Diploma Programme
Programme du diplôme
Programa del Diploma

Business management
Higher level
Paper 2

Friday 9 November 2018 (morning)

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 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]**.

8818 – 5012

Section A

Answer **one** question from this section.

1. Designer Dolls (DD)

Designer Dolls (*DD*) is a start-up business that will create hand-crafted unique dolls using a job/customized production method. As part of their business plan *DD* undertook a break-even analysis.

Table 1: Forecasted figures for *DD* for the first year of operation

Fixed costs	$10 000
Variable costs per doll	$30
Price per doll	$50
Full productive capacity	900 dolls

(a) Describe **one** limitation of a break-even analysis. [2]

(b) Calculate:

(i) the number of dolls that *DD* needs to sell to achieve a profit of $4000 (*show all your working*); [2]

(ii) the capacity utilization rate at the break-even quantity for *DD* for the first year of operation (*show all your working*); [2]

(iii) the profit or loss in the first year if *DD* sells 400 dolls (*show all your working*). [2]

(c) Assuming that the quantity of dolls to be sold in the second year is 550 and costs remain unchanged, calculate the price per doll that *DD* would need to charge to make a $6500 profit. [2]

2. Papel

Papel manufactures and sells paper bags. It pays cash for 80 % of its raw materials but, to remain competitive, it must sell on credit to all customers. Many debtors are not paying on time and creditors (suppliers) are increasing. The board of directors is concerned about *Papel*'s liquidity position.

The finance manager has provided information from *Papel*'s accounts.

Table 1: Selected information from *Papel*'s accounts at 31 October 2018

	000s $
Accumulated retained profit	14
Cash	3
Cost of goods sold	2
Creditors	20
Debtors	12
Expenses	2
Long-term liabilities (debt)	20
Net fixed assets	60
Sales revenue	5
Share capital	26
Stock	5

(a) Define the term *debtors*. [2]

(b) Using information from **Table 1**:

(i) construct a fully labelled balance sheet for *Papel* for the end of October 2018; [5]

(ii) calculate the current ratio for *Papel* for the end of October 2018. [1]

(c) Explain **one** possible strategy, **other than** elimination of credit sales, for *Papel* to improve its liquidity position. [2]

Section B

Answer **two** questions from this section.

3. KA

KA is a public limited company that designs, manufactures and sells air conditioners. *KA*'s unionized employees are motivated and efficient despite not being involved in any decision making. However, they are resistant to change.

The market and competition for air conditioners are growing rapidly. *KA* operates at full capacity but stock turnover has slowed.

Primary market research revealed that:

- consumers do not differentiate *KA* air conditioners from those of its competitors. All products are perceived as medium price and medium quality
- *KA's* customer service is rated as poor
- customers demand energy-efficient products using ecologically sustainable production methods.

To exploit opportunities and overcome weaknesses and threats, *KA*'s management has decided to redesign its products so that they are energy efficient. *KA* is considering two options:

- **Option1:** Implement lean production methods, which includes investing in ecologically sustainable machines that will increase capacity by 10 %. Total quality management (TQM) will also be implemented. However, the financial manager is worried about *KA*'s ability to meet high initial costs. The forecasted payback period is three years and average rate of return (ARR) is 4 %.
- **Option 2:** Outsource the production to *QS,* a company known for its reliability and high capacity to produce excellent quality air conditioners using cradle to cradle manufacturing principles. However, *QS* refuses to sign an exclusive long-term contract with *KA*, insisting instead on renegotiating the contract every two years. *KA* will have to close its production facility and will use the cost savings to improve customer service and to reposition and differentiate its air conditioners.

Employees have heard rumours of both options and fear for their jobs. Strike action is being considered.

