieth centuries. Time would be the critical factor; having factories close to customers' locations would reduce response time and improve logistics, including distribution and delivery. This would also shorten the working capital cycle – an important benefit for *RDB*.

Given her international experience, working at *RDB* made Anna realize that her colleagues in the 85 Engineering Department, and even the entire *RDB* workforce, needed a better cultural understanding of their customers. The best way to achieve this, she thought, would be through a workforce that resembled *RDB*'s customers, and increasingly they would be from Asia, India and South America. She was also convinced that *RDB* had to focus on "green" technologies and its corporate social responsibility. The company would have to significantly increase its spending on research and 90 development (R&D) and also examine its impact on the environment and on its customers' carbon footprint. The two are linked, Anna reasoned: the ultimate aim of innovation in the ball bearing industry is to save energy, which is fundamentally what ball bearings do by reducing friction. For users, better ball bearings mean less friction and, in turn, less friction means that less energy is wasted. Thus, less energy is needed.

95 Anna's vision for *RDB* was to make the world's most technologically advanced, energy-efficient ball bearings in small "green" factories located near its customers. This would require selling the two megafactories in northern Germany and Sweden, and significantly downsizing the one in Denmark. *RDB*'s production would be offshored to 12 small factories to be opened around the world, mainly in Brazil, China and India. In terms of workforce planning, each of those 100 new *RDB* factories would be jointly managed by one experienced *RDB* senior manager from Europe and one local manager familiar with the language and culture. Some machinists from *RDB*'s European factories would be offered key positions. Most of the existing jobs in Europe would be made redundant, as most of the new workers would be recruited locally on lower wages. Northern European countries have generous redundancy payments, largely funded by the 105 employers, and these costs would be significant in the short term. In the long term, however, *RDB* would lower labour costs.

Marketing would also play a major role in the new *RDB* that Anna imagined. *RDB*'s marketing department had always been "sleepy", with a small budget and unchallenging objectives. Advertising and promotion were limited to some trade journals and trade shows. Anna thought 110 that this should change. She believed that *RDB* should advertise in a wider range of publications, including e-zines (online magazines) and professional web sites for industrial design and architectural robotics. She wanted to use information and communication technology (ICT) to communicate to a wider range of external stakeholders. That way, *RDB* would create brand awareness in the design community, and not just in the manufacturing community. The marketing 115 department should start carrying out market research, both primary and secondary. Anna also pictured groups of *RDB* "engineers-turned-salesmen" calling on major manufacturers to generate orders, whilst other staff would pressure politicians for more legislation and incentives to support environmentally-friendly products.

120 Anna wrote all the details of her ideas in a strategic plan that she named “*RDB 2020*”. She calculated that the transition costs for such a large-scale restructuring would be enormous. In order to generate 50% of the funds required, *RDB* would need to sell the two megafactories in northern Germany and Sweden. For the rest of the funds, Anna would list *RDB* on the Frankfurt Stock Exchange: *RDB* would become a public limited company, with funds generated from the sale of newly issued shares. Anna was very pleased with her overall strategy for *RDB*; she found it coherent, consistent and forward-looking.

Valdemar’s counterproposals

125 Valdemar was stunned when Anna explained her “*RDB 2020*” strategic plan to him. Although he recognized that manufacturing was shifting away from Europe, and that *RDB* had to become more environmentally conscious, he had major objections. “*RDB* is a Danish company”, he insisted, “we managed to expand significantly after the first world war thanks to a major contract from the Danish government”. He felt a moral obligation to provide jobs in Denmark. At times, *RDB* had also formed public-private partnerships with the Swedish and German governments for various projects. The workforce was local and loyal; Valdemar felt like a father to them; a major retrenchment would be a violation of the “social contract” he implicitly had with them. He also despised the idea of *RDB* going public. Despite Anna’s assurances that the Holstein family would 130 still be the major shareholder, he did not want to answer to shareholders who were not family members and had no sense of the company’s history or traditions. He had a bad feeling about this. He also did not like the idea of the relocation of the factories. A lifelong industrialist, he loved to see his three megafactories in northern Europe. Their scale of operation was so vast that expansions had been coordinated with the local urban planning authorities; the Swedish factory was so large 135 that railroad lines had been installed in order to deliver supplies and to transport finished products. It was beyond his imagination that small factories operating in industrial parks on the outskirts of Mumbai or São Paulo could accomplish the same as the European ones.

140 Despite Valdemar’s objections, Anna told him that she would speak to other shareholders in the family and could collectively force the company to change. He asked her for time to come up with 145 an alternative proposal that would incorporate “some” of her ideas.

A month later he suggested the following to her:

- Rebrand the company, changing its name from “*Royal Danish Bearings*” to “*Green Bearings, an RDB Company*” and adopt Anna’s marketing strategy. *Green Bearings* would be “green” in name only.
- 150 • Remain in northern Europe, but divide each of the three megafactories into autonomous cells, each assigned to serve a region of the world and each with its own strategic and tactical/ operational objectives. Local salesmen would be hired, paid low salaries, but with high commissions as an incentive. This would make the company look more international, but the current workforce in Europe would not change.
- Form strategic alliances with ball bearing companies in Brazil, China and India.

Valdemar admitted that he had thought about finding a major investor whose financial assistance *RDB* could use to modernize the current factories and make them environmentally-friendly. The Holstein family could sell a portion of their shares to the major investor. However, Valdemar rejected this idea. Though being “green” was good practice and was socially responsible,
160 he hated the idea of having a shareholder who was not a member of the Holstein family.

Anna listened attentively, however, she was not satisfied. She thought that this plan was not enough to prepare *RDB* for the twenty-first century. Changing the name and reconfiguring the factories to cell production would be satisfactory in the short term, but it would only delay the major changes that would eventually have to come. She wanted *RDB* to have a
165 first-mover advantage in terms of brand awareness and “green” practices. Developing a global identity and a global workforce was a strategic priority for her. Demographic changes in Europe would eventually undermine Valdemar’s vision of *RDB* as a “happy European family”. There was also the problem of European labour costs: in the long term, European workers would be too expensive and probably uncompromising when engaged in collective bargaining.
170 Globalization, Anna argued, undermined the “social contract” that her father believed in.

Additional terms not in the Guide

Paternalistic leadership style

First-mover advantage

Companies, products, or individuals named in this case study are fictitious and any similarities with actual entities are purely coincidental.

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BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 1

Monday 20 May 2013 (afternoon)

1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- A clean copy of the ***Business and Management*** case study is required for this examination paper.
- Read the case study carefully.
- Section A: answer two questions.
- Section B: answer the compulsory question.
- A calculator is required for this examination paper.
- A clean copy of the ***Business and Management*** formulae sheet is required for this examination paper.
- The maximum mark for this examination paper is [50 marks].

SECTION A

Answer **two** questions from this section.

1. (a) Define the following terms:
- (i) *regional trading bloc* (*line 30*) [2 marks]
- (ii) *corporate social responsibility* (*lines 88–89*). [2 marks]
- (b) Explain **two** reasons why innovation is important for *RDB*. [4 marks]
- (c) Anna Holstein believes that “the marketing department should start carrying out market research” (*lines 114–115*). Analyse the roles that primary and secondary research could play for *RDB*. [7 marks]
2. (a) Using a SWOT analysis framework, identify **two** weaknesses and **two** threats to *RDB*. [4 marks]
- (b) Using data from the additional information on page 3, calculate *RDB*’s:
- (i) return on capital employed (ROCE) in 1965 **and** 1975. [2 marks]
- (ii) stock turnover in 1965 **and** 1975. [2 marks]
- (c) Interpret your results from part (b). [7 marks]
3. (a) Define the following terms:
- (i) *retrenchment* (*line 133*) [2 marks]
- (ii) *commission* (*line 153*). [2 marks]
- (b) With reference to *RDB*, distinguish between flow production and job production (*lines 63–66*). [4 marks]
- (c) Analyse the advantages and disadvantages for *RDB* of forming “strategic alliances with ball bearing companies in Brazil, China and India” (*line 155*). [7 marks]

SECTION B

Answer the compulsory question from this section.

4. (a) Identify **two** causes and **two** consequences of the possible relocation of *RDB* factories. [4 marks]
- (b) Explain why shortening the working capital cycle would be “an important benefit for *RDB*” (*line 83*). [4 marks]
- (c) With reference to *RDB*, contrast **one** advantage and **one** disadvantage of operating in the business-to-business (B2B) market. [4 marks]
- (d) Discuss whether Anna Holstein’s “*RDB 2020*” plan is ethical. [8 marks]

Additional information for question 2(b) and 2(c)

Selected information from *RDB*’s financial accounts:

| | (€000 000) | |
|------------------------------------|------------|------|
| | 1965 | 1975 |
| Average stock | 29 | 54 |
| Gross profit | 35 | 56 |
| Net profit before interest and tax | 22 | 34 |
| Total capital employed | 121 | 203 |
| Sales revenue | 113 | 194 |

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BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 2

Tuesday 21 May 2013 (morning)

1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer two questions.
- A calculator is required for this examination paper.
- A clean copy of the ***Business and Management formulae sheet*** is required for this examination paper.
- The maximum mark for this examination paper is [60 marks].

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SECTION A

Answer **one** question from this section.

1. Office Cleaners (OC)

Sayaka Toguchi operates an office cleaning service, which is in the tertiary sector. When office workers are going home, she arrives at their offices to clean them. At present, she has four clients, with commercial offices all located in the same building. She operates as a sole trader and has no employees. Her business name is *Office Cleaners (OC)*.

Sayaka has always liked the small size of her business. However, when a large bank on the ground floor of the same building where her current clients are located offered her a contract to clean its offices, she decided to reconsider the size of her business. The bank would loan her \$2500 to purchase new cleaning equipment. The bank would also offer her a two-year contract paying her \$6000 every second month. Sayaka would need to employ one new worker to clean the bank.

For the bank contract, Sayaka forecasted the following monthly cash outflows:

- salary for one new employee: \$2000
- cleaning products (soap, detergent): \$200
- payment on equipment loan: \$150 payable from the second month
- business taxes and overheads: \$300.

Before the bank loan she currently has personal savings of \$1600 in the bank.

Employee absence also worries Sayaka. How will she get all the offices clean if her new employee is absent from work due to illness? Agencies can provide temporary employees but they cost \$300 a day per worker.

- (a) Define the term *tertiary sector*. [2 marks]
- (b) Identify **two** features of a sole trader. [2 marks]
- (c) (i) Prepare a monthly cash-flow forecast for the bank contract for the first six months assuming Sayaka employs one new worker. [5 marks]
- (ii) Calculate the impact on the monthly closing balance of the six month cash-flow forecast if the new employee is absent from work due to illness for two days per month. Assume Sayaka still pays the ill employee a monthly salary of \$2000. [2 marks]
- (d) Comment on the impact that the bank contract will have on the cash flow of *OC*. [4 marks]
- (e) Analyse the impact on Sayaka's role if she expands the size of her business. [5 marks]

2. Khalil Damascus Supplies (KDS)

Khalil Damascus Supplies (KDS) sells construction materials, such as cement and bricks, to the business-to-business (B2B) market. It is located in an industrial area in Damascus. Its manager is Ahmed Khalil.

Large construction companies have their own cranes. However, small construction companies often do not. Many small construction companies have asked *KDS* if it could offer a crane rental (hire) service.



[Source: http://en.wikipedia.org/wiki/File:Truck-mounted_crane_building_a_bridge.jpg]

Ahmed calculated that purchasing two cranes, costing \$100 000 each, would be a worthwhile investment. Rental income from the cranes would enable *KDS* to break-even on the equipment. Ahmed believed that future profits would come from an increase in the sales of construction material to new customers attracted to *KDS* because of its crane rental service.

Selected financial information before *KDS* purchases the cranes, as at 31 May 2012 (all figures in \$):

| | |
|---------------------------------------|-----------|
| Cash | 55 000 |
| Cost of goods sold | 3 000 000 |
| Creditors | 45 000 |
| Debtors | X |
| Expenses | 2 300 000 |
| Fixed assets (building and equipment) | 350 000 |
| Loan capital | 40 000 |
| Retained profit | 215 000 |
| Sales revenue | 5 600 000 |
| Share capital | 200 000 |
| Short-term borrowing | 10 000 |
| Stock | 50 000 |

(This question continues on the following page)

(Question 2 continued)

Ahmed must decide who will operate the cranes. There are three options:

- First, train some current employees at *KDS*. Several have said that they are interested.
- Second, increase the number of employees by hiring two experienced and licensed crane operators.
- Third, rent only to customers who themselves employ licensed crane operators. However, many small construction companies do not employ licensed crane operators.

Ahmed likes the idea of training his own employees, as it would give them additional job skills, job enrichment and more experience with construction sites. However, he is concerned about the costs of training and additional insurance.

- (a) Describe **one** appropriate source of finance **other than** a bank loan that *KDS* could use for the purchase of the cranes. [2 marks]
- (b) Define the term *retained profit*. [2 marks]
- (c) (i) Using relevant information from the table, construct a balance sheet for *KDS* as at 31 May 2012 (before the purchase of the cranes) and calculate debtors (figure X). [5 marks]
- (ii) Using relevant information from the table, calculate the gearing ratio **and** the gross profit for *KDS* before the purchase of the cranes (*show all your working*). [4 marks]
- (d) Comment on the financial impact on *KDS* if Ahmed uses a bank loan to fund the purchase of the cranes. [2 marks]
- (e) Contrast the **three** options of who will operate the cranes. [5 marks]

SECTION B

*Answer **two** questions from this section.*

3. Brandon Canoes (BC)

Brandon Canoes (BC) manufactures and sells canoes in the Pacific Northwest of North America, where canoeing and fishing are popular hobbies. Founded in 1951 by Brandon Tyler, *BC* is a private limited company owned and operated by members of the Tyler family. There is strong brand awareness of *BC* in the regional canoeing and fishing community.

Primary market research conducted by *BC* showed that some people wanted smaller canoes that could be easily transported. *BC*'s factory has sufficient space to expand its product range to include smaller canoes. *BC* can easily manufacture 1000 smaller canoes per year in addition to current production. *BC*'s current Chief Executive Officer (CEO), Ashton Tyler, calculated that the costs associated with these smaller canoes would be:

- fixed costs: \$300 000
- variable costs per unit: \$1900
- sales price: \$2400.

Ashton thought that the smaller canoes would appeal to two new market segments:

- young people (in their 20s) who wish to exercise in an environmentally friendly way
- older people (in their 50s and 60s) who want forms of exercise less physically demanding than running or team sports like football (soccer).

The Marketing Director, however, warned that the target markets for the smaller canoes are probably not aware of the *BC* brand. He added that marketing costs would be higher than Ashton anticipated. It would also take time to generate sales of the new smaller canoes. Also, because of the economic recession, some customers were taking longer to pay. Because of the potential marketing issues and the slower payments, *BC* needs to plan for additional working capital. *BC*'s shareholders are, however, not convinced. They view the smaller canoes as a largely new product for a new market. They would rather pursue extension strategies to the existing product range.

- (a) Identify **two** ways in which the market for canoes may be segmented. [2 marks]
- (b) Calculate the break-even quantity for the smaller canoes (*show all your working*). [2 marks]
- (c) Explain how the “marketing issues and the slower payments” would create a need for additional working capital. [4 marks]
- (d) Apply the Ansoff matrix growth strategies to *BC*. [5 marks]
- (e) Discuss Ashton’s proposal to start manufacturing and selling smaller canoes. [7 marks]

4. Kabaret

Matt Fidler and Shailah Hitta met at university, where they both studied drama. They have now just graduated. As they work very well together as artists, they want to turn their talent into their source of income. They have decided to set up their own theatre company called *Kabaret*. It will be a partnership, with Matt and Shailah as equal partners. They arranged an appointment with Mr Lloyd, an independent consultant, for financial advice.

They first discussed the main problems that *Kabaret*, as a business start-up, may face. Because Matt and Shailah know many people who have set up theatre companies, they feel ready to deal with possible problems such as developing a customer base and branding. Matt and Shailah have many ideas about the plays they want to stage and the theatres where they want to perform. However, they do not know how much tickets should cost. Mr Lloyd explained the two types of pricing strategy that they could use: cost-based pricing or competition-based pricing. Matt and Shailah realise that they have to do more research about their own costs and about their local competitors.

Mr Lloyd has now asked them to prepare a business plan that includes a decision about their pricing strategy as well as a cash-flow forecast. Matt and Shailah will meet him again in three weeks in order to further discuss the creation and launch of *Kabaret*.

- (a) Define the term *branding*. [2 marks]
- (b) Explain the importance of the information in *Kabaret's* business plan for **one** internal stakeholder and for **one** external stakeholder. [6 marks]
- (c) Analyse the main problems that *Kabaret*, as a business start-up, may face. [5 marks]
- (d) Analyse the appropriateness of the two pricing strategies Mr Lloyd suggests and recommend to Matt and Shailah which one to use for the tickets to *Kabaret's* shows. [7 marks]

5. Volunteering (le bénévolat, voluntariado)

Volunteering is the practice of working without payment. In many countries, volunteering is becoming more common. Many volunteers work in non-profit and non-governmental organizations (NGOs), such as charities and pressure groups. They may want to support a particular cause, for example human rights, international aid, or emergency rescue operations after a natural disaster. Some volunteers work in profit-based organizations, for example in the arts: theatres, cinemas and museums have always employed volunteers. Volunteering in schools is also frequent, such as with parents or community members giving some of their time to help the school fulfill its educational mission. The CAS requirement of the IB Diploma can be seen as a form of volunteering, as a service may include community and social service activities without payment in return.

