



88135014



**BUSINESS AND MANAGEMENT
STANDARD LEVEL
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)

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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.

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(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.

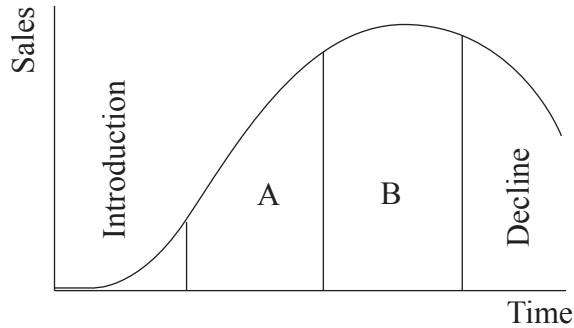
Anigam has a portfolio of animal drugs at different stages of their product life cycle:

- 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.

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(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]