

Business management
Higher level
Paper 2

Tuesday 22 November 2016 (morning)

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 formulae sheet** is required for this examination paper.
- Section A: answer one question.
- Section B: answer two questions.
- Section C: answer one question.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[70 marks]**.

Section A

Answer **one** question from this section.

1. S4U

S4U is a private limited company that provides a storage facility to households and small businesses. S4U is considering constructing an additional new warehouse.

S4U's management has forecasted the following annual net cash flows for the new warehouse:

Year	Net cash flows (\$)
0	-150 000
1	25 000
2	30 000
3	35 500
4	37 000
5	39 800
6	41 200

- (a) Describe **one** feature of a private limited company. [2]

- (b) For the new warehouse:
 - (i) using information from the table above, calculate the average rate of return (ARR) (*show all your working*); [2]

 - (ii) using information from the table above, calculate the payback period (*show all your working*); [2]

 - (iii) using information from the table below, calculate the net present value (NPV) at a discount rate of 6% (*show all your working*). [2]

Years	Discount rate
	6%
1	0.9434
2	0.8900
3	0.8396
4	0.7921
5	0.7473
6	0.7050
7	0.6651
8	0.6271
9	0.5919
10	0.5584

- (c) Explain **one** disadvantage for S4U of using the NPV method of investment appraisal. [2]

2. Café Lucchini (CL)

Fabi Lucchini will open the only café, selling hot and cold drinks only, in her small village. The economy is weak so the local government will pay 50% of the rent for the premises in which CL will operate.

Fabi has forecasted the following figures for the first six months of operation, beginning on 1 July 2016:

Rent per month	\$2000	
Government payment toward rent per month	\$1000	
Salary per month	\$1600	
Electricity (payable every second month starting in August)	\$200	
Cleaning supplies per month	\$100	
Sales revenue per month	July	\$4000
	August	\$4000
	September	\$3500
	October	\$3500
	November	\$4000
	December	\$4500
Purchases per month	40% of sales	

An option is to install cooking facilities and serve meals to increase CL’s sales revenue. Fabi estimates that she could sell 40 meals per day at an average variable cost of \$5 and at an average sales price of \$10. Serving meals would increase her fixed costs by \$3000 per month.

- (a) Define the term *fixed cost*. [2]
- (b) Calculate the break-even quantity of meals that CL must sell to pay for the increase in fixed costs of \$3000 to provide these meals (*show all your working*). [2]
- (c) Using the information in the table **only**, prepare a monthly cash flow forecast, for CL, for the first six months of operation. [6]

Turn over

Section B

Answer **two** questions from this section.

3. Chan Manufacturing (CM)

20 years ago, Chi Chan set up *Chan Manufacturing (CM)* to produce electrical components on a just-in-time (JIT) basis for car manufacturers.

High quality and quick delivery have increased *CM*'s market share and profit. *CM*'s manual-skilled employees are loyal, productive, motivated and feel secure in their jobs. Employees admire Chi as a leader. Labour turnover at *CM* is low. Chi is paternalistic. He believes in a top-down approach to management. He cares for the financial welfare of his employees. Employees are paid a basic wage and receive additional financial rewards for working overtime. Proud of *CM*, employees regularly work harder than expected so that *CM* always meets client demand, which changes often. Chi and union representatives successfully negotiate pay and work conditions through collective bargaining.

Mei, Chi's daughter, joined *CM* as Chief Operations Manager. She relies on new business theory to guide her management decisions. Many current workers are approaching retirement age. She wants to restructure *CM* and use job enlargement, job enrichment and empowerment. Individual employment contracts are to be determined annually based on individual performance appraisal. Some employees do not like the proposal and speed of the change and are becoming demotivated. For the first time, they are considering industrial action (industrial/employee relations methods).

Mei insists that these changes are required, but wants to avoid conflict. She is considering approaches to conflict resolution.

- (a) Define the term *market share*. [2]
- (b) With reference to Mei and Chi, explain **two** differences between a manager and a leader. [4]
- (c) Applying Maslow's theory of needs, explain **two** reasons why the workers at *CM* are becoming demotivated. [4]
- (d) Examine **two** industrial/employee relations methods **other than** strike action that workers could use at *CM*. [10]

4. Adventures for All (A4A)

Tama Toki founded *Adventures for All (A4A)*, which owns four adventure parks employing 342 people. The parks offer adventure activities such as high wire and mountain biking. A4A's target market is teenagers and adults. A4A's mission statement is "safety and affordability at A4A are the most important reasons for a great time for all".



A4A uses predatory pricing. Its competitors are theme parks and adventure centres. However, social trends are changing. Many teenagers prefer social networking rather than adventure activities. A4A's sales revenue and profits are falling.

Tama discussed with senior managers two possible growth strategies:

- Option 1.** Through extensive promotion, attract children and adults with disabilities and access requirements to the parks. This approach would require specialized training for existing staff. No modifications to the parks would be required.
- Option 2.** Offer corporate team-building activities. A4A would develop specially designed programmes for senior leadership teams to spend three days in newly built conference centres located at the parks. Corporate teams would engage in adventure activities together and then discuss strategic options for their organizations.

Option 2 could be highly profitable. A4A could charge high prices for these programmes. However, some of Tama's senior managers argued that A4A should continue to provide "adventures for all" and not just to a group of highly paid senior leadership teams.

The two options created major disagreements. Two senior managers, working with Tama since the creation of A4A, threatened to resign if Option 2 was implemented. Two other senior managers argued that without Option 2 many jobs at A4A were under threat.

- (a) Define the term *target market*. [2]
- (b) Explain **two** roles of A4A's mission statement. [4]
- (c) Explain **one** advantage and **one** disadvantage for A4A of using a predatory pricing strategy. [4]
- (d) Using the Ansoff matrix, evaluate the **two** possible growth strategies for A4A. [10]

Turn over

5. Thorns Hill (TH)

Thorns Hill (TH) is a hotel. Its mission statement is “to provide the highest standard of customer service and to be the best employer”. *TH* has three profit centres, each with its own manager:

- sleeping accommodation
- restaurant
- function room for weddings, conferences and other events.

The function room offers entertainment facilities and purchases catering from the hotel restaurant. The function room employees are mostly students working in their spare time. They have flexible contracts that do not guarantee hours of work nor provide benefits such as paid sick leave or holidays.

The use of flexible contracts has reduced the function room’s annual wage cost by 40% over the last five years. The de-layering of supervisory posts (positions) has further reduced the cost of wages. With these cost savings, the profits of the function room have increased significantly. Recently, issues with punctuality, absenteeism and labour turnover increased.

30% of the restaurant’s sales revenue comes from catering for the function room. The restaurant recently won an award and, in the summer season, is always full of diners. In summer the restaurant has difficulty meeting the catering demands of the function room. Meals ordered often arrive late from the restaurant.

Competition in the market for function rooms is high. The owners are considering a proposal to improve the reputation of the function room by outsourcing all the services of the function room to a private contractor. The private contractor will charge *TH* more than the direct cost of the function room.

- (a) Define the term *de-layering*. [2]
- (b) Explain **two** advantages for *TH* of having three separate profit centres. [4]
- (c) Explain **one** benefit and **one** negative consequence for *TH* of an increase in labour turnover. [4]
- (d) Discuss the proposal to outsource all function room services to a private contractor. [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 ways in which **culture** can influence international marketing **strategy**. [20]

 7. With reference to an organization of your choice, examine the impact of **globalization** on business **ethics**. [20]

 8. With reference to an organization of your choice, discuss the ways in which **innovation** can influence organizational **change**. [20]
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