People who wish to work as volunteers come from all backgrounds: young people who need practical experience to strengthen their CV (résumé); unemployed people who use it to keep motivated and active whilst looking for a job; part-time employees who want to help the community; even retired people who use it as an opportunity to socialize. Some volunteers do it for just a few hours a week, while for others it becomes a full-time activity.

“Employing volunteers requires workforce planning” explains Sylvia Warnecke from the *International Union of Volunteers*. “Most organizations take the professional development of their volunteers seriously, for example by offering training to learn new skills. They do not pay salaries, but they can offer a range of non-financial rewards. For organizations, training volunteers is a form of investment.”

- (a) Define the term *pressure group*. [2 marks]
- (b) Explain the meaning of Sylvia’s statement that “for organizations, training volunteers is a form of investment”. [2 marks]
- (c) Distinguish between **two** forms of non-financial rewards that may be used by organizations to motivate volunteers. [4 marks]
- (d) Apply Maslow’s hierarchy of needs to the situation of an unemployed person who volunteers at a local non-profit organization. [5 marks]
- (e) Discuss the advantages and disadvantages of employing volunteers in profit-based organizations. [7 marks]

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BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 1

Wednesday 20 November 2013 (afternoon)

1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- A clean copy of the ***Business and Management*** case study is required for this examination paper.
- Read the case study carefully.
- Section A: answer two questions.
- Section B: answer the compulsory question.
- A calculator is required for this examination paper.
- A clean copy of the ***Business and Management*** formulae sheet is required for this examination paper.
- The maximum mark for this examination paper is [50 marks].

SECTION A

Answer **two** questions from this section.

1. (a) Define the following terms:
 - (i) *economies of scale (line 16)* [2 marks]
 - (ii) *empowerment (line 35).* [2 marks]
 - (b) With reference to *RDB*, distinguish between internal growth and external growth. [4 marks]
 - (c) Analyse the advantages and disadvantages of each new *RDB* factory being “jointly managed by one experienced *RDB* senior manager from Europe and one local manager familiar with the language and culture” (*lines 100–101*). [7 marks]
-
2. (a) By the 1970s, Japanese companies had moved to just-in-time production (*line 26*). Outline **one** advantage and **one** disadvantage of just-in-time production. [4 marks]
 - (b) Using data from the additional information on page 3, calculate *RDB*’s:
 - (i) gross profit margin in 1970 **and** 1975. [2 marks]
 - (ii) acid test (quick) ratio in 1970 **and** 1975. [2 marks]
 - (c) Interpret the results from your calculations in part (b). [7 marks]
-
3. (a) Describe **one** consequence of the likely relocation of the factories (*lines 96–99*):
 - (i) for **one** internal stakeholder of *RDB*. [2 marks]
 - (ii) for **one** external stakeholder of *RDB*. [2 marks]
 - (b) Using information in lines 19–21, construct a position map of the ball bearing industry in the 1930s and place *RDB* and its two main competitors on it. [4 marks]
 - (c) Analyse the advantages and disadvantages for *RDB* of becoming a public limited company (*line 123*). [7 marks]

SECTION B

Answer the compulsory question from this section.

4. (a) Outline why ball bearings are particularly important in the secondary sector of the economy. [2 marks]
- (b) Describe an autocratic leadership style. [2 marks]
- (c) Explain Valdemar Holstein's suggestion of hiring local salesmen who would be "paid low salaries, but with high commissions as an incentive" (*lines 152–153*). [4 marks]
- (d) With reference to *RDB*, distinguish between primary research and secondary research. [4 marks]
- (e) Discuss the relative merits of producing ball bearings in small factories as opposed to the three European megafactories. [8 marks]

Additional information for question 2(b) and 2(c)

Selected financial data from *RDB*'s end of year profit and loss accounts (figures in €000 000)

| | 1970 | 1975 |
|--------------------|-------------|-------------|
| Cost of goods sold | 55 | 92 |
| Expenses | 30 | 43 |
| Sales revenue | 118 | 164 |

Selected financial data from *RDB*'s end of year balance sheets (figures in €000 000)

| | 1970 | 1975 |
|-----------------------|-------------|-------------|
| Cash | 25 | 32 |
| Current liabilities | 16 | 26 |
| Debtors | 19 | 28 |
| Long-term liabilities | 30 | 51 |
| Stock | 46 | 64 |

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BUSINESS AND MANAGEMENT
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PAPER 2

Thursday 21 November 2013 (morning)

1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer two questions.
- A calculator is required for this examination paper.
- A clean copy of the ***Business and Management formulae sheet*** is required for this examination paper.
- The maximum mark for this examination paper is [60 marks].

SECTION A

Answer one question from this section.

1. Belluno Frames (BF)

Image removed for copyright reasons

Belluno Frames (BF) manufactures high-quality frames for glasses (spectacles). Like many other firms in the private sector in northern Italy, the business is small, family-owned, and operates as a private limited company. Giovanni and Elda Rizzo own 100 % of the shares,

which their son Antonio will inherit. Giovanni designs the frames. Antonio and two employees produce them. Elda is responsible for the administration.

BF is located in a building that Giovanni and Elda own, near their house, 42 kilometres outside of Belluno. Antonio and the two employees live in the same village as *BF*. The road to Belluno is narrow, with traffic that moves very slowly because of farm vehicles. Antonio, who wants the business to grow, has asked his father to rent a building in the industrial park in Belluno with good road access. *BF*'s new location would be closer to suppliers and customers. It would also improve *BF*'s visibility.

Currently, *BF* sells on average 1300 frames per month. Each frame is sold at an average price of €24. Below are the costs (all figures in €) for *BF* at its current location and if it moved to the industrial park in Belluno.

Monthly fixed costs:

| | Current location | Industrial park (new location) |
|------------------------------|-------------------------|---|
| Insurance | 400 | 400 |
| Rent | 0 | 2200 |
| Salaries (Giovanni and Elda) | 3600 | 3800 |
| Other employees' salaries | 3600 | 3900 |
| Lease on equipment | 1400 | 1400 |

Variable costs per frame:

| | Current location | Industrial park (new location) |
|----------------|-------------------------|---|
| Material | 14 | 13.5 |
| Delivery costs | 1 | 0.1 |

Antonio believes that *BF*'s sales will grow on average to 1700 frames per month in the new location. To reach that level, Antonio suggests that *BF* offer extra financial rewards in addition to their usual salaries to employees after 1300 frames have been sold each month (the current monthly average). Giovanni and Elda are reluctant.

(This question continues on the following page)

(Question 1 continued)

- (a) (i) Define the term *private sector*. [2 marks]
- (ii) Identify **two** advantages for *BF* of operating as a private limited company. [2 marks]
- (b) Calculate for *BF* per month at the **current location** (*show all your working*):
- (i) the break-even level of output. [2 marks]
- (ii) the margin of safety. [2 marks]
- (iii) the profit or loss at the current level of 1300 frames sold. [2 marks]
- (c) Construct a fully labelled break-even chart for *BF* at the **current location**. [5 marks]
- (d) Examine **one** factor that might improve employee motivation and **one** factor that might worsen employee motivation if *BF* moves to a building in the industrial park in Belluno. [5 marks]

2. Nha Trang Bicycles (NTB)

Chinh Pham offers daily rentals of bicycles at the seaside resort of Nha Trang in Vietnam. He operates as a sole trader under the name *Nha Trang Bicycles (NTB)*. The business rents mostly to young tourists, who enjoy riding bicycles on the roads that run alongside the beautiful beaches. Many other businesses in the area also offer bicycle rental. Because of the intense competition, the price of renting a bicycle is low.

In addition to offering bicycle rental, *NTB* is considering two options:

- Option 1: offer motorcycle rental. Total initial cost to purchase 10 motorcycles: \$120 000.
- Option 2: offer car rental. Total initial cost to purchase 5 cars: \$110 000.

The following shows the expected total net income from both options (all figures in \$000s):

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 |
|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Option 1 | 40 | 40 | 40 | 40 | 40 | 40 |
| Option 2 | 27 | 35 | 35 | 35 | 35 | 35 |

The motorcycles would typically be rented by young tourists on a daily basis. The cars would be rented for longer periods (one week on average) by older customers with families. Chinh has no experience with this market segment. A concern for Chinh is the impact that the increased scale of operation will have on his ability to manage the business. A local pressure group argues that cars will harm the environment. Another concern is that motorcycles are very noisy and would disturb the quiet, peaceful feel of the seaside resort.

- (a) Describe **two** appropriate sources of finance for *NTB* to acquire the 5 cars (Option 2). *[4 marks]*
- (b)
 - (i) Calculate for Option 1, the payback period **and** the average rate of return (ARR) (*show all your working*). *[4 marks]*
 - (ii) Calculate for Option 2, the payback period **and** the average rate of return (ARR) (*show all your working*). *[4 marks]*
- (c) Comment on your results to part (b). *[3 marks]*
- (d) Analyse whether *NTB* should purchase the 10 motorcycles (Option 1) or the 5 cars (Option 2). *[5 marks]*

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SECTION B

Answer two questions from this section.

3. Anigam

Anigam is one of the biggest multinational companies operating in the animal drugs industry. In many countries, *Anigam* is well known for its promotional campaigns. It uses both above the line and below the line promotion.

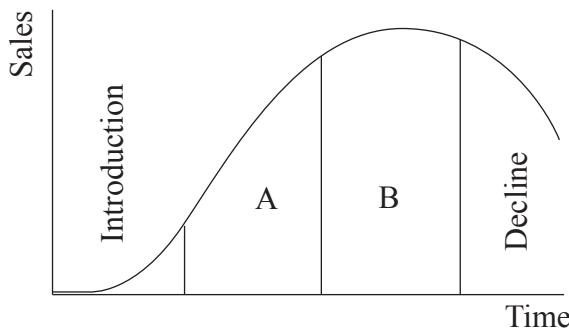
Anigam has a portfolio of animal drugs at different stages of their product life cycle:

- Anitox is the first animal drug that *Anigam* developed and sold. It is a business-to-business (B2B) product used in veterinary clinics worldwide. Anitox has a high 25% share of the global market. That figure has been stable for the last 10 years. Anitox is a well-established product in a market that is saturated and growing very slowly.
- A range of animal drugs was launched four years ago. One of them, Anisan, helps prevent heart attacks in aging animals; it already has a high 15% share of a rapidly growing market. Some other animal drugs, however, are not performing as well: for example, Aniplus, which is designed to strengthen animals' immune systems against the flu and other contagious diseases. The market for products such as Aniplus is growing rapidly, but it is very competitive.
- Last year, *Anigam* launched a new drug called Anislim which helps to reduce obesity in domestic animals. Thanks to significant introductory marketing efforts and an appropriate promotional mix, the first sales results were good. It is, however, too early to forecast whether present sales for Anislim will be maintained.

(This question continues on the following page)

(Question 3 continued)

- (a) With reference to the product life cycle diagram below, identify the missing stages:



- (i) A. [1 mark]
- (ii) B. [1 mark]
- (b) With reference to *Anigam*, distinguish between above the line and below the line promotion. [4 marks]
- (c) Explain **one** reason why a promotional mix chosen by *Anigam* might fail. [2 marks]
- (d) Analyse *Anigam's* portfolio of animal drugs by applying the Boston consulting group (BCG) matrix. [5 marks]
- (e) With reference to *Anigam* **and one** other company of your choice, discuss reasons for the increase in the number of multinational companies. [7 marks]

4. Zeitim

Zeitim is a chain of vegetarian fast food restaurants. Since the opening of its first restaurant in 1999, the restaurants have multiplied through franchising in the Middle East and around the Mediterranean Sea. More recently they have expanded into Asia, where they are becoming even more popular than *McDonald's*®. The first American *Zeitim* will open next month. The size of a *Zeitim* restaurant varies from a small branch that mainly serves takeaway food, to large ones with over 200 seats. There is even a “mega-*Zeitim*” in Bangalore, India, with 800 seats. *Zeitim* restaurants are not only located in high streets (downtowns) and shopping areas, but also in business districts, train stations and airports.

Zeitim's unique selling proposition (USP) is serving only vegetarian food, unlike other restaurant chains that may have vegetarian dishes but mainly serve meat-based products. *Zeitim*'s other marketing aspects (such as price, promotion and physical evidence) are not much different to its competitors.

According to Alejtin Berisha, Director of Operations, *Zeitim* has been successful due to a combination of three factors:

- its use of flow production, ensuring quick preparation and service, which is essential for a fast food restaurant
- its original branding, based on the use of the letter z, for example “*Zeitim Zalads*”, “*Zeitim Zandwiches*” and even branded drinks such as the “*Zeitim Zmoothy*”
- its franchise system, which made it easy to spread the brand name quickly, ensuring a high level of brand awareness, even amongst people who have not eaten there yet.

- (a) Describe flow production in the context of a fast food restaurant such as *Zeitim*. [2 marks]
- (b) With reference to *Zeitim* **and** other organizations of your choice, explain **three** ways in which businesses can differentiate their products from their competitors'. [6 marks]
- (c) Examine how branding may have contributed to the success of *Zeitim* restaurants. [5 marks]
- (d) With reference to *Zeitim* **and one** other organization of your choice, discuss the use of franchising as a growth strategy. [7 marks]

5. All the World is a Village (WV)

All the World is a Village (WV) sells artisanal* products from many developing countries. Based in Appleton, Wisconsin, United States (US), *WV* is a non-profit organization founded in 1972 by Yvonne Osheim. During a month's stay in Peru, she had seen numerous beautiful products made by Peruvian artisans. Fearing that their skills would be lost, she opened a retail shop selling artisanal products from Peru. In the 1980s, she also started importing and selling products from other developing countries.

WV's vision statement is: "Making the world a village by supporting local artisans". Today, 297 shops, under the name "*All the World is a Village*", operate throughout the US. Some shops are owned by *WV* itself and trade on a non-profit basis. Others are profit-based franchises whose owners agree to limit their salaries and dividends. This way, *WV* can follow its mission statement: "To help artisans in developing countries to earn fair incomes by using traditional skills in an environmentally friendly manner". The company's principles are: fair prices, fair credit, long-term commitment, working together, and sustainable development.

Since the 2007 global economic recession, *WV* has faced several challenges. Turnover at almost all of the shops has declined significantly. Despite the franchise agreement, some franchises have begun to sell products manufactured inexpensively in large factories in Asia. These franchise owners claim that without the imported products, they would have to close their shops. In addition, in order to cut costs, many artisans in developing countries have started to use non-environmentally friendly materials in their products.

[Source: © International Baccalaureate Organization 2014]

* artisanal: high-quality, typically handmade products. These products are generally made in small quantities using traditional methods.

- (a) Define the term *dividends*. [2 marks]
 - (b) Explain the advantages for *WV* of operating both non-profit and profit-based shops. [6 marks]
 - (c) With reference to *WV*, analyse the roles of a mission statement and a vision statement. [5 marks]
 - (d) Discuss whether Yvonne should allow artisans to use "non-environmentally friendly materials in their products" to cut costs. [7 marks]
-



BUSINESS AND MANAGEMENT
CASE STUDY: THE IMPERIAL

For use in May and November 2014

INSTRUCTIONS TO CANDIDATES

- Case study booklet required for Higher Level Paper 1 and Standard Level Paper 1 Business and Management examinations.

The Imperial

The Imperial is a seaside hotel in Mombasa, Kenya. It was founded in 1906 by Roger Williams, a citizen of the United Kingdom (UK) who had made a large fortune in the primary sector of British East Africa. Identifying a market opportunity and wanting to diversify his investments, Roger founded *The Imperial*. *The Imperial* initially had some financial problems, especially 5 regarding cash flow and liquidity management. Roger operated the hotel as a sole trader. By 1920, *The Imperial* was the most famous seaside hotel in Mombasa: it had a very positive corporate image and a well-deserved reputation for its grandiose architecture, its high-quality service and its elegant décor. It held that reputation for several decades, until the 1950s.

10 The 1950s were a turbulent time in Kenya. Following the Second World War, independence movements emerged throughout the British Empire. Fearing that the situation would turn violent, in 1959 Roger's son and heir Jeff Williams, decided to sell all the family properties in Kenya, including *The Imperial*. In the decades that followed, *The Imperial* was bought and sold several times: between 1959 and 1989, *The Imperial* had five different owners. Investors were often interested in the hotel, as it was an attractive 200-room property with a private beach and easy 15 access to Mombasa airport. However, because of recurring political unrest in neighbouring countries, the owners feared the situation in Kenya would deteriorate. They often panicked when the political situation seemed to worsen and sold the hotel.

20 In 1989, *Global Properties (GP)*, an international investment group, set up a subsidiary private limited company that purchased the hotel. *GP* was a good symbol of the new globalized world: *GP*'s shareholders were from the United States, Japan and South Korea. *GP*'s relationship to the hotel was "hands off": *GP* did not want to be involved in the daily management of the hotel operations, preferring to have a manager on-site. The manager would have to generate profits, most of which would be paid in dividends to *GP*. Once a year, the manager and a representative 25 from *GP* would meet to calculate the break-even quantity for the coming year, set target profits and determine the margin of safety.

30 In 2009, Martin Kimathi was appointed manager of *The Imperial*. This appointment was a remarkable coincidence of personal history and the history of *The Imperial*. Martin's father, Jomo Kimathi, had been a trusted groundskeeper at *The Imperial* when the Williams family still owned it. When Jeff Williams sold the hotel in 1959, he used his influence to help Jomo obtain a work permit in the UK. Jomo moved to London, where he worked the rest of his career in the hotel industry. Martin was born in London, where he grew up in a multicultural society and sometimes as a schoolboy he was a victim of racist bullying. He went to university and graduated with a degree in Hotel Management. When Jomo retired in 2000, he returned home to Kenya. Martin wanted to connect with his Kenyan heritage and went with his parents. At the time, *The 35 Imperial* was recruiting receptionists. Martin applied and got one of the positions. Five years later, he was promoted to head of reception, and four years after that, though only 30 years old, he was appointed as manager of the entire hotel. *GP* particularly liked the fact that Martin was of African descent but that, at the same time, he was westernized. *GP* thought that this was a perfect combination.

