

Business and management
Higher level
Paper 1

Thursday 19 November 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) Describe **one** way in which a problem with quality control (line 115) could affect *LadyA*. [2]
(b) With reference to *LadyA*, describe **one** reason for identifying target markets. [2]
(c) Explain **one** benefit to the local school **and one** benefit to Mrs Carroccio, of providing training for Mrs Carroccio (line 13). [4]
(d) Analyse the impact of technological change on Alejandra and her business. [7]

2. (a) Describe **one** method of primary market research **and one** method of secondary market research that could be useful to *LadyA*. [4]
(b) With reference to Mr Carroccio, explain **two** reasons for setting up a business. [4]
(c) Analyse the importance of branding for Alejandra. [7]

3. (a) Describe **two** benefits, to Mr Carroccio, of owning his shoe repair business as a sole trader. [4]
(b) Using the **additional information below**, calculate:
 - (i) the average rate of return (ARR), for setting up Mr Carroccio's shoe repair business (*show all your working*); [2]
 - (ii) the payback period, for setting up Mr Carroccio's shoe repair business (*show all your working*). [2]
(c) Using your answers to part (b) and information contained in the case study, analyse the issues that Mr Carroccio faced when he set up his shoe repair business. [7]

Additional information

Selected data for setting up Mr Carroccio's shoe repair business:

- Set-up cost: \$9000
- Net returns per year for 5 years: \$3000

Section B

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

4. (a) “The production of *LadyA* perfume and cosmetics was outsourced” (lines 113–114). Describe **two** advantages to *LadyA* of outsourcing. [4]
- (b) Explain **two** reasons why Alejandra’s objectives might have changed over time. [4]
- (c) Explain **two** difficulties in valuing *LadyA*’s financial assets. [4]
- (d) Evaluate **Option 1** (lines 139–146) as a strategic option for *LadyA*. [8]

Additional information

There is no additional information in this paper for Section B.

Turn over

Section C

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

5. Gavin Pratt has been appointed as *LadyA*'s International Marketing Director (Item 1). He was selected for his excellent sense of style and his knowledge of the *LadyA* brand. However, he has limited marketing experience.

Alejandra decided to reject **Option 1** and **Option 3**. She identified two strategies for implementing **Option 2** (lines 147–152). The new products would be manufactured using the same manufacturer in Malaysia that produces *LadyA*'s perfume and cosmetics. **Option 2** would require the introduction and use of business-to-customer (B2C) e-commerce distribution channels. Sales generated through B2C e-commerce are growing rapidly (Item 2).

- **Implementation strategy A, (Option 2 through internal growth):** create an entirely new marketing department for *LadyA*. The marketing department would organize international promotion for *LadyA* products, set up distribution channels and negotiate with international agents, wholesalers and major retailers around the world. Once the global brand is developed, the marketing department would develop B2C e-commerce.
- **Implementation strategy B, (Option 2 through external growth):** take over *Fabco*, an international marketing business. *Fabco* has proven experience in organizing international promotion which could be applied to *LadyA* products. *Fabco* already has distribution channels with international agents, wholesalers and retailers outside the United States (US), and has experience in developing and using B2C e-commerce. However, *Fabco* has recently been accused of some unethical business practices (Item 3), and has never worked with media stars such as *LadyA*.

Alejandra asked Gavin to research both implementation strategies so that she can make a decision as soon as possible. As part of Gavin's research he has obtained some financial data from *Fabco* (Item 4).

- (a) Identify **two** features of a wholesaler. [2]
- (b) Using relevant data from Item 4, calculate the acid test (quick) ratio **X**, for **2014** (*no working required*). [1]
- (c) Using Item 4 **and** your answer to part (b), comment on the changes in *Fabco*'s liquidity. [6]
- (d) Analyse the relationship between the product life cycle, investment and the likely profits for *LadyA*. [9]
- (e) Using information contained in the case study **and** Items 1–4, recommend whether Alejandra should choose strategy A **or** strategy B in order to implement **Option 2**. [12]

(Additional information is on the following pages)

Additional information

Item 1: Social networking responses to Gavin Pratt’s appointment

LadyA: News flash!!! Gavin is my new International Marketing Director!!!!!!!!!!!!

Gavin: Wow what an opportunity!!! We will conquer the world :-)

Fashion journalist: How could someone like Gavin, with no marketing experience, be given this opportunity?

Financial journalist: He helped make *LadyA* a sensation in the US – now the world!

Anonymous (*LadyA* employee): If you think *LadyA* is difficult to work with, wait until you meet Gavin! :-)

Item 2: B2C e-commerce sales worldwide, 2012–2017 (in \$ billions)

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Asia-Pacific | 301 | 384 | 525 | 681 | 856 | 1053 |
| North America | 380 | 431 | 483 | 538 | 598 | 660 |
| Europe | 319 | 362 | 405 | 447 | 483 | 518 |
| South America | 38 | 48 | 58 | 65 | 71 | 75 |
| Middle East and Africa | 21 | 27 | 34 | 40 | 46 | 51 |
| Total | 1059 | 1252 | 1505 | 1771 | 2054 | 2357 |

[Source: Data: www.emarketer.com]

Item 3: News report on *Fabco*, 1 December 2014

This year, *Fabco*’s performance has been outstanding in Asia. Sales and profits have grown faster than many similar businesses in the region. Strong performance in Asia has enabled *Fabco* to negotiate a business relationship with *The Cathy Group*, a large chain of retail stores in Asia.

However, concern is growing that *Fabco*’s business practices are not always ethical. *Fabco* sometimes ignores minimum wages and has suppliers who do not practice corporate social responsibility (CSR).

Customers are showing a very high level of satisfaction with *Fabco*. However, some *Fabco* customers in Europe have reported problems with their online orders and accounts.

(Additional information continues on the following page)

Turn over

(Additional information continued)

Item 4: Select financial data for *Fabco*

| | 2012 | 2013 | 2014 |
|--|-------------|-------------|-------------|
| Sales revenue (Europe) (\$m) | 50 | 45 | 40 |
| Sales revenue (Asia) (\$m) | 15 | 20 | 30 |
| Sales revenue (South America) (\$m) | 20 | 20 | 22 |
| Net profit margin (%) | 50 | 40 | 30 |
| Current assets (\$m) | 3.4 | 5.0 | 6.0 |
| Current liabilities (\$m) | 2.0 | 3.3 | 4.6 |
| Stock (\$m) | 1.4 | 2.0 | 5.0 |
| Current ratio | 1.7 | 1.5 | 1.3 |
| Acid test (quick) ratio | 1.0 | 0.9 | X |
| Gearing ratio (%) | 70 | 75 | 80 |
| Return on capital employed (ROCE) (%) | 15 | 10 | 7 |
