

Business management
Higher level
Paper 1

Monday 21 November 2016 (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 management case study** is required for this examination paper.
- Read the case study carefully.
- A clean copy of the **business management formulae sheet** is required for this examination paper.
- Section A: answer two questions.
- Section B: answer question 4.
- Section C: answer question 5.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[60 marks]**.

Section A

Answer **two** questions from this section.

1. (a) With reference to *Medimatters*, describe **two** steps in setting up a new business. [4]
(b) Explain suitable sources of finance in order for *Medimatters* to finance the additional setup cost of \$50 000 (line 92). [6]
2. (a) With reference to *Medimatters*, describe **two** benefits of having a marketing plan. [4]
(b) Explain the factors influencing a suitable promotional strategy for the IBAT app. [6]
3. (a) With reference to *Medimatters*, describe **two** features of batch production. [4]
(b) Assuming the production of the lenses is outsourced, explain the differences in how *Medimatters* would manage operations for its products/goods (the lens) and its service (the app). [6]

Section B

Answer the following question.

4. Six months has passed and *Medimatters* is now ready to launch IBAT. *Medimatters* will recruit new staff to set up a customer services department. Ahmed has spent some time thinking about the people he would need to recruit. The staff would need to possess IT skills and an understanding of medical issues.

The manufacturer Falit found in India has produced the first batch of 1000 IBAT lenses. Unfortunately, the IBAT lenses were delivered later than expected and some were faulty. As a result, the group is considering whether to make or buy the IBAT lenses. Ahmed has suggested setting up a manufacturing facility using lean production. His calculations are as follows:

- Price paid to manufacturer in India per IBAT lens: \$50.
- Current number of IBAT lenses purchased per month: 1000.
- Variable cost of making IBAT lenses: \$25 (per lens).
- Additional fixed cost of making IBAT lenses per month: \$20 000.

Ahmed considered his role as leader.

- He has consulted widely on a draft business plan and has discussed and agreed the mission and vision statements because he wants to involve everyone.
- The group are all very enthusiastic about IBAT, although some are anxious about the risks involved and have asked for more guidance.
- He spends a lot of time keeping everyone informed of project developments in addition to coordinating all of their efforts.
- Emma has many ideas about expanding into new markets, however, Didi does not agree and has argued with Emma.
- He is prepared to make urgent decisions himself. For example, without consultation he decided that *Medimatters* should become a private limited company.

- (a) Define the term *lean production*. [2]
- (b) With reference to *Medimatters*, explain **two** steps in the process of recruitment to the customer services department. [4]
- (c) (i) Calculate the cost to make and the cost to buy IBAT lenses (*show all your working*). [2]
- (ii) Briefly comment on your results in (c) (i). [2]
- (d) “Ahmed considered his role as leader.” Recommend an appropriate leadership style for Ahmed. [10]

Turn over

Section C

Answer the following question.

5. The group are considering two target markets.

Option 1: enter the Asian market

Emma strongly prefers this option. She recently presented IBAT at a medical conference in Asia. Great interest was shown and some attendees wanted to purchase samples at the conference. However, sales in Asia are not possible, because IBAT has not yet met regulatory quality standards there.

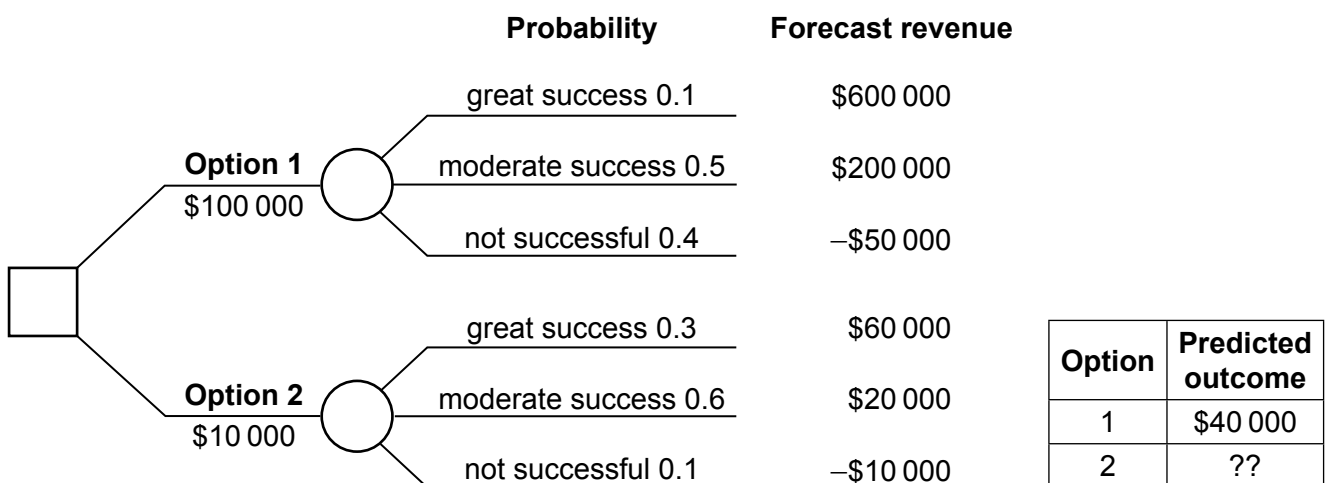
Falit also prefers this option because significant economies of scale could be gained. He also fears that other businesses will launch a similar product in Asia. The costs of entering the market would be relatively small for *Medimatters*. A suitable medical equipment wholesaler who could market and distribute the product operates in the region.

Ahmed and Didi are concerned. Quality issues with the lens manufacturer in India are worrying and should be resolved. They would like market research to be conducted to assess the suitability of Asian, as well as European and American, markets.

Option 2: continue to sell in Brazil

Didi favours this option. Always cautious, he thinks that current difficulties should be resolved before further expansion. He forecasts a reasonable first-year profit – far more than most new businesses. Ahmed likes the fact that he would not have to take on any additional workload or travel across the world: he is already struggling to manage his responsibilities. Carlo prefers this option because he wants to avoid the problems of growing too quickly, because many overambitious new businesses fail.

In preparation for the next group meeting, a decision tree showing **both** options has been produced.



(This question continues on the following page)

(Question 5 continued)

Using the case study **and** the additional information on page 4, recommend whether *Medimatters* should implement **option 1** or **option 2**.

You will find it useful to calculate the predicted outcome for **option 2** in the decision tree on page 4.

[20]