40 Martin's situation was actually more complicated than *GP* realized. Though Martin spoke some Kikuyu, the language of his parents' tribe, most Kenyan employees in the hotel thought of him as too westernized and not Kenyan enough. Apart from that, however, his life in Kenya and now his appointment as manager seemed to fulfill most of his needs. Though the country experienced some post-election violence in 2008, it was generally safe and stable. Martin had a well-paid
45 professional position, with a salary based on performance-related pay. In Kenya, he met and married Anima, and they had two lovely daughters. He was proud that he was managing the hotel where his father had been a groundskeeper years earlier.

When appointed manager, Martin had to address a long-term problem: the fact that over the years, the competitive position of *The Imperial* as Mombasa's premier seaside hotel had slowly
50 deteriorated. New luxurious hotels were opening in the vicinity; with their spas, themed restaurants and fast WiFi Internet access, they offered better facilities and better services than *The Imperial*. They had a modern, high-tech feel; in comparison, the colonial charm of *The Imperial* looked old-fashioned. Its market share was shrinking. Because *GP*'s interest in *The Imperial* was solely for profits, Martin was only given a limited budget each year for improvements and renovation. The
55 long-term trend for *The Imperial* was worrying: there was a steady decline in room bookings, at a time when ironically tourism in Kenya was doing rather well. The number of tourists travelling to Kenya was increasing annually, and other hotels were experiencing a general trend of increasing, not decreasing, occupancy rates (Appendix 1). Martin read statistics from the Kenya National Bureau of Statistics and other sources of secondary market data. He conducted a marketing audit,
60 constructed a position map and realized that *The Imperial* could attract new types of traveller interested in safaris or in cultural tourism.

Besides his long-term marketing challenges, Martin had found that managing the working capital sometimes proved difficult in the short term, especially because of the seasonality of hotel operations. *The Imperial* occasionally had problems to follow its month-by-month
65 budget. Now that he was manager, and not just Head of Reception, Martin had to design and implement strategies for dealing with those liquidity problems. His accountant recommended that *The Imperial* use separate profit centres for the hotel itself, for the restaurant and for the special events services. Non-revenue producing departments, such as housekeeping, would be established as separate cost centres. Martin also had to organize the preparation of final accounts for *GP* (profit
70 and loss accounts, balance sheets) as he was accountable to *GP* for the financial performance of *The Imperial*. A particular challenge came from the Catering Department overseeing the restaurant. The Head of Catering struggled both to manage the actual stock and to make the appropriate calculations of closing stock values.

Martin also had a problem of human resources: how to improve his working relationship with
75 Susan Chapman, the Head of Housekeeping. Susan's grandfather, Craig Chapman, had travelled to Kenya from Liverpool (UK) in the early 20th century to open and operate an orphanage near Nairobi. Unlike Roger Williams, who was already wealthy before he left England and went to Kenya to make even more money, Craig Chapman had a humanitarian motivation. When Kenya became independent, Craig stayed and continued to work for other non-profit organizations. His
80 whole family lived in Kenya; his grand-daughter only left the country to study Hotel Management in the UK. In 2002, she came back and began working at *The Imperial*. The problem between Susan and Martin began when he was appointed as manager. Susan, too, had applied for the position. When she was not selected, Susan was very angry. Even three years later, she could not get over her feeling that she had been discriminated against.

85 Martin and Susan had similarities: they were the same age, had similar university educations, and neither fitted perfectly well in Kenyan society. They had, however, an important difference: their leadership style. Susan, though efficient, hard-working and committed, was very task-oriented. She liked bureaucracy, formal accountability, and a clear chain of command. She had a scientific approach to decision-making. Her staff found her cold, official and impersonal. Martin, on the other
90 hand, had a much more laissez-faire style. He believed in empowerment and delegation. Though he felt anxious when he saw there were minor problems that he knew he could fix quickly, he was always careful to let supervisors resolve problems. He was also warm, friendly and outgoing.

Susan liked *The Imperial* very much; however, she still resented the fact that Martin had been appointed manager instead of her. As a result, she wanted others to think that *GP* had made a mistake in selecting Martin instead of her. She focused harder than ever on her job. She demanded more of the employees and was intolerant of even minor mistakes. The hotel, she was determined, should always be absolutely spotless and shining. However, as she became more demanding, the employees perceived her as too autocratic. They began to complain amongst themselves. The networks of informal communication amongst the employees enabled gossip and messages to move quickly through the hotel, such as stories and anecdotes of Susan acting overly autocratic. Fearing that the situation would soon become a major problem, Martin suggested that she should soften her leadership style. However, in every appraisal meeting, she resisted any discussion about how she managed staff. Martin did not want to dismiss her; he highly regarded her as a valuable member of staff, whose role in the Housekeeping Department was essential. A French travel
100 journalist who had recently stayed at *The Imperial* had written an article praising the high quality of its housekeeping: “We reach here the top of the highest international standards”, he wrote, “in terms of benchmarking, *The Imperial* is *très magnifique*”. Martin fully appreciated the professional
105 importance of Susan. However he believed that, professionally, she needed leadership training.

In November 2013, a particular situation brought these tensions to the surface. One employee
110 in the Housekeeping Department, Guthoni, was frequently calling in sick and did not come to work. Rather than enquiring about the reason, Susan dismissed Guthoni for repeated absenteeism. What Susan did not know is that Guthoni had been diagnosed with a terminal illness and required frequent medical treatment. Upon news of her dismissal, the other employees were outraged. They decided to go on strike in December, one of the busiest months of the year for *The Imperial*.
115 When Martin heard of the planned strike, he was very worried. If it occurred in December, *The Imperial* would not be able to reach its annual target profits. He started negotiations with employee representatives. He realized that the collective action was giving the employees a sense of solidarity that they previously never displayed. He also noticed that many other frustrations were coming out into the open – and he ironically saw the threat of strike action as empowering
120 for the employees. They seemed to be taking responsibility for the operations of the hotel to a far greater degree than before. Martin wanted to channel their frustrations toward constructive ends. He believed that *The Imperial* would emerge stronger from the conflict. He knew that he needed the full commitment and support of all the employees because big changes were on the horizon.

125 Equally important, he had to address the long-term external issues facing *The Imperial* because of changes in the external environment. Strategic decisions were necessary. He considered three options for *The Imperial*.

130 **Option 1:** Make the case to *GP* that *The Imperial* needs to close for a whole year to allow for mass renovations in order to upgrade the hotel and reposition it to its former place as the premier hotel in Mombasa. Martin had recently travelled to Dubai and Muscat to see the most luxurious hotels in these regions. He understood that *The Imperial* had reached the decline phase of its product life cycle and needed rejuvenation. He believed that it was possible, although this would require substantial investment:

- in the physical condition of the hotel almost to rebuild it entirely
- in its marketing in order to relaunch it, maybe even with a new brand name.

135 The new hotel would attract the same customer types, but the product would be much improved. It would also need an improved workforce to match its new vision. Martin sketched out two possible approaches for a Human Resources Strategic Plan (Appendix 3).

140 **Option 2:** Change the nature of the hotel by transforming all the rooms into self-contained apartments with small kitchens. The target market for these apartments would be business travellers staying at least one week. The marketing audit had revealed that:

- there is an increasing demand for such apartments
- very few hotels in Mombasa offer such apartments
- the market is still small
- the market has high growth potential.

145 The revenue from these apartments would almost match the revenue from the current hotel operations; it would be more stable, with fewer seasonal fluctuations; both fixed costs and variable costs for cleaning and maintenance would be much lower. The apartments would be serviced once a week, rather than daily. According to Martin's workforce planning, this option could reduce the housekeeping staff by 70%.

150 **Option 3:** Form a strategic alliance with the famous safari tour company *KenSafar*. Together they would offer a two-week package tour. Customers would arrive in Mombasa, spend three nights at *The Imperial*, go on a seven-day safari tour, and then return to *The Imperial* for four more nights. This would allow tourists to go on a safari, first getting adjusted to the time zone and climate and later rest for four days before returning home. The owner and manager of *KenSafar* was Kamau Onyango, a spontaneous, dynamic and charismatic Kenyan who had many networks and contacts, and intuitively knew market trends, even without market research. Kamau insisted that if the strategic alliance were to go ahead *The Imperial* would have to:

- make some improvements to the appearance of the hotel
- pay *Kensafar* a 20% commission for all hotel guests staying at *The Imperial* and booking through *KenSafar*
- undertake a marketing audit.

Which option was best? Martin was unsure...

Appendix 1: Tourism and hotel accommodation in Kenya (all figures in 000s)

| Tourism | 2008 | 2009 | 2010 | 2011 |
|--|-------------|-------------|-------------|-------------|
| Foreign tourist arrivals | 1203 | 1490 | 1609 | 1823 |
| Admissions to safari parks | 1633 | 2385 | 2764 | 2644 |
| Admissions to museums and historic sites | 493 | 763 | 942 | 843 |

| Hotel accommodation | 2008 | 2009 | 2010 | 2011 |
|----------------------------|-------------|-------------|-------------|-------------|
| Rooms available | 8143 | 10335 | 10190 | 10552 |
| Rooms occupied | 2619 | 4065 | 3702 | 4788 |

[Source: adapted from Kenya Facts & Figures 2012, Kenya National Bureau of Statistics (2012)]

Appendix 2: Excerpt from The Constitution of Kenya, 2010

Equality and freedom from discrimination.

27.

- (1) Every person is equal before the law and has the right to equal protection and equal benefit of the law.
- (2) Equality includes the full and equal enjoyment of all rights and fundamental freedoms.
- (3) Women and men have the right to equal treatment, including the right to equal opportunities in political, economic, cultural and social spheres.
- (4) The State shall not discriminate directly or indirectly against any person on any ground, including race, sex, pregnancy, marital status, health status, ethnic or social origin, colour, age, disability, religion, conscience, belief, culture, dress, language or birth.
- (5) A person shall not discriminate directly or indirectly against another person on any of the grounds specified or contemplated in clause (4).

[Source: www.kenyalaw.org (2010)]

Appendix 3: Martin's notes on a Human Resources Strategic Plan for Option 1**Two possible approaches:****Approach 1: "Upskilling" the existing workforce**

- emphasis on "internal" recruitment
- strong emphasis on training and development
- no concern about staff retention rate, as most employees would be Kenyan.

Approach 2: Building a new global workforce

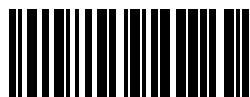
- emphasis on "external" recruitment
- little emphasis on training and development
- major concerns about staff retention rate, as most employees would be international.

Features common to both:

- recruitment
- training and development
- retention.

Companies, products, or individuals named in this case study are fictitious and any similarities with actual entities are purely coincidental.

M14/3/BUSMT/SP1/ENG/TZ0/XX



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BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 1

Wednesday 21 May 2014 (afternoon)

1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- A clean copy of the ***Business and Management*** case study is required for this examination paper.
- Read the case study carefully.
- Section A: answer two questions.
- Section B: answer the compulsory question.
- A calculator is required for this examination paper.
- A clean copy of the ***Business and Management*** formulae sheet is required for this examination paper.
- The maximum mark for this examination paper is [50 marks].

SECTION A

Answer **two** questions from this section.

1. (a) Define the following terms:
 - (i) *primary sector* (*line 2*) [2 marks]
 - (ii) *dividends* (*line 23*). [2 marks]
 - (b) Explain **one** advantage and **one** disadvantage for Martin Kimathi of receiving “a salary based on performance-related pay” (*line 45*). [4 marks]
 - (c) Analyse the advantages and disadvantages for *The Imperial* of the strategic alliance with *KenSafar* (Option 3). [7 marks]
-
2. (a) Define the following terms:
 - (i) *appraisal* (*line 102*) [2 marks]
 - (ii) *dismissal* (*line 113*). [2 marks]
 - (b) Martin Kimathi prepares two types of final accounts for *Global Properties (GP)*: profit and loss accounts and balance sheets. Explain the importance of those **two** types of final accounts for *GP* (*lines 69–70*). [4 marks]
 - (c) Analyse the impact that **one** opportunity and **one** threat may have on *The Imperial*. [7 marks]
-
3. (a) Describe how a hotel such as *The Imperial* combines human resources, physical resources and financial resources for its business activity. [4 marks]
 - (b) Explain **two** benefits for Martin Kimathi of conducting a marketing audit (*line 59*). [4 marks]
 - (c) Using examples of migrant workers (such as Jomo Kimathi, Martin Kimathi and Craig Chapman), analyse the significance of changes in domestic and international labour mobility. [7 marks]

SECTION B

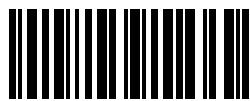
Answer **the compulsory question from this section.**

4. (a) (i) Outline **one** possible area of conflict between **two** internal stakeholders of *The Imperial*. [2 marks]
- (ii) Identify **two** fixed costs for *The Imperial* (line 146). [2 marks]
- (b) Explain the value of the Ansoff matrix as a decision-making tool for Martin Kimathi to choose between Options 1, 2 and 3. [4 marks]
- (c) Explain how being empowered by Martin Kimathi can positively affect the job satisfaction, motivation and productivity of the employees at *The Imperial* (line 90). [4 marks]
- (d) Evaluate the effectiveness of Susan Chapman's and Martin Kimathi's leadership styles, and their implications for *The Imperial*. [8 marks]

Additional information

There is no additional information in this paper for Sections A and B.

M14/3/BUSMT/SP2/ENG/TZ0/XX



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BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 2

Thursday 22 May 2014 (morning)

1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer two questions.
- A calculator is required for this examination paper.
- A clean copy of the ***Business and Management formulae sheet*** is required for this examination paper.
- The maximum mark for this examination paper is [60 marks].

SECTION A

Answer one question from this section.

1. LuxEclairage (LE)

LuxEclairage (LE) was founded by Maurice Dahman, an Electrical Engineer from Algeria. He has a degree in electrical engineering and is fluent in French. In 2007, after 12 years working for a large lighting business in Luxembourg, Maurice established *LE*. His business produces energy-efficient parts for various indoor and outdoor lighting.

LE has a unique selling point (USP): the lowest price in the market. Although most sales are in Europe, all production is in Algeria, where costs are much lower. As a result, growth in sales revenue has been rapid and significant, and *LE* has gained market share each year.

Selected financial information for *LE* (all figures in €m):

| | 2009 | 2013 |
|------------------------------------|-------------|-------------|
| Sales revenue | 28 | 93 |
| Cost of goods sold | 11.5 | X |
| Gross profit | Y | 58 |
| Net profit before interest and tax | 2.8 | 8.1 |
| | | |
| Creditors | 1.8 | 10.2 |
| Stock | 0.94 | 4.32 |
| Debtors | 0.94 | 3.56 |
| | | |
| Total current assets | 5.74 | 15.52 |
| Total current liabilities | 1.94 | 11.0 |

With the rapid growth in sales revenue since it was first established, *LE* has experienced some diseconomies of scale, especially in the administration of the business. Production occurs in 12 small factories located around the city of Algiers, rather than in one large factory. Coordination between factories and the administrative offices is, therefore, complicated, and the internet is sometimes unavailable. Whereas French is the language used by managers and customers of *LE*, the workers generally speak only basic French and prefer to speak Arabic. In addition, patterns of non-verbal communication differ widely between Europe and Algeria.

(This question continues on the following page)

(*Question 1 continued*)

- (a) Define the term *market share*. [2 marks]
- (b) Describe **one** diseconomy of scale for *LE*. [2 marks]
- (c) Calculate for *LE*:
- (i) the gross profit for 2009 (figure Y). [1 mark]
 - (ii) the gross profit margin for 2013. [1 mark]
 - (iii) the stock turnover for 2009 **and** 2013. [2 marks]
 - (iv) the current ratio for 2009 **and** 2013. [2 marks]
 - (v) the acid test (quick) ratio for 2009 **and** 2013. [2 marks]
- (d) Comment on the decline in liquidity at *LE*. [3 marks]
- (e) Analyse communication at *LE*. [5 marks]

2. Klar

Klar is a factory that bottles mineral water for use in large water dispensers. The factory is located on a hill next to a spring from where water flows naturally. *Klar* uses a flow production method with a production capacity of 35 million litres per year. *Klar* has a 60% share of the national market and also exports bottled mineral water to several countries.

A multinational company called *Kaiser* is interested in acquiring *Klar*. “If the acquisition takes place, we will expand *Klar*’s production to gain economies of scale; we will also add a new range of flavoured drinks that will be produced in batches and sold in 1.5 litre bottles. Our maximum production capacity of flavoured drinks will be 3 million bottles a year,” says Roman Hitschfeld, *Kaiser*’s Production Manager.

The forecast costs for producing *Klar*’s new flavoured drinks are as follows:

- variable cost per bottle: \$0.4
- estimated sales price per bottle: \$1.6
- fixed costs: \$240 000.

Klar is facing fierce competition from other companies that use plastic bottles and offer lower prices to consumers. Although the cost of glass bottles is higher than plastic ones, up until now *Klar* has only used re-useable glass bottles to support its ethical objectives of being environmentally-friendly. Now, *Klar* is considering switching from re-useable glass bottles to non re-useable plastic ones. The environmental pressure group *Plastic No More!* is campaigning against the use of plastic. A spokesperson from *Plastic No More!* said: “there is a growing trend among consumers to purchase products that will not damage the environment, but we are still a minority”.

