

Business management
Higher level
Paper 1

Thursday 8 November 2018 (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]**.

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Section A

Answer **two** questions from this section.

1. (a) Describe **two** elements of a marketing plan (line 21) for *AFA*. [4]
- (b) With reference to *AFA*, explain why applying appropriate principles and ethics of accounting practice is important. [6]
2. (a) Describe **two** external stakeholders of *AFA*, **other than** customers. [4]
- (b) With reference to *AFA*, explain the importance of branding. [6]
3. (a) With reference to *AFA*, outline **one** benefit **and one** cost to Sam of opening a new e-commerce website (lines 51–52). [4]
- (b) Distinguish between the leadership styles of Sam and Finn. [6]

Turn over

Section B

Answer the following question.

4. Sam and Finn are having difficulties resolving their disagreements. Finn was convinced that the problems at *AFA* should be resolved by a change in the organizational structure. Sam, however, was convinced that he should strengthen the organizational culture. Sam reluctantly accepted the need for greater delegation but insisted that there should be more training for all employees on the culture and ethics of *AFA*.

As part of greater delegation, Kim was given responsibility for the relationship between *AFA* and its suppliers. Kim is concerned that she spends a lot of time chasing orders that do not arrive and dealing with the poor quality of orders. Some products have to be thrown away because they have passed their sell-by dates*. Others have to be returned to suppliers because the outlet managers do not accept the poor quality and therefore cannot be sold.

AFA's stock of fair trade woollen hats has now reached 500, with an annual sales average of around 1250 for the whole business. Kim wants to introduce lean production including total quality management (TQM) throughout *AFA*'s operations and has created a Gantt chart to show the stages in implementation.

* sell-by dates: dates printed on the packaging of products that state the date after which the product can no longer be sold.

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(Question 4 continued)

Figure 1: Gantt chart for the implementation of lean production including TQM at AFA

Week	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	
Research and benchmark other businesses	█	█	█	█																		
Recruit consultants	█	█	█																			
Appoint manager			█																			
Design systems			█	█	█	█	█															
Train managers						█	█	█														
Train staff								█	█	█												
Install IT systems							█	█	█	█	█	█										
Introduce stock control system													█	█								
Introduce total quality management													█	█	█	█						
Complete lean production process																			█	█		

- (a) State **two** elements of an organizational culture. [2]
- (b) (i) Calculate the inventory/stock turnover for woollen hats (*show all your working*). [2]
- (ii) Comment on your result in (b)(i). [2]
- (c) Explain the usefulness of a Gantt chart to AFA in planning the implementation of a new process. [4]
- (d) Discuss the value to AFA of lean production methods. [10]