(a) Define the term *public limited company*. [2]

(b) With reference to *QS*, explain **two** features of cradle to cradle manufacturing. [4]

(c) Explain **two** possible human resource strategies that *KA* management could use to reduce employees' resistance to change. [4]

(d) Evaluate the two options that *KA* is considering. [10]

4. La Bonita (LB)

La Bonita (*LB*) is a beach hotel owned by Felix and Rose Sanchez. Its current target market is families seeking beach holidays. *LB* offers high-quality service. Customers do not pay in advance and pay in full on departure. *LB* is located near a capital city.

As there are no hotel training schools locally, Felix provides on the job training to all new recruits. A recent survey by *LB* to assess brand loyalty found that existing customers remain loyal because:

- they appreciate not having to pay in advance, as required at other local hotels
- employees are polite and helpful and particularly good with children
- the services provided are perceived as very good value for money.

However, many customers have commented that the hotel needs to upgrade its facilities.

In winter, *LB* has a very low capacity utilization and monthly cash flows are negative. *LB* gets through these months using bank overdrafts while continuing to pay its suppliers in cash to get generous discounts. Felix is concerned that the cash-flow situation is unsustainable and could get worse because the hotel facilities need upgrading. He proposes that *LB* raises additional finance and finds ways of reducing cash outflows in the winter (**proposal 1**).

Rose believes that the cash-flow problem is mainly due to low capacity utilization in the winter months. She wants to diversify and attract a new segment for the winter: business customers. However, this would involve significant expenditure, including upgrading and adding new facilities to the hotel (**proposal 2**).

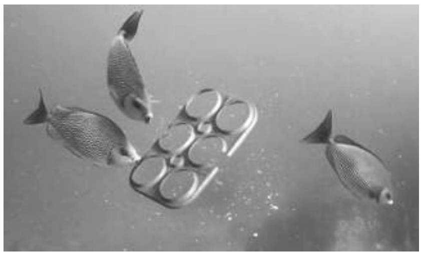
(a) Define the term *brand loyalty.* [2]

(b) Explain **two** advantages for *LB* of using on the job training. [4]

(c) Explain the importance to *LB* of **two** elements of the extended marketing mix. [4]

(d) Discuss whether *LB* should implement **proposal 1 or proposal 2**. [10]

5. Benno



Benno is a soft drinks manufacturer. Its mission statement is "to produce healthy drinks without damaging the environment".

Competition in the healthy soft drinks market is fierce. *Benno* uses a competitive pricing strategy. However, sales of *Benno*'s drinks have fallen significantly over the last five years, particularly in the 12–18 age group. The business has no accumulated retained profits.

Benno is committed to innovation and corporate social responsibility (CSR). Its research and development division has recently invented a new biodegradable drink pack ring that starts to break down within two hours of contact with sea water. It dissolves fully in 48 hours. Currently, 98% of pack rings are made of plastic and when dumped in the sea are responsible for the death of many sea creatures.

A focus group of loyal customers used regularly by *Benno*'s marketing department is wholeheartedly in favour of the new drink rings. However, the marketing director has read recent studies that suggest:

- purchases of green products are not increasing, despite the positive attitude of many consumers towards sustainability and biodegradable products
- consumers continue to prioritize price when purchasing soft drinks.

To manufacture the new drink rings, machinery costing $5 million would be needed. Drink ring production unit costs would rise from 10 cents to 15 cents and prices of a six-pack of *Benno* soft drinks would have to increase by 5%. *Benno*'s net profit margin on a six-pack is 10%.

Benno's director of corporate social responsibility favours the change to the new drink rings but is opposed by both the finance director and marketing directors.

[Source: Image provided with permission from E6PR™]

(a) Define the term *innovation.* [2]

(b) Explain **two** roles of *Benno*'s mission statement. [4]

(c) Explain **one** advantage **and one** disadvantage for *Benno* of using a focus group of loyal customers. [4]

(d) Recommend whether *Benno* should replace its plastic drink rings with the new biodegradable drink rings. [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 **innovation** on promotional **strategy**. [20]

7. With reference to an organization of your choice, examine the impact of **globalization** on **change** in operations management. [20]

8. With reference to an organization of your choice, examine the impact of **ethics** and **culture** on human resource management. [20]