- (a) (i) Define the term *pressure group*. [2 marks]
- (ii) Describe the production method known as batch production. [2 marks]
- (b) Calculate for *Klar*’s new flavoured drinks (*show all your working*):
- (i) the break-even level of output. [2 marks]
- (ii) the margin of safety if it operates at full capacity. [2 marks]
- (iii) the profit or loss if it operates at full capacity. [2 marks]
- (c) Construct a fully labelled break-even chart for *Klar*’s new flavoured drinks. [5 marks]
- (d) Analyse **one** advantage **and one** disadvantage for *Klar* of having ethical objectives. [5 marks]

SECTION B

Answer **two** questions from this section.

3. Khumalo Pottery (KP)

Lungile Khumalo owns a small company called *Khumalo Pottery (KP)* in Johannesburg, South Africa. *KP* manufactures plates and bowls that are sold to small shops. *KP* has a unique selling point (USP) based upon traditional African designs and patterns decorating the pottery. *KP* does not pay its workers high wages and has never made anyone redundant, even during difficult economic times. Lungile always repeated to his workers that beauty was more important than quantity. Workers at *KP* could take time to produce beautiful pottery. They also developed great pride in the company and in their work.

Across the Atlantic, in the United States (US), pottery with African designs was becoming increasingly popular. As a result, several large American pottery manufacturers, operating on a very large scale, began to mass produce pottery with African-looking patterns. Thanks to their economies of scale, these American manufacturers sold their products at a very low price.

In 2013, one large American company opened a highly automated factory in Johannesburg. The aim was to produce and sell African-looking pottery to large retailers across sub-Saharan Africa. If successful, the American company would employ up to 150 South Africans. These jobs would not require much creativity: the pottery would not be hand-made, but the company would offer good wages with fringe payments (benefits).

The American company used penetration pricing in South Africa, and large retailers eagerly stocked their shelves with the pottery. *KP*'s sales started to decline almost immediately, as the small shops selling *KP*'s pottery were losing customers to the large retailers with lower prices.

- (a) Identify **one** advantage **and one** disadvantage of mass production for the American company. [2 marks]
- (b) Explain **one** difficulty that the American company may face when entering the South African market. [2 marks]
- (c) Explain **two** possible purposes of penetration pricing. [4 marks]
- (d) Examine the roles of intrinsic motivation and extrinsic motivation of the workers at *KP* **and** at the factory opened by the American company. [5 marks]
- (e) Evaluate the impact on South Africa of the American company opening a factory in Johannesburg. [7 marks]

4. Magda's flower business

Magda Fiori has always loved flowers. When 18 years old, she left school and worked as an assistant florist. Then, three years later, she set up her own flower business. She is a sole trader; this type of organization is common for florists. She employs two part-time assistants: one who delivers flowers to customers in the morning, and one who helps her in the shop at busy times, in the late afternoon. Both assistants work four hours a day, six days a week.

After a difficult start, Magda's business has been very successful for the last two years. Her customers are loyal, even if they cannot always find the flowers they want. Customers like her creativity, her sense of humour and the good advice that she gives.

Magda would now like to expand her business. She could join an international franchise such as *Interflora*. She likes the idea, but she knows that her stock control methods would have to change radically. She would need to adopt a “just-in-case” method of stock control, which *Interflora* would require to ensure that customers always find the flowers they want. Magda also fears that she cannot afford the necessary investment for storage and marketing. She wonders whether a bank will loan her money. Magda's small business has only one source of revenue.

Magda has also considered three methods of external growth:

- a joint venture with a local wedding organizer
- a strategic alliance with a garden centre
- a merger with another florist.

- (a) Identify **two** variable costs for Magda's flower business. [2 marks]
- (b) Explain the meaning of the sentence: “Magda's small business has only one source of revenue”. [2 marks]
- (c) Using Magda's flower business, distinguish between “just-in-case” and “just-in-time” methods of stock control. [4 marks]
- (d) Analyse the advantages **and** disadvantages for Magda of joining an international franchise such as *Interflora*. [5 marks]
- (e) Recommend to Magda **one** of the three methods of external growth that she has considered. [7 marks]

5. Setting up new businesses in Albania

Gent Spahiu has worked as a teacher for 25 years in Kotë, a small town in Albania. His son Agon has just moved to Tirana, the Albanian capital, to set up a small business importing electrical appliances from Germany. Albania is one of Europe's poorest countries and its economic and political environment is difficult to conduct business in. Agon is aware of the economic and political challenges. Most of the population work in agriculture. Towns suffer from poor infrastructure. In the countryside, access to electricity can sometimes be unreliable. In 2009, Albania applied to become a member of the European Union (EU). Agon thinks that his business could benefit if Albania joins this regional trading bloc.

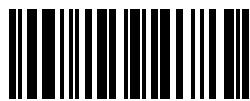
As Agon now lives away from home, Gent wants to use the free time that he now has in the evening. He wants to give local people the skills and knowledge necessary in a modern society. He imagines an evening school for adults, with classes in subjects such as English, basic computer skills and business. To pay for the overheads and teachers' wages, Gent is thinking about the following sources of finance for the evening school:

| | % of total funding required by Gent |
|--|--|
| Fees paid by students | 10% |
| Bank loan (at a very low interest rate) | 10% |
| Funding from international non-governmental organizations (NGOs) | 40% |
| Funding from local authorities | 40% |

Gent has work colleagues who have agreed to teach for very low wages; their main motivation is non-financial. Gent's evening school will follow business principles, especially for quality management, but his aim is not primarily to make a profit, it is rather to make improvements to society.

- (a) Describe **one** form of non-financial reward that Gent could use to motivate the teachers in the evening school. [2 marks]
- (b) Explain **one** benefit for Agon's business if Albania joins a regional trading bloc such as the European Union (EU). [2 marks]
- (c) With reference to Gent's evening school, contrast **two** reasons for setting up a business. [4 marks]
- (d) Analyse the main problems that a business start-up may face in a less economically developed country such as Albania. [5 marks]
- (e) Discuss Gent's proposed sources of finance for the evening school. [7 marks]

N14/3/BUSMT/SP1/ENG/TZ0/XX



88145013



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BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 1

Wednesday 19 November 2014 (afternoon)

1 hour 15 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- A clean copy of the ***Business and Management*** case study is required for this examination paper.
- Read the case study carefully.
- Section A: answer two questions.
- Section B: answer the compulsory question.
- A calculator is required for this examination paper.
- A clean copy of the ***Business and Management*** formulae sheet is required for this examination paper.
- The maximum mark for this examination paper is [50 marks].

SECTION A

Answer **two** questions from this section.

1. (a) Describe **two** methods of recruitment that *GP* may have used to recruit a new manager for *The Imperial*. [4 marks]
(b) Construct an organization chart showing the levels of hierarchy at *The Imperial*. [4 marks]
(c) Analyse the advantages **and** disadvantages for *GP* of using a SWOT analysis. [7 marks]

2. (a) Martin constructed a position map (*line 60*). With reference to *The Imperial*, describe what this position map may look like. [4 marks]
(b) Using Maslow's motivation theory, explain **two** reasons why Martin had applied for the job of manager at *The Imperial*. [4 marks]
(c) With reference to *The Imperial* and to **one other** business that you have studied, analyse the importance of leadership styles in an organization. [7 marks]

3. (a) Describe the importance of monitoring the cash flow at *The Imperial*. [4 marks]
(b) With reference to Craig Chapman's orphanage and to **one other** non-profit organization that you have studied, explain **two** objectives of non-profit organizations. [4 marks]
(c) Examine how changes in the external environment may impact upon *The Imperial's* operations. [7 marks]

SECTION B

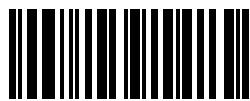
Answer **the compulsory question from this section.**

4. (a) “Once a year, the manager and a representative from GP would meet to calculate the break-even quantity...” (*lines 23–24*). Use a fully labelled diagram to describe the break-even analysis model (*no figures required*). [4 marks]
- (b) Explain the meaning of the sentence “[Martin] believed in empowerment” (*line 90*). [2 marks]
- (c) Explain the following **two** elements of the marketing mix in the case of a hotel such as *The Imperial*: place and physical evidence. [6 marks]
- (d) Discuss the usefulness of the Ansoff matrix when choosing between the three options available to Martin. [8 marks]

Additional information

There is no additional information in this paper for Sections A and B.

N14/3/BUSMT/SP2/ENG/TZ0/XX



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BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 2

Thursday 20 November 2014 (morning)

1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer two questions.
- A calculator is required for this examination paper.
- A clean copy of the ***Business and Management formulae sheet*** is required for this examination paper.
- The maximum mark for this examination paper is [60 marks].

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SECTION A

Answer one question from this section.

1. Suparman Fish (SF)

Gepa Suparman owns and operates four fishing boats in Indonesia. There is a growing demand for canned (tinned) food, including cans of fish. Gepa wants to enter the secondary sector by opening a small factory producing cans of fish.

Gepa's business will be called *Suparman Fish (SF)* and will be a private limited company. Gepa will own all of the shares. The factory will be located in a village three miles from the harbour. Because unemployment is high in the village, Gepa should easily find workers for the new factory. In addition to the manager's salary, workers' wages, and the cost of fish, supplies, and cans, *SF* will have the semi-variable cost of electricity.

Gepa has prepared a four-month cash-flow forecast based on the following information:

- opening balance month 1: \$15 000.
- month 1: sales revenue of \$1000, increasing by 20% per month.
- manager's salary: \$300 per month.
- workers' wages: \$175 per worker per month.

| Month | 1 | 2 | 3 | 4 |
|-------------------|---|---|---|---|
| Number of workers | 2 | 3 | 4 | 5 |

- variable costs (fish, supplies, and cans) are equal to 40% of sales revenue.
- semi-variable cost of electricity: fixed cost of \$100 per month, plus a variable cost of \$0.10 per kilowatt hour (kwh). Month 1 usage: 100 kwh, increasing by 10% each month.

Although *SF* would create several jobs in the village, many residents are not happy about the new factory. The new factory would use chemicals, which cause pollution. Residents are concerned about the unpleasant smells from the factory. A representative from the local employment office is concerned whether Gepa's factory will provide a safe working environment.

- (a) (i) Define the term *secondary sector*. [2 marks]
- (ii) Identify **two** advantages to *SF* of being a private limited company. [2 marks]
- (b) Explain why electricity is a semi-variable cost for *SF*. [2 marks]
- (c) Prepare a monthly cash-flow forecast for *SF* for the first four months of operation. [6 marks]
- (d) Calculate *SF*'s forecast net profit for the first four months of operation (*show all your working*). [2 marks]
- (e) Calculate *SF*'s forecast net profit margin for the first four months of operation. [1 mark]
- (f) Examine **two** potential stakeholder conflicts when Gepa opens his factory. [5 marks]

2. Raapin Guitars (RG)

Raapin Guitars (RG) manufactures guitars in Finland. Over many decades, it has built a reputation for producing high quality, handmade guitars. Apprentices* are recruited when they are 16 or 17 years old. Each apprentice completes a seven-year training program. They are then considered “professional craftsmen” and can expect permanent careers at *RG*. Each craftsman works with two apprentices to produce high-quality guitars using a batch production method.

Last year, *RG* sold 4920 guitars at an average price of €1200 each. It employed 42 professional craftsmen earning €50 000 per year and one manager earning €70 000 per year.

| Annual fixed costs | € |
|------------------------------------|---------|
| Insurance | 120 000 |
| Rent | 480 000 |
| Manager's and craftsmens' salaries | X |
| Apprentices' salaries | 700 000 |
| Lease on equipment | 600 000 |

| Variable costs per guitar | € |
|---------------------------|-----|
| Materials | 225 |
| Supplies | 35 |
| Other | 15 |

Recently, *RG* has struggled to recruit talented teenagers for the apprentice program. Most teenagers in Finland complete secondary school and go to university. Many of them graduate as engineers and design technologists. As a consequence, Anni Raapin, Chief Executive Officer (CEO) of *RG*, is considering changing the overall production process at *RG*. She wants to change from a traditional batch production process using professional craftsmen, to an automated flow production process led by two highly trained engineers. These engineers will manage the new production process operated by low-skilled workers.

Even if *RG* changes to this new production process, the professional craftsmen will not be made redundant. The oldest craftsmen will be offered early retirement. Others will become managers of the new flow production process; the youngest ones will become low-skilled workers. As the craftsmen retire, they will be replaced by workers who have not trained as apprentices and have no knowledge of the traditional batch production process. These new workers will be paid half the salary of the previous professional craftsmen.

* apprentice: typically a young person between 15 and 25 years old, who is learning a trade or occupation.

(This question continues on the following page)

(Question 2 continued)

- (a) (i) Describe how **one** demographic change in Finland affects RG. [2 marks]
- (ii) Identify **two** features of a flow production process. [2 marks]
- (b) Calculate for RG for **one** year:
- (i) manager's and craftsmen's salaries (figure X). [1 mark]
- (ii) the break-even level of output (*show all your working*). [2 marks]
- (iii) the profit or loss last year (*show all your working*). [3 marks]
- (c) Construct a fully labelled break-even chart for RG. [5 marks]
- (d) Analyse the possible impacts of Anni's proposed changes on the motivation of the workers at RG. [5 marks]

SECTION B

Answer two questions from this section.

3. SGS

SGS operates a worldwide delivery business. *SGS*'s aim is to deliver all packages on time, at low prices, anywhere in the world. Its Chief Executive Officer (CEO) Jean-Paul Lominé is known even by customers as an autocratic leader. Twice a year he sets prices and targets for costs and customer satisfaction.

SGS has three main competitors, Company A, B and C.

| | Perception of price | Perception of reliability |
|------------|---------------------|---------------------------|
| <i>SGS</i> | Low | Medium |
| Company A | Medium | High |
| Company B | Low | Low |
| Company C | High | High |

Primary market research revealed that customers value delivery on time, but many would pay higher prices for a more environmentally friendly service. It also showed that customers did not know whether *SGS* followed socially responsible “green” (environmentally friendly) practices. Customers also believed that the company's current autocratic leadership style did not fit with “green” practices.

Jean-Paul decided to change his leadership style from autocratic to situational*. He wrote a new aim for *SGS*: to make it the world's greenest delivery company. He ordered the Operations Department to recommend possible strategies. The Operations Department suggested two:

- purchase new, energy-efficient airplanes
- adopt new software to set fuel-saving air routes.

The Finance Department calculated that purchasing new airplanes would be a significant cost resulting in higher prices to customers. Tactically *SGS* would purchase a new airplane each time an existing airplane required significant expenditure to keep it flying. Adopting new software would require major computer upgrades, but the cost of the investment would be quickly recovered from fuel savings. The Marketing Director reported to Jean-Paul that if customers did not realize that *SGS* was now more environmentally friendly, they might think that it had only increased prices. Jean-Paul, however, refused to listen to the Marketing Director.

* situational: style of leadership that is also called situation leadership

(This question continues on the following page)

(Question 3 continued)

- (a) Identify **two** methods of primary market research that *SGS* may have used. [2 marks]
- (b) Using information from the table, construct a fully labelled position/perception map of *SGS* and its three main competitors. [4 marks]
- (c) Explain **one** disadvantage of Jean-Paul changing to a situational leadership style. [2 marks]
- (d) Examine the relationship between investment, profit and cash flow for *SGS*. [5 marks]
- (e) Discuss the interrelationships between *SGS*'s aims, strategies and tactics. [7 marks]

4. Hair & Beauty (*H&B*)

Bettina runs a successful hairdressing salon called *Hair & Beauty (H&B)*. She offers a range of services such as haircutting, colouring, and beauty treatments such as body massages. *H&B's* popularity is mainly based on Bettina's expertise, networks and personality. Many local celebrities rely on her sense of style; as a consequence, *H&B's* customer base is growing rapidly.

Bettina currently has 12 employees. They are paid good salaries plus commission, but Bettina is very controlling and demanding. Morale and job satisfaction are falling; absenteeism and staff turnover are high. Some workers have expressed concerns about not spending enough time with their families. As a result, Bettina is reluctantly planning to introduce a flexitime workscheme.

Her younger brother Gavin wants to open a *H&B* franchise in a small city nearby where several hairdressing salons already operate. None, however, is perceived as stylish and high quality. Bettina will be responsible for training the new employees. She will also pay for the advertising costs. In return, Gavin will pay Bettina an annual fee of 10% of his sales revenue and maintain *H&B's* high standards and quality.

Gavin's personal savings are insufficient to meet the start-up costs of the new salon. He will ask for a bank loan. He has already prepared a business plan for his bank manager.

- (a) Describe **one** source of finance, **other than** a bank loan, that Gavin could use to fund the start-up of the new salon. [2 marks]
- (b) (i) Explain **one** disadvantage to *H&B* of introducing a flexitime workscheme. [2 marks]
(ii) Explain **one** advantage **and** **one** disadvantage to *H&B* of using a commission-based financial reward package. [4 marks]
- (c) Analyse the importance of Gavin's business plan when seeking finance from his bank manager. [5 marks]
- (d) Evaluate the use of franchising as a growth strategy for Bettina and her salon, *H&B*. [7 marks]

5. Reading enables all People (*RP*)

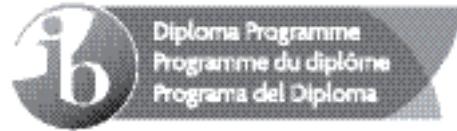
RP is a non-profit and non-governmental organization (NGO) that teaches reading to financially disadvantaged children and teenagers. *RP*'s mission statement is: "To educate those in need in order to foster social inclusion and change".

