

Business management
Higher level
Paper 2

Monday 1 May 2017 (morning)

2 hour 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. Bart Furniture (BF)

Bart Furniture (BF) is a wholesaler that stocks furniture. In 2015, *BF* purchased more stock than usual in order to take advantage of discounts that several furniture manufacturers were offering. However, much of this new stock did not sell.

Table 1: Financial information, for *BF*, for 2015 and 2016

	2015	2016
Acid-test/quick ratio	2.21	2.84
Cash	\$2000	\$500
Cost of goods sold	\$12 166	\$12 500
Creditors	\$1000	\$1438
Current ratio	A	5.47
Debtor days	30 days	Y
Debtors	\$1973	\$6134
Long-term debt	\$14 000	\$13 700
Sales revenue	\$24 000	\$26 000
Short-term debt	\$800	\$900
Stock	\$4000	\$6164
Stock turnover in days	X	180

- (a) Describe **one** feature of a wholesaler. [2]
- (b) Using information in **Table 1**, calculate for *BF*:
- (i) stock turnover in days for 2015 (**X**) (*show all your working*); [2]
- (ii) current ratio for 2015 (**A**) (*show all your working*); [2]
- (iii) debtor days for 2016 (**Y**) (*show all your working*). [2]
- (c) Referring to information in **Table 1** and your calculations, explain the change in *BF*'s liquidity between 2015 and 2016. [2]

2. Geo Dynamics (GD)

Geo Dynamics (GD) is an engineering company. On 1 January 2016, *GD* purchased new machinery at a cost of \$50 000 rather than leasing it. *GD*'s financial manager researched further information:

- The machinery has a useful life of four years.
- Its residual or scrap value will be \$8000.
- The engineering industry uses a 40 % depreciation rate per annum.
- Technology in this industry is changing rapidly.

GD's financial manager has not yet decided on which depreciation method (such as straight line or reducing/declining balance) to use for the new machinery.

- (a) Describe **one** disadvantage for *GD* of leasing. [2]
- (b) Calculate the value (also known as net book value) of new machinery at 31 December 2017 using the straight line depreciation method (*show all your working*). [2]
- (c) Calculate the value (also known as net book value) of new machinery at 31 December 2017 using the reducing/declining balance method, applying the industry depreciation rate of 40 % per annum (*show all your working*). [4]
- (d) Explain **one** advantage for *GD* of using the straight line balance depreciation method. [2]

Turn over

Section B

Answer **two** questions from this section.

3. Health Star (HS)

Health Star (HS) is a private limited company providing management consultancy services for public sector organizations like hospitals. *HS* is well known for its creativity and for helping customers achieve budget targets. *HS*'s consultants are all shareholders, receive high salaries and profit-related pay. *HS* also gives its consultants freedom and encouragement to be intrapreneurs. The consultants' work performance is appraised on a monthly basis using formative appraisal.

Recently, several pressure groups have protested against the high fees charged by *HS*. "The high fees are outrageous!" said Elaine Hall in a local news report. "Public sector hospitals need to use their resources for patient care and not for employing expensive consultants."

In response to the pressure groups, *HS* is considering two options proposed by two senior consultants, Dan and Lauren:

- **Option 1:** Dan has suggested that *HS* should set up a charity to create educational services for children with long-term health problems. The charity will be funded partly through donations and partly through *HS*'s own profits. The charity, *Health Star Education (HSE)*, will finance qualified teachers to visit hospitals. *HS*'s consultants are also expected to volunteer to read to sick children.
- **Option 2:** Lauren has suggested that reducing the high fees should be the priority. She suggests that new, untested software could be developed by her project team to significantly reduce the costs of treatment for patients. Consequently, *HS* could charge public sector hospitals a lower fee.

- (a) Describe **one** possible objective of a public health organization. [2]
- (b) Explain **two** characteristics of an intrapreneur at *HS*. [4]
- (c) Explain **one** advantage **and one** disadvantage for *HS* of using formative appraisal. [4]
- (d) Recommend which of **Option 1** and **Option 2** *HS* should implement. [10]

4. Secco Vineyards (SV)

Secco Vineyards (SV) is a family-owned business producing wine in Sonoma, California. In 1947, *SV* opened using cost-plus (mark-up) pricing. For *SV*'s customers, the wines were medium priced and available in local grocery stores.

In 1977, Joe Secco, grandson of the founder, created a new strategy. He re-branded *SV*'s wine for a niche premium market.

- *SV* began to sell directly to customers at its winery instead of in local grocery stores.
- *SV* stopped using cost-plus (mark-up) pricing and began charging much higher prices.
- Regular wine tastings and promotional events were held at its winery. At these events, wine experts would promote *SV*'s wines by creating an elegant experience based on a luxurious culture of wine consumption. *SV*'s physical evidence in its marketing mix became much more important.

However, *SV* has recently faced intense competition and sales have fallen. Local wine producers and overseas competitors have entered the market with similar market positioning. In order to maintain its brand image, *SV* has not changed its pricing strategies.

SV conducted secondary market research about other possible markets in the US for its premium wines. The research suggested that other possible markets for high-quality wines, such as those of *SV*, exist. As a result, *SV* is considering two new options to increase sales in addition to its current distribution channel:

- **Option 1:** open a business-to-consumer (B2C) e-commerce store
- **Option 2:** sell *SV* wines to wholesalers serving the whole of the US market for premium wines.

- (a) Describe **one** characteristic of a niche market. [2]
- (b) With reference to *SV*, explain **one** advantage **and one** disadvantage of using secondary market research. [4]
- (c) Given the intense competition, explain **two** pricing strategies *SV* might consider. [4]
- (d) Recommend which of **Option 1** and **Option 2** *SV* should consider in order to increase sales. [10]

5. Gen Y Limited

Gen Y Limited is an internet start-up business owned by Zack Johnson. Zack owns 80% of the shares and venture capitalists own the other 20%. *Gen Y* has specialist programmers and coders who create innovative market research data reports for clients. These data reports have revolutionized *Gen Y*'s clients' ability to understand and respond to customers in their markets.

To retain the best programmers, employees are given cognitive training and are empowered to make decisions and take risks. They are also regularly praised for the impact that their reports are having on their clients' decision making. One day a week, employees can work on their own "dream, but risky, projects". Intrapreneurship is strongly encouraged at *Gen Y*. However, *Gen Y* lacks the capital to develop some of these projects into future revenue streams.

Virtually all of *Gen Y*'s costs are fixed – salaries. As of 2017, *Gen Y* has not yet generated a profit. Without more revenue they will have to reduce the number of programmers. Petra, a new investor, is being considered to provide fresh capital to invest in *Gen Y*. Ownership of *Gen Y* will change to:

Zack	40%
Venture capitalists	20%
Petra	40%

Petra believes in intrapreneurship but is concerned that "dream" projects are not generating profits. She has said that if she is going to invest in *Gen Y* two conditions must be met:

- Management at *Gen Y* will change to an autocratic leadership style.
- Programmers will be expected to meet sales targets.

As a result, programmers will have no autonomy.

- (a) Outline **two** features of an autocratic leadership style. [2]
- (b) Apply Daniel Pink's motivation theory to the programmers at *Gen Y*. [6]
- (c) Explain **one** reason, **other than** increased sales revenue, why it is important that *Gen Y* generates new revenue streams. [2]
- (d) Discuss whether Zack should sell Petra half of his shares with her conditions. [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, examine the impact of **globalization** on **innovation**. [20]

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

 8. With reference to an organization of your choice, discuss the ways in which **culture** can promote or inhibit **change**. [20]
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