

Business management
Standard level
Paper 2

Monday 30 April 2018 (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. Fishers

Fishers manufactures baseball caps. In 2017, it sold 75 000 caps. The variable cost per cap was \$6. 70% of *Fishers*'s annual sales occur from April to September. Starting in March, *Fishers* experiences a significant increase in current assets and current liabilities, which start to decrease in October.

Table 1: Selected data for *Fishers* for 2017 (figures in \$000s)

Sales revenue	\$900
Fixed costs	\$55

Table 2: Selected forecasted financial information for *Fishers* for 2018

Increase in number of baseball caps sold	10%
Increase in variable costs per cap	\$1.00
Fixed costs	\$55 000
Interest	\$30 000
Income tax expense	20% of net profit before tax

Sales price per cap will remain the same as in 2017.

[Source: © International Baccalaureate Organization 2018]

- (a) Define the term *current assets*. [2]

- (b) Using **Table 1**, calculate *Fishers*'s net profit **before** interest and tax for 2017 (*show all your working*). [2]

- (c) Using **Table 2**, calculate the following forecasted figures for 2018:
 - (i) sales revenue; [1]
 - (ii) total variable costs; [1]
 - (iii) income tax; [1]
 - (iv) net profit **after** interest and tax. [1]

- (d) Explain why *Fishers* experiences a significant increase in current assets and current liabilities from March to October. [2]

2. Visionary Toys (VT)

Visionary Toys (VT) produces highly innovative toys for children. *VT* began operation in January 2017 and its unique selling point/proposition (USP) is producing toy parts with a 3D printer. The financial director presented financial information for *VT* at the end of 2017. He was concerned about *VT*'s liquidity.

Table 1: Revenue and expense information for the year 2017 and balance sheet items at 31 December 2017

Cash	\$1000
Net fixed assets	\$27 000
Interest paid	\$250
Creditors	\$4000
Debtors	\$3500
Accumulated retained profit – end of 2017	\$10 000
Costs of goods sold	\$7500
Sales revenue	\$27 250
Short-term loans	\$1500
Overdraft balance	\$2000
Expenses	\$7000
Share capital	\$13 500
Dividends paid	\$2500
Long-term liabilities	\$5000
Stock of toy parts	\$4500

[Source: © International Baccalaureate Organization 2018]

- (a) Define the term *unique selling point/proposition (USP)*. [2]
- (b) (i) Construct a fully labelled balance sheet for *VT* for the end of 2017. [5]
- (ii) Calculate the acid test (quick) ratio for *VT* for 2018. [1]
- (c) Explain **one** way *VT* could improve its liquidity. [2]

Turn over

Section B

Answer **one** question from this section.

3. JVS

JVS is a successful manufacturer of designer clothing. A marketing expert described *JVS*'s brand name, *Izzys*, as one of the business's major strengths. Because of its market orientation approach, *JVS* spends significantly more on market research than its competitors.

JVS's products are:

- *Izzys*, a range of high-quality fashion jeans, which contributes 70 % towards *JVS*'s revenue and profit. The market for this range is not growing.
- *IzzDen*, a range of denim jackets, which is near the end of the product life cycle. Manufacturing of this product will cease later this year.

Izzys and *IzzDen* are sold through high-end independent retailers throughout countries in Europe. *JVS* uses a price leadership strategy for these two products. Consumers perceive *JVS* as fashionable. They also believe that *JVS*'s products are worth the premium price.

JVS is considering launching a new product, a range of fashionable shorts – *Izzless* – aimed at the 15–19 age group. With this product, *JVS* would reach a different, but highly competitive, market. Focus groups revealed that many low-income young consumers want to purchase fashion shorts. *JVS* would sell the new shorts to mass market discount retail stores. Consumers would also be able to order online for next-day delivery.