RP has 64 paid full-time staff and 350 part-time volunteers, mostly college students, who work in all areas of the city where *RP* is located. Volunteers do not work under a contract. *RP* is experiencing communication problems. One young volunteer complained, "I often receive contradictory information. One person says one thing and another says something else". *RP*'s organizational structure is tall. There are several formal methods of communication present at *RP*, but most of the information passes through informal communication channels.

RP is planning to extend its literacy program to rural areas. The program will last five years. *RP*'s current sources of finance are insufficient to fund the new program. At present, *RP* is only financed by national businesses. Alice Lire, *RP*'s Chief Executive Officer (CEO), has contacted the government for financial support. However, the state budget is limited and chances of government cooperation are low.

As part of its corporate social responsibility policy, *McMikey*, a multinational company that markets products to children, is willing to pay for the books for the program for two years. Alice is ready to accept the offer, but she would prefer *McMikey* to guarantee its support for five years. However, there is internal disagreement at *McMikey*. The Finance Manager believes that it would be too costly. However, the Marketing Manager argues that *McMikey*'s brand image would be improved by a longterm association with *RP*'s literacy program.

- (a) Define the term *mission statement*. [2 marks]
- (b) Explain **one** formal method of communication that might be used at *RP*. [2 marks]
- (c) Explain **one** advantage **and one** disadvantage for *McMikey* of having a corporate social responsibility policy. [4 marks]
- (d) Analyse the impact on *RP* of *McMikey*'s offer to pay for the books. [5 marks]
- (e) Evaluate *RP*'s use of a very large number of part-time volunteers. [7 marks]



Business and management

Case study: LadyA

For use in May and November 2015

Instructions to candidates

- Case study booklet required for higher level paper 1 and standard level paper 1 business and management examinations.

5 pages

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LadyA

Her real name is María Immaculada Alejandra González Carroccio, but everyone knows her as *LadyA*.

In 1973 her parents fled Cuba and moved to Florida, United States (US), where they were granted political asylum. The Carroccios had limited savings but were determined to succeed.

- 5 Mr Carroccio thought that working independently and operating as a sole trader would be the best way to achieve financial security. He wanted to set up his own business, a small shoe repair shop in their Spanish-speaking neighbourhood in Miami. As his cash-flow forecasts were weak, he got turned down several times for bank loans; however, he managed to obtain a small grant from a government agency that helped entrepreneurs. Mrs Carroccio also had
10 difficulties at first, because she did not speak much English. She attended classes organized by a local charity, a non-profit organization whose mission statement was “to help all adult immigrants learn English”. She eventually found a job in the cafeteria of a local school. Although the wage was low, she received training and some fringe payments such as health insurance. With the profits from Mr Carroccio’s shoe repair shop and Mrs Carroccio’s wage, the
15 family eventually maintained an economically stable household.

In 1978 Alejandra, their first child, was born. Mr and Mrs Carroccio wanted her to have a normal American life. Although at home they mainly spoke Spanish with each other, they wanted Alejandra to speak English with them. They encouraged her to sing in choral groups, at school and at church, and they paid for her after-school dance lessons. Alejandra was a beautiful girl.

- 20 At the age of 12, she started getting occasional jobs as a model for local fashion catalogues and magazines. Her parents put her earnings into a college fund, a special savings account that would pay for her to attend university later. The modelling eventually led to small acting roles in films when production companies recruited in Miami. Then, in 1994, a casting director needed a young Hispanic American woman who could sing and dance in one scene in the film *La Bella Rosa*. The film proved very successful. Although her part in the film was small, it led to many
25 new opportunities for Alejandra.

Soon afterwards, a music label offered Alejandra a contract to produce a CD album. Unfamiliar with negotiation, Alejandra needed an agent. She found Gloria Woolrich, a local Hispanic woman who worked with Spanish-speaking performers. Because Alejandra was not 18 years

- 30 old yet, her parents had to sign the contract on her behalf. Gloria thought that Alejandra should target the Spanish-speaking market in the US; she promoted her as “Lady Alejandra”, a name that emphasized her Hispanic origins with a touch of elegance. Her first CD album, *Presentación Lady Alejandra*, included one song that reached number one in the music charts in Florida. Even with only one top hit, she earned much income from the copyrights and
35 royalties* from the CD album. For the first time, Alejandra needed an accountant to help her prepare her final accounts, manage the money, and pay the appropriate taxes.

Like most immigrant parents, Mr and Mrs Carroccio strongly emphasized education. When they first arrived in the US, they struggled to satisfy even basic needs such as food and shelter; only by working long hours did they achieve economic security. They believed that if Alejandra went

- 40 to university, she would have a better life. Although they celebrated her success with the CD album, they did not want music to distract her from her studies. Only with reluctance did her parents agree to a second CD album, *Viva Lady Alejandra*, which proved even more successful than the first one.

* royalties: payments made to the performer of the music and the songwriter by a third party, such as a radio or television station, each time the performer’s music is played in the public domain

45 In April of her final year at high school, Alejandra told her parents that she did not want to go to university: she wanted instead to move to Los Angeles in order to build a career as a musician. She wanted to be a star. Her parents were very disappointed. However, because she was now 18 they could not stop her. Alejandra left her previous agent, Gloria Woolrich, for a new one in Los Angeles: Ruth Liebermann. Ruth had successfully turned young stars into media sensations. She would help Alejandra with everything: buying an apartment in the most
50 fashionable neighbourhood, recruiting household employees, getting agencies to establish concert tours, producing more CD albums, and, more importantly, promoting her.

Ruth explained to Alejandra that unless the product life cycle of music stars is carefully managed, it is often short. Alejandra needed a brand identity. Her revenue streams would be based on that brand. She would also develop strategies to extend the life of the product, which
55 was Alejandra herself. Alejandra had an identity partly based upon her youthful and innocent look, her powerful voice and her Hispanic heritage. Ruth said that now that Alejandra was an adult, she needed to dress more like a young woman and less like a child. Nervous about this transition, Alejandra agreed to a more glamorous image. She began going to a famous hairdresser and style expert, Gavin Pratt. Soon, she had another revenue stream: appearing on
60 the cover of high-profile fashion magazines.

Ruth also argued that Alejandra needed to be “less ethnic”. The US was rapidly changing demographically. The percentage of the American population that was Hispanic was small, but it was rapidly growing, thus expanding the Spanish-speaking American market. However, this demographic shift was creating a negative political reaction in the US. Focus groups showed
65 that some English-speakers did not like the name “Lady Alejandra”. Ruth recommended a new name: just “LadyA” as one word, pronounced “lay-dee-ay”, with equally strong emphasis on the first and last syllables. It worked. By the year 2000, *LadyA* was one of the most successful musicians in the US. Popular with English-speakers, especially teenage girls and young women, she also appealed to many Hispanics. Even though all her songs were now in English
70 and were popular in the mainstream music charts, Spanish-speaking Americans were still fans. They saw *LadyA* as a shining success story of a Hispanic American.

As *LadyA* grew more popular, both her revenue and expenses increased. By 2001, she was earning millions of dollars a year from CD album sales, concerts, magazine covers, and music videos. She employed a full-time accountant to help manage her revenue and all the
75 many expenses of her new life. For her work, she employed a band, a group of dancers, and a variety of musical and video technicians. She asked Gavin to join her full time in order to plan all aspects of her clothing, make-up, and hairstyle. For her concerts she also had an events manager who arranged bookings of venues and hotels, and who hired a company specializing in logistics, who transported equipment and set up the stage at each concert
80 location. These were her core employees. Temporary employees were needed at each venue to help set up the venue and stage. She had many peripheral employees for her increasingly extravagant personal life: two personal assistants, two housekeepers, one chef, one personal trainer, one driver, and one chief bodyguard, who supervised six bodyguards. She was very inconsistent in her style of leadership with her employees. Sometimes she was very direct,
85 giving detailed instructions and getting angry if they were not followed exactly. At other times, she adopted a more laissez-faire leadership style. The employees never knew what to expect. Communication was poor. Although working for a superstar had exciting moments, the employees frequently complained behind her back, mockingly calling her “*la princesa*”.

Turn over

90 Alejandra originally operated as a sole trader. However, as the business grew it became clear that she needed the protection of limited liability and so she changed the business to a private limited company, *LadyA Management Limited (LAM)*. Alejandra herself owned 98% of the shares in *LAM*. Her parents and Ruth Liebermann owned the remaining 2%.

95 Technology was changing the music industry. In 2000, online file sharing software became widely available. Though the file sharing of copyrighted material was usually illegal, many people did it anyway, especially young people. The sales of CD albums began to fall. This trend continued with the emergence of other new technologies such as MP3 players and smartphones. Another important technological change was video hosting websites, which effectively ended the direct profitability of music videos. Before video hosting websites, musicians received royalties for videos that appeared on television. Now, artists such as *LadyA* 100 had to produce their own videos and upload them to video hosting websites. These productions were expensive, but did not generate any direct revenue.

105 The definition of a successful musician was also changing. With falling sales revenue from music (a problem made worse by the economic downturn that began in 2008), artists had to transform themselves into “media personalities” and find ways to generate revenue from these branded identities, just as Ruth had predicted. In 2009, *LadyA* started appearing in many above the line and below the line promotions of various types of products. *LadyA* was always very careful about which products she endorsed. Each one had to strengthen her brand identity as a beautiful, mainstream American, yet one with Hispanic passion and intensity. She also began communicating with her fans through various social networking websites.

110 In 2010, *LadyA* started offering her own product line of perfume and cosmetics, promoted under the name *LadyA*. Primary and secondary market research had showed that perfume and cosmetics would best connect with *LadyA*'s established brand and help her reach her main target market: teenage girls and young women. The production of *LadyA* perfume and cosmetics was outsourced, to an established manufacturer in Malaysia, where costs were 115 much lower. Quality control could, however, be a problem. The Malaysian manufacturer would produce *LadyA* perfume and cosmetics using batch production which would enable a variety of products to be made; *LadyA* would have to pay 60% of the costs in advance. The wholesaling and distribution was also outsourced, to a company in Minnesota. By 2011, *LadyA* perfume and cosmetics were sold in a nation-wide chain of department stores in the US.

120 At the same time, Alejandra decided to reorganize the business. She continued to manage all of her household employees personally. She appointed a Managing Director, and a Human Resources Manager to assist in workforce planning and manage the rest of the business. She delegated some business functions, but kept a very close interest in all decisions through her meetings with the Managing Director. One benefit of this reorganization was that, with clear 125 roles, systems and procedures in place, Alejandra's employees complained less.

130 On a personal level, 2012 was a big year for Alejandra. She married Rafaële Eco, an Italian investment banker, and they purchased a large mansion in Hollywood, requiring an even greater number of peripheral employees. Over the next few years, *LadyA* was at the peak of her media power, wealth, and fame. She was more mature and business-oriented than when she was in her twenties. Her leadership style had matured as well. She became more consistent and paternalistic.

Now she began to think about the next phase of her career and her life. She was approaching her late thirties. In the US, many female musicians and film stars struggle to remain popular in their forties: modelling jobs are harder to get; girls and younger women typically prefer younger musicians and stars; and the idea of selling youthfulness becomes more difficult as women grow older. *LadyA* hired business consultants, *Kersey & Joyce (K&J)*, who specialized in the strategic direction of brands, to help her consider her options. *K&J* identified three strategic options in their report to *LadyA*.

135 **Option 1:** Move into South American markets, which generally accept older female musicians and film stars. Ever since Lady Alejandra became *LadyA*, she had focused on the English-speaking market in the US. Though she had some fans in Spanish-speaking markets, she had never made them a priority. For those markets, *LadyA* would start using the name Lady Alejandra again, conduct a major concert tour in South America, and try to repeat her North American career, building an increasingly powerful name through music downloads (such as MP3s), concerts, films, product endorsements, magazine covers, and also perfume and cosmetics.

140 **Option 2:** Develop more products under the *LadyA* brand and develop a global market. A possibility is a clothing range. Other possible products include accessories such as *LadyA* shoes, *LadyA* handbags, and *LadyA* lingerie. These products could be distributed in the US through the same department stores selling her perfume and cosmetics. Other distribution channels would be required for the international market, with e-commerce offering many opportunities. Family branding would be maintained.

145 **Option 3:** Re-brand herself. With this strategy, *LadyA* would actually lower her media profile for three years. During that time, she would associate herself with a charitable cause, to tackle issues such as malnutrition in developing countries, homelessness in big cities, or international trafficking of children. She would use her wealth to set up various non-profit organizations to support the charitable cause, and utilize various techniques for marketing non-profit organizations. She would then appear on American television talk shows and do magazine interviews, building a new brand identity based on the image of a strong, mature, determined and compassionate woman. This would allow for new revenue streams to be sought based on this new brand.

Additional terms not in the guide

Brand identity
Core employees
Limited liability
Paternalistic
Peripheral employees
Revenue streams

Companies, products, or individuals named in this case study are fictitious and any similarities with actual entities are purely coincidental.

M15/3/BUSMT/SP1/ENG/TZ0/XX



Business and management
Standard level
Paper 1

Wednesday 20 May 2015 (afternoon)

1 hour 15 minutes

Instructions to candidates

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

3 pages

2215–5013
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Section A

Answer **two** questions from this section.

1. (a) (i) Define the term *mission statement* (line 11). [2]
(ii) Identify **two** fringe payments, **other than** health insurance, which Mrs Carroccio may have received from the school. [2]
 - (b) **Other than** financial security, explain **one** advantage and **one** disadvantage of Mr Carroccio operating as a sole trader (line 5). [4]
 - (c) Analyse the relevance of Maslow's motivation theory to Alejandra. [7]
-
2. (a) Define the following terms:
 - (i) *quality control* (line 115); [2]
 - (ii) *workforce planning* (line 122). [2]
 - (b) Using information from lines 120–124, explain **two** possible relevant effects, **other than** "employees complained less", of changing the organizational structure. [4]
 - (c) Analyse **two** methods of market research that Alejandra could have used to help her establish her brand (lines 111–112). [7]
-
3. (a) Describe the relationship between "opening balance" and "closing balance" in a cash-flow forecast (line 7). [4]
 - (b) "Alejandra needed an accountant to help her prepare her final accounts" (lines 35–36). Explain the importance of final accounts to **two** different *LadyA* stakeholders. [4]
 - (c) Analyse the usefulness to *LadyA* of the product life cycle model since 1994. [7]

Section B

Answer the **compulsory** question from this section.

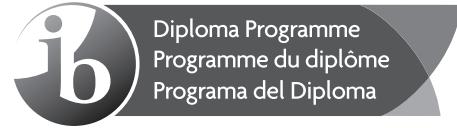
4. (a) Describe **one** strength and **one** weakness of *K&J's Option 3* (lines 153–161). [4]
- (b) Using **the additional information below**, for a *LadyA* concert:
- (i) calculate the break-even quantity in units (*show all your working*); [2]
 - (ii) calculate the profit if 15 000 tickets are sold; [1]
 - (iii) construct to scale a fully labelled break-even chart. [5]
- (c) *LadyA* has rejected **Option 3** (lines 153–161). Recommend whether *LadyA* should choose **Option 1** (lines 139–146) or **Option 2** (lines 147–152). [8]

Additional information

Average price per ticket: \$300

Variable cost per ticket: \$50

Fixed costs: \$2 750 000



Business and management
Standard level
Paper 2

Thursday 21 May 2015 (morning)

1 hour 45 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer two questions.
- A calculator is required for this examination paper.
- A clean copy of the **business and management formulae sheet** is required for this examination paper.
- The maximum mark for this examination paper is **[60 marks]**.

8 pages

2215–5014
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Section A

Answer **one** question from this section.

1. Nzuri Kio (NK)

Nzuri Kio (NK) is a company that manufactures products made of glass, such as windows and table tops. *NK* sells its products in its own regional trading bloc, a group of eight countries that all have developing economies. *NK* is located in a poor country where the national government is not very efficient and public sector services are limited. The country's infrastructure needs investment, and quality of life is low. At school, students are in very big classes, with over sixty students in each; few students complete middle school.

The manager of *NK* is considering purchasing new, high-quality equipment for its factory: glass-making machines from *Carrucci SpA*. *Carrucci SpA* is an Italian company that makes the best glass manufacturing equipment in the world. Its computerized equipment is innovative and very efficient. Glass can be cut perfectly, with almost no waste. However, the equipment is expensive and requires highly skilled workers. The new equipment would lead to a better product, which should result in higher sales and a higher gross profit margin.

The total cost of the equipment is \$800 000. *NK* is considering two different sources of finance:

- (Option A) a seven-year \$720 000 bank loan.
- (Option B) selling \$800 000 in shares.

Financial information for *NK*, for the year ending 31 May 2014:

| | |
|----------------------|-------------|
| Cash | \$176 000 |
| Cost of goods sold | \$3 900 000 |
| Creditors | \$230 000 |
| Debtors | \$674 000 |
| Expenses | \$3 800 000 |
| Interest | \$120 000 |
| Loan capital | X |
| Net fixed assets | \$2 600 000 |
| Retained profit | \$970 000 |
| Share capital | \$300 000 |
| Sales revenue | \$8 200 000 |
| Short-term borrowing | \$270 000 |
| Stock | \$320 000 |
| Tax | \$70 000 |

(This question continues on the following page)

(Question 1 continued)

- (a) Using a PEST framework, describe **two** external factors that may affect *NK*. [4]
- (b) Using data from the table:
- (i) calculate loan capital X (*show all your working*); [2]
 - (ii) construct a fully labelled balance sheet for *NK*; [4]
 - (iii) calculate *NK*'s gross profit margin (*no working required*); [1]
 - (iv) calculate *NK*'s forecasted gearing ratio for **Option A and for Option B** (*show all your working*). [4]
- (c) Examine the **disadvantages** of **Option A and of Option B** as sources of finance for the purchase of the new equipment. [5]

Turn over

2. Exploration Toys (ET)

Exploration Toys (ET) manufactures educational toys. Dr Berac Loïc set up the business in 2006. *ET*'s unique selling point (USP) is that its toys are not only safe and fun, but also teach children to explore and solve problems. *ET* sells directly to consumers online, business-to-customers (B2C), and relies only on word-of-mouth promotion*. *ET* set its toy prices higher than those of its competitors.

