

Business and management
Higher level
Paper 1

Wednesday 20 May 2015 (afternoon)

2 hours 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.
- Section C: answer the compulsory question.
- A calculator is required for this examination paper.
- Clean copies of the **business and management formulae sheet and discount tables** are required for this examination paper.
- The maximum mark for this examination paper is **[80 marks]**.

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 **two** benefits for *LadyA* of outsourcing the production of perfume and cosmetics to Malaysia (lines 113–114). [4]
- (b) Explain how expensive internet videos that “did not generate any direct revenue” (line 101) contributed to *LadyA*’s marketing mix. [4]
- (c) Explain the role of branding for *LadyA* in a global market. [4]
- (d) Discuss whether the effectiveness of Alejandra’s leadership style is the result of natural skills and abilities, or a consequence of the circumstances she faced. [8]

Additional information

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

Turn over

Section C

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

5. In the months after receiving the *K&J* report, Alejandra struggled with her decision over which option to choose. The report had been highly scientific and gave her three strategic options. However, she intuitively felt that the strategic analysis had some problems. The *K&J* report was based on the assumptions that her next steps should be to extend her product life cycle, and that her main objective should be growth: growth of her brand, growth of her business and growth of her profits. She wondered if these assumptions were still appropriate.

She had recently read M Scott Peck’s *The Road Less Traveled*, which made her think about her life (Item 1). She was experiencing a personal crisis. Ever since she began modelling in Miami, her career had gone from success to success, but she now asked herself: “Have I ever really thought about my goals in life? How do I want to be remembered?” She also realized that even though she had made her business more professional by forming *LadyA Management Limited (LAM)*, she had never considered having a vision statement or a mission statement for herself. After all, she is the business.

At the same time that she was experiencing this personal crisis, Alejandra and Rafaele received some exciting news: she was having a baby. They were delighted, and Alejandra knew that her parents too would be very happy with the news. She asked *K&J* to examine how having a baby and motherhood could influence her strategic options (Item 2).

As Alejandra reconsidered her options, she realized how important it was to her to be more than a singer, dancer and performer. She knew how fragile the career of a media personality could be. In the United States (US), for example, Martha Stewart had created a very powerful company, *Martha Stewart Living Omnimedia*. However, in the last 10 years, Martha Stewart had almost gone bankrupt (Item 3). This story made Alejandra aware of the risks of trying to increase the scale of her business too quickly.

- (a) Identify any **two** factors, **other than** technology, that caused *LadyA*’s objectives to change. [2]
- (b) Using information from Item 2, calculate the predicted outcomes *x* and *y* of strategic **Options 1** and **2** (*show all your working*). [4]
- (c) Explain any **one** of Porter’s five forces that have had an impact on *LadyA*. [3]
- (d) Examine **two** driving and **two** restraining forces that have influenced changes at *LadyA Management Limited (LAM)*. [9]
- (e) Using your answers to part (b), information contained in the case study and Items 1 to 3, discuss *LadyA*’s **three** strategic options now that Alejandra is having a baby. [12]

(Additional information is on the following pages)

Additional information

Item 1: Extract from M Scott Peck, *The Road Less Traveled* (1978)

“To proceed very far through the desert, you must be willing to meet existential suffering and work it through. In order to do this, the attitude toward pain has to change. This happens when we accept the fact that everything that happens to us has been designed for our spiritual growth.”

Item 2: Memo from K&J examining how having a baby and motherhood could influence LadyA’s strategic options

To: LadyA
From: K&J

After reviewing all three options and considering that you are having a baby, we believe all three options remain feasible. In each case the fact that you will soon be a mother may add value. However, you must consider the following issues:

Option 1: This would require either that your baby travels with you, or that you are prepared for extended periods of time when you and your baby will be apart, while you work in South America.

Option 2: You could delegate far more to the Managing Director who would manage the development of a global market and the new distribution channels. You may have less time for the regular meetings with the Managing Director or to keep such a close interest in all the decisions.

Option 3: This would require your willingness to include your baby as part of your media profile. In many ways, this option suits the fact that you are having a baby. Becoming a mother may strengthen your attempts to re-brand yourself. However, from the beginning, K&J has considered re-branding as the riskiest option.

We predict that the chances of success and potential profits from the three options are as follows (figures are given in millions of \$):

	If successful	If unsuccessful	Predicted outcome
Option 1: Chance of success: 90% Cost: \$10m	\$10m per year for five years	\$0.5m per year for five years	x
Option 2: Chance of success: 75% Cost: \$25m	\$40m per year for five years	-\$10m per year for five years	y
Option 3: Chance of success: 50% Cost: \$5m	Zero profits for three years, \$15m in year 4 and \$20m in year 5	Zero profits for three years, \$2m per year in year 4 and year 5	\$14.5m

(Additional information continues on the following page)

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(Additional information continued)

Item 3: Extract adapted from *USA Today*, 12 December 2013 on *Martha Stewart Living Omnimedia*

Martha Stewart Living Omnimedia, the media company that owns the *Martha Stewart Living* magazine and other digital and television ventures branded with the founder's name, will make about 100 employees redundant next Thursday, according to the *New York Post*.

The number of jobs eliminated amounts to about a quarter of its workforce, the *Post* report said. In its most recent annual report earlier this year, the company said it had about 497 employees as of February.

The downsizing comes about a month after the company named Daniel Dienst as its new Chief Executive Officer (CEO). In an October statement announcing his appointment, Stewart, who founded the company and serves as non-executive chairman, said Dienst was appointed to the job partly due to his "strong operating and financial discipline".