Diploma Programme
Programme du diplôme
Programa del Diploma

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]**.

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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. Parder

Image removed for copyright reasons

Parder 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 *Parder*, for 2016, the break-even level of output (*show all your working*). [2]

(ii) Construct a fully labelled break-even chart, to scale, for *Parder*, for 2016. [4]

(iii) Calculate the profit **or** loss if 700 ride-on lawnmowers are sold in 2016 (*show all your working*). [2]

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 offshored 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]

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]