[Source: © International Baccalaureate Organization 2018]

- (a) State **two** stages of the product life cycle. [2]
- (b) Apply the Boston Consulting Group (BCG) matrix to *JVS*'s current product portfolio. [4]
- (c) Explain **one** advantage **and one** disadvantage for *JVS* of using focus groups for its market research. [4]
- (d) Recommend whether *JVS* should launch the new product, *Izzless*. [10]

4. Healthy Start (HS)

Tom Donat started *Healthy Start (HS)*, a national chain of stores preparing and selling healthy snacks, which are produced in batches. *HS*'s target market is teenagers and young adults. Tom was concerned about high levels of fast food consumption and youth unemployment. His vision statement for *HS* is: "To encourage life-long healthy eating habits and to train school leavers (drop outs) in acquiring work skills".

HS hires many school leavers without qualifications. Because of the valuable social service that *HS* provides, an independent online media provider will feature *HS* in a new online reality TV show.

All employees, including managers, start at the lowest level of the organizational hierarchy and train on the job. Job enlargement, job enrichment and intrapreneurship opportunities are available. 20% of all profits earned are put back into *HS* to finance these opportunities. Staff turnover is lower than the industry average.

Competition from global fast food restaurants has intensified. Their economies of scale mean that *HS* struggles to increase its market share. Online reviews indicate that some customers perceive *HS*'s snacks as healthy but overpriced and with small-sized portions.

Tom is considering two options:

- **Option 1:** Implement flow production. *HS* will buy new technology and assign each employee to a specific job on the production line. *HS* will increase portion sizes and keep prices the same.
- **Option 2:** Implement a new social media marketing campaign linked to the new online TV show. The campaign will focus on the health benefits of *HS*'s snacks.

[Source: © International Baccalaureate Organization 2018]

- (a) Describe **one** role of a vision statement for *HS*. [2]
- (b) Explain how the following can benefit *HS*:
- (i) job enlargement; [2]
 - (ii) intrapreneurship. [2]
- (c) Explain **two** possible economies of scale available to global fast food restaurants but not *HS*. [4]
- (d) Discuss the two options that Tom is considering for *HS* in response to the intense competition. [10]

Turn over

5. Creative Software Systems (CSS)

Creative Software Systems (CSS), a private limited company, designs custom software packages for public sector organizations. Ebru Aga is the sole shareholder, though she is considering an employee share ownership scheme.

For years, CSS managed its employees closely, setting individual targets for performance and requiring regular progress reports. Following Adams's equity theory, CSS tied financial rewards to frequently measured performance outcomes. Though managers clearly explained to individual employees how additional financial rewards were linked to specific contributions they made, many employees still felt the system was unfair.

After reading Daniel Pink's theory of motivation, Ebru reconsidered her management style and CSS's system of financial rewards. She liked when Pink reported that a major American company allowed employees to work 20 % of their time on projects of their choice. Ebru implemented the following three changes:

- **Change 1:** Adopting a project-based organizational structure for CSS projects.
- **Change 2:** Eliminating performance-related pay (PRP).
- **Change 3:** Allowing employees to spend 20 % of their time on any project they wish, either one of CSS's or their own "dream project".

Employees' reactions were mixed. Some employees were thrilled. They had many ideas of their own that they wanted to explore. Other employees, however, did not like the change. In the 20 % of their time given to any project they wished, they chose to work on projects given to them by CSS. They felt it was unfair. Although they were advancing important projects of the company, they would no longer get performance-related pay (PRP), while others spent their time on projects that might not contribute to CSS's profitability.

[Source: © International Baccalaureate Organization 2018]

- (a) Define the term *public sector*. [2]
- (b) Explain **one** advantage **and one** disadvantage for CSS of introducing an employee share ownership scheme. [4]
- (c) Explain **one** advantage **and one** disadvantage for CSS of implementing a project-based organizational structure (**Change 1**). [4]
- (d) With reference to Adams's equity theory and Daniel Pink's motivation theory, discuss Ebru's decision to eliminate performance-related pay (PRP) (**Change 2**) and to allow employees to spend 20 % of their time on any project they wish (**Change 3**). [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 human resources **strategy**. [20]
 7. With reference to an organization of your choice, examine the impact of **ethics** on organizational **change**. [20]
 8. With reference to an organization of your choice, examine the impact of **innovation** and **culture** on an organization. [20]
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