

Business management
Higher level
Paper 1

Friday 28 April 2017 (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 *Utopia*, describe the importance of **two** external stakeholders (line 12). [4]
(b) With reference to *Utopia*, explain the role of promotion (line 6). [6]
2. (a) With reference to *JAC*, describe **two** advantages of internal growth (line 52). [4]
(b) With reference to John, explain the key functions of management. [6]
3. (a) With reference to *Utopia*, describe **two** suitable sources of finance for the 3D printers (line 60). [4]
(b) Explain the role of ethics in John's businesses. [6]

Section B

Answer the following question.

4. Paul’s idea for 3D printing takes *Utopia* into a secondary sector activity that contrasts with its usual tertiary sector activities. In order to produce a sufficient number of souvenirs, *Utopia* would need to buy ten 3D printers at \$1000 each. There would be material costs and significant operating costs, as well as time and additional labour. Paul has produced a net cash flow forecast for the project (Table 1) assuming a five year life for the printers. He likes the idea that each souvenir produced could be of a unique design and personalized. Some of the materials would be from recycled plastics obtained from waste at the resort. This example of lean production would be good for the resort’s environment and for *Utopia*’s caring image. The cost of recycling is uncertain.

Table 1: Net cash flow for the 3D printing project

| Year | Net cash flow (excluding capital investment) |
|------|--|
| 1 | \$2000 |
| 2 | \$3000 |
| 3 | \$4000 |
| 4 | \$4000 |
| 5 | \$4000 |

Table 2: Discount factors

| Year | Discount factor |
|------|-----------------|
| 1 | 0.91 |
| 2 | 0.83 |
| 3 | 0.75 |
| 4 | 0.68 |
| 5 | 0.62 |

Liza does not like the idea of 3D printing. She is concerned that the souvenirs may damage *Utopia*’s exclusive brand. She can see difficulties with recruiting someone with both the necessary IT skills and the ability to make decisions about which types of souvenirs to produce. She is particularly concerned about the impact on *Utopia*’s current suppliers of souvenirs. She thinks that 3D printing is more suited to larger organizations.

John believes that the 3D printing technology will bring other benefits to his businesses. He can imagine decorations and other useful items being produced for the resort and its offices.

- (a) Describe **one** method of lean production **other than** recycling. [2]
- (b) With reference to *Utopia*, explain **two** benefits of having a strong brand. [4]
- (c) Using information from **Table 1** and **Table 2**, calculate the net present value (NPV) for the 3D printing project. [4]
- (d) Using information from the case study, additional information above **and** your results from part (c), discuss whether *Utopia* should proceed with the 3D printing project. [10]

Turn over

Section C

Answer the following question.

5. John felt that the decision about expanding JAC into the international markets of the Pacific Islands did not depend on the decision about the 3D printing project. However, he decided that they should not enter the markets at the same time, so they had to choose between starting with Fiji, Samoa or New Zealand. John stressed to Liza that, as with the construction of the *Utopia* villas, the choice of a new international market should strongly consider cultural influences and norms. For this reason, John favoured Fiji and Samoa over New Zealand, arguing that they are more culturally similar to Ratu. However, the final decision not being made, John asked Liza to do some more research into the idea and into the two markets. The results of her ideas are summarized in Tables 1, 2 and 3.

Table 1: Liza’s market research results

| | Fiji | Samoa |
|---------------------------------------|---|--|
| Description | Consists of over 330 islands, of which 110 are permanently inhabited. It covers a huge area of the Pacific Ocean. | Two large islands. |
| Population (2015) | 881 000 | 190 000 |
| Tourist visitors (2015) | 658 000 | 116 000 |
| GDP per person (2015 estimate) | \$4900 | \$6200 |
| Projected economic growth | 4.5 % | 1.9 % |
| Type of economy | Developed economy with tourism, forestry, minerals, fish and sugar being the main industries. | Largely industrial (58 % of GDP) and tourism (25%). Some agriculture including growing and exporting coffee beans. |
| Coffee drinking culture | Predominantly tea drinkers | 100 % coffee |

[Source: adapted from Index Mundi, Asian Development Bank and Chartsbin.com]

Table 2: Why invest in Fiji?

- Fiji is a regional and global hub.
- Tax exemptions and tax free regions within the country.
- Fibre-optic infrastructure.
- Investment packages available.

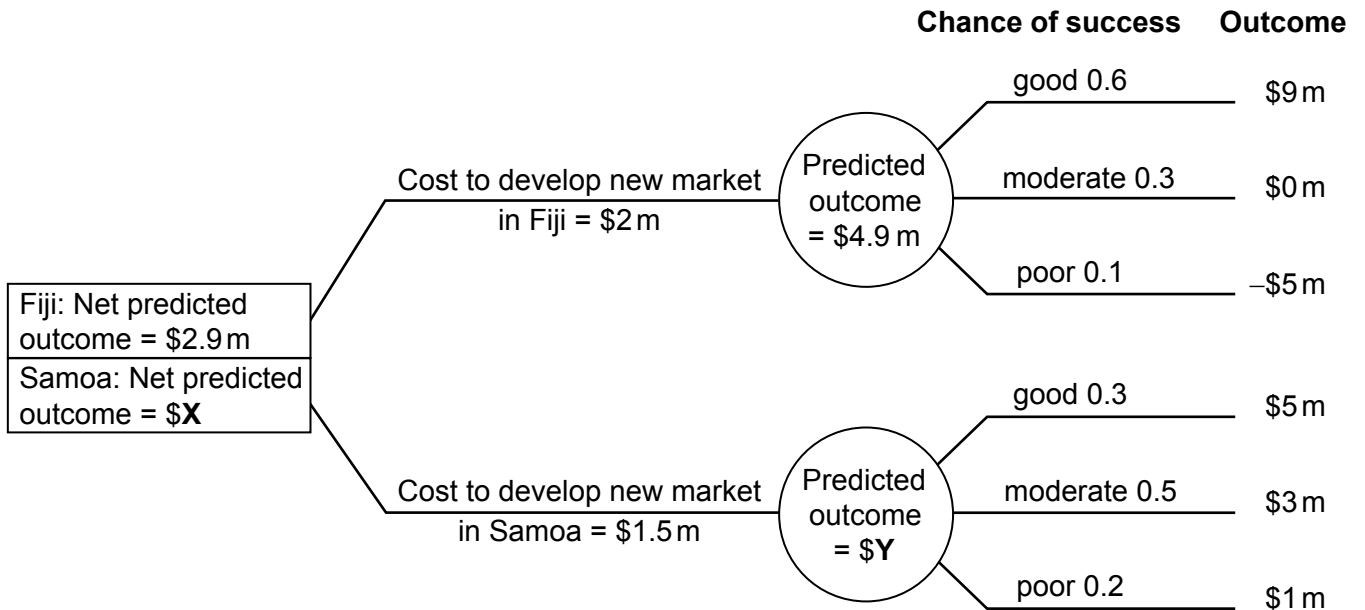
Table 3: Why invest in Samoa?

- Most politically stable country in the region.
- Profits and capital can easily be transferred overseas (repatriated).
- Affordable, productive, flexible English-speaking skilled labour force available.
- Concessional trade agreements available.

(This question continues on the following page)

(Question 5 continued)

Liza drew up the following decision tree to help clarify the decision process and try to quantify the issues involved in the decision.



Using the case study **and** the additional information on pages 4 and 5, recommend which of the Pacific Island markets *JAC* should enter. Completing the decision tree and using the results could help you in your answer.

[20]