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**BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 2**

Wednesday 5 May 2010 (morning)

2 hours 15 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. New Philanthropy Foundation (NPF)

Steve Dawes founded the *New Philanthropy* Foundation (NPF)* in 2005. It was set up with a very generous donation from a retired businessman. It is an online non-profit organization financing educational opportunities for children in developing countries. Steve has been looking at his financial statements with concern. *NPF's* cash reserves are being used up quickly and in the current poor economic climate, *NPF's* main source of finance – online donations – is falling.

In 2010, *NPF* has no debt but also no fixed assets. *NPF's* outgoings are Internet usage fee, maintenance fee for servers and computers as well as a web designer's fee for regularly updating the *NPF* web site.

NPF has volunteers from all over the world running the organization. An online community of social networking web sites connects them with Steve as the chief web site administrator. All funds to finance educational projects are transferred electronically and only e-mail communication is allowed. According to its vision statement, *NPF* aims to become the first paperless charity.

Steve has been asked by a very popular rock band to sponsor a reunion concert, which will be broadcast only over the Internet. The opportunity would generate substantial public relations possibilities, but some volunteers on the *NPF* forums are not convinced. They argue that the money spent sponsoring the concert should be used to provide further educational opportunities for children. They also believe that many people watching the concert may be frustrated if global Internet broadband connections become too slow or fail.

Steve is preparing a cash-flow forecast for the next six months (all figures refer to 2010) based on the following figures:

Forecast	Donations (millions of US\$)
June	40
July	30
August	30
September	20
October	20
November	10

- Donations are transferred to the educational projects **one month after** the money has been received.
- Educational projects receive 95% of all donations.

* *Philanthropy*: voluntary action for the public good. An activity performed with the goal of promoting the well-being of fellow man.

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(Question 1 continued)

	Millions of US\$
Opening balance in June 2010	1
Donations received in May 2010	50
Internet usage fee	1 to be paid in June and September
Maintenance fee for servers and computers	0.25 per month
Web designer’s fee	0.5 per month
Concert sponsoring fee	5 to be paid in November

- (a) Define the following terms:
- (i) *vision statement* [2 marks]
 - (ii) *public relations.* [2 marks]
- (b) (i) Using Steve’s forecast figures, prepare a cash-flow forecast for *NPF* from June to November 2010, clearly showing the opening and closing monthly cash-flow forecast balances. [6 marks]
- (ii) Comment on your results from part (i). [3 marks]
- (iii) Explain **two** possible solutions to the liquidity problems highlighted in parts (i) and (ii). [6 marks]
- (c) Analyse the impact of **two** external threats on *NPF*’s decision to sponsor the concert. [6 marks]

2. The Berkeley

The Berkeley is a movie theatre owned by Ed Andrews. It shows old movies and recent independently financed films. The movies appeal to niche¹ audiences, which would not be shown at the multi-screen cinema complex called *The Max* located five kilometres away.

As a sole trader, Ed's financial position is deteriorating. Only 40% of films shown at *The Berkeley* return a small profit. The manager of *The Max* phoned Ed two months ago and offered to takeover *The Berkeley*. Ed politely refused.

Cinema attendance has declined and Ed is aware that technology is changing people's viewing habits. Recent releases of old movies on DVD and the lower price of home cinema systems to show these movies have led evening attendances to fall dramatically. Ed has calculated the cross-elasticity of demand for movie tickets, in relation to the price of these DVDs. He found that movie attendance at *The Berkeley* and DVD releases were very close substitutes.

Ed has just been offered a chance to be the first cinema in the region to show the second film "Film X", of a young filmmaker called Judd Peterson. Judd's previous movie had been a huge success. The potential demand for his "Film X" is so high that it would be shown twice at this premiere but Ed must guarantee a target profit of US\$10 000. Ed anticipates selling all tickets at both showings.