Turn over

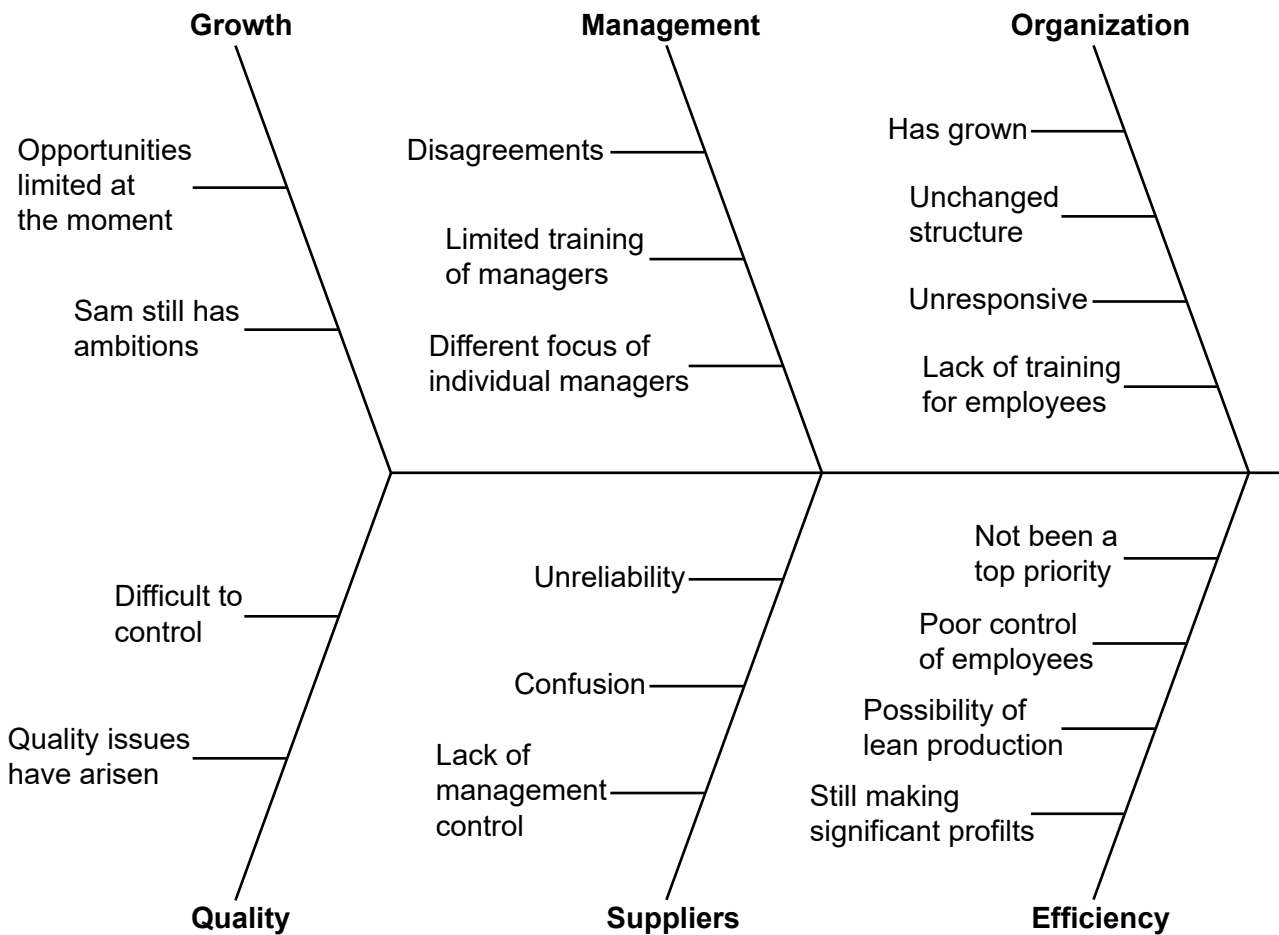
Section C

Answer the following question.

5. Sam is still impatient and keen to grow the business. He is becoming increasingly frustrated by problems with suppliers, particularly *AB Clothing (ABC)*. Frequently, orders are late and wrong, and quality is becoming a major problem. Sam has heard rumours of disagreements amongst *ABC*'s board members and discontent from major shareholders. *ABC*'s share price has fallen 25% in the last month. Productivity has fallen and strikes have been threatened. Recently, several press reports linked *ABC* to using child labour and suggested that the company did not always use organic materials for its products. Sam is wondering whether to take over *ABC*. He is sure that many of the problems at *ABC* could be resolved and that *ABC* would become, once again, a reliable supplier.

Sam has put together some information. **Figure 2** relates to *AFA* and shows a summary of issues and additional information. **Tables 1** and **2** provide data on *ABC*.

Figure 2: Fishbone diagram of the current situation at *AFA*



(This question continues on the following page)

(Question 5 continued)

Table 1: Accounts for ABC for the years ending 2017 and 2018

Year ending	Dec 2017	Dec 2018
Debt (\$m)	12	15
Equity (\$m)	3	3
Fixed assets (\$m)	20	25
Current assets (\$m)	2	3
Current liabilities (\$m)	2	5
Net profit (\$m)	1	0.25
Share price (\$)	1.15	0.86
Number of shares (millions)	3	3

Table 2: Selected marketing information for ABC

Year	2017	2018	Forecast 2019
Market growth for fair trade clothing	4 %	8 %	10 %
Market share	5 %	6 %	5 %
Number of competitors	2	5	20
Marketing budget (\$m)	0.3	0.5	0.2
Sales (\$m)	5	6.5	5.9

Using the case study, additional information on pages 4 to 7 and appropriate business tools, recommend whether AFA should take over ABC.

[20]