Table 1: selected data for *ET*, for 2014.

| | |
|-----------------------|----------|
| Sales revenue | €300 000 |
| Number of toys sold | 12 500 |
| Fixed costs | €121 800 |
| Variable cost per toy | €10 |

By 2014, sales had stopped growing. A marketing consultant told Berac that with only word-of-mouth and B2C e-commerce sales, the situation would not improve. She recommended that *ET* restructure its marketing mix to include more promotion, lower prices, and an additional sales method called “toy parties”. *ET* would need to recruit part-time sales associates (representatives) to host the toy parties. At the parties parents could see the toys and children could play with them. The sales associates would sell *ET*'s toys on a commission-only basis.

However, if sales grew significantly *ET* would need to lease a larger factory, which would increase fixed costs. Berac forecasted financial data based on the marketing consultant's recommendations.

Table 2: forecasted financial data for *ET*, for 2015.

| | |
|---------------------------------------|----------|
| Cash sales revenue | €352 000 |
| Closing cash balance at year-end 2014 | €37 000 |
| Fixed assets | €40 000 |
| Fixed costs | €180 000 |
| Raw materials | €128 000 |
| Sales commissions | €32 000 |
| Other variable costs | €32 000 |

* word-of-mouth promotion: information passing from one person to another or others through oral communication

(This question continues on the following page)

(Question 2 continued)

- (a) Describe *ET*'s current distribution channel and the channel recommended by the marketing consultant. [4]
- (b) (i) Using **Table 1**, calculate *ET*'s net profit margin for 2014 (*show all your working*). [2]
- (ii) Using **Table 2**, calculate *ET*'s forecasted net profit margin for 2015 (*show all your working*). [2]
- (iii) Comment on the change in net profit margin from 2014 (actual) and 2015 (forecasted). [3]
- (c) Using relevant data from **Table 2**, prepare an **annual** cash-flow forecast for *ET*, for 2015. [4]
- (d) Examine **two** reasons why *ET* originally charged higher prices for its toys than those charged by its competitors. [5]

Turn over

Section B

Answer **two** questions from this section.

3. Starvation Peak Running Shoes (SP)

Starvation Peak Running Shoes (SP) is a shop that sells running shoes in Santa Fe, New Mexico, United States (US). Its name comes from the local mountain called "Starvation Peak".

SP customers can buy running shoes at a lower price online, but *SP* has a unique selling point (USP) concerning its vision and its local reputation. *SP*'s vision statement is: "Running sustains life, locally and globally".



Starvation Peak, New Mexico

SP is very well known locally, as they support the local running community in the Santa Fe area. They do so in several ways by:

- sponsoring "running days" at schools
- giving discounts to children and students
- offering "running clinics", where *SP* employees help people improve their running techniques
- organizing races and other local events.

The biggest event organized by *SP* is its annual "Race to the Top" on Starvation Peak. According to a local legend, a tribe of Native Americans forced enemies up to the peak, where they died of hunger (starvation). *SP* promotes the event with the slogan: "Running sustains life, even on Starvation Peak". "Race to the Top" has been popular for ten years. However, there are now conflicts between stakeholders. Local businesses like the event, as it attracts tourists to the area. One pressure group, however, argues that it portrays Native Americans in a negative way. Another pressure group argues that the event damages the natural environment of the mountain. The local authorities managing Starvation Peak have been asked to refuse permission for *SP*'s "Race to the Top".

[Source: © International Baccalaureate Organization 2015]

- (a) Describe **one** type of below the line promotion that *SP* may use to promote its "running clinics". [2]
- (b) Explain **two** reasons why *SP* supports the local running community. [6]
- (c) Analyse the role of *SP*'s vision statement. [5]
- (d) Advise the local authorities as to whether permission for *SP*'s "Race to the Top" should be refused. [7]

4. The significance of changes in international labour mobility

Though the global population may grow from 7 billion in 2011 to 7.6 billion by 2020, many countries will experience a decline in the number of working-age people. Already in Japan and Europe, each year more people retire from the workforce than young people enter it. By 2020, this problem will also affect Russia, Canada and China. Other countries such as India, Brazil and Indonesia have young populations and young workforces.

Unfortunately, many people lack the skills that employers need. A recent study found that 31% of employers worldwide struggle to fill jobs requiring basic skills. 65% of multinational companies have difficulty recruiting new employees with advanced skills. In emerging economies the problem is worse. Difficulties in meeting operational objectives of recruitment prevent many companies from meeting their strategic objectives.

Companies are responding by recruiting new employees from other countries. This practice is called “expanded recruitment”. It has led to more international labour mobility, diverse workforces within companies, and diversity in global cities.

Supporters of expanded recruitment argue that the labour problem is demographic: the best solution is to make labour mobility easier. Furthermore, diversity both within companies and in society should improve international understanding and will increase creativity. Critics of expanded recruitment argue that it does not solve the real problem: many jobs require advanced skills, and most educational systems have not responded to those needs. Expanded recruitment has also created other issues for companies, such as problems in communication.

Expanded recruitment has also led to some anger in countries and local communities not accustomed to large immigrant populations.

[Source: adapted from <http://www.ey.com>
Used with permission.]

- (a) Identify **one** opportunity and **one** constraint for companies caused by demographic change. [2]
- (b) Comment on **one** potential communication problem for a company with a diverse international workforce. [2]
- (c) Explain the statement “difficulties in meeting operational objectives of recruitment prevent many companies from meeting their strategic objectives”. [4]
- (d) Analyse **one** strategy that a global company could adopt for developing future human resources (you may refer to a global company that you have studied). [5]
- (e) Discuss the significance of changes in international labour mobility. [7]

Turn over

5. Coca-Cola India

The American company *Coca-Cola* is investing financially and strategically in India. Thirteen Indian businesses have received contracts to prepare and package *Coca-Cola* drinks across India. Over 7000 distributors and 2.2 million retailers, supermarkets and restaurants are selling *Coca-Cola* drinks. For *Coca-Cola*, success in India is an important part of the business's strategy, as India has a population of over 1 billion people. A question faced by *Coca-Cola* is whether it should use market development or market penetration strategies.

Coca-Cola India has a wide product portfolio including *Coca-Cola* and other brands such as *Limca* and *Sprite*. *Coca-Cola India* directly employs over 25 000 people and has created indirect employment for more than 150 000 people through its vast logistics, supply and distribution.

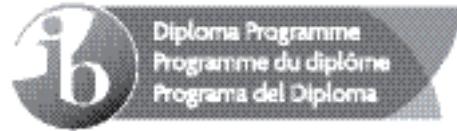
Coca-Cola India has recently piloted an online store for the growing e-commerce market through the website Coke2Home.com. The online store will provide consumers with an alternative channel to buy *Coca-Cola* drinks. Consumers can also learn about the full range of *Coca-Cola*'s drinks on the website and sign up to receive special promotions via email or mobile phone message.

Although the online store is working very well in some cities, there are still some difficulties:

- Because delivery costs are high, Coke2Home.com accepts only large orders such as for parties and celebrations.
- Many *Coca-Cola* retailers and supermarkets fear that Coke2Home.com will create a new form of competition.

[Source: adapted from <http://www.coca-colaindia.com/>
and S Sharma, (31 May 2013), *Mumbai Times Business, Times of India*]

-
- (a) Define the term *product portfolio*. [2]
- (b) (i) Draw and label all elements of the Ansoff matrix. [2]
- (ii) Explain **one** advantage and **one** disadvantage for *Coca-Cola* in India of using the Ansoff matrix as a decision-making tool. [4]
- (c) With reference to *Coca-Cola*, analyse the role played by multinational companies in the global business environment. [5]
- (d) Discuss the costs **and** benefits to *Coca-Cola India* of e-commerce. [7]



Business and management

Case study: LadyA

For use in May and November 2015

Instructions to candidates

- Case study booklet required for higher level paper 1 and standard level paper 1 business and management examinations.

5 pages

2215–5001 ; 8815–5001
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LadyA

Her real name is María Immaculada Alejandra González Carroccio, but everyone knows her as *LadyA*.

In 1973 her parents fled Cuba and moved to Florida, United States (US), where they were granted political asylum. The Carroccios had limited savings but were determined to succeed.

- 5 Mr Carroccio thought that working independently and operating as a sole trader would be the best way to achieve financial security. He wanted to set up his own business, a small shoe repair shop in their Spanish-speaking neighbourhood in Miami. As his cash-flow forecasts were weak, he got turned down several times for bank loans; however, he managed to obtain a small grant from a government agency that helped entrepreneurs. Mrs Carroccio also had
10 difficulties at first, because she did not speak much English. She attended classes organized by a local charity, a non-profit organization whose mission statement was “to help all adult immigrants learn English”. She eventually found a job in the cafeteria of a local school. Although the wage was low, she received training and some fringe payments such as health insurance. With the profits from Mr Carroccio’s shoe repair shop and Mrs Carroccio’s wage, the
15 family eventually maintained an economically stable household.

In 1978 Alejandra, their first child, was born. Mr and Mrs Carroccio wanted her to have a normal American life. Although at home they mainly spoke Spanish with each other, they wanted Alejandra to speak English with them. They encouraged her to sing in choral groups, at school and at church, and they paid for her after-school dance lessons. Alejandra was a beautiful girl.

- 20 At the age of 12, she started getting occasional jobs as a model for local fashion catalogues and magazines. Her parents put her earnings into a college fund, a special savings account that would pay for her to attend university later. The modelling eventually led to small acting roles in films when production companies recruited in Miami. Then, in 1994, a casting director needed a young Hispanic American woman who could sing and dance in one scene in the film *La Bella Rosa*. The film proved very successful. Although her part in the film was small, it led to many
25 new opportunities for Alejandra.

Soon afterwards, a music label offered Alejandra a contract to produce a CD album. Unfamiliar with negotiation, Alejandra needed an agent. She found Gloria Woolrich, a local Hispanic woman who worked with Spanish-speaking performers. Because Alejandra was not 18 years

- 30 old yet, her parents had to sign the contract on her behalf. Gloria thought that Alejandra should target the Spanish-speaking market in the US; she promoted her as “Lady Alejandra”, a name that emphasized her Hispanic origins with a touch of elegance. Her first CD album, *Presentación Lady Alejandra*, included one song that reached number one in the music charts in Florida. Even with only one top hit, she earned much income from the copyrights and
35 royalties* from the CD album. For the first time, Alejandra needed an accountant to help her prepare her final accounts, manage the money, and pay the appropriate taxes.

Like most immigrant parents, Mr and Mrs Carroccio strongly emphasized education. When they first arrived in the US, they struggled to satisfy even basic needs such as food and shelter; only by working long hours did they achieve economic security. They believed that if Alejandra went

- 40 to university, she would have a better life. Although they celebrated her success with the CD album, they did not want music to distract her from her studies. Only with reluctance did her parents agree to a second CD album, *Viva Lady Alejandra*, which proved even more successful than the first one.

* royalties: payments made to the performer of the music and the songwriter by a third party, such as a radio or television station, each time the performer’s music is played in the public domain

45 In April of her final year at high school, Alejandra told her parents that she did not want to go to university: she wanted instead to move to Los Angeles in order to build a career as a musician. She wanted to be a star. Her parents were very disappointed. However, because she was now 18 they could not stop her. Alejandra left her previous agent, Gloria Woolrich, for a new one in Los Angeles: Ruth Liebermann. Ruth had successfully turned young stars into media sensations. She would help Alejandra with everything: buying an apartment in the most
50 fashionable neighbourhood, recruiting household employees, getting agencies to establish concert tours, producing more CD albums, and, more importantly, promoting her.

Ruth explained to Alejandra that unless the product life cycle of music stars is carefully managed, it is often short. Alejandra needed a brand identity. Her revenue streams would be based on that brand. She would also develop strategies to extend the life of the product, which
55 was Alejandra herself. Alejandra had an identity partly based upon her youthful and innocent look, her powerful voice and her Hispanic heritage. Ruth said that now that Alejandra was an adult, she needed to dress more like a young woman and less like a child. Nervous about this transition, Alejandra agreed to a more glamorous image. She began going to a famous hairdresser and style expert, Gavin Pratt. Soon, she had another revenue stream: appearing on
60 the cover of high-profile fashion magazines.

Ruth also argued that Alejandra needed to be “less ethnic”. The US was rapidly changing demographically. The percentage of the American population that was Hispanic was small, but it was rapidly growing, thus expanding the Spanish-speaking American market. However, this demographic shift was creating a negative political reaction in the US. Focus groups showed
65 that some English-speakers did not like the name “Lady Alejandra”. Ruth recommended a new name: just “LadyA” as one word, pronounced “lay-dee-ay”, with equally strong emphasis on the first and last syllables. It worked. By the year 2000, *LadyA* was one of the most successful musicians in the US. Popular with English-speakers, especially teenage girls and young women, she also appealed to many Hispanics. Even though all her songs were now in English
70 and were popular in the mainstream music charts, Spanish-speaking Americans were still fans. They saw *LadyA* as a shining success story of a Hispanic American.

As *LadyA* grew more popular, both her revenue and expenses increased. By 2001, she was earning millions of dollars a year from CD album sales, concerts, magazine covers, and music videos. She employed a full-time accountant to help manage her revenue and all the
75 many expenses of her new life. For her work, she employed a band, a group of dancers, and a variety of musical and video technicians. She asked Gavin to join her full time in order to plan all aspects of her clothing, make-up, and hairstyle. For her concerts she also had an events manager who arranged bookings of venues and hotels, and who hired a company specializing in logistics, who transported equipment and set up the stage at each concert
80 location. These were her core employees. Temporary employees were needed at each venue to help set up the venue and stage. She had many peripheral employees for her increasingly extravagant personal life: two personal assistants, two housekeepers, one chef, one personal trainer, one driver, and one chief bodyguard, who supervised six bodyguards. She was very inconsistent in her style of leadership with her employees. Sometimes she was very direct,
85 giving detailed instructions and getting angry if they were not followed exactly. At other times, she adopted a more laissez-faire leadership style. The employees never knew what to expect. Communication was poor. Although working for a superstar had exciting moments, the employees frequently complained behind her back, mockingly calling her “*la princesa*”.

Turn over

90 Alejandra originally operated as a sole trader. However, as the business grew it became clear that she needed the protection of limited liability and so she changed the business to a private limited company, *LadyA Management Limited (LAM)*. Alejandra herself owned 98% of the shares in *LAM*. Her parents and Ruth Liebermann owned the remaining 2%.

95 Technology was changing the music industry. In 2000, online file sharing software became widely available. Though the file sharing of copyrighted material was usually illegal, many people did it anyway, especially young people. The sales of CD albums began to fall. This trend continued with the emergence of other new technologies such as MP3 players and smartphones. Another important technological change was video hosting websites, which effectively ended the direct profitability of music videos. Before video hosting websites, musicians received royalties for videos that appeared on television. Now, artists such as *LadyA* 100 had to produce their own videos and upload them to video hosting websites. These productions were expensive, but did not generate any direct revenue.

105 The definition of a successful musician was also changing. With falling sales revenue from music (a problem made worse by the economic downturn that began in 2008), artists had to transform themselves into “media personalities” and find ways to generate revenue from these branded identities, just as Ruth had predicted. In 2009, *LadyA* started appearing in many above the line and below the line promotions of various types of products. *LadyA* was always very careful about which products she endorsed. Each one had to strengthen her brand identity as a beautiful, mainstream American, yet one with Hispanic passion and intensity. She also began communicating with her fans through various social networking websites.

110 In 2010, *LadyA* started offering her own product line of perfume and cosmetics, promoted under the name *LadyA*. Primary and secondary market research had showed that perfume and cosmetics would best connect with *LadyA*'s established brand and help her reach her main target market: teenage girls and young women. The production of *LadyA* perfume and cosmetics was outsourced, to an established manufacturer in Malaysia, where costs were 115 much lower. Quality control could, however, be a problem. The Malaysian manufacturer would produce *LadyA* perfume and cosmetics using batch production which would enable a variety of products to be made; *LadyA* would have to pay 60% of the costs in advance. The wholesaling and distribution was also outsourced, to a company in Minnesota. By 2011, *LadyA* perfume and cosmetics were sold in a nation-wide chain of department stores in the US.

120 At the same time, Alejandra decided to reorganize the business. She continued to manage all of her household employees personally. She appointed a Managing Director, and a Human Resources Manager to assist in workforce planning and manage the rest of the business. She delegated some business functions, but kept a very close interest in all decisions through her meetings with the Managing Director. One benefit of this reorganization was that, with clear 125 roles, systems and procedures in place, Alejandra's employees complained less.

130 On a personal level, 2012 was a big year for Alejandra. She married Rafaële Eco, an Italian investment banker, and they purchased a large mansion in Hollywood, requiring an even greater number of peripheral employees. Over the next few years, *LadyA* was at the peak of her media power, wealth, and fame. She was more mature and business-oriented than when she was in her twenties. Her leadership style had matured as well. She became more consistent and paternalistic.

Now she began to think about the next phase of her career and her life. She was approaching her late thirties. In the US, many female musicians and film stars struggle to remain popular in their forties: modelling jobs are harder to get; girls and younger women typically prefer younger musicians and stars; and the idea of selling youthfulness becomes more difficult as women grow older. *LadyA* hired business consultants, *Kersey & Joyce (K&J)*, who specialized in the strategic direction of brands, to help her consider her options. *K&J* identified three strategic options in their report to *LadyA*.

135 **Option 1:** Move into South American markets, which generally accept older female musicians and film stars. Ever since Lady Alejandra became *LadyA*, she had focused on the English-speaking market in the US. Though she had some fans in Spanish-speaking markets, she had never made them a priority. For those markets, *LadyA* would start using the name Lady Alejandra again, conduct a major concert tour in South America, and try to repeat her North American career, building an increasingly powerful name through music downloads (such as MP3s), concerts, films, product endorsements, magazine covers, and also perfume and cosmetics.

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Additional terms not in the guide

Brand identity
Core employees
Limited liability
Paternalistic
Peripheral employees
Revenue streams

Companies, products, or individuals named in this case study are fictitious and any similarities with actual entities are purely coincidental.



Business management

Case study: Todos os Mercados

For use in May 2016

Instructions to candidates

- Case study booklet required for higher level paper 1 and standard level paper 1 business management examinations.

4 pages

2216–5001
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**Todos os Mercados (TM)
and a day in the life of Henri Trouvé,
Tuesday 26 January 2016**

06:32, Henri Trouvé is driving to work. He is already tired. Last night he studied late at an MBA class. He hoped the qualification would lead to a better job or promotion. He is miserable and reflects on why this is.

- In 1965, his father set up a small hardware business in St Laurent, near Tilloon in southern France. The business was set up as a sole trader. His father made personal customer service, especially free delivery to customers' homes and workplaces, the unique selling point (USP) of the business. As a child, Henri helped his parents at the store and worked there when he finished school. At 32, when his parents retired, he became the owner and manager of the business for what he thought would be the rest of his working life. However, two years later that all changed. *Todos os Mercados (TM)*, a South American multinational company (MNC), opened a *TM* hypermarket just outside St Laurent. *TM* is a public limited company. *TM*'s hypermarket had a huge impact on the Trouvé business as it could not compete with it. The Trouvé business went into liquidation when Henri failed to attract any external sources of finance.
- Desperate and with no income, Henri applied to work at *TM*. He was appointed manager of the hardware section. The job title was more impressive than the job itself – he was little more than a salesperson with minimal management responsibility.
- TM*'s stated main aim, based on its mission statement and expressed in all of its promotional material, is to have the lowest prices in the market. *TM* uses lean production methods including just-in-time (JIT) and outsourcing to cut the cost of sales. *TM* also keeps wages to a minimum and strictly controls all aspects of employee performance. These approaches enable *TM* to sell goods at much lower prices than its competitors. The rest of *TM*'s marketing mix supports its low-price strategy. As *TM* grew, it was able to impose more favourable purchasing terms from suppliers, which allowed *TM* to lower its prices even further. High market share and market leadership are important for *TM*.
- Historically, *TM* has used internal growth. *TM*'s attempts at external growth through franchising were unsuccessful. *TM* opened new stores both in France and in many other regions around the world. It expanded the range of goods it sold and eventually entered the services market. Now every *TM* store sells hardware, home appliances, electronics, furniture, automotive parts and office supplies. *TM* has recently started offering banking facilities, insurance, pharmacies, opticians and mobile phone services. *TM* is truly a "one stop" shopping destination and is successful in many regions of the world. It is actively investigating development of new markets in Asia.
- TM* has a regimented autocratic and centralized approach to human resource management. Employees are not empowered and have to follow detailed work instructions and procedures produced at headquarters in South America. Strict practices prevent employees talking to each other while at work, and unscheduled breaks are not allowed. Employees who complain find themselves in trouble. *TM* has an inflexible organizational structure. In 2013, labour turnover at the hypermarket in St Laurent was much lower than expected. This was due to the economic recession which meant that there were few employment opportunities in the local area.

The impact of *TM* on communities, including St Laurent, is mixed. On the one hand, the hypermarkets provide much-needed employment. It also allows customers to buy many kinds of goods at very low prices – analysts estimate that families could typically save between \$2000 and \$5000 a year by shopping at *TM*. On the other hand, when *TM* opens a hypermarket in a town many small shops in that town go out of business, just like Henri's. *TM* has a poor record of corporate social responsibility (CSR), and many pressure groups are urging *TM* to adopt ethical behaviour.

45 06:45, Henri arrives at work. He reports to Delphine Jacques, his line manager and superior in the chain of command, who checks his arrival time. Although Henri resents this process, 50 he knows Delphine is only following company policy. He likes Delphine: she has a warm personality and encourages him in his work. She, too, is grateful for the work because she is a single mother with two children. She is hard-working and efficient and never complains. She is one of the few employees to have been promoted internally.

55 06:50, Henri is at his work station ready to check arrival times of the employees in his team. 11:30, Henri goes to the managers' staffroom for his official lunch break. He is tired. *TM* insists that managers eat separately from non-managerial employees. Even managers are discouraged from eating together – *TM* does not want them expressing collective opinions about *TM*. Henri thinks that *TM*'s workers are beginning to talk more about worker's rights and 60 protests. Henri sits there alone. He thinks about this week's reading material for his MBA – Daniel Pink's "Drive: The surprising truth about what motivates us" – it gets him wondering why *TM* uses motivational strategies that are so completely different from Pink's ideas.

65 12:00 noon, when Henri returns to the stockroom, he sees two young employees writing graffiti protesting the wages and management style. He is angry, but unsure what to do. He is a paternalistic leader so his instinct is to talk to the two young employees and get them to remove the offensive words. However, according to *TM* policy, he must report them to a senior manager, who would immediately dismiss them. Henri thinks, "this is too harsh as they would have no chance of getting another job". He feels the need for worker solidarity. He knows that he, himself, might be disciplined for not reporting this behaviour, but he pretends not to 70 see anything.

75 14:07, Henri has to deal with an extremely rude customer. 15:02, Henri is exhausted – he wishes it were the end of the day. His mind wanders to tonight's MBA class. At least he'd be allowed to think aloud there. He "stole time" from *TM* by checking his homework on his smartphone. He is shocked – the next case study is about *TM*. This is another blow: now he has to think about *TM* all the time.

16:00, Henri records the finishing time of his team and reports his own finishing time to Delphine.

Turn over

80 16:10, Henri arrives at the public library. He reads the *TM* case study carefully. The case study mentions various external factors – the lack of jobs in France has increased demand for university places as young people delay starting their careers and middle-aged people, like Henri, try to strengthen their qualifications. Data in the case study shows very weak economic conditions in France and demographic trends that are hindering economic recovery. The case study also states two significant threats to *TM*'s position in the market – the increasing use of e-commerce by global competitors and customized production – and one significant weakness: 85 a workforce that is treated badly.

The case study contains financial information for *TM*, which Henri uses to calculate financial ratios. He is shocked.

90 18:15, he phones his wife. She, too, is exhausted. As well as managing the household and looking after the children, she has a full-time job as a dental assistant. She feels overwhelmed. Henri reassures her that he will help her and that once he gets his MBA things will be better. Even with an MBA, she worries that he would struggle to get a better job.

18:30, class begins. His tutor, Dr Lominé, will spend the first hour looking at human resource management, then an hour on marketing, then another hour on finance and accounts.

95 Dr Lominé begins by asking whether *TM*'s employment practices regarding wages and working conditions are ethical. The students recognize the need for *TM*'s profit-driven objectives, but they are far less enthusiastic about how *TM* treats its workers. Henri keeps quiet. "If I criticize *TM* in public, I could be dismissed," he thinks.

100 Dr Lominé makes it clear that there will be major pieces of assessed work for the MBA that examine human resource management issues, in particular how effective *TM* is at managing its employees. Henri had heard rumours in the workplace that employment practices and contracts were likely to change soon as *TM* attempts to cut even more costs.

21:40, Henri sets off for home. He can hardly keep his eyes open. "At least I don't have class tomorrow so I can spend the evening with my family."

105 22:20, Henri arrives home. He is furious. Every light in the house is on. His children ignore him as he comes in – they are sending text messages and playing video games.

00:00 midnight, Henri goes to bed. Elise is already asleep. He says "good night", thinking that with luck he will get six hours sleep.

Companies, products, or individuals named in this case study are fictitious and any similarities with actual entities are purely coincidental.



Business management
Standard level
Paper 1

Thursday 19 May 2016 (afternoon)

1 hour 15 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- A clean copy of the **business management case study** is required for this examination paper.
- Read the case study carefully.
- A clean copy of the **business management formulae sheet** is required for this examination paper.
- Section A: answer two questions.
- Section B: answer question 4.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[40 marks]**.

3 pages

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Section A

Answer **two** questions from this section.

1. (a) Describe **one** benefit for Henri Trouv  's father of his unique selling point (USP) (lines 5–7). [2]
- (b) Describe **one** feature of *TM*'s marketing strategy. [2]
- (c) Explain the advantages for *TM* of internal growth rather than external growth. [6]

2. (a) State **two** benefits for *TM* of having aims (line 18). [2]
- (b) State **two** reasons why *TM* should consider using e-commerce (line 84). [2]
- (c) Explain the interests of **one** of *TM*'s internal stakeholders. [6]

3. (a) Describe **one** benefit for *TM* of low labour turnover (lines 38–39). [2]
- (b) Describe **one** benefit for *TM* of improving its corporate social responsibility (CSR) (line 46). [2]
- (c) Explain the appropriateness of Henri Trouv  's paternalistic leadership style at *TM*. [6]

Section B

Answer the following question.

4. The case study for Henri's MBA contains additional information on *TM*:
- *TM* uses market segmentation to aid its marketing activities.
 - *TM* outsources functions such as accounts and human resource management to low-cost countries.

Henri studies the *TM* case study further. He is outraged by what he reads:

- *TM*'s Chief Executive Officer (CEO) earns 250 times more, per year, than a salesperson.
- Financial rewards for senior management are very high: in addition to shares, they are given profit-related pay, performance-related pay (PRP) and fringe payments (perks).
- Despite being one of the most profitable businesses in the world, most employees at *TM* have not had a pay rise for three years despite increasing sales.
- Shareholders made significant returns on investments.

The case study includes some financial information for *TM* (year ending 2014):

| | |
|---------------------|------------------|
| Current assets | \$80 000 million |
| Current liabilities | \$40 000 million |
| Debtors | \$27 000 million |
| Stock | \$26 000 million |

- (a) Define the term *current liabilities*. [2]
- (b) With reference to *TM*, explain **two** benefits for *TM* of market segmentation. [4]
- (c) Using the information above, calculate for *TM*:
- (i) the current ratio (*show all your working*); [2]
 - (ii) the acid-test/quick ratio (*show all your working*). [2]
- (d) Henri tells the rest of his class that he thinks that *TM* employees are demotivated. Using **two** motivation theories, discuss the factors that may demotivate employees at *TM*. [10]

M16/3/BUSMT/SP2/ENG/TZ0/XX



Business management
Standard level
Paper 2

Friday 20 May 2016 (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 one question.
- Section C: answer one question.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[50 marks]**.

7 pages

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Section A

Answer **one** question from this section.

1. Rio Mobiliário (RM)

Rio Mobiliário (RM) is a Brazilian furniture manufacturer. It generates sales in South America, North America and Europe. It has successfully outsourced production and distribution facilities to North America.

Selected financial data for the year ended and as of 31 December 2015. All figures in millions of Brazilian reals.

| | |
|------------------------------------|------|
| Accumulated retained profit | 4116 |
| Cash | 486 |
| Cost of goods sold | 3074 |
| Creditors | 498 |
| Debtors | 958 |
| Expenses | 1390 |
| Gross profit | X |
| Interest | 12 |
| Net fixed assets | 3110 |
| Net profit after interest and tax | 606 |
| Net profit before interest and tax | Y |
| Overdraft | 52 |
| Sales revenue | 5256 |
| Share capital | 800 |
| Short-term loans | 650 |
| Stock | 1562 |
| Tax | 174 |

- (a) Define the term *outsourcing*. [2]
- (b)
 - (i) Calculate the gross profit X for RM (*no working required*). [1]
 - (ii) Calculate Y and hence, calculate the net profit margin for RM (*no working required*). [2]
 - (iii) Using relevant information from the table, construct a fully labelled balance sheet for RM. [5]

2. Pader

Image removed for copyright reasons

Pader manufactures ride-on (riding) lawnmowers.

Selected forecast financial data for the ride-on lawnmowers, for 2016:

| | \$ |
|---|--------|
| Annual fixed costs | |
| Rent | 30 000 |
| Marketing | 40 000 |
| Administration | 30 000 |
| | |
| Variable costs per ride-on lawnmower | |
| Components | 400 |
| Direct labour | 100 |
| | |
| Price per ride-on lawnmower | 1500 |

- (a) Define the term *variable costs*. [2]
- (b) (i) Calculate for Pader, for 2016, the break-even level of output (*show all your working*). [2]
- (ii) Construct a fully labelled break-even chart, to scale, for Pader, for 2016. [4]
- (iii) Calculate the profit or loss if 700 ride-on lawnmowers are sold in 2016 (*show all your working*). [2]

Turn over

Section B

Answer **one** question from this section.

3. German Car Keys Limited (GCK)

For decades, *German Car Keys Limited (GCK)* has made car keys for various car manufacturers. It is 100 % owned by Schmidt family members. New apps on mobile smartphones may soon replace traditional car keys. Car owners will have in their phone an “e-key”, which will unlock doors and start the car. Car hire companies like e-keys because they are cheaper than physical keys and can be easily downloaded.

This innovation in car keys could put GCK out of business. Shareholders are shocked. For years, they believed that GCK had a secure place in the market. GCK's market share and profits were high and debt was low. However, rather than make investments in new product lines, GCK made only minor modifications to the physical car keys and paid high dividends to satisfy shareholder expectations. As a result, the company does not have a portfolio of products. It relies on one single product.

GCK conducted market research and identified two other car components it could manufacture. GCK has many skilled workers, and the factories will have to be upgraded at significant cost. GCK is now looking for ways to finance the renovation of the factories. If e-keys become popular (as predicted) and action by GCK is not taken quickly, this old car key company may find itself out of business.

[Source: adapted from www.telekom.com]

- (a) State **two** secondary methods (sources) of market research for GCK. [2]
- (b) Using a fully labelled Boston Consulting Group (BCG) matrix, explain the position of GCK's current product (physical car keys). [4]
- (c) With reference to GCK, explain the relationship between investment and profit. [4]
- (d) Discuss **two** appropriate sources of finance for the renovation of GCK's factories. [10]

4. Vinn

Vinn is an American public limited company. It mass-produces jeans. Twelve years ago, production was offshored to China and Turkey to reduce manufacturing costs. To benefit from economies of scale, *Vinn* sells standardized regular-fit jeans. *Vinn* uses an identical marketing mix everywhere they sell.

Despite the global popularity of American jeans, *Vinn* has experienced a significant fall in demand due to:

- customer complaints about poor quality jeans
- economic recessions in *Vinn*'s main markets. However, economic forecasts expect improvements within two years
- increased global competition of mass-produced clothes
- anti-globalization pressure groups. For example, a local pressure group, "B-Local", has criticized *Vinn*'s undifferentiated advertising campaigns as inappropriate for all markets and segments.

In addition, *Vinn*'s management is worried about labour costs in China rising faster than the United States (US). It also has communication problems with its offshore employees.

Vinn's management decided to re-shore back to the US and completely change its strategic focus. Recent market research has revealed a niche market: some customers in North America are willing to pay high prices for individually designed and produced jeans. To create a new competitive advantage, *Vinn* will aim for different market positioning by using highly skilled, creative fashion designers located in major American cities. Cost-effective production of individually designed jeans requires specialized technology currently available in the US. *Vinn* will no longer mass-produce jeans.

- (a) Define the term *offshoring*. [2]
- (b) Explain **one** advantage and **one** disadvantage for *Vinn* of using an identical marketing mix. [4]
- (c) Explain **one** advantage and **one** disadvantage for *Vinn* of operating as a public limited company. [4]
- (d) Discuss *Vinn*'s decisions to re-shore back to the US **and** to produce only individually designed jeans. [10]

Turn over

5. JustJet (JJ)

JustJet (JJ) is a leading European airline. It operates low-price flights across Europe branded as JustJet. Currently it only offers an economy service and charges for on-board meals and drinks. JustJet has strong brand awareness in Europe. The business is very profitable. However, the economy “no frills” market has saturated.

After reviewing the results of focus groups, the JJ board of directors proposed launching a second service, called JustJetplus (JJplus). This service will offer first-class-only flights to non-European destinations. Between 2006 and 2008 other airlines offering a first-class-only service failed. JJ's directors believe its brand name and financial strength are strong enough to succeed.

JJ will purchase airplanes with first-class specifications only for the new JJplus service. Passengers will have first-class seats that convert into beds, individual tablet computers, high-quality food and free Wi-Fi. Although JJplus will charge expensive first-class fares for all seats, its prices will nevertheless be lower than the first-class tickets offered by their competitors. Flights will be daily to non-European destinations, such as New York and Brazil, Russia, India and China (BRIC).

The target market consists of two market segments:

- vacationers seeking luxury travel at a lower price than the first-class tickets offered by competitors
- business flyers, such as entrepreneurs from BRIC countries.

To break even, JJplus must sell 90 % of the seats on each flight.