Ed has prepared some figures for his break-even analysis if he shows "Film X":

- capacity of *The Berkeley* = 1200 per showing
- price of movie ticket = US\$12
- fixed costs = US\$12 000 (this includes target profit of US\$10 000) to be split equally over the 2 showings
- variable costs per ticket sold = US\$6.

Ed has a dilemma: if "Film X" is successful, *The Berkeley* will receive a substantial revenue boost as well as free publicity. This could also help Ed bring more diverse films to *The Berkeley*, especially little known international films, which would fulfil a long-held ambition of his. However, if he shows "Film X", Ed risks changing the perception of customers that *The Berkeley* provides films for a niche market to a perception that it provides films for a mass-market². He is concerned that customers would expect similar movies in the future.

¹ niche: a much more focused segment of the market with a smaller potential customer base classified perhaps by income levels, age or other demographic factors

² mass-market: an attempt by a company to produce goods and services which try to satisfy the needs of as many consumers in a market as possible

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(Question 2 continued)

- (a) (i) Identify **two** characteristics of a sole trader. *[2 marks]*
- (ii) Define the term *cross-elasticity of demand*. *[2 marks]*
- (b) (i) Prepare a fully labelled break-even chart for *The Berkeley* for **one showing** of “Film X” at the premiere. *[6 marks]*
- (ii) Calculate the total profit of *The Berkeley* if it shows “Film X” twice and comment on your results. *[3 marks]*
- (iii) Using The Boston Consulting Group (BCG) matrix, explain **two** reasons for the manager of *The Max*’s decision to offer to takeover *The Berkeley*. *[6 marks]*
- (c) Analyse the relative importance of driving and restraining forces on *The Berkeley* if Ed decides to show “Film X”. *[6 marks]*

SECTION B

Answer *two* questions from this section.

3. The Q-Drum: “A Revolution in Thinking and Innovation”

The problem is obvious. Millions of women and children worldwide endure backbreaking labour carrying open, unstable heavy water containers for long distances.



[Source: <http://www.globaleducation.edna.edu.au/images/1002501.jpg>, 20 October 2008]

The solution: the Q-Drum, invented by brothers Hans and Piet Hendriske. The brothers have obtained a patent (intellectual property rights) for producing the Q-Drum.



[Source: <http://ecoscraps.com/files/2008/09/qdrum1.jpg>, 20 October 2008]

Even a child can pull up to 50 litres of water in the doughnut shaped plastic drum as it rolls along the ground. In a recent test, one family of 13 used the Q-Drum daily, travelling 12 000 km in 20 months, providing 120 000 litres of transportable water.

“The Q-Drum represents a revolution in thinking and innovation”, claimed Dr Paul Polak, who runs an organization helping poor farmers become entrepreneurs. He added, “A billion customers in the world need a US\$2 pair of eyeglasses, a US\$10 solar light and a US\$100 house. Why do innovators and designers only research and develop products that target the needs of the planet’s richest 10%?”.

However, despite its simplicity and life-saving innovation, the Q-Drum has only sold several hundred so far. At US\$50 the price is too high for those who need it most. Until it can be manufactured more cheaply and appropriate distribution channels can be found, sales will remain low. A non-government organization (NGO) sponsored by the *United Nations* has offered to help with the market development of the Q-Drum, but the brothers know that significant marketing issues still remain.

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(Question 3 continued)

- (a) Define the following terms:
- (i) *innovation* [2 marks]
 - (ii) *distribution channels*. [2 marks]
- (b) Explain the role and importance of obtaining a patent (intellectual property rights) for the Hendriske brothers in producing the Q-Drum. [6 marks]
- (c) Analyse **two** reasons why “innovators and designers only research and develop products that target the needs of the planet’s richest 10%”. [6 marks]
- (d) Discuss an appropriate marketing mix to increase sales of the Q-Drum. [9 marks]

4. The Master Bean: Ethics or Bust?

The Master Bean imports raw coffee beans from South-East Asia and roasts them ready to supply to cafés in Australia. Tom Cain, who founded *The Master Bean*, built the business from a passion into one that now employs 35 staff and has become one of the largest Australian importers of coffee beans. Tom's business objectives have changed from survival, to increasing *The Master Bean's* market share but with a strong ethical focus.

