

Business management
Standard level
Paper 2

Monday 1 May 2017 (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]**.

Section A

Answer **one** question from this section.

1. Sotatsu Electronics (SE)

Sotatsu Electronics (SE) manufactures electronic products and is famous for its innovative televisions. In late 2015, *SE* introduced a new high-definition television with twice the quality of the best-selling television of its chief competitor. Determining that it would be two years before its competitors could have a similar product, *SE* adopted a price skimming strategy.

Table 1: Select financial information for SE for 2015 and 2016.
Figures in \$000 000.

	2015	2016
Cash	300	250
Cost of goods sold	2100	2300
Creditors	180	230
Expenses	1200	1300
Fixed assets	1075	1275
Gross profit	X	2800
Net profit before interest and tax	1000	Y
Sales revenue	4300	5100
Total current assets	650	700
Total current liabilities	275	300

- (a) Define the term *price skimming*. [2]
- (b) (i) Calculate the values of **X** and **Y** in Table 1 (*no working required*). [2]
(ii) Construct a profit and loss account for *SE* for 2015 and 2016. [4]
- (c) Calculate net current assets (working capital) for 2016 (*show all your working*). [2]

2. Anubis

Tom operates *Anubis* as a sole trader, selling cell/mobile phone cases on the internet. The market is increasingly competitive. The retail price of phone cases is predicted to fall in the second quarter of 2018. Employees at *Anubis* will receive a 3% rise in wages starting from 1 April 2018.

Tom has forecasted the following monthly cash outflows for January through March 2018:

- Heating and lighting: \$4000.
- Wages: \$50 000.
- Packaging: \$15 000.
- Delivery charges: 5% of sales revenue.
- Cost of goods sold: \$220 000.

Additional information:

- Opening balance on 1 January 2018: \$8000.
- Sales revenue: \$300 000 each month.
- Rent of \$2000 paid quarterly: first payment in January 2018.
- Receipt of a tax refund in February 2018: \$3000.

- (a) Outline **two** appropriate external short-term sources of finance for *Anubis* **other than** loans from family and friends. [2]
- (b) Using the information above, prepare a fully labelled cash-flow forecast for *Anubis* from January to March 2018. [5]
- (c) Comment on the predicted cash flow for *Anubis* for 2018. [3]

Turn over

Section B

Answer **one** question from this section.

3. Dales

Dales is a public limited hotel chain operating in a highly competitive tourism market. *Dales* is positioned as a high-price and high-quality chain. The majority of its staff are on permanent contracts, but wage rates at *Dales* are below the average for the hotel industry. Consequently, staff turnover is high. Recruitment is difficult due to the number of hotels in the areas where *Dales* hotels are located and the wages paid.

In 2010, in order to remain competitive, *Dales* outsourced the cleaning of hotel rooms to *Wire*. Outsourcing reduced the cost of cleaning rooms for *Dales* from 5% of total revenue per room to 2%. Net profit after tax and interest increased and share prices rose by 10%.

Initially, *Wire* paid cleaners at *Dales* a low wage of:

- \$6 per hour for 8 hours, 5 days per week.
- Cleaners cleaned, on average, 13 rooms per day.

In 2016, *Wire* introduced a piece rate system:

- \$2 is paid per room cleaned.
- Cleaners have a target of 20 rooms per day, 5 days per week.

In recent years, newspaper reports highlighting poor pay and working conditions have damaged *Dales's* brand image. Recent customer feedback has also highlighted concerns about food quality, room cleanliness and poor customer service at *Dales* hotels. Room bookings fell during the same period. Profits in 2016 decreased from \$24 m to \$4 m.

The current contract with *Wire* is up for renewal. *Dales* is considering insourcing.

- (a) Outline **two** common steps taken by a business in recruitment. [2]
- (b) (i) Explain **two** disadvantages for *Wire* of introducing a piece rate system of wages for its cleaning staff. [4]
- (ii) Calculate the financial impact on cleaners employed by *Wire* from the introduction of the piece rate system in 2016 (*show all your working*). [2]
- (iii) Calculate the change in cleaning costs per room from the introduction of the piece rate system used by *Wire*. [2]
- (c) Recommend if *Dales* should stop outsourcing the cleaning of hotel rooms. [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 to sell its wines at much higher prices than before.
- 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: stylish wine glasses, classical music and food that complements the wine.

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 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]

Turn over

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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