- (a) Define the term *market segment*. [2]
- (b) Explain **one** advantage and **one** disadvantage for JJ of using focus groups as a method of market research. [4]
- (c) Using the Ansoff matrix, explain JJ's strategy of offering the first-class-only service, JJplus. [4]
- (d) Evaluate JJ's proposal to launch the JJplus service. [10]

Section C

Answer **one** question from this section. The organizations featured in sections A and B and in the paper 1 case study may not be used as a basis to your answer.

6. With reference to an organization of your choice, discuss the impact of **innovation** on operations management **strategy**. [20]
 7. With reference to an organization of your choice, examine the impact of **culture** on organizational **ethics**. [20]
 8. With reference to an organization of your choice, examine the impact of **globalization** on organizational **change**. [20]
-



Business management

Case study: Utopia

For use in May 2017

Instructions to candidates

- Case study booklet required for higher level paper 1 and standard level paper 1 business management examinations.

4 pages

2217–5001

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Utopia

John Ariki is an entrepreneur who owns 100 % of the shares of the private limited company *Utopia*, a holiday resort located on the island of Ratu, in the Pacific Islands. *Utopia* offers a once-in-a-lifetime tourist experience. Frequent visitors are film stars. *Utopia* is positioned as a unique experience in the Pacific Islands and offers exceptional levels of comfort and service.

- 5 When guests rent a villa, *Utopia* provides a private boat and crew to transport them around the island at any time, day or night. *Utopia* relies heavily on word of mouth for promotion. On several occasions, video clips of *Utopia* have gone viral on the internet.

The original business plan for *Utopia* in 2000 included twelve villas, the first of which John built himself. Local craftsmen built the remainder using traditional materials. John has revised the
10 business plan and the resort now has 24 villas. He believes that a major factor in the success of *Utopia* is local craftsmanship. John insists that the villas reflect the culture of the Pacific Islands. For example, he deliberately resists pressure from external stakeholders to expand *Utopia*'s capacity.

15 *Utopia* obtains ingredients for meals (served at the villas) on a just-in-time (JIT) basis from neighbouring islands and award-winning coffee from the island of Aora. Even though coffee growers from Indonesia and Papua New Guinea have offered to supply *Utopia* with their finest coffee at much lower prices, John's passion for ethically produced fair trade Aora coffee has caused him to refuse all alternatives. John is willing to pay his coffee suppliers in Aora prices well above those determined on the commodity markets. He believes that the beautiful location,
20 the local craftsmen and materials, and the local food and coffee together form the basis for the *Utopia* brand. John has a paternalistic approach to leadership.

The success of Aora coffee served at *Utopia* inspired John to open a café in 2006 in the nearest main town on Ratu. He called the café JAC and owns it as a sole trader. JAC is product oriented. It offers espresso and high-quality food, and roasts its coffee beans on site, which
25 enhances the coffee drinking experience. John would like to educate coffee drinkers about the coffee. At the café, JAC has tastings, brochures, interactive displays and other attractions. Visiting JAC has become an important tourist activity in the region and JAC is now a famous brand. Using coffee beans from Aora, JAC began to win awards as a roaster and to distribute ground coffee in a number of neighbouring Pacific Islands.

- 30 The growth of JAC took John by surprise. In order to concentrate on *Utopia*, in 2011 he handed over the day-to-day operation of JAC to his twin children, Paul and Liza.

- Paul graduated from an IB school in Australia in 2008. He travelled worldwide to develop his business and life skills. He spent time in Seattle working in a youth hostel and became fascinated with Seattle's coffee culture. Paul's business thinking was inspired by a small chain of coffee roasters and retailers that make significant donations to charities with the aim of eradicating human trafficking. Paul was not interested in a multinational coffee chain headquartered in Seattle. At JAC, Paul is in charge of marketing and operations. He has a special interest in product development and is constantly looking for ways to contribute to the local community.
- 40 Liza is JAC's human resource manager and is in charge of finance. She is entrepreneurial and a visionary, and is frequently looking for new ways to expand the business. Unlike her father and brother, Liza imagines business opportunities on more than a local level. Liza argues that, given JAC's considerable capacity for growth and brand loyalty, the business is not reaching its full potential and not following its original business plan. She argues that JAC could enter many coffee markets around the world.

In 2016, a natural disaster occurred on Ratu, damaging seven villas and destroying the remaining seventeen. Although John's customers could continue to rent the seven remaining villas, *Utopia* experienced a sudden and substantial decrease in bookings. Later in that financial year, *Utopia* recorded its first financial loss in sixteen years. John decided to create a crisis management plan and carry out contingency planning for cost, time, risks and safety. Believing that businesses should finance internal growth from internal sources, John refused offers of help to rebuild *Utopia* from external investors. Only internal sources of finance were used. John believed that outside investors would interfere with his vision for *Utopia* and JAC.

55 Thinking of all his business interests (*Utopia* and JAC), John realized that he has to consider new revenue streams. The natural disaster damaged *Utopia*'s positioning and threatened its long-term viability. He has asked Liza and Paul for advice on future options for growth. However, it was made clear that John would still decide on which option would be chosen and that the vision and social responsibility of *Utopia* and JAC would not be compromised.

60 Paul is considering developing the brand of *Utopia* by selling customized souvenirs produced by a three-dimensional (3D) printer. Improved internet connections and technology make the expensive 3D printing process a possibility. The gross profit margins on these customized souvenirs would be high, despite the fixed costs of the equipment. In addition, gaining experience with 3D printing might enable them to recognise and think about more opportunities for its use throughout John's businesses. Capital expenditure of \$10 000 would be required to 65 set up this untested printing service. Liza, however, is concerned that some people will perceive the souvenirs as inauthentic or cheap, which would devalue the *Utopia* brand.

70 Liza favours expansion through the sale of JAC coffee to other markets, initially the Pacific islands of Fiji, Samoa and New Zealand. Her market research includes stratified sampling of these three markets. The market research has indicated some profit potential in Fiji and Samoa and considerable profits in New Zealand. A concern for Liza is the challenge of delivering coffee beans from Aora to the three markets in a timely fashion so that the beans remain fresh (were cafés to serve coffee brewed from unfresh beans, the reputation of JAC's coffee could suffer). JAC would also face many external factors in creating new distribution channels. Possible approaches to selling in these new markets could be through a strategic alliance, a joint venture 75 or franchising.

Turn over

John met with Liza and Paul to discuss their growth options. The rebuilding of *Utopia* in 2016 cost more and took longer than originally anticipated. John knows that changes in the organizational structure and legal ownership of *Utopia* and JAC are inevitable regardless of which option(s) he chooses. Alternative suitable sources of finance should also be considered.

- 80 While talking with Liza and Paul, John sketched out new possible organizational charts.

Additional terms not in the guide

Commodity market
Fair trade

Companies, products, or individuals named in this case study are fictitious and any similarities with actual entities are purely coincidental.



Business management
Standard level
Paper 1

Friday 28 April 2017 (afternoon)

1 hour 15 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- A clean copy of the **business management case study** is required for this examination paper.
- Read the case study carefully.
- A clean copy of the **business management formulae sheet** is required for this examination paper.
- Section A: answer two questions.
- Section B: answer question 4.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[40 marks]**.

3 pages

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M17/3/BUSMT/SP1/ENG/TZ0/XX

Section A

Answer **two** questions from this section.

1. (a) With reference to *Utopia*, describe the importance of **two** external stakeholders (line 12). [4]
(b) With reference to *Utopia*, explain the role of promotion (line 6). [6]
2. (a) With reference to JAC, describe **two** advantages of internal growth (line 52). [4]
(b) With reference to John, explain the key functions of management. [6]
3. (a) With reference to *Utopia*, describe **two** suitable sources of finance for the 3D printers (line 60). [4]
(b) Explain the role of ethics in John's businesses. [6]

Section B

Answer the following question.

- 4.** Paul's idea for 3D printing takes *Utopia* into a secondary sector activity that contrasts with its usual tertiary sector activities. In order to produce a sufficient number of souvenirs, *Utopia* would need to buy ten 3D printers at \$1000 each. There would be material costs and significant operating costs, as well as time and additional labour. Paul has produced a net cash flow forecast for the project (Table 1) assuming a five year life for the printers. He likes the idea that each souvenir produced could be of a unique design and personalized. Some of the materials would be from recycled plastics obtained from waste at the resort. Recycling would reduce variable costs and it would be good for the resort's environment and for *Utopia*'s caring image.

Liza does not like the idea of 3D printing. She is concerned that the souvenirs may damage *Utopia*'s exclusive brand. She can see difficulties with recruiting someone with both the necessary IT skills and the ability to make decisions about which types of souvenirs to produce. She is particularly concerned about the impact on *Utopia*'s current suppliers of souvenirs. She thinks that 3D printing is more suited to larger organizations.

John believes that the 3D printing technology will bring other benefits to his businesses. He can imagine decorations and other useful items being produced for the resort and its offices.

Table 1: Net cash flow for the 3D printing project

| Year | Net cash flow (excluding capital investment) |
|------|--|
| 1 | \$2000 |
| 2 | \$3000 |
| 3 | \$4000 |
| 4 | \$4000 |
| 5 | \$4000 |

- (a) Define the term *variable cost*. [2]
- (b) With reference to *Utopia*, explain the differences between secondary sector activities and tertiary sector activities. [4]
- (c) Using the information above, calculate the payback period and the average rate of return (ARR) for the 3D printing project (*show all your working*). [4]
- (d) Using information from the case study, additional information above **and** your results from part (c), recommend whether *Utopia* should proceed with the 3D printing project. [10]

M17/3/BUSMT/SP2/ENG/TZ0/XX



Business management
Standard level
Paper 2

Monday 1 May 2017 (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 one question.
- Section C: answer one question.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[50 marks]**.

7 pages

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Section A

Answer **one** question from this section.

1. Sotatsu Electronics (SE)

Sotatsu Electronics (SE) manufactures electronic products and is famous for its innovative televisions. In late 2015, *SE* introduced a new high-definition television with twice the quality of the best-selling television of its chief competitor. Determining that it would be two years before its competitors could have a similar product, *SE* adopted a price skimming strategy.

Table 1: Select financial information for *SE* for 2015 and 2016.

Figures in \$000 000.

| | 2015 | 2016 |
|---|-------------|-------------|
| Cash | 300 | 250 |
| Cost of goods sold | 2100 | 2300 |
| Creditors | 180 | 230 |
| Expenses | 1200 | 1300 |
| Fixed assets | 1075 | 1275 |
| Gross profit | X | 2800 |
| Net profit before interest and tax | 1000 | Y |
| Sales revenue | 4300 | 5100 |
| Total current assets | 650 | 700 |
| Total current liabilities | 275 | 300 |

- (a) Define the term *price skimming*. [2]
- (b)
 - (i) Calculate the values of **X** and **Y** in Table 1 (*no working required*). [2]
 - (ii) Construct a profit and loss account for *SE* for 2015 and 2016. [4]
- (c) Calculate net current assets (working capital) for 2016 (*show all your working*). [2]

2. Anubis

Tom operates *Anubis* as a sole trader, selling cell/mobile phone cases on the internet. The market is increasingly competitive. The retail price of phone cases is predicted to fall in the second quarter of 2018. Employees at *Anubis* will receive a 3 % rise in wages starting from 1 April 2018.

Tom has forecasted the following monthly cash outflows for January through March 2018:

- Heating and lighting: \$4000.
- Wages: \$50 000.
- Packaging: \$15 000.
- Delivery charges: 5 % of sales revenue.
- Cost of goods sold: \$220 000.

Additional information:

- Opening balance on 1 January 2018: \$8000.
- Sales revenue: \$300 000 each month.
- Rent of \$2000 paid quarterly: first payment in January 2018.
- Receipt of a tax refund in February 2018: \$3000.

- (a) Outline **two** appropriate external short-term sources of finance for *Anubis* **other than** loans from family and friends. [2]
- (b) Using the information above, prepare a fully labelled cash-flow forecast for *Anubis* from January to March 2018. [5]
- (c) Comment on the predicted cash flow for *Anubis* for 2018. [3]

Turn over

Section B

Answer **one** question from this section.

3. Dales

Dales is a public limited hotel chain operating in a highly competitive tourism market. *Dales* is positioned as a high-price and high-quality chain. The majority of its staff are on permanent contracts, but wage rates at *Dales* are below the average for the hotel industry. Consequently, staff turnover is high. Recruitment is difficult due to the number of hotels in the areas where *Dales* hotels are located and the wages paid.

In 2010, in order to remain competitive, *Dales* outsourced the cleaning of hotel rooms to *Wire*. Outsourcing reduced the cost of cleaning rooms for *Dales* from 5 % of total revenue per room to 2 %. Net profit after tax and interest increased and share prices rose by 10 %.

Initially, *Wire* paid cleaners at *Dales* a low wage of:

- \$6 per hour for 8 hours, 5 days per week.
- Cleaners cleaned, on average, 13 rooms per day.

In 2016, *Wire* introduced a piece rate system:

- \$2 is paid per room cleaned.
- Cleaners have a target of 20 rooms per day, 5 days per week.

In recent years, newspaper reports highlighting poor pay and working conditions have damaged *Dales*'s brand image. Recent customer feedback has also highlighted concerns about food quality, room cleanliness and poor customer service at *Dales* hotels. Room bookings fell during the same period. Profits in 2016 decreased from \$24 m to \$4 m.

The current contract with *Wire* is up for renewal. *Dales* is considering insourcing.

- (a) Outline **two** common steps taken by a business in recruitment. [2]
- (b) (i) Explain **two** disadvantages for *Wire* of introducing a piece rate system of wages for its cleaning staff. [4]
- (ii) Calculate the financial impact on cleaners employed by *Wire* from the introduction of the piece rate system in 2016 (*show all your working*). [2]
- (iii) Calculate the change in cleaning costs per room from the introduction of the piece rate system used by *Wire*. [2]
- (c) Recommend if *Dales* should stop outsourcing the cleaning of hotel rooms. [10]

4. Secco Vineyards (SV)

Secco Vineyards (SV) is a family-owned business producing wine in Sonoma, California. In 1947, SV opened using cost-plus (mark-up) pricing. For SV's customers, the wines were medium priced and available in local grocery stores.

In 1977, Joe Secco, grandson of the founder, created a new strategy. He re-branded SV's wine for a niche premium market.

- SV began to sell directly to customers at its winery instead of in local grocery stores.
- SV stopped using cost-plus (mark-up) pricing and began to sell its wines at much higher prices than before.
- Regular wine tastings and promotional events were held at its winery. At these events, wine experts would promote SV's wines by creating an elegant experience based on a luxurious culture of wine consumption: stylish wine glasses, classical music and food that complements the wine.

However, SV has recently faced intense competition and sales have fallen. Local wine producers and overseas competitors have entered the market with similar market positioning. In order to maintain its brand image, SV has not changed its pricing strategies.

SV conducted secondary market research about other possible markets in the US for its premium wines. The research suggested that other possible markets for high-quality wines, such as those of SV, exist. As a result, SV is considering two options to increase sales in addition to its current distribution channel:

- **Option 1:** open a business-to-consumer (B2C) e-commerce store
- **Option 2:** sell SV wines to wholesalers serving the whole of the US market for premium wines.

- (a) Describe **one** characteristic of a niche market. [2]
- (b) With reference to SV, explain **one** advantage **and one** disadvantage of using secondary market research. [4]
- (c) Given the intense competition, explain **two** pricing strategies SV might consider. [4]
- (d) Recommend which of **Option 1** and **Option 2** SV should consider in order to increase sales. [10]

Turn over

5. Gen Y Limited

Gen Y Limited is an internet start-up business owned by Zack Johnson. Zack owns 80 % of the shares and venture capitalists own the other 20 %. *Gen Y* has specialist programmers and coders who create innovative market research data reports for clients. These data reports have revolutionized *Gen Y*'s clients' ability to understand and respond to customers in their markets.

To retain the best programmers, employees are given cognitive training and are empowered to make decisions and take risks. They are also regularly praised for the impact that their reports are having on their clients' decision making. One day a week, employees can work on their own "dream, but risky, projects". Intrapreneurship is strongly encouraged at *Gen Y*. However, *Gen Y* lacks the capital to develop some of these projects into future revenue streams.

Virtually all of *Gen Y*'s costs are fixed – salaries. As of 2017, *Gen Y* has not yet generated a profit. Without more revenue they will have to reduce the number of programmers. Petra, a new investor, is being considered to provide fresh capital to invest in *Gen Y*. Ownership of *Gen Y* will change to:

| | |
|---------------------|------|
| Zack | 40 % |
| Venture capitalists | 20 % |
| Petra | 40 % |

Petra believes in intrapreneurship but is concerned that "dream" projects are not generating profits. She has said that if she is going to invest in *Gen Y* two conditions must be met:

- Management at *Gen Y* will change to an autocratic leadership style.
- Programmers will be expected to meet sales targets.

As a result, programmers will have no autonomy.

- Outline **two** features of an autocratic leadership style. [2]
- Apply Daniel Pink's motivation theory to the programmers at *Gen Y*. [6]
- Explain **one** reason, **other than** increased sales revenue, why it is important that *Gen Y* generates new revenue streams. [2]
- Discuss whether Zack should sell Petra half of his shares with her conditions. [10]

Section C

Answer **one** question from this section. The organizations featured in sections A and B and in the paper 1 case study may not be used as a basis to your answer.

6. With reference to an organization of your choice, examine the impact of **globalization** on **innovation**. [20]
 7. With reference to an organization of your choice, examine the impact of **ethics** on organizational **strategy**. [20]
 8. With reference to an organization of your choice, discuss the ways in which **culture** can promote or inhibit **change**. [20]
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