Unfortunately, for the past four years, profit margins have fallen and *The Master Bean* has struggled to break even. A key element of the value of Tom's business is the goodwill that he has with his suppliers. He pays above market prices as part of his commitment to ethical trade agreements such as Fair Trade. However, with rising costs and no growth in revenue, he may need to make redundancies.

Recent political changes have also impacted on *The Master Bean*. Tom has been told that the government of his major South-East Asian supplier has decided to join a regional economic trading bloc. As Australia is outside the trading bloc, Tom's importing costs will rise significantly. *The Master Bean* has two strategic options.

1. Tom could import his coffee beans from a country which is not a member of the trading bloc. This will be a cheaper alternative and jobs at *The Master Bean* will be saved. However, the government of this new supplier has been found guilty of human rights abuses. Transport costs will rise, but early financial forecasts show that *The Master Bean* will return to profitability.
2. *The Master Bean* could merge vertically with his major South-East Asian supplier. This will retain the long established relationship, goodwill and ethical stance. However, Tom will have to relocate parts of *The Master Bean* to that country in order to avoid higher importing costs. A number of his staff have expressed concern and have said that they do not want to move to that country.

(a) Define the following terms:

(i) *business/organizational objectives* [2 marks]

(ii) *revenue*. [2 marks]

(b) For *The Master Bean*, explain the meaning and value of goodwill with internal and external stakeholders. [6 marks]

(c) Analyse **two** reasons why a firm such as *The Master Bean* may change its objectives over time. [6 marks]

(d) Discuss the **two** strategic options available to *The Master Bean*. [9 marks]

5. WJAZ Radio

Elaine Maxwell put down her phone. She was beginning to understand the huge challenge in accepting the position of chief executive officer (CEO) of *WJAZ Radio* less than one month ago. The commercial radio station had been very popular, launching many famous music bands, but it was now in crisis. Falling audience figures for 2010 (January to May) revealed that *WJAZ Radio's* position as market leader was under threat. Budgets were not being controlled and overspending was common. Variances for 2010 already showed that the company had lost financial control. Some advertisers had threatened to transfer their radio advertisements to competing radio stations.

Elaine also realised that internal and external communication was failing. Some celebrity radio presenters had refused to come to morning meetings and did not reply to e-mails. She had been told that the presenters were motivated to work at *WJAZ Radio* due to the laissez-faire leadership style adopted by senior managers. The presenters brought valuable publicity to *WJAZ Radio* through their other paid media commitments such as store openings and television appearances. This publicity had created significant advertising revenue for *WJAZ Radio*.

Elaine had just spoken to one of her most important advertisers. The station's most famous presenter had not turned up for a store opening despite repeated phone calls to the presenter's agent. Elaine then discovered that the presenter had not known about the booking and this was not the first time that this had happened.

To Elaine, it was proof that the current methods of communication and the leadership style adopted were not effective. However, she was aware that changing the culture of *WJAZ Radio* too quickly may lead to some radio presenters moving to other radio stations. One newspaper article had already suggested that competing stations were willing to pay bonuses to attract *WJAZ Radio's* top presenters.

- (a) (i) Identify **two** characteristics of a laissez-faire leadership style. [2 marks]
- (ii) Define the term *variance*. [2 marks]
- (b) Explain **two** reasons why budgets are important for organizations such as *WJAZ Radio*. [6 marks]
- (c) Analyse **two** solutions to the communication failure present at *WJAZ Radio*. [6 marks]
- (d) Evaluate the effectiveness of the laissez-faire leadership style present at *WJAZ Radio*. [